

M E D I C A R E

HEALTH CARE ON A BUDGET: AN ANALYSIS OF SPENDING BY MEDICARE HOUSEHOLDS

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Executive Summary

The Medicare program helps to provide some measure of financial security for 45 million people, including 38 million age 65 and older and 7 million younger adults with permanent disabilities. Yet out-of-pocket health care spending imposes a financial burden on many Medicare beneficiaries, particularly those in poor health, with modest incomes, and at older ages. Over time, the financial burden of health care has grown among Medicare beneficiaries, as health care costs have increased more rapidly than income.¹

In this paper, we analyze health care spending as a share of total household expenditures, rather than as a share of income, to assess how health-related expenditures compare with other spending priorities among Medicare households, including both the elderly and younger adults with disabilities. Using data from the 2006 Consumer Expenditure Survey, we examine spending on health care relative to other goods and services, such as housing, transportation, and food. We also assess the extent to which health care spending as a share of total expenditures varies by household characteristics, such as poverty level and geographic area, and examine the subcomponents of health care spending, including premiums, prescription drugs, and medical services.

KEY FINDINGS

Our analysis of spending among Medicare households in 2006 finds:

- Average health care spending comprised a significantly larger share of total expenditures for Medicare households than for non-Medicare households (14.1 percent and 4.3 percent, respectively).
- Housing consumed the largest share of total expenditures among Medicare households (34.1 percent), followed by transportation (15.0 percent), health care (14.1 percent), and food (13.6 percent).
- Health insurance premiums (Medicare and supplemental insurance) accounted for nearly two thirds of average health care expenditures for Medicare households in 2006 (62.9 percent), followed by prescription drugs (18.1 percent), medical services (15.3 percent) and medical supplies (3.8 percent). As a share of total household expenditures, spending on health care excluding premiums was higher for Medicare households than non-Medicare households (5.1 percent and 2.0 percent, respectively).
- The top 25 percent of Medicare households spent an average of 32.9 percent of total expenditures on health care in 2006. At the median (a more conservative estimate), the top quartile of Medicare households spent more than one-fourth of their total household expenditures on health care (25.7 percent). Near poor, older, and non-metropolitan Medicare households were disproportionately represented in the top quartile.

Health care spending accounted for a significant share of total expenditures among Medicare households in 2006, particularly among those in the top quartile. Without a concerned national effort to address the overall problem of rising health care costs, health care spending is likely to consume a growing share of total household expenses, potentially impeding the ability of those with modest incomes to pay for other essential goods.

¹ Kaiser Family Foundation, "Revisiting 'Skin in the Game' Among Medicare Beneficiaries: An Updated Analysis of the Increasing Financial Burden of Health Care Spending From 1997 to 2005," February 2009 (available online at <http://www.kff.org/medicare/7860.cfm>).

HEALTH CARE ON A BUDGET: AN ANALYSIS OF SPENDING BY MEDICARE HOUSEHOLDS

OVERVIEW

The Medicare program helps to provide some measure of financial security for 45 million people, including 38 million age 65 and older and 7 million with permanent disabilities who qualify for Medicare. Yet out-of-pocket spending on health care imposes a financial burden on many beneficiaries, particularly those in poor health, with modest incomes, and at older ages. Over time, annual out-of-pocket health care spending by Medicare beneficiaries as a share of their incomes has grown, as health care costs have increased more rapidly than income.¹

In this paper, we analyze health care spending by Medicare households, including both the elderly and people with disabilities, as a share of total household expenditures on various goods and services, rather than as a share of income. Using data from the 2006 Consumer Expenditure Survey, we examine the share of household spending allocated to health care relative to spending on other components, such as housing, transportation, and food. We assess the extent to which health care spending as a share of total expenditures varies by household characteristics, such as poverty level and geographic area, and examine spending by Medicare beneficiaries on the subcomponents of health care, including premiums, prescription drugs, medical services, and medical supplies.

DATA

This paper analyzes health spending as a share of total household expenditures, based on an analysis of the U.S. Bureau of Labor Statistics' (BLS) Consumer Expenditure Survey (CE) for 2006, a survey that tracks the buying habits of consumers that can be used to measure total annual household expenditures. The survey collects information from Consumer Units (CUs) over five quarterly interviews. This analysis is based on data from 16,826 unique CUs, focusing primarily on the 2,703 CUs comprised exclusively of people on Medicare (referred to in this paper as "Medicare households"). We compare these Medicare households to CUs comprised exclusively of people who are not on Medicare (which we refer to as "non-Medicare households"). CUs with some members on Medicare and others not on Medicare were excluded from our analysis. Expenses incurred by Medicare beneficiaries living in long-term care settings are not included in this survey.

This analysis examines mean (average) health care spending by households, health care spending by quartiles (bottom 25 percent, middle 50 percent, and top 25 percent), and health care spending as a share of total household expenditures. Mean estimates were derived by summing total household expenditures and each component of spending (e.g., housing, food, transportation, health care) across all Medicare households and dividing the aggregate total amount by the aggregate amount for each component to calculate the share of total accounted for by the components. The analysis focuses largely on mean rather than median (midpoint) values, so that we can present the distribution of household spending across all components, which sums to 100 percent. For the analysis of health care spending by quartiles, we discuss both mean and median values of health spending as a percent of total household spending to illustrate the skewed nature of spending by Medicare households in the top quartile of health care spending. All differences discussed in the text are significant at the 95 percent confidence level. For more detail about the CE data and methods used in this analysis, see the Methodology Appendix.

¹ Kaiser Family Foundation, "Revisiting 'Skin in the Game' Among Medicare Beneficiaries."

FINDINGS

Average total spending by Medicare households in 2006 was \$28,908. Spending on housing accounted for the largest share of total expenditures, consuming more than one-third of all Medicare households' average annual expenses (34.1 percent), followed by spending on transportation (15.0 percent), health care (14.1 percent), and food (13.6 percent) (Exhibit 1 and Table 1).

Average health care spending comprised a significantly larger share of total expenditures for Medicare households than non-Medicare households (14.1 percent and 4.3 percent, respectively) (Exhibit 2). This difference can be attributed to many factors, one of which is the fact that health problems and associated expenses increase with age, resulting in higher out-of-pocket health care spending among Medicare households than non-Medicare households (\$4,068 vs. \$2,125, respectively). At the same time, Medicare households have lower total average household expenditures than non-Medicare households (\$28,908 vs. \$49,386, respectively). Furthermore, non-Medicare households include many people who are uninsured and do not pay health insurance premiums and many others with Medicaid, which protects against high health care costs.²

Among non-Medicare households, health care spending accounted for a smaller share of average total household expenditures than spending on housing (33.9 percent), transportation (18.5 percent), food (12.9 percent), personal insurance and pensions (12.8 percent), and entertainment (5.1 percent).³

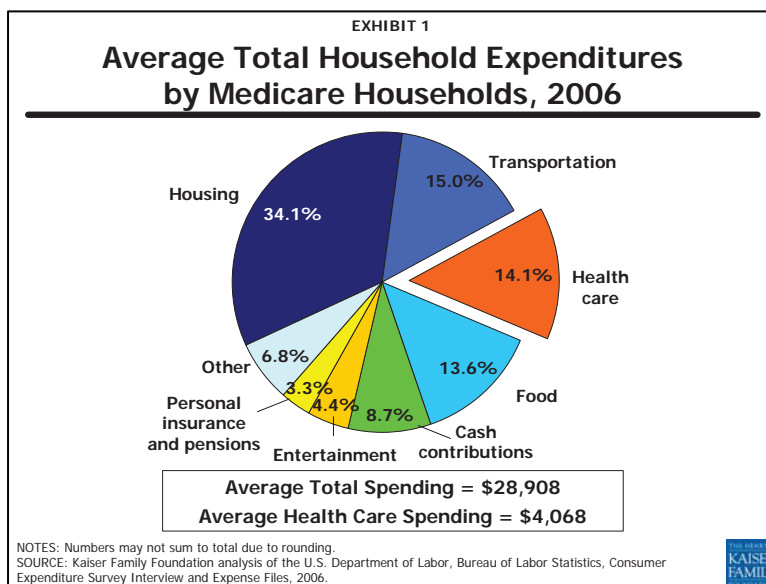


EXHIBIT 2

Components of Total Household Expenditures by Medicare and Non-Medicare Households, 2006

	Medicare Households		Non-Medicare Households	
	Average Total Spending	Percentage	Average Total Spending	Percentage
Average Total Spending	\$28,908	100%	\$49,386	100%
Housing	\$9,848	34.1	\$16,729	33.9
Transportation	\$4,338	15.0	\$9,139	18.5
Health Care	\$4,068	14.1	\$2,125	4.3
Food	\$3,942	13.6	\$6,390	12.9
Cash contributions	\$2,511	8.7	\$1,720	3.5
Entertainment	\$1,268	4.4	\$2,514	5.1
Personal insurance and pensions	\$954	3.3	\$6,309	12.8
Other	\$1,978	6.8	\$4,460	9.0

NOTES: Numbers may not sum to total due to rounding.
SOURCE: Kaiser Family Foundation analysis of the U.S. Department of Labor, Bureau of Labor Statistics, Consumer Expenditure Survey Interview and Expense Files, 2006.

² It is important to note that for some non-Medicare households, health expenses consume a substantially larger share of household expenditures than the overall average of 4.3 percent. Among non-Medicare households in the top quartile of health spending (based on health spending as a share of total household expenditures), mean health spending was 12.5 percent of total expenditures; among the top ten percent of non-Medicare households, health expenses consumed 19.2 percent of household expenditures.

³ The share of total household expenditures allocated to housing, food, and transportation do not differ across Medicare and non-Medicare households.

Table 1: Components of Total Household Spending by Medicare Households, By Characteristic, 2006

	Mean Total Household Spending	Health Care		Housing		Transportation		Food		All other	
		Mean	% of total	Mean	% of total	Mean	% of total	Mean	% of total	Mean	% of total
All Medicare Households	\$28,908 ‡	\$4,068 ‡	14.1% ‡	\$9,848 ‡	34.1%	\$4,338 ‡	15.0%	\$3,942 ‡	13.6%	\$6,711 ‡	23.2% ‡
Age (in Years)											
18-64	21,839 ^ ^	2,121 ^ ^	9.7% ^ ^	8,127 ^ ^	37.2%	3,167 ^ ^	14.5%	3,339 ^ ^	15.3%	5,085	23.3%
65-69 (Ref)	33,127 ^	4,069	12.3% ^	11,334 ^	34.2%	5,406 ^	16.3%	4,716 ^	14.2%	7,602	22.9%
70-74	31,974 ^	4,185	13.1%	10,547	33.0%	5,731 ^	17.9%	4,455 ^	13.9%	7,056	22.1%
75-79	31,043	4,420	14.2%	9,904 *	31.9%	4,358	14.0%	4,031 *	13.0%	8,329	26.8%
80+	25,905 ^ ^	4,457 ^	17.2% ^ ^	9,199 ^ ^	35.5%	3,317 ^ ^	12.8% *	3,371 ^ ^	13.0%	5,561 *	21.5%
Race/Ethnicity											
White non-Hispanic (Ref)	30,687 ^	4,398 ^	14.3% ^	10,173 ^	33.2% ^	4,689 ^	15.3%	4,089 ^	13.3% ^	7,338 ^	23.9% ^
Black non-Hispanic	17,744 ^ ^	1,911 ^ ^	10.8% ^ ^	7,731 ^ ^	43.6% ^ ^	1,962 ^ ^	11.1% ^ ^	2,750 ^ ^	15.5% ^ ^	3,389 ^ ^	19.1%
Hispanic	20,972 ^ ^	2,733 ^ ^	13.0%	8,428	40.2% ^ ^	3,283	15.7%	3,530 *	16.8% ^ ^	2,998 ^ ^	14.3% ^ ^
Asian	21,668 ^ ^	2,970 *	13.7%	8,555	39.5% ^ ^	2,818 ^ ^	13.0%	3,787	17.5% ^ ^	3,540 ^ ^	16.3% ^ ^
Percent of Federal Poverty Level											
<100%	13,346 ^ ^	1,580 ^ ^	11.8% ^	5,964 ^ ^	44.7% ^ ^	1,301 ^ ^	9.8% ^ ^	2,516 ^ ^	18.9% ^ ^	1,985 ^ ^	14.9% ^ ^
100-199%	21,534 ^ ^	3,440 ^ ^	16.0% ^ ^	8,066 ^ ^	37.5% *	3,147 ^ ^	14.6%	3,127 ^ ^	14.5% *	3,755 ^ ^	17.4% ^ ^
200-299%	28,352 *	4,825 ^ ^	17.0% ^ ^	9,859 *	34.8% *	4,466 *	15.8%	3,988 *	14.1% *	5,214 ^ ^	18.4% *
300-399%	33,801 ^ ^	5,373 ^ ^	15.9% ^ ^	11,552 ^ ^	34.2% *	5,068 *	15.0%	4,778 ^ ^	14.1% *	7,029 *	20.8% *
400%+ (Ref)	59,511 ^	6,370 ^	10.7% ^	16,886 ^	28.4% ^	9,600 ^	16.1%	6,700 ^	11.3% ^	19,955 ^	33.5% ^
Marital Status											
Married (Ref)	39,567 ^	6,294 ^	15.9% ^	12,044 ^	30.4% ^	6,643 ^	16.8%	5,507 ^	13.9%	9,080 ^	22.9%
Widowed	23,110 ^ ^	3,015 ^ ^	13.0% *	8,705 ^ ^	37.7% *	2,911 ^ ^	12.6% *	2,902 ^ ^	12.6%	5,577 *	24.1%
Divorced/Separated	23,064 ^ ^	2,526 ^ ^	11.0% ^ ^	8,647 ^ ^	37.5% *	3,638 *	15.8%	3,278 ^ ^	14.2%	4,975 ^ ^	21.6%
Never married	19,350 ^ ^	2,002 ^ ^	10.3% ^ ^	7,618 ^ ^	39.4% *	1,877 ^ ^	9.7% ^ ^	3,053 ^ ^	15.8%	4,799 *	24.8%
Region											
Northeast (Ref)	27,691	3,475 ^	12.5%	10,223	36.9%	3,627	13.1%	3,749	13.5%	6,617	23.9%
Midwest	27,464	4,466 ^ ^	16.3% ^ ^	9,512	34.6%	3,524	12.8%	3,670 ^	13.4%	6,291	22.9%
South	27,083	3,922	14.5%	8,949 ^	33.0%	4,695	17.3%	3,960	14.6%	5,557 ^	20.5%
West	36,042 ^ ^	4,515 *	12.5%	11,857 ^ ^	32.9%	5,263 ^ ^	14.6%	4,490 ^ ^	12.5%	9,917	27.5%
Geographic Area											
Metropolitan (Ref)	30,034	4,115	13.7%	10,328	34.4%	4,395	14.6%	4,075	13.6%	7,121	23.7%
Non-metropolitan	23,732 *	3,851	16.2% *	7,643 *	32.2%	4,078	17.2%	3,332 *	14.0%	4,828 *	20.3%
Quartile of Health Care Spending											
Bottom 25%	38,709 ^ ^	1,347 ^ ^	3.5% ^ ^	12,756 ^ ^	33.0%	9,151 ^ ^	23.6% ^ ^	4,310 ^	11.1% ^ ^	11,145 ^ ^	28.8%
Middle 50% (Ref)	26,590 ^	3,566 ^	13.4%	9,850	37.0% ^	3,131 ^	11.8% ^	4,052	15.2% ^	5,991	22.5%
Top 25%	23,735 ^ ^	7,800 ^ ^	32.9% ^ ^	6,931 ^ ^	29.2% ^ ^	1,936 ^ ^	8.2% ^ ^	3,354 ^ ^	14.1%	3,714 ^ ^	15.6% ^ ^

NOTES: Income thresholds used to calculate 2006 poverty categories were \$9,753 (individual)/\$12,290 (couple).

(Ref) indicates reference group.

‡ Indicates statistically significant difference from non-Medicare households (p<0.05).

* Indicates statistically significant difference from the reference group (indicated within each category) (p<0.05).

^ Indicates statistically significant difference from all other groups within the category (p<0.05).

SOURCE: Kaiser Family Foundation analysis of the U.S. Department of Labor, Bureau of Labor Statistics, Consumer Expenditure Survey Interview and Expense Files, 2006.

HEALTH CARE SPENDING OVERALL AND BY TYPE OF EXPENSE

Spending on health insurance premiums, including premiums for Medicare Part B and Part D and supplemental insurance coverage, was the largest subcomponent of average health care expenditures for Medicare households in 2006 (62.9 percent) (Exhibit 3).⁴ After premiums, prescription drugs comprised the next largest component of health care spending for Medicare households (18.1 percent), followed by medical services (15.3 percent) and medical supplies (3.8 percent).

In absolute dollars, average health care spending was nearly twice as large for Medicare households than non-Medicare households in 2006 (\$4,068 and \$2,125, respectively) (Exhibit 4). Spending on health insurance premiums was the largest component of health care spending for non-Medicare households (52.1 percent), as for Medicare households, followed by medical services (31.3 percent), prescription drugs (13.4 percent), and medical supplies (3.2 percent). Compared to Medicare households, non-Medicare households spent a larger share of their total health care expenditures on medical services.⁵

⁴ In 2006, annual Medicare premiums for Parts B and D were \$1,373 for individuals and \$2,746 for couples, based on a monthly Part B premium of \$88.50 and a weighted average Part D premium of \$25.93, according to CMS.

⁵ Differences between Medicare and non-Medicare households in the share of total health care spending on the other three subcomponents of health care (premiums, prescription drugs, and medical supplies) are not statistically significant.

As a share of total household expenditures, spending on health care excluding insurance premiums was higher for Medicare households than for non-Medicare households (5.3 percent and 2.0 percent, respectively). This includes spending on prescription drugs, medical services, and supplies. Non-premium health care spending is important to measure because it reflects the scope and generosity of insurance coverage for health care expenses. Our findings suggest that, despite near-universal insurance coverage under Medicare, non-premium out-of-pocket health care spending for Medicare households is a greater burden than for non-Medicare households.

HEALTH CARE SPENDING AS A SHARE OF TOTAL HOUSEHOLD EXPENDITURES, BY MEDICARE HOUSEHOLD CHARACTERISTICS

In 2006, average health care spending as a share of total household expenditures varied across Medicare household characteristics, including age, race/ethnicity, poverty level, marital status, region, and geographic area (Exhibit 5 and Table 2).⁶

Age. Health care spending as a share of total Medicare household expenditures generally increased with age.

- Medicare households in which the oldest person in the household was age 80 or older spent a larger share of their total household expenditures on health care (17.2 percent) than younger Medicare households.
- Health care spending comprised a relatively small share of total household expenditures for Medicare households consisting of people under age 65 with disabilities. This finding may be attributable to higher rates of Medicaid coverage among younger people with disabilities on Medicare than among older people on Medicare.⁷ Medicaid pays premiums and cost-sharing requirements for low-income

⁶ We were unable to analyze variation in health care spending by health status of Medicare household members because the CE data do not include health indicators.

⁷ 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, 2006," August 2008 (available online at <http://www.kff.org/medicare/7801.cfm>).

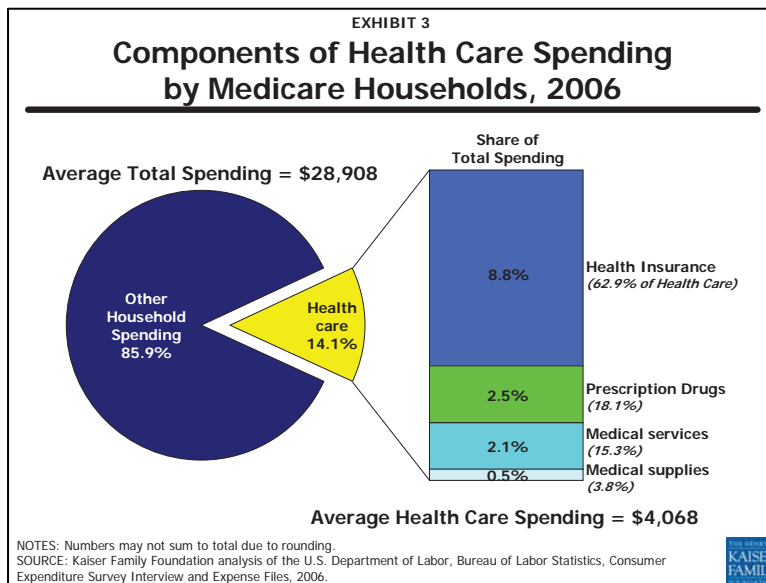
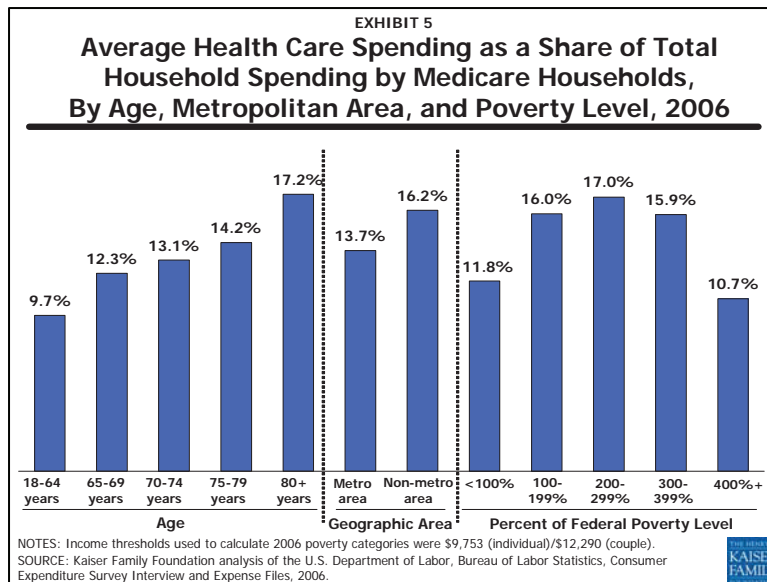


EXHIBIT 4
Components of Health Care Spending by Medicare and Non-Medicare Households, 2006

	Medicare Households			Non-Medicare Households		
	Amount	% of Health Care Spending	% of Total Spending	Amount	% of Health Care Spending	% of Total Spending
Average Total Health Care Spending	\$4,068	100%	14.1%	\$2,125	100%	4.3%
Health insurance	\$2,557	62.9	8.8	\$1,108	52.1	2.2
Prescription drugs	\$736	18.1	2.5	\$285	13.4	0.6
Medical services	\$621	15.3	2.1	\$665	31.3	1.3
Medical supplies	\$153	3.8	0.5	\$68	3.2	0.1

NOTES: Numbers may not sum to total due to rounding.
SOURCE: Kaiser Family Foundation analysis of the U.S. Department of Labor, Bureau of Labor Statistics, Consumer Expenditure Survey Interview and Expense Files, 2006.

beneficiaries covered by both Medicare and Medicaid (referred to as “dual eligibles”) and provides certain benefits that are not covered by Medicare, including long-term care. By limiting the financial exposure of low-income Medicare beneficiaries to health care expenses, Medicaid is particularly important to beneficiaries who are under age 65 and disabled, who are more likely than non-disabled beneficiaries to need long-term care and other services covered by Medicaid but not by Medicare.



Race/Ethnicity. Non-Hispanic white Medicare households spent a greater share of total household expenditures on health care (14.3 percent) than both non-Hispanic Black (10.8 percent) and other non-white (11.8 percent) Medicare households.⁸

Poverty. Health care spending consumed a larger share of total household expenditures for near-poor and middle-income Medicare households – those with incomes between 100 percent and 400 percent of poverty – than for higher- or lower-income households.

- For Medicare households with incomes between 100 percent and 400 percent of poverty (from \$9,753 to \$39,012 for individuals, and \$12,290 to \$49,160 for couples in 2006), health care spending comprised about 16 percent of average total household expenditures. Households in this income range accounted for two-thirds of all Medicare households in this analysis.
- For Medicare households with incomes above 400 percent of poverty, average health care spending accounted for a smaller share (10.7 percent) of total household expenditures.
 - The relatively small share of health care spending as a share of total household expenditures among higher-income Medicare households is a function of significantly higher total household expenditures relative to other income groups, rather than lower health care spending. In fact, in terms of absolute dollars, average health care spending was higher for the highest-income Medicare households than Medicare households with lower incomes, but the magnitude of the difference was not as dramatic as the difference in total household spending. Average total household spending among the highest-income Medicare households (\$59,511) was nearly twice as large as the next highest income group (\$33,801 for those with incomes between 300 percent and 399 percent of poverty).
- For Medicare households with incomes below 100 percent of poverty, health care spending accounted a smaller share (11.8 percent) of total household expenditures than for those households with incomes between 100 and 400 percent of poverty.

⁸ Due to insufficient sample size, we could not analyze spending separately for Medicare households with a multiracial or other race/ethnicity head of household.

Table 2: Health Care Spending by Medicare Households, By Characteristic, 2006

	Total Medicare Households Number (weighted) % of total		Mean Total Household spending	Median Total Household spending	Health Care Spending			
					Mean		Median	
					\$	% of total	\$	% of total
All Medicare Households	19,000,774	100%	\$28,908 ‡	20,626 ‡	\$4,068 ‡	14.1% ‡	2,796 ‡	13.3% ‡
Age (in Years)								
18-64	2,136,439	11.2%	21,839 * ^	14,730 * ^	2,121 * ^	9.7% * ^	1,188 * ^	7.9% * ^
65-69 (Ref)	3,242,781	17.1%	33,127 ^	25,292 ^	4,069	12.3% ^	2,844	11.3% ^
70-74	3,690,533	19.4%	31,974 ^	24,658 ^	4,185	13.1%	2,974	12.6%
75-79	3,878,391	20.4%	31,043	21,256 *	4,420	14.2%	3,210 ^	14.8% * ^
80+	6,052,630	31.9%	25,905 * ^	18,652 * ^	4,457 ^	17.2% * ^	2,930	16.5% * ^
Race/Ethnicity								
White non-Hispanic (Ref)	16,036,071	84.4%	30,687 ^	21,750 ^	4,398 ^	14.3% ^	3,070 ^	14.3% ^
Black non-Hispanic	1,583,818	8.3%	17,744 * ^	14,528 * ^	1,911 * ^	10.8% * ^	1,362 * ^	9.5% * ^
Hispanic	882,093	4.6%	20,972 * ^	15,612 * ^	2,733 * ^	13.0%	1,242 * ^	8.7% * ^
Asian	387,337	2.0%	21,668 * ^	14,200 * ^	2,970 *	13.7%	2,124	11.9%
Percent of Federal Poverty Level								
<100%	3,324,343	17.5%	13,346 * ^	10,738 * ^	1,580 * ^	11.8% ^	1,062 * ^	9.5% ^
100-199%	6,783,144	35.7%	21,534 * ^	16,292 * ^	3,440 * ^	16.0% * ^	2,542 * ^	15.3% * ^
200-299%	3,959,547	20.8%	28,352 *	23,296 * ^	4,825 * ^	17.0% * ^	3,564 * ^	15.5% * ^
300-399%	1,829,502	9.6%	33,801 * ^	28,740 * ^	5,373 * ^	15.9% * ^	4,044 ^	14.4% *
400%+ (Ref)	3,104,238	16.3%	59,511 ^	43,217 ^	6,370 ^	10.7% ^	4,470 ^	10.3% ^
Marital Status								
Married (Ref)	7,034,641	37.0%	39,567 ^	30,332 ^	6,294 ^	15.9% ^	4,880 ^	16.3% ^
Widowed	7,263,491	38.2%	23,110 * ^	16,382 * ^	3,015 * ^	13.0% *	2,254 * ^	12.9% *
Divorced/Separated	3,251,333	17.1%	23,064 * ^	16,811 * ^	2,526 * ^	11.0% * ^	1,662 * ^	9.9% * ^
Never married	1,451,310	7.6%	19,350 * ^	13,672 * ^	2,002 * ^	10.3% * ^	1,200 * ^	9.4% * ^
Region								
Northeast (Ref)	3,673,053	19.6%	27,691	19,206 ^	3,475 ^	12.5%	2,444 ^	12.6%
Midwest	4,605,623	24.5%	27,464	21,400	4,466 * ^	16.3% * ^	3,186 * ^	14.6% * ^
South	7,036,499	37.5%	27,083	19,538	3,922	14.5%	2,662	13.8%
West	3,464,430	18.4%	36,042 * ^	24,082 * ^	4,515 *	12.5%	2,984 *	12.0% ^
Geographic Area								
Metropolitan (Ref)	15,605,074	82.1%	30,034	21,256	4,115	13.7%	2,770	12.8%
Non-metropolitan	3,395,700	17.9%	23,732 *	17,769 *	3,851	16.2% *	2,856	15.8% *
Quartile of Health Care Spending								
Bottom 25%	4,750,670	25.0%	38,709 * ^	21,126	1,347 * ^	3.5% * ^	1,062 * ^	3.7% * ^
Middle 50% (Ref)	9,508,641	50.0%	26,590 ^	21,046	3,566 ^	13.4%	2,754	13.3%
Top 25%	4,741,464	25.0%	23,735 * ^	18,704 * ^	7,800 * ^	32.9% * ^	4,976 * ^	25.7% * ^

NOTES: Income thresholds used to calculate 2006 poverty categories were \$9,753 (individual)/\$12,290 (couple).

(Ref) indicates reference group.

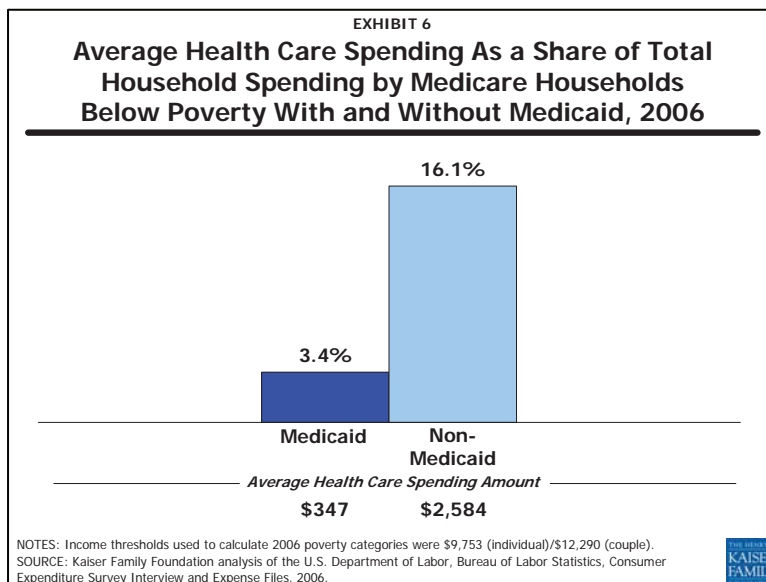
‡ Indicates statistically significant difference from non-Medicare households (p<0.05).

* Indicates statistically significant difference from the reference group (indicated within each category) (p<0.05).

^ Indicates statistically significant difference from all other groups within the category (p<0.05).

SOURCE: Kaiser Family Foundation analysis of the U.S. Department of Labor, Bureau of Labor Statistics, Consumer Expenditure Survey Interview and Expense Files, 2006.

- The relatively small share of total spending allocated to health care among Medicare households with incomes below 100 percent of poverty can be attributed to the financial protections provided by Medicaid coverage among eligible Medicare beneficiaries with low incomes (as discussed above). Among Medicare households with incomes below 100 percent of poverty, those with all household members also covered by Medicaid spent a much smaller share of their total expenditures on health care than those not covered by Medicaid (3.4 percent vs. 16.1 percent, respectively) (Exhibit 6).



- In terms of absolute spending amounts, we found sizeable differences between Medicare households below poverty depending on whether or not they also had Medicaid coverage. Average health care spending in 2006 for Medicare households below poverty with members also covered by Medicaid was just a fraction of the spending incurred by Medicare households below poverty with no members covered by Medicaid (\$347 and \$2,584, respectively).

Marital Status. Medicare households with members who were married spent a significantly larger share of total household expenditures on health care (15.9 percent) than Medicare households where the head of the household was widowed, divorced/separated, or never married (12.2 percent).

- While married Medicare households had higher average total expenditures (\$39,567) than non-married households, they also spent substantially more on health care (\$6,294) than other households. This could be due to the fact that the composition of married households consists of two (or more) people, each of whom incurs separate health care expenses, whereas non-married households are more likely to consist of one individual living alone.

Region. Medicare households in the Midwest spent a larger share of their total household expenditures on health care (16.3 percent) than households in all other regions (13.4 percent).

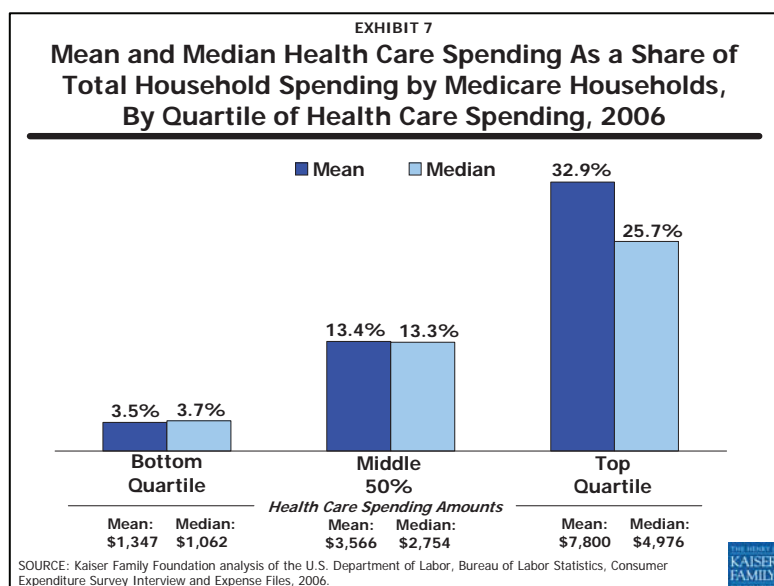
Geographic Area. Average health care spending as a share of total expenditures was higher for Medicare households in non-metropolitan areas than those in metropolitan areas (16.2 percent vs. 13.7 percent, respectively).

- This finding can be attributed to significantly higher total household expenditures for Medicare households in metropolitan areas than in non-metropolitan areas (\$30,034 vs. \$23,732, respectively), rather than significantly lower average health care spending in metropolitan areas. In fact, in terms of absolute dollars, there was no significant difference in average health care spending between Medicare households in metropolitan areas and those in non-metropolitan areas.

MEDICARE HOUSEHOLDS WITH RELATIVELY HIGH AND LOW HEALTH SPENDING AS A SHARE OF TOTAL EXPENDITURES

To better understand the extent to which the burden of health care spending varies among Medicare households, we divided households into three groups according to their level of health care spending as a share of total expenditures: those in the bottom 25 percent, those in the middle 50 percent, and those in the top 25 percent.

Among the 50 percent of Medicare households in the middle, between the bottom and the top quartiles, health care spending consumed 13.4 percent of average total household expenditures (Exhibit 7). By contrast,



Medicare households in the bottom quartile spent an average of 3.5 percent of their total household expenditures on health care. For both the bottom quartile and the middle 50 percent of Medicare households, the mean estimate of health care spending as a share of total expenditures was nearly equivalent to the median estimate (3.7 percent and 13.3 percent, respectively). This corresponds to the amount where half of all households in each group spent a smaller share of their total expenditures on health care and half spent a larger share.

At the upper end of health care spending, the top 25 percent of Medicare households spent an average of 32.9 percent of total expenditures on health care in 2006, or one-third of their total household spending for the year. At the median, the top quartile of Medicare households spent 25.7 percent, or more than one-fourth of their total household expenditures, on health care. The mean estimate is higher than the median for the top quartile of Medicare households due to the existence of outliers with either extremely high health spending or low total household expenditures. By mitigating the effects of outliers, the median is a more conservative estimate of the financial burden of health care spending relative to total household expenditures for the top quartile, but still makes the point that health care spending among this group is a significant burden.

In absolute dollars, Medicare households in the top quartile of health care spending as a share of total expenditures spent more than twice as much on health care, on average, than the middle 50 percent of Medicare households (\$7,800 vs. \$3,566, respectively), and spent less on food, transportation, and housing than all other Medicare households (Exhibit 8). Perhaps most striking, the top quartile of Medicare households spent more on health care than they spent on housing, in contrast to all other Medicare households where housing was the largest component of total household expenditures. Overall, Medicare households in the top quartile had substantially smaller average total household expenditures than all other Medicare households.

For the subcomponents of health care spending, Medicare households in the top quartile spent significantly more on average for health insurance premiums, medical services, prescription drugs, and medical supplies than other Medicare

EXHIBIT 8

Components of Total Household Expenditures by Medicare Households, By Quartile of Health Care Spending, 2006

Households	Bottom Quartile		Middle 50%		Top Quartile		Spending by Top Quartile as Share of Middle 50%
	Amount	% of Total	Amount	% of Total	Amount	% of Total	
Average Total Spending	\$38,709	100%	\$26,590	100%	\$23,735	100%	89.3%
Housing	\$12,756	33.0	\$9,850	37.0	\$6,931	29.2	70.4%
Transportation	\$9,151	26.6	\$3,131	11.8	\$1,936	8.2	61.8%
Health Care	\$1,347	3.5	\$3,566	13.4	\$7,800	32.9	218.7%
Food	\$4,310	11.1	\$4,052	15.2	\$3,354	14.1	82.8%
Other	\$11,145	28.8	\$5,991	22.5	\$3,714	15.6	62.0%

NOTES: Numbers may not sum to total due to rounding.
SOURCE: Kaiser Family Foundation analysis of the U.S. Department of Labor, Bureau of Labor Statistics, Consumer Expenditure Survey Interview and Expense Files, 2006.





EXHIBIT 9

Components of Health Care Spending by Medicare Households, By Quartile of Health Care Spending, 2006

Households	Bottom Quartile			Middle 50%			Top Quartile			Spending by Top Quartile as Share of Middle 50%
	Amount	% of Health Spending	% of Total Spending	Amount	% of Health Spending	% of Total Spending	Amount	% of Health Spending	% of Total Spending	
Average Total Health Care Spending	\$1,347	100%	3.5%	\$3,566	100%	13.4%	\$7,800	100%	32.9%	218.7%
Health insurance	\$1,046	77.7	2.7	\$2,475	69.4	9.3	\$4,235	54.3	17.8	171.1
Prescription drugs	\$188	14.0	0.5	\$606	17.0	2.3	\$1,548	19.8	6.5	255.4
Medical services	\$94	7.0	0.2	\$405	11.4	1.5	\$1,585	20.3	6.7	391.4
Medical supplies	\$20	1.5	0.1	\$80	2.2	0.3	\$432	5.5	1.8	540.0

NOTES: Numbers may not sum to total due to rounding.
SOURCE: Kaiser Family Foundation analysis of the U.S. Department of Labor, Bureau of Labor Statistics, Consumer Expenditure Survey Interview and Expense Files, 2006.



households – measured both in absolute dollars and as a share of total household expenditures (Exhibit 9 and Table 3). Health insurance premiums for the top quartile averaged \$4,235 in 2006, nearly twice as much as average premium spending by the middle 50 percent of Medicare households (\$2,475) and four times as much as Medicare households in the bottom quartile (\$1,046). The top quartile also spent more than twice as much as the middle 50 percent of households for prescription drugs.

Table 3: Components of Health Care Spending by Medicare Households, By Characteristic, 2006

	All Health Care Spending		Health Insurance		Medical Services		Prescription Drugs		Medical Supplies	
	Mean	Share	Mean	Share	Mean	Share	Mean	Share	Mean	Share
All Medicare Households	\$4,068 ‡	14.1% ‡	\$2,557 ‡	8.8% ‡	\$621	2.1% ‡	\$736 ‡	2.5% ‡	\$153 ‡	0.5% ‡
Age (in Years)										
18-64	2,121 *^	9.7% *^	1,126 *^	5.2% *^	424	1.9%	499 ^	2.3%	72 ^	0.3%
65-69 (Ref)	4,069	12.3% ^	2,586	7.8% ^	662	2.0%	670	2.0% ^	151	0.5%
70-74	4,185	13.1%	2,770	8.7%	561	1.8%	727	2.3%	127	0.4%
75-79	4,420	14.2%	2,838 ^	9.1% *	586	1.9%	808	2.6% *	188	0.6%
80+	4,457 ^	17.2% *^	2,736 ^	10.6% *^	729	2.8%	816	3.2% *^	176	0.7%
Race/Ethnicity										
White non-Hispanic (Ref)	4,398 ^	14.3% ^	2,750 ^	9.0%	675 ^	2.2%	801 ^	2.6% ^	172 ^	0.6%
Black non-Hispanic	1,911 *^	10.8% *^	1,388 *^	7.8%	176 *^	1.0% *^	316 *^	1.8% *^	30 *^	0.2% *^
Hispanic	2,733 *^	13.0%	1,549 *^	7.4% *^	604	2.9%	487 *^	2.3%	92	0.4%
Asian	2,970 *	13.7%	2,040 *	9.4%	412	1.9%	466 *	2.2%	51 *^	0.2% *^
Percent of Federal Poverty Level										
<100%	1,580 *^	11.8% ^	1,055 *^	7.9% *	206 * ^	1.5%	283 *^	2.1%	36 *^	0.3% *
100-199%	3,440 *^	16.0% *^	2,196 *^	10.2% *^	497 *	2.3%	638 *^	3.0% *	108 *	0.5%
200-299%	4,825 *^	17.0% *^	3,003 *^	10.6% *^	662	2.3%	985 ^	3.5% *^	175	0.6%
300-399%	5,373 *^	15.9% *^	3,536 ^	10.5% *^	711	2.1%	882 ^	2.6% *	244	0.7%
400%+ (Ref)	6,370 ^	10.7% ^	3,809 ^	6.4% ^	1,233 ^	2.1%	1,033 ^	1.7% ^	294 ^	0.5%
Marital Status										
Married (Ref)	6,294 ^	15.9% ^	3,992 ^	10.1% ^	1,048 ^	2.6% ^	1,018 ^	2.6%	236 ^	0.6%
Widowed	3,015 *^	13.0% *	1,891 *^	8.2% *	386 *^	1.7% *	597 *^	2.6%	141	0.6%
Divorced/Separated	2,526 *^	11.0% *^	1,485 *^	6.4% *^	383 *^	1.7% *	605 *	2.6%	53 *^	0.2% *^
Never married	2,002 *^	10.3% *^	1,334 *^	6.9% *^	271 *^	1.4% *	365 *^	1.9% *^	33 *^	0.2% *^
Region										
Northeast (Ref)	3,475 ^	12.5%	2,443	8.8%	372	1.3%	554 ^	2.0% ^	106	0.4%
Midwest	4,466 *^	16.3% *^	2,847 *^	10.4% *^	689	2.5% *	826 *	3.0% *	104	0.4%
South	3,922	14.5%	2,420	8.9%	542	2.0%	804 *	3.0% *	157	0.6%
West	4,515 *	12.5%	2,631	7.3% *^	955	2.6%	658	1.8% ^	271	0.8%
Geographic Area										
Metropolitan (Ref)	4,115	13.7%	2,571	8.6%	658	2.2%	730	2.4%	156	0.5%
Non-metropolitan	3,851	16.2% *	2,493	10.5% *	453	1.9%	765	3.2% *	140	0.6%
Quartile of Health Care Spending										
Bottom 25%	1,347 *^	3.5% *^	1,046 *^	2.7% *^	94 *^	0.2% *^	188 *^	0.5% *^	20 *^	0.1% *^
Middle 50% (Ref)	3,566 ^	13.4%	2,475	9.3%	405 ^	1.5% ^	606 ^	2.3%	80 ^	0.3% ^
Top 25%	7,800 *^	32.9% *^	4,235 *^	17.8% *^	1,585 *^	6.7% *^	1,548 *^	6.5% *^	432 *^	1.8% *^

NOTES: Income thresholds used to calculate 2006 poverty categories were \$9,753 (individual)/\$12,290 (couple).

(Ref) indicates reference group.

‡ Indicates statistically significant difference from non-Medicare households (p<0.05).

* Indicates statistically significant difference from the reference group (indicated within each category) (p<0.05).

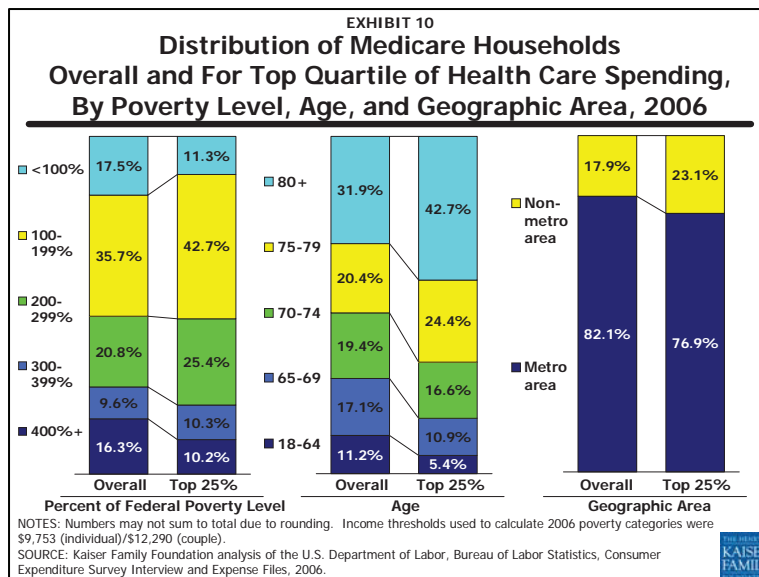
^ Indicates statistically significant difference from all other groups within the category (p<0.05).

SOURCE: Kaiser Family Foundation analysis of the U.S. Department of Labor, Bureau of Labor Statistics, Consumer Expenditure Survey Interview and Expense Files, 2006.

WHAT ARE THE CHARACTERISTICS OF MEDICARE HOUSEHOLDS IN THE TOP QUARTILE?

Compared to other Medicare households, those in the top quartile of health care spending as a share of total expenditures are disproportionately near poor, have older household members, and live in non-metropolitan areas (Exhibit 10).

- *Poverty status:* Medicare households in the top quartile are more likely to have incomes between 100 percent and 300 percent of poverty than Medicare households overall.
- *Age:* Medicare households in the top quartile are more likely to have a head of household who is at least 75 years of age or older than Medicare households overall.
- *Geographic Area:* Medicare households in the top quartile are more likely to be located outside of metropolitan areas than Medicare households overall.



CONCLUSION

Medicare helps to provide health and financial security to 45 million beneficiaries, including 38 million elderly and 7 million people with disabilities under age 65, yet Medicare households allocated a sizeable share of their total household expenditures to health care spending in 2006. Spending on health care consumed a substantially larger share of total household expenditures for Medicare households than non-Medicare households, in part because health problems and related expenses tend to rise with age and because of lower total household expenditures, on average, for Medicare than non-Medicare households.

Health care spending consumed just over 14 percent of total household expenditures for Medicare households, a smaller share than spending on housing but about the same as spending on transportation and food. Health insurance premiums comprised the largest component of health care spending. Most Medicare beneficiaries pay premiums for Part B (physician services), while some also pay premiums for Part D (prescription drug coverage), and many pay additional premiums for employer-sponsored retiree health benefits or Medigap supplemental insurance policies. If health insurance premiums and the cost of medical services continue to increase, health care spending is likely to consume an even larger share of total household expenditures by Medicare households in future years.

This analysis shows that prescription drug spending was the second largest component of health care spending for Medicare households in 2006, the first year of the government-subsidized Medicare Part D prescription drug benefit. Limitations in the survey data preclude an analysis of spending by source of supplemental coverage, which would have enabled us to assess the relative burden of drug spending on Medicare beneficiaries with different types of coverage. Nonetheless, the findings underscore the importance of ongoing efforts to address the burden of high and rising drug prices, and to monitor the generosity of drug coverage provided to beneficiaries under Part D plans, and other sources.

Finally, our analysis shows that health care spending consumed a substantial share of total household expenditures for those in the top quartile of Medicare households, a level of spending that is likely to impede their ability to pay for other essential goods, such as housing, food, and transportation. Without a concerted national effort to address the problem of rising health care costs overall, spending on health care is likely to consume a growing share of total household expenditures for Medicare beneficiaries.

METHODOLOGY APPENDIX

DATA

This report is based on an analysis of data from the Bureau of Labor Statistics (BLS) Consumer Expenditure Survey (CE) Interview and Expense Files, 2006. The CE Interview panel survey is a quarterly panel where each sampled consumer unit (CU) is interviewed over five quarters (up to four interviews) to collect one year of data. BLS defines a consumer unit as: (1) all members of a particular household who are related by blood, marriage, adoption, or other legal arrangements; (2) a person living alone or sharing a household with others or living as a roomer in a private home or lodging house or in permanent living quarters in a hotel or motel, but who is financially independent; or (3) two or more persons living together who use their income to make joint expenditures.”⁹

The 2006 CE Interview files contain 35,832 CU responses (weighted n=119 million CUs), of which 5,729 CUs were determined to be composed entirely of Medicare beneficiaries. These unweighted CU counts can be interpreted as the number of quarterly interviews conducted across the data year. The survey interview files were linked to the public insurance files, in order to determine the number of Medicare beneficiaries within each CU. If the number of persons in the CU matched the number of Medicare beneficiaries within the CU, the CU record was designated a “Medicare Household”. This analysis was based on 16,826 unique CUs, focusing on the 2,703 CUs composed exclusively of Medicare beneficiaries. Because the Consumer Expenditure Survey is a household survey, it excludes information about Medicare beneficiaries who reside in nursing homes and other long-term care settings.

DEFINITION OF VARIABLES

Demographics

Poverty Level: Poverty calculations in the Consumer Expenditure Survey are based on pre-tax income. Consumer units were categorized based on the proportion of the difference between the amount of pre-tax income in the past 12 months and the value of all food stamps/electronic benefits received, relative to the CU-specific poverty threshold.

Age: Consumer units were assigned to an age category based on the age of the oldest person in the household. Consumer units were designated as under-65 Medicare households if the unit contained only members who were under-65 disabled Medicare beneficiaries.

Marital Status: Consumer units were categorized based on the marital status of the reference person, or head of household.

Geographic Area: Consumer units were categorized by whether they were in metropolitan areas or non-metropolitan areas. The BLS defines a “metropolitan area” as a large population concentration, or nucleus, combined with economically- and socially-integrated adjacent communities.

Race/Ethnicity: Consumer units were categorized based on the race/ethnicity of the reference person, or head of household. We categorized all CUs with a Hispanic head of household as Hispanic households. Among those CUs where the head of household was not Hispanic, the CU was categorized in one of the

⁹ Page 295 of the 2006 Interview Survey Microdata Documentation; accessible at <http://www.bls.gov/cex/2006/csxintvw.pdf>.

other four groups based on the racial designation of the head of household. The group “Asian” includes non-Hispanic Pacific Islander. Due to insufficient sample size for heads of household reporting multi-race or other race, we could not report separate findings for these groups.

Expenditures

BLS provides the following definitions for household expenditures and subcomponents:¹⁰

Total expenditures includes the following components of household expenditures: 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. Note that total expenditures for each consumer unit does not include tax expenditures, such as income tax.

Total health care expenditures includes spending on four subcomponents of health care: health insurance premiums, medical services, prescription drugs and medical supplies.

1. *Health insurance* includes premiums for Medicare, both Part B and Part D, and for traditional fee-for-service health plans, preferred-provider health plans, health maintenance organizations, commercial Medicare supplements, and other health insurance.
2. *Medical services* includes hospital room and services, physicians' services, service by a professional other than a physician, eye and dental care, lab tests and X-rays, medical care in a retirement community, care in convalescent or nursing home, and other medical care service.
3. *Drugs* includes only prescription drugs, not vitamins or over-the-counter medication.¹¹
4. *Medical supplies* includes topicals and dressings, antiseptics, bandages, cotton, first aid kits, contraceptives, syringes, ice bags, thermometers, sun lamps, vaporizers, heating pads, medical appliances (such as braces, canes, crutches, walkers, eyeglasses, and hearing aids), and rental and repair of medical equipment.

METHODS

To measure health care spending as a share of total household expenditures, we calculated both mean and median estimates for health care spending in dollars, and for health care spending as a share of total household expenditures. We calculated these estimates for Medicare households and non-Medicare households, and among Medicare households by demographic characteristics, such as poverty level. We also calculated health care spending in dollars, and health care spending as a share of total household expenditures, for the bottom quartile (25 percent) of households, the middle 50 percent of households and the top quartile of households.

In this analysis, we primarily focus on mean estimates of household expenditures overall and for each component of household spending. In previously published work, we presented median values when examining out-of-pocket health care spending as a share of income, an analysis which did not involve

¹⁰ Available at <http://www.bls.gov/cex/csxgloss.htm#health>.

¹¹ 2006 Interview Survey Microdata Documentation; accessible at <http://www.bls.gov/cex/2006/csxintvw.pdf>.

presenting the distribution of total expenditures and income.¹² However, in this analysis, we present mean values, rather than medians, in order to show the distribution of total household expenditures across components of spending, summing to 100 percent, which cannot be done using medians.

We recognize that in comparison to median estimates, means are often skewed by outlying values. We observed only a modest difference between the mean (14.1 percent) and median (13.3 percent) values of health care spending as a share of total household expenditures for Medicare households overall. Among the top quartile of Medicare households, however, the difference between mean and median estimates of health care spending as a share of total expenditures is more pronounced (32.9 percent and 25.7 percent, respectively), indicating a more skewed range of values in the top quartile (Table 2). In contrast, for the bottom three quartiles combined the mean and median values are much closer (9.2 percent and 11.4 percent, respectively), and far lower than values for the top quartile, reflecting both lower health care spending among these households and fewer outlying values.

For this analysis, we concluded that it is reasonable to present means when discussing the share of total household expenditures allocated to health care for Medicare households overall, but when focusing on households by quartile, we incorporated a discussion of median estimates, which are less influenced by outliers than the mean estimates, and present both statistics in the exhibits and tables.

STATISTICAL TESTS

Bivariate tests were used to assess differences across groups at the 95 percent confidence level, and all differences reported in the paper are significant at this level ($p < 0.05$). Because the Consumer Expenditure Survey uses a complex survey design, standard errors were computed using the Balanced Repeated Replication method.¹³ The estimate of health care spending as a share of total household expenditures was calculated by dividing mean health spending in absolute dollars by mean total household spending in absolute dollars; the standard error for this statistic was calculated using the Ratio of Variable Means formula, as recommended by BLS.¹⁴

Mean and median health care spending (both absolute amounts and the estimate of health care spending as a share of total expenditures) were compared with simple t-tests, within demographic categories and across Medicare and non-Medicare households. Among Medicare households, each demographic group was tested against a reference group (for example, Medicare households age 80 and older vs. the age 65-69 reference group). Medicare households within a demographic group were also compared to all others (e.g. age 80 and older vs. all other age groups).

To assess characteristics of households with disproportionately high spending, we used a t-test to compare the top quartile of households to all others, by demographic category. Note that Exhibit 10 displays estimates by demographic categories separately for the overall population and the top quartile, although the statistical analysis compares the top quartile to all other Medicare households.

¹² Kaiser Family Foundation, "Revisiting 'Skin in the Game' Among Medicare Beneficiaries."

¹³ As described in the BLS 2006 Microdata documentation.

¹⁴ See http://support.sas.com/documentation/cdl/en/statug/59654/HTML/default/statug_mianalyze_sect016.htm.



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