Part D Prescription Drug Coverage and Health Care Spending by Medicare Households

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Abstract

Consumer Expenditure Survey data from 2005 to 2010 were used to examine out-of-pocket health care spending changes among Medicare households with a reference person age 65 and older after implementation of Medicare Prescription Drug Coverage (Part D) in 2006. Findings indicate that the proportion of total annual expenditures represented by health care was higher in 2010 than in 2005. The proportion of health care spending represented by prescription drugs decreased, while the proportion represented by health insurance premiums increased over the period. Implementation of Medicare Part D appears to have had little impact on the financial security of the Medicare households examined.

Introduction and Purpose

Medicare provides health care coverage to those 65 and older and to those under 65 with permanent disabilities. In 2010, Medicare covered 47.5 million people: 39.6 million 65 and older and 7.9 million disabled under 65 (Centers for Medicare & Medicaid Services, 2011 b). For those over 65, Medicare is the predominant payment source for health care expenditures.[1] When established in 1965, Medicare covered hospital and physician charges, but not 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. Existing research (Neuman & Cubanski, 2009; Schneeweis et al., 2009; Lichtenberg & Sun, 2007) 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.

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 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 (Centers for Medicare & Medicaid Services, 2011 b).

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

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examined as well as change in the distribution of health care spending by health care commodities and services. The extent to which closing the Medicare prescription drug coverage gap has increased the financial security of the elderly and disabled has implications for current and future beneficiaries.

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 (Bureau of Labor Statistics, 2011).

This analysis uses CE data from the 2005 through 2010 Interview Surveys. The sample is composed of consumer units (CUs)[2] with a reference person[3] 65 and older 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 were 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 were excluded because these expenses are collected from Diary Survey respondents only.

Findings

In 2010, there were 17.2 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 46.3 percent of the sample compared with 53.7 percent for households with a reference person 75 years and older. In 2005, these proportions were 45.2 percent and 54.8 percent, respectively. (See table 1.)

For all Medicare households, average annual expenditures were $31,146 in 2010 compared with $27, 925 in 2005, with similar patterns between the two subgroups. In all years, average annual expenditures were lowest for the 75-and-older group and highest for the 65-74 age group. Health care expenditures went from $4,087 in 2005 to $4,803 in 2010 for all Medicare households, with similar patterns for the two age groups. For the group as a whole, 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, not much different from the 15.4 percent for 2010. In all years, health care accounted for a greater share of the total budget for the 75 and older group.

Health care component shares changed between 2005 and 2010. 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 13.1 percent in 2010, while health insurance premiums went from 58.3 percent of out-of-pocket health care spending in 2005 to 68.0 percent in 2010. 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 as of February 16, 2010, 73 percent of Medicare enrollees were in Part D plans. This consisted of about 38 percent of enrollees in stand-alone prescription drug plans, about 21 percent in Medicare Advantage prescription drug plans, and about 14 percent with retiree drug-subsidy coverage. Of the remaining Medicare enrollees, 17 percent had other drug coverage and around 10 percent had no drug coverage.[4]

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 prescription drug plans only. This is because the cost for 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, but declined slightly in 2010. This decline was the result of a decrease in enrolled households (from 37.5 percent in 2009 to 36.0 percent in 2010) among the 75-and-older group. Among enrolled households, the average annual premium paid went from $348 in 2006 to $648 in 2009, ending at $627 in 2010. This decline was also because of lower average annual premiums paid by the 75 and older group in 2010 ($596) compared with 2009 ($641). (See table 2.) Existing research (Hoadley et al., 2011) has shown that between 2006 and 2010, the weighted average individual premium for stand-alone prescription drug plans increased 45 percent from $25.93 to $37.25 per month. Premiums for Part D stand-alone plans vary widely, however, and ranged from $27.15 to $44.83 per month in 2010. (Hoadley et al., 2009).

Conclusions and Limitations

Among Medicare households, the share of the health care budget represented by health insurance premiums increased and the share represented by prescription drugs decreased between 2005 and 2010. 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. In 2010, however, the proportion of Medicare households with Part D stand-alone coverage and the annual premiums paid declined slightly. Whether this is the beginning of a trend or the lingering effects of the recent recession cannot be determined from available data.

An 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 reducing 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. Other studies have found a decline in medication adherence after Part D enrollees reach their policy's coverage gap and are responsible for 100 percent of prescription costs (Neuman & Cubanski, 2009).

As CE data from 2011 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.[5] The ACA also contains provisions designed to make drug coverage more affordable for Medicare Part D enrollees. One provision is a $250 rebate to enrollees who had out-of-pocket spending in the Part D coverage gap in 2010 (Lundy, 2010). As of October 2011, 1.8 million enrollees who reached the coverage gap had received $250 rebate checks. (Centers for Medicare & Medicaid Services, 2011c) These reimbursements, however, will be reflected in the 2011 CE scheduled for publication in September 2012.

Disclaimer

The analysis and conclusions in this paper represent the work of the authors and do not necessarily reflect the policies or position of the Bureau of Labor Statistics.

End Notes

[1]In 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 (Kashihara & Carper, 2010).

[2] 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 (Bureau of Labor Statistics, 2011).

While consumer unit is the proper technical term for the purposes of the Consumer Expenditure Survey, 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.

[3] The 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." For more information, see (Bureau of Labor Statistics, n.d.).

[4] Stand-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 like 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 (Centers for Medicare & Medicaid Services, 2011b). In comparison, a nationwide survey of noninstutionalized Medicare beneficiaries found that in 2003, 27 percent of beneficiaries age 65 and older had no prescription drug coverage. For more information, see (Safran et al., 2008).

[5] The 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 (Cubanski et al., 2010).

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