

# Medicare's Reverse Subsidy

## Money flows from poorer to richer

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The Senate voted in June to require upper-income seniors to pay higher premiums for their Medicare insurance. President Clinton, while expressing support for the general idea of means-testing Medicare, forced Republicans to drop the plan. But new research suggests that the GOP was on the right track. When it comes to Medicare, lower-income seniors are paying the bills for better-off recipients. The reason: Rich people use more medical services, especially physicians' services. And they live longer, so they have more years to cash in on Medicare.

Economists Mark McClellan of Stanford University and Jonathan Skinner of Dartmouth College compared the lifetime cost of Medicare taxes with the flow of benefits from the health plan for the elderly. As expected, they found that today's retirees enjoy a substantial subsidy from today's workers: Benefits for a couple that turned 65 in 1990 will exceed the taxes they paid, on a present-value basis, by \$33,600. But the researchers were in for a surprise when they looked at the flows of money within that age group. They found that each individual with an income below the median will transfer, on average, \$800 to individuals with above-median incomes.

True, upper-income elderly have paid more taxes: A person in the top 10% of this

cohort paid \$7,600 more in taxes than one in the poorest 10%. But the better-off seniors use \$8,600 more in lifetime Medicare benefits than do the poorest retirees.

Medicare was established in 1967, so today's elderly paid taxes for only part of their work lives. In contrast with today's retirees, McClellan and Skinner found that today's 52-year-olds--who were 22 when Medicare began--can expect an average subsidy from younger workers of only \$2,200 per couple. But lower-income members of this group will still end up subsidizing richer ones.

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