

MEDICARE BENEFICIARY CHARACTERISTICS AND OUT-OF-POCKET COSTS

Containing Medicare costs is an important goal, both in terms of improving affordability for those who need care and ensuring long-term sustainability of the program. Some policy makers, however, believe that seniors do not have enough “skin in the game” and are proposing to shift more out-of-pocket costs onto beneficiaries – this approach would fail to address the underlying causes of cost growth. It does not take into account three key facts: (1) The vast majority of beneficiaries have low or modest incomes; (2) The Medicare benefit package is NOT overly generous; and (3) Medicare beneficiaries already pay significant out-of-pocket costs.

Some plans have proposed 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 bring down the nation’s deficit and reduce health care spending. With respect to Medicare, we support savings mechanisms that address system-wide health care inflation and build on the cost savings and efficiencies of the Affordable Care Act, not merely shifting even more costs on to the backs of Medicare beneficiaries. Even 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.”ⁱ

Medicare Beneficiary Characteristics

- **Most people with Medicare have low or modest incomes.** In 2010, half of all people with Medicare lived on incomes less than [\\$22,000](#) per year – just under 200% of the federal poverty level. And half of beneficiaries had just [\\$53,000](#) in personal savings.ⁱⁱ One third of Medicare beneficiaries have annual incomes below [\\$16,755](#) – 150% of the federal poverty level for a single person in 2011.ⁱⁱⁱ
- **Older women and people of color live on even less.** In 2011, median income for older women amounted to just [\\$15,072](#) per year. Further, women with Medicare are more likely to live in poverty than men with Medicare. Similarly, the incidence of poverty is higher among people of color. Older people of color are twice as likely to live in poverty – [18%](#) among African Americans and Hispanic households vs. [7%](#) among white households.^{iv}
- **Many beneficiaries are in poor health.** Nearly half ([45 percent](#)) of the Medicare population is living with three or more chronic conditions and an estimated [29 percent](#) have a cognitive or mental impairment.^v These individuals rely on Medicare to help afford essential treatment.

Medicare Beneficiary Out-of-Pocket Costs

- **Health care costs are a significant expense for Medicare beneficiaries.** In 2010, the average Medicare household spent [\\$4,500](#) per year on health care. Medicare premiums account for the most significant expense – [10%](#) of spending per household.^{vi} 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.^{vii} Almost half of Americans die with less than [\\$10,000](#) in financial assets.^{viii}
- **Beneficiary out-of-pocket costs are increasing.** Median out-of-pocket costs for Medicare beneficiaries as a share of income increased from about [12% in 1997](#) to an estimated [19% in 2011](#), and are projected to increase to [26% in 2020](#) under current law.^{ix}
- **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. Further, one study found that, for the average senior, Medicare covered [\\$11,930 of the \\$14,890](#) in estimated annual health care spending – less than would be covered under either the federal

employee plan (\$12,260) or the typical Preferred Provider Organization (PPO) comparison plan (\$12,800) for an employee who is 65 or older.^x

- **Families on Medicare pay more for health care than non-Medicare households.** On average, in 2010, Medicare households spent 15% of total costs on health care; whereas, non-Medicare households spent just 5%. Medicare and non-Medicare households spent similar shares on other basic needs, including housing, transportation, food and other necessities. This fact is attributable to lower average household budgets overall (\$30,800 vs. \$49,600 in 2010) and higher average health care spending among Medicare households than non-Medicare households (\$4,500 vs. \$2,450 in 2010).^{xi}
- **Increased cost sharing often leads to adverse health consequences and can increase total spending on health care.**^{xii} Some policymakers want to increase beneficiary cost-sharing in order to reduce perceived over-utilization of unnecessary medical services. Such efforts, however, will also lead people to forgo medically necessary services, such as not complying with prescribed drug use due to cost, or putting off care and prevention until expensive emergency services are needed. As a result, higher cost sharing backfires, since sicker patients will require more costly and invasive care down the road.^{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. Estimates suggest half of all Baby Boomers will live on incomes less than \$27,000 per year.^{xiv} Moreover, from 1992 to 2007, the average overall debt for 55 to 64 year old households more than doubled to \$70,370.^{xv}
- **Medicare low-income protection programs are broken and must be modernized.** According to the most recent estimates by CBO, 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.^{xvi} In addition, rigid, unreasonably low asset tests (not imposed on those under age 65 to receive low-income protections) penalize beneficiaries by denying eligibility to those did the right thing during their working years by setting aside a modest nest egg of savings.

ⁱ AAA Medicare Steering Committee letter to the Joint Select Committee on Deficit Reduction (August 2011) -

<http://www.actuary.org/pdf/health/Letter%20on%20Joint%20Select%20Cmte%20on%20Deficit%20Reduction%20083111.pdf>

ⁱⁱ "Projecting Income and Assets: What Might the Future Hold for the Next Generation of Medicare Beneficiaries?" (June 2011) – Kaiser Family Foundation

ⁱⁱⁱ "Medicare Savings Programs: Implementation of Requirements Aimed at Increasing Enrollment" (September 2012) – GAO-12-871

<http://www.gao.gov/assets/650/648370.pdf>

^{iv} "Key Issues in Understanding the Economic and Health Security of Current and Future Generations of Seniors" (March 2012) – Kaiser Family Foundation

^v Medicare at a Glance (November 2011) – Kaiser Family Foundation <http://www.kff.org/medicare/upload/1066-14.pdf>

^{vi} "Health Care on a Budget: The Financial Burden of Health Spending by Medicare Households" (March 2012) Kaiser Family Foundation

^{vii} Kelley AS, McGarry K, Fahle S, Marshall SM, Qingling D and Skinner JS (September 2012). Out-of-pocket spending in the last five years of life. *Journal of General Internal Medicine*. http://www.sgim.org/File%20Library/SGIM/Resource%20Library/Press%20Releases/JGIM/09-12HealthcareExpenditures_eng.pdf

^{viii} "Were they prepared for retirement? Financial status at advanced ages in the HRS and Ahead Cohorts" (February 2012) National Bureau of

Economic Research http://www.nber.org/papers/w17824.pdf?new_window=1

^{ix} "How Much "Skin in the Game" is Enough?: The Financial Burden of Health Care Spending for People on Medicare" (June 2011) – Kaiser Family Foundation

^x "How Does the Benefit Value of Medicare Compare to the Benefit Value of Typical Large Employer Plans?" (April 2012) – Kaiser Family Foundation

<http://www.kff.org/medicare/upload/7768-02.pdf>

^{xi} "Health Care on a Budget: The Financial Burden of Health Spending by Medicare Households" (March 2012) – Kaiser Family Foundation

^{xii} "Medicare Supplement Insurance First Dollar Coverage and Cost Shares Discussion Paper" (October 2011) - National Association of Insurance Commissioners, Senior Issues Task Force, Medigap PPACA Subgroup

^{xiii} Amal N. Trivedi, et. al. [Increased Ambulatory Care Copayments and Hospitalizations Among the Elderly](#), *New England Journal of Medicine*, January 2010;

Katherine Swartz, Cost-Sharing: Effects on Spending and Outcomes, Robert Wood Johnson Foundation Research Synthesis Report No. 20, December 2010

^{xiv} "Projecting Income and Assets: What Might the Future Hold for the Next Generation of Medicare Beneficiaries?" (June 2011) – Kaiser Family Foundation

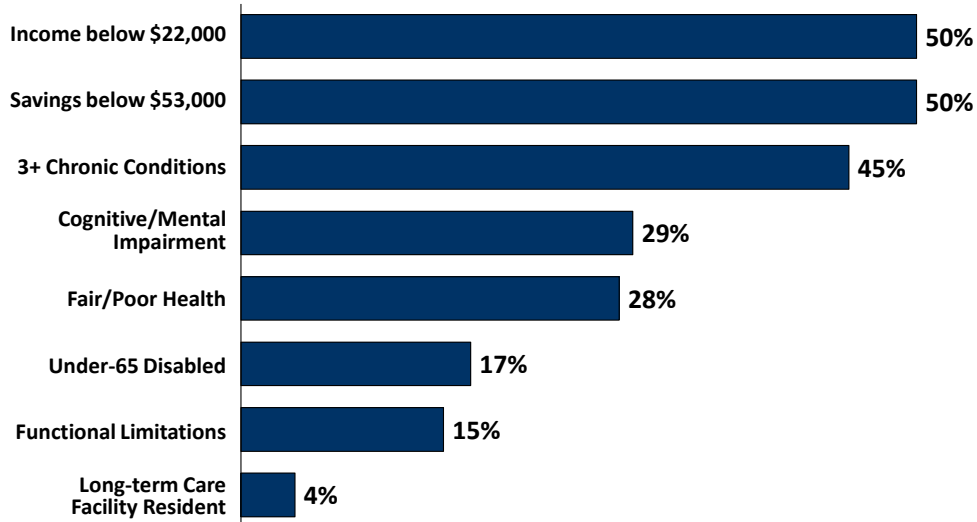
^{xv} "Debt of the Elderly and Near Elderly" (October 2009) – Employee Benefits Research Institute http://www.ebri.org/pdf/notespdf/EBRI_Notes_10-Oct09.DebtEldly.pdf

^{xvi} "Medicare Savings Programs: Implementation of Requirements Aimed at Increasing Enrollment" (September 2012) – GAO-12-871 <http://www.gao.gov/assets/650/648370.pdf>

Medicare Beneficiary Characteristics and Costs

EXHIBIT 1 Characteristics of the Medicare Population

Percent of total Medicare population:

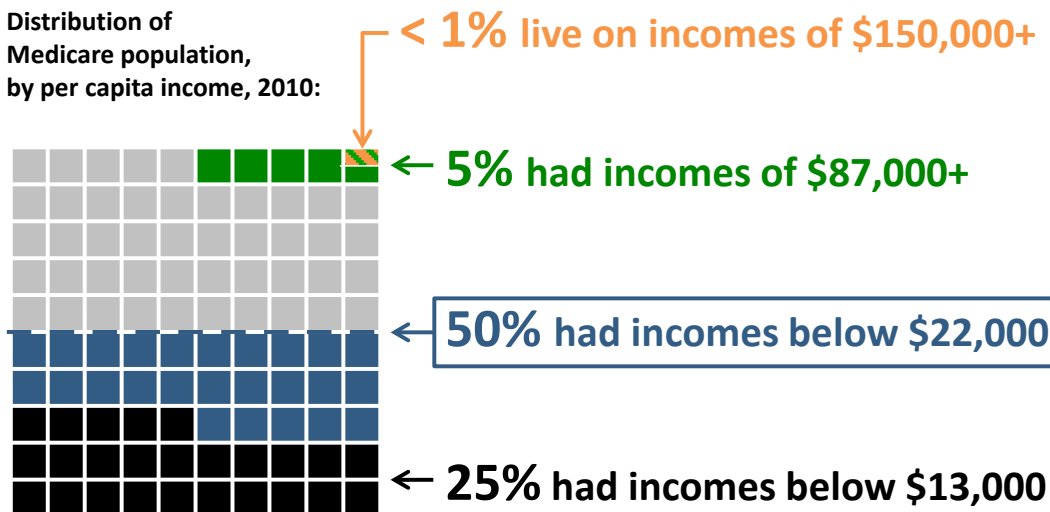


NOTE: *Total household income and savings for couples is split equally between husbands and wives to estimate income for married beneficiaries. Income includes IRA and 401k withdrawals. ADL is activity of daily living.
SOURCE: Income data for 2009 from U.S. Census Bureau, Current Population Survey, 2009 Annual Social and Economic Supplement. All other data from Kaiser Family Foundation analysis of the Centers for Medicare & Medicaid Services Medicare Current Beneficiary 2008 Access to Care file.



EXHIBIT 2 Relatively few Medicare beneficiaries have really high incomes Half live on incomes of less than \$22,000 (2010)

Distribution of Medicare population, by per capita income, 2010:

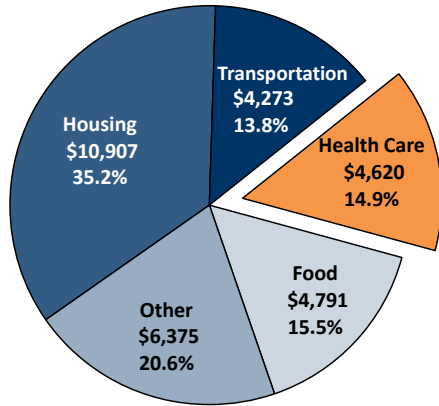


NOTE: Total household income for couples is split equally between husbands and wives to estimate income for married beneficiaries.
SOURCE: Kaiser Family Foundation, "Projecting Income and Assets: What Might the Future Hold for the Next Generation of Medicare Beneficiaries?" June 2011.



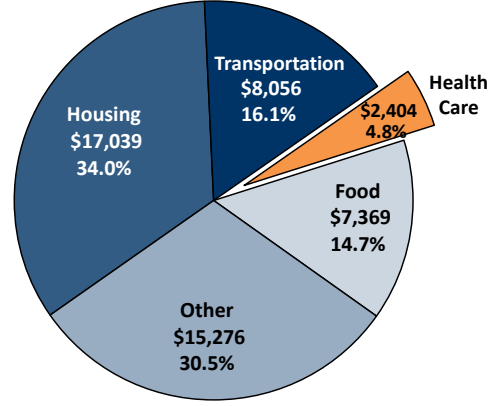
Medicare households spend significantly more than non-Medicare households on health care expenses

Medicare Household Spending



Average Household Spending = \$30,966

Non-Medicare Household Spending



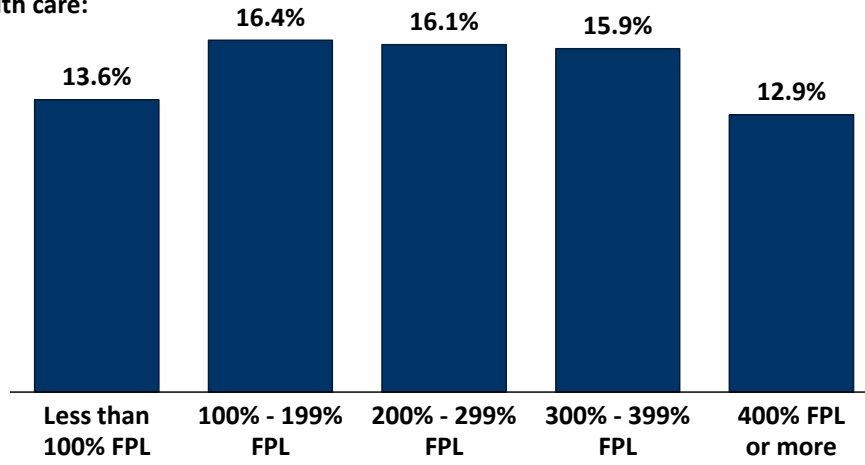
Average Household Spending = \$50,143

SOURCE: Kaiser Family Foundation analysis of the Bureau of Labor Statistics Consumer Expenditure Survey Interview and Expense Files, 2009.



Medicare households just above the poverty level spend a greater share of their household budgets on health care than the poorest and highest-income households

Share of household budget spent on health care:



Share of Medicare Households

17% 36% 20% 10% 17%

SOURCE: Kaiser Family Foundation analysis of the Bureau of Labor Statistics Consumer Expenditure Survey Interview and Expense Files, 2009.

