VIEWPOINT

Potential Implications of Lowering the Medicare Eligibility Age to 60

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On April 9, 2020, former Vice President Joe Biden announced a proposal to lower the Medicare eligibility age from 65 to 60 years. The presumptive Democratic nominee for president stated that this policy would protect older workers whose jobs may be disrupted by the coronavirus disease 2019 (COVID-19) pandemic, which has sharply increased unemployment nationwide.[1]

Proposals to expand the Medicare program have garnered broader public support in recent years.[2] In a 2019 Kaiser Family Foundation tracking poll of 1190 adults, 77% favored allowing people aged 50 to 64 years to buy into Medicare, and 56% supported a Medicare-for-All program that in essence lowers the Medicare eligibility age to zero.[3]

What Would Lowering the Medicare Eligibility Age to 60 Do?

The main effect of lowering the Medicare eligibility age to 60 years is that individuals aged 60 to 64 years—most of whom have employer-sponsored commercial insurance—could enter Medicare earlier. Evidence on the effect of entering Medicare from employer-sponsored coverage shows that, at age 65 years, Medicare enrollment leads to decreased health care spending by about 30% without changes in utilization; virtually all of this reduction is related to lower prices for services—that is, Medicare reimburses physicians and hospitals less than private insurance.[4] Therefore, the policy would increase public spending by replacing some of today's private spending with federal dollars, although notably at lower prices. Given that approximately 20 million people between the ages of 60 and 64 years have commercial insurance, have Medicaid, or are uninsured, and per-capita spending for this age group would average about $5000 per year in Medicare,[5] total Medicare spending for these 20 million new beneficiaries could amount to as much as $100 billion per year. This amount would be less if not everyone in the age group joins Medicare (eg, some may choose to continue with commercial insurance provided through their employers).

This main effect, however, is only one consequence of the proposed policy. The policy would have several other important and countervailing effects. First, for the commercially insured population, lowering the Medicare eligibility age to 60 years would allow the oldest and highest-spending 5-year age band of enrollees to exit the private insurance pool. This would not only reduce employer and insurer medical costs for these individuals but could also make average spending among the remaining enrollees 60 years and younger lower, which could reduce employer premiums for those workers and reduce enrollee premiums in the employer and nongroup insurance markets. Fewer enrollees and a healthier risk pool in the ACA Marketplace would also decrease government subsidies for these plans, especially for 60- to 64-year-olds who have higher premiums and tax credits at baseline. These savings would help offset the new federal spending for them in Medicare.

In contrast, a new and youngest 5-year age band of beneficiaries would enter Medicare. These individuals would increase federal spending but would be the lowest-cost segment of Medicare (as long as they are not disproportionately less healthy). This would similarly lower the average spending in Medicare and could reduce federal subsidies for Medicare Advantage plans (either from healthier people entering Medicare Advantage or lower Medicare Advantage benchmark payment rates due to healthier people entering traditional Medicare). This too could offset some of the new spending. To be clear, the main savings linked to changes in patient mix above and below the Medicare eligibility age would not be caused by the patient mix per se but rather would be related to the lower prices for health care that Medicare pays relative to commercial insurers. In addition, new Medicare beneficiaries would increase total premium collections for Medicare, which would also offset some of the new spending.

Second, the proposal to lower the Medicare eligibility age would decrease Medicaid spending for current Medicaid enrollees aged 60 to 64 years who switch into Medicare. Because the federal government was already paying at least 50% of Medicaid expenditures (varies by state), paying for the care of these individuals from a different federal pool would not all be additional federal spending. Additional federal spending would comprise the prior states' portion, costs of benefits for new dually eligible beneficiaries who were not eligible for Medicare before, and the higher prices in Medicare relative to Medicaid. Reducing Medicaid spending for this 5-year age band would, however, relieve some fiscal pressure on states, which generally must balance Medicaid spending growth with cuts elsewhere in their budgets. This type of balancing of spending is more difficult during times of economic distress with lower state revenues and increasing Medicaid enrollment. As people of all ages lose employer-sponsored insurance because of COVID-19 and many turn to Medicaid coverage, paying less for 60- to 64-year-old enrollees would be a welcome reprieve for states.

Third, lowering the Medicare eligibility age to 60 years may increase Social Security spending, as some workers have an incentive to retire early with Social Security benefits available starting at age 62 (albeit lower benefits relative to claiming Social Security at ages 65-67). On the other hand, to the extent that retirement decisions remain unchanged, lowering the Medicare eligibility age would decrease employer spending on nontaxable health insurance benefits for workers, leading to increased government revenue through income and payroll taxes.

Overall, What Would Be the Net Fiscal Implications of Lowering the Medicare Eligibility Age to 60?

A 2018 analysis by the Congressional Budget Office of a mirror-image proposal (ie, raising the Medicare eligibility age from 65 to 67 years) estimated that 60% of the federal savings to Medicare and Social Security attributable to removing this 2-year age band from Medicare would be offset by increased federal spending on subsidies in the ACA Marketplaces and on Medicaid.[6] If a similar offset holds for lowering the age of eligibility, then the federal costs for lowering the eligibility age to 60 years could be as low as $40 billion a year for the 20 million new Medicare beneficiaries. If the offset is smaller in reverse, in part because the share of people aged 60 to 64 years in Medicaid today (source of savings) is less than the share of Medicare beneficiaries aged 65-67 years predicted to go to Medicaid (source of costs) under the mirror image proposal, then the federal costs would be higher than $40 billion. This does not account for the increased Social Security spending or additional federal tax revenues above, which are likely to be several billion dollars each.[6]

A few additional issues deserve attention. People aged 60 to 64 years would weigh the option of entering Medicare against continuing their coverage with commercial insurance or Medicaid, which creates the possibility of adverse (or favorable) selection effects. Depending on whether healthier people or people with greater disease severity select Medicare over other coverage options, the financial consequences for the government and insurers could vary. There are also distributional effects. For example, the policy may disproportionately benefit disadvantaged populations whose insurance options before age 65 years are less generous than Medicare. Moreover, physicians and hospitals would face a reduction in prices for services previously reimbursed at commercial insurer rates that would be reimbursed at Medicare rates. To the extent that the price reduction induces clinician behavioral responses—such as changes in quantity of services, coding intensity, site of care, or patient selection (analogous to potential responses to a Medicare-for-All approach)—the fiscal outcome would be affected.[7] Such responses would be important to anticipate and monitor from a quality-of-care perspective as well.

For individuals aged 60 to 64 years, the implications may be more straightforward. Those with private insurance through small employers would likely find Medicare to offer more generous coverage, with lower premiums and cost-sharing. Those without insurance certainly would. Those in large employer plans and Medicaid, often more generous than Medicare, may elect to remain in those plans. Ultimately, a key determinant is who chooses to join Medicare early. The total reduction in consumer out-of-pocket costs could sum to several billion dollars. While new Medicare beneficiaries would generate new premiums paid to Medicare, average Medicare premiums for all beneficiaries could decline, given that program costs would be spread over more people.

As the economy works to recover on the heels of the COVID-19 pandemic, guaranteeing coverage for the country's oldest workers at a somewhat modest cost may have wide appeal. Lowering the Medicare eligibility age to 60 years would achieve meaningful coverage gains while disrupting commercial insurance less than would a broader public option or Medicare-for-All program. Akin to the Children's Health Insurance Program, Medicare Part D, and Affordable Care Act before it, this proposal would be an important coverage expansion in a nevertheless incremental reform, which is often easier to pass.

At the same time, opposition is not unlikely. Deepening deficits from COVID-19 stimulus spending may lead to more restraint on further federal spending. Hospitals and physicians may not find the price reduction from commercial to Medicare levels palatable, especially after the pandemic. In addition, the private insurer market could see some contraction (fewer enrollees) and consequently declining revenue. To some, this would portend an unappealing expansion in the role of government. (To others, this would be a welcome step towards universal coverage through Medicare.) Of note, however, more than one-third of Medicare beneficiaries now enroll in Medicare Advantage, in which private insurers can offer more tailored Medicare plans with a government subsidy. To the extent new 60- to 64-year-old Medicare beneficiaries enroll in Medicare Advantage plans, it would blunt the contraction in private insurer membership and revenue and soften the otherwise starker political contrast between government and private insurance.

This proposal by former Vice President Biden would offer Medicare to a new segment of working-age adults during a time of uncertainty for the nation. By expanding Medicare while maintaining choice for consumers, this targeted public option takes a substantive step towards universal coverage within the confines of today's mixed insurance system. At the same time, it would deliver a financial boost to states faced with raising taxes or cutting services as falling tax revenues and rising Medicaid enrollment combine to deplete state budgets. The various underlying effects of this proposal would touch the health care system and economy in more nuanced ways.

ARTICLE INFORMATION

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