The year 2023, expected to be rife with economic disruption, will bring two new developments to the largest US retirement programs, Social Security and Medicare, negatively affecting the sustainability of these two central programs even further and challenging the nation’s fiscal health. Reform of these two critical programs, to ensure solvency and to address the fiscal debt and deficit issues, have been a longstanding concern of CED. These changes, as explained below, make reform even more urgent.

On October 13, Social Security beneficiaries learned that their benefits will increase 8.7 percent through an automatic adjustment for inflation. Meanwhile, Medicare premiums, which are often deducted directly from Social Security payments, will decrease for many seniors. These two changes will work in tandem to increase immediate cash flow to seniors, but they will also result in serious challenges for the federal government. Tracking with the historic levels of inflation, the social security cost of living increase will be the largest in four decades, further challenging the viability of the depleting social security trust fund, estimated to be able to pay full benefits only until 2034.

Regarding the Medicare premium deductions, they are possible because for the first time CMS had denied coverage for an entire class of drugs, effectively closing the door to reimbursement for a class of drugs, which has shown promise in slowing the progression of Mild Cognitive Impairment (MCI) and early Alzheimer’s. Alzheimer’s is expected to affect up to 12.7 million Americans by 2050, which shows both the risks to Medicare from paying for treatments and the dangers if effective treatments for Alzheimer’s are not pursued.

**Social Security’s Inflation Adjustment**

The Social Security Administration (SSA) Thursday announced that Social Security and Supplemental Security Income benefits would increase 8.7 percent for 2023. This is an automatic feature of the program, a Cost-of-Living Adjustment (COLA) tied to the Bureau of Labor Statistics’ (BLS) Consumer Price Index (CPI).

For historical reasons, increases in Social Security benefits are not indexed to the well-known headline CPI, the index for all urban consumers (CPI-U). Instead, they are indexed to the lesser-known CPI for Urban Wage Earners and Clerical Workers (CPI-W). CPI-W is, in effect, a continuation of the calculation for CPI used in 1935 at the time Social Security was established. As the final CPI figure for the third quarter of 2022 has now been released, the increase in CPI-W can be measured, and an 8.7 percent increase will be applied to the benefits for 65 million Old Age, Survivors, and Disability Insurance (OASDI) beneficiaries and 7 million Supplemental Security Income recipients.

Over the large number of Social Security beneficiaries, this translates to a significant increase in outlays. An 8.7% increase in benefit levels for a program that disbursed about $1.2 trillion in benefits last fiscal year could raise outlays by more than $100 billion in the coming year (using Congressional Budget Office projections from May 2022).
In addition, other changes will take place in Social Security for 2023. The maximum amount of earnings subject to the Social Security payroll tax in 2023 will rise to $160,200 from $147,000, and the amount of income retirees can earn without being subject to an earnings test reducing their Social Security benefits will also rise, from $51,960 per year to $56,520 per year for those who started receiving benefits the year they reached full retirement age.

**Medicare’s Premium Decrease**

Separately, earlier this year, the Centers for Medicare and Medicaid Services (CMS) announced that Medicare Part B premiums would decline in 2023. The standard monthly premium will be $164.90 for 2023, a monthly decrease of $5.20 from the $170.10 premium in 2022, or an annual decrease of $62.40. Such a 3 percent decrease in health premiums is unusual—historically, health care has experienced higher inflation than other sectors—and it might be especially surprising under current circumstances, where inflation is rising throughout the economy.

The decline in Medicare premiums in an otherwise inflationary environment partly reflects an Administration decision to deny coverage for an entire class of monoclonal antibody treatments for Alzheimer’s disease. Premiums for Part B—which helps pay for services from doctors and other health care providers, outpatient care, home health care, durable medical equipment, and some preventive services—rose in 2022 to reflect the possible need to cover the expensive drug, but CMS was able to reduce premiums for 2023 by denying coverage.

Monoclonal antibody treatments target clumps of sticky proteins called beta amyloid, also known as amyloid plaque and characteristic of the disease. However, they are quite expensive—the first, aducanumab (marketed as Aduhelm) launched at a reference price of $56,000 per year in June 2021 after its conditional approval under FDA’s Accelerated Approval pathway, “under which the FDA approves a drug for a serious or life-threatening illness that may provide meaningful therapeutic benefit over existing treatments when the drug is shown to have an effect on a surrogate endpoint that is reasonably likely to predict a clinical benefit to patients and there remains some uncertainty about the drug’s clinical benefit.”

Aducanumab was the first novel treatment approved for Alzheimer’s disease since 2003, and FDA believed there was evidence of clinical benefit in slowing the progression of the disease. But this conditional approval (to be followed by a “Phase 4” post marketing clinical trial) drew criticism over what some critics, including former FDA officials, perceived as insufficient clinical evidence. Moreover, the high cost of the drug drew extra scrutiny. If it were covered by Medicare, and there was substantial take-up among the millions of Americans with Alzheimer’s disease, this single class of drug could cost the federal government tens or even hundreds of billions of dollars a year.

In November 2021, CMS raised Medicare Part B premiums 14.5% for 2022 from the 2021 premium, reflecting in part the cost of the new drugs. A report published by CMS later explained that “roughly half of the 2022 premium increase” was attributable to the drug due to uncertainty over its price, utilization, and coverage.

Given these issues, in April 2022 CMS announced a policy for the whole class of monoclonal antibody treatments, functionally limiting coverage to participants in CMS- and FDA-approved clinical trials,
rather than the broader patient population. This limitation also applies to additional Alzheimer’s drugs in that class, including another, newer drug (lecanamab) with more substantial evidence from clinical trials, on which FDA is expected to give a decision on conditional approval in January 2023.

The narrowed coverage of Alzheimer’s treatments helped reverse some of the large premium increase, and seniors will begin paying the lower premium in 2023. Other components of Medicare also experienced some decline in premiums: the basic monthly premium for Part D, Medicare’s prescription drug component, decreased 1.8% to $31.50 in 2023 from $32.08 in 2022. The new Inflation Reduction Act, among other provisions, permits Medicare to begin negotiating prices for up to 100 drugs over the next ten years, expected to save the government up to $100 billion, offering the potential to lower Part D premiums even more in future years.

Analysis: Fiscal Policy, Health, and Innovation Effects

The rise in take-home benefits will preserve the standard of living for many Americans. A senior with an average retiree Social Security benefit and basic Part B and Part D Medicare premiums will see a net increase in cash benefits in 2023 of about $140, or an annual increase of about $1,680. However, as this increase is mostly a COLA adjustment for inflation that has already occurred, and the rest is a reversal of a previous Medicare premium increase, it merely helps seniors keep pace with inflation, not outrun it.

For the rest of the government, the fiscal situation for Social Security has worsened as a result of inflation. Contributions to Social Security (and benefits, in the long run) are indexed to wage growth. But inflation adjustments for already-retired beneficiaries are indexed to the CPI-W. In unusual years such as the last twelve months, where CPI-W growth exceeds wage growth, Social Security will face increasing costs of sustaining its current generation of retirees, costs that grow faster than the growth of the rest of the system. Given a depleting trust fund and Social Security’s estimates that it will be able to pay full benefits only until 2034, reform to improve Social Security’s solvency becomes all the more urgent.

The CMS decision to narrow coverage of Alzheimer’s treatments may be considered a legitimate effort to reduce future costs in one of the federal government’s most expensive programs. Despite FDA and CMS both being part of the Department of Health and Human Services, CMS maintains the right to make independent decisions on reimbursement for drugs by Medicare; FDA approval does not mean that reimbursement is automatic.

But the coverage denial was also the first time CMS had denied coverage for an entire class of drugs, effectively closing the door to reimbursement for that class, which has shown promise in slowing the progression of Mild Cognitive Impairment (MCI) and early Alzheimer’s, a disease which Congress’ Joint Economic Committee stated costs the US economy an estimated $321 billion this year and an estimated $271 billion in unpaid caregiving. Alzheimer’s is expected to affect up to 12.7 million Americans by 2050, which shows both the risks to Medicare from paying for treatments and the dangers if effective treatments for Alzheimer’s are not pursued. Viewed in this light, the coverage denial strongly discourages innovation in research in Alzheimer’s and related dementias. Companies researching the drugs risk billions of dollars in research and long clinical trials; they are considerably less likely to do so if they do not expect a return on their investment.