

Out-of-Pocket Health Care Spending Patterns of Older Americans, as Measured by the Consumer Expenditure Survey

Meaghan Duetsch

The United States has experienced many changes over the past two decades in the way health care is managed, such as the shift from primarily fee-for-service type health insurance coverage to coverage through health maintenance organizations (HMOs) and preferred provider organizations (PPOs). Health care expenditures, as a proportion of all expenditures, have increased over the last 20 years. This article examines the health care expenditures of older families in the age ranges just before and just after the Medicare eligibility age of 65 and analyzes how health care expenditures for these two groups have changed. The analysis includes an examination of health care expenditure changes over the past two decades between consumer units with reference person in the 55-64 year-old range, and so not eligible for Medicare, and consumer units with reference person in the 65-74 year-old range, whose reference person is eligible for Medicare.

In the Consumer Expenditure Survey (CE), health care expenditures include health insurance, medical services, drugs, and medical supplies. Only out-of-pocket, non-reimbursed expenditures on these items are included; for example, the portion of a health insurance premium that the consumer unit pays, as opposed to the portion paid by an employer; any copayments paid by the consumer unit;

and any insurance deductibles. Thus, the CE captures data on how much consumer units pay for their health care expenditures, not necessarily the total cost of the health care provided to that consumer unit. The CE also captures data on the health insurance status of the consumer unit—although this article does not include health insurance status of the consumer unit in its analysis—as well as the type of health insurance, such as PPO or HMO.

Data and methods

Data from the Consumer Expenditure Survey for 1985, 1995, and 2005, are used in this analysis. Note that while the age of the reference person classifies the consumer unit into an age group, other members of the consumer unit could be different ages. Therefore, someone in a consumer unit in the 55-64 year-old age group other than the reference person could be eligible for Medicare. In the 65-74 year-old age group, the reference person is eligible for Medicare, because the reference person is at least 65 years old.

Some key demographic characteristics associated with expenditures do not change, or vary only slightly, across this 20-year period. In the 55-64 year-old group, the average number of persons¹ in the consumer unit is 2.4 in 1985, 2.2 in 1995, and 2.1 in 2005. In the 65-74 year-old group, the average number of persons in the consumer unit is approximately 2 in all 3 years.

Meaghan Duetsch is an economist with the Branch of Production and Control, Division of Consumer Expenditure Surveys, U.S. Bureau of Labor Statistics.

Another similarity in all 3 years is the average number of earners in the consumer unit: For the 55-64 year-old group, the average number of earners in the consumer unit is about 1.4, while in the 65-74 year-old group it is slightly more than 0.5.

Expenditures

Over the 20-year period, there was a greater percent increase in expenditures on health care than in total expenditures. As a share of average total annual expenditures, health care expenditures rose for both age groups over the two decades. Total average annual expenditures, in nominal terms, increased for both groups from 1985 to 1995 to 2005. The nominal percent change in average annual expenditures was different from 1985 to 1995 for the two groups, with a 32-percent increase in expenditures for the 55-64 year-old group and a 41-percent increase in expenditures for the 65-74 year-old group. The nominal percent change in expenditures from 1995 to 2005 was similar for both groups at about 52 percent. In real terms, using constant dollars with 2005 as the base year, the percent change in average annual expenditures was also different between the two groups from 1985 to 1995 – a 7-percent decrease for the 55-64 year-old group and 0.5-percent decrease for the 65-74 year-old group; it was similar from 1995 to 2005 with an increase of approximately 19 percent for both groups. (See table 1.)

In the 55-64 year-old group, health care expenditures were 5.5 percent of total average annual expenditures in 1985. (See table 1 for values.) In 1995, the proportion rose slightly to 5.9 percent, but by 2005 the share allocated to health care had increased by another percentage point to 6.9 percent. In contrast, the larger increase in share allocation for those 65-74 years old occurred from 1985 to 1995. In 1985, the share allocated to health care was 9.2 percent, and by 1995 that share had increased to 10.4 percent. From 1995 to 2005, the share increased to 10.8 percent of total annual expenditures. When comparing the two age groups,

the share of expenditures allocated to health care by the 65-74 year-old group is slightly more than 1.5 times the share allocated by the 55-64 year-old group in all 3 years.

The rate of increase in health care expenditures differed between the two groups. The 55-64 year-old group showed a different rate of increase from 1985 to 1995 than from 1995 to 2005. Expenditures on health care by the 55-64 year-old group rose 41 percent, in nominal terms, from \$1,355 in 1985 to \$1,911 in 1995; they rose another 78 percent to \$3,410 in 2005. In real terms, expenditures on health care by the 55-64 year-old group declined by 27 percent from 1985 to 1995 and rose by 22 percent from 1995 to 2005. In contrast, the rate of increase in health care expenditures, in nominal terms, by the 65-74 year-old group was the same from 1985 to 1995 and from 1995 to 2005. For this group, health care expenditures rose 59 percent, from \$1,649 in 1985 to \$2,618 in 1995, followed by a 60-percent increase to \$4,176 in 2005. In real terms, health care expenditures by the 65-74 year-old group declined by 18 percent from 1985 to 1995 and rose by 9 percent from 1995 to 2005.

The Consumer Price Index² (CPI-U) for medical care shows that the price of medical care rose from 1985 to 2005. The CPI for medical care rose 94 percent from 1985 to 1995, and then rose 47 percent from 1995 to 2005. The medical care price index rose faster than the All Items price index measured by the CPI. There was a 42-percent increase in the All Items CPI-U from 1985 to 1995, and another 28 percent increase to 2005.

There is a distinction between the level of out-of-pocket expenditures, as measured by the CE, and the rate of price inflation as measured by the CPI for medical care. The CE measures a consumer unit's expenditures, (price times quantity) while the CPI measures quality-adjusted (where possible) price change for a fixed quantity of goods and services. Therefore, the CE expenditure value alone cannot be used to determine whether price or quantity

consumed, or both, are rising or falling. Thus, it is useful to examine the CPI to determine whether prices for a particular good or service were rising or falling over the period examined.

Health insurance. Expenditures on health insurance by the 55-64 year-old group, in constant dollars, with 2005 as the base year, increased in all three periods, rising from \$1,284 in 1985 to \$1,314 in 1995, and to \$1,585 in 2005. Among the 65-74 year-old group, health insurance expenditures also rose in real terms in all three periods, from \$1,917 in 1985 to \$2,239 in 1995, and to \$2,352 in 2005. Medicare payments are a component of the health insurance category, along with the more traditional types of insurance. Expenditures on Medicare payments by both age groups rose in both nominal and real terms over the three periods.

While the 65-74 year-old group spent more of their health care dollar on health insurance than did the 55-64 year-old group in all 3 years, both groups showed the largest increase in the shares allocated to health insurance from 1985 to 1995, as compared to 1995 to 2005. In 1985, the 55-64 year-old group allocated about 33 percent of their health care spending to health insurance; by 1995, that share increased to 47 percent. (See table 1 for dollar amounts.) In 2005, the share allocated to health insurance was relatively unchanged from 1995 at 46 percent of all health care spending. The older group, those 65-74 years old, spent 41 percent in 1985, compared to 58 percent in 1995 and 56 percent in 2005.

Charts 1 and 2 show the four components of health care and the allocation of health care expenditures among those components in 1985, 1995, and 2005. Chart 1 shows these data for the 55-64 year-old group; chart 2 shows these data for the 65-74 year-old group.

The magnitude of the share increase for health insurance was about the same

¹ This analysis does not adjust for changes in consumer unit size over time.

² All urban consumers, U.S. all-city average; <http://www.bls.gov/cpi/home.htm>

Table 1. Selected average annual expenditures and characteristics of consumer units, by selected age of reference person, Consumer Expenditure Survey, selected years, nominal dollars

Item	55 - 64 years			65 - 74 years		
	1985	1995	2005	1985	1995	2005
Number of CUs (in thousands)	13,056	12,624	18,104	11,302	11,933	11,505
Income before taxes	\$27,055	\$38,326	\$64,156	\$18,191	\$25,553	\$45,202
Average age of reference person	59.5	59.4	59.3	69.3	69.3	69.1
Average number of persons in CU	2.4	2.2	2.1	2.0	1.9	1.9
Average number of earners	1.4	1.4	1.3	.6	.6	.7
All item CPI, all urban consumers (1982-84=100)	107.6	152.4	195.3	107.6	152.4	195.3
Medical care CPI, all urban consumers (1982-84=100)	113.5	220.5	323.2	113.5	220.5	323.2
Prescription drugs CPI, all urban consumers (1982-84=100)	120.1	235	349	120.1	235	349
Average annual expenditures	\$24,765.52	\$32,626.42	\$49,592.08	\$17,937.87	\$25,277.23	\$38,573.50
Percent change in nominal terms		31.74	52.00		40.92	52.60
Expenditures in real dollars (2005 as base year) ¹	\$44,950.80	\$41,810.63	\$49,592.08	\$32,558.23	\$32,392.67	\$38,573.50
Percent change in real terms		-6.99	18.61		-.51	19.08
Health care	\$1,355.27	\$1,911.27	\$3,410.39	\$1,648.78	\$2,618.00	\$4,175.77
Percent change in nominal terms		41.03	78.44		58.78	59.50
Expenditures in real dollars (2005 as base year) ²	\$3,859.24	\$2,801.46	\$3,410.39	\$4,695.03	\$3,837.36	\$4,175.77
Percent change in real terms		-27.41	21.74		-18.27	8.82
Share of average annual expenditures	5.47	5.86	6.88	9.19	10.36	10.83
Percent reporting ⁵	83.09	84.31	84.00	95.42	97.47	94.56
Health insurance	\$451.02	\$896.76	\$1,584.75	\$673.36	\$1,527.32	\$2,352.13
Expenditures in real dollars (2005 as base year) ²	\$1,284.31	\$1,314.43	\$1,584.75	\$1,917.44	\$2,238.68	\$2,352.13
Percent reporting	56.77	61.34	65.03	89.70	95.56	88.71
Medicare payments	\$26.49	\$87.84	\$184.22	\$208.93	\$687.69	\$1,085.71
Expenditures in real dollars ²	\$75.43	\$128.75	\$184.22	\$594.94	\$1,007.99	\$1,085.71
Percent reporting	13.08	14.08	17.30	81.84	90.95	80.78
Medical services	\$627.59	\$587.22	\$979.06	\$576.26	\$473.29	\$733.39
Expenditures in real dollars ²	\$1,787.11	\$860.72	\$979.06	\$1,640.94	\$693.73	\$733.39
Percent reporting	56.72	50.26	49.03	59.90	49.13	37.08
Drugs	\$221.04	\$343.83	\$712.73	\$308.79	\$535.65	\$956.26
Expenditures in real dollars ³	\$642.32	\$510.62	\$712.73	\$897.32	\$795.50	\$956.26
Prescription drugs	\$168.39	\$247.22	\$560.73	\$241.92	\$428.07	\$812.34
Expenditures in real dollars ³	\$489.33	\$367.15	\$560.73	\$703.00	\$635.73	\$812.34
Percent reporting	50.81	51.66	52.74	62.83	60.81	62.11
Medical supplies	⁴	\$83.47	\$133.86	⁴	\$81.74	\$133.98
Expenditures in real dollars ²		\$122.35	\$133.86		\$119.81	\$133.98
Percent reporting		10.43	9.31		11.84	8.75
Share of health care:						
Health insurance	33.28	46.92	46.47	40.84	58.34	56.33
Medicare payments	1.95	4.60	5.40	12.67	26.27	26.00
Medical services	46.31	30.72	28.71	34.95	18.08	17.56
Drugs	16.31	17.99	20.90	18.73	20.46	22.90
Prescription drugs	12.42	12.93	16.44	14.67	16.35	19.45
Medical supplies	4.10	4.37	3.93	5.48	3.12	3.21

¹ Average annual expenditure values are deflated by the All item CPI.

² Health care, health insurance, Medicare payments, medical services, and medical supplies expenditure values are deflated by the medical care CPI.

³ Drugs and prescription drugs expenditure values are deflated

by the prescription drugs CPI.

⁴ Medical supplies in 1985 were not strictly comparable to 1995 and 2005 due to collection differences.

⁵ Percent reporting information is from Interview survey data, whereas integrated data are used in the rest of the table.

Chart 1. Shares of health care, 55-64 year olds, 1985, 1995, 2005

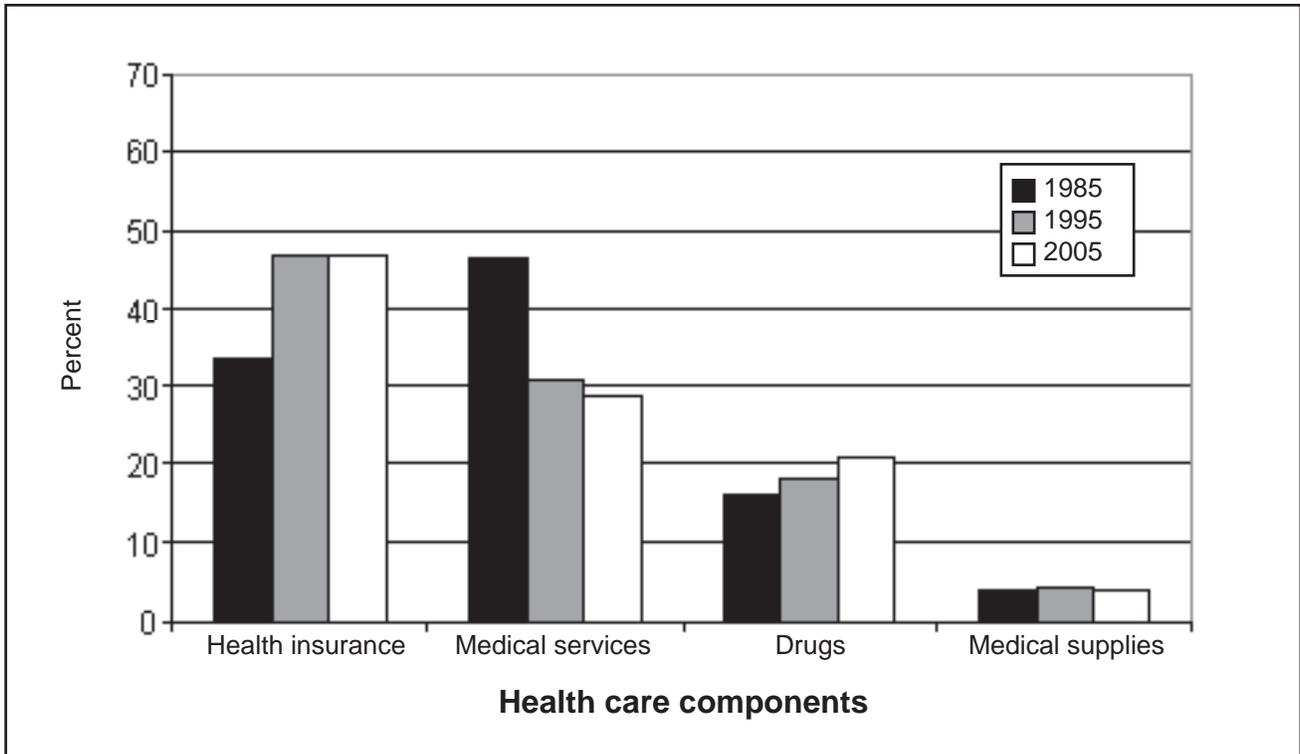
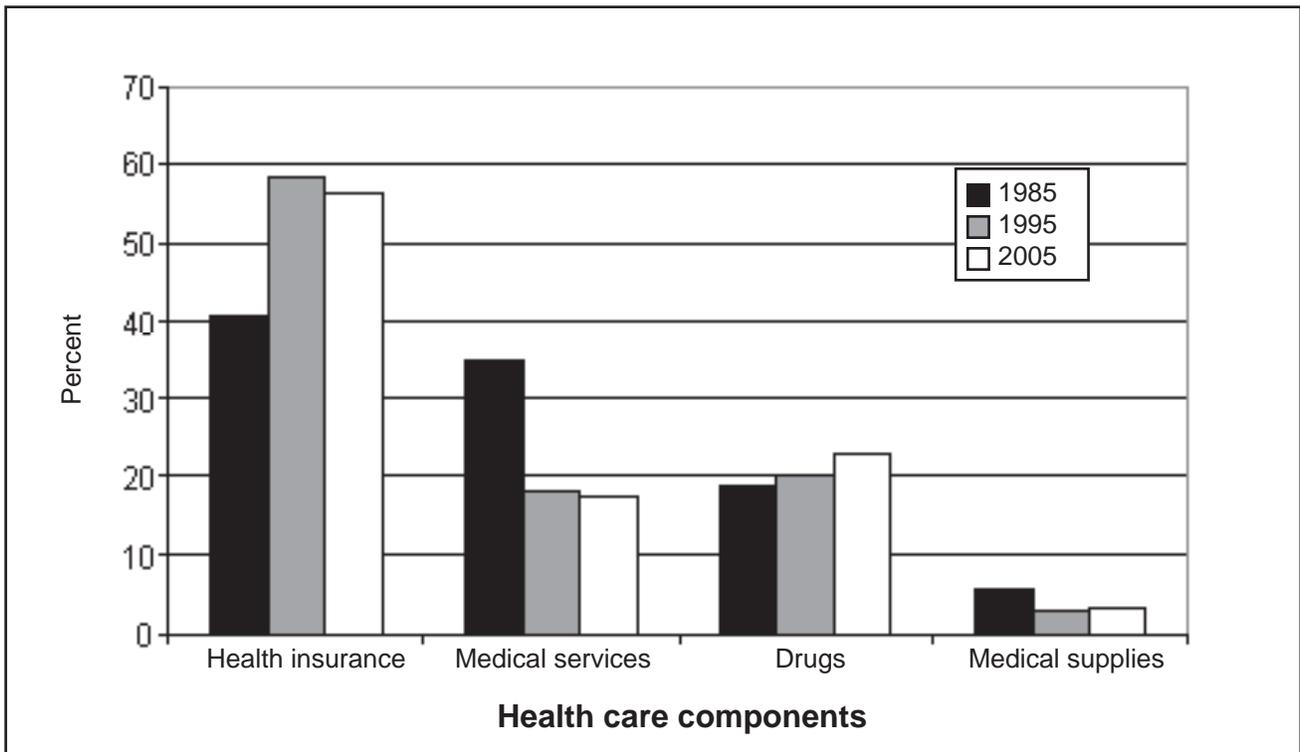


Chart 2. Shares of health care, 65-74 year olds, 1985, 1995, 2005



for both groups from 1985 to 1995, just over 40 percent. This suggests that the increase in health insurance spending accounted for a greater portion of the total cost of health care. Similarly, both age groups showed a slight decrease in the share of expenditures allocated to health insurance from 1995 to 2005, also suggesting stability in that trend and nothing explicitly related to age group. Medicare premium payments by both groups, as a share of health care expenditures, also jumped quite a bit from 1985 to 1995, and then showed only a slight increase from 1995 to 2005, mirroring the share allocations for health insurance overall.

Medical care services. The share of health care expenditures allocated to medical services declined from 1985 to 2005 for both age groups. The largest decline for both age groups occurred from 1985 to 1995 and was followed by a further slight decline from 1995 to 2005. In fact, actual expenditures showed a drop for both groups between 1985 and 1995. In the 55-64 year-old group, the share allocated to medical services declined from 46 percent in 1985 to 31 percent in 1995. By 2005, the share had declined further to 29 percent of health care expenditures. Among the 65-74 year-old group, the share of health care expenditures allocated to medical services followed a similar pattern, though the share allocated to medical services by this group was smaller than the share allocated by the younger group in all 3 years. For the 65-74 year-old group, the share declined from 35 percent of health care expenditures allocated to medical services in 1985, to 18 percent in 1995. The share allocated to this category declined slightly from 1995 to 2005 to 17.6 percent. Note that the decline in shares of health care expenditures allocated to medical services mirrors the increase in the share of health care expenditures allocated to health insurance. This perhaps suggests that since 1985 a larger portion of those expenditures previously spent directly on medical services were shifted to expenditures on health insurance.

Perhaps medical services are now being covered through health insurance, rather than paid for directly by the consumer unit.

Drugs. Expenditures on drugs in the CE include both prescription drugs and non-prescription drugs. The share of health care expenditures allocated to drug expenditures increased for both groups over the two decades, although the 55-64 year-old group experienced somewhat larger percentage increases in share allocation than did the older group. The share of health care expenditures allocated to drug expenditures by the 55-64 year-old group rose 10 percent from 1985, when 16 percent of health care expenditures were allocated to drugs, to 1995, when 18 percent of health care expenditures were allocated to drugs. A larger share increase occurred from 1995 to 2005, when it rose 16 percent with the result that 21 percent of health care expenditures were allocated to drugs. The 65-74 year-old group had a smaller magnitude of percentage share increases. From 1985 to 1995, the share allocated to drug expenditures grew by 9 percent, to 20.5 percent in 1995 from just under 19 percent in 1985; the share increased by another 12 percent from 1995 to 2005, when 23 percent of health care expenditures were allocated to drugs.

The CE and CPI drug categories are not completely comparable due to some definitional differences—the CPI includes some medical supplies in its non-prescription drug category that the CE does not. However, they can be compared at the subset level of prescription drugs. The share of health care expenditures allocated to prescription drugs by the 55-64 year-old group increased by 4 percent from 1985 to 1995, and then increased by 27 percent from 1995 to 2005. In the 65-74 year-old group, the share allocated to prescription drugs increased by 11 percent from 1985 to 1995, and then increased by 19 percent from 1995 to 2005.

Drug expenditures by the 55-64 year-old group rose, in nominal terms, from \$221 in 1985 to \$344 in 1995, an increase of 56 percent. From 1995 to

2005, they increased by 107 percent, to \$713. In contrast, the percentage increases among the older group showed more similarity over the two periods: 73 percent from 1985 to 1995 (\$309 to \$536), and 79 percent from 1995 to 2005 (\$536 to \$956). In constant dollars, with 2005 as the base year, expenditures on drugs by both groups declined from 1985 to 1995 and then rose from 1995 to 2005. For the younger group, they declined from \$642 in 1985 to \$511 in 1995, a decrease of 21 percent, but then rose to \$713 in 2005, an increase of 40 percent. Expenditures on prescription drugs by this group, in constant dollars, followed a similar trend: they declined from \$489 in 1985 to \$367 in 1995, and then rose to \$561 in 2005. Expenditures on drugs by the 65-74 year-old group, in constant dollars, declined from 1985 to 1995 (\$897 to \$796), a decrease of 11 percent, and then rose to \$956 in 2005, an increase of 20 percent. Expenditures on prescription drugs, in constant dollars, by this group, followed a similar pattern.

Examining these same years for the CPI for prescription drugs, prices almost doubled from 1985 to 1995, rising 96 percent. In 2005, prescription drug prices had increased another 49 percent over 1995. Again, as with health care expenditures, it is impossible to determine from CE data how much of the nominal expenditure increase resulted from the increase in prices and how much was caused by an increase in quantity of prescription drugs consumed. In fact, the quantity consumed could have decreased, with prices rising enough to more than offset the consumption decrease and, thus, show an increase in expenditure for that item.

Expenditures on medical supplies by the 55-64 year-old group rose, in nominal dollars, over the two decades as it did for the 65-74 year-old group. However, as a share of health care, spending on medical supplies by both groups declined over the two decades. The share allocated to medical supplies by the 55-64 year-old group showed a slight decline, from 4.1 percent in 1985 to 3.9 percent in 2005, while the

share allocated by the 65-74 year-old group showed a more marked decline in spending allocated to medical supplies—from 5.5 percent in 1985 to 3.2 percent in 2005.

Conclusion

Examining shares of expenditures allows an analysis of how consumer units are allocating their various types of expenditures. For both age groups, the share of average annual expenditures allocated to health care expenditures rose over both decades. The increase in the share of health care expenditures allocated to health insurance from 1985

to 2005 mirrors a decrease in health care expenditures allocated to medical services over the period for both groups. Consumption of health care increases with age. The 65-74 year-olds spent more overall on total health care in both decades. They also spent more on health insurance and drugs than did the 55-64 year-old group in each of the survey years, while spending less overall on medical services and about the same on medical supplies. Thus, the shares of the components of health care are different between the two groups. However, the percentage changes from 1985 to 1995 and from 1995 to

2005 in the shares allocated among the components of health care trended in the same direction for both age groups, although the magnitudes of the percent changes were different. Examining CE data, Medicare eligibility at the age of 65 has little effect on the allocation of health care expenditures, since the share allocations among the health care components moved in similar directions for the two age groups over the 3 years examined. The new Medicare prescription drug benefit will impact the drug expenditure data after 2005, and that change will warrant further analysis. ■