

A Tax on Work for the Elderly: Medicare as a Secondary Payer

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Policy Abstract

Medicare as a Secondary Payer (MSP) legislation requires employer-sponsored health insurance to be a primary payer for Medicare-eligible workers at firms with 20 or more employees. While the legislation was developed to better target Medicare services to individuals without access to employer-sponsored insurance, MSP creates a significant implicit tax on working beyond age 65. This implicit tax is approximately 15-20 percent at age 65 and increases to 45-70 percent by age 80. Eliminating this implicit tax by making Medicare a primary payer for all Medicare-eligible individuals could significantly increase lifetime labor supply due to the high labor supply elasticities of older workers. The extra income tax receipts from such a policy would likely offset a large percentage of the estimated costs of making Medicare a primary payer.