**MEDICARE BENEFICIARY CHARACTERISTICS AND OUT-OF-POCKET COSTS**

Containing Medicare costs is an important goal, both to improve affordability for those who need care and to ensure the long-term sustainability of the program. Yet, some policy makers believe that older adults do not have enough “skin in the game” and propose shifting more out-of-pocket costs onto beneficiaries—an approach that would fail to address the underlying causes of cost growth. Proposals to shift costs to people with Medicare do not take into account three key facts: (1) Most beneficiaries have low or modest incomes; (2) Medicare benefits are not overly generous; and (3) Medicare beneficiaries already pay significant out-of-pocket costs.

Some plans propose increasing Medicare cost sharing, which is already high, has been increasing rapidly, and would make health care unaffordable for millions of older Americans. It is critical to understand that most beneficiaries struggle financially, already have high health costs, and cannot pay more.

LCAO recognizes the need to control health care spending. With respect to Medicare, we support savings mechanisms that address system-wide health care inflation and build on the cost savings of the Affordable Care Act. The American Academy of Actuaries agrees: “[I]mproving Medicare’s long-term sustainability requires slowing the growth in overall health spending—not simply shifting costs from one payer to another.”

**Medicare Beneficiary Characteristics**

- **Most people with Medicare have low or modest incomes.** In 2013, half of all people with Medicare lived on incomes less than $23,500 per year – just under 200% of the federal poverty level. And one quarter of Medicare beneficiaries had annual incomes at or below $14,400.

- **Most Medicare beneficiaries lack sufficient savings.** In 2013, half of all Medicare beneficiaries had less than $61,400 in lifetime savings, such as retirement account holdings and other financial assets. One in four Medicare beneficiaries had less than $11,300 in savings.

- **Women and people of color live on even less.** In 2013, among Medicare beneficiaries, median annual income for women amounted to $21,800, compared to $25,850 for men. Median annual incomes were also significantly lower for diverse communities—$16,350 for black Medicare beneficiaries and $13,300 for Hispanic beneficiaries. Median savings for white beneficiaries were more than eight to nine times median savings for black beneficiaries ($10,300) and Hispanic beneficiaries ($9,300).

- **Many beneficiaries are in poor health.** Almost half (40%) of the Medicare population is living with three or more chronic conditions and an estimated 23% have a cognitive or mental impairment. About 15% of Medicare beneficiaries have limitations with two or more activities of daily living, such as eating, bathing or dressing.

**Medicare Beneficiary Out-of-Pocket Costs**

- **Health care costs are a significant expense for Medicare beneficiaries.** In 2010, Medicare beneficiaries spent a median $3,324 on health care costs, and more than 5 million people with Medicare (10%) spent more than $8,030. In the last 5 years of life, beneficiaries spend $38,688 on average. For 25% of beneficiaries, out-of-pocket costs average $101,791 during this period. Almost half of Americans die with less than $10,000 in financial assets.

- **The sickest, the oldest and the near poor bear the most significant cost burdens.** In 2010, Medicare beneficiaries who reported being in fair or poor health spent a median 20% of their income on health care costs, compared to 14.2% among those in very good or excellent health. The average beneficiary age 85 or older spent more than twice as much on health care as the average beneficiary ages 65-69. The burden of out-of-pocket health
care spending was the greatest among those with incomes between 100% - 200% FPL. For instance, those with incomes between 100% - 150% FPL spent 26% on health care as a share of income.\textsuperscript{viii}

- **Beneficiary out-of-pocket costs are increasing.** The cost of Medicare Part B and D premiums and cost sharing as a share of the average Social Security benefit increased from 7\% in 1980 to 14\% in 2000 and up to 26\% in 2010.\textsuperscript{x}

- **Under Medicare, many health care needs are not covered.** Medicare coverage is not comprehensive and tends to be less generous than typical large employer plans. For instance, Medicare does not cover dental, vision and most long-term care services and supports. In 2011, for the average senior, Medicare covered $11,930 of the $14,890 in estimated annual health care spending—less than would be covered under the federal employee plan ($12,260) or the typical Preferred Provider Organization (PPO) comparison plan ($12,800) for an employee age 65 or older.\textsuperscript{x}

- **Families on Medicare pay more for health care than non-Medicare households.** On average, in 2012, Medicare households spent 14\% of total costs on health care; whereas, non-Medicare households spent just 5\%. In 2010, more than half of all Medicare beneficiaries spent more than 16.4\% of their income on health care costs.\textsuperscript{xii}

- **Increased cost sharing often leads to adverse health consequences and can increase total health care spending.** Some policymakers want to increase beneficiary cost-sharing in order to reduce perceived over-utilization of unnecessary medical services. Decades of empirical research confirms that increased cost sharing leads people to forgo medically necessary services. In 2008, 16\% of older Medicare beneficiaries and 46\% of non-elderly Medicare beneficiaries reported delaying care because of cost concerns.\textsuperscript{xiii} Higher cost sharing ultimately backfires, since sicker patients will require more costly and invasive care down the road.\textsuperscript{xiii}

- **Baby Boomers face increased financial uncertainty due to the economic downturn.** Today’s working adults need Medicare to remain affordable, particularly due to declining home values, diminished retirement accounts, and job loss caused by the recession. In 2030, estimates suggest half of all Medicare beneficiaries will live on annual incomes of $28,250 or less.\textsuperscript{xxviii} Moreover, from 1992 to 2007, the average overall debt for 55 to 64 year old households more than doubled to $70,370. Debt among older adults (age of 55+) continues to increase—63\% had some level of debt. In 2013, 8\% of Medicare beneficiaries had no savings or were in debt.\textsuperscript{xxv}

- **Medicare low-income protection programs are broken and must be modernized.** According to the most recent estimates, only 33\% of eligible beneficiaries were enrolled for Qualified Medicare Beneficiary (QMB) benefits and only 13\% were enrolled for Specified Low-Income Medicare Beneficiary (SLMB) benefits.\textsuperscript{xxiv} In addition, rigid, unreasonably low asset tests penalize beneficiaries by denying eligibility to those did the right thing during their working years by setting aside a modest nest egg of savings.

\textsuperscript{1} American Academy of Actuaries, “Letter to the Joint Select Committee on Deficit Reduction,” (August 2011)
\textsuperscript{3} Ibid.
\textsuperscript{4} Kaiser Family Foundation, “Visualizing Income and Assets Among Medicare Beneficiaries: Now and in the Future” (June 2014)
\textsuperscript{5} Cubanski, J. “An Overview of the Medicare Program and Medicare Beneficiaries’ Costs and Service Use,” (Kaiser Family Foundation: February 2013)
\textsuperscript{6} Noel-Miller, C. “Medicare Beneficiaries’ Out-of-Pocket Spending for Health Care,” (AARP Public Policy Institute, December 2013)
\textsuperscript{8} Noel-Miller, C. “Medicare Beneficiaries’ Out-of-Pocket Spending for Health Care.” (AARP Public Policy Institute, December 2013)
\textsuperscript{9} Cubanski, J. “An Overview of the Medicare Program and Medicare Beneficiaries’ Costs and Service Use” (Kaiser Family Foundation: February 2013)
\textsuperscript{x} Kaiser Family Foundation, “How Do the Benefit Value of Medicare Compare to the Benefit Value of Typical Large Employer Plans?” (April 2012)
\textsuperscript{11} Cubanski, J and P Neuman, “Medicare Doesn’t Work as Well for Younger, Disabled Beneficiaries as it Does for Older Enrollees,” *Health Affairs* (August 2010)
\textsuperscript{13} Kaiser Family Foundation, “Visualizing Income and Assets Among Medicare Beneficiaries: Now and in the Future” (June 2014)
\textsuperscript{15} MedPAC, “Report to the Congress. Medicare Payment Policy, Chapter 5” (March 2008)