

Health Care Spending by Medicare Households: 2005-2009

Consumer Expenditure Survey data from 2005 to 2009 were used to examine out-of-pocket health care spending changes among Medicare households after implementation of the Medicare Part D Prescription Drug Program in 2006. Findings indicate that the proportion of total annual expenditures represented by health care was higher in 2009 than in 2005. The proportion of health care spending represented by prescription drugs decreased, while the proportion represented by health insurance premiums increased over the period. Implementation of Medicare Part D appears to have had little impact on the financial security of the Medicare households examined.

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Introduction

Established in 1965, Medicare provides health care coverage to those 65 and older and to those under 65 with permanent disabilities. In 2009, Medicare covered 46.3 million people: 38.7 million 65 and older and 7.6 million disabled under 65. Because of the large number of people born between 1946 and 1964, commonly referred to as the Baby Boom generation, Medicare enrollment is expected to increase to 63.5 million in 2020 and 80.4 million in 2030. As the average age of Medicare beneficiaries increases, they will use more health care services resulting in greater out-of-pocket costs and Medicare program expenses (Centers for Medicare and Medicaid Services, 2010).

When first established, Medicare covered hospital and physician charges but excluded prescription drugs. This coverage gap became a problem for Medicare beneficiaries because of the development of prescription-drug treatments for medical conditions common to the Medicare population. The Medicare Modernization Act of 2003, which established Medicare Part D, was enacted to close this coverage gap. Since January 2006, Part D has provided subsidized access to prescription drug insurance coverage on a voluntary basis with premium and cost-sharing subsidies for low-income enrollees (Klees, Wolfe, & Curtis, 2010).

Existing research (Neuman & Cubanski, 2009; Schneeweis et al., 2009; Lichtenberg & Sun, 2007) provides mixed findings about whether Medicare beneficiaries' out-of-pocket health care expenses have decreased since Part D became effective. Because many of these studies focus on individual beneficiaries, they do not provide a picture of how such changes have affected household budgets.

This research uses Consumer Expenditure Survey (CE) data to examine out-of-pocket health spending by Medicare households before and after the implementation of Medicare Part D. Change in total health care spending in dollars and as a share of total annual expenditures is examined as well as change in the distribution of health care spending by health care commodities and services. The extent to which closing this Medicare coverage gap has increased the financial security of the elderly and disabled has implications for current and future beneficiaries.

Data Source and Methodology

Conducted continuously since 1980, the CE has two components, a quarterly Interview Survey and a weekly Diary Survey, each with its own questionnaire and sample. The CE is designed to be representative of the U.S. civilian noninstitutionalized population (Bureau of Labor Statistics, 2007).

This analysis uses CE data from the 2005 through 2009 Interview Surveys. The sample is composed of consumer units¹(CUs) in which all members are on Medicare. To facilitate comparison, CUs with some members on Medicare and other members not on Medicare were excluded. The expenses examined were total health care and its components: health insurance, medical services, prescription drugs, and medical supplies. Nonprescription drugs,

¹ A consumer unit is defined as (1) all members of a particular household who are related by blood, marriage, adoption, or other legal arrangement, such as foster children; (2) a financially independent person living alone, sharing a housing unit with others, or living as a roomer in a private home, lodging house or permanently in a hotel or motel; or (3) two or more persons living together who pool their incomes to make joint expenditures. For more information, see (Bureau of Labor Statistics, 2007). While consumer unit is the proper technical term for the purposes of the Consumer Expenditure Surveys, it is often used interchangeably with household for convenience. Because household is more familiar to most people, it will be used instead of consumer unit.

nonprescription vitamins, topicals and dressings, and medical equipment repair were not included because these expenses are collected from Diary Survey respondents only.

Findings

In 2009, there were 19.8 million Medicare households compared with 17.6 million in 2005. Households with a reference person² under 65 made up 11.7 percent of the sample compared with 40.1 percent for households with a reference person age 65-74 and 48.3 percent for households with a reference person 75 years and over. In 2005, these proportions were 11.8 percent, 39.8 percent, and 48.3 percent, respectively.

For all Medicare households, average annual expenditures were \$30,194 in 2009 compared with \$26,870 in 2005, with similar patterns among the three age groups. In all years, average annual expenditures were lowest for the under 65 group and highest for the 65-74 age group. Health care expenditures also increased from \$3,823 in 2005 to \$4,592 in 2009 for all households, with similar patterns among the three subgroups. During the period, health care expenditures were lowest for the under 65 group and highest for the 65-74 age group (Table 1).

For all Medicare households, the budget share accounted for by health care ranged from a low of 13.9 percent in 2007 to a high of 15.2 percent in 2009. For the under 65 group, health care's share of the total budget steadily increased from 9.8 percent in 2005 to 11.7 percent in 2009. The relatively smaller budget share and absolute dollar amount accounted for by health care among this group is probably due to the higher rates of Medicaid coverage among younger people with disabilities on Medicare compared with the rest of the Medicare population. Medicaid pays premium and cost-sharing requirements for low-income beneficiaries covered by both Medicare and Medicaid and provides certain benefits not covered by Medicare.³

Health care component shares changed between 2005 and 2009. For all Medicare households, the proportion of out-of-pocket health care spending represented by prescription drugs declined from 20.8 percent in 2005 to 14.4 percent in 2009, while health insurance premiums went from 58.2 percent of out-of-pocket health care spending in 2005 to 66.5 percent in 2008, ending at 66.1 percent in 2009. The proportion of the health care budget represented by medical services and by medical supplies showed no consistent pattern.

Part D Coverage

Data from the Centers for Medicare and Medicaid Services indicate that in 2009, slightly over 72 percent of Medicare enrollees were in Part D plans. This included about 38 percent of enrollees in stand-alone prescription drug plans (PDPs), about 20 percent in Medicare Advantage prescription drug (MA-PD) plans, and about 15 percent with retiree drug subsidy (RDS) coverage. Around 10 percent had no drug coverage and the remainder had other drug coverage.⁴

Starting in the second quarter of 2006, the Consumer Expenditure Interview Survey has asked respondents whether they or any other household members are enrolled in a Medicare Part D Prescription Drug plan as well as the monthly premium payment for this coverage. It should be noted that this question only elicits information about PDPs. This is because the cost for prescription drug coverage is included in the overall premiums paid by Medicare Advantage enrollees and Medicare beneficiaries with retiree drug subsidy coverage. All respondents, however, provide information about out-of-pocket spending on prescription drugs.

The proportion of Medicare households reporting one or more members with Medicare Part D coverage jumped from 12 percent in 2006 to 37.4 percent in 2009; similar patterns were found for the three subgroups. Among households with Part D coverage, the average annual premium paid went from \$356 in 2006 to \$636 in 2009. Part D premiums, with one exception, steadily increased over the period for all groups. Existing research

² The reference person is the first household member mentioned by the respondent when asked to "Start with the name of the person or one of the persons who owns or rents the home." For more information, see (Bureau of Labor Statistics, n.d.).

³ In 2009, for example, 32 percent of the under 65 group had at least one household member covered by Medicaid compared with 9.7 percent of the 65-74 years group and 8.4 percent of the 75 and older group.

⁴ Medicare Advantage plans provide Part A (Hospital Insurance) and Part B (Supplementary Medical Insurance) benefits found in the traditional fee-for-service Medicare Program as well as other benefits such as prescription drug, vision, and hearing. The retiree drug subsidy (RDS) is an option where Medicare subsidizes a portion of the drug expenses of qualifying employer-sponsored retiree health plans. Other drug coverage includes Department of Veterans Affairs coverage, retiree plans without retiree drug subsidies, employer plans for active workers and coverage for federal workers and members of the military. For more information, see (Centers for Medicare and Medicaid Services, 2010).

Table 1

Health Care Expenditures and Shares of Health Care Expenditures for Medicare Households, by Age of Reference Person, Consumer Expenditure Interview Survey, 2005-2009

Item	All Medicare Households					Under 65				
	2005	2006	2007	2008	2009	2005	2006	2007	2008	2009
Number of CUs (in millions)	17.6	15.7	17.1	19.6	19.8	2.1	2.0	1.9	2.2	2.3
Total expenditures	\$26,870	\$28,196	\$29,899	\$30,316	\$30,194	\$19,018	\$22,472	\$22,357	\$22,494	\$22,346
Total health care	3,823	4,074	4,144	4,260	4,592	1,864	2,333	2,313	2,466	2,614
Share of total expenditures (%)	14.2	14.5	13.9	14.1	15.2	9.8	10.4	10.3	11.0	11.7
Health insurance	\$2,226	\$2,538	\$2,739	\$2,832	\$3,035	\$1,054	\$1,279	\$1,503	\$1,587	\$1,719
Medical services	691	647	642	681	772	359	443	377	389	334
Prescription drugs	794	740	648	628	661	397	534	410	455	518
Medical supplies	112	149	115	119	123	53	77	22	34	42
Shares of total health care (%)										
Health insurance	58.2	62.3	66.1	66.5	66.1	56.6	54.8	65.0	64.4	65.8
Medical services	18.1	15.9	15.5	16.0	16.8	19.3	19.0	16.3	15.8	12.8
Prescription drugs	20.8	18.2	15.6	14.7	14.4	21.3	22.9	17.7	18.5	19.8
Medical supplies	2.9	3.7	2.8	2.8	2.7	2.9	3.3	1.0	1.4	1.6
Item	65-74 Years					75 and Older				
	2005	2006	2007	2008	2009	2005	2006	2007	2008	2009
Number of CUs (in millions)	7.0	6.1	6.7	7.7	7.9	8.5	7.6	8.5	9.6	9.6
Total expenditures	\$31,802	\$31,433	\$33,582	\$34,621	\$35,165	\$24,728	\$27,065	\$28,722	\$28,644	\$27,965
Total health care	4,060	4,426	4,538	4,711	4,875	4,108	4,240	4,254	4,308	4,835
Share of total expenditures (%)	12.8	14.1	13.5	13.6	13.9	16.6	15.7	14.8	15.0	17.3
Health insurance	\$2,413	\$2,804	\$2,973	\$3,121	\$3,261	\$2,360	\$2,648	\$2,839	\$2,884	\$3,165
Medical services	676	712	678	752	793	783	647	675	691	861
Prescription drugs	856	748	734	700	678	840	787	636	609	682
Medical supplies	115	161	154	137	143	125	158	105	123	126
Shares of total health care (%)										
Health insurance	59.4	63.3	65.5	66.3	66.9	57.4	62.5	66.7	66.9	65.5
Medical services	16.7	16.1	14.9	16.0	16.3	19.1	15.3	15.9	16.0	17.8
Prescription drugs	21.1	16.9	16.2	14.9	13.9	20.5	18.6	14.9	14.1	14.1
Medical supplies	2.8	3.6	3.4	2.9	2.9	3.0	3.7	2.5	2.9	2.6

(Neuman&Cubanski, 2009) has shown that between 2006 and 2009, the weighted average individual premium for stand-alone PDPs increased 35 percent from \$25.93 to \$35.09 per month.

Conclusions

Data from the Consumer Expenditure Survey indicate that among Medicare households, the proportion of total annual expenditures represented by health care was higher after implementation of the Medicare Part D prescription drug program. When broken down by age of the reference person, a different pattern emerges. For the under 65 group, the proportion of total annual expenditures represented by health care increased from 2005 to 2009. While the proportion represented by health care was higher in 2009 than in 2005 for the 65-74 age group and the 75 and older group, the proportions varied in the intervening years.

Between 2006 and 2009, the proportion of Medicare households with at least one member with Part D coverage increased substantially. Among covered households, Part D premiums steadily increased over the period. While findings indicate that overall health care expenses have not decreased, additional analysis is needed to determine whether group averages masked differences between households with and households without Part D coverage.

Disclaimer

The analysis and conclusions in this presentation represent the work of the authors and do not necessarily reflect the policies or position of the Bureau of Labor Statistics.

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Endnotes

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