The Henry J. Kaiser Family Foundation

Medicare Beneficiaries and Their Assets: Implications for Low-Income Programs

by

Marilyn Moon
The Urban Institute

Robert Friedland and Lee Shirey
Center on an Aging Society, Georgetown University

Prepared for The Henry J. Kaiser Family Foundation

June 2002

THE HENRY J. KAISER FAMILY FOUNDATION

Medicare Beneficiaries and Their Assets: Implications for Low-Income Programs

Report Highlights

Eligibility for existing health programs for low-income seniors is generally based on applicants' income and assets. Targeting assistance to those with limited means requires consideration of how eligibility will be determined and whether the criteria currently used by existing programs allow them to reach their intended populations.

This report, prepared by Marilyn Moon of The Urban Institute and Robert Friedland and Lee Shirey of Georgetown University's Center on an Aging Society, reviews the income and assets of the current Medicare population, provides an overview of the asset test and other aspects of the process used to determine eligibility for programs assisting low-income Medicare beneficiaries, and considers how a range of policy options would affect eligibility and enrollment.

- Forty percent of all beneficiaries have less than $12,000 in countable assets, with even higher rates reported by women (45%), African Americans (75%), beneficiaries in poor health (52%), and non-elderly beneficiaries with disabilities (74%).

- Beneficiaries with low incomes tend to have minimal assets. Eighty-five percent of all Medicare beneficiaries with incomes below the poverty level have less than $12,000 in countable assets and more than half (57%) have less than $1,500 in countable assets.

- The asset test often used for Medicaid (based on eligibility criteria for the Supplemental Security Income (SSI) Program) has remained the same since 1989, at $2,000 for individuals and $3,000 for couples. Since that time, the poverty guidelines for couples have increased by 60 percent. This means that more people each year who qualify based on income are likely to be ineligible due to their assets.

- Even moderate asset holdings can prevent beneficiaries from qualifying for low-income assistances, with two million Medicare beneficiaries having countable assets that exceed the SSI limits.

This paper considers the potential implications of either easing or eliminating the asset test in a variety of ways. For example, if $2,000/$3,000 asset limits were lifted to $8,000 for individuals and $12,000 for couples, an additional 740,000 people could qualify for benefits through targeted programs that assist people with incomes up to 100% of poverty. If income eligibility criteria were relaxed or new programs covering those up to 175% of poverty were implemented, 2.2 million more beneficiaries would be eligible for assistance using these higher asset levels than would be eligible under the $2,000/$3,000 limits.

The paper also explores the implications for seniors of receiving pension income as a lump-sum distribution versus receiving the income in monthly installments over the course of their retirement. The authors observe that lump-sum distributions have the potential to disqualify people who would otherwise be eligible for low-income programs if instead their retirement benefits were paid out over the course of their retirement.

- For example, if a program were targeted to Medicare beneficiaries with incomes below 175 percent of the poverty level using a $2,000/$3,000 asset test, 7.5 million Medicare beneficiaries would meet the income criteria, but would be disqualified based on their countable assets. If, however, these resources were counted in terms of what they would yield in annual income if spread over the course of a lifetime, then almost 5.5 million of these 7.5 million beneficiaries would be eligible for assistance. While this does not mean that public policy should rely on converting assets into annuities, it helps to put the value of retirement assets into context when considering programs targeted to low-income Medicare beneficiaries.

This analysis demonstrates how people with the same overall level of resources may be treated very differently in terms of their eligibility for public programs depending on the way in which their assets are defined and distributed to them upon retirement.

Summary

While intended in part as a means of keeping spending on low-income programs in check, current asset tests exclude many low-income beneficiaries from programs designed to assist those with limited resources. The data presented in this paper demonstrate that, generally speaking, those with low incomes also have minimal assets, particularly when considered as resources that need to be distributed over the rest of their lives.

This analysis provides an overview of the existing income and assets of the Medicare population and considers a range of options for expanding the reach of programs targeted to low-income populations. Along with the idea of simplifying the eligibility process, these include raising asset limits or eliminating them altogether, and redefining assets and how they are determined. While such changes would add to the cost of public programs by deeming more people eligible for them, they would clearly expand their capacity to reach those with limited incomes and in need of assistance.

Medicare Beneficiaries and Their Assets: Implications for Low-Income Programs

Improvements in the Medicare program that seemed possible in early 2001 may not be forthcoming as we move into a period of limited resources available for domestic policy improvements. Prescription drug coverage for Medicare, for example, was high on the list of spending options under consideration in Congress. Now, it is likely that these and other Medicare improvements will be more modest, raising again the issue of whether to limit them to the neediest Medicare beneficiaries. Typically, programs for low-income beneficiaries base eligibility on individuals' income and assets. These rules often involve stringent procedures that can present barriers to coverage for those most in need, especially given the reluctance of many older and disabled persons to apply for benefits in the first place.[1]

Relaxing the asset test and simplifying the eligibility process could help encourage eligible individuals to apply for aid. On the other hand, many policymakers worry that relaxing eligibility requirements would raise program costs and would allow persons who are less in need to enroll, arguing that benefits will not be well targeted unless there is strong oversight. Tradeoffs arise in any decision about how stringent various eligibility criteria should be. Asset tests, which are particularly complicated, are often singled out as a barrier to participation.

This policy brief reviews the existing assets of the Medicare population, including those likely to be eligible for expanded programs; describes current asset and eligibility rules; and then concludes with an analysis of the likely implications of changing these rules in various ways.[2]

THE DATA ON ASSETS AND LOW-INCOME MEDICARE BENEFICIARIES

- Forty percent of all beneficiaries have less than $12,000 in countable assets, with even higher rates reported by women (45%), African Americans (75%), beneficiaries in poor health (52%), and non-elderly beneficiaries with disabilities (74%).
- Beneficiaries with low incomes tend to have minimal assets. Eighty-five percent of all Medicare beneficiaries with incomes below the poverty level have less than $12,000 in countable assets and more than half (57%) have less than $1,500 in countable assets.

[1] For example, the Medicare Savings Programs, which include the Qualified Medicare Beneficiary (QMB) program and other related programs, generally have low rates of participation among those who are eligible.

[2] A longer paper by Friedland, Moon, and Shirey (2002), describes many of the issues and data presented here in more detail.

While there are many standard ways to track and verify the income of applicants for programs targeted to low-income Medicare beneficiaries, assets are more difficult to measure. We focus here on countable assets that are used to determine eligibility for benefits. Exhibit 1 sorts countable assets of Medicare beneficiaries into quintiles—starting with the 20 percent of people who have the lowest countable assets and ending with the highest 20 percent. In the lowest quintile, all individuals have countable assets of less than $1,430 (including those with no countable assets). The cutoff level for the next quintile is $11,949 in countable assets and, for the third quintile, the highest amount is $43,900. In other words, 60 percent of all Medicare beneficiaries have countable assets of $43,900 or less.

Beneficiaries' income and assets are strongly correlated. Nearly 85 percent of all beneficiaries with incomes at or below 100 percent of the poverty level are in the first two quintiles and thus have assets worth less than $12,000, as compared to just over 11 percent of those with incomes greater than 250 percent of poverty. As beneficiaries move up the income scale, they generally have more assets. Even among beneficiaries with incomes up to 175 percent of poverty, however, more than 80 percent—or, over 12.6 million Medicare beneficiaries—have countable assets of less than $12,000.

Other characteristics such as race and health status are unevenly distributed across beneficiaries with different asset levels as well. For instance, white beneficiaries are much more likely than are minorities to have assets above the bottom quintile. Those in poor health are likely to have substantially fewer assets than are other Medicare beneficiaries, with over half of them having assets of less than $12,000. This is likely in part because they may have had health problems in the past that have limited their earnings abilities or used up their assets.

Younger Medicare beneficiaries (the under-65 disabled) have even fewer resources, with more than a third of this group having no countable assets whatsoever. Among those with assets, while the median is only $8,572, over three-quarters of those with incomes below 175 percent of poverty have assets below this level. In addition, while beneficiaries under the age of 65 are likely to live longer than are their older counterparts, their assets often make them ineligible for targeted benefits, even though the amounts would not be sufficient to provide very much assistance over time.

AN OVERVIEW OF CURRENT ASSET RULES

- The asset test often used for Medicaid (based on the eligibility criteria used for the Supplemental Security Income (SSI) Program) has remained the same since 1989, at $2,000 for individuals and $3,000 for couples. Since that time, the poverty guidelines for couples have increased by 60 percent. As a result, each year, more people who qualify based on their incomes are likely to be ineligible due to their assets.

Financial eligibility criteria for targeted programs such as Medicaid often use both income and assets (or resource) requirements to screen applicants. Family income below a specific dollar threshold and *countable* assets below a specific asset threshold entitle categorically eligible applicants to full benefits. However, a dollar more in countable assets renders a family ineligible for assistance, even if the family is poor enough (based on income). Under SSI asset criteria, for

Exhibit 1: Distribution of All Medicare Beneficiaries, by Countable Assets (in quintiles)

	1st Quintile (< $1,430)	2nd Quintile ($1,430–$11,949)	3rd Quintile ($11,950–$43,900)	4th Quintile ($43,901–$140,671)	5th Quintile (> $140,671)
Income Relative to Poverty					
<100%	56.9%	28.0%	9.8%	4.2%	1.1%
101–135%	35.4%	31.9%	18.8%	11.8%	2.0%
136–175%	21.7%	31.2%	27.9%	14.8%	4.5%
176–200%	13.1%	27.4%	29.8%	21.6%	8.1%
201–250%	9.0%	23.7%	28.2%	26.8%	12.3%
>250%	3.2%	8.2%	17.4%	28.3%	42.9%
Age					
Under-65 Disabled	39.4	34.6	18.6	6.6	0.8
Ages 65 and Over	17.9	19.2	20.0	21.2	21.7
Gender					
Women	22.7%	21.8%	19.2%	18.3%	18.0%
Men	15.9%	18.9%	20.8%	22.1%	22.4%
Marital Status					
Married	11.1%	16.3%	23.2%	24.1%	25.4%
Divorced	41.9%	32.5%	10.8%	8.1%	6.6%
Widowed	27.0%	24.0%	17.0%	17.0%	15.0%
Never Married	39.7%	29.5%	13.2%	9.6%	8.0%
Race					
Black	43.5%	31.7%	15.3%	5.4%	4.2%
Other	48.1%	16.9%	17.8%	12.8%	4.4%
White	16.7%	19.5%	20.4%	21.6%	21.9%
Health Status					
Excellent	9.8%	11.0%	11.6%	22.6%	45.0%
Very Good	13.1%	11.8%	15.6%	23.7%	35.7%
Good	15.5%	15.5%	16.2%	23.6%	29.4%
Fair	26.0%	15.8%	16.4%	18.6%	23.2%
Poor	34.7%	17.2%	16.5%	14.2%	17.4%

Note: Each row sums to 100 percent.

SOURCE: Center on an Aging Society tabulations of data combined from the 1993 Survey of Income and Program Participation (SIPP) (inflated to 1995 price levels) and the 1995 Study of Asset and Health Dynamics Among the Oldest Old (AHEAD).

example, countable assets in excess of $2,000 for an individual and $3,000 for a couple will make someone ineligible for public assistance programs that use these asset limits. Programs with higher asset limits, but more limited benefits include the Medicare Savings Programs, which use a threshold of $4,000 for individuals and $6,000 for couples.[3]

Most resource or asset tests exclude the value of the primary home and the land on which the home rests, as well as the furniture and clothing within that home. There is considerable variation across states, however, in how cars, farm equipment, and life-insurance policies are treated. Most programs define *countable* assets as cash on hand, money in the bank, certificates of deposit, stocks, bonds, and other financial (or liquid) assets.[4] Most programs also treat tax-deferred savings such as IRA or Keogh plans or the vested portion of 401(k) plans as countable assets. On the other hand, assets that have been transformed into annuities—such as defined benefit pensions—are treated as income, not assets.

The Implications of Applying Asset Requirements

Unlike income eligibility levels, which tend to rise each year to capture increases in the cost of living, asset tests are not routinely adjusted for inflation or other factors. For example, the poverty guidelines for couples have increased by 60 percent since 1985, rising from $7,050 to $11,610. By contrast, the SSI asset limit has increased by only 25 percent over this same period (growing from $2,400 to $3,000) and has remained the same since 1989. As a result, the asset test has in effect become more stringent over time, with more people who would be eligible based on their incomes deemed ineligible due to their assets.

Existing asset requirements and the question of whether they should be amended often do not figure prominently in national policy discussions. For example, in the ongoing debate over the addition of a Medicare prescription drug benefit, eligibility as high as 150 percent of poverty has been discussed as a threshold for special protections for those with low incomes. Little attention has been paid, however, to whether an asset test would be used and, if so, of what sort. If adjustments were made for inflation and the increases in income eligibility that have been discussed (for example, going from 135 percent to 150 percent of poverty), a doubling of the asset test might also be considered.

The asset test also poses substantial administrative challenges. People are not routinely asked about this information for income tax or other purposes, for example. As a result, the intensity of effort needed to determine asset eligibility creates burdens for both government agencies and applicants themselves. One of the primary reasons that the Medicare Savings Programs are administered by state Medicaid agencies is that states already have mechanisms in place to undertake asset eligibility determinations. Relying on states may also help in identifying individuals eligible for other programs such as Food Stamps or Supplemental Security Income (SSI).

---

[3] These programs include the Qualified Medicare Beneficiary (QMB) program for people with incomes up to 100 percent of poverty, the Specified Low-Income Medicare Beneficiary (SLMB) program for people with incomes from 100 to 120 percent of poverty and the Qualified Individual (QI) programs for persons with incomes between 120 and 135 percent of poverty and 135 and 175 percent of poverty.

[4] While there are complicated rules about when to count spousal assets, the assumption used here is to treat all assets as if they are jointly held.

The asset test also sends applicants a potentially confusing signal. On the one hand, we encourage people to save for retirement, offering tax incentives and other encouragements. Yet, if they become ill or need additional help after they retire, we penalize them for holding assets and require that they divest themselves of nearly all these assets before they may receive any support. Liquidating savings so that countable assets are below these thresholds before applying for public assistance or other targeted benefits leaves seniors even more vulnerable in the future. And, denying assistance until assets have been spent down may increase the amount of help needed later on, since individuals will have even less income when they no longer receive interest and dividends.

This issue is likely to become more problematic as an increasing share of Americans retire with a defined contribution retirement plan, which usually provides participants with a substantial balance of financial assets at retirement. These plans, which were introduced to supplement or replace defined pension benefits, give people ownership in stocks and bonds and mutual funds and allow them to decide how to deal with these assets upon retirement. While these retirement savings are intended to provide income over a long period of time—often for 20 years or more—they are treated as assets for purposes of establishing eligibility, with interest and dividends treated as income. In contrast, the income from a defined benefit pension is captured in the income test, and the pension does not show up as an asset. In sum, two individuals may effectively have the same income levels, but the person who controls his own assets will be made ineligible for help. This raises the question of whether the way in which assets are viewed needs to be reconsidered.

EASING OR ELIMINATING THE ASSET TEST

- About 6.6 million Medicare beneficiaries have incomes below 100 percent of poverty, about 4.6 million of whom meet current asset requirements for Medicaid in states that use SSI asset limits. Of the 4.5 million beneficiaries with incomes between 100–135 percent of poverty, only 2.1 million would satisfy these asset requirements.
- Raising the asset limit to $12,000 per couple and $8,000 for singles would increase the number of eligible persons with incomes under 100 percent of poverty from 4.6 million to 5.3 million and, among those with incomes between 100–135 percent of poverty, from 2.1 million to 2.8 million.
- When countable assets are converted into annual income, asset levels that seem quite high initially seem much less so when distributed in equal amounts over time. For instance, if the assets of the 15.8 million Medicare beneficiaries with incomes below 175 percent of poverty were treated as annual income, 13.8 million would still fall within this income range.

What can we conclude from data on the existing assets of the Medicare population? Based on current eligibility criteria, assets likely exclude a substantial number of income-eligible people from targeted programs. However, given that the asset levels that make these people ineligible are often quite low, relaxing asset eligibility requirements would likely add a number of people who are quite needy to the rolls.

Exhibit 2 indicates how the number of beneficiaries eligible for targeted assistance would change under increasingly liberal asset tests. For instance, about 6.6 million beneficiaries have incomes of less than 100 percent of poverty.[5] But, when the SSI asset test often used to determine Medicaid eligibility is applied, the number of persons eligible for benefits drops by 2 million (from 6.6 million to 4.6 million).

There has been some discussion of proposals to improve low-income protections for Medicare beneficiaries by expanding coverage to those at slightly higher income levels. If a program targeted those with incomes up to 175 percent of poverty but used current SSI asset limits, for instance, the impact of the asset test would be even greater. According to our estimates, there are currently 15.8 million Medicare beneficiaries with incomes below 175 percent of the poverty level. Of these, only 8.3 million meet the $2,000/$3,000 asset test. Thus, the higher the income level, the more relevant an asset test may become.

Given these data, what should be done about asset tests? As the asset criteria used today exclude millions of beneficiaries with low incomes from eligibility for targeted programs, an argument could be made for at least liberalizing the asset limit or adjusting it for inflation over time. Even an inflation adjustment would keep the limits very low, however, raising the $3,000 limit for couples to only about $3,840 for couples and the Medicare Savings Programs' $6,000 limit for couples to $7,680. Raising the asset limit to $12,000 per couple and $8,000 for singles, on the other hand, would allow a considerable increase in the number of people who qualify. Exhibit 2 indicates that such a liberalization would increase the number of eligible persons with incomes under 100 percent of the poverty level from 4.6 million to 5.3 million and, among those with incomes between 101 percent and 135 percent of poverty, from 2.1 million to 2.8 million. For those between 136 percent and 175 percent of poverty, the numbers eligible for programs targeted to this population would rise from 1.6 million to 2.4 million. (These numbers are converted into percentages and shown in Exhibit 3.)

While liberalizing the asset test would allow more people to qualify for assistance, this would not simplify the eligibility determination process. The same measurement issues would apply. Furthermore, at some point, the costs of applying the asset test would exceed the savings generated by precluding eligibility for people with higher assets. Thus, it is also important to examine the implications of eliminating the asset test altogether. As noted above, the number of new eligibles would rise substantially. As shown in Exhibit 2, a comparison between the most liberal asset cutoff considered above and the full elimination of the test indicates that eligibility would rise by another 1.3 million people below the poverty level, by 1.7 million for those with incomes between 101 and 135 percent of poverty, and by 2.4 million for those between 136 and 175 percent of the poverty level.

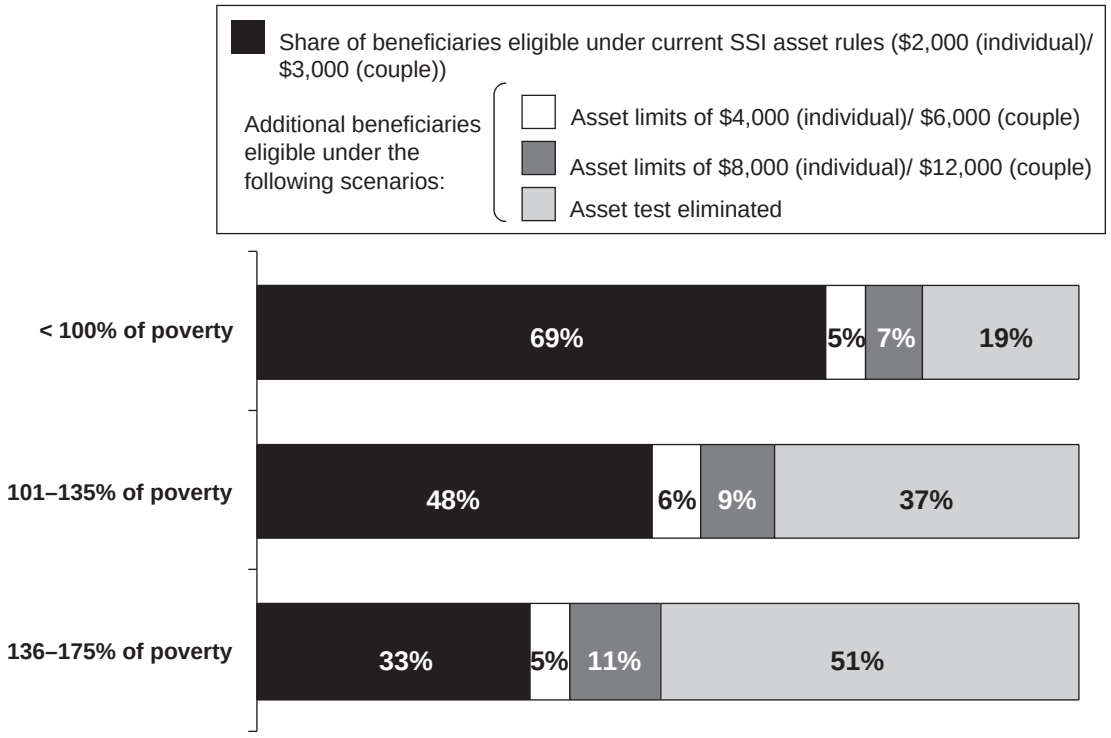
[5] The data in this report come from the Study of Assets and Health Dynamics Among the Oldest Old (AHEAD) for persons ages 72 and over and from the Survey of Income and Program Participation (SIPP) for younger Medicare beneficiaries, including the under-65 disabled (Friedland, Moon, and Shirey, 2002). Numbers of eligible persons can vary by survey, but analysis of the data where there are overlaps indicates considerable comparability.

Exhibit 2: Amending the Asset Test—Comparisons of the Number of Medicare Beneficiaries Potentially Eligible for Low-Income Assistance (in millions)

Total Medicare Population	Up to 100% of Poverty	101–135% of Poverty	136–175% of Poverty	Total
Current SSI rules. Married allowed $3,000; Single allowed $2,000 in countable assets.	4.58	2.14	1.58	8.29
Liberal asset limit. Married allowed $6,000; Single allowed $4,000 in countable assets.	4.89	2.40	1.84	9.13
Double the liberal asset limit. ($12,000 and $8,000, respectively.)	5.32	2.82	2.36	10.50
Eliminate the asset test	6.58	4.48	4.77	15.84
Ages 65 and Older				
Current SSI rules. Married allowed $3,000; Single allowed $2,000 in countable assets.	3.64	1.85	1.30	6.79
Liberal asset limit. Married allowed $6,000; Single allowed $4,000 in countable assets.	3.86	2.09	1.53	7.48
Double the liberal asset limit. ($12,000 and $8,000, respectively.)	4.18	2.46	2.0	8.64
Eliminate the asset test	5.23	3.99	4.31	13.53
Under Age 65				
Current SSI rules. Married allowed $3,000; Single allowed $2,000 in countable assets.	0.94	0.29	0.28	1.51
Liberal asset limit. Married allowed $6,000; Single allowed $4,000 in countable assets.	1.03	0.32	0.30	1.65
Double the liberal asset limit. ($12,000 and $8,000, respectively.)	1.14	0.36	0.36	1.87
Eliminate the asset test	1.35	0.49	0.47	2.31

SOURCE: Center on an Aging Society tabulations of data combined from the 1993 Survey of Income and Program Participation (SIPP) (inflated to 1995 price levels) and the 1995 Study of Asset and Health Dynamics Among the Oldest Old (AHEAD).

Exhibit 3: Share of Medicare Beneficiaries Eligible for Benefits, by Income and Asset Levels



SOURCE: Center on an Aging Society tabulations of data combined from the 1993 Survey of Income and Program Participation (SIPP) (inflated to 1995 price levels) and the 1995 Study of Asset and Health Dynamics Among the Oldest Old (AHEAD).

The Implications of Converting Assets into Annual Income

There may still be some good candidates for targeted benefits such as drug coverage or other cost-sharing assistance, even among individuals and couples with assets in excess of $8,000 and $12,000, respectively. This is due in large part to the fact that strict asset limits implicitly treat these resources as if they would be consumed in one year. But, in most cases, retirement savings are resources on which individuals will need to depend for the rest of their lives. For example, although many receive lump-sum distributions when they retire instead of formal pensions, these assets are meant to be spread out over time. Thus, the asset test may exclude many from eligibility who in practice benefit only modestly each year from the assets they hold. To the extent that this is the case, asset limits might be more appropriately based on assumptions about what an individual's assets could be expected to contribute to living standards each year. Such an approach may be useful, not for creating a complicated new formula, but rather in suggesting what level (if any) of asset test is appropriate.

When countable assets are converted into annual income, asset levels that seem quite high initially seem much less so when distributed in equal amounts over time.[6] Exhibit 4 illustrates

[6]The annuity reflects an annual amount that could be consumed each year for someone with a particular life expectancy. (These figures come from the National Center for Health Statistics (NCHS) and are based on the age and gender of each individual.) This annuity is actually the maximum that could be received each year since we do not make any adjustments for the administrative costs that the purchase of an annuity would entail. Effectively, we are assuming that an individual keeps his assets and takes out only an annuity equivalent each year.

Exhibit 4: Annual Value of Countable Assets When Converted into an Annuity for an Elderly Woman of Various Ages

	Total in Countable Assets					
	$4,000	**$8,000**	**$12,000**	**$30,000**	**$50,000**	**$120,000**
Age	**Countable Assets Converted into Annual Income**					
65	$255	$510	$766	$1,914	$3,190	$7,657
70	305	609	914	2,284	3,807	9,137
75	379	758	1,137	2,842	3,807	9,137
80	492	984	1,476	3,689	6,148	14,756
85	677	1,354	2,031	5,079	8,464	20,314

Source: Authors' calculation from standard annuity formula.

the distribution of countable assets when treated as an annuity for an elderly woman of various ages. For example, for a woman at age 65 who has a long life expectancy, $50,000 of assets would convert into just $3,190 per year—an amount that is, on its own, well below most income thresholds. And, even if that woman had annual Social Security benefits of $6,000, she would still be just slightly above the poverty line in terms of income.[7] On an income basis, she would qualify for one of the Medicare Savings Programs, but her assets would exceed $4,000, disqualifying her from participation.

For a woman at age 65, $4,000 in assets would translate into just $255 in annual income. And, when combined with $6,000 in Social Security benefits, her adjusted income would place her at only 71 percent of the poverty level in 2001. For an older woman, her assets would not need to last as long, thus raising her annuity modestly (to an average of $379 per year for a woman at age 75).

In considering how Medicare beneficiaries' assets may contribute to economic status over an individual's lifetime, it is clear that many Medicare beneficiaries currently ineligible for benefits due to their assets are still likely to need assistance. For instance, Exhibit 5 demonstrates how income as a share of poverty changes once the annuity value of assets is included as income. The shaded areas indicate people who would remain in the same income category. Above and to the right of those shaded areas are the numbers of people who would move up the income scale if their assets were annuitized and included. One way to evaluate the elimination of the asset test would be to examine how many people with incomes under 175 percent of poverty would remain below that level if an annuity based on their assets were added to their incomes.

In the data used for this analysis, as shown in Exhibit 5, 15.8 million Medicare beneficiaries have incomes below 175 percent of poverty. Of these beneficiaries, 13.8 million—or over 87

[7] In 2002, the poverty guidelines used for determining benefits are $8,860 for an individual and $11,940 for a couple.

Exhibit 5: Number of Medicare Beneficiaries Who Would Move to a Higher Poverty Level with Countable Assets Annuitized

Income Relative to Poverty Level	Countable Income + Annuitized Countable Assets				
	<100%	**101–135%**	**136–175%**	**>175%**	**TOTAL**
<100%	5,905,000	367,000	121,000	187,000	**6,580,000**
101–135%	—	3,300,000	730,000	455,000	**4,484,000**
136–175%	—	—	3,363,000	1,412,000	**4,775,000**
TOTAL	**5,905,000**	**3,667,000**	**4,214,000**	**2,054,000**	**15,839,000**

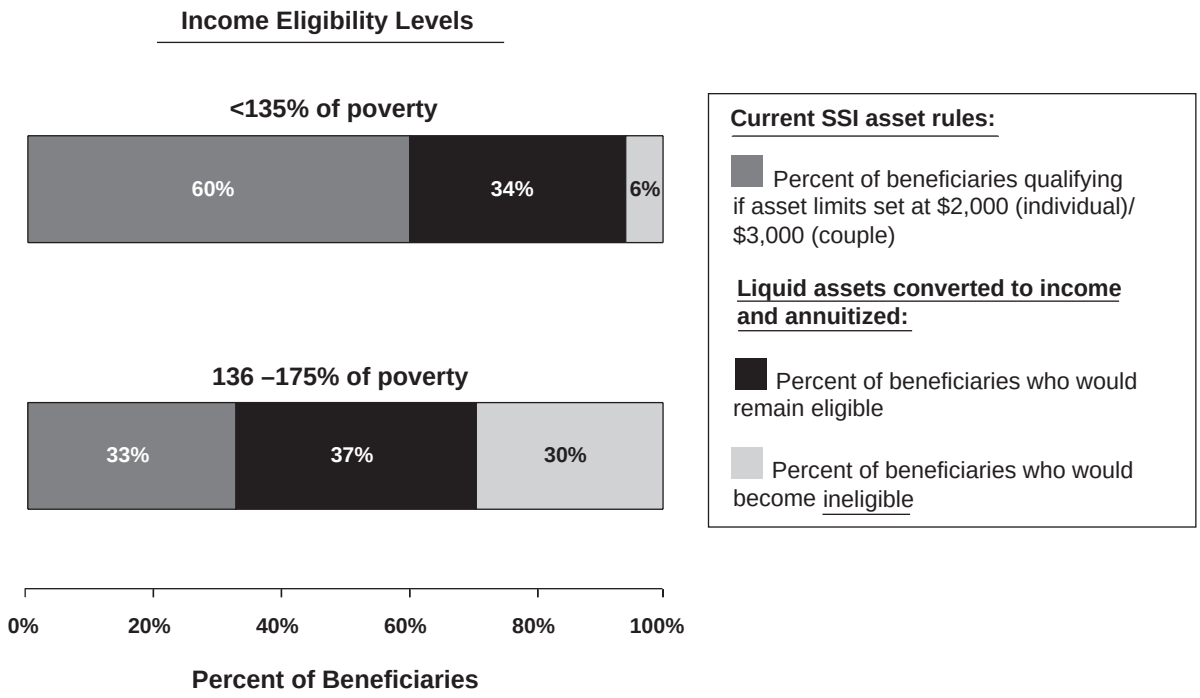
Note: Shaded cells represent the number of people who remain at the same poverty level or decline.

SOURCE: Center on an Aging Society tabulations of data combined from the 1993 Survey of Income and Program Participation (SIPP) (inflated to 1995 price levels) and the 1995 Study of Asset and Health Dynamics Among the Oldest Old (AHEAD).

percent of people with incomes below this level—would still have incomes below 175 percent of poverty if their assets were counted as income and annuitized. The contribution of assets to incomes would thus give fewer than 2.1 million of these beneficiaries incomes in excess of 175 percent of poverty. As was shown in Exhibit 2, just 8.3 million of the 15.8 million beneficiaries with incomes below 175 percent of poverty have assets below the SSI limits of $2,000 (individual)/$3,000 (couple). Eliminating the asset test altogether would thus allow 7.5 million more people to qualify for assistance through a program using this income cutoff. Of these 7.5 million beneficiaries, were an annuity criterion to be used instead, almost 5.5 million would remain income-eligible, while almost 2.1 million would be disqualified as their annuitized assets would put their incomes above 175 percent of poverty.

In programs that use income cutoffs lower than 175 percent of poverty, an even larger share of individuals would remain income-eligible if assets were treated as annuities, since asset holdings on average are lower for those with lower incomes. The results of this type of approach are summarized in Exhibit 6, which breaks this group into those below 135 percent of poverty and those between 135 and 175 percent of poverty. For example, assuming an eligibility cutoff of 135 percent of poverty, 60 percent of Medicare beneficiaries in this income range would be eligible under current SSI asset rules. Another 34 percent would become eligible if their existing liquid assets were converted into annuities and treated as income. The remaining 6 percent of beneficiaries would be ineligible because, after their assets were converted to income, their incomes would be greater than 135 percent of poverty. The goal of this analysis is not to suggest that assets be formally calculated as annuities for purposes of eligibility, but rather to understand the contribution that assets make and the implications of fully eliminating an asset test in determining eligibility for benefits.

Exhibit 6: Share of Medicare Beneficiaries Eligible for Benefits, Under Current SSI Asset Rules vs. Counting Income plus Annuitized Assets



SOURCE: Center on an Aging Society tabulations of data combined from the 1993 Survey of Income and Program Participation (SIPP) (inflated to 1995 price levels) and the 1995 Study of Asset and Health Dynamics Among the Oldest Old (AHEAD).

SIMPLIFYING REPORTING

Regardless of whether existing asset limits are increased or eliminated altogether, another alternative could be to simplify the asset test by allowing self-reporting of resources. Forms could indicate that individuals with assets above a certain level (possibly higher than those currently used) are ineligible, but only use spot checks to determine when individuals do not qualify. This is equivalent, for example, to how the Internal Revenue Service operates, checking on only a sample of taxpayers to determine compliance. Assuming that wealthier individuals would be less likely to apply for benefits (both because of less need for them and a greater hesitation to apply for public programs), as many studies have concluded, such a rule might be sufficient to contain the number of individuals with high asset levels who would apply for aid. If successful in denying eligibility to those with high asset levels while encouraging more of the needy to apply, this simplified asset test might be considered a reasonable approach to changing current eligibility rules.

Another potential area for simplifying eligibility is in reducing the frequency with which beneficiaries are required to resubmit information on income and other resources. Unlike younger families whose circumstances can change substantially because of changes in the labor force, older and disabled Medicare beneficiaries are less likely to have positive changes in their incomes over time. Certainly, some retirees return to the labor force in their late 60s, and spouses of disabled beneficiaries may advance in the labor force, but the numbers tend to be quite small.

CONCLUSION

Beneficiaries with low incomes tend to have minimal assets. Eighty-five percent of all Medicare beneficiaries with incomes below the poverty level have less than $12,000 in countable assets, and more than half (57%) have less than $1,500 in countable assets. Nonetheless, because asset limits are so low for many programs, a large number of individuals are disqualified from receiving help that they are still likely to need. The SSI asset test often used to determine Medicaid eligibility has remained the same since 1989, at $2,000 for individuals and $3,000 for couples. Programs aimed at slightly higher income groups, such as the Medicare Savings Programs, have asset limits of $4,000 and $6,000.

About 6.6 million Medicare beneficiaries have incomes below 100 percent of poverty, about 4.6 million of whom meet current SSI asset requirements. Of the 4.5 million beneficiaries with incomes between 100–135 percent of poverty, only 2.1 million have assets below this level.

There has been some discussion of proposals to improve low-income protections for Medicare beneficiaries by expanding coverage to those at slightly higher income levels. If a program targeted those with incomes up to 175 percent of poverty, but retained the SSI asset thresholds, only 8.3 million of the 15.8 million Medicare beneficiaries with incomes below 175 percent of poverty would qualify.

- Raising the asset limits to $8,000 for singles and $12,000 for couples would allow 2.2 million more low-income beneficiaries with incomes below 175 percent of poverty to qualify for benefits through programs targeting individuals with incomes in this range.

- Using an annuity approach would allow almost 5.5 million additional beneficiaries with incomes below 175 percent of poverty to qualify because they have assets so low that, even if they were converted into annuities, they would remain below this income level. Slightly more than 2 million beneficiaries with incomes below 175 of poverty would thus be deemed ineligible for benefits because their assets would push them above this income threshold. In sum, when assets are viewed on the basis of what they can contribute over an individual's remaining lifetime, most low-income individuals do not have enough assets to push them into higher income categories.

- Obviously, eliminating the asset test altogether would add all of the remaining 7.5 million beneficiaries with incomes below 175 percent of poverty to the eligibility rolls. As a result, those whose incomes would be enhanced considerably by their assets would nonetheless be eligible for assistance.

The issue of how assets are defined and determined will become increasingly important over time, particularly as more individuals receive their retirement benefits in the form of lump-sum distributions that they must manage for the rest of their lives.

The idea of simplifying eligibility by eliminating the asset test may be difficult for some policymakers to accept. But, some simplification could be achieved through more modest reforms in how people demonstrate their eligibility. Mail-in applications, less-stringent requirements for proof of eligibility (with spot checks to enforce the requirements), and less frequent requirements for re-applying for benefits might also help to encourage participation among persons who need help but who are dissuaded by the process.

Efforts to relax some of the most burdensome aspects of targeted programs could enable a number of other changes as well. For example, while states are usually viewed as the logical place to administer such benefits since they already have mechanisms in place for doing so, easing some of the administrative needs could allow the program to be federally administered or at least to be overseen in a consistent fashion, thus minimizing state variation. This should also encourage more beneficiaries to participate. While there would likely be increased participation among individuals less needy than others, in general, programs would reach substantially more people with legitimate needs and some of these added costs could be offset by the savings from a less cumbersome administrative structure. Finally, if a targeted prescription drug benefit were considered for Medicare beneficiaries, it would make sense to combine it with the Medicare Savings Programs to simplify access to a range of programs for low-income beneficiaries.

The key policy tradeoff is whether it is more important to exclude people who are not considered in need of assistance or to maximize participation among the neediest beneficiaries. In practice, it is difficult to achieve both of these goals, posing difficult choices for policymakers.

The Henry J. Kaiser Family Foundation
2400 Sand Hill Road
Menlo Park, CA 94025
(650) 854-9400 Fax: (650) 854-4800

Washington Office:
1450 G Street NW, Suite 250
Washington, DC 20005
(202) 347-5270 Fax: (202) 347-5274

www.kff.org

Additional free copies of this publication (#6017) are available on the Kaiser Family Foundation's website at www.kff.org or by calling the Foundation's Publication Request Line at 1(800) 656-4533.