

Health Care Spending by Medicare Households: Part D
Prescription Drug Coverage and Beyond
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Established in 1965, Medicare provides health care coverage to those 65 and older and to those under 65 with permanent disabilities. In 2009, Medicare covered 46.3 million people: 38.7 million 65 and older and 7.6 million disabled under 65. About 24 percent of Medicare beneficiaries were enrolled in Part C (Medicare Advantage) private health plans that contract with Medicare to provide health care coverage. Because of the large number of people born between 1946 and 1964, commonly referred to as the Baby Boom generation, Medicare enrollment is expected to increase to 63.5 million in 2020 and 80.4 million in 2030. As the average age of Medicare beneficiaries increases, they will use more health care services resulting in greater out-of-pocket costs and Medicare program expenses.²

When first established, Medicare covered hospital and physician charges but excluded prescription drugs. This coverage gap later became a problem for Medicare beneficiaries because of the development of prescription-drug treatments for medical conditions common to the Medicare population. The Medicare Modernization Act of 2003, which established Medicare Part D, was enacted to close this coverage gap. Since January 2006, Part D has provided subsidized access to prescription drug insurance coverage on a voluntary basis with premium and cost-sharing subsidies for low-income enrollees.³

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² Medicare Advantage plans provide Part A (Hospital Insurance) and Part B (Supplementary Medical Insurance) benefits found in the traditional fee-for-service Medicare Program as well as other benefits such as prescription drug, vision, and hearing. For more information, see "2010 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and the Federal Supplementary Medical Insurance Trust Fund," August 5, 2010, Centers for Medicare and Medicaid Services, Baltimore, MD, <http://www.cms.gov/ReportsTrustFunds/downloads/tr2010.pdf>. Visited February 23, 2011.

³ A temporary plan, begun in mid-2004 and phased out in 2006, also provided access to prescription drug discount cards (on a voluntary basis and at a limited cost) to all Medicare enrollees (except those

For beneficiaries who had been without coverage, Part D was a way to get help with prescription drug costs. For other beneficiaries, Part D replaced the coverage they had under Medicare Advantage plans or Medicaid. Beneficiaries with drug coverage from an alternate source, such as employer or the Department of Veterans Affairs, could keep this coverage if it was "creditable," meaning at least as generous as the standard Part D coverage.⁴

Existing research provides mixed findings about whether Medicare beneficiaries' out-of-pocket health care expenses have decreased since Part D became effective. Because many of these studies focus on individual beneficiaries, they do not provide a picture of how such changes have affected household budgets.⁵

This research uses Consumer Expenditure Survey (CE) data to examine out-of-pocket health spending by Medicare households before and after the implementation of Medicare Part D. Change in total health care spending in dollars and as a share of total annual expenditures is examined as well as change in the distribution of health care spending by health care commodities and services. The extent to which closing this Medicare coverage gap has increased the financial security of the elderly and disabled has implications for current and future beneficiaries.

entitled to Medicaid drug coverage). For more information, see Barbara S. Klees, Christian J. Wolfe, and Catherine A. Curtis, "Medicare and Medicaid Statistical Supplement," 2010 Edition, Centers for Medicare and Medicaid Services, Baltimore, MD, <http://www.cms.gov/MedicareMedicaidStatSupp/>. Visited February 23, 2011.

⁴ For more information see "The Medicare Prescription Drug Benefit" (Fact Sheet), Washington DC: Kaiser Family Foundation, June 2006, <http://www.kff.org/medicare/upload/7044-04.pdf> Visited February 23, 2011.

⁵ For more information, see Patricia Neuman and Juliette Cubanski, "Medicare Part D Update --- Lessons Learned and Unfinished Business," *The New England Journal of Medicine*, Volume 361, Number 4, July 23, 2009; Sebastian Schneeweis, Amanda R. Patrick, Alex Pedan, Laleh Varasteh, Raisa Levin, and William Shrank, "The Effect of Medicare Part D Coverage on Drug Use and Cost Sharing Among Seniors without Prior Drug Benefits," *Health Affairs*, February 2009, pp. w305-w316, and Frank R. Lichtenberg and Shawn X. Sun, "The Impact of Medicare Part D on Prescription Drug Use by the Elderly," *Health Affairs*, Volume 26, Number 6, November/December 2007, pp. 1735-1744.

Data Source and Methodology

Conducted continuously since 1980, the CE has two components, a quarterly Interview Survey and a weekly Diary Survey, each with its own questionnaire and sample. The CE is designed to be representative of the U.S. civilian noninstitutionalized population. This research will use data from the Interview Survey only.⁶

This analysis uses CE data from the 2005 through 2009 Interview Surveys. The sample is composed of consumer units (CUs) in which all members are on Medicare. To facilitate comparison, CUs with some members on Medicare and other members not on Medicare were excluded. The expenses examined are total health care and its components: health insurance, medical services, prescription drugs, and medical supplies. Nonprescription drugs, nonprescription vitamins, topicals and dressings, and medical equipment repair are not included because these expenses are collected from Diary Survey respondents only.⁷

Findings

In 2009, there were 19.8 million Medicare households compared with 17.6 million in 2005. Households with a reference person under 65 made up 11.7 percent of the sample compared with 40.1 percent for households with a reference person age 65-74 and 48.3 percent for households

⁶ A more detailed description of the Consumer Expenditure Surveys may be found in *BLS Handbook of Methods*, Chapter 16, "Consumer Expenditures and Income" (Updated 04/2007), <http://www.bls.gov/opub/hom/pdf/homch16.pdf>. Visited February 23, 2011.

⁷ A consumer unit is defined as (1) all members of a particular household who are related by blood, marriage, adoption, or other legal arrangement, such as foster children; (2) a financially independent person living alone, sharing a housing unit with others, or living as a roomer in a private home, lodging house or permanently in a hotel or motel; or (3) two or more persons living together who pool their incomes to make joint expenditures. For more information, see *BLS Handbook of Methods*, Chapter 16.

While consumer unit is the proper technical term for the purposes of the Consumer Expenditure Surveys, it is often used interchangeably with household for convenience. Because household is more familiar to most people, it will be used instead of consumer unit.

with a reference person 75 years and older. In 2005, these proportions were 11.8 percent, 39.0 percent, and 48.3 percent, respectively.

In all years, average household size was lowest (1.3 persons) for the under 65 group and highest (1.5 persons) for the 65-74 age group; households with a reference person 75 and older averaged 1.4 persons during the period. For all Medicare households, average annual expenditures were \$30,194 in 2009 compared with \$26,870 in 2005, with similar patterns among the three age groups. In all years, average annual expenditures were lowest for the under 65 group and highest for the 65-74 age group. For example, in 2009, average annual expenditures for Medicare households with a reference person under 65 were \$22,346 compared with \$35,165 for households with a reference person 65-74 and \$27,965 for households with a reference person 75 and older. (See table 1.)

Health care expenditures also increased from \$3,823 in 2005 to \$4,592 in 2009 for all Medicare households, with similar patterns among the three subgroups. During the period, health care expenditures were lowest for the under 65 group and highest for the 65-74 age group. In 2009, for example, health care expenditures were \$2,614 for households with a reference person under 65 compared with \$4,875 for households with a reference person 65-74 and \$4,835 for households with a reference person 75 and older.

During the period, the budget share accounted for by health care varied. Health care ranged from a low of 13.9 percent in 2007 to a high of 15.2 percent in 2009 for all Medicare households. For the under 65 group, health care's share of the total budget steadily increased from 9.8 percent in 2005 to 11.7 percent in 2009. The relatively smaller budget share and absolute dollar amount accounted for by health care among this group is probably due to the higher rates of Medicaid coverage among younger people with disabilities on Medicare compared with the rest of the Medicare population. Medicaid pays premium and cost-sharing requirements for low-income beneficiaries covered by both Medicare and Medicaid and provides certain benefits not covered by Medicare.⁸

⁸ In 2009, for example, 32 percent of the under 65 group had at least one household member on Medicaid compared with 9.7 percent of the 65-74 years group and 8.4 percent of the 75 and older group.

For the 65-74 age group, health care accounted for 13.9 percent of total annual expenditures in 2009 compared with 12.8 percent in 2005. For the 75 and older group, health care's budget share showed the most variation, ranging from a high of 16.6 percent in 2005 to a low of 14.8 percent in 2007 and then reaching 17.3 percent in 2009.

Health care component shares accounted for by health insurance and prescription drugs changed between 2005 and 2009. For all Medicare households, the proportion of out-of-pocket health care spending represented by prescription drugs declined from 20.8 percent to 14.4 percent in 2009, while health insurance premiums went from 58.2 percent of out-of-pocket health care spending in 2005 to 66.5 percent in 2008, ending at 66.1 percent in 2009. (See chart 1.)

Among the under 65 group, the proportion of the health care budget accounted for by prescription drugs followed no consistent pattern. The share accounted for by health insurance was 65.8 percent in 2009, but varied widely in previous years. One reason may be the greater proportion of households in this group who have members on Medicaid. While Medicaid provides assistance with Medicare premiums and other services, the extent of the assistance varies by state and by income level. The patterns uncovered could reflect the geographic location and income levels of the sample households.

For the age 65-74 group, the proportion of the health care budget represented by prescription drugs declined from 21.1 percent in 2005 to 13.9 percent in 2009, and the share accounted for by health insurance increased from 59.9 percent in 2005 to 66.9 percent in 2009. For the 75 and older group, prescription drug spending decreased from 20.5 percent in 2005 to 14.1 percent in both 2008 and 2009, while health insurance spending increased from 57.4 percent of the health care budget in 2005 to 66.9 percent in 2008, ending at 65.5 percent in 2009.

The proportion of the health care budget represented by medical services and by medical supplies showed no consistent pattern.

Part D Coverage Data from the Centers for Medicare and Medicaid Services indicate that in 2009, slightly over 72 percent of Medicare enrollees were in Part D plans. This included about 38 percent of enrollees in stand-alone

prescription drug plans (PDPs), about 20 percent in Medicare Advantage prescription drug (MA-PD) plans, and about 15 percent with retiree drug subsidy (RDS) coverage. Around 10 percent had no drug coverage and the remainder had other drug coverage.⁹

Since the second quarter of 2006, the Consumer Expenditure Interview Survey has asked respondents whether they or any other household members are enrolled in a Medicare Part D Prescription Drug plan as well as the monthly premium payment for this coverage. It should be noted that this question only elicits information about PDPs. This is because the cost for prescription drug coverage is included in the overall premiums paid by Medicare Advantage enrollees and Medicare beneficiaries with retiree drug subsidy coverage. All respondents, however, provide information about out-of-pocket spending for prescription drugs.

The percentage of Medicare households reporting one or more members with Medicare Part D coverage jumped from 12 percent in 2006 to 37.4 percent in 2009; similar patterns were found for the three subgroups. Among households with Part D coverage, the average premium amount paid went from \$356 in 2006 to \$636 in 2009. Part D premiums, with one

⁹ The retiree drug subsidy (RDS) is an option where Medicare subsidizes a portion of the drug expenses of qualifying employer-sponsored retiree health plans. Other drug coverage includes Department of Veterans Affairs coverage, retiree plans without retiree drug subsidies, employer plans for active workers and coverage for federal workers and members of the military. In 2006, 69 percent of Medicare enrollees were in Part D plans. This included 38 percent of enrollees in standalone prescription drug plans (PDPs), 15 percent in Medicare Advantage prescription drug (MA-PD) plans, and 16 percent with retiree drug subsidy (RDS) coverage. Ten percent of enrollees had no prescription drug coverage and the remainder had other drug coverage.

For more information see, "2010 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and the Federal Supplementary Medical Insurance Trust Fund;" "2007 Medicare and Medicaid Statistical Supplement" Baltimore, MD, Centers for Medicare and Medicaid Services, http://www.cms.gov/MedicareMedicaidStatSupp/12_2007.asp#TopOfPage Visited February 23, 2011; "2010 Medicare and Medicaid Statistical Supplement" Baltimore, MD, Centers for Medicare and Medicaid Services, http://www.cms.gov/MedicareMedicaidStatSupp/09_2010.asp#TopOfPage Visited February 23, 2011; "Prescription Drug Coverage among Medicare Beneficiaries," (Data Update), Washington, DC, Kaiser Family Foundation, June 2006 <http://www.kff.org/medicare/upload/7453.pdf?wwparam=1298907478> Visited February 23, 2011.

exception, steadily increased over the period for all groups. (See chart 2.) Existing research has shown that between 2006 and 2009, the weighted average individual premium for stand-alone PDPs increased 35 percent from \$25.93 to \$35.09 per month. Between 2006 and 2009 standard benefit measures - deductible, individual coverage limit, and catastrophic limit) have increased by around 20 percent.¹⁰

Conclusions

Data from the Consumer Expenditure Survey indicate that among Medicare households, the proportion of total annual expenditures represented by health care was higher after implementation of the Medicare Part D prescription drug program. When broken down by age of the reference person, a different pattern emerges. For the under 65 group, the proportion of total annual expenditures represented by health care increased from 2005 to 2009. While the proportion represented by health care was higher in 2009 than in 2005 for the 65-74 age group and the 75 and older group, the proportions varied in the intervening years.

Between 2006 and 2009, the proportion of Medicare households with at least one member covered under Part D increased from 12 percent to 37.4 percent. Among all households with coverage, Part D premiums steadily increased over the period. While findings indicate that overall health care expenses have not decreased, additional analysis is needed to determine whether group averages masked differences between households with and households without Part D coverage.

The Affordable Care Act of 2010 includes two provisions to achieve Medicare Program cost savings by increasing premiums for higher income beneficiaries. The first provision will increase the number of beneficiaries subject to the income-related premium under Medicare Part B (Supplementary Medical Insurance) by eliminating the index on income thresholds established under prior law. The second provision imposes a new income-related premium on beneficiaries enrolled in Medicare Part D. Existing research indicates that the share of Medicare beneficiaries required to pay the income related Part B premium will

¹⁰ For more information, see Patricia Neuman and Juliette Cubanski, "Medicare Part D Update --- Lessons Learned and Unfinished Business."

increase from 5 percent in 2011 to 14 percent in 2019; for enrollees in Medicare Part D, these figures are 3 percent and 9 percent respectively. Additional research will be done to determine how these changes affect future health care spending by Medicare households.¹¹

¹¹ For more information, see "Income-Relating Medicare Part B and Part D Premiums: How Many Medicare Beneficiaries Will Be Affected?" (Issue Brief) Washington, DC: Kaiser Family Foundation, December 2010. <http://www.kff.org/medicare/8126.cfm> Visited February 23, 2011.

Table 1. Health care expenditures and shares of health care expenditures for Medicare households, by age of reference person,
Consumer Expenditure Interview Survey, 2005-2009

Item	All Medicare households					Under 65				
Year	2005	2006	2007	2008	2009	2005	2006	2007	2008	2009
Number of households (in millions)	17.6	15.7	17.1	19.6	19.8	2.1	2.0	1.9	2.2	2.3
Total expenditures	\$26,870	\$28,196	\$29,899	\$30,316	\$30,194	\$19,018	\$22,472	\$22,357	\$22,494	\$22,346
Total health care	3,823	4,074	4,144	4,260	4,592	1,864	2,333	2,313	2,466	2,614
Share of total expenditures (%)	14.2	14.5	13.9	14.1	15.2	9.8	10.4	10.3	11.0	11.7
Health insurance	\$2,226	\$2,538	\$2,739	\$2,832	\$3,035	\$1,054	\$1,279	\$1,503	\$1,587	\$1,719
Medical services	691	647	642	681	772	359	443	377	389	334
Prescription drugs	794	740	648	628	661	397	534	410	455	518
Medical supplies	112	149	115	119	123	53	77	22	34	42
Shares of total health care (%)										
Health insurance	58.2	62.3	66.1	66.5	66.1	56.6	54.8	65.0	64.4	65.8
Medical services	18.1	15.9	15.5	16.0	16.8	19.3	19.0	16.3	15.8	12.8
Prescription drugs	20.8	18.2	15.6	14.7	14.4	21.3	22.9	17.7	18.5	19.8
Medical supplies	2.9	3.7	2.8	2.8	2.7	2.9	3.3	1.0	1.4	1.6
Item	65-74 years					75 and older				
Year	2005	2006	2007	2008	2009	2005	2006	2007	2008	2009
Number of households (in millions)	7.0	6.1	6.7	7.7	7.9	8.5	7.6	8.5	9.6	9.6
Total expenditures	\$31,802	\$31,433	\$33,582	\$34,621	\$35,165	\$24,728	\$27,065	\$28,722	\$28,644	\$27,965
Total health care	4,060	4,426	4,538	4,711	4,875	4,108	4,240	4,254	4,308	4,835
Share of total expenditures (%)	12.8	14.1	13.5	13.6	13.9	16.6	15.7	14.8	15.0	17.3
Health insurance	\$2,413	\$2,804	\$2,973	\$3,121	\$3,261	\$2,360	\$2,648	\$2,839	\$2,884	\$3,165
Medical services	676	712	678	752	793	783	647	675	691	861
Prescription drugs	856	748	734	700	678	840	787	636	609	682
Medical supplies	115	161	154	137	143	125	158	105	123	126
Shares of total health care (%)										
Health insurance	59.4	63.3	65.5	66.3	66.9	57.4	62.5	66.7	66.9	65.5
Medical services	16.7	16.1	14.9	16.0	16.3	19.1	15.3	15.9	16.0	17.8
Prescription drugs	21.1	16.9	16.2	14.9	13.9	20.5	18.6	14.9	14.1	14.1
Medical supplies	2.8	3.6	3.4	2.9	2.9	3.0	3.7	2.5	2.9	2.6

Chart 1. Average health insurance and prescription drug shares of total health care spending by Medicare households, Consumer Expenditure Interview Survey, 2005-2009

Percent

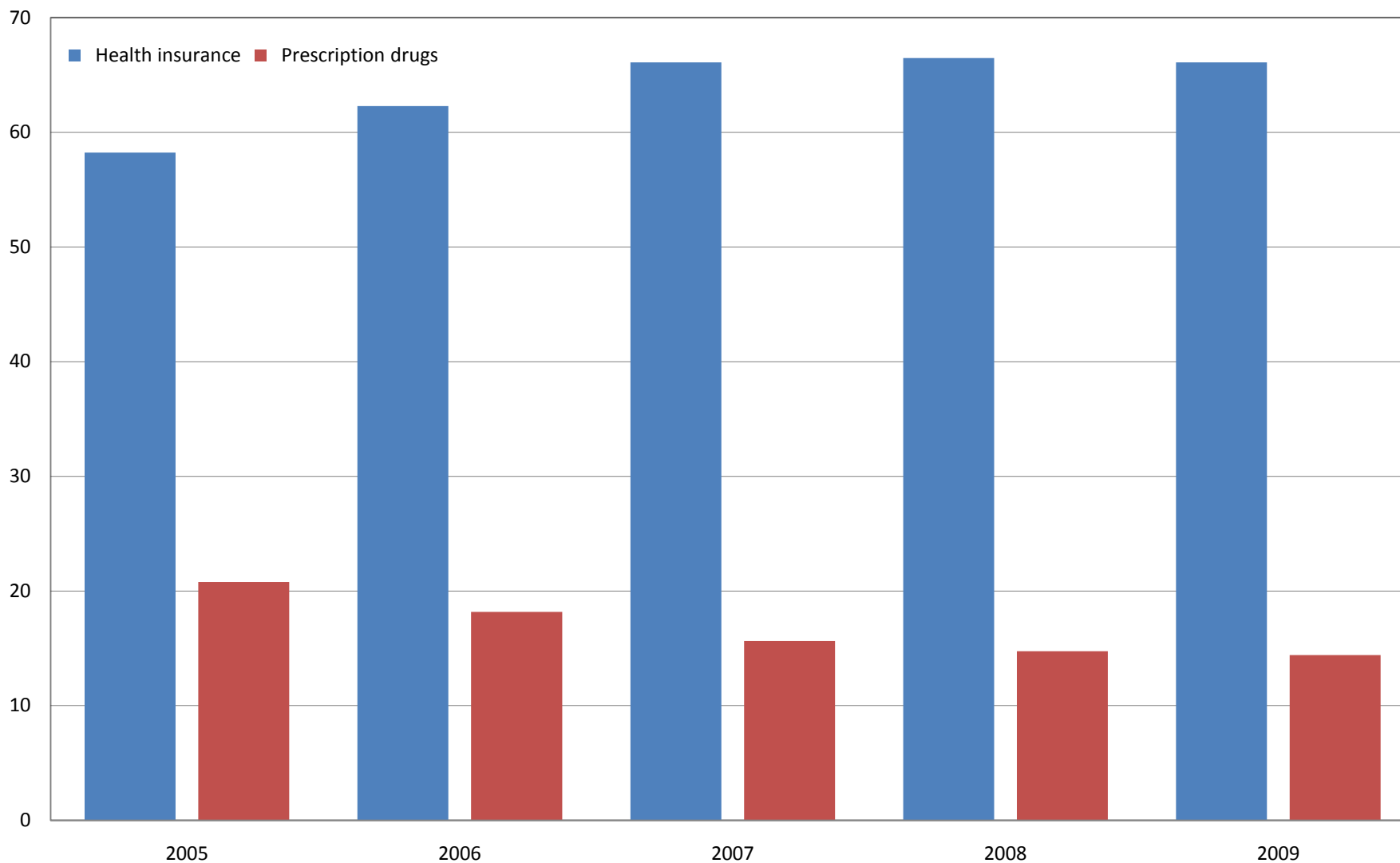


Chart 2. Average Medicare Part D premium spending by Medicare households with at least one member enrolled in Part D, in nominal dollars, by age of reference person, Consumer Expenditure Interview Survey, 2006-2009

