



The Risk of High Out-of-Pocket Health Spending among Older Americans

*Helen Levy**

Background

Traditional Medicare imposes significant cost-sharing on beneficiaries, who must pay for noncovered services, such as dental care as well as coinsurance and deductibles. Most but not all beneficiaries obtain supplemental insurance through Medigap, Medicare Advantage, Medicaid, or employer-sponsored retiree coverage. These different coverage types may vary in how well they protect against the risk of high spending. This study analyzes how the level and dispersion of out-of-pocket spending for medical care and health insurance vary for age-eligible Medicare beneficiaries with different types of supplemental coverage.

Methods

The analysis uses data from the Health and Retirement Study for the years 2002 through 2016, which has data on insurance coverage and out-of-pocket spending from approximately 20,000 age-eligible Medicare beneficiaries.

Results

The study finds that supplemental health insurance for Medicare beneficiaries 65 and older changed substantially between 2002 and 2016. Fewer beneficiaries have employer-sponsored coverage or Medigap, and more have Medicare Advantage. More also have no source of supplemental coverage for doctor and hospital bills, although many of these do have Medicare Part D, which covers prescription drugs. The results also show that median out-of-pocket medical care spending depends on what type of supplemental coverage beneficiaries have. Median out-of-pocket spending on medical care is lowest for beneficiaries with Medicaid coverage and highest for those with Medigap or Part D only. Those with no supplemental coverage, employer-sponsored coverage, or Medicare Advantage are somewhere in between. These gradients by coverage type have been largely stable over time. Another important result: The dispersion of out-of-pocket medical spending is highest for those with no supplemental

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coverage. Dispersion is measured in two different ways, both of which support the same conclusion: (1) The ratio of the 90th percentile to the 50th percentile of the distribution of observed spending, and (2) the distribution's standard deviation. Finally, beneficiaries with supplemental coverage face less risk but pay more in premiums. Beneficiaries with any supplemental coverage type are less likely than those

with no supplemental coverage to spend more than 10% of their household income on out-of-pocket medical care spending. On the other hand, any type of coverage except for Medicaid increases the share who spend more than 10% of their income on medical care plus health insurance premiums. ❖

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