

# OUT-OF-POCKET EXPENSES:

## Americans Shoulder the Burden of **Growing** Health Care Costs

### **Introduction**

Americans pay more for health care each year but get less coverage and fewer services for the premiums they pay. Health insurance premiums have nearly doubled since 2000, a rate three times faster than wages,<sup>1</sup> yet rising premiums are only one of the ways families shoulder the burden of rising health care costs.

With each passing year, families face increasing deductibles, copayments, and other out-of-pocket expenses, requiring them to make difficult decisions in order to make ends meet. In fact, one recent survey estimated that 72 million, or 41 percent, of nonelderly adults have accumulated medical debt or had difficulty paying medical bills in the past year. A full 61 percent of those with difficulty had insurance.<sup>2</sup>

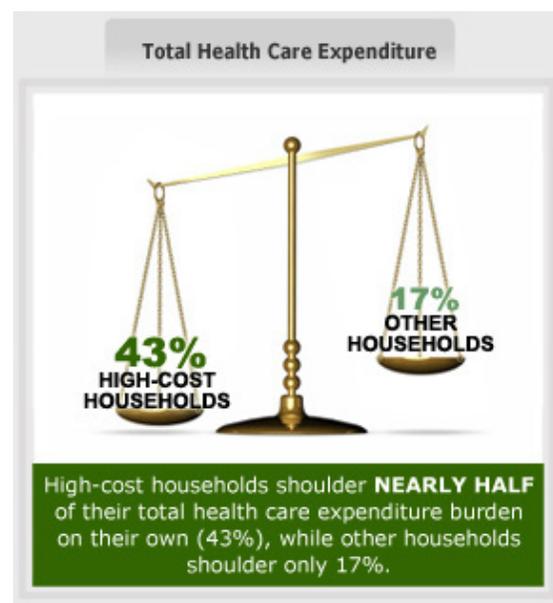
While rising out-of-pocket costs affect all Americans, there are some families and individuals for whom exorbitant out-of-pocket expenses lead to crippling financial burdens, precipitating medical debt or the avoidance of necessary medical care. Health insurance reform legislation would seek to protect these Americans, by limiting the amount that people with insurance have to pay out of their own pocket for health care.

### **High out-of-pocket costs affect millions of American families.**

Almost 3 million non-elderly individuals or families across America incur exorbitant out-of-pocket health care costs – costs that surpass the allowable upper limit in the current House bill, America’s Affordable Choices Act of 2009 (similar limits were included in legislation reported by the Senate Committee on Health, Education, Labor and Pensions). These high-cost households pay an average of 18 percent of their household income on health care expenses (not including premiums) compared with an average of 1 percent for the other, lower-cost households in the country.<sup>3</sup>

### **Inadequate coverage contributes greatly to high out-of-pocket costs.**

High-cost households shoulder nearly half of their total health care expenditure burden on their own (43 percent), while other households shoulder only 17 percent. Some of this inadequate coverage is due to a significantly higher uninsured rate among high-cost households – yet 70 percent



Source <sup>4</sup>

of individuals in high-cost households are still covered by some form of private insurance.<sup>4</sup> This means that inadequate coverage even for those with insurance – in the form of high deductibles, high copayments, and benefit restrictions – plays a key role in making health care unaffordable for these families. And in fact, individuals in high-cost households are twice as likely as individuals in lower-cost households to have purchased health insurance directly from an insurance company, rather than obtaining coverage through an employer.<sup>5</sup>

### ***High out-of-pocket costs impose a large financial burden across income categories.***

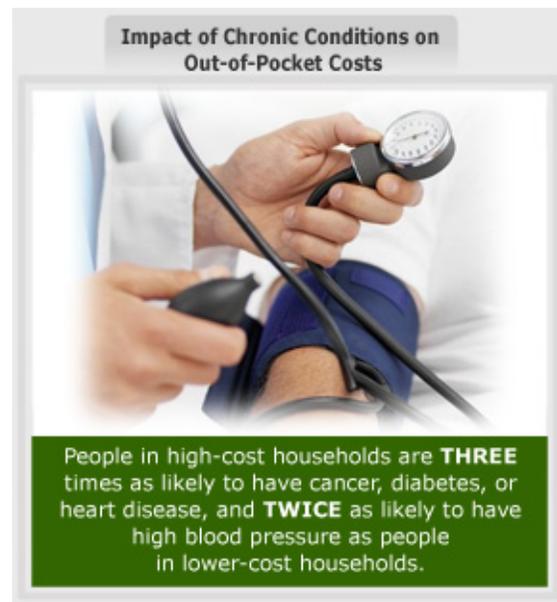
High-cost households are fairly evenly divided across income brackets. However, while high out-of-pocket costs can create a significant financial burden on any family, high costs have a particularly devastating effect on low- and middle-income households. These costs represent on average 60 percent of income in low income households and 21 percent of income in middle income households, not including the costs of premiums.<sup>6</sup> Low- and middle-income households are therefore more likely to have to make difficult decisions to make ends meet, avoid needed health care, or declare bankruptcy.

### ***Women and older individuals are more likely to have high out-of-pocket costs.***

Individuals in high-cost households are, on average, 8 years older than those in lower-cost households. In addition, women represent 55 percent of individuals in high-cost households, compared with 50 percent of those in families without high out-of-pocket costs.<sup>7</sup>

### ***Individuals with chronic conditions are more likely to have higher out-of-pocket costs.***

Chronic conditions require more frequent and more expensive medical care – care which can sometimes be excluded from insurance coverage if the condition is classified as preexisting. Indeed, 71 percent of individuals in high-cost households had one or more chronic conditions compared to 44 percent of individuals in lower-cost households. And a full 33 percent of individuals in high-cost households have three or more chronic conditions, compared to 10 percent in lower-cost households. People in high-cost households are three times as likely to have cancer, diabetes, or heart disease, and twice as likely to have high blood pressure as people in lower-cost households.<sup>8</sup>



Source <sup>8</sup>

## Conclusions

The families and individuals who experience the highest levels of out-of-pocket costs are more likely to be women and older in age. And they are significantly more likely to suffer from common diseases such as diabetes, heart disease, and cancer. Middle class families with high out-of-pocket expenses currently spend 21 percent of their income on health care services – and that’s not including their premiums. The burdens of high-cost households highlight failures in our health system that must be addressed to provide stability and security for all Americans.

Under health insurance reform, the amount that families pay out of their own pocket will be capped through annual out-of-pocket limits. In addition, families will also no longer face annual or lifetime limits to their benefits, nor will coverage be denied or watered down based on medical history.

Health insurance reform will ensure that health coverage is meaningful and that all Americans can receive necessary care without the looming threat of medical debt.

## Sources

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- 2 Doty MM, Edwards JN, Holgren AL. Seeing red: Americans driven into debt by medical bills. The Commonwealth Fund, August 2008.
- 3 Center for Financing, Access and Cost Trends, Agency for Healthcare Research and Quality, Medical Expenditure Panel Survey, 2002-2006.
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