

January 2014 | Issue Brief

Health Care on a Budget: The Financial Burden of Health Spending by Medicare Households

Juliette Cubanski, Christina Swoope, Anthony Damico, and Tricia Neuman

The Medicare program offers health and financial protection to more than 50 million seniors and younger people with disabilities. However, the high cost of premiums, cost-sharing requirements, and gaps in the Medicare benefit package can result in beneficiaries spending a substantial share of their household budgets on health care. This brief updates a previous analysis comparing the financial burden of out-of-pocket health expenses as a share of total household expenditures for Medicare and non-Medicare households, using the 2012 Consumer Expenditure Survey. It assesses how much Medicare households are spending on health-related expenses compared to other types of spending, the extent to which health spending as a share of household budgets varies by age and poverty level, and changes in health spending over time.

Key Findings

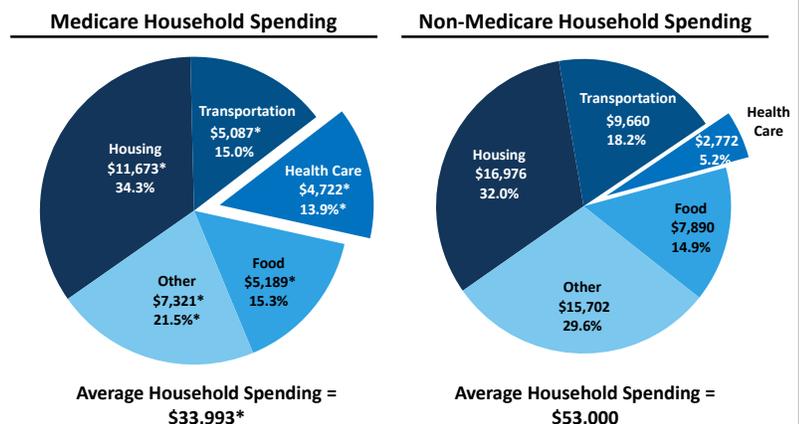
- Health expenses accounted for 14% of Medicare household budgets in 2012, on average—nearly three times the share of health spending among non-Medicare households (5%); these shares remained virtually unchanged over the 10 years from 2002 to 2012, although absolute spending levels have increased.
- Health insurance premiums comprised the largest share of average out-of-pocket health care spending among Medicare households in 2012—nearly two-thirds of overall health spending.
- Health spending as a share of Medicare household spending increases with age, as health and long-term care needs increase and spending on other items declines.
- Medicare households with modest incomes devote a greater share of their household budgets to health care than the highest-income Medicare households, while Medicaid substantially reduces health care spending in low-income Medicare households where beneficiaries are eligible for both Medicare and Medicaid.
- Spending on health care overall and on health insurance premiums has accounted for roughly the same share of Medicare household spending over time, while the share of spending on prescription drugs has decreased.

Health expenses accounted for 14% of Medicare household budgets in 2012, on average—nearly three times the share of health spending among non-Medicare households (5%); these shares remained virtually unchanged over the 10 years from 2002 to 2012, although absolute spending levels have increased.

Spending on health care—for health insurance premiums, medical services and supplies, and prescription drugs—was a not insignificant component of household budgets at all ages in 2012, but these costs were particularly burdensome for Medicare households. On average, Medicare households devoted roughly similar shares of their budgets to food, housing, and transportation in 2012 as did non-Medicare households, but a substantially larger

Exhibit 1

Distribution of Average Household Spending by Medicare and Non-Medicare Households, 2012



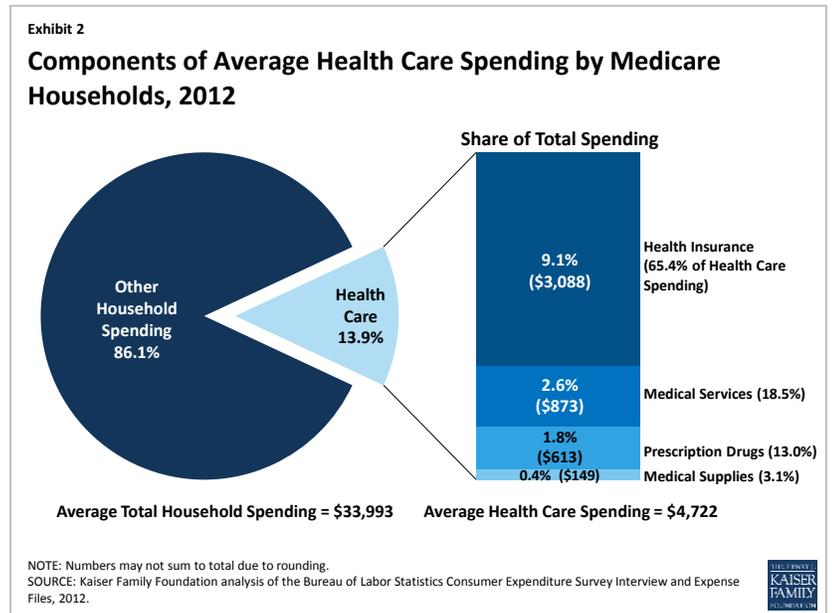
NOTE: * Estimate statistically significantly different from the non-Medicare household estimate at the 95 percent confidence level.
SOURCE: Kaiser Family Foundation analysis of the Bureau of Labor Statistics Consumer Expenditure Survey Interview and Expense Files, 2012.

share to health care expenses (13.9% vs. 5.2%, respectively; statistically unchanged from previous years' estimates). The relatively high health spending burden on Medicare households is attributable to lower average household budgets overall (\$33,993 vs. \$53,000, respectively) and higher average health care spending among Medicare households than non-Medicare households (\$4,722 vs. \$2,772, respectively).

Health insurance premiums comprise the largest share of average out-of-pocket health care spending among Medicare households in 2012—nearly two-thirds of overall health spending.

Spending on health insurance premiums, including for Part B, Part C (Medicare Advantage), Part D and supplemental coverage (such as Medigap and retiree health plans), was about two-thirds (65.4%) of Medicare households' average health care spending in 2012, and 9.1% of Medicare household spending overall. Medical services (such as hospital stays, physician services, lab tests, and X-rays) were the next largest component of Medicare households' health spending (18.5%), followed by prescription drugs (13.0%) and medical supplies (3.1%).

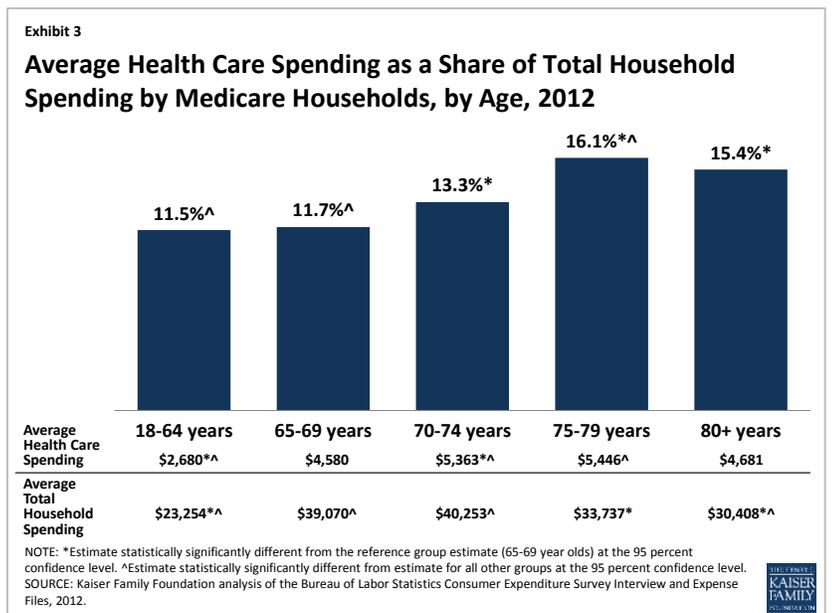
Spending on health care *excluding* insurance premiums (for medical services and supplies and prescription drugs) was a greater burden for Medicare households than non-Medicare households in 2012 (4.8% and 2.2% of household spending, respectively). Non-premium health spending reflects the scope and generosity of insurance coverage for health care services, and the extent to which households use different amounts of services and incur costs as a result.



Health spending as a share of average Medicare household spending increases with age, as health and long-term care needs increase and spending on other items declines.

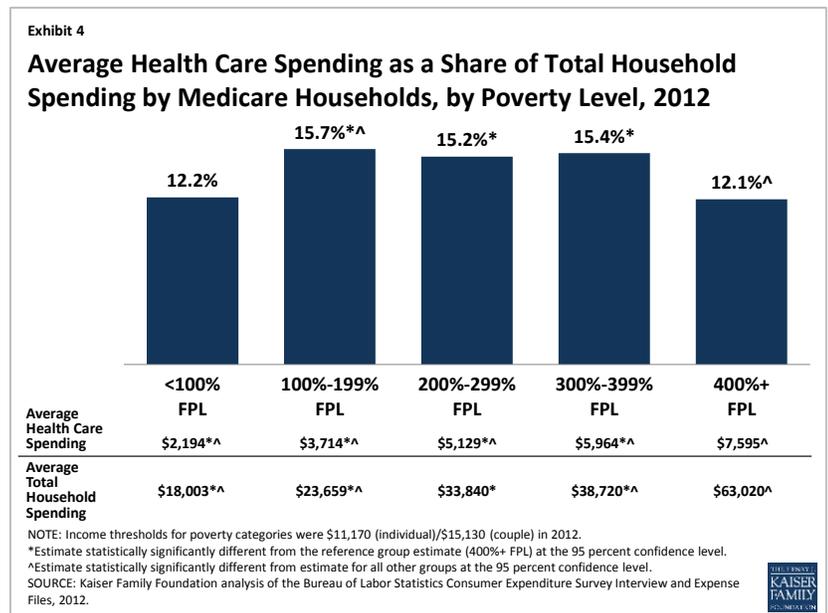
Spending on health care as a share of total Medicare household spending varies by age. In 2012, older households (age 70+) spent a larger share of their budgets on health care than households of those ages 65-69, on average. This is related to the fact that health spending tends to increase with age as health and long-term care needs rise, while spending on non-health items and overall financial resources tend to decrease. Average health care spending comprised 13.3%, 16.1%, and 15.4% of budgets for households in which the oldest member was 70-74, 75-79, and 80+ years old, respectively, compared to an average of 11.7% for the households of 65-69 year-olds.

Health care spending represented a smaller share of household spending (11.5%, on average) for people under age 65 who qualify for Medicare due to having a permanent disability than for older beneficiaries. This may be related to higher rates of Medicaid coverage among younger people with disabilities on Medicare than among those ages 65 and older.



Medicare households with modest incomes spend a greater share of their household budgets on health care than the highest-income Medicare households.

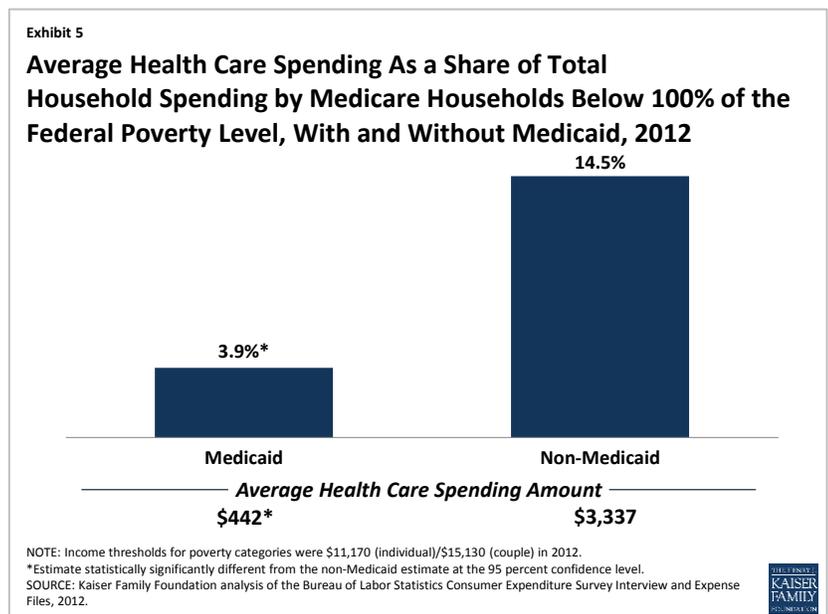
Near-poor and middle-income Medicare households (those between 100% and 399% of the poverty level) faced a greater health care spending burden in 2012 than Medicare households above 400% of the poverty level. For those with incomes between 100-199%, 200-299%, and 300-399% of the federal poverty level, average health care spending as a share of household budgets was 15.7%, 15.2%, and 15.4% respectively, compared to 12.1% for Medicare households with incomes above 400% of poverty. Near-poor Medicare households (those with incomes between 100-199% of poverty) also faced a larger spending burden than Medicare households at all other income levels. Health spending as a share of household spending for the poorest Medicare households (less than 100% of poverty, or \$11,170/individual or \$15,130/couple in 2012) was 12.2%, not significantly different from the share of spending by higher-income households.



While the highest-income Medicare households faced a lower health care spending burden as a share of their household budgets than lower-income households, their absolute spending on health care was significantly higher (\$7,595 on average, compared to \$2,194, \$3,714, \$5,129, and \$5,964 for those with incomes of less than 100%, 100-199%, 200-299%, and 300-399% respectively).

Medicaid substantially reduces health care spending in low-income Medicare households where beneficiaries are eligible for both Medicare and Medicaid.

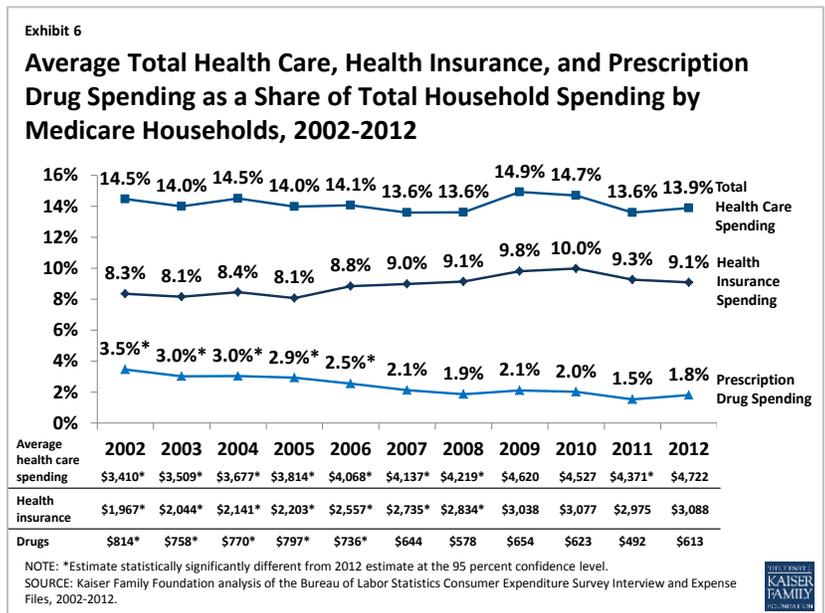
The relatively low level of average total household spending on health care among Medicare households with incomes below 100% of poverty (\$11,170/individual or \$15,130/couple in 2012) can be partly attributed to the financial protections provided by Medicaid coverage. Yet not all low-income Medicare beneficiaries are covered by Medicaid, which may be due to asset levels, a challenging eligibility and enrollment process, or lack of awareness about eligibility. This leaves many low-income households exposed to considerable health care costs. Among Medicare households with incomes below 100% of poverty, those with all household members also covered by Medicaid spent a considerably smaller share of household expenditures on health care in 2012 than those not covered by Medicaid (3.9% vs. 14.5%, respectively).



Absolute spending on health care in dollar amounts by Medicare households below poverty differed even more dramatically than the shares of household spending depending on whether they were covered by Medicaid. Average health care spending in 2012 by Medicare households below poverty with no members covered by Medicaid was more than seven times that of the health spending by Medicare households below poverty with all members covered by Medicaid (\$442 vs. \$3,337, respectively).

Spending on health care overall and on health insurance premiums has accounted for roughly the same share of Medicare household spending over time, while the share of spending on prescription drugs has decreased.

Between 2002 and 2012, spending on health care in total and health insurance premiums as a share of Medicare household spending has remained relatively steady, while absolute spending levels increased. Over these years, monthly premiums for Medicare Part B nearly doubled, from \$54 in 2002 to \$99.90 in 2012, and premiums for Medicare Advantage and Part D drug plans, and for supplemental coverage (Medigap and retiree coverage) also increased, on average. Conversely, prescription drug spending as a share of Medicare household spending decreased from 3.5% in 2002 to 1.8% in 2012. This decrease may be partly due to the Part D drug benefit that began in 2006, which helps to reduce beneficiaries' out-of-pocket drug spending.



Conclusion

Medicare households devoted nearly 14% of total household spending to health-related expenses in 2012, on average—a substantially larger share than non-Medicare households. These shares remained virtually unchanged over the 10 years from 2002 to 2012, although absolute spending levels have increased. Health insurance premiums account for the largest share of Medicare households' health care spending, but its share of spending held steady between 2002 and 2012, while the share spent on prescription drugs gradually declined. The financial burden of out-of-pocket health spending is felt disproportionately by some subgroups of Medicare households, including older beneficiaries and those with incomes between 100% and 399% of poverty. Low-income households who are dually eligible for Medicare and Medicaid face a lower health spending burden than low-income households without Medicaid.

The 2010 Affordable Care Act includes provisions that could help to reduce Medicare beneficiaries' out-of-pocket health spending over time, including closing the Part D coverage gap and eliminating cost sharing for preventive services, but the rising cost of health care overall could force many people on Medicare to make difficult choices in adjusting their household spending to account for higher costs. As policymakers consider options to address federal budget concerns, including policies to rein in Medicare spending, these findings highlight the importance of assessing the effects of such proposals on out-of-pocket health care spending among Medicare beneficiaries—a majority of whom already live on tight budgets.

Methods

This issue brief is an update of June 2011 and March 2012 reports of the same title. The findings are based on analysis of the Bureau of Labor Statistics Consumer Expenditure Survey Interview and Expense Files, 2002-2012. Household spending includes food; housing; transportation; health care; entertainment; personal care products and services; reading; education; tobacco products and smoking supplies; cash contributions: life, endowment, annuities, and other personal insurance; contributions to retirement pensions and Social Security. Health care spending includes health insurance premiums, medical services, prescription drugs, and medical supplies. Estimates were derived by summing household expenditures and each subcomponent (housing, food, transportation, health care) across households and dividing the aggregate total amount by the aggregate amount for each subcomponent to calculate the share of total spending. The analysis focuses on average rather than median (midpoint) values to show the distribution of household spending across all components, which sums to 100%. Unless otherwise noted, all differences discussed in the text are significant at the 95% confidence level.