

Measuring Coverage for Seniors in Medicare Part A and Estimating the Cost of Making It Universal

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Abstract That Medicare is universal for seniors is widely accepted by leading analysts. But in the context of developing detailed policies that seek to cover as many people as possible, it is inaccurate to make Medicare eligibility sound so simple and inclusive. To estimate the number of seniors without full federal Medicare Part A coverage, we examined data for uninsured seniors, seniors with Medicaid and no Medicare coverage of any kind, seniors with Medicare Part B but without Part A, and seniors bought into Part A by their state Medicaid programs. We found that in 2005, 1.6 million seniors—or 5 percent of the elderly U.S. population—were without a full federal Part A premium subsidy. The share of seniors without this benefit was notably higher in the nation's two largest states—California (12 percent) and New York (8 percent). We estimate that reforming Medicare Part A to make the benefit truly universal and fully federal would cost the federal government \$6 billion in new spending in federal fiscal year 2011, an increase in baseline federal Medicare expenditures of 1.1 percent.

In the 2009 national health care reform debate, the discussion of universal insurance coverage has focused almost exclusively on the nonelderly. That Medicare is universal for seniors is so widely accepted by leading analysts that they often hold up the program as an example of how universal health insurance coverage in America is indeed feasible. For example, in arguing that universal coverage is compatible with current federal health policy for seniors, Nobel Prize laureate Paul Krugman (2008) wrote that Medicare

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“is a program that collects money from every worker’s paycheck and uses it to pay the medical bills of everyone 65 and older.” As an overview that explains Medicare in general terms and contrasts it to other components of the U.S. health insurance system, such a statement carries validity and descriptive value. But in the context of developing detailed legislation and regulations with the goal of covering as many people as possible, it is inaccurate to make Medicare eligibility policy sound so simple and inclusive.

Medicare eligibility policy for seniors has remained not only unchanged but also virtually unchallenged by legislation since the program’s enactment in 1965. Seniors qualify for coverage under the Medicare Hospital Insurance program (Medicare Part A)—which covers limited amounts of skilled nursing, home health, and hospice care in addition to hospital inpatient costs—by their participation as workers through the Social Security payroll tax system established under Federal Insurance Contribution Act of 1935 (FICA). Part A is the largest single component of the Medicare program and is funded through dedicated payroll taxes, which are paid into the Hospital Insurance trust fund under the FICA system. Seniors who are citizens or permanent legal residents and who have paid FICA taxes,¹ either directly or through a spouse, for forty calendar-year quarters (the equivalent of ten years) receive a 100 percent federal premium subsidy for the Part A benefit—which we call *full federal Part A coverage*.

This analysis focuses on eligibility for and enrollment in Part A because it is the component of Medicare that functions most like a social insurance system. Its premium is not subsidized by general tax revenues, and those elderly citizens and legal residents without the necessary FICA credits for a subsidy face a premium equivalent to the actuarial value of the benefit. By contrast, premiums for Part B, which covers physician and other outpatient services, and Part D, which covers outpatient prescription drugs, are reduced to a small share of their actuarial values through general tax subsidies for seniors who qualify for Part A.²

How Many Seniors Are without Full Federal Coverage under Medicare Part A?

To estimate the number of seniors who do not receive full federal Part A coverage, we examine two categories of elderly individuals. The first

1. Some seniors qualify by using Railroad Retirement Board credits in lieu of Social Security Administration credits.

2. Medicare Part C combines the benefits and funding streams from Parts A and B through a managed care plan.

category—those with no coverage under Part A—consists of three subgroups: seniors without any health coverage (*uninsured seniors*), seniors with Medicaid and no Medicare coverage (*Medicaid-only seniors*), and seniors with Medicare Part B but not Part A (*Part B seniors*). The second category consists of seniors who have Part A coverage, but because they are not entitled to a full federal premium subsidy, they are bought into Part A coverage through their state Medicaid programs (*buy-in seniors*). We analyzed data for these four mutually exclusive groups from 2005, the most recent year for which data for all four categories were available. In addition to examining the United States as a whole, we looked individually at the four largest states—California, New York, Texas, and Florida—which also collectively accounted for 20 million of the 36 million foreign-born U.S. population in 2005 (U.S. Census Bureau 2006).

Uninsured Seniors

Seniors who do not have Medicare coverage and who do not qualify for Medicaid are likely to be uninsured. We analyzed the U.S. Census Bureau's Current Population Survey (CPS) data for 2005 in order to estimate the number of uninsured seniors during these years (*ibid.*). We found that nationally there were 449,000 uninsured seniors in 2005.³ There were 120,000 uninsured seniors in California; 44,000 in Texas; 31,000 in Florida; and 30,000 in New York. While these four states accounted for one-third (33 percent) of the elderly population, they were home to half (50 percent) of the nation's uninsured seniors in 2005 (see table 1).

Medicaid-Only Seniors

Seniors with low incomes and few countable assets can qualify for Medicaid programs in the states where they are residents; for some who have not earned Medicare eligibility, Medicaid is their only source of coverage. We used an Urban Institute (2008) analysis of Centers for Medicare and Medicaid Services (CMS) Medicaid Statistical Information Systems (MSIS) person-level data for federal fiscal year 2005 to estimate the number of seniors who had Medicaid coverage without any Medicare coverage—Part A, Part B, or Medicare savings programs—during the year.

3. The U.S. Current Population Survey (CPS) may undercount noncitizens. If so, because seniors without U.S. citizenship are more likely to be uninsured, the CPS may underestimate the number of uninsured seniors.

We found that, nationally, there were 338,000 seniors who had Medicaid coverage and no Medicare coverage in 2005. There were ninety-seven thousand Medicaid-only seniors in California, thirty-three thousand in New York, sixteen thousand in Texas, and seventeen thousand in Florida. These four states accounted for nearly half (48 percent) of Medicaid-only seniors.

Part B Seniors

Medicare Part B covers physician and other outpatient services. While Part B has eligibility requirements that are generally consistent with Part A, differences in Part B's financing structure ensure that a significant number of seniors have Part B but not Part A. Seventy-five percent of Part B funding comes from general tax revenues and 25 percent from a beneficiary premium pegged each year to the program's cost, which means that every Part B enrollee receives a 75 percent federal premium subsidy. The monthly Part B premium was \$78.20 in 2005, about one-fifth of the monthly Part A premium of \$375. As a result, some seniors are bought into Medicare Part B by their state Medicaid programs or buy in directly as individuals, yet they remain without the more costly Part A coverage.⁴

We analyzed CMS administrative data for July 2005 to estimate the number of seniors who have Medicare Part B without Part A coverage (Part B seniors). We found that, nationally, there were 326,000 Part B seniors in 2005. There were 128,000 Part B seniors in California; 30,000 in New York; and 9,000 each in Texas and Florida. These four states accounted for more than one-half (54 percent) of Part B seniors in 2005.

All Seniors with No Part A Coverage

Counting uninsured seniors, Medicaid-only seniors, and Part B seniors, there are 1.1 million elderly individuals with no Medicare Part A coverage, representing 3 percent of all seniors in the United States. There are 345,000 seniors with no Part A coverage in California (representing 9 percent of the elderly population in the state); 93,000 in New York (2

4. Some share of this group could be seniors who voluntarily take Part B but not Part A. For those seniors born after 1937 who defer receiving Social Security income until it becomes the full monthly benefit, taking Medicare coverage would require an affirmative decision to initiate the enrollment process, and taking partially subsidized Part B (at nearly \$1,000 for a full year) without taking fully subsidized Part A (at no cost) would be an irrational decision. Therefore, we assume that the number of seniors who fell into this age group, initiated their own enrollment, and refused the no-cost component of Medicare was negligible.

percent); 69,000 in Texas (2 percent); and 57,000 in Florida (2 percent). These four states accounted for 51 percent of seniors with no Part A coverage.

Buy-in Seniors

Some seniors have Part A coverage but not through full Medicare eligibility. Elderly individuals without the required work history who are citizens or have been legal residents for five years can be bought into Medicare Part A at a premium equivalent to the full actuarial value of the Part A benefit.⁵ States generally exercise their option to buy at least some eligible seniors into Part A through their Medicaid programs. It can be argued that, because these buy-in seniors ultimately have the same Part A benefits package, they are not a concern for policy makers. We disagree. We contend, first, that inclusion in a federal social insurance program that is realized only through the support of a state-run, means-tested social welfare program is qualitatively different; second, that an annual Medicaid eligibility determination—which entails a complex and time-consuming application process and includes onerous documentation requirements—is a less secure pathway to coverage than one-time automatic enrollment in Part A directly through Medicare; and third, that Part A buy-ins shift costs from a federal program to states through Medicaid.

We analyzed CMS administrative data on Medicare Part A buy-ins for July 2005 to estimate the number of seniors who are bought into Part A coverage by their state Medicaid programs.⁶ We found that nationally there were 488,000 seniors who had Medicare Part A coverage in 2005 only by virtue of their Medicaid buy-in status. There were 139,000 buy-in seniors in California; 95,000 in New York; 46,000 in Texas; and 50,000 in Florida. While these four states accounted for one-third of all seniors nationally in 2005, they accounted for more than two-thirds (68 percent) of buy-in seniors.

5. Seniors who, in addition to meeting the citizenship or residence requirement, have at least thirty but fewer than forty calendar-year quarters of participation in the Social Security tax system can be bought in at a discount of about 50 percent; however, seniors who qualify for this discount represent less than 0.25 percent of all buy-in seniors.

6. All states except Nebraska used Medicaid to buy seniors into Medicare Part A in July 2005.

All Seniors without the Full Medicare Part A Benefit

All told, the number of seniors without full federal Part A coverage in 2005 was 1.6 million. California had nearly half a million (484,000) such seniors; New York had 189,000; Texas had 115,000; and Florida had 107,000. Combined, these four states had 895,000 seniors without full federal Part A coverage; the rest of the country had 706,000. The four states with the largest overall and foreign-born populations accounted for the majority (56 percent) of all such seniors, despite accounting for just one-third (33 percent) of the elderly population.

Seniors without the full federal Part A benefit represented 5 percent of the elderly population in 2005; in other words, we estimate Medicare Part A's true penetration rate for seniors in 2005 was 95 percent. In California, the share of seniors without full federal Part A coverage was a staggering 12 percent of the elderly population—a figure that puts the true penetration rate for California below 90 percent—and in New York, the share of such seniors was 8 percent. Texas (5 percent) and Florida (4 percent) also had higher shares of such seniors than all other states on average (3 percent).

Barriers to Medicare Coverage: Work History and Immigration

Although Medicare is consistently described as a universal entitlement for seniors, there are significant gaps in the program's eligibility framework that compromise its ability to reach the entire elderly population. This limitation can be traced to the program's inception. Medicare was enacted to provide health security to seniors who had difficulty obtaining health coverage in the private market. During the 1960s, only half the elderly had health insurance, and these policies carried high premiums and delivered limited benefits (National Academy of Social Insurance 1999). At that time, seniors without private coverage did not have a consistent safety net of state programs: twenty-two states lacked any public assistance programs for the elderly and existing state programs often carried strict eligibility requirements and benefit limits (Merrell, Colby, and Hogan 1997).

A core element of the Medicare program's original design is that it was tailored to a "deserving" constituency. Eligible seniors had participated in the economy at a sufficient level through covered employment and had paid into the same FICA system that would finance their Part A benefit. Earn-

Table 1 Seniors without Full Federal Medicare Part A Coverage (in Thousands), 2005

	U.S.	California	New York	Texas	Florida	4 States	All Others	4 States as % of U.S.
All seniors	35,505	3,886	2,487	2,442	2,848	11,663	23,842	33
Total seniors without full federal Part A	1,601	484	189	115	107	895	706	56
Seniors without Part A	1,113	345	93	69	57	564	550	51
Uninsured seniors	449	120	30	44	31	225	224	50
Medicaid-only seniors	338	97	33	16	17	163	175	48
Part B seniors	326	128	30	9	9	176	151	54
Buy-in seniors	488	139	95	46	50	330	157	68
Seniors without full federal Part A as percent share of all seniors	5	12	8	5	4	8	3	

Sources: Authors' analysis of Urban Institute 2008; CMS 2005a, 2005b

Note: Rows and columns may not appear to sum to totals due to rounding.

ing this benefit through work as an expression of a mutual social obligation was a critical component of Medicare's enactment and remains a key element of current federal Medicare law. Those lacking the work history to qualify for Medicare either have not worked long or consistently enough to earn the necessary forty quarters of employment⁷ or have jobs—such as day laborer, domestic worker, and contractual employee⁸—that are outside the scope of Medicare-covered employment and for which the employer and employee do not pay into the FICA system.⁹

This structure means that noncitizens in particular face barriers to achieving full Medicare Part A coverage. These barriers extend to both legal and nonlegal immigrants who work in what is called the informal economy and to nonlegal immigrants who pay into the FICA system through a fake Social Security number (SSN). All told, foreign-born U.S. residents accounted for some 36 million U.S. residents and 12 percent of the U.S. population in 2005 (U.S. Census Bureau 2006). Among these, according to Jeffrey Passel (2006), were 11 million nonlegal immigrants, 7 million of whom were working. These individuals accounted for 5 percent of the U.S. labor force in 2005, and they accounted for substantial shares of the workforce in key sectors of the economy: farming (24 percent), cleaning (17 percent), construction (14 percent), and food preparation (12 percent).

The most compelling reason that nonlegal immigrants do not pay into the FICA system may not be that they are here illegally; it may be the type of job they hold. Jobs such as restaurant cook, construction laborer, ground maintenance worker, agricultural worker, and painter that comprise the informal economy, where employers and employees do not pay into the FICA system, are the most common types of employment for nonlegal immigrants (Gray 2006). Legal as well as nonlegal immigrants commonly work in the informal economy and thus lack the FICA participation needed to earn Medicare, regardless of immigration status. From the standpoint of one important Medicare eligibility criterion, these individuals are fulfilling their obligation: they are building a work history through their participation in the labor force and economy.¹⁰

7. Seniors who do not work for forty calendar quarters due to a disabling condition can still qualify for fully subsidized Medicare Part A coverage as a nonelderly disabled beneficiary. Nationally, there are about 7 million disabled Medicare beneficiaries under age sixty-five.

8. Contractual and self-employed individuals qualify for Medicare by paying a self-employment tax; however, this tax is sometimes disregarded by individuals in such circumstances.

9. Homemakers who work inside the home qualify for Part A as a dependent if their spouse has made FICA contributions for the required number of quarters.

10. In the course of earning and spending money, these workers are generating sales tax revenue directly and income and payroll tax for others indirectly.

Many immigrants also work in Medicare-covered employment and pay into the FICA system. Legal immigrants with permanent residence have the opportunity to earn the necessary credits to qualify for Medicare Part A. Nonlegal immigrants cannot earn credits to qualify, despite the mounting evidence that a large number of them actually do pay into the FICA system. However, because these individuals use a fake SSN, they do not earn FICA credits even though the taxes are deducted from their wages. After the 1986 Immigration Reform and Control Act, which enacted penalties on employers who knowingly hired nonlegal immigrants, it became increasingly difficult to obtain work without an SSN. As a result, a market of fake identification cards and SSNs blossomed, with the Social Security Administration now estimating that \$6 billion to \$7 billion in Social Security tax revenue is generated from earnings of workers with fictitious SSNs (Porter 2005). These immigrants are sowing, in the form of FICA contributions, but they cannot reap Medicare eligibility; instead, they are effectively cross-subsidizing full federal Part A coverage for others, since the Hospital Insurance trust fund's receipts are aggregated to pay for Part A outlays.

While we cannot estimate the precise number of nonlegal immigrant seniors without full federal Medicare Part A coverage in 2005, we can estimate upper bounds. By definition, Medicaid-only seniors, buy-in seniors, and Part B seniors are either permanent legal residents or U.S. citizens. These groups comprised 72 percent—nearly 1.2 million—of the 1.6 million seniors without full federal Part A coverage in 2005. Evidence indicates that the remaining 449,000 seniors, who were uninsured in 2005, are more likely to be noncitizens and Hispanic (Mold, Fryer, and Thomas 2004); however, an estimate of nonlegal uninsured seniors is elusive. If the entire cohort of uninsured seniors lacked U.S. citizenship or legal residence—clearly a substantial overestimate—then nonlegal immigrants would account for about 28 percent of seniors without the full federal Part A benefit. If half the uninsured senior cohort lacked legal status, then the share would be 14 percent. Therefore, despite some degree of uncertainty, the issue of seniors without full federal Part A coverage in 2005 was in substantial majority a problem affecting legal U.S. residents.

Estimating the Cost of Making Medicare Part A Universal

Reforming Medicare Part A to make it a truly universal and fully federal benefit for seniors would require amending the eligibility provisions of

Title XVIII of the 1965 Amendments to the Social Security Act to provide fully subsidized coverage to all elderly U.S. residents. How much would it cost to provide a new federal subsidy to the 1.6 million seniors who are without full federal Part A coverage? To estimate the net costs of such a policy change, we analyzed 2005 spending data for Medicare and Medicaid beneficiaries and the uninsured.

We estimate the gross cost of buying all 1.6 million seniors into Medicare Part A in federal fiscal year 2005 at \$7.1 billion in direct federal spending (see table 2).¹¹ This outlay would not consist entirely of new spending, because the federal government already contributes spending toward care or coverage for some seniors without the full federal Part A benefit. In addition, because some new federal spending would displace current state spending for these seniors, states would realize savings from a new federal policy that made Medicare Part A universal. In order to estimate the net cost of such a policy to the federal government, as well as savings to states, we estimated current federal and state spending on seniors without the full federal Part A benefit.

For uninsured seniors, we relied on estimates of uncompensated care for nonelderly adults who were uninsured for the full year, which put combined federal and state spending in 2008 at \$1,367 per capita—with the federal government funding 60 percent and state governments funding 40 percent respectively (Hadley et al. 2008). Adjusting these figures for health care inflation, we estimate that the federal government spent \$327 million and state governments spent \$218 million on uncompensated care for 449,000 uninsured seniors in 2005.¹²

To estimate current federal and state spending for Medicaid-only seniors, we made the simplifying assumption that utilization and per capita costs transferred to Medicare under a new Part A benefit would mirror existing service use and costs under Medicaid. Because the Part A premium represents the actuarial value of the benefit, it is a sound estimate of Medicaid savings per beneficiary under a new policy that would provide universal Part A coverage. Using the Medicare Part A premium and the federal and state shares of Medicaid spending, we estimate that the federal government spent \$813 million and state governments spent \$676 million on 338,000 Medicaid-only seniors in 2005.

11. The monthly Part A premium was \$343 in calendar year 2004 and \$375 in 2005 (HHS CMS 2003, 2004). We use a weighted average of \$367 for federal fiscal year 2005. The annualized Part A premium therefore is \$4,404.

12. We estimated the per capita cost of uncompensated care at \$1,212 in 2005 dollars.

Part B seniors may have some other form of coverage for Part A benefits. However, because of the absence of data on other insurance coverage for Part B seniors and to keep our estimates conservative, we did not estimate existing direct or indirect federal and state subsidies on other coverage for these individuals. Consequently, our estimates do not reflect any offsetting savings from a proposal to provide Part A coverage to 326,000 Part B seniors.

For buy-in seniors, the federal government and the states share the cost of the Part A premium through Medicaid. Using the Medicare Part A premium and the federal and state shares of Medicaid spending, we estimate that the federal government spent \$1.2 billion and state governments spent \$982 million on 488,000 buy-in seniors in 2005.

Under current law, we estimate that the federal government spends \$2.3 billion and state governments spend \$1.9 billion on comparable services for seniors without the full federal Part A benefit. The combined increase in federal and state spending to finance an increase in service use among seniors who are either uninsured or lack coverage for Part A services would be \$2.9 billion in 2005 dollars. The new net cost to the federal government of a new policy making Medicare Part A truly universal and fully federal—a policy that would affect 1.6 million elderly individuals—would be \$4.7 billion. Under such a policy, states would realize savings of \$1.9 billion, in the form of responsibility for current spending transferred to the federal government.

Adjusted for health care inflation, such a policy to make Medicare Part A universal would require \$6 billion in new federal spending in federal fiscal year 2011. To put these costs into context, baseline federal Medicare outlays for 2011 are \$570 billion (Congressional Budget Office 2009); therefore, universal Part A coverage for seniors would represent an increase on baseline federal Medicare expenditures of 1.1 percent. In the context of a national health care reform discussion that includes the pursuit of dramatic increases in health insurance coverage, making Medicare Part A universal for seniors is a congruous policy goal and would result in a small increase of new federal spending.

Under such a policy, states would realize savings of \$2.4 billion. This infusion of federal resources would provide additional fiscal relief at a time when states are facing budget deficits of historic proportions. However, it would represent a small fraction of the temporary increase in federal matching funds for Medicaid authorized under the American Recovery and Reinvestment Act of 2009 (Pub. L. No. 111-5, § 5001, 123 Stat. 115 [2009]), which currently accounts for about \$40 billion per year.

Table 2 Direct Federal and State Spending on Seniors without Full Federal Medicare Part A Coverage, FFY 2005

	U.S.
Uninsured seniors	449,000
Public cost per capita (\$)	× <u>1,212</u>
Direct cost (\$ millions)	544
Federal share	327
State share	218
Medicaid-only seniors	338,000
Per capita cost Part A buy-in (\$)	× <u>4,404</u>
Cost (\$ millions)	1,489
Federal share	813
State share	676
Buy-in seniors	488,000
Per capita cost Part A buy-in (\$)	× <u>4,404</u>
Cost (\$ millions)	2,149
Federal share	1,167
State share	982
All direct costs (\$ millions)	4,182
Total cost to federal government	2,307
Total cost to states	1,875
Additional federal spending required for a universal Part A subsidy:	
Seniors without federal Part A subsidy	1,601,000
Per capita cost Part A buy-in (\$)	× <u>4,404</u>
Gross federal costs (\$ millions)	7,051
Less offset of current federal costs	(2,307)
Net increase in new federal spending	4,744

Sources: Authors' analysis of Hadley et al. 2008; HHS CMS 2003, 2004; HHS Office of the Secretary 2003; and U.S. Bureau of Labor Statistics 2009

Notes: Rows may not appear to sum to totals due to rounding. FFY = federal fiscal year.

Medicare's Part A Coverage Gap in the Context of National Health Care Reform

The fact that 1.6 million seniors in the United States—5 percent of the elderly population—are without full federal Part A coverage is a significant policy issue. While Medicare is widely understood to cover the entire elderly U.S. population, this is at best a substantial exaggeration of Medicare's reach and perhaps a mischaracterization whose broad acceptance preempts a national debate about Medicare eligibility policy and clouds the existing debate on universal coverage.

Will a national discussion on Medicare eligibility get at least a little traction? At this point it seems unlikely because of a powerful counterargument that Medicare is close enough to universal and that seniors without the full federal Part A benefit have other public programs and sources of government funding to support their health care needs, with some ultimately gaining Medicare Part A through their state Medicaid programs. This argument is valid and empirically strong, but it hangs on a normative question: when we are dealing with Medicare eligibility policy in the context of a national discussion about universal coverage, should we settle for “close enough” and accept that, when people fall through the cracks of Medicare’s eligibility framework, Medicaid and the states will be there as a last resort?

Ultimately, in the panoply of U.S. public health insurance programs, Medicare was never unique or special because its benefits package was robust or because it provided cutting-edge care management or cost containment. While these are worthy and necessary goals, what has given Medicare special significance since its enactment—the very essence of the program—is that we think of it as including all seniors. While the data show that Medicare Part A is not universal for seniors, the good news is that making it a universal and fully federal program would not add substantial incremental costs to Medicare.

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