



FOCUS on Prices and Spending



Consumer Expenditure Survey, 2009

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Current Price Topics

Part D Prescription Drug Coverage and Health Care Spending by Seniors on Medicare

Consumer Expenditure Survey (CE) data from the 2005 through 2009 Interview Surveys were used to examine out-of-pocket health care spending by Medicare households before and after the 2006 implementation of Medicare Prescription Drug Coverage (Part D).

Results show that:

- For Medicare households, the nominal amount spent on prescription drugs and the share of the health care budget accounted for by prescription drugs were lower after the implementation of Medicare Part D.
- Health care component shares changed between 2005 and 2009. The proportion spent on prescription drugs declined, while the proportion spent on health insurance increased over the period. However, the combined share of the health care budget represented by these items was little changed over the period.
- Among covered households, the average Part D premiums paid for stand-alone prescription drug plans substantially increased between 2006 and 2009.

Medicare provides health care coverage to persons 65 and older and to persons under 65 with permanent disabilities. For persons over 65, Medicare is the predominant payment source for health care expenditures.¹ When established in 1965, Medicare covered hospital and physician charges but excluded prescription drugs. This exclusion later became a problem because of the development of prescription-drug treatments for 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. 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. 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 63.9 million in 2020 and to 80.8 million in 2030. As the average age of Medicare beneficiaries increases, beneficiaries likely will use more health care services, resulting in greater out-of-pocket costs and Medicare program expenses.²

For each year examined, the study sample consisted of those consumer units (CUs)³ with a reference person⁴ 65 and older⁵ in which all members were on Medicare. To facilitate comparison, CUs with some members on Medicare and other members not on Medicare were excluded.

Detailed findings

In 2009, there were 17.5 million Medicare households with a reference person 65 and older, compared with 15.5 million in 2005. Households with a reference person age 65-74 made up 45.1 percent of the sample, com-

pared with 54.9 percent for households with a reference person 75 years and older. In 2005, these proportions were virtually the same—45.2 percent and 54.8 percent, respectively.

Health care expenditures increased from \$4,087 in 2005 to \$4,853 in 2009 for all Medicare households, with similar spending patterns for the age groups, 65-74 and 75-and-older. The budget share accounted for by health care ranged from a low of 14.2 percent in 2007 to a high of 15.5 percent in 2009 for the group as a whole. In all years, health care accounted for a greater share of the total budget for the 75-and-older group. (See table 1.)

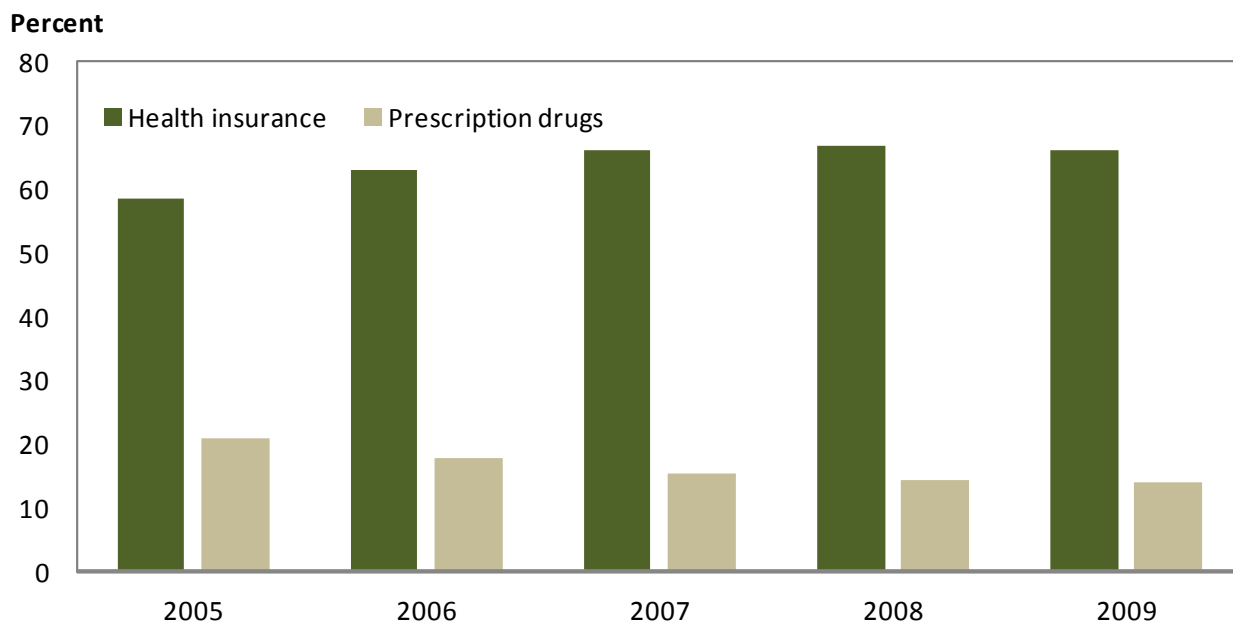
Table 1. Average annual health care expenditures and shares of health care expenditures for Medicare households 65 and older, by age of reference person, Consumer Expenditure Interview Survey, 2005–2009

Item	2005	2006	2007	2008	2009
All Medicare households					
Number of consumer units (CUs), in millions	15.5	13.8	15.2	17.4	17.5
CU size	1.4	1.4	1.4	1.4	1.4
Total expenditures	\$27,925	\$29,013	\$30,867	\$31,310	\$31,230
Total health care	4,087	4,323	4,380	4,487	4,853
Share of total expenditures (percent)	14.6	14.9	14.2	14.3	15.5
Health insurance	\$2,384	\$2,718	\$2,898	\$2,990	\$3,209
Medical services	735	676	676	718	830
Prescription drugs	848	770	679	650	680
Medical supplies	120	159	127	130	134
Shares of total health care (percent)					
Health insurance	58.3	62.9	66.2	66.6	66.1
Medical services	18.0	15.6	15.4	16.0	17.1
Prescription drugs	20.7	17.8	15.5	14.5	14.0
Medical supplies	2.9	3.7	2.9	2.9	2.8

Table 1. Average annual health care expenditures and shares of health care expenditures for Medicare households 65 and older, by age of reference person, Consumer Expenditure Interview Survey, 2005–2009—Continued

Item	2005	2006	2007	2008	2009
Medicare households, ages 65–74 years					
Number of consumer units (CUs), in millions	7.0	6.1	6.7	7.7	7.9
CU size	1.5	1.5	1.5	1.5	1.5
Total expenditures	\$31,802	\$31,433	\$33,582	\$34,621	\$35,165
Total health care	4,060	4,426	4,538	4,711	4,875
Share of total expenditures (percent)	12.8	14.1	13.5	13.6	13.9
Health insurance	\$2,413	\$2,804	\$2,973	\$3,121	\$3,261
Medical services	676	712	678	752	793
Prescription drugs	856	748	734	700	678
Medical supplies	115	161	154	137	143
Shares of total health care (percent)					
Health insurance	59.4	63.3	65.5	66.3	66.9
Medical services	16.7	16.1	14.9	16.0	16.3
Prescription drugs	21.1	16.9	16.2	14.9	13.9
Medical supplies	2.8	3.6	3.4	2.9	2.9
Medicare households, ages 75 and older					
Number of consumer units (CUs), in millions	8.5	7.6	8.5	9.6	9.6
CU size	1.3	1.4	1.4	1.4	1.4
Total expenditures	\$24,728	\$27,065	\$28,722	\$28,644	\$27,965
Total health care	4,108	4,240	4,254	4,308	4,835
Share of total expenditures (percent)	16.6	15.7	14.8	15.0	17.3
Health insurance	\$2,360	\$2,648	\$2,839	\$2,884	\$3,165
Medical services	783	647	675	691	861
Prescription drugs	840	787	636	609	682
Medical supplies	125	158	105	123	126
Shares of total health care (percent)					
Health insurance	57.4	62.5	66.7	66.9	65.5
Medical services	19.1	15.3	15.9	16.0	17.8
Prescription drugs	20.5	18.6	14.9	14.1	14.1
Medical supplies	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, 2005–2009



SOURCE: U.S. Bureau of Labor Statistics

Health care component shares changed between 2005 and 2009. For all Medicare households, the proportion of out-of-pocket health care spending represented by prescription drugs declined from 20.7 percent in 2005 to 14.0 percent in 2009, while health insurance premiums went from 58.3 percent of out-of-pocket health care spending in 2005 to 66.6 percent in 2008, ending at 66.1 percent in 2009. (See chart 1.) 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 all Medicare enrollees were in Part D plans. This consisted of about 38 percent of enrollees in stand-alone prescription drug plans, about 20 percent in Medicare Advantage prescription drug plans, and about 15 percent with retiree drug-subsidy coverage. Of the remaining Medicare enrollees, 18 percent had other drug coverage and around 10 percent had no drug coverage.⁶

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 and the monthly premium payment for this coverage. It should be noted that this question elicits information about stand-alone pre-

Table 2. Percent of Medicare households 65 years and older enrolled in Medicare Part D stand-alone plans and annual premiums paid, by age of reference person, Consumer Expenditure Interview Survey, 2006–2009

Item	2006*	2007	2008	2009
One or more members enrolled in Medicare Part D (percent)				
All Medicare households	12.0	15.6	36.5	37.4
65–74 years	12.3	16.4	33.9	37.0
75 years and older	12.0	14.8	37.9	37.5
Average annual Part D premium per enrolled household				
All Medicare households	\$348	\$535	\$610	\$648
65–74 years	352	546	625	657
75 years and older	344	526	600	641

*2006 data are annualized

scription drug plans only. This is because the cost of prescription drug coverage is included in the overall premiums paid by Medicare Advantage enrollees and by Medicare enrollees with retiree drug-subsidy coverage. All respondents, however, provide information about out-of-pocket spending on prescription drugs.

The proportion of Medicare households having one or more members with a Medicare Part D stand-alone plan jumped from 12 percent in 2006 to 37.4 percent in 2009; similar patterns were found for the two subgroups (reference person 65–74 and reference person 75 years and older). Among enrolled households, the average annual premium paid went from \$348 in 2006 to \$648 in 2009, with similar increases for the two age groups. (See table 2.)

Research by the Kaiser Family Foundation has found that between 2006 and 2009, the weighted average individual premium for stand-alone prescription drug plans increased 35 percent, from \$25.93 to \$35.09 per month.⁷

Conclusion

Among Medicare households, the combined share of the health care budget represented by prescription drugs and health insurance premiums changed little between 2005 and 2009. The reason was that the decline in the share of the health care budget accounted for by prescription drugs was offset by an increase in the share accounted for by health-insurance premiums. Between 2006 and 2009, the proportion of Medicare households with at least one member with Part D stand-alone coverage increased substantially. Among

covered households, Part D premiums steadily increased over the period.⁸

As CE data from 2010 and beyond become available, these data can be used to assess the impact of provisions in the Affordable Care Act (ACA) of 2010 that will affect the out-of-pocket health care expenses of Medicare beneficiaries. Two provisions, effective January 1, 2011, are designed to achieve Medicare Program cost savings by increasing premiums for beneficiaries at higher income levels.⁹

The ACA also contains provisions designed to make drug coverage more affordable for Medicare Part D enrollees. One such provision is the \$250 rebate to those enrollees who had out-of-pocket spending in the Part D coverage gap in 2010.¹⁰

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Notes

¹In 2008, Medicare covered 60 percent of the health care costs of the civilian noninstitutionalized population 65 and over, compared with 6.5 percent for those under 65. In contrast, private insurance covered 15.2 percent of seniors' health care costs, compared with 54.6 percent for those under 65. For more information, see David Kashihara and Kelly Carper, "National Health Care Expenses in the U.S. Civilian Noninstitutionalized Population, 2008," Statistical Brief no. 301, U.S. Department of Health and Human Services, Agency for Health Care Research and Quality, December 2010, available online at http://www.meps.ahrq.gov/mepsweb/data_files/publications/st301/stat301.pdf.

²For more information, see 2011 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and the Federal Supplementary Medical Insurance Trust Funds, Centers for Medicare and Medicaid Services, Baltimore, MD, May 13, 2011, available online at <http://www.cms.gov/ReportsTrustFund/downloads/tr2011.pdf>.

³A 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, "Consumer Expenditures and Income" available online at <http://www.bls.gov/opub/hom/pdf/homch16.pdf>. Although 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 is used in this article instead of "consumer unit."

⁴The reference person is the first household member mentioned by the respondent when asked to "Start with the name of the person or one of the persons who owns or rents the home."

⁵Expenses by Medicare households with a reference person under 65 have been examined in other studies using the same CE database. For more information, see Ann C. Foster and Craig J. Kreisler, "Health Care Spending by Medicare Households: Part D Prescription Drug Coverage and Beyond," paper presented at the Population Association of America 2011 Annual Meeting, April 2, 2011, available online at <http://paa2011.princeton.edu/sessionViewer.aspx?SessionId=416&wwparam=1302186623>.

Notes—Continued

⁶Stand-alone prescription drug plans offered by insurance companies and other private companies approved by Medicare, add prescription drug coverage to traditional Medicare. Medicare Advantage plans provide Part A (Hospital Insurance) and Part B (Medical Insurance) benefits found in the traditional fee-for-service Medicare program, as well as other benefits such as prescription drug, vision, and hearing. The retiree drug subsidy 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. For more information, see 2011 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and the Federal Supplementary Medical Insurance Trust Funds. In comparison, a nationwide survey of noninstitutionalized Medicare beneficiaries found that in 2003, 27 percent of beneficiaries age 65 and older had no prescription drug coverage. For more information, see Dana Gelb Safran et al., “Prescription Drug Coverage And Seniors: Findings From A 2003 National Survey,” *Health Affairs*, Web Exclusive (April 19, 2005): W5-160, available online at <http://www.kff.org/medicare/med041905pkg.cfm>.

⁷For 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, pp. 406-414, available online at <http://www.nejm.org/doi/full/10.1056/NEJMhpr0809949>.

⁸An important question that CE data cannot address is whether implementation of Medicare Part D has resulted in an improved quality of care and better health outcomes by increasing the use of needed medications and reduction in preventable and costly medical events. Some studies have shown an increase in medication use attributable to Part D coverage and some decline in the rates of cost-related noncompliance. However, other studies have found a decline in medication adherence after Part D enrollees reach their policy’s coverage gap (after which they are responsible for 100 percent of prescription costs). For more information about these studies, see “Medicare Part D Update — Lessons Learned and Unfinished Business,” *Ibid*.

⁹The first provision increases the number of beneficiaries subject to the income-related premium under Medicare Part B (Medical Insurance) by eliminating the index on income thresholds established under prior law. The second provision imposes a new income-related premium, with no index for inflation, on beneficiaries enrolled in Medicare Part D. 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, available online at <http://www.kff.org/medicare/8126.cfm>.

¹⁰For information about other Affordable Care Act (ACA) provisions designed to make prescription drug coverage more affordable for Part D enrollees, see Janet Lundy “Prescription Drug Trends,” (Fact Sheet) Washington, DC: Kaiser Family Foundation, May 2010, available online at <http://www.kff.org/rxdrugs/upload/3057-08.pdf>.