

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.”ⁱ

Medicare Beneficiary Characteristics

- **Most people with Medicare have low or modest incomes.** In 2014, half of all people with Medicare lived on incomes less than [\\$24,150](#) per year – just above 200% of the federal poverty level. And one quarter of Medicare beneficiaries had annual incomes at or below [\\$14,350](#).ⁱⁱ
- **Most Medicare beneficiaries lack sufficient savings.** In 2014, half of all Medicare beneficiaries had less than [\\$63,350](#) in lifetime savings, such as retirement account holdings and other financial assets. One in four Medicare beneficiaries had less than [\\$11,900](#) in savings.ⁱⁱⁱ
- **Women and people of color live on even less.** In 2014, among Medicare beneficiaries, median annual income for women amounted to [\\$22,500](#), compared to [\\$26,350](#) for men. In 2014, median annual incomes were also significantly lower for diverse communities—[\\$16,150](#) for black Medicare beneficiaries and [\\$12,800](#) for Hispanic beneficiaries. Median savings for white beneficiaries were more than eight to nine times the median savings for black beneficiaries ([\\$12,350](#)) and Hispanic beneficiaries ([\\$9,800](#)).^{iv}
- **Many beneficiaries are in poor health.** [45%](#) of the Medicare population is living with four or more chronic conditions, more than [30%](#) have a cognitive or mental impairment, and more than [one-third](#) have a functional impairment. About [15%](#) of Medicare beneficiaries have limitations with two or more activities of daily living, such as eating, bathing or dressing.^v

Medicare Beneficiary Out-of-Pocket Costs

- **Health care costs are a significant expense for Medicare beneficiaries.** In 2014, Medicare beneficiaries spent an average of [\\$5,342](#) on health care costs.^{vi} In 2010, more than 5 million people with Medicare (10%) spent more than [\\$8,030](#).^{vii} In the last 5 years of life, beneficiaries spend [\\$38,688](#) on average.^{viii} 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.^{ix}
- **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.^x

- **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.^{xi}
- **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, hearing services, 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.^{xii}
- **Families on Medicare pay more for health care than non-Medicare households.** On average, in 2014, Medicare households spent [15%](#) of total costs on health care; whereas, non-Medicare households spent just [5%](#).^{xiii} In 2010, more than half of all Medicare beneficiaries spent more than [16.4%](#) of their income on health care costs.^{xiv}
- **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 2012, [8%](#) of older Medicare beneficiaries and [28%](#) of non-elderly Medicare beneficiaries reported delaying care because of cost concerns.^{xv} Higher cost sharing ultimately backfires, since sicker patients will require more costly and invasive care down the road.^{xvi}
- **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 [\\$28,450 or less](#).^{xvii} 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 2014, 8% of Medicare beneficiaries had no savings or were in debt.^{xviii}
- **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.^{xix} In addition, rigid, unreasonably low asset tests penalize beneficiaries by denying eligibility to those who did the right thing during their working years by setting aside a modest nest egg of savings.

ⁱ American Academy of Actuaries, "[Letter to the Joint Select Committee on Deficit Reduction.](#)" (August 2011)

ⁱⁱ Jacobson, G., Swoope, C., and T. Neuman, "[Income and Assets of Medicare Beneficiaries, 2014 – 2030.](#)" (Kaiser Family Foundation, September 2015)

ⁱⁱⁱ Ibid.

Jacobson, G., Swoope, C., and T. Neuman, "[Income and Assets of Medicare Beneficiaries, 2014 – 2030.](#)" (Kaiser Family Foundation)

^v Cubanski, J. "[An Overview of the Medicare Program and Medicare Beneficiaries’ Costs and Service Use.](#)" (Kaiser Family Foundation: February 2013)

^{vi} "[The Latest Trends in Income, Assets, and Personal Health Care Spending Among People on Medicare](#)" (Kaiser Family Foundation: November 2015)

^{vii} Noel-Miller, C. "[Medicare Beneficiaries’ Out-of-Pocket Spending for Health Care.](#)" (AARP Public Policy Institute, December 2013)

^{viii} Cubanski, J., Swoope, C., Boccuti, C., Jacobson, G., Casillas, G., Griffin, S. and Tricia Neuman, "[A Primer on Medicare: Key Facts About the Medicare Program and the People it Covers.](#)" (Kaiser Family Foundation, March 2015)

^{ix} Kelley AS, et. al. "[Out-of-pocket spending in the last five years of life.](#)" *Journal of General Internal Medicine* (October 2012); National Bureau of Economic Research, "[Were they prepared for retirement? Financial status at advanced ages in the HRS and Ahead Cohorts.](#)" (February 2012)

^x Noel-Miller, C. "[Medicare Beneficiaries’ Out-of-Pocket Spending for Health Care.](#)" (AARP Public Policy Institute, December 2013)

^{xi} Cubanski, J. "[An Overview of the Medicare Program and Medicare Beneficiaries’ Costs and Service Use](#)" (Kaiser Family Foundation: February 2013)

^{xii} Kaiser Family Foundation, "[How Does the Benefit Value of Medicare Compare to the Benefit Value of Typical Large Employer Plans?](#)" (April 2012)

^{xiii} "[The Latest Trends in Income, Assets, and Personal Health Care Spending Among People on Medicare](#)" (Kaiser Family Foundation: November 2015)

^{xiv} Cubanski, J., Swoope, C., Damico, A., P. Neuman, "[Health Care on a Budget: The Financial Burden of Health Spending by Medicare Households.](#)" (Kaiser Family Foundation: January 2014); Noel-Miller, C. "[Medicare Beneficiaries’ Out-of-Pocket Spending for Health Care.](#)" (AARP Public Policy Institute, December 2013)

^{xv} Cubanski, J., Swoope, C., Boccuti, C., Jacobson, G., Casillas, G., Griffin, S. and Tricia Neuman, "[A Primer on Medicare: Key Facts About the Medicare Program and the People it Covers.](#)" (Kaiser Family Foundation, March 2015)

^{xvi} National Association of Insurance Commissioners, Senior Issues Task Force, Medigap PPACA Subgroup, "[Medicare Supplement Insurance First Dollar Coverage and Cost Shares Discussion Paper.](#)" (October 2011); Amal N. Trivedi, et. al. "[Increased Ambulatory Care Copayments and Hospitalizations Among the Elderly](#)" *New*

England Journal of Medicine (January 2010); Swartz, K. "[Cost-Sharing: Effects on Spending and Outcomes](#)" Robert Wood Johnson Foundation Research Synthesis Report No. 20 (December 2010)

^{xvii} Jacobson, G., Swoope, C., and T. Neuman, "[Income and Assets of Medicare Beneficiaries, 2014 – 2030.](#)" (Kaiser Family Foundation, September 2015)

^{xviii} Ibid.; Employee Benefits Research Institute, "[Debt of the Elderly and Near Elderly](#)" (February 2013)

^{xix} Government Accountability Office, "[Medicare Savings Programs: Implementation of Requirements Aimed at Increasing Enrollment.](#)" (September 2012)