

## HOW MUCH “SKIN IN THE GAME” IS ENOUGH?

### THE FINANCIAL BURDEN OF HEALTH SPENDING FOR PEOPLE ON MEDICARE An Updated Analysis of Out-of-Pocket Spending as a Share of Income

JUNE 2011

Medicare offers substantial health security and financial protection to 48 million seniors and younger people with disabilities. However, premiums, relatively high cost-sharing requirements, and gaps in the benefit package can result in beneficiaries spending a substantial share of their income on health expenses. Based on analysis of the Medicare Current Beneficiary Survey, this data brief examines the financial burden of out-of-pocket health expenses among Medicare beneficiaries between 1997 and 2006, and the characteristics of beneficiaries with the greatest financial burden relative to their income.

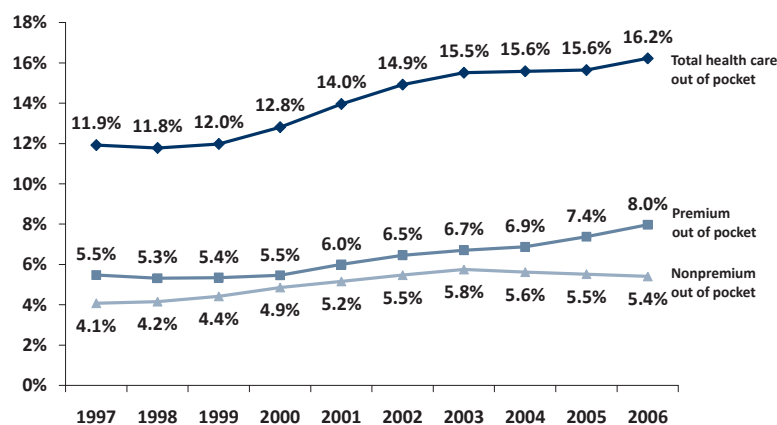
#### KEY FINDINGS

- Median out-of-pocket health spending as a share of income increased from 12 percent in 1997 to 16 percent in 2006.
- One in 4 Medicare beneficiaries spent 30 percent or more of their income on health expenses in 2006; 1 in 10 beneficiaries spent more than half their income on health expenses.
- The financial burden of health care costs is highest for Medicare beneficiaries ages 85 and older, those in relatively poor health, those with low or modest incomes, and those with Medigap supplemental policies.
- Nearly 7 in 10 Medicare beneficiaries spent more than 10 percent of their income on premiums and other health expenses in 2006; 4 in 10 spent more than 10 percent of their income on premiums alone.
- Premiums account for the largest share of Medicare beneficiaries' out-of-pocket health spending, followed by long-term care (generally not covered by Medicare), medical providers and supplies, and prescription drugs.
- Median out-of-pocket health spending as a share of income is projected to exceed 25 percent in 2020.

#### Median out-of-pocket health spending as a share of income increased from 12 percent in 1997 to 16 percent in 2006.

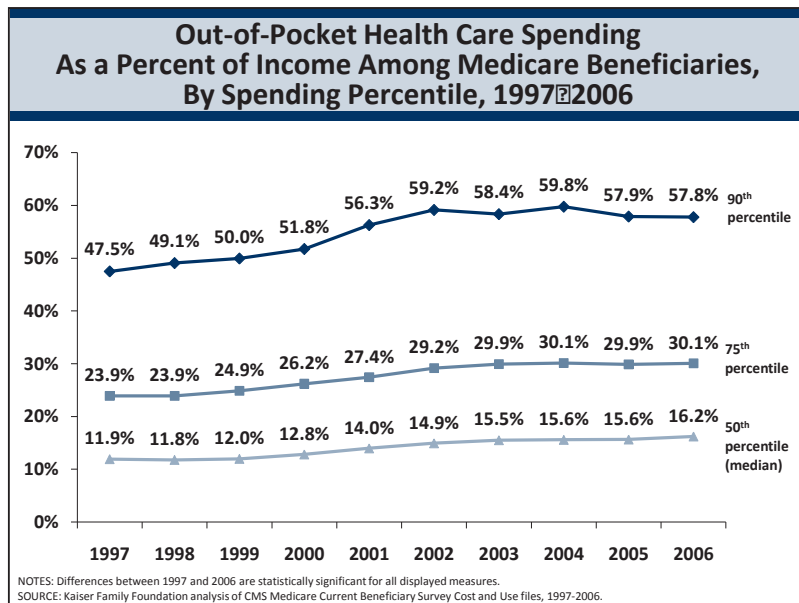
Among Medicare beneficiaries, median out-of-pocket spending as a share of income has been rising steadily over time, from 11.9 percent in 1997 to 16.2 percent in 2006. This increase is the result of out-of-pocket health spending rising more rapidly than income over this period (6.5 percent average annual growth in per capita out-of-pocket spending compared to 2.8 percent average annual growth in per capita income). Median out-of-pocket spending on premiums for Medicare and supplemental insurance increased from 5.5 percent of income in 1997 to 8.0 percent of income in 2006. Median spending for all other health care expenses, including cost sharing for Medicare-covered services, and out-of-pocket costs for services not covered by Medicare (e.g., long-term care and dental) rose from 4.1 percent of income in 1997 to 5.8 percent in 2003, falling back to 5.4 percent of income in 2006.

#### Median Out-of-Pocket Health Care Spending As a Percent of Income Among Medicare Beneficiaries, 1997–2006



NOTES: Differences between 1997 and 2006 are statistically significant for all displayed measures. Annual amounts for the components of total health care spending do not sum to total amounts because values shown are median, not mean, values.  
SOURCE: Kaiser Family Foundation analysis of CMS Medicare Current Beneficiary Survey Cost and Use files, 1997–2006.

**One in 4 Medicare beneficiaries spent 30 percent or more of their income on health expenses in 2006; 1 in 10 spent more than half of their income on health expenses.**

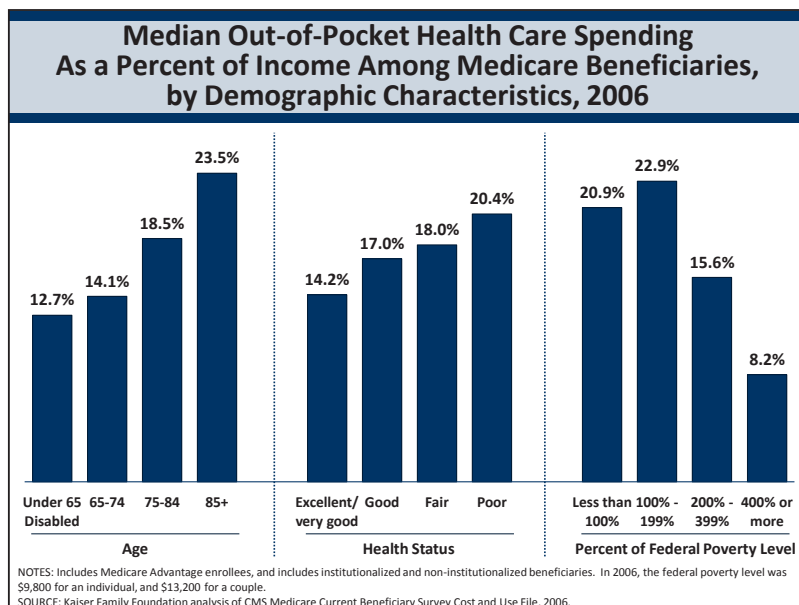


In 2006, the 25 percent of beneficiaries with the largest spending burden (75<sup>th</sup> percentile) spent 30 percent or more of their income on health care. The top 10 percent of beneficiaries (90<sup>th</sup> percentile) spent nearly 60 percent of their income on health-related costs. Those in the highest decile are more likely than others to use hospital, skilled nursing facility, and other Medicare-covered services; these beneficiaries are also much more likely to live in long-term care facilities.

Between 1997 and 2006, beneficiaries at the 75<sup>th</sup> and 90<sup>th</sup> percentiles experienced a steeper absolute increase in the ratio of out-of-pocket spending to income than the median beneficiary; beneficiaries in the top quartile and top decile experienced a 6.2 and 10.3 percentage point increase, respectively, compared to a 4.3 percentage point increase

for the median beneficiary. Factoring out spending for costly long-term care services and supports that are not covered by Medicare, these trends persist: median spending as a share of income increased from 10.8 percent in 1997 to 15.0 percent in 2006, with steeper increases among the top quartile and decile of beneficiaries with the greatest financial burden.

**The financial burden of health care is highest for Medicare beneficiaries ages 85 and older, those in relatively poor health, those with low or modest incomes, and those with Medigap.**



The financial burden of health care increases with age, mainly because health and long-term care needs increase with age, while income declines. Among beneficiaries ages 85 and older, median out-of-pocket spending as a share of income was 23.5 percent in 2006 – substantially higher than for those ages 65 to 74 (14.1 percent). As might be expected, the financial burden of health care was higher for beneficiaries in poor health (20.4 percent) than for those in excellent or very good health (14.2 percent).

Beneficiaries with low and modest incomes are especially hard-hit by out-of-pocket health expenses. Among those with incomes below the poverty level (\$9,800/individual or \$13,200/couple in 2006), the median spending burden was 20.9 percent in 2006. The burden is even greater for beneficiaries

with incomes just above the poverty level (22.9 percent) who are less likely than those below the poverty level to be enrolled in Medicaid, which reduces out-of-pocket costs.

The median spending burden among beneficiaries with Medigap policies was 25.1 percent, higher than all other beneficiaries, including those with Medicaid (9.0 percent), employer coverage (14.8 percent), Medicare Advantage (15.0 percent), or no supplemental coverage (16.9 percent).

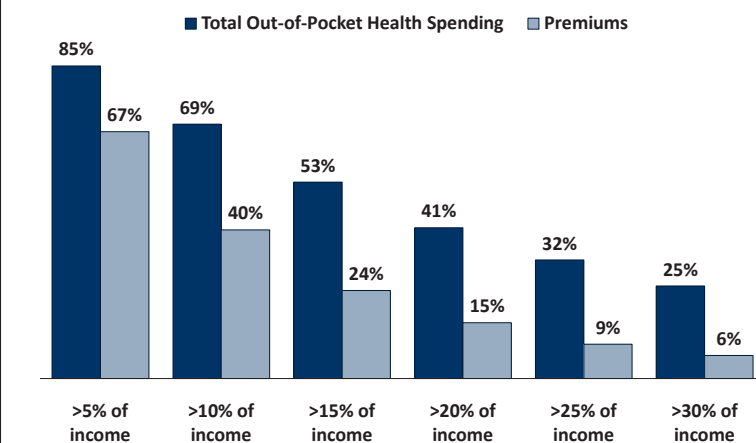
## Nearly 7 in 10 Medicare beneficiaries spent more than 10 percent of their income on premiums and other health expenses in 2006; 4 in 10 spent more than 10 percent of their income on premiums alone.

The Medicare population spends a much larger portion of their income on health care than the non-Medicare population.<sup>1</sup> In 2006, nearly 7 in 10 Medicare beneficiaries (69 percent) spent more than 10 percent of their income on health care costs, including premiums, cost sharing for Medicare-covered services, and services not covered by Medicare. One in 4 beneficiaries (25 percent) spent more than 30 percent of their income on health care expenditures.

Premiums account for a large share of out-of-pocket spending. Four in 10 beneficiaries spent more than 10 percent of their income on premiums alone, including premiums for Medicare (Part B and Part D) and supplemental insurance, such as a Medicare supplement insurance policy (Medigap) or an employer-sponsored retiree health plan.

Fifteen percent of Medicare beneficiaries spent more than 20 percent of their income on premiums in 2006. Beneficiaries with Medigap spend more money on premiums than beneficiaries with any other type of supplemental coverage.

**Medicare Beneficiaries by Share of Income Spent on Premiums and Total Out-of-Pocket Health Spending, 2006**



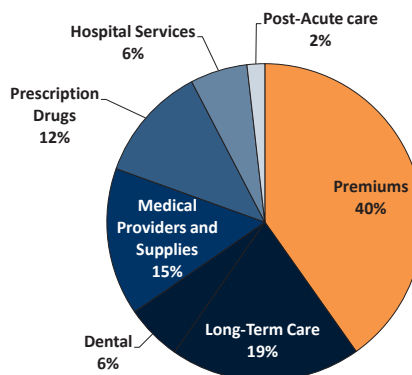
SOURCE: Kaiser Family Foundation analysis of CMS Medicare Current Beneficiary Survey Cost and Use File, 2006.

## Premiums account for the largest share of Medicare beneficiaries' out-of-pocket health spending, followed by long-term care (generally not covered by Medicare), medical providers and supplies, and prescription drugs.

In 2006, Medicare beneficiaries collectively spent \$191 billion out of pocket for their medical, long-term care, and premium expenses. Average out-of-pocket health expenses per beneficiary totaled \$4,241 in 2006. Premiums comprised the largest share (40 percent) of beneficiaries' total out-of-pocket spending. One-fourth of out-of-pocket spending was for benefits and services for which Medicare generally provides minimal coverage: long-term care (19 percent) and dental services (6 percent).

In 2006, Medicare began providing coverage for prescription drugs. In the first year of the drug benefit, prescription drugs accounted for 12 percent of out-of-pocket spending, slightly less than the share of total out-of-pocket spending accounted for by prescription drugs in 2005 (14 percent).

**Distribution of Out-of-Pocket Health Care Spending by Medicare Beneficiaries, by Type of Service, 2006**



Total Out-of-Pocket Health Care Spending for Medicare Beneficiaries, 2006 = \$191 Billion  
Average Total Out-of-Pocket Health Care Spending per Beneficiary, 2006 = \$4,241

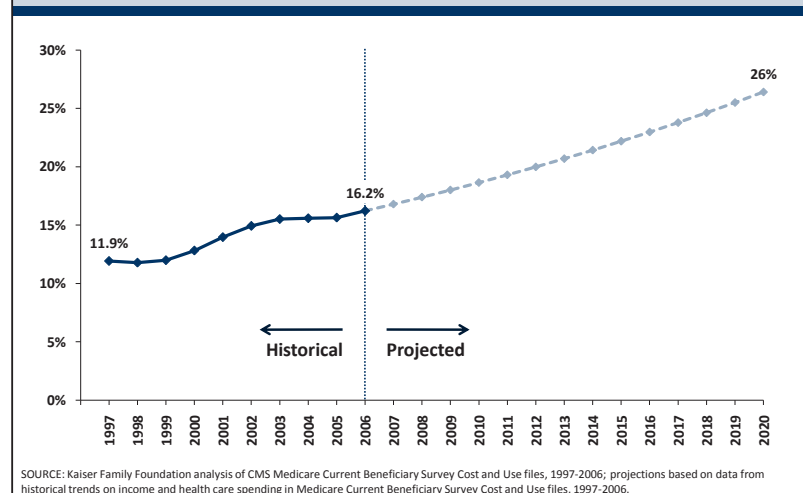
NOTES: Includes Medicare Advantage enrollees, and institutionalized and non-institutionalized beneficiaries. Premium spending includes Medicare Part A, B, C, and D and private health insurance premiums.

SOURCE: Kaiser Family Foundation analysis of CMS Medicare Current Beneficiary Survey Cost and Use File, 2006.

<sup>1</sup> Kaiser Family Foundation, "The Burden of Out-of-Pocket Health Spending Among Older Versus Younger Adults: Analysis from the Consumer Expenditure Survey, 1998-2003", September 2007, <http://www.kff.org/medicare/7686.cfm>.

## Median out-of-pocket spending as a share of income is projected to exceed 25 percent in 2020.

**Historical and Projected Healthcare Spending Burden Among Medicare Beneficiaries, 1997-2020**



With overall health care costs rising faster than income for Medicare beneficiaries, median out-of-pocket health spending as a share of beneficiaries' income is projected to increase in the future. If previous trends continue, median out-of-pocket spending is projected to be 19 percent of income in 2011; by 2020, median out-of-pocket spending is projected to reach 26 percent of income. (For information about projection methodology, see below.) The burden of health care costs in the future is likely to continue being considerably greater for certain subgroups of the Medicare population – particularly those with low incomes who are not covered by Medicaid, the oldest old, and beneficiaries who have significant medical needs that are not fully met by Medicare-covered benefits.

## Conclusion

With incomes rising more slowly than health care costs, out-of-pocket health spending is consuming an increasing share of Medicare beneficiaries' income, despite the important coverage provided by Medicare and supplemental insurance, and the introduction of the Medicare Part D prescription drug benefit in 2006. According to prior research, seniors consistently spend a larger share of their income out of pocket on health care than younger people. The financial burden of out-of-pocket health spending is much larger for some segments of the Medicare population, including the oldest old, those in relatively poor health, and those with incomes below 200 percent of poverty. Many beneficiaries have supplemental insurance to help fill in the gaps, but premiums for these policies are rising, and the coverage offered by some sources is eroding. Furthermore, less than half of all Medicare beneficiaries with incomes below twice the poverty level have Medicaid to supplement Medicare. As health costs continue to rise, average out-of-pocket costs do so as well, requiring people on Medicare to put even more 'skin in the game' to pay for their health expenses.

As policymakers consider options to rein in federal spending, including proposals that would increase costs for some or all people on Medicare, this analysis raises important questions about how much – and how much more – of their incomes Medicare beneficiaries can reasonably be expected to spend on their health care.

## Methodology

This policy brief is an update of the 2009 study "Revisiting 'Skin in the Game' Among Medicare Beneficiaries" prepared by Tricia Neuman, Juliette Cubanski, and Anthony Damico. The findings are based on an analysis of the Medicare Current Beneficiary Survey (MCBS) Cost and Use Files, 1997-2006. The analysis includes Medicare beneficiaries of all ages (including the under-65 disabled), and those residing in long-term care settings. Out-of-pocket spending includes all personal expenditures for medical and long-term care services, including premiums for Medicare and supplemental insurance. Income includes all sources, such as pension, Social Security, and retirement benefits, reported on a pre-tax basis. To measure the financial burden of health spending, we computed for each individual a ratio of out-of-pocket spending to income, and computed both the mean and median for the entire group.

To project median out-of-pocket spending as a share of income between 2007 and 2020, we applied growth rates to the income and out-of-pocket spending for each Medicare beneficiary in the 2006 MCBS data. The growth rate used for out-of-pocket spending was based on average annual growth of median out-of-pocket spending between 1997 and 2006 (6.5 percent per year); the growth rate used for incomes was based on the average annual growth of median income between 1997 and 2006 (2.8 percent per year). Applying these growth rates to each individual's out-of-pocket spending and income, we computed a ratio of out-of-pocket spending to income for each individual in each year, and computed the median among all Medicare beneficiaries in each year. Projections do not take into account the effects of health reform (including closing the Medicare Part D coverage gap), changes in the sustainable growth rate (SGR), or the possibility that income and out-of-pocket health care costs could grow more slowly or quickly in future years than in the past.

Prepared by Tricia Neuman, Juliette Cubanski, Jennifer Huang, and Anthony Damico.

This publication (#8170) is available on the Kaiser Family Foundation's website at [www.kff.org](http://www.kff.org).

T Neuman, J Cubanski, K Desmond, T Rice. "How Much 'Skin in the Game' Do Medicare Beneficiaries Have?" *Health Affairs*, 26, no.6 (2007): 1692-1701.

T Neuman, J Cubanski, A Damico. "Revisiting 'Skin in the Game' Among Medicare Beneficiaries." February 2009.