

SNAPSHOTS: HEALTH CARE COSTS



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Distribution of Out-of-Pocket Spending for Health Care Services May 2006

How much people should pay out-of-pocket for health care is a much-debated issue in health policy. New health insurance products with higher out-of-pocket shares are becoming more evident in the private market, and some states are considering ways to increase enrollee financial responsibility in state Medicaid programs. This paper presents information about current out-of-pocket spending by individuals with the purpose of providing context for future health policy discussions.

Current proposals suggest that increasing the amount that people must pay directly out-of-pocket for their health care at the point of service will encourage them to make more efficient and better health care decisions, leading to an overall reduction in health care expenditures. Discussions about out-of-pocket responsibility often focus on the overall percentage of health expenditures that are paid out-of-pocket -- roughly 20% based on the 2003 Medical Expenditure Panel Survey (MEPS).¹ There is, however, considerable variation in the amounts and percentages that people pay out-of-pocket for health care today. The paper breaks out total and out-of-pocket expenditures along several dimensions, including level of spending, service type and poverty level for two population groups -- all people and nonelderly people with private health insurance.² Our goal is to enhance public understanding of how total and out-of-pocket health care expenditures are distributed across the population.

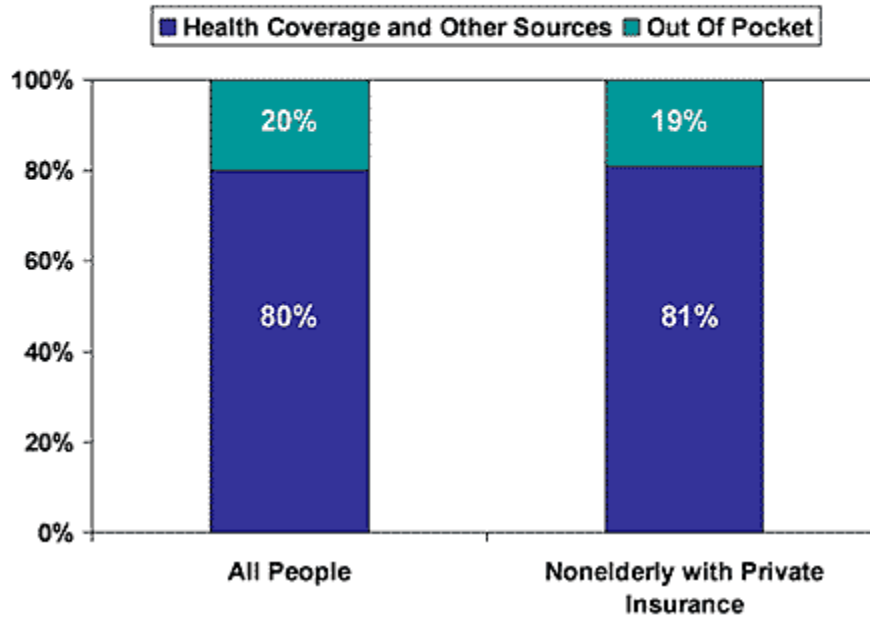
The information below is based on data from the 2003 Medical Expenditure Panel Survey (MEPS), Household Component. MEPS is a national probability survey of the U.S. civilian population residing outside of institutions, conducted by the Agency for Healthcare Research and Quality. The survey provides detailed information on the demographic characteristics, health care use and health care expenditures costs for this population. See <http://www.meps.ahrq.gov/Puf/PufDetail.asp?ID=194/> for additional description of the 2003 MEPS consolidated file.

This paper focuses on expenditures paid for health care services and not on premiums paid by families. Current discussions about changing health benefit design focus on out-of-pocket payments for services, so this paper looks at out-of-pocket costs in that context. Premium payments are clearly an important part in considering the overall out-of-pocket health care burden on families (and premium levels will interact with changes in benefit design). We will be looking at the broader issue of overall out-of-pocket burden and family budgets in later work.

Share of Total Expenditures Paid Out-of-Pocket

Figure 1 shows that about 20% of total health expenditures are paid out-of-pocket. This percentage is consistent across the two populations presented here.³

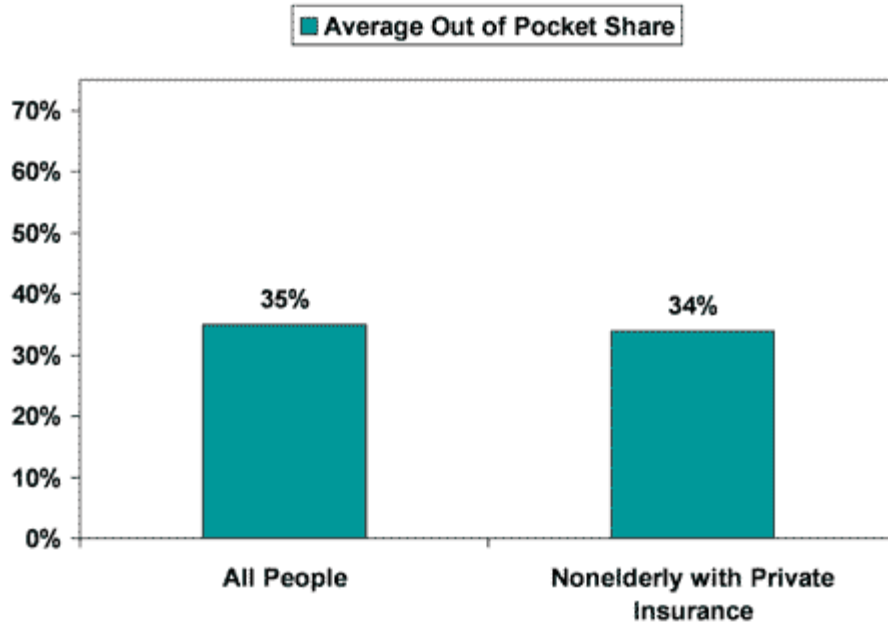
Figure 1:
Share of Total Spending Paid Out-of-Pocket and
By Health Insurance and Other Sources, 2003



Average Out-of-Pocket Share

Figure 2 shows the percentage of expenditures that the average person who has spending on health care pays out-of-pocket, which is 35% and 34% for each of the two populations. These percentages are higher than the 20% and 19% presented above because health expenditures are not distributed evenly across the population -- a small percentage of people account for most health expenditures, and these high spenders have relatively low out-of-pocket shares. More information on out-of-pocket shares by level of total spending is presented below.

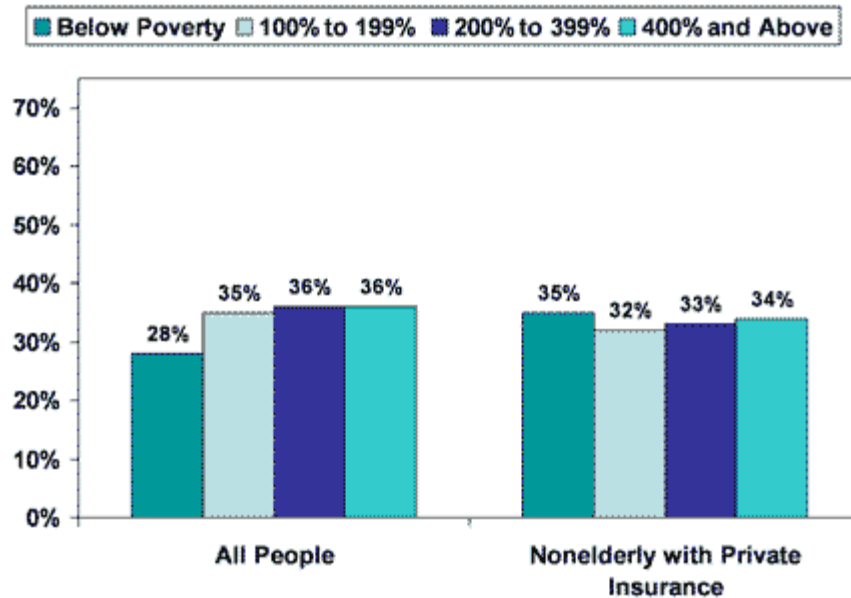
Figure 2:
Average Share Paid Out-of-Pocket by
People with Health Spending, 2003



Out-of-Pocket Shares By Poverty Level

Figure 3 shows that, among people with health spending, the average out-of-pocket share for people under poverty is somewhat lower (28% v. 35-36%) for all people than the average out-of-pocket share above poverty. This difference may result from cost sharing protection provided for some of the poor by Medicaid and other public programs. Average out-of-pocket shares do not vary by family poverty level for the nonelderly group with private insurance.

Figure 3:
Average Share Paid Out-of-Pocket by
People with Health Spending, by Poverty Category, 2003



Out-of-Pocket Shares by Level of Total Spending

A relatively small percentage of the population accounts for most health expenditures -- the 5 percent with the highest spending account for about 49% of the total health expenditures, while the 20 percent with the highest spending account for around 80% of total expenditures.⁴ This distribution does not vary considerably by population group.

As Figure 4 shows, out-of-pocket spending accounts for a smaller proportion of total spending as the overall level of spending on health increases. Figure 4 shows average out-of-pocket shares for people based on their level of overall health spending.⁵ For example, looking at all people, the one percent with the highest health care spending had an average out-of-pocket share of seven percent and the four percent of people with the next highest level of spending (between one and five percent) had an average out-of-pocket share of 13%. There are several potential reasons for this pattern -- high spenders are more likely to exceed the maximum out-of-pocket limits in their insurance, after which most of their costs are completely covered, low spenders are likely to have more of their spending in the deductible portion of their coverage, and high spenders are more likely to be using services, such as hospital care, where the out-of-pocket share of expenditures tends to be low (see next section).⁶ Figure 5 shows the corresponding average out of pocket spending amounts by percentile of health spending. Note that the people with the lowest average out of pocket spending are still paying a substantial amount out-of-pocket because of their high overall spending.⁷

Figure 4:
Average Share Paid Out-of-Pocket by People with Health Spending,
by Percentile of Total Health Spending, 2003

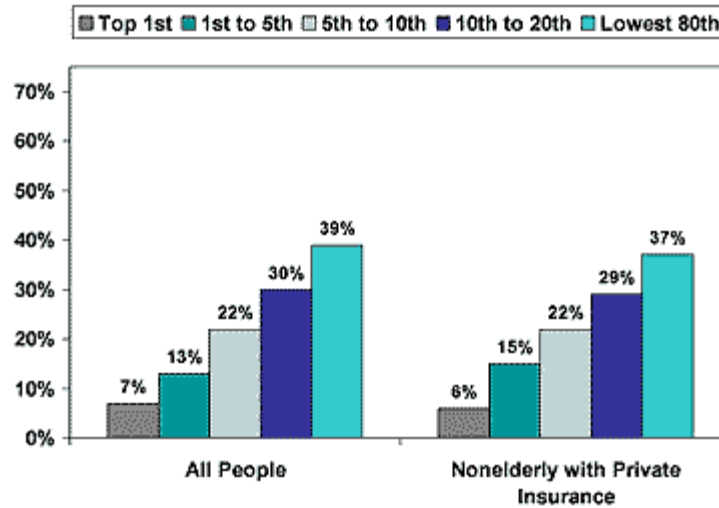
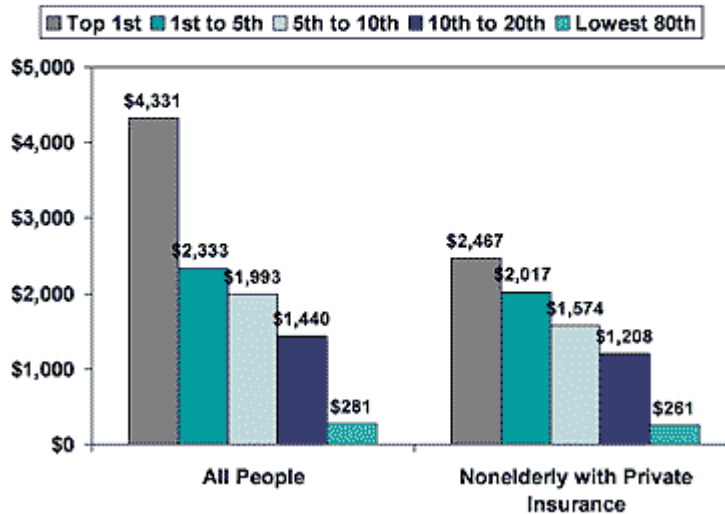


Figure 5:
Average Out-of-Pocket Payment by People with Health Spending,
by Percentile of Total Health Spending, 2003



Out-of-Pocket Shares by Type of Service

Public and private insurance plans vary their coverage and payment arrangements by type of health care service, resulting in differences in the share of expenses that are paid out-of-pocket by people for different services. Figure 6 shows the share that the average person with expenses in a health category pays out-of-pocket for health care services in that category. (Figure 6 shows information for all people; for comparable information for the nonelderly with private insurance click [here](#).) As the figure shows, out-of-pocket shares are low for inpatient and outpatient hospital services, which are relatively expensive, and higher for office-based, prescription drugs and other services.

Figure 6:
Average Share Paid Out-of-Pocket by
People with Health Spending, by Type of Service,
All People, 2003

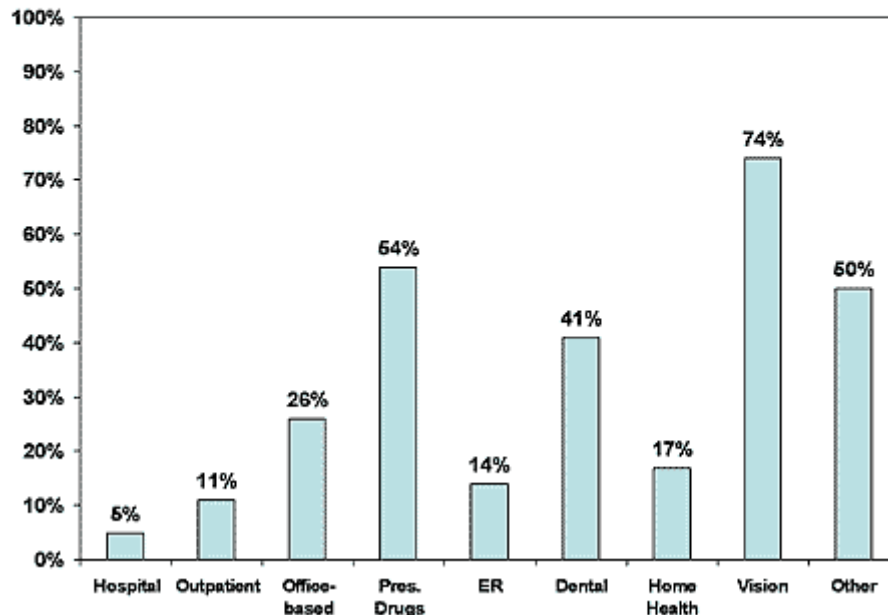


Table 1 shows the same information broken out by people's level of spending.⁸ People with the highest expenditures on average pay relatively low shares of the costs for hospital, outpatient and office-based services; the average out-of-pocket shares for these services tend to rise as overall spending falls. People at all spending levels on average pay a relatively high share of the costs for prescription drugs, dental and vision services. (Table 1 provides information for all people by spending category; for comparable information for the nonelderly with private health insurance click [here](#).)

Table 1: Average Share Paid Out-of-Pocket by People with Health Spending, by Type of Service and Spending Level, All People, 2003

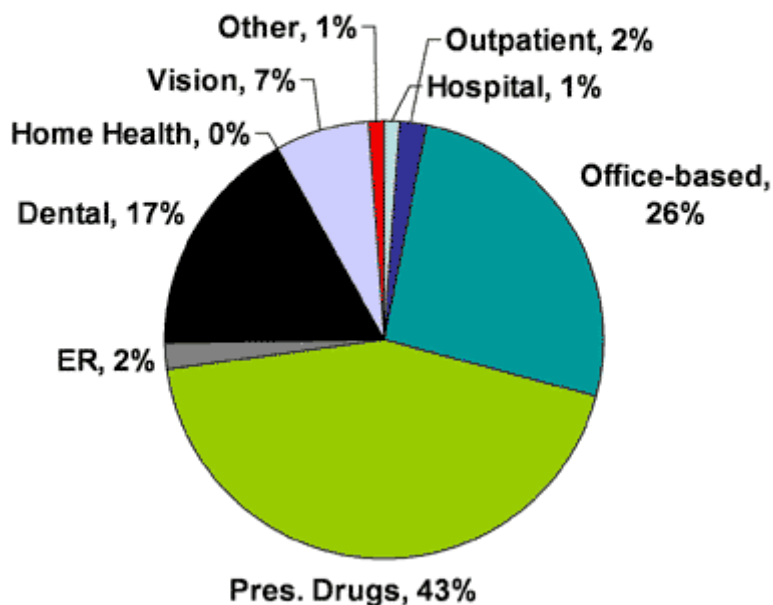
	Type of Service	Out of Pocket Contribution to Total Health Spending in that category
in top 5%	Hospital	2%
	Outpatient	5%
	Office Based Visit	12%
	Prescription Drugs	49%
	Emergency Room	5%
	Dental	50%
	Home Health	13%
	Vision	70%
	Other Health Care	38%
in top 10% to 5%	Hospital	5%
	Outpatient	9%
	Office Based Visit	17%
	Prescription Drugs	49%
	Emergency Room	8%
	Dental	52%
	Home Health	13%
	Vision	71%
	Other Health Care	49%
in top 20% to 10%	Hospital	5%
	Outpatient	9%
	Office Based Visit	20%
	Prescription Drugs	49%
	Emergency Room	11%
	Dental	48%
	Home Health	33%
	Vision	73%
	Other Health Care	54%
in bottom 80%	Hospital	16%
	Outpatient	15%

Office Based Visit	29%
Prescription Drugs	56%
Emergency Room	18%
Dental	39%
Home Health	33%
Vision	75%
Other Health Care	60%

Proportion Each Category of Service Adds to Average Person's Out-of-Pocket Spending

Figure 7 shows how out-of-pocket spending is distributed to the average person with health care spending. Just over 40% of the average person's out-of-pocket spending is for prescription drugs, and another quarter is for office-based visits. (Figure 7 shows information for all people; for comparable information for the nonelderly with private insurance click [here](#).)

**Figure 7:
Distribution of Out-of-Pocket Spending for
Average Person with Spending, All People, 2003**



Note: Percentages may not add up to 100% due to rounding.

Table 2 shows the same information broken out by people's level of spending. For the people with the highest spending, hospital out-of-pocket spending makes up a larger share of their average out-of-pocket expenditures than it does for the people in lower spending categories. This is not surprising because people in the highest spending category have more hospitalizations on average and longer average hospital stays than people who spend less. For the average person in all spending categories, however, out-of-pocket spending for prescription drugs makes up the largest share of their out-of-pocket spending. (Table 2 provides information for all people by spending level; for comparable information for the non-elderly with private health insurance click [here.](#))

Table 2: Distribution of Out-of-Pocket Spending for Average Person with Health Spending, by Spending Level, All People, 2003.

	Type of Service	Service Out of Pocket Contribution to Total Out-of-Pocket Spending
in top 5%	Hospital	9%
	Outpatient	4%
	Office Based Visit	14%
	Prescription Drugs	57%
	Emergency Room	1%
	Dental	7%
	Home Health	2%
	Vision	2%
	Other Health Care	3%
in top 10% to 5%	Hospital	5%
	Outpatient	5%
	Office Based Visit	19%
	Prescription Drugs	51%
	Emergency Room	2%
	Dental	12%
	Home Health	1%
	Vision	3%
	Other Health Care	2%
in top 20% to 10%	Hospital	3%
	Outpatient	4%
	Office Based Visit	19%
	Prescription Drugs	50%
	Emergency Room	2%

	Dental	17%
	Home Health	0%
	Vision	4%
	Other Health Care	1%
in bottom 80%	Hospital	0%
	Outpatient	1%
	Office Based Visit	29%
	Prescription Drugs	39%
	Emergency Room	3%
	Dental	19%
	Home Health	0%
	Vision	8%
	Other Health Care	1%

Table 1a: Average Share Paid Out-of-Pocket by People with Health Spending, by Type of Service and Spending Level, Nonelderly with Private Insurance, 2003

	Type of Service	Out of Pocket Contribution to Total Health Spending in that category
in top 5%	Hospital	3%
	Outpatient	7%
	Office Based Visit	17%
	Prescription Drugs	43%
	Emergency Room	7%
	Dental	40%
	Home Health	10%
	Vision	76%
	Other Health Care	45%
in top 10% to 5%	Hospital	4%
	Outpatient	11%
	Office Based Visit	22%
	Prescription Drugs	45%
	Emergency Room	11%
	Dental	41%
	Home Health	17%
	Vision	75%
	Other Health Care	52%
in top 20% to 10%	Hospital	6%
	Outpatient	11%
	Office Based Visit	24%
	Prescription Drugs	45%
	Emergency Room	14%
	Dental	41%
	Home Health	50%
	Vision	76%
	Other Health Care	60%
in bottom 80%	Hospital	7%
	Outpatient	17%

	Office Based Visit	30%
	Prescription Drugs	54%
	Emergency Room	16%
	Dental	35%
	Home Health	59%
	Vision	76%
	Other Health Care	64%

Table 2a: Distribution of Out-of-Pocket Spending for Average Person with Health Spending, by Spending Level, Nonelderly with Private Insurance, 2003.

	Type of Service	Service Out of Pocket Contribution to Total Out-of-Pocket Spending
in top 5%	Hospital	12%
	Outpatient	7%
	Office Based Visit	23%
	Prescription Drugs	40%
	Emergency Room	2%
	Dental	11%
	Home Health	0%
	Vision	3%
	Other Health Care	2%
in top 10% to 5%	Hospital	5%
	Outpatient	6%
	Office Based Visit	24%
	Prescription Drugs	41%
	Emergency Room	3%
	Dental	16%
	Home Health	0%
	Vision	4%
	Other Health Care	1%
in top 20% to 10%	Hospital	2%
	Outpatient	5%
	Office Based Visit	24%

	Prescription Drugs	39%
	Emergency Room	3%
	Dental	22%
	Home Health	0%
	Vision	5%
	Other Health Care	1%
in bottom 80%	Hospital	0%
	Outpatient	1%
	Office Based Visit	33%
	Prescription Drugs	33%
	Emergency Room	2%
	Dental	21%
	Home Health	0%
	Vision	8%
	Other Health Care	0%

Figure 6a:
Average Share Paid Out-of-Pocket by
People with Health Spending, by Type of Service,
Nonelderly with Private Insurance, 2003

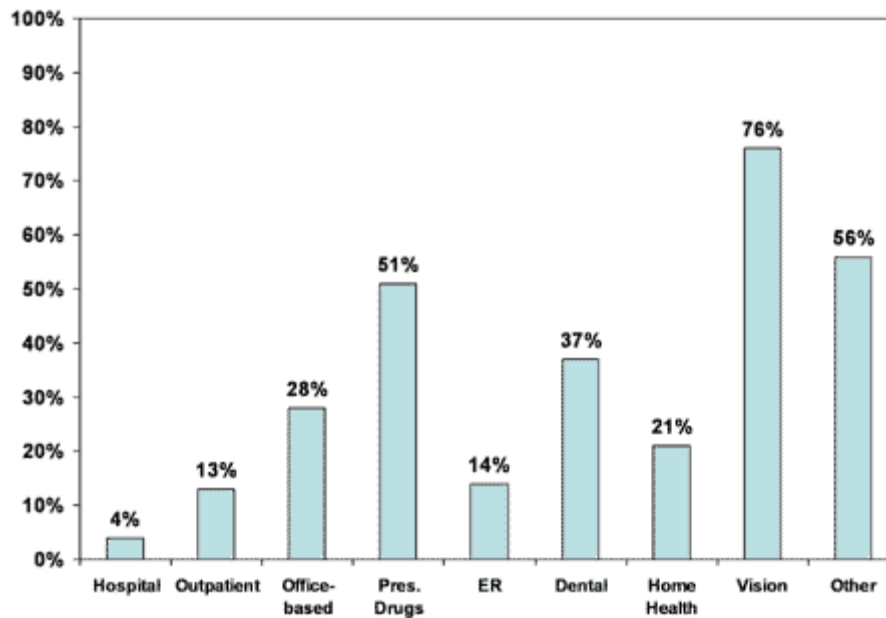
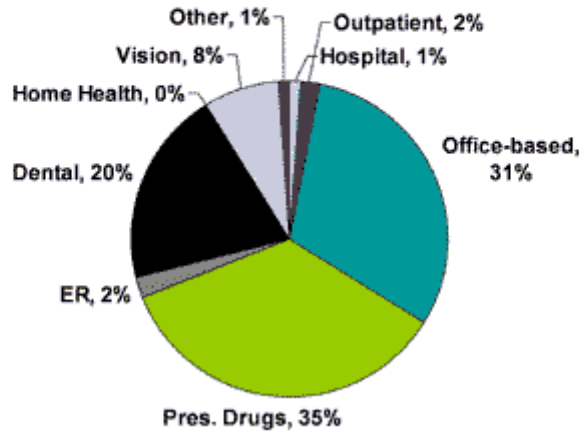


Figure 7a:
Distribution of Out-of-Pocket Spending for
Average Person with Spending, Nonelderly with Private Insurance,
2003



Note: Percentages may not add up to 100% due to rounding.

1. The estimated percentage of out-of-pocket spending for personal health care published by the Centers for Medicaid and Medicare Services for the National Health Accounts (NHA) is slightly lower at 15% in 2004. The NHA estimate accounts for some expenditures not included in MEPS, such as nursing home care and other institutional settings. (See Borger et al, Health Spending Projections Through 2015. *Health Affairs* 25(2006): w61-w73. Accessed at: <http://content.healthaffairs.org/cgi/reprint/hlthaff.25.w61v1.pdf>)

2. Nonelderly with private health insurance are people who are age 64 and under and have more than six months of either of these three general types of coverage: 1) private employer group or TRICARE; 2) private nongroup or private self employed group of one; or 3) private other group, private don't know, or private coverage from someone outside of the household.

3. The category "health coverage and other sources" includes any spending by Medicare, Medicaid, private insurance, Veteran's Administration, TRICARE, other federal sources, other state and local sources, workers' compensation, other private, other public, or other unclassified sources.

4. The Kaiser Family Foundation. [Trends and Indicators in the Changing Health Care Marketplace](#). The Kaiser Family Foundation: Menlo Park.

5. Spending levels are calculated in a multi-step process. First we identify the expenditure values that are associated with the following percentiles: 99%, 95%, 90%, and 80%. For instance, the 99 th percentile of spending for all people is \$36,278. People whose expenditures are at that level or higher are considered to be in the top 1% of spending. We identified people in the 5% to 1% (but not including 1%) spending category by using the expenditure level associated with the top 95 th percentile of spending (those who spend at

least \$12,041) and subtracting out those who spend \$36,278 or more. This process continues until all people have been grouped according to spending level. People with no (zero) expenditures in the year fall in the 'lowest 80 th percentile of health spending'.

6. People with no (zero) health expenditures are included in the calculation of percentiles of health spending (*see footnote #5*) but only people with health expenditures are included when calculating the percentage of expenditures that are out-of-pocket.

7. People with no (zero) health expenditures are not included in the average out-of-pocket spending amounts.

8. As noted earlier, people with no (zero) health expenditures are included in the calculation of percentiles of health spending (*see footnote #5*) but only people with health expenditures are included when calculating the percentage of expenditures that are out-of-pocket.