

Chapter 6: Health Services and the Family Budget

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Medical Industry Leadership Institute Open Education Hub

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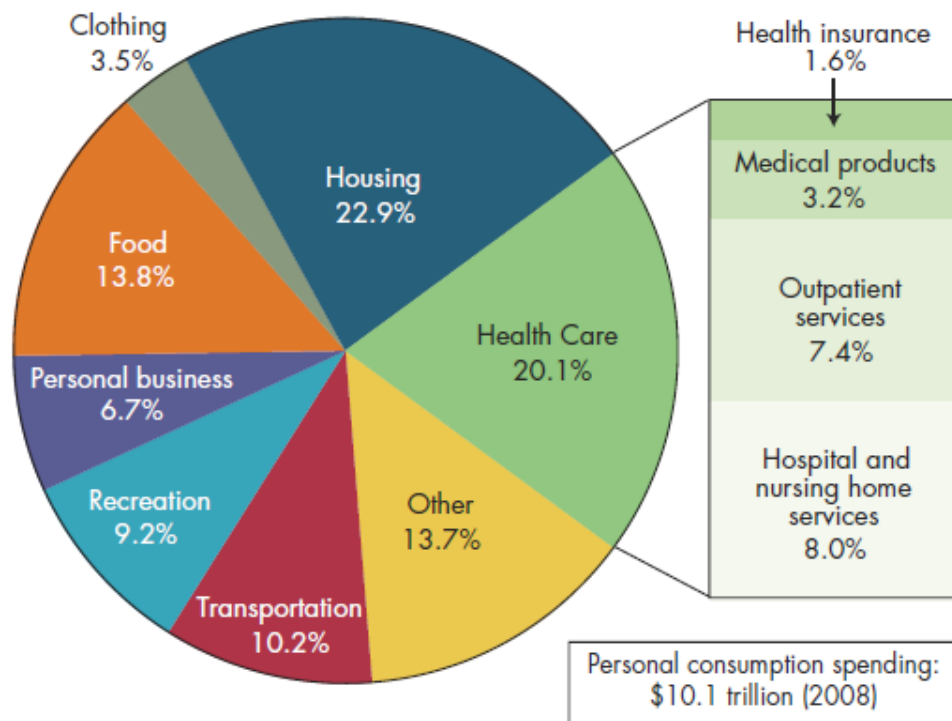
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Chapter 1

6.1 Health Care Is 2nd Largest Personal Consumption Component¹

Health care now ranks second in importance in the share of personal consumption spending devoted to it (figure 6.1a). At current rates of change in these shares, health care will overtake housing within five years to become the single largest category of consumption.

6.1a Health care is the second largest component of personal consumption spending by families



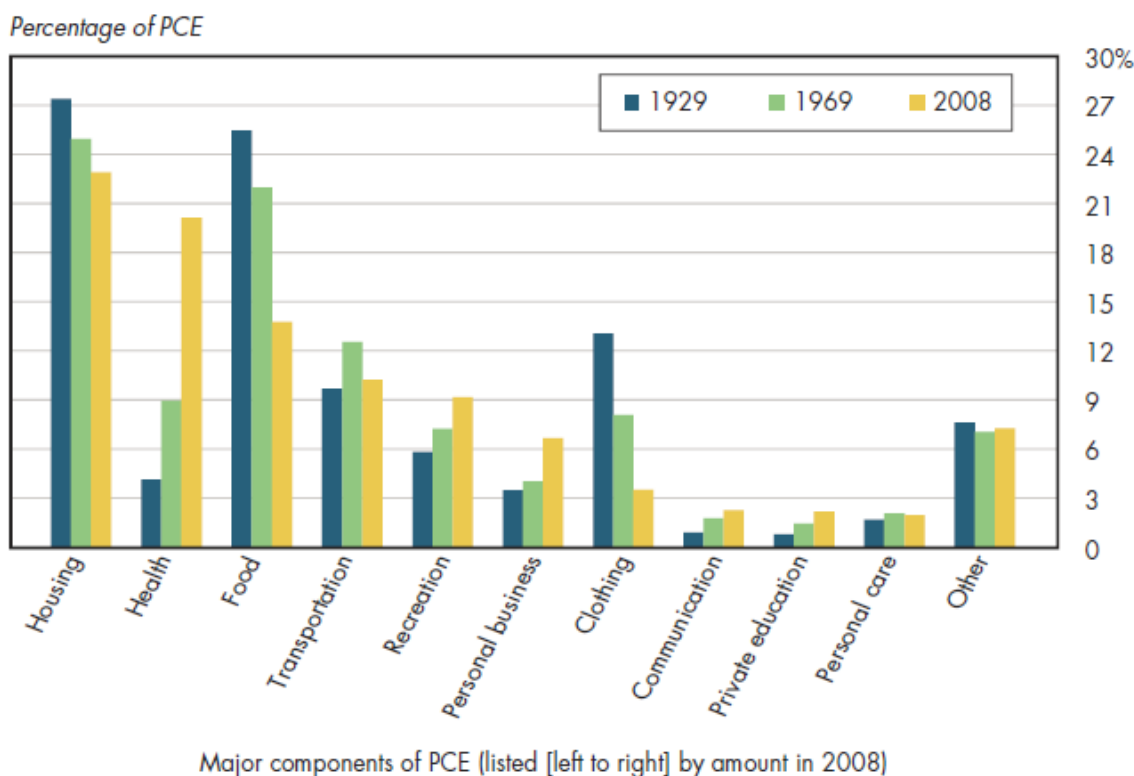
Hospitals and nursing homes account for 40 percent of this health care total, but health consumption also includes payments for medical services and products (for example, pharmaceuticals) and the cost of insurance administration (right side of figure 6.1a). Because this category is intended to measure total consumption

¹This content is available online at <<https://hub.mili.csom.umn.edu/content/m10036/1.1/>>.

of health care goods and services, the total includes both out-of-pocket spending and expenditures covered through public or private health insurance.

The extraordinary productivity of the American economy over the past 80 years has made the necessities of life far more affordable for the typical family. Before the Great Depression, Americans devoted approximately 65 percent of personal consumption spending solely to food, clothing, and shelter (figure 6.1b). By 2008, such necessities constituted only 40 percent of all household consumption. During the same period, health care's share almost quintupled to 20 percent of all personal consumption.

6.1b The health share of family spending has grown as the portion for food, clothing, and shelter has declined



Briefly, the declining share of family spending on necessities over this period more than made up for the rising share of consumption devoted to health care. Health care is not unique in absorbing an ever-rising share of family spending since 1929, but the aggregate increase in its share is by far the largest. Just in the past 40 years, the health share has more than doubled. No other category of consumption exhibits a relative rise of comparable magnitude.

The rising share of consumption devoted to health care reflects higher incomes, more new and costly medical procedures and drugs, an aging population, and the increasing prevalence of public and private health insurance that weakens most incentives to economize on medical care.

1.1 Downloads

Download Excel tables used to create both figures: Figures 6.1a/6.1b Tables². Figures 6.1a and 6.1b both were created from the following table (the workbook includes all supporting tables used to create this table):

- Table 6.1. Distribution of Consumption Expenditures, 1929, 1969, 2008-2012

²<https://hub.mili.csom.umn.edu/content/m10036/latest/6.1TAB.xls>

Download PowerPoint versions of both figures.

- Figure 6.1a Image Slide (as it appears above)³
- Figure 6.1a Editable Slide (can be formatted as desired)⁴
- Figure 6.1b Image Slide (as it appears above)⁵
- Figure 6.1b Editable Slide (can be formatted as desired)⁶

1.2 References

A. Department of Commerce. Bureau of Economic Analysis.

³<https://hub.mili.csom.umn.edu/content/m10036/latest/6.1aIMG.ppt>

⁴<https://hub.mili.csom.umn.edu/content/m10036/latest/6.1aDATA.ppt>

⁵<https://hub.mili.csom.umn.edu/content/m10036/latest/6.1bIMG.ppt>

⁶<https://hub.mili.csom.umn.edu/content/m10036/latest/6.1bDATA.ppt>

Chapter 2

6.2 Direct Family Health Care Spending Accounted for Only 5% Income¹

Only 5 percent of family income pays directly for health care in the form of the worker share of group health premiums and Medicare Part A payroll taxes, voluntary premiums paid for non-group health insurance, Medicare Parts B and D, and out-of-pocket medical expenses not covered by insurance. Thus, even though health care now accounts for more than 20 percent of personal consumption spending, this greatly exaggerates the visibility of health expenditures in a typical family's budget.

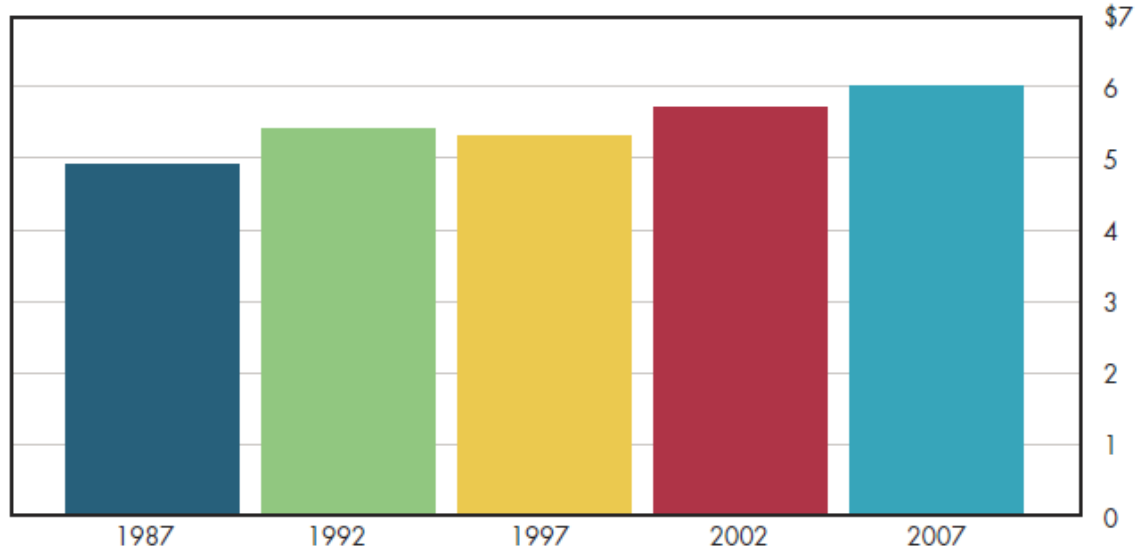
Careful studies have demonstrated that most or all of the cost of employer-paid health premiums actually is borne by workers in the form of lower wages or other forms of fringe benefits. The same logic applies to the 1.45 percent payroll tax paid directly by employers for Medicare Part A (separate from the matching "employee share" that workers see deducted from paychecks). Many (possibly most) workers might not realize this insofar as employer-paid health costs—including workers' compensation or employer-funded on-site health clinics—generally are invisible to them.

Relative to payroll, these directly paid private employer-paid health expenses have risen steadily for decades; even so, such costs are less than \$10 for every \$100 of private wages and salaries (figure 6.2a). In contrast, when compared with pre-tax profits, the ratio of health spending to profits is lowest when the economy is growing and highest during economic recoveries such as in 1992. This pattern is less pronounced in the ratio of business-paid health costs to after-tax profits, which at times has been as high as \$60 to \$70 per \$100 of profits. Yet by 2007, this ratio had declined sharply to less than \$40 per \$100 of profits after taxes.

¹This content is available online at <<https://hub.mili.csom.umn.edu/content/m10037/1.1/>>.

6.2a In terms of direct spending on health care, households largely have been insulated from increasing health costs; businesses have not

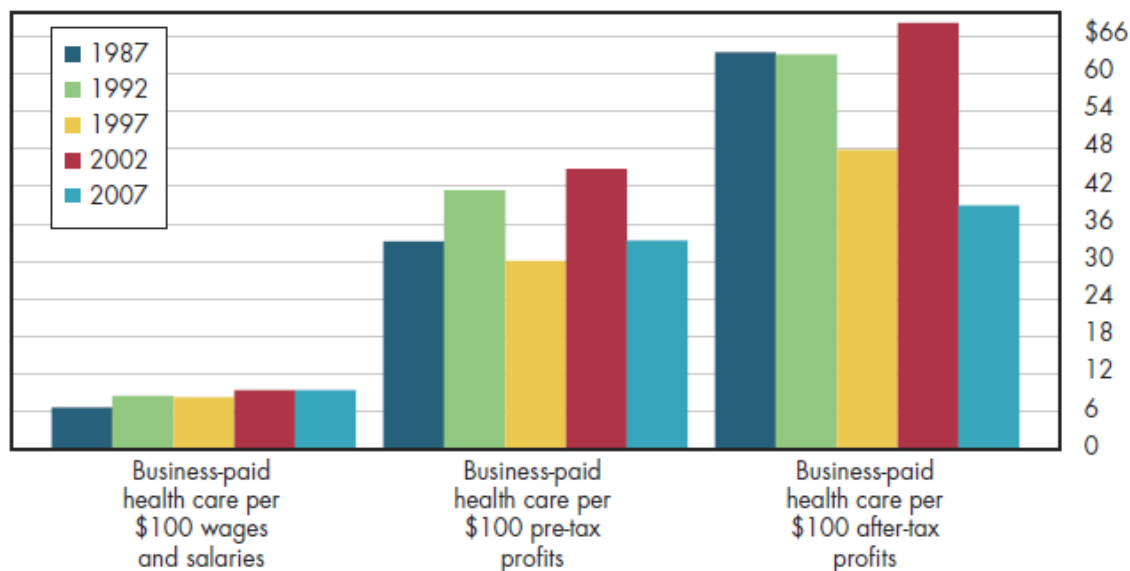
Direct household health spending per \$100 of personal income



Note: In the framework of "health sponsors," household health spending includes only components that are directly paid, including the employee share of group health insurance premiums, the employee share of Medicare Part A payroll taxes, voluntary premiums paid for Medicare Parts B or D and non-group health insurance, and any out-of-pocket spending not covered by public or private insurance.

6.2b Business-paid health spending has increased modestly relative to wages and salaries

Ratio: sponsor-paid health spending to totals (dollars)



Note: In the framework of "health sponsors," business health expenditures include the private employer share of health insurance premiums for workers and dependents, Medicare Part A and workers' compensation, and industrial in-plant health services.

2.1 Downloads

Download Excel tables used to create both figures: Figures 6.2a/6.2b Tables². Figures 6.2a and 6.2b both were created from the following table (the workbook includes all supporting tables used to create this table):

- Table 1.3.8. U.S. National Health Expenditures, by Private Sponsor: 1987 to 2021

Download PowerPoint versions of both figures.

- Figure 6.2a Image Slide (as it appears above)³
- Figure 6.2a Editable Slide (can be formatted as desired)⁴
- Figure 6.2b Image Slide (as it appears above)⁵
- Figure 6.2b Editable Slide (can be formatted as desired)⁶

2.2 References

A. Author's calculations.

B. Department of Health and Human Services. Centers for Medicare and Medicaid Services.

²<https://hub.mili.csom.umn.edu/content/m10037/latest/6.2TAB.xls>

³<https://hub.mili.csom.umn.edu/content/m10037/latest/6.2aIMG.ppt>

⁴<https://hub.mili.csom.umn.edu/content/m10037/latest/6.2aDATA.ppt>

⁵<https://hub.mili.csom.umn.edu/content/m10037/latest/6.2bIMG.ppt>

⁶<https://hub.mili.csom.umn.edu/content/m10037/latest/6.2bDATA.ppt>

Chapter 3

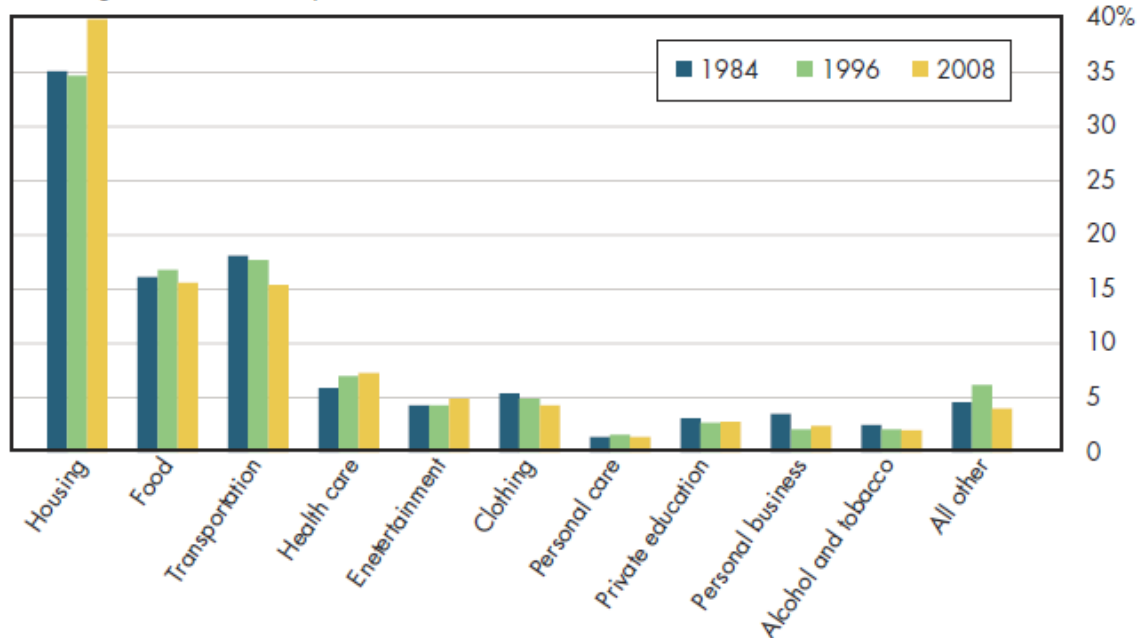
6.3 Health Care Payment Burden Grew Faster among Highest-Income Families¹

Direct purchases of health care comprise only one in 16 dollars of annual household spending in families in the bottom fifth of families ranked by income (figure 6.3a). How can health care comprise 20 percent of household consumption yet only five to seven cents per dollar of spending? The explanation is simple. A huge fraction of family health consumption is financed outside the family (or at least appears to be). For example, the numbers shown in figure 6.3a exclude all tax-financed health care financed by third parties. Although households ultimately pay for such care through their own taxes, the amount of tax-financed care for any given family will almost never match that family's implicit contribution in health-related taxes. Likewise, the numbers also exclude employer-paid premiums for health insurance even though such costs generally are borne by covered workers in the form of lower wages.

¹This content is available online at <<https://hub.mili.csom.umn.edu/content/m10038/1.1/>>.

6.3a Direct health care expenditures constitute only one in 16 dollars spent by the lowest-income families

Percentage of total annual expenditures, families in lowest 20% income before taxes

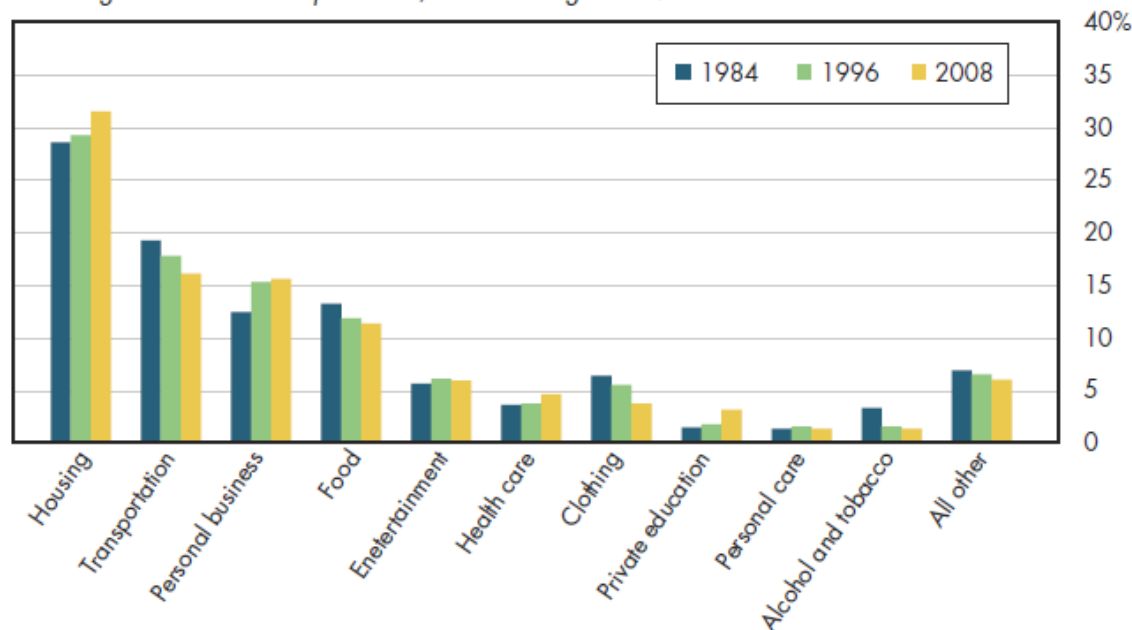


Major components of household expenditures (ranked by size in 2008)

Viewed from this more limited perspective, the health-spending share of family budgets is only slightly higher among the lowest-income families compared with the highest-income families (figure 6.3b). This occurs because so much health care for those at the bottom of the income distribution is financed through taxes. The hidden costs of employer-provided coverage represent a much higher share of income for low-wage workers compared with those who have high salaries or wages. Visible and hidden premium expenses amounted to almost half of family income for those who had the lowest incomes (chapter 4).

6.3b Direct health care expenditures constitute less than one in 20 dollars spent by the highest-income families

Percentage of total annual expenditures, families in highest 20% income bracket before taxes



Major components of household expenditures (ranked by size in 2008)

Even though other components of spending also are subsidized (for example, food assistance, housing programs), the lowest-income families devote almost half of their spending to food, clothing, and shelter. Worth noting also is that in such families, the share of annual spending for alcohol, tobacco, and recreation is only slightly smaller than the health share.

The relative financial burden of health care rose approximately 25 percent between 1984 and 2008. Growth in this burden was slightly faster among the highest-income households relative to those in the lowest-income group. A different result emerges when the hidden costs of health care are allocated to the households that actually incur them.

3.1 Downloads

Download Excel tables used to create both figures: Figures 6.3a/6.3b Tables². Figures 6.3a and 6.3b both were created from the following table (the workbook includes all supporting tables used to create this table):

- Table 6.3. Distribution of Average Annual Expenditures for Families in the Lowest and Highest Quintiles of Income Before Taxes, 1984, 1996, 2008

Download PowerPoint versions of both figures.

- Figure 6.3a Image Slide (as it appears above)³
- Figure 6.3a Editable Slide (can be formatted as desired)⁴
- Figure 6.3b Image Slide (as it appears above)⁵

²<https://hub.mili.csom.umn.edu/content/m10038/latest/6.3TAB.xls>

³<https://hub.mili.csom.umn.edu/content/m10038/latest/6.3aIMG.ppt>

⁴<https://hub.mili.csom.umn.edu/content/m10038/latest/6.3aDATA.ppt>

⁵<https://hub.mili.csom.umn.edu/content/m10038/latest/6.3bIMG.ppt>

- Figure 6.3b Editable Slide (can be formatted as desired)⁶

3.2 References

- A. Department of Labor. Bureau of Labor Statistics.

⁶<https://hub.mili.csom.umn.edu/content/m10038/latest/6.3bDATA.ppt>

Chapter 4

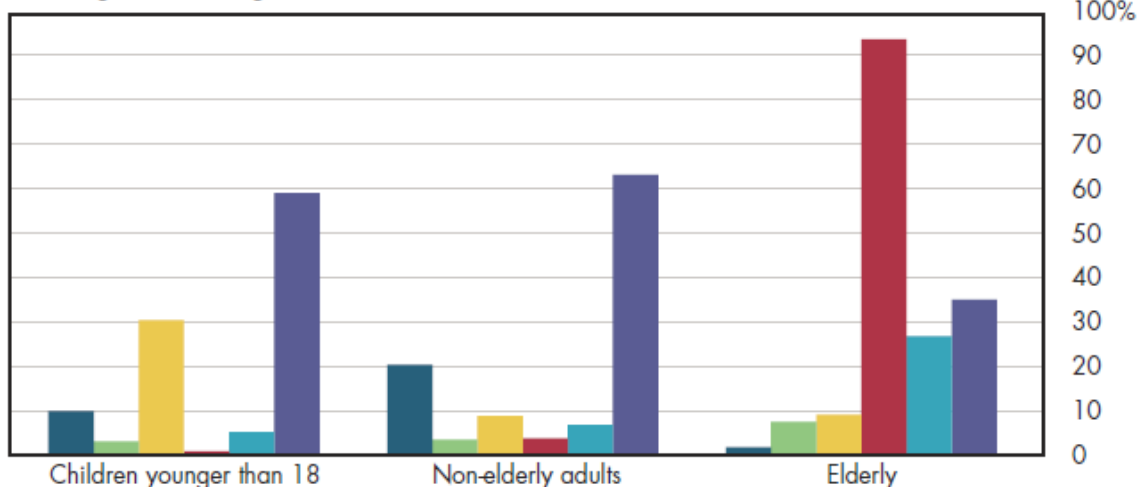
6.4 Elderly and Children Rely More Heavily on Tax-Financed Health Coverage¹

Approximately 60 percent of non-elderly adults and children rely principally on employer-provided coverage (figure 6.4a). In contrast, those 65 and older rely extensively on Medicare, although many also have supplemental private insurance through an employer or a policy that is directly purchased.

6.4a Most non-elderly rely on private health insurance coverage, typically through an employer health plan

■ Uninsured ■ Military ■ Medicaid ■ Medicare ■ Non-group HI ■ Employer-sponsored HI

Percentage with coverage (March 2009)



Note: HI = health insurance.

Medicaid covers much of the residual gap in coverage for children, but plays a much smaller corresponding role for non-elderly adults. Adults are twice as likely to be uninsured, even though they have somewhat higher

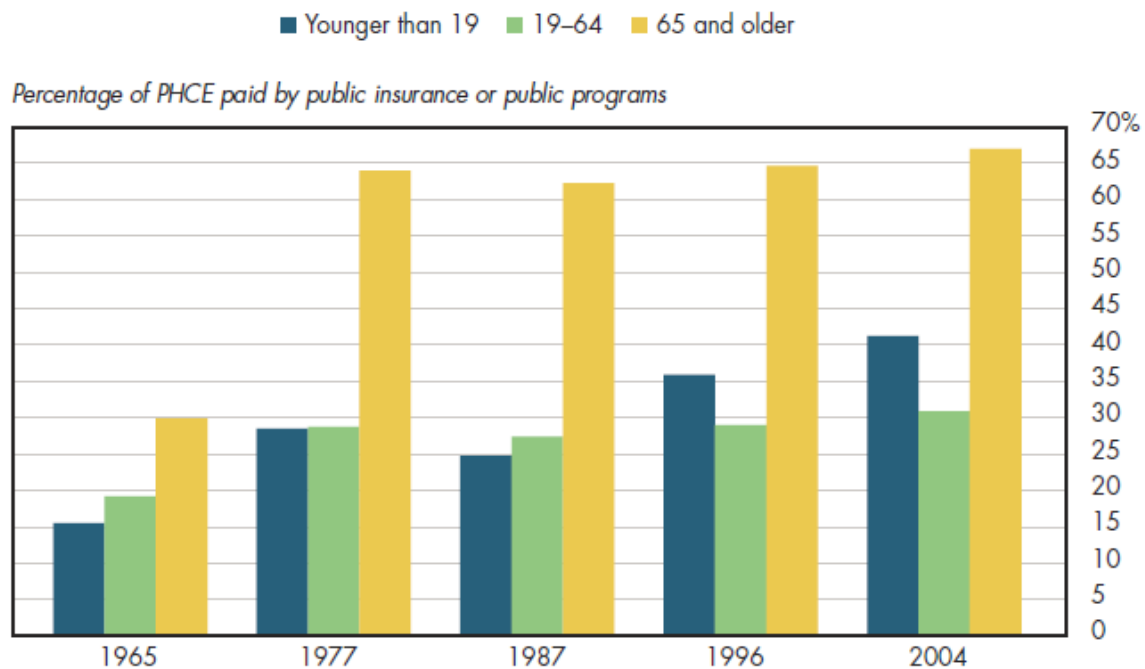
¹This content is available online at <<https://hub.mili.csom.umn.edu/content/m10039/1.2/>>.

rates of coverage for non-group, military, and Medicare compared with coverage for children.

More than nine of every 10 elderly are covered by Medicare. Medicare Part A (predominantly hospital and nursing home care) is provided at no cost to those qualifying for Social Security. Medicare Part B (predominantly physician and home health care) and Medicare Part D (prescription drugs) require the payment of premiums. These premiums amount to approximately one-fourth of the cost of Parts B and D benefits. All components also have patient cost-sharing in the form of deductibles and copayments. The percentage covered by Medicaid is almost identical for non-elderly and elderly adults, but almost all of the latter group are so-called "dual eligible." This means that they also qualify for Medicare; thus, Medicaid covers all or some of their premium payments and cost-sharing obligations. Fewer than 2 percent of the elderly are uninsured.

Public programs finance 65 percent of health spending by the elderly and 40 percent of expenditures for children (figure 6.4b). In contrast, the public program share of health spending for adults younger than age 65 is less than half that of the aged. Data for all the years shown are not available, but in 2007, Medicaid covered 75 percent of the tax-financed amount of medical care provided to children. In contrast, for the elderly, Medicare financed 75 percent of the public spending for health care.

6.4b The elderly depend most heavily on publicly provided health care, which covers approximately two-thirds of their medical costs



Note: Public insurance includes Medicare. Because a portion of Medicare spending is paid through voluntary premium payments, the entire amount should not be viewed as taxpayer-financed spending even though Medicare is categorized as "federal" spending in the standard National Health Expenditure Accounts framework.

Taking into account the hidden tax expenditures discussed previously, public programs finance more than half of health spending for both children and non-elderly adults—considerably narrowing the gap between these two groups and the elderly.

4.1 Downloads

Download Excel workbooks used to create Figure 6.4a Table² and Figure 6.4b Table³. [Note that you'd have separate links for each set of tables] Figures 6.4a and 6.4b were created from the following tables (the workbook includes all supporting tables used to create these tables):

- Fig. 6.4a: Table 6.4.1. Health Insurance Coverage, by Age, March 2009
- Fig. 6.4b: Table 6.4.2. Per Capita Personal Health Expenditures, by Age, Selected Years

Download PowerPoint versions of both figures.

- Figure 6.4a Image Slide (as it appears above)⁴
- Figure 6.4a Editable Slide (can be formatted as desired)⁵
- Figure 6.4b Image Slide (as it appears above)⁶
- Figure 6.4b Editable Slide (can be formatted as desired)⁷

4.2 References

- A. Department of Commerce. Bureau of the Census.

²<https://hub.mili.csom.umn.edu/content/m10039/latest/6.4aTAB.xls>

³<https://hub.mili.csom.umn.edu/content/m10039/latest/6.4bTAB.xls>

⁴<https://hub.mili.csom.umn.edu/content/m10039/latest/6.4aIMG.ppt>

⁵<https://hub.mili.csom.umn.edu/content/m10039/latest/6.4aData.ppt>

⁶<https://hub.mili.csom.umn.edu/content/m10039/latest/6.4bIMG.ppt>

⁷<https://hub.mili.csom.umn.edu/content/m10039/latest/6.4bDATA.ppt>

Chapter 5

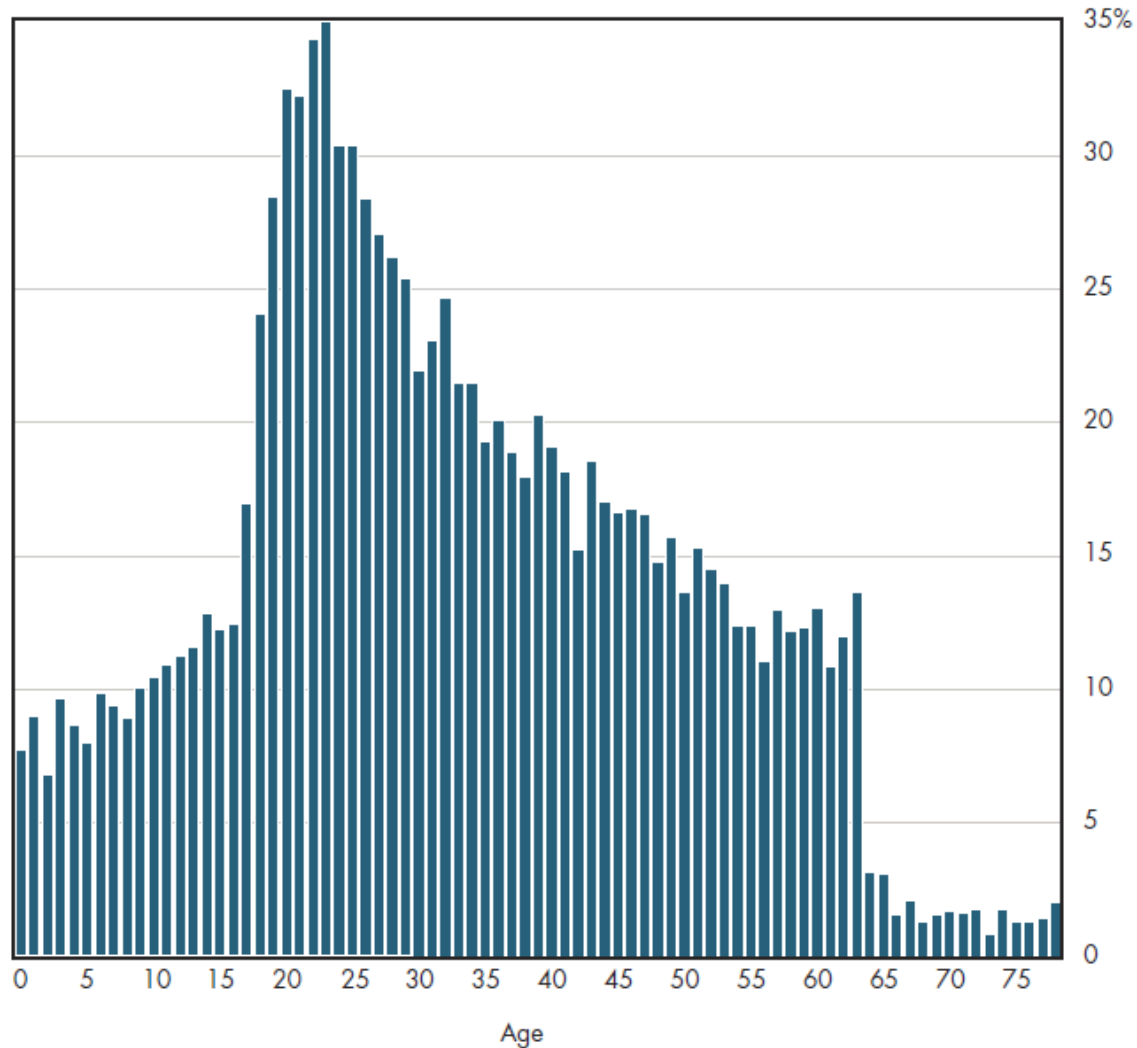
6.5 Young Adults Incur High Risk of Being Uninsured¹

A more detailed view of the uninsured makes obvious that lack of coverage rises during teenage years and peaks in the early 20s. As indicated in figure 6.5, in subsequent years, the rate of being uninsured declines rather steadily until a sharp drop-off among those age 65 and older.

¹This content is available online at <<https://hub.mili.csom.umn.edu/content/m10040/1.3/>>.

6.5 The probability of being uninsured is much higher among young adults

Percent uninsured (March 2009)



Over the past 25 years, a series of Medicaid expansions (starting in the mid-1980s) and SCHIP contributed to reducing the uninsured risk, especially among infants and children younger than age six. Young adults face a higher risk of being uninsured not only because many entry-level jobs do not offer coverage but also because they generally have lower incomes than established workers do, and their perceived need for coverage also is lower than that of older workers. Even though age-related premiums are legally permissible, employer coverage usually is community-rated, so the employee share of the premium is typically the same for all workers even though the youngest workers are less likely to use the plan. Thus, even when the employer pays 80 percent of the premium, such coverage is less of a deal for younger workers than for older workers. For all these reasons, young workers are less likely to be willing to pay the costs of offered coverage or to obtain non-group coverage when their employer elects not to offer a plan.

More generally, both the need for coverage and earnings typically increase with age, contributing to an increase in the demand for health coverage that levels off for those in their early 50s. Because a large number of retirees automatically qualify for Medicare coverage, the residual number without any coverage at all is quite small. Such uninsured elderly might not have a long enough earnings history to qualify for Medicare,

or they might have been in a category of worker not covered by Medicare (for example, government workers were not required to be covered until the 1980s).

If health reform is fully implemented, the absolute number of uninsured will decline, but this age profile is likely to persist. Because the new health law moves the system further in the direction of community rating, many young people are likely to find it is less expensive to pay the penalty for not having coverage than to purchase it.

5.1 Downloads

Download Excel tables used to create figure: Figure 6.5 Table² . Figure 6.5 was created from the following table (the workbook includes all supporting tables used to create this table):

- Table 6.5. Distribution of Persons Who are Uninsured, By Age, 2009 and 2012

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- Figure 6.5 Image Slide (as it appears above)³
- Figure 6.5 Editable Slide (can be formatted as desired)⁴

5.2 References

A. Department of Commerce. Bureau of the Census.

²<https://hub.mili.csom.umn.edu/content/m10040/latest/6.5TAB.xls>

³<https://hub.mili.csom.umn.edu/content/m10040/latest/6.5IMG.ppt>

⁴<https://hub.mili.csom.umn.edu/content/m10040/latest/6.5DATA.ppt>

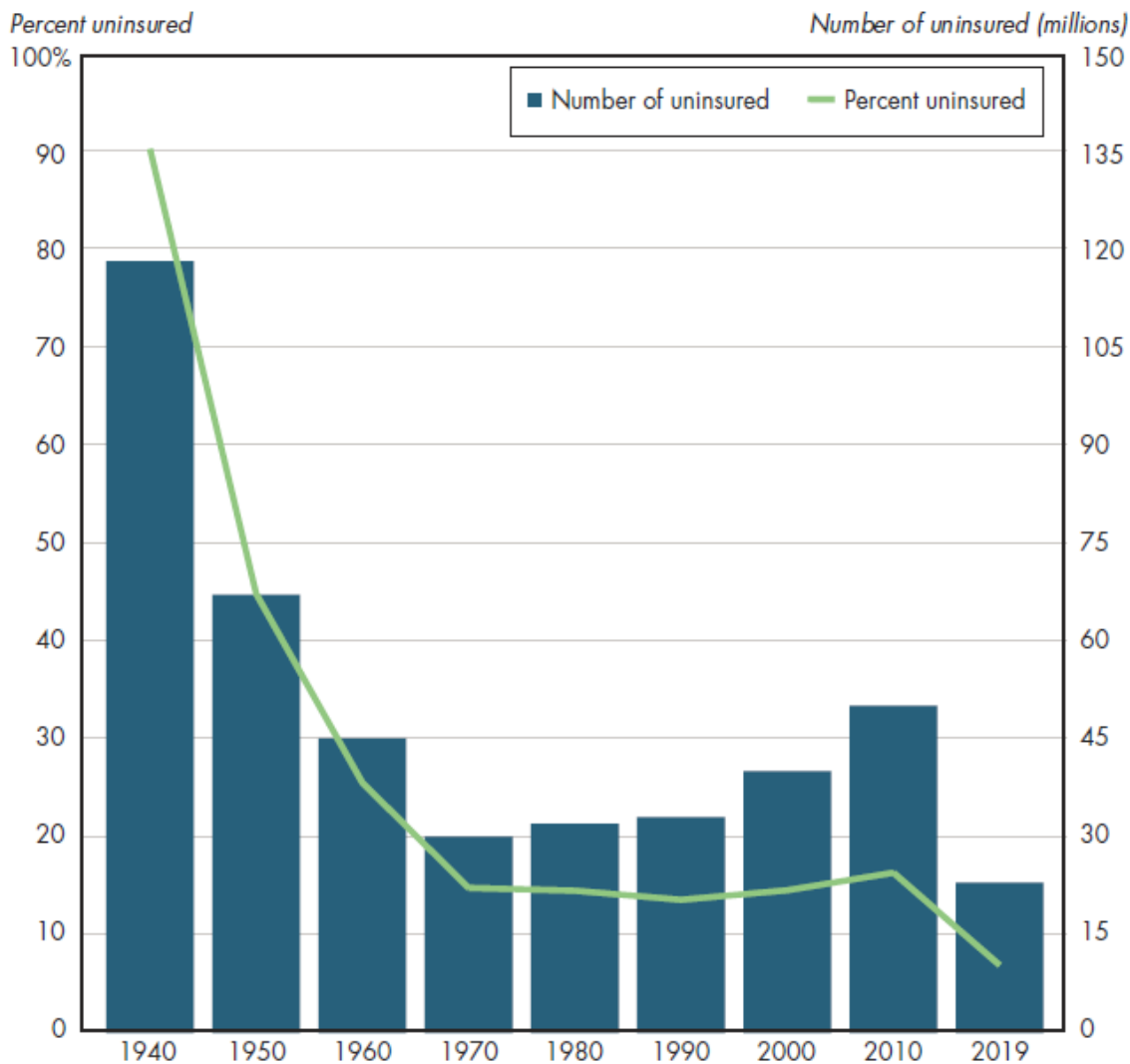
Chapter 6

6.6 American's Risk of Being Uninsured, 1940-2010¹

Over 70 years, the uninsured rate has declined by more than 80 percent (figure 6.6). It is noteworthy to see how much of this decline occurred before the arrival of Medicare and Medicaid. In 1940, approximately nine of 10 Americans lacked health insurance coverage. By 1960, this had fallen to 25 percent. This dramatic decline reflected the enormous expansion of employer-based health coverage fueled by the tax subsidy that began in 1943.

¹This content is available online at <<https://hub.mili.csom.umn.edu/content/m10041/1.2/>>.

6.6 The risk of being uninsured has decreased by more than 80 percent between 1940 and 2010



Note: Data simulate the gross number of uninsured as if measured by today's Current Population Survey. No adjustments have been made for the 10% to 20% over-counting of uninsured by the CPS.

These numbers are approximations for the earliest decades. The nation did not start to seriously measure the extent of lack of coverage until the mid-1970s. Before that time, only insurance industry surveys of members who might have duplicate coverage across various types of policies exist (for example, hospital insurance). Thus, using assumptions about the fraction of the population without any coverage and how much overlap there was between policies of various types and then subtracting this insured number from the total population provides a count of the uninsured. Today, the most widely quoted current numbers about the uninsured come from the Current Population Survey (CPS), which did not start collecting a consistent measure of coverage until 1988. Now there are multiple surveys, each with various shortcomings. The point is that the numbers for 1990 forward are a better approximation of the truth than the numbers that precede it.

By 1970, the uninsured rate had fallen to less than 15 percent, reflecting continued expansion of employer-

provided coverage and the introduction of Medicare and Medicaid. As will be shown, there is substantial evidence of "crowd-out" of private health coverage by both programs, so the entire decline cannot be attributed to public coverage. After 1970, the uninsured rate remained quite stable for decades. The slight increase between 1990 and 2010 is barely a blip from this much longer-term view.

Official government projections of what is supposed to happen to the uninsured rate if health reform is fully implemented are included. If this will happen remains to be seen, but the 2019 number is simply a reminder that the health reform plan did not intend, nor will it possibly achieve, universal coverage. Some 20 million uninsured Americans would still be uninsured that year, according to official forecasts.

6.1 Downloads

Download Excel tables used to create figure: Figure 6.6 Table² . Figure 6.6 was created from the following table (the workbook includes all supporting tables used to create this table):

- Table 6.6. Number of Uninsured and Percentage of Population Without Health Insurance Coverage, by Decade, 1940-2021

Download PowerPoint versions of figure.

- Figure 6.6 Image Slide (as it appears above)³
- Figure 6.6 Editable Slide (can be formatted as desired)⁴

6.2 References

- Author's calculations.
- Department of Commerce. Bureau of the Census.
- Health Insurance Association of America. Source Book of Health Insurance Data 1986/1987. Table 1.1. Washington DC. HIAA 1987.

²<https://hub.mili.csom.umn.edu/content/m10041/latest/6.6TAB.xls>

³<https://hub.mili.csom.umn.edu/content/m10041/latest/6.6IMG.ppt>

⁴<https://hub.mili.csom.umn.edu/content/m10041/latest/6.6DATA.ppt>

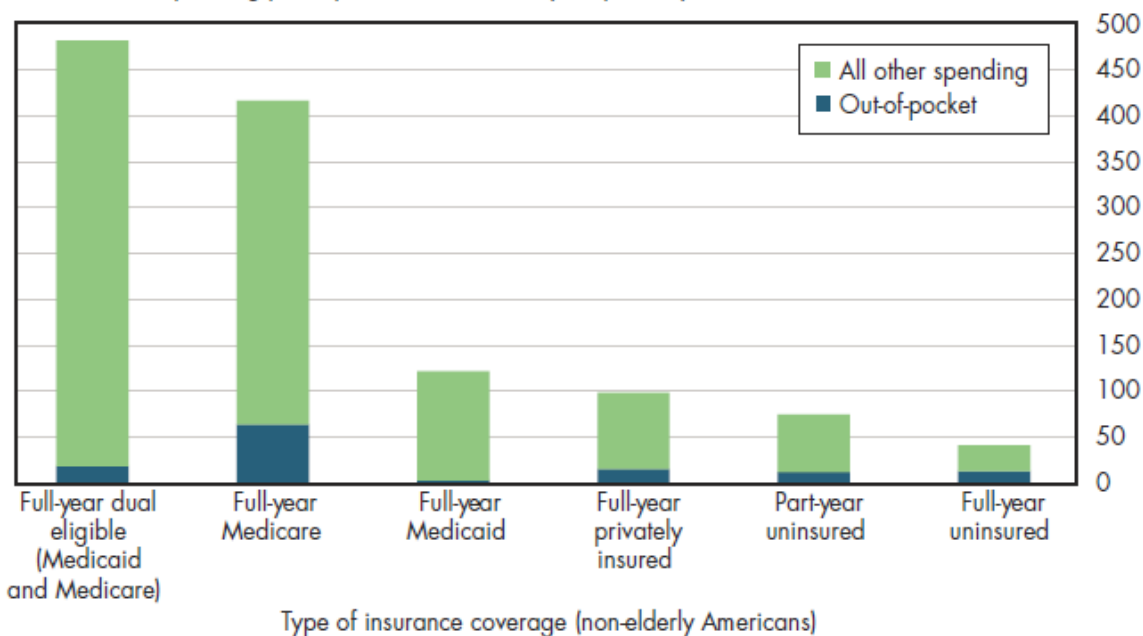
Chapter 7

6.7 Majority of Health Costs for Uninsured People Are Subsidized¹

Per capita health costs for non-elderly individuals who are uninsured for the entire year are less than half the medical spending for their counterparts who have private insurance coverage (figure 6.7a). Slightly more than half of those who are uninsured at least some portion of the year are without coverage the entire year. In any given year, the part-year uninsured lack coverage for approximately six months. Therefore, individuals uninsured the entire year constitute approximately 70 percent of the number of uninsured on any given day.

6.7a Annual health spending for a non-elderly person uninsured all year is less than half the amount for those privately insured all year

Annual health spending per capita index: 100=full year privately insured (2008)



Note: Estimated spending for full year privately insured individuals younger than age 65 was \$3,914 in 2008.

¹This content is available online at <<https://hub.mili.csom.umn.edu/content/m10042/1.2/>>.

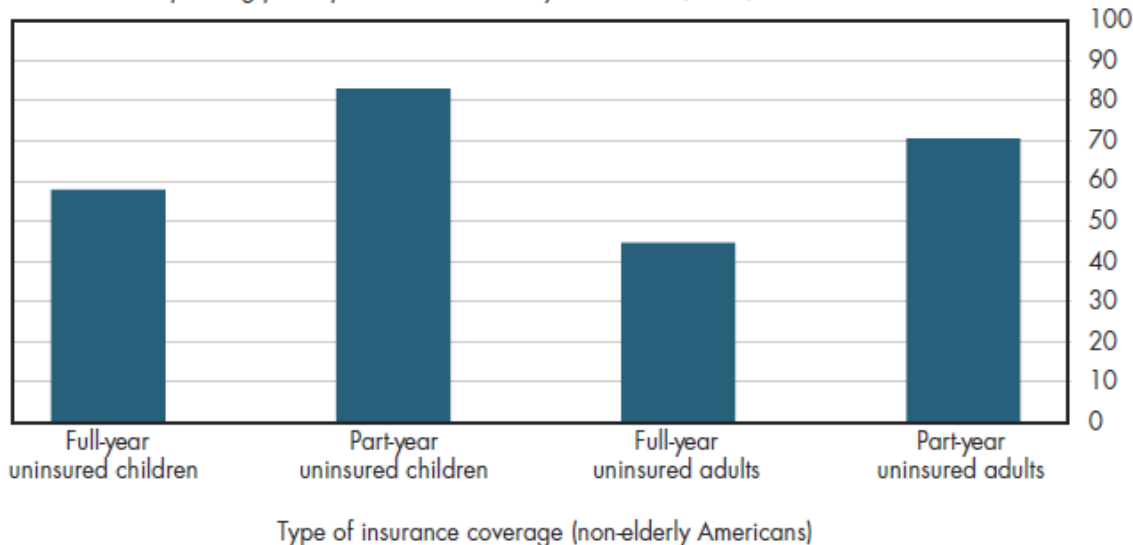
Although they are uninsured half the year, seven-eighths of spending for the part-year uninsured occurs during the portion of the year they are insured. This reflects the higher propensity of insured people to get care, but it also reflects strategic behavior by those drifting in and out of coverage. By deferring care when uninsured and using care as much as feasible if they know they are likely to lose coverage, they minimize the out-of-pocket burden associated with being without coverage.

Per capita spending on those privately insured all year is lower than for those on Medicaid the entire year. This disparity would be even larger if Medicaid payments to hospitals and doctors matched the levels paid by private health plans. Much of the difference reflects Medicaid coverage of expensive services not covered by standard private health plans (for example, long-term care costs such as extended nursing-home stays or home health for those whose condition is not likely to improve). The average non-elderly person covered by Medicare (that is, work-disabled) or Medicaid is in worse health than those who have private coverage.

Access to care appears to be somewhat better for uninsured children relative to uninsured adults. Spending for full-year uninsured children is approximately 60 percent of the level of statistically equivalent individuals having coverage the entire year; for their counterparts who are adults, spending is less than half that for equivalent adults having full-year coverage (figure 6.7b). Publicly subsidized care might be more accessible to children (for example, free clinics); likewise, the propensity for care-seeking among uninsured adults—some who have chosen to be uninsured— might be lower.

6.7b Relative to their adult counterparts, uninsured children have annual spending that is closer to the levels of those covered all year

Annual health spending per capita index: 100=full year insured (2008)



Note: All data compare estimated spending for the uninsured in each category to simulated spending if the individuals in each category were fully insured, taking into account differences in health status, demographic, and socioeconomic characteristics.

7.1 Downloads

Download Excel workbooks used to create Figure 6.7a Table² and Figure 6.7b Table³. [Note that you'd have separate links for each set of tables] Figures 6.7a and 6.7b were created from the following tables (the workbook includes all supporting tables used to create these tables):

²<https://hub.mili.csom.umn.edu/content/m10042/latest/6.7aTAB.xls>

³<https://hub.mili.csom.umn.edu/content/m10042/latest/6.7bTAB.xls>

- Fig. 6.7a: Table 6.7.1. Indexed Per Capita Spending for Insured and Uninsured Patients, by Source of Payment, 2008
- Fig. 6.7b: Table 6.7.2. Health Spending Per Capita for Uninsured to Simulated Spending if They Were Fully Insured

Download PowerPoint versions of both figures.

- Figure 6.7a Image Slide (as it appears above)⁴
- Figure 6.7a Editable Slide (can be formatted as desired)⁵
- Figure 6.7b Image Slide (as it appears above)⁶
- Figure 6.7b Editable Slide (can be formatted as desired)⁷

7.2 References

- A. Author's calculations.
- B. Hadley J, J Holahan, T Coughlin and D Miller. Covering the Uninsured in 2008: A Detailed Examination of Current Costs and Sources of Payment, and Incremental Costs of Expanding Coverage. Prepared for the Kaiser Commission on Medicaid and the Uninsured. Kaiser Commission on Medicaid and the Uninsured. Washington DC. August 2008.

⁴<https://hub.mili.csom.umn.edu/content/m10042/latest/6.7aIMG.ppt>

⁵<https://hub.mili.csom.umn.edu/content/m10042/latest/6.7aDATA.ppt>

⁶<https://hub.mili.csom.umn.edu/content/m10042/latest/6.7bIMG.ppt>

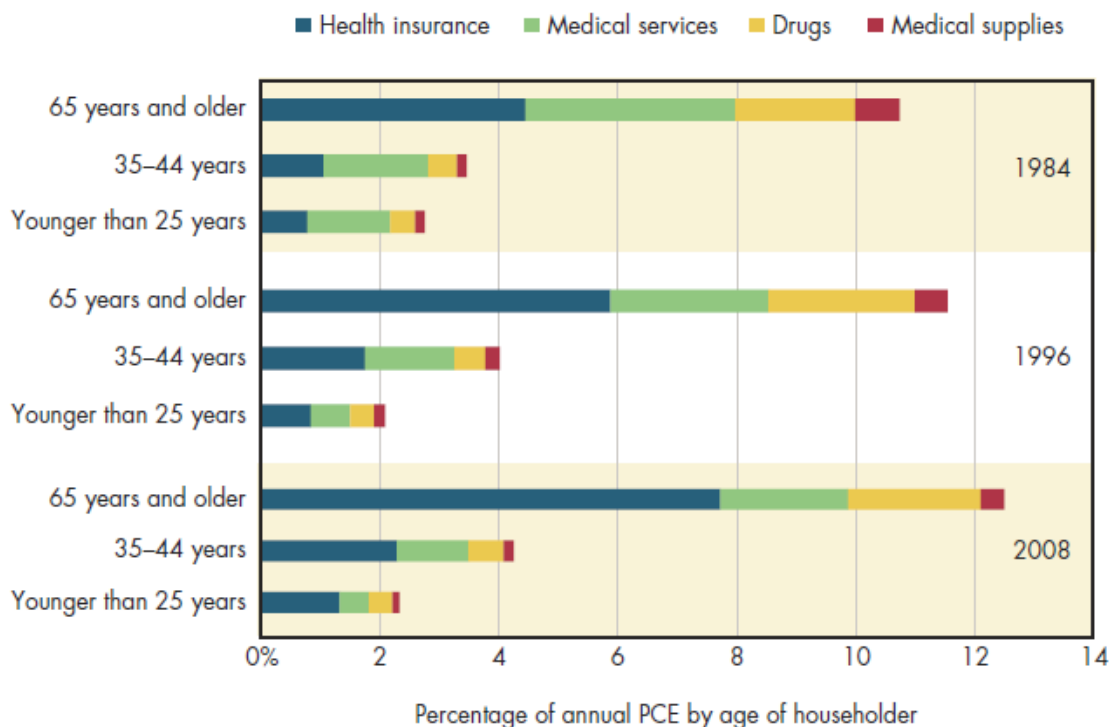
⁷<https://hub.mili.csom.umn.edu/content/m10042/latest/6.7bDATA.ppt>

Chapter 8

6.8 Elderly-Headed Households Spent Big and Increasing Share on Health¹

Despite the near-universal coverage of the elderly through Medicare, households headed by those 65 and older devote a considerably higher fraction of household spending for health care compared with households headed by younger adults. Moreover, over the past 25 years, the health care share has grown faster in elderly households compared with non-elderly households (figure 6.8a).

6.8a The share of consumption spending devoted to health has grown faster in elderly households than in non-elderly households



The relative difference in shares would be much smaller if the hidden costs of health coverage were taken into account. The amounts shown for health insurance include only the employee share of premiums. Because

¹This content is available online at <<https://hub.mili.csom.umn.edu/content/m10043/1.1/>>.

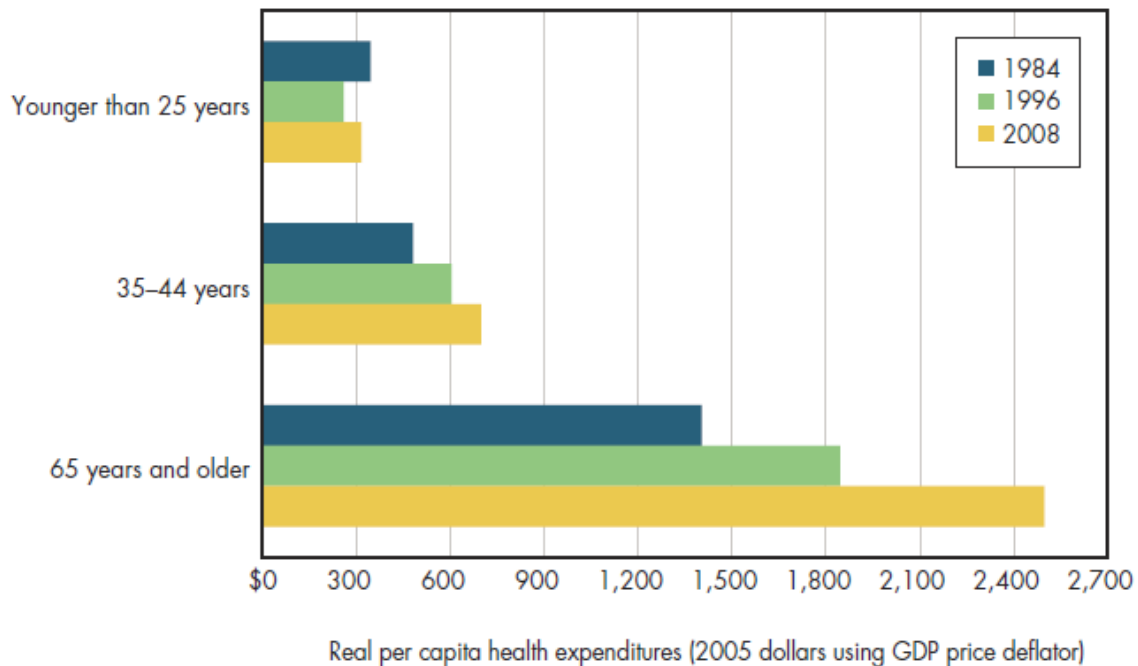
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the average employer contributes approximately 80 percent of premiums for coverage provided through work, the amounts shown for health insurance premiums would have to be almost quadrupled were this cost made visible.

The large increase in the health insurance premium share of family spending for elderly households between 1996 and 2008 reflects the introduction of Medicare Part D drug coverage. Except for low-income households eligible for subsidies, Part D requires the payment of a premium covering approximately 25 percent of the costs covered by the benefit. It is interesting to note that little of this increase in premiums was offset by a corresponding decline in the share of household spending for out-of-pocket pharmaceutical payments.

Real health spending also has increased far more rapidly for elderly households than for non-elderly households, increasing by more than \$1,000 in the past 25 years (figure 6.8b). Remember that this includes only direct spending by households and excludes the significant share of spending financed by taxes.

6.8b Real household spending on health has increased much more rapidly in elderly households than in non-elderly households



Among non-elderly households, the health spending share has grown slowly but steadily over 25 years in households headed by 35-44 year olds, whereas the health spending share of household consumption spending for households headed by those younger than age 25 is currently somewhat less than it was 25 years earlier.

8.1 Downloads

Download Excel tables used to create both figures: Figures 6.8a/6.8b Tables². Figures 6.8a and 6.8b both were created from the following table (the workbook includes all supporting tables used to create this table):

- Table 6.8. Health Care Spending as a Share of Average Annual Personal Consumption Expenditures, By Householder Age, 1984, 1996, and 2008

Download PowerPoint versions of both figures.

²<https://hub.mili.csom.umn.edu/content/m10043/latest/6.8TAB.xls>

- Figure 6.8a Image Slide (as it appears above)³
- Figure 6.8a Editable Slide (can be formatted as desired)⁴
- Figure 6.8b Image Slide (as it appears above)⁵
- Figure 6.8b Editable Slide (can be formatted as desired)⁶

8.2 References

- A. Author's calculations.
- B. Department of Labor. Bureau of Labor Statistics.

³<https://hub.mili.csom.umn.edu/content/m10043/latest/6.8aIMG.ppt>

⁴<https://hub.mili.csom.umn.edu/content/m10043/latest/6.8aData.ppt>

⁵<https://hub.mili.csom.umn.edu/content/m10043/latest/6.8bIMG.ppt>

⁶<https://hub.mili.csom.umn.edu/content/m10043/latest/6.8bDATA.ppt>

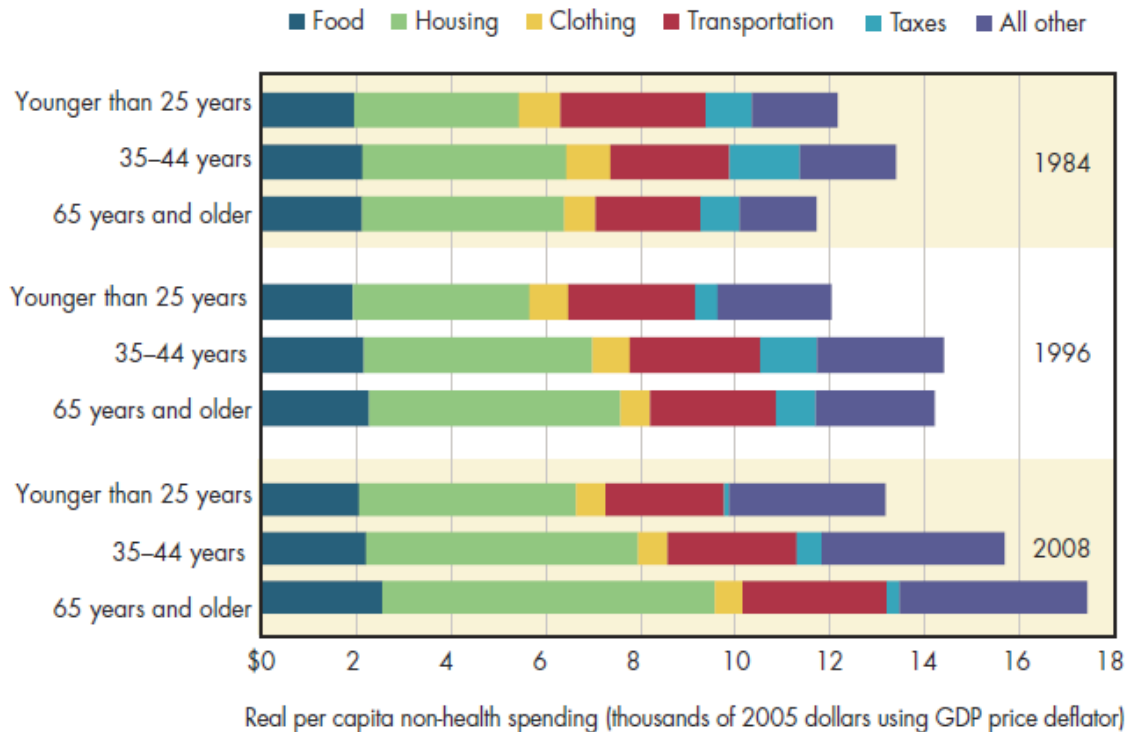
Chapter 9

6.9 Non-Health Spending Per Person in Elderly Households Is Higher¹

Although households headed by those 65 and older spend a higher fraction of their income on health care, the per capita resources left over to spend on everything else are higher than in households headed by the non-elderly (figure 6.9a). This might seem counterintuitive, but it has occurred because growth in real total spending in elderly households has outpaced that of younger households over the past 25 years. Note that these numbers are based on household surveys of consumer expenditures that reflect actual spending on health care (out-of-pocket costs and premium spending by each family).

¹This content is available online at <<https://hub.mili.csom.umn.edu/content/m10044/1.2/>>.

6.9a Real per capita non-health spending currently is higher in households headed by elderly people; this was not true in 1984



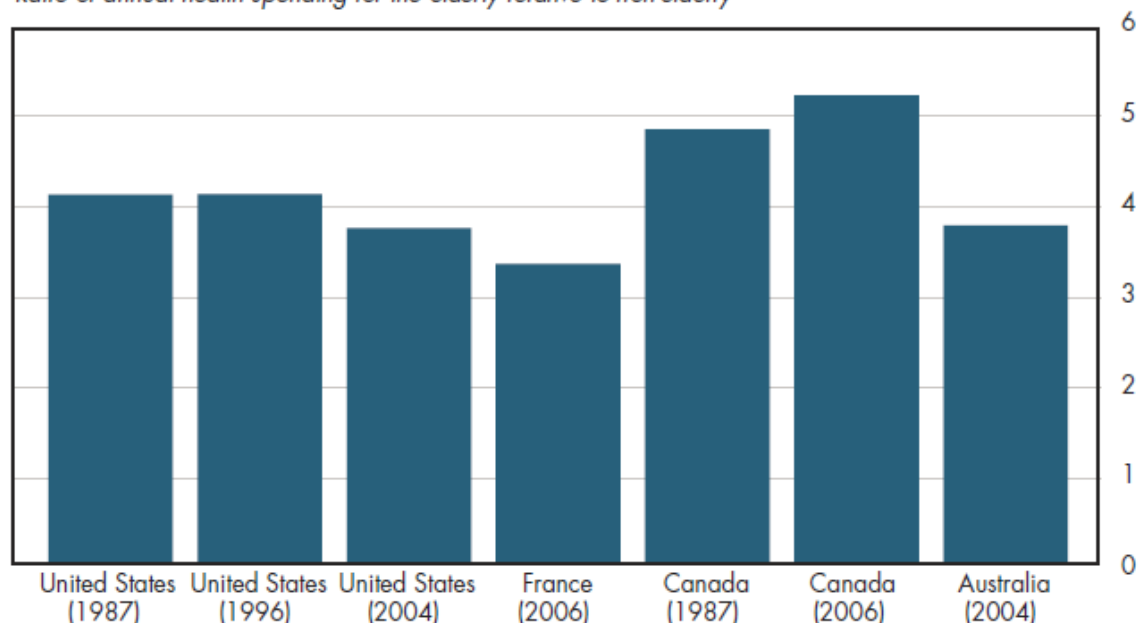
In terms of constant purchasing power, elderly households 25 years ago lagged behind households headed by younger adults in terms of the amount available per capita for all other consumption except health. By 1996, per capita non-health consumption for the elderly outpaced that of the youngest households by more than \$2,000—a gap that grew to \$4,000 by 2008. This demonstrates the importance of comparing health spending burdens across households both in relative terms (per - cent of income or expenditures) and as absolute dollar amounts (both health and non-health spending).

To summarize, this increase in consumption by the elderly resulted in higher health spending (shown previously) and higher spending in almost all categories of non-health spending.

Unfortunately, comparative data on elderly health spending relative to non-elderly spending is sparse. In the United States, this ratio is approximately the same as that in other European countries, but markedly lower than in Canada (figure 6.9b). Taken at face value, it appears that this ratio is declining in the United States while increasing in Canada. Such sparse data do not allow strong conclusions about any trends. The recently enacted health reform law likely would reduce this ratio further because, on balance, it increases spending mostly for non-elderly uninsured while reducing expenditures for Medicare. Thus, why the ratios would be so divergent in countries having near-universal coverage is somewhat puzzling.

6.9b The ratio of annual health spending for the elderly relative to the non-elderly is similar in the United States and in other countries

Ratio of annual health spending for the elderly relative to non-elderly



9.1 Downloads

Download Excel workbooks used to create Figure 6.9a Table² and Figure 6.9b Table³. [Note that you'd have separate links for each set of tables] Figures 6.9a and 6.9b were created from the following tables (the workbook includes all supporting tables used to create these tables):

- Fig. 6.9a: Table 6.9.1. Health Care Spending as a Share of Average Annual Personal Consumption Expenditures, By Householder Age, 1984, 1996, and 2008
- Fig. 6.9b: Table 6.9.2. Ratio of Health Spending Per Capita for Elderly Relative to Non-Elderly: 1987, 1996, 2005, 2004, 2006

Download PowerPoint versions of both figures.

- Figure 6.9a Image Slide (as it appears above)⁴
- Figure 6.9a Editable Slide (can be formatted as desired)⁵
- Figure 6.9b Image Slide (as it appears above)⁶
- Figure 6.9b Editable Slide (can be formatted as desired)⁷

9.2 References

A. Author's calculations.

²<https://hub.mili.csom.umn.edu/content/m10044/latest/6.9aTAB.xls>

³<https://hub.mili.csom.umn.edu/content/m10044/latest/6.9bTAB.xls>

⁴<https://hub.mili.csom.umn.edu/content/m10044/latest/6.9aIMG.ppt>

⁵<https://hub.mili.csom.umn.edu/content/m10044/latest/6.9aData.ppt>

⁶<https://hub.mili.csom.umn.edu/content/m10044/latest/6.9bIMG.ppt>

⁷<https://hub.mili.csom.umn.edu/content/m10044/latest/6.9bDATA.ppt>

- B. Department of Labor. Bureau of Labor Statistics.
- C. Organisation for Economic Co-operation and Development.

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Keywords are listed by the section with that keyword (page numbers are in parentheses). Keywords do not necessarily appear in the text of the page. They are merely associated with that section. *Ex.* apples, § 1.1 (1) **Terms** are referenced by the page they appear on. *Ex.* apples, 1

H health spending, § 1(1), § 2(5), § 3(9), § 4(13), § 5(17), § 6(21), § 7(25), § 8(29), § 9(33)

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