



# Focus on Prices and Spending



## Consumer Expenditure Survey: 2008

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### Current Spending Topics

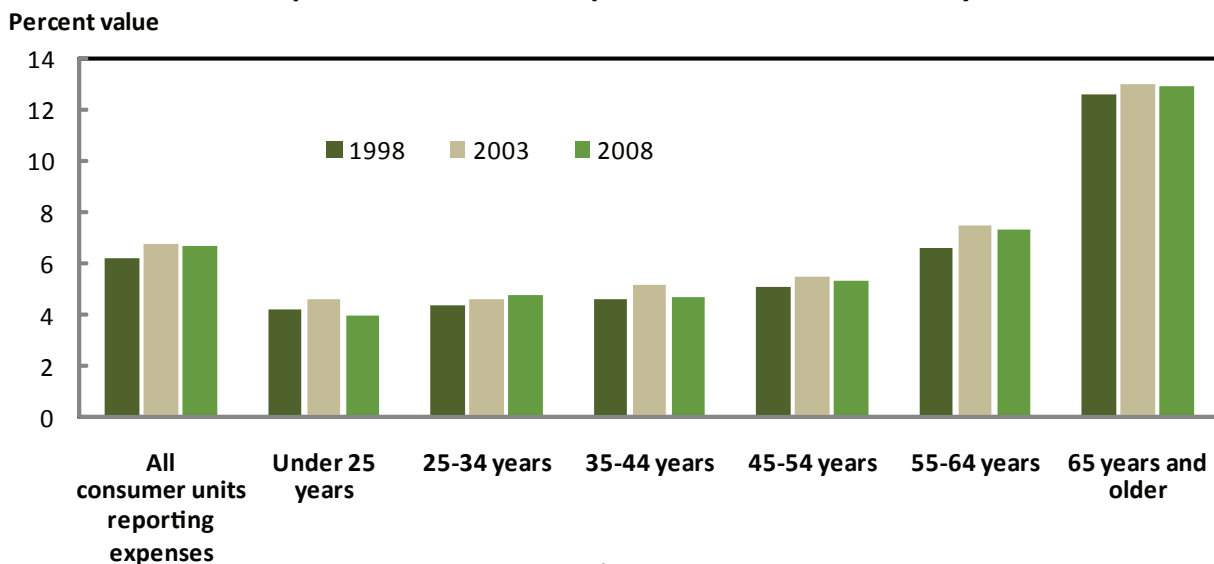
### Health Care Spending: 1998, 2003, and 2008

How have rising health care costs affected household budgets? That question was raised many times before the passage of the Affordable Care Act, whose goal—as the act’s name implies—is to make health care more affordable for American families.<sup>1</sup> This analysis of Consumer Expenditure Survey (CE) data from the 1998, 2003, and 2008 Interview Surveys provides a picture of nominal out-of-pocket health care spending among households categorized by the age of the reference person.<sup>2</sup> The expenses analyzed were total health care and its components: health insur-

ance, medical services, prescription drugs, and medical supplies. Among the findings are the following:

- Among households nationwide with medical expenses, the mean share of a household’s total budget spent on health care was higher in 2003 than in 1998 and was virtually unchanged in 2008 compared with 2003.
- Households’ spending changed over the decade. In 2008, the mean share of medical expenses that was spent on health insurance was higher than in 1998, and the share spent on medical services was lower.
- Households whose reference person was 65 or older spent about twice as much of their budget on health care compared with the national average in all years studied.

**Chart 1. Average health care spending shares of total annual expenditures by age of reference person, Consumer Expenditure Interview Survey, 1998, 2003, 2008**



SOURCE: U.S. Bureau of Labor Statistics

For each year examined, the sample used for the study consisted of consumer units<sup>3</sup> who reported positive health care spending (net of any reimbursements) during an interview. This was done in order to focus solely on households with medical expenditures. Expenditure and income estimates presented for the collection year are annual estimates.

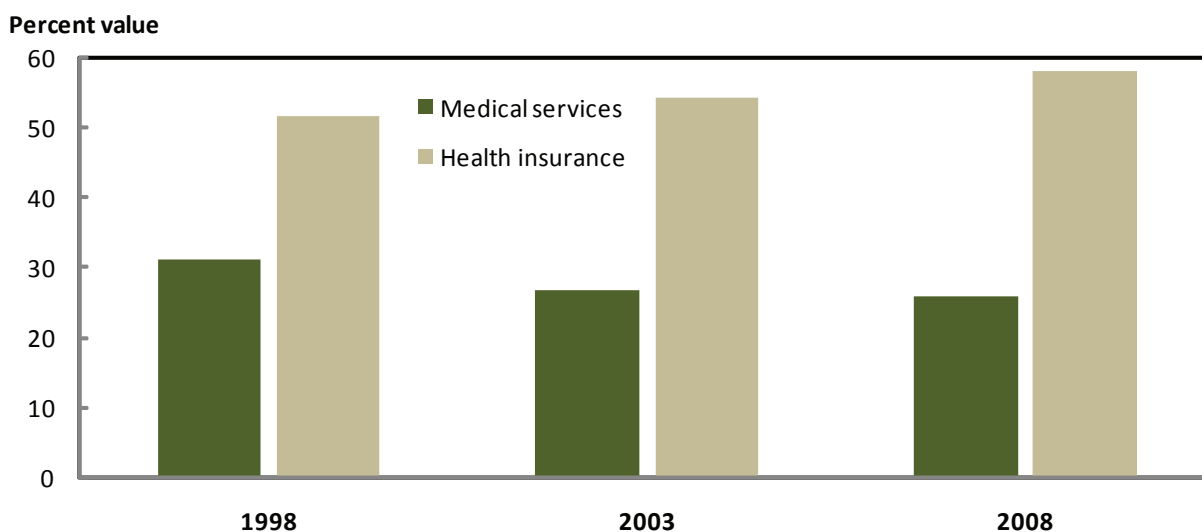
**Findings<sup>4</sup>**

For the sample as a whole, the proportion, or share, of total annual expenditures accounted for by health care went from 6.2 percent in 1998 to 6.8 percent in 2003 and was about the same (6.7 percent) in 2008. Chart 1 shows that these averages differed among age groups. For example, among households with a reference person age 25–34, health care accounted for 4.4 per-

cent of annual expenditures in 1998, 4.6 percent in 2003, and 4.8 percent in 2008. For households with a reference person 65 or older, the share for health care was about twice as high as the national average for all households, and it went from 12.6 percent of annual expenditures in 1998 to 13.0 percent in 2003 but was about the same (12.9 percent) in 2008.

The nature of households’ health care budgets changed between 1998 and 2008. The share accounted for by health insurance premiums increased while the shares accounted for by medical services and by medical supplies decreased. The share accounted for by prescription drugs increased between 1998 and 2003 but was lower in 2008 than in 2003. (See chart 2 and table 1.)

**Chart 2. Average health insurance and medical services shares of total health care spending, Consumer Expenditure Interview Survey, 1998, 2003, 2008**



SOURCE: U.S. Bureau of Labor Statistics

These changes differed among age groups. For the survey sample as a whole, health insurance premiums went from less than 52 percent of health care outlays in 1998 to nearly 58 percent in 2008. Among households whose reference person was under 25, however, health insurance premiums were 59.1 percent of health care spending in 2008, compared with 47.9 percent in 1998. For households whose reference person was 65

or older, the proportion of the health care budget consisting of health insurance premiums was similar in 1998 and 2003 (56.0 percent and 55.8 percent respectively), but was higher (63.5 percent) in 2008.

For the sample as a whole, medical services accounted for 31.1 percent of health care outlays in 1998 compared with 25.9 percent in 2008. The greatest declines in the share

**Table 1.** Health care expenditures and shares of health care expenditures, by age of reference person, Consumer Expenditure Interview Survey, 1998, 2003, and 2008

Item	All consumer units			Under 25			25-34			35-44		
	1998	2003	2008	1998	2003	2008	1998	2003	2008	1998	2003	2008
Income before taxes	\$44,576	\$54,949	\$69,465	\$22,118	\$28,026	\$39,415	\$46,559	\$56,182	\$68,333	\$55,180	\$66,621	\$86,709
Average annual expenditures	\$35,592	\$42,435	\$53,785	\$22,210	\$27,966	\$36,467	\$36,942	\$42,664	\$53,167	\$42,689	\$50,160	\$64,195
Total health care	\$2,204	\$2,882	\$3,591	\$922	\$1,283	\$1,449	\$1,613	\$1,953	\$2,533	\$1,975	\$2,589	\$3,022
Share of average annual expenditures (in percent)	6.2	6.8	6.7	4.2	4.6	4.0	4.4	4.6	4.8	4.6	5.2	4.7
Health insurance	\$1,134	\$1,563	\$2,080	\$442	\$666	\$856	\$840	\$1,151	\$1,498	\$1,012	\$1,436	\$1,730
Medical services	685	766	931	330	426	392	585	571	745	705	801	881
Prescription drugs	289	458	468	102	143	158	127	176	217	166	270	324
Medical supplies	96	95	113	48	48	43	62	54	73	91	82	87
Shares of total health care (in percent)												
Health insurance	51.5	54.2	57.9	47.9	51.9	59.1	52.0	59.0	59.1	51.3	55.5	57.2
Medical services	31.1	26.6	25.9	35.8	33.2	27.0	36.3	29.2	29.4	35.7	30.9	29.2
Prescription drugs	13.1	15.9	13.0	11.0	11.1	10.9	7.8	9.0	8.6	8.4	10.4	10.7
Medical supplies	4.3	3.3	3.1	5.2	3.7	2.9	3.8	2.8	2.9	4.6	3.2	2.9

**Table 1. Continued**—Health care expenditures and shares of health care expenditures, by age of reference person, Consumer Expenditure Interview Survey, 1998, 2003, and 2008

Item	45-54			55-64			65 and older		
	1998	2003	2008	1998	2003	2008	1998	2003	2008
Income before taxes	\$62,178	\$72,653	\$88,961	\$45,288	\$60,415	\$75,422	\$24,095	\$30,420	\$39,683
Average annual expenditures	\$45,492	\$52,952	\$64,746	\$36,578	\$44,844	\$57,654	\$22,363	\$27,848	\$36,178
Total health care	\$2,323	\$2,900	\$3,442	\$2,411	\$3,382	\$4,204	\$2,812	\$3,624	\$4,658
Share of average annual expenditures (in percent)	5.1	5.5	5.3	6.6	7.5	7.3	12.6	13.0	12.9
Health insurance	\$1,088	\$1,443	\$1,837	\$1,164	\$1,798	\$2,268	\$1,574	\$2,020	\$2,956
Medical services	879	912	1,056	787	898	1,175	587	707	866
Prescription drugs	241	426	419	361	577	632	537	788	697
Medical supplies	114	120	130	98	109	129	114	108	140
Shares of total health care (in percent)									
Health insurance	46.8	49.7	53.4	48.3	53.2	54.0	56.0	55.8	63.5
Medical services	37.8	31.4	30.7	32.6	26.6	27.9	20.9	19.5	18.6
Prescription drugs	10.4	14.7	12.2	15.0	17.1	15.0	19.1	21.7	15.0
Medical supplies	4.9	4.1	3.8	4.1	3.2	3.1	4.1	3.0	3.0


of health care expenses accounted for by medical services were for groups made up of households with a reference person under age 55. One reason for that may be increased enrollment in managed care plans such as HMOs (health maintenance organizations) and PPOs (preferred provider organizations), which tend to have lower out-of-pocket costs than the more traditional fee-for-service

plans. Additional analysis of households with private (non-Medicare) health insurance policies shows that, in 1998, 79.4 percent of households whose reference person was under age 55 reported belonging to a managed care plan, compared with 20.6 percent in fee-for-service plans; in 2008, these proportions were 86.5 percent and 13.5 percent, respectively.

Prescription drug spending went from 13.1 percent of health care outlays in 1998 to 15.9 percent in 2003, with all age groups experiencing increases. Between 2003 and 2008, overall prescription drug spending decreased to 13.0 percent of health care outlays, with all groups, except the group with a reference person age 35–44, experiencing declines. The greatest decline was for the 65-and-older group; a likely reason for this finding is the introduction of Medicare Part D, the prescription drug benefit program, in 2006.

## Conclusions

For those households with net positive health care spending, the proportion of annual spending accounted for by health care

was higher in 2003 than in 1998, and it was about the same in 2008 compared with 2003. Whether spending will remain fairly stable during the next few years is especially uncertain because of the recession that began in December 2007. If poor economic conditions suppressed health care spending in 2008, then increased health care outlays relative to total consumption expenses could appear in the future as the economy recovers.<sup>5</sup> Adding to the uncertainty is the question of how the Affordable Care Act passed in 2010 will affect health care costs for American families. 

Questions? Please contact the Consumer Expenditure Survey program at [cexinfo@bls.gov](mailto:cexinfo@bls.gov) or (202) 691-6900.

## Notes

<sup>1</sup> For more information, see *Health Reform for American Families* (The White House), on the Internet at [http://www.whitehouse.gov/files/documents/health\\_reform\\_for\\_american\\_families.pdf](http://www.whitehouse.gov/files/documents/health_reform_for_american_families.pdf) (visited July 6, 2010).

<sup>2</sup> The reference person is the first household member mentioned by the respondent when he or she is asked to “start with the name of the person or one of the persons who owns or rents the home.”

<sup>3</sup> 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 one that involves foster children; (2) a financially independent person living alone, sharing a housing unit with others, or living as a roomer in a private home, in a 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 “Consumer Expenditures and Income,” *BLS Handbook of Methods*, Chapter 16 (Updated April 2007), on the Internet at <http://www.bls.gov/opub/hom/pdf/homch16.pdf> (visited July 22, 2010). Although “consumer unit” is the proper technical term for the purposes of the Consumer Expenditure Survey, it is often used interchangeably with “household.” Because the word household is more familiar to most people, it is used as a substitute for consumer unit in most of this article.

<sup>4</sup> The findings of this study differ from those reported in the CE tables that are available on the BLS Web site <http://www.bls.gov/cex>. One reason for the differences is that the published tables report integrated data from the Diary and Interview Surveys, whereas this study uses Interview Survey data only. Nonprescription drugs, nonprescription vitamins, topicals and dressings, and medical equipment repair are not included in this survey because they are collected from Diary Survey respondents only. In addition, the averages shown in the published tables are for all respondents, whether they incurred health care expenses or not, whereas the averages in this report are only for households with expenses, net of any reimbursement. In 1998, 80.4 percent of all Interview Survey respondents reported health care expenses, compared with 78.6 percent in 2003 and 77.7 percent in 2008.

The research in this article summarizes a more detailed analysis that will appear in the *Consumer Expenditure Survey Anthology, 2010* (Bureau of Labor Statistics, forthcoming). Diary Survey data were not used because they do not provide information about private health insurance, Medicare, and Medicaid coverage of consumer unit members; this coverage information is essential to the forthcoming analysis.

<sup>5</sup> The National Bureau of Economic Research (NBER) has designated December 2007 as the beginning of the latest recession, but it has not determined its end. For more information, see *Statement of the NBER Business Cycle Dating Committee on the Determination of the Dates of Turning Points in the U.S. Economy* (Cambridge, National Bureau of Economic Research), on the Internet at [http://www.nber.org/cycles/general\\_statement.html](http://www.nber.org/cycles/general_statement.html) (visited July 6, 2010).

A recent National Health Expenditure Accounts report indicated that the nominal increase in households' out-of-pocket health care spending (which excludes insurance premiums and contributions to Medicare) decelerated from 6 percent in 2007 to 2.8 percent in 2008. It was concluded that the slower growth may have occurred because poor economic conditions forced households to keep health care spending under control by forgoing treatment. For more information, see *Sponsors of Health Care Costs: Business, Households, and Governments, 1987–2008* (Baltimore, Centers for Medicare and Medicaid Services), on the Internet at <http://www.cms.hhs.gov/NationalHealthExpendData/downloads/bhg08.pdf> (visited July 6, 2010).