

## **Section 4**

# **OUT-OF-POCKET SPENDING**

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Despite significant financial protections provided by Medicare, gaps in the benefit package and relatively high cost-sharing requirements result in beneficiaries paying a substantial share of their total health and long-term care costs out of pocket. In 2002, Medicare covered less than half (45 percent) of beneficiaries' total per capita medical and long-term care expenses (\$11,714, on average). Beneficiaries paid, on average, 19 percent of total expenses, or \$2,223, out of pocket. Of the \$93 billion spent by beneficiaries out of pocket for medical and long-term care that year, two-thirds of this spending was for benefits and services for which Medicare currently provides limited or no coverage, including long-term care (36 percent), prescription drugs (22 percent), and dental services (8 percent).

Out-of-pocket spending is highly skewed. Just over half of all beneficiaries spent less than \$1,000 out of pocket in 2002, while almost 10 percent of beneficiaries spent \$5,000 or more. Average spending by beneficiaries also increases with age and varies by health status. In 2002, beneficiaries between the ages of 65 and 74 spent \$1,371, on average, while those age 85 or older spent substantially more (\$1,724). As might be expected, as health status declines, out-of-pocket spending rises. In 2002, beneficiaries in poor health spent \$1,000 more out of pocket on their health care than did those in fair health and more than twice as much as those in excellent or very good health.

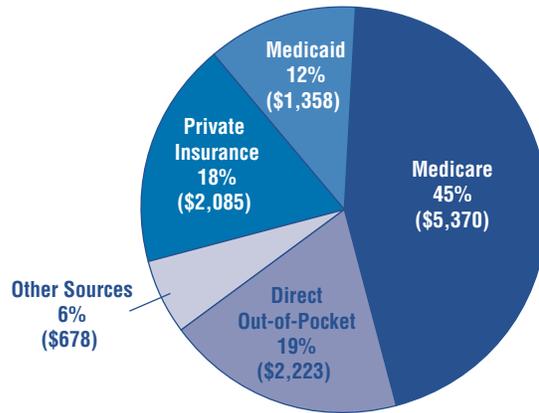
Out-of-pocket spending among Medicare beneficiaries also varies by source of supplemental insurance coverage—reflecting differences in the scope of covered services and variations in the health care needs of those with different types of coverage. Beneficiaries without supplemental coverage of any kind and those with individually-purchased Medigap policies pay more, on average, than beneficiaries with employer-sponsored coverage. Medicare beneficiaries with Medicaid—the dual eligibles—generally have the lowest average out-of-pocket costs (despite being in relatively poor health), because Medicaid provides relatively comprehensive coverage of prescription drugs and long-term care costs, in addition to covering Medicare premiums and other cost-sharing requirements.

Because Medicare provides no coverage for prescription drugs used in an outpatient setting (until 2006), the cost of medications has been a significant concern. In 2005, almost 60 percent of beneficiaries are projected to have no or relatively low (\$750 or less) out-of-pocket drug expenses, while at the upper end of spending, 7 percent of beneficiaries are projected to have out-of-pocket drug costs of more than \$3,600. Between 2000 and 2004, average out-of-pocket spending on prescription drugs increased by 64 percent, from \$613 to \$1,005. In 2005, average per capita out-of-pocket spending on prescription drugs among Medicare beneficiaries is estimated to be \$1,139. Once coverage begins under the new drug benefit in 2006, per capita out-of-pocket drug spending is estimated to be \$970.

Out-of-pocket spending on prescription drugs varies by a number of factors including gender, income, health status, and urban/rural residence. Those in poor health have out-of-pocket spending in 2005 that is estimated to be more than twice as much as spending by those in very good or excellent health. In addition, women spend more than men and those in rural areas spend more than those living in urban areas. Out-of-pocket spending on drugs also varies by source of supplemental coverage. For example, beneficiaries with Medigap drug coverage spent, on average, one-third more out of pocket on their prescriptions than beneficiaries with employer-sponsored coverage.

Beginning in 2006, Medicare will help pay for outpatient prescription drugs for beneficiaries who enroll in private prescription drug plans (PDPs) or Medicare Advantage plans that cover prescription drugs (MA-PDs). (See Section 5 for an overview of the Medicare prescription drug benefit.) For the majority of beneficiaries who enroll in Medicare drug plans, average out-of-pocket spending for prescription drugs in 2006 is projected to be lower than it would have been in the absence of the Medicare drug benefit. Many beneficiaries—particularly those who previously lacked drug coverage and receive low-income subsidies—are projected to have substantially lower out-of-pocket spending. Many beneficiaries will continue to face high out-of-pocket costs when the new benefit goes into effect, however, especially those who are projected to have drug spending that is subject to 100 percent coinsurance.

**Figure 4.1**  
**Sources of Payment for Medicare Beneficiaries' Medical and Long-Term Care Services, 2002**

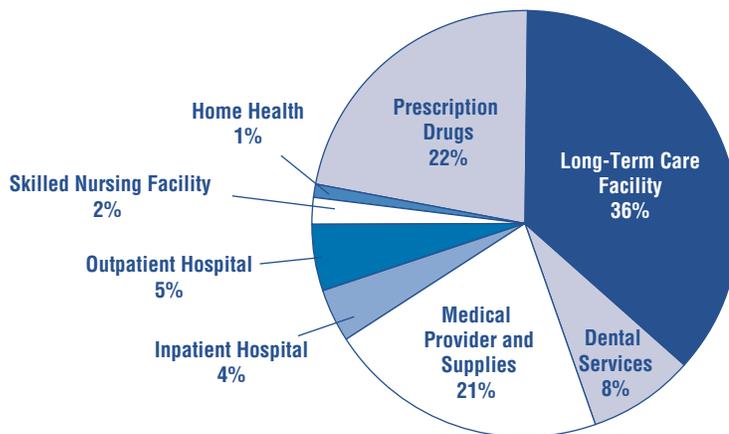


**Total = \$11,714 in Expenses per Beneficiary, 2002**

Note: Figure shows average total spending for both non-institutionalized and institutionalized beneficiaries, including long-term care, skilled nursing facility, and prescription drug spending, but excluding spending on premiums or deductibles for Medicare Parts A, B, and C and private health insurance.  
 SOURCE: Kaiser Family Foundation analysis of the Medicare Current Beneficiary Survey 2002 Cost and Use File.

Each year, a majority of beneficiaries use Medicare to help pay for their hospital, physician, other medical care, and long-term care services. In 2002, Medicare paid less than half (45 percent) of the \$11,714 in total medical expenses per beneficiary, while beneficiaries themselves paid 19 percent out of pocket.

**Figure 4.2**  
**Distribution of Out-of-Pocket Spending by Medicare Beneficiaries for Medical and Long-Term Care Services, 2002**

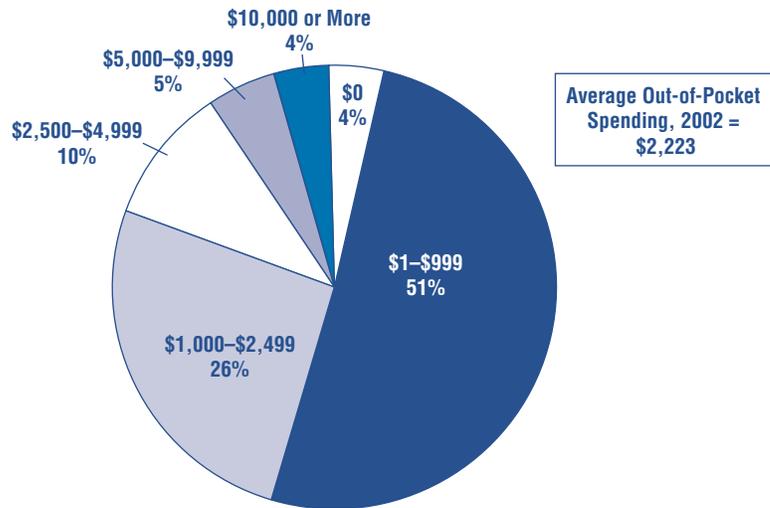


**Total = \$93 Billion in Out-of-Pocket Expenses, 2002**

Note: Figure shows distribution of total out-of-pocket spending for both non-institutionalized and institutionalized beneficiaries, including long-term care, skilled nursing facility, and prescription drug spending, but excluding spending on premiums or deductibles for Medicare Parts A, B, and C and private health insurance.  
 SOURCE: Kaiser Family Foundation analysis of the Medicare Current Beneficiary Survey 2002 Cost and Use File.

In 2002, Medicare beneficiaries spent \$93 billion out of pocket for medical and long-term care services. Two-thirds of beneficiaries' out-of-pocket spending was for benefits and services for which Medicare currently provides only partial or no coverage, including long-term care expenses (36 percent), prescription drugs (22 percent), and dental services (8 percent).

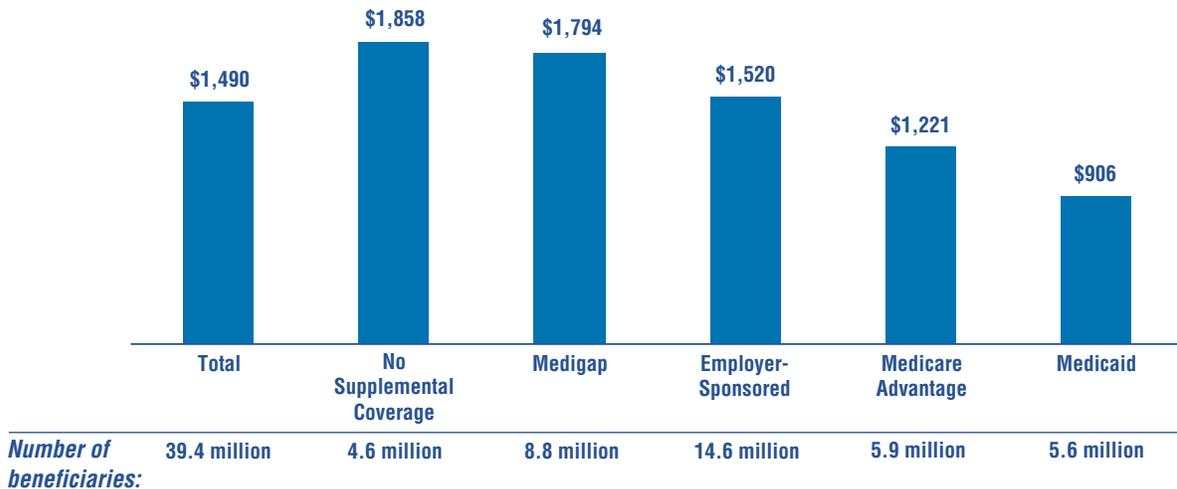
**Figure 4.3**  
**Distribution of Medicare Beneficiaries, by Per Capita Out-of-Pocket Spending, 2002**



SOURCE: Kaiser Family Foundation analysis of the Medicare Current Beneficiary Survey 2002 Cost and Use File.

**A**verage per capita out-of-pocket spending among the Medicare population was \$2,223 in 2002. Only a small share of beneficiaries (4 percent) had no out-of-pocket expenses. Although half (51 percent) spent less than \$1,000 out of pocket, nearly one in 10 beneficiaries spent \$5,000 or more out of pocket, accounting for over half of all out-of-pocket spending by Medicare beneficiaries in 2002.

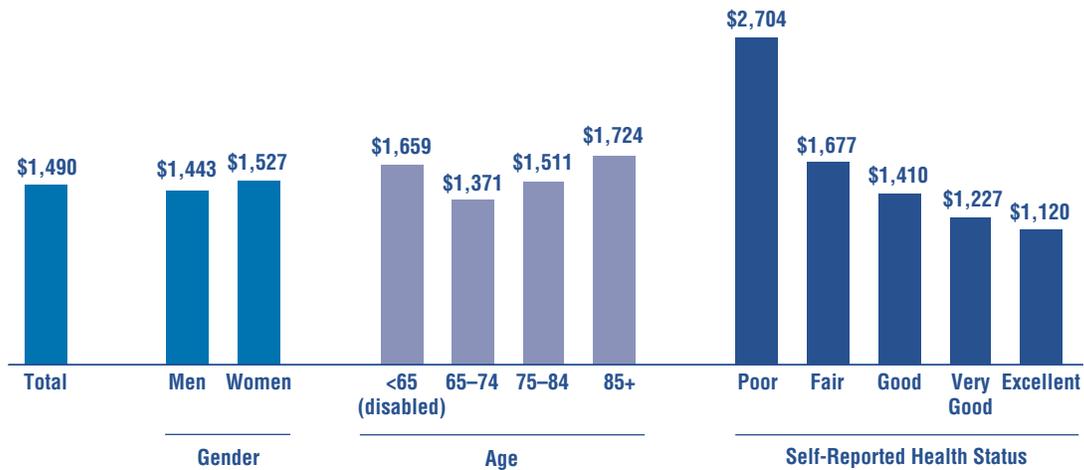
**Figure 4.4**  
**Per Capita Out-of-Pocket Spending by Non-Institutionalized Medicare Beneficiaries, by Primary Source of Supplemental Coverage, 2002**



Note: Analysis includes community residents only.  
 SOURCE: Kaiser Family Foundation analysis of the Medicare Current Beneficiary Survey 2002 Cost and Use File.

**O**ut-of-pocket spending by Medicare beneficiaries varies by the type of supplemental insurance coverage they have. On average, Medicare beneficiaries who resided in the community incurred \$1,490 in out-of-pocket costs in 2002. Out-of-pocket spending by those without supplemental coverage averaged \$1,858. Medicare beneficiaries with Medicaid incurred the lowest out-of-pocket costs, because Medicaid covers Medicare's deductibles, coinsurance, and premiums, and currently covers benefits not offered by Medicare, including prescription drugs (until 2006) and long-term care.

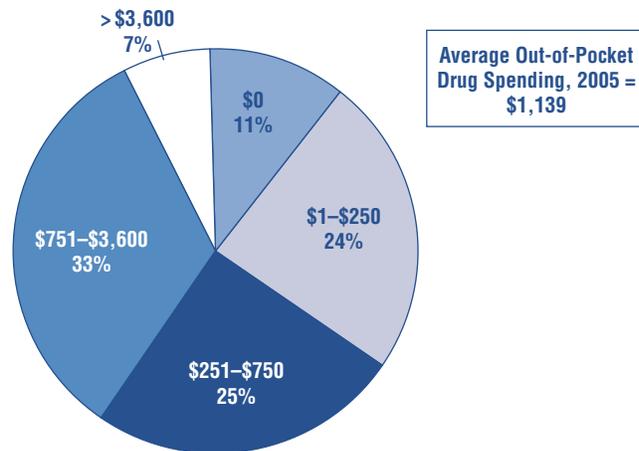
**Figure 4.5**  
**Per Capita Out-of-Pocket Spending by Non-Institutionalized Medicare Beneficiaries, by Gender, Age, and Health Status, 2002**



Note: Analysis includes community residents only.  
 SOURCE: Kaiser Family Foundation analysis of the Medicare Current Beneficiary Survey 2002 Cost and Use File.

Out-of-pocket spending on health care increases with declining health status and advancing age. Beneficiaries in poor health spent \$1,000 more out of pocket on their health care in 2002 than did those in fair health and more than twice as much as those in very good or excellent health. Those age 85 or older and nonelderly beneficiaries with disabilities had higher out-of-pocket expenditures than elderly beneficiaries between the ages of 65 and 84, reflecting the unique health needs of these subgroups of the Medicare population.

**Figure 4.6**  
**Distribution of Non-Institutionalized Medicare Beneficiaries, by Per Capita Out-of-Pocket Prescription Drug Spending, 2005**



Average Out-of-Pocket Drug Spending, 2005 = \$1,139

Total = 42.1 Million Medicare Beneficiaries, 2005

SOURCE: Actuarial Research Corporation analysis for the Kaiser Family Foundation, May 2005.

A significant share of out-of-pocket spending by Medicare beneficiaries is for prescription drugs. Average per capita out-of-pocket spending on prescription drugs among Medicare beneficiaries is projected to be \$1,139 in 2005. Sixty percent of beneficiaries are projected to have \$750 or less in out-of-pocket drug expenses in 2005, while 7 percent are projected to have more than \$3,600 in out-of-pocket drug costs.

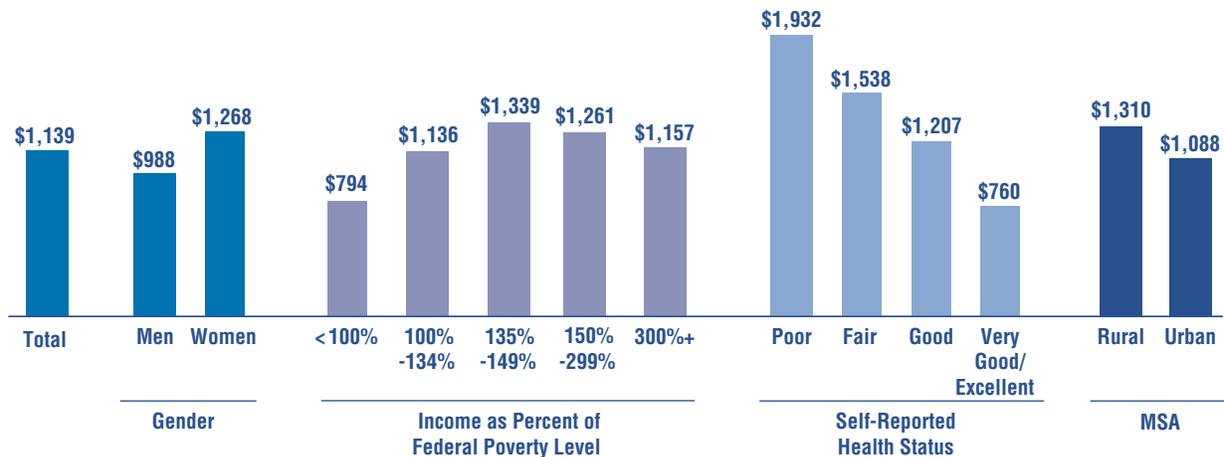
**Figure 4.7**  
**Per Capita Out-of-Pocket Prescription Drug Spending by Non-Institutionalized Medicare Beneficiaries, by Primary Source of Supplemental Coverage, 2005**



Note: Medicaid includes beneficiaries with both full-year and part-year coverage.  
 SOURCE: Actuarial Research Corporation analysis for the Kaiser Family Foundation, May 2005.

Annual out-of-pocket spending on prescription drugs by Medicare beneficiaries varies by source of supplemental coverage, reflecting differences in the generosity of benefits and variations in the health care needs of those with different sources of coverage. On average, Medicare beneficiaries enrolled in Medicaid spend the least out of pocket on prescription drugs, because Medicaid has very low or no cost-sharing requirements for drugs. Medicare beneficiaries with no supplemental coverage and those with Medigap policies spend the most out of pocket on prescription drugs.

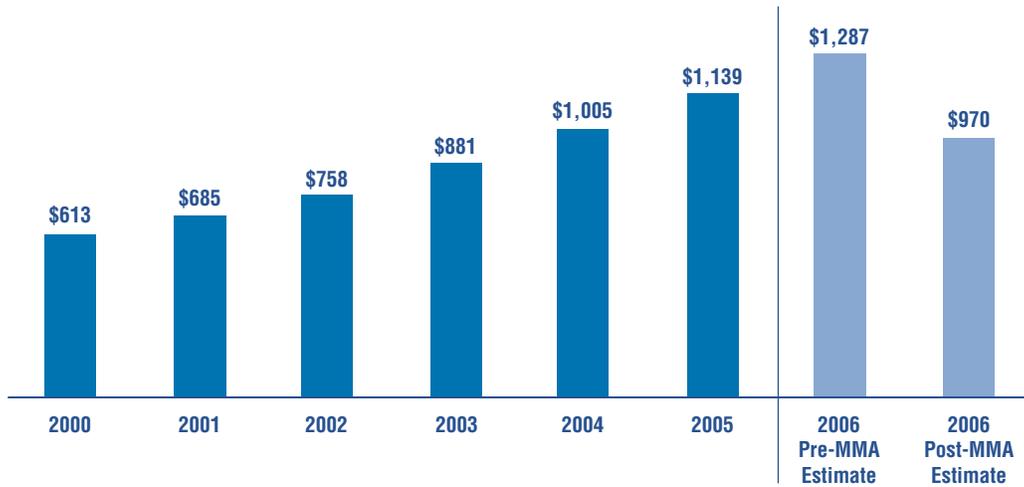
**Figure 4.8**  
**Per Capita Out-of-Pocket Prescription Drug Spending by Non-Institutionalized Medicare Beneficiaries, by Selected Characteristics, 2005**



Note: In 2005, 100% of the federal poverty level was \$9,570/individual and \$12,830/couple. MSA is Metropolitan Statistical Area.  
 SOURCE: Actuarial Research Corporation analysis for the Kaiser Family Foundation, May 2005.

Out-of-pocket drug spending by Medicare beneficiaries varies by individual characteristics, such as health status, gender, and urban/rural residence. Those in poor health are projected to spend more than twice as much out of pocket on drugs as those in very good or excellent health. Out-of-pocket drug expenses are greater for women than men, on average, and for those living in rural areas than in urban areas.

**Figure 4.9**  
**Per Capita Out-of-Pocket Prescription Drug Spending**  
**by Medicare Beneficiaries, 2000–2006**



Note: Dollar amounts reflect out-of-pocket spending on prescription drugs only, excluding spending on premiums for drug coverage that beneficiaries might incur.  
 SOURCE: Actuarial Research Corporation analysis for the Kaiser Family Foundation, May 2005.

In recent years, Medicare beneficiaries have spent increasing amounts out of pocket for their prescription drugs. Between 2000 and 2005, average out-of-pocket spending on prescription drugs by Medicare beneficiaries increased by 86 percent, from \$613 to \$1,139. In 2006, when coverage under the Medicare prescription drug benefit begins, average per capita out-of-pocket drug spending by beneficiaries is projected to be \$970.