

# HEALTH CARE ON A BUDGET

## THE FINANCIAL BURDEN OF HEALTH SPENDING BY MEDICARE HOUSEHOLDS

AN UPDATED ANALYSIS OF HEALTH CARE SPENDING AS A SHARE OF TOTAL HOUSEHOLD SPENDING

APRIL 2011

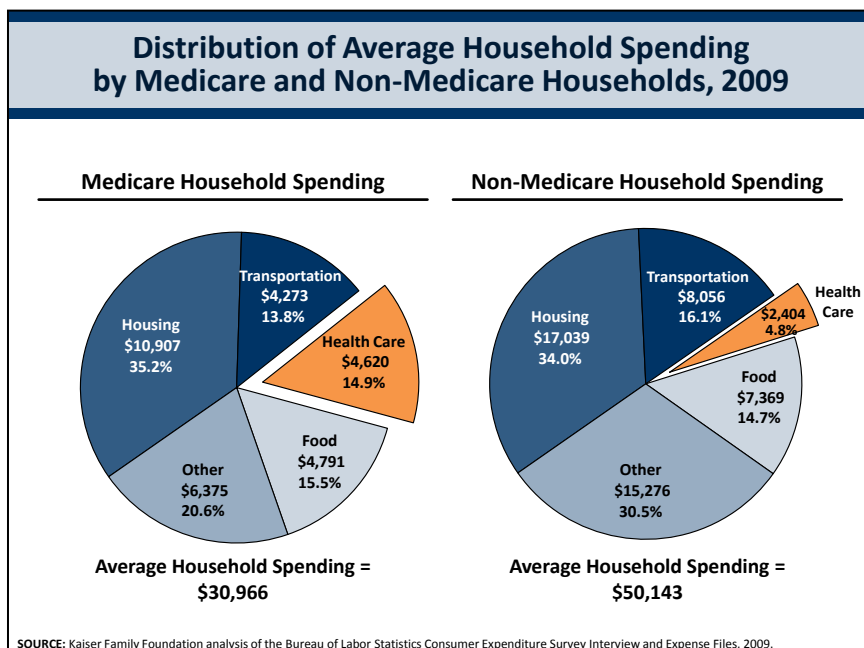
The Medicare program offers health and financial protection to 48 million seniors and younger people with disabilities. However, the high cost of premiums, cost-sharing requirements, and gaps in the Medicare benefit package can result in beneficiaries spending a substantial share of their household budgets on health care. This brief compares the financial burden of average out-of-pocket health expenses as a share of total household expenditures for Medicare and non-Medicare households, based on analysis of the Consumer Expenditure Survey. It assesses how much Medicare households are spending on health-related expenses compared to other spending priorities, 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

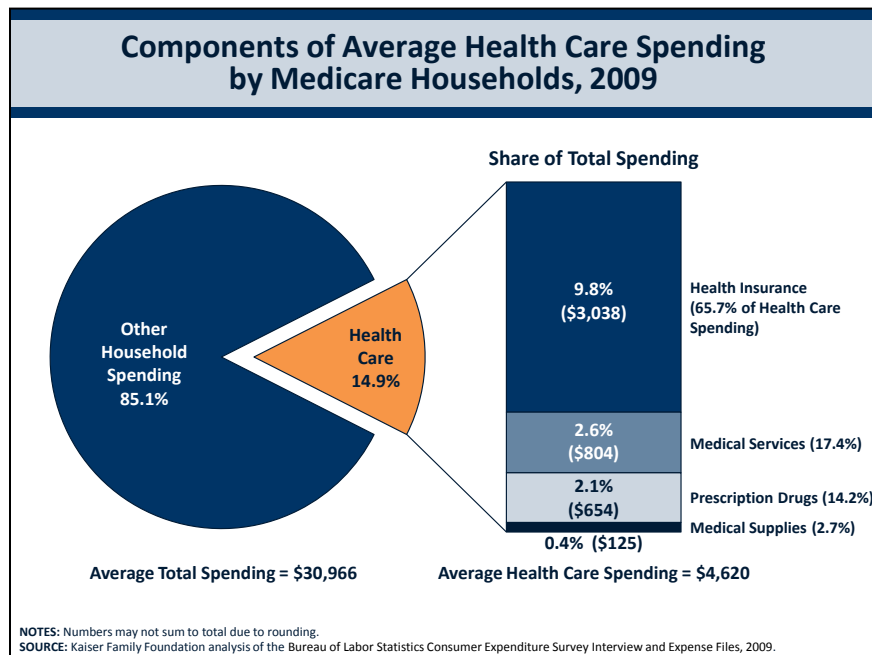
- Medicare households spent 14.9 percent of their household budget on health expenses in 2009, on average, significantly more than the 4.8 percent spent by non-Medicare households.
- Health insurance premium payments comprise the largest share of average health care spending by Medicare households.
- Health spending as a share of Medicare household spending increases with age, as health and long-term care needs increase and average income declines.
- Medicare households just above the poverty level spend a greater share of their household budgets on health care than the poorest and highest-income Medicare households.
- Medicaid coverage substantially reduces health care spending in low-income Medicare households where beneficiaries are dually eligible for Medicare and Medicaid.
- The share of Medicare household spending on payments for health insurance premiums has increased over time, while the share of spending on prescription drugs has decreased.

### Medicare households spent 14.9 percent of their household budget on health expenses in 2009, on average, significantly more than the 4.8 percent spent by non-Medicare households.

Spending on health care—for health insurance premiums, medical services and supplies, and prescription drugs—is a not insignificant component of household budgets at all ages, but these costs are particularly burdensome for Medicare households. On average, Medicare households devoted roughly similar shares of their budgets to food, housing, and transportation as non-Medicare households, but a substantially larger share to medical expenses in 2009 (14.9 percent vs. 4.8 percent, respectively). The relatively high health spending burden on Medicare households is attributable to lower average household budgets overall (\$30,966 vs. \$50,143, respectively) and higher average health care spending among Medicare households than non-Medicare households (\$4,620 vs. \$2,404, respectively).



## Health insurance premium payments comprise the largest share of average health care spending by Medicare households.

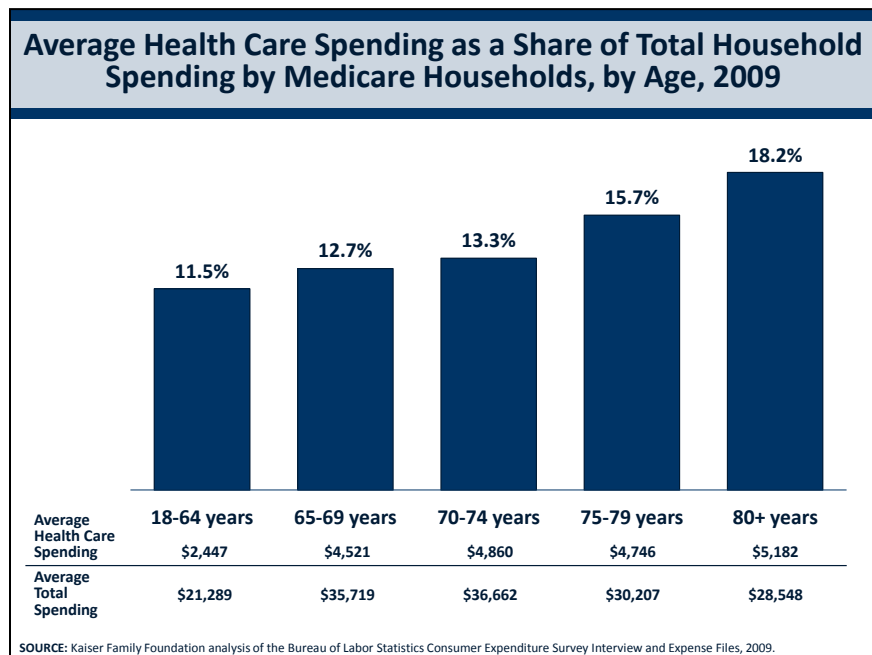


Spending on health insurance premiums, including premiums for Medicare Part B and Part D and supplemental insurance coverage, represented nearly two-thirds (65.7 percent) of average health care spending by Medicare households in 2009, and nearly 10 percent of Medicare household spending overall. Medical services (such as hospital stays, physician services, lab tests, and X-rays) comprised the next largest component of health spending by Medicare households (17.4 percent), followed by prescription drugs (14.2 percent) and medical supplies (2.7 percent).

Spending on health care *excluding* insurance premiums was a greater burden for Medicare households than non-Medicare households in 2009 (5.1 percent and 2.1 percent of total 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 average income declines.



Spending on health care as a share of total Medicare household spending varies by age. In 2009, older households (age 80+) spent a larger share of their budgets on health care than younger households, on average, because health spending tends to increase with age as health and long-term care needs rise, while financial resources tend to decrease. Average health care spending comprised 18.2 percent of budgets for households in which the oldest member was 80+ years old, compared to an average of 12.7 percent for the households of 65-69 year-olds, 13.3 percent for 70-74 year olds, and 15.7 percent for 75-79 year olds.

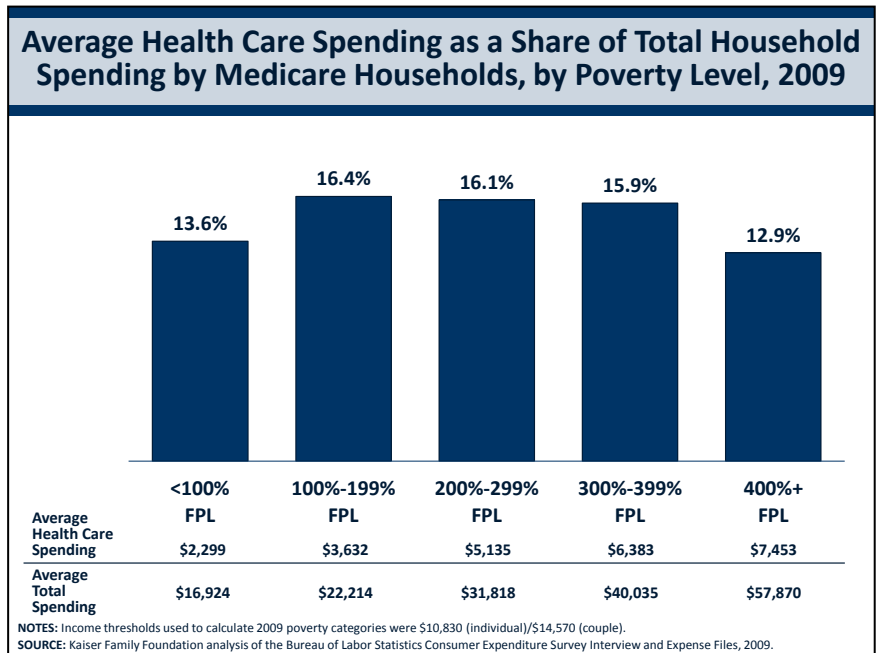
Health care spending represented the smallest share of total Medicare household spending (11.5 percent, on average) for people under age 65 who qualify for

Medicare due to having a permanent disability. This may be related to higher rates of Medicaid coverage among younger people with disabilities on Medicare than among seniors.<sup>1</sup>

<sup>1</sup> Kaiser Family Foundation, "Examining Sources of Coverage Among Medicare Beneficiaries: Supplemental Insurance, Medicare Advantage, and Prescription Drug Coverage – Findings from the Medicare Current Beneficiary Survey, 2007," August 2009 (available online at <http://www.kff.org/medicare/7801.cfm>).

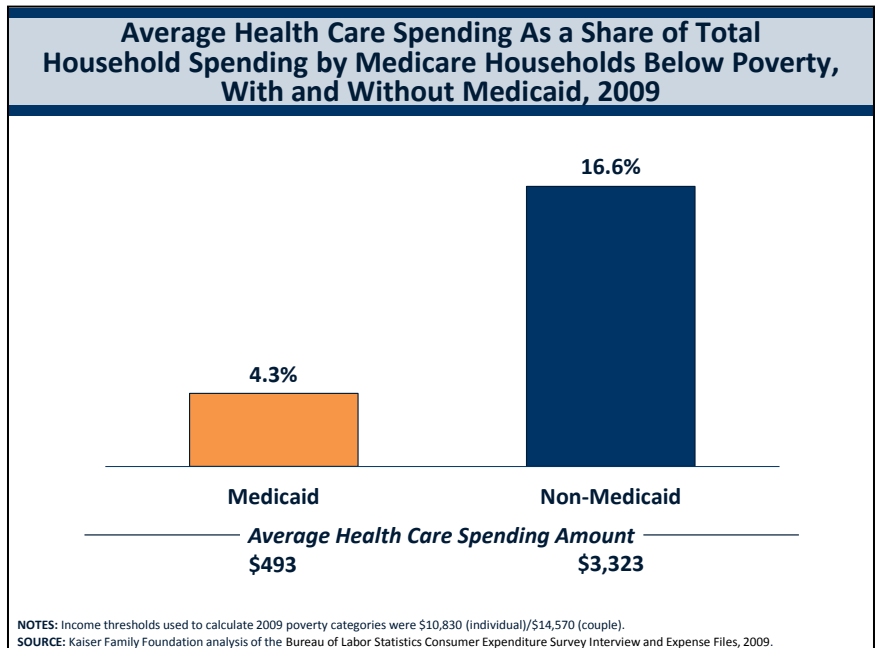
## Medicare households just above the poverty level spend a greater share of their household budgets on health care than the poorest and highest-income Medicare households.

Near-poor and middle-income Medicare households (those between 100 percent and 399 percent of the poverty level) faced a greater health care spending burden in 2009 than the poorest Medicare households, those with incomes below the poverty level (\$10,830/individual or \$14,570/couple in 2009). This is because beneficiaries in these households generally are not eligible for Medicaid because their income and/or assets exceed eligibility limits. In 2009, near-poor and middle-income households spent about 16 percent of their household budgets on health care expenses, compared to an average of 13.6 percent among Medicare households with income below the poverty level. Yet even Medicare households above 400 percent of the poverty level were not immune from the burden of health care spending, allocating a sizable portion of their household budgets to health care (12.9 percent).



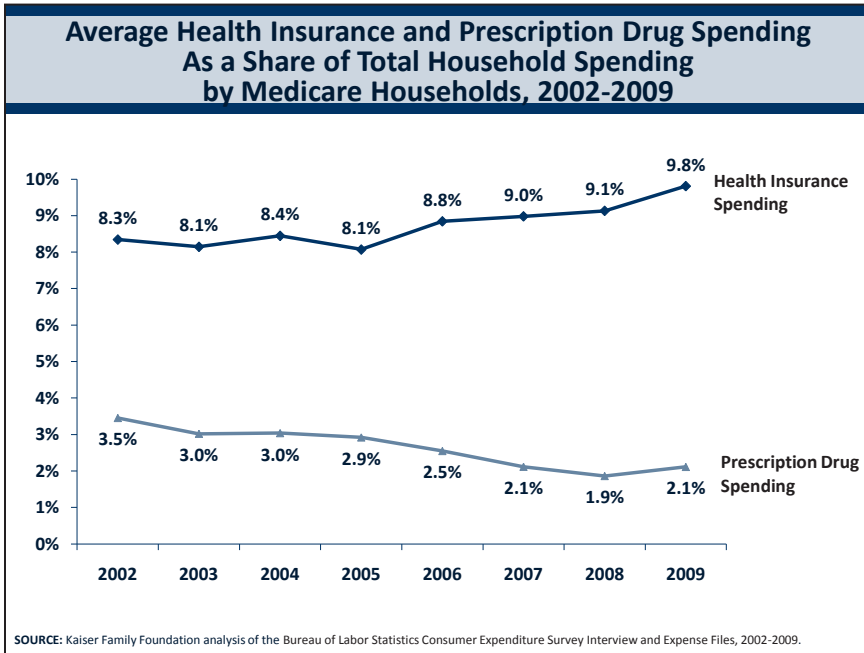
## Medicaid coverage substantially reduces health care spending in low-income Medicare households where beneficiaries are dually eligible for Medicare and Medicaid.

The smaller share of average total household spending on health care among Medicare households with incomes below 100 percent of poverty 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 assets 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 percent of poverty, those with all household members dually covered by Medicaid spent a considerably smaller share of household expenditures on health care in 2009 than those not covered by Medicaid (4.3 percent vs. 16.6 percent, 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 2009 by Medicare households below poverty with members also covered by Medicaid was approximately 85 percent lower than health spending by Medicare households below poverty with no members covered by Medicaid (\$493 vs. \$3,323, respectively).

## The share of Medicare household spending on payments for health insurance premiums has increased over time, while the share of spending on prescription drugs has decreased.



Between 2002 and 2009, spending on health insurance premiums as a share of total Medicare household spending increased from 8.3 percent to 9.8 percent. Over these years, monthly premiums for Medicare Part B nearly doubled, from \$54 per month in 2002 to \$96.40 in 2009. At the same time, premiums for Medicare Advantage and Part D drug plans, and for supplemental coverage, including Medicare supplement policies (Medigap) and employer-sponsored retiree coverage, have also been increasing, on average. Conversely, prescription drug spending as a share of average Medicare household spending decreased from 3.5 percent in 2002 to 2.1 percent in 2009. This decrease may be due in part to the introduction of the Part D drug benefit in 2006, which helps to reduce Medicare beneficiaries' out-of-pocket drug spending.

### Conclusion

Medicare households devoted nearly 15 percent of total household spending to health-related expenses in 2009, on average—a substantially larger share than non-Medicare households. Premiums for Medicare and supplemental insurance accounted for the largest share of health care spending among Medicare households, and have risen as a share of their total spending (and health spending) over time. Spending on prescription drugs as a share of Medicare household budgets has gradually declined, perhaps related to the implementation of the Medicare drug benefit in 2006.

The financial burden of out-of-pocket health care spending is felt disproportionately by some subgroups of the Medicare population, including the oldest old and those with incomes between 100 percent and 400 percent of the federal poverty level. The lowest-income beneficiaries who are dually eligible for Medicare and Medicaid face a lower health spending burden than other Medicare households, but not all Medicare households below the poverty level qualify for Medicaid.

The 2010 health reform law includes provisions that could help to reduce Medicare beneficiaries' out-of-pocket health spending, 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. Moreover, as policymakers consider options to reduce the federal budget deficit, including policies to rein in Medicare spending, these findings highlight the importance of assessing the effects of such proposals on out-of-pocket spending among Medicare beneficiaries—a majority of whom already live on tight budgets.

### Methodology

This policy brief is an update of "Health Care on a Budget: An Analysis of Spending by Medicare Households" (Kaiser Family Foundation, February 2009). The findings are based on analysis of the Bureau of Labor Statistics Consumer Expenditure Survey Interview and Expense Files, 2002-2009. Total 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. Total health care spending includes health insurance premiums, medical services, prescription drugs, and medical supplies. Estimates were derived by summing total household expenditures and each subcomponent (e.g., 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 percent. All differences discussed in the text are significant at the 95 percent confidence level.

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This publication (#8171) is available on the Kaiser Family Foundation's website at [www.kff.org](http://www.kff.org).

Juliette Cubanski, Anthony Damico, and Tricia Neuman, "Health Care on a Budget: An analysis of Spending by Medicare Households," February 2009, <http://www.kff.org/medicare/7859.cfm>.