NATIONAL HEALTH POLICY FORUM

Is Health Care Eating Our Lunch?

The Impact of Cost Trends on Workers and Retirees

FORUM SESSION ANNOUNCEMENT

A DISCUSSION FEATURING:

Gary Claxton
Vice President and Director
Health Care Marketplace Project
Kaiser Family Foundation

Jack VanDerhei, PhD
Research Director
Employee Benefit Research Institute

Christopher Viale
President and Chief Executive Officer
Cambridge Credit Counseling Corp.

FRIDAY, JULY 20, 2012

11:45AM–12:15PM—Lunch

12:15PM–2:00PM—Discussion

LOCATION

Reserve Officers Association
One Constitution Avenue, NE
Congressional Hall of Honor
Fifth Floor
(*Across from the Dirksen Senate Office Building*)

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Concerns about the federal debt and deficit have intensified over the past several years. As a result, policymakers have become increasingly aware that health care costs not only consume a large share of current spending, but also contribute significantly to the nation's long-term fiscal problems. The Congressional Budget Office (CBO) projects that *federal outlays* for health care programs will continue to rise faster than gross domestic product (GDP), and will increase from 5.4 percent of GDP in 2012 to about 10 percent in 2037. In contrast, federal spending for Social Security is projected to rise from 5 percent of GDP in 2012 to no more than 6 percent in the 2030s and beyond.[1]

Given this outlook, it is not surprising that policymakers are preoccupied with containing health care costs. The Patient Protection and Affordable Care Act of 2010 (PPACA), for example, included a number of provisions aimed at slowing the rate of growth of federal spending for health care, especially in the Medicare program. The law includes modifications to existing payment methodologies as well as demonstrations designed to test new payment approaches. Accountable care organizations, bundled payments for various services, and programs to smooth transitions between sites of care all are being tested to determine whether they lead to improved efficiency.

But rising health care costs are not just a concern for government. Employers and workers are also feeling the pinch. According to the Milliman Medical Index, total health care costs in 2012 for a typical family of four with coverage from an employer-sponsored preferred provider organization (PPO) plan were estimated to average $20,728, an increase of 6.9 percent over the 2011 average. Workers' share of these costs included $5,114 in premiums and $3,470 in out-of-pocket (OOP) costs for a total of $8,584 on average.[2]

Perhaps even more important than the absolute dollar amounts, health insurance premium increases have consistently outpaced inflation and the growth of workers' earnings. Between 2000 and 2010, inflation grew by 27 percent, earnings by 36 percent, premiums by 114 percent, and workers' contributions to premiums by 147 percent.[3] Looked at another way, total compensation as a share of GDP has remained relatively flat over the past 50 years (56.3 percent in 1960 vs. 55.3 percent in 2009), but wages as a percent of GDP have fallen from 51.8 percent to 44.4 percent as health care and other benefits have consumed more and more of workers' total compensation.[4]

The nature of health insurance has also changed in recent years, leaving more workers exposed to higher OOP costs. This is especially true for workers enrolled in high-deductible health plans (HDHPs). The 2011 Kaiser/HRET survey of employer health benefits found that the average deductible for single workers in PPOs was $675; in HMOs (health maintenance organizations), $911; in POS (point of service) plans, $928; and in HDHPs, $1,908.[5] Although PPOs are the most common plan type at 55 percent of covered workers, HDHPs are gaining market share. Seventeen percent of workers were enrolled in HDHPs in 2011, up from 13 percent in 2010 and 8 percent in 2009.[6] In terms of actual OOP costs, non-elderly individuals with private insurance (employer or non-group) spent $706 on average,[7] an increase of 80 percent since 1996. Those who perceived their health status to be poor spent $1,663 on average.[8]

Health care also takes a considerable share of the household budgets of retirees and other Medicare recipients. In 2010, these households devoted about 15 percent of their household spending on average to health care,[9] compared with about 5 percent for non-Medicare households. Most of that spending (68 percent) goes to health insurance premiums for Medicare Parts B, C, and D, as well as supplemental coverage from a Medigap policy or an employer's plan. The share of household spending devoted to health care increases with age. Households with a member age 80 and older devoted almost 18 percent of their spending to health care, compared with 12.2 percent for households age 65 to 69.[10]

Paying for health care services can be a problem even for those with private insurance. A survey conducted by the Center for Studying Health Systems Change found that just over 20 percent of insured children and working age adults lived in families that experienced medical bill problems in 2010. Among both insured and uninsured nonelderly people who had trouble paying medical bills, 66 percent said they had trouble paying for other necessities, 65 percent were contacted by a collection agency, and 25 percent had considered bankruptcy. Seniors, especially those with only Medicare coverage, also reported problems paying medical bills. Almost 21 percent said they had problems paying medical bills in 2010 compared with nearly 12 percent in 2003.[11] A May 2012 survey of adults by the Kaiser Family Foundation found that even those with moderate to high incomes had trouble paying medical bills in the past 12 months because of cost. Among those with household incomes of $40,000 to $90,000 per year, 22 percent had problems paying bills while 13 percent of those with household incomes of $90,000 or more also had trouble paying for medical care.[12]

THE OUTLOOK IN RETIREMENT

In early 2006, the National Health Policy Forum convened a session that reviewed projections of health care expenses in retirement and examined the ability of current and future retirees to finance these expenses. The conclusion? The majority of future retirees were likely to be "a day late and a dollar short" in terms of having enough resources to cover all their health care expenses in retirement.[13] Six years later, that conclusion remains largely unchanged.

The nation is still recovering from the worst economic downturn since the Great Depression. And while health care cost growth did slow during the recession, it continues to exceed wage growth. Moreover, even with recovery, the effects of the recession are likely to be long lasting. Researchers at the Urban Institute estimate, for example, that workers who were age 25 to 64 in 2008 will have 4 percent less income at age 70 because of the effects of high unemployment and stagnant wages on the calculation of Social Security and pension benefits. For workers who were age 55 to 59, the impact is estimated to be even greater. They can expect a 5 percent decline in their incomes at age 70.[14] On a more positive note, auto-enrollment in 401(k)-type pension plans has helped boost retirement savings for many workers, housing values have rebounded in some markets, and stocks have regained much of their losses (but remain volatile).

Yet the longer-term outlook for Baby Boomers and Gen Xers in retirement is not especially bright. Recent projections from the Employee Benefit Research Institute (EBRI) Retirement Security Projection Model show that, depending on age cohort (Early Boomer, Late Boomer or Gen Xer), between 43.3 and 44.3 percent of households will lack the income to pay basic retirement expenses plus uninsured health care costs, including long-term care.[15] Early Boomers are particularly vulnerable to being at risk of inadequate incomes in retirement. Over 12 percent of those in the *highest* income quartile are at risk, while nearly 87 percent of those in the *lowest* quartile are considered to be at risk for inadequate retirement income.

With world economies in turmoil, a growing federal deficit, and talk of entitlement reform, it is not surprising that many Baby Boomers and Gen Xers worry about how they will fare in retirement. Only 14 percent of workers responding to the EBRI Retirement Confidence Survey said they were "very confident that they will have enough money to live comfortably in retirement."[16] While many Boomers and Gen Xers realize they are not preparing adequately for the future, it is not clear whether they fully appreciate how big a bite health care costs are likely to take out of their retirement incomes.

This Forum Session will provide an overview of the impact of health care cost trends. **Gary Claxton**, vice president and director of the Health Care Marketplace Project at the Kaiser Family Foundation, will discuss how rising health care costs and the changing nature of insurance are affecting today's workers and retirees. Using data from the Retirement Security Projection Model, the Employee Benefit Research Institute's Research Director **Jack VanDerhei** will discuss the outlook for retirement income adequacy for Early and Late Baby Boomers and Gen Xers and the ability of these future retirees to finance health care in retirement. **Christopher Viale**, president and chief executive officer of Cambridge Credit Counseling Corp., will draw on his experience working with individuals and families to describe the role health care expenses play in their financial decisions.

KEY QUESTIONS

- What are recent trends in health care costs, workers' premiums and cost-sharing, and wages? Will health care continue to eat away at wage growth?
- How may health care costs affect the retirement security of current retirees, Early and Late Baby Boomers, and Gen Xers?
- How do health care costs contribute to individuals' decisions to seek credit counseling and/or file for bankruptcy?

ENDNOTES

1. Congressional Budget Office, "The 2012 Long-Term Budget Outlook," June 2012, available at http://cbo.gov/sites/default/files/cbofiles/attachments/06-05-Long-Term_Budget_Outlook.pdf.
2. Milliman Research Report, "2012 Milliman Medical Index," May 2012, available at http://publications.milliman.com/periodicals/mmi/pdfs/milliman-medical-index-2012.pdf.
3. Kaiser Family Foundation (KFF), "Health Care Costs: A Primer," May 2012, available at www.kff.org/insurance/7670.cfm.
4. Derek Thompson, "Who Really Robbed the Middle Class? Maybe It Was Health Care," *The Atlantic*, October 13, 2011, available at www.theatlantic.com/business/archive/2011/10/who-really-robbed-the-middle-class-maybe-it-was-health-care/246606/.

5. Kaiser Family Foundation and Hospital Research & Education Trust (KFF & HRET), *Employer Health Benefits 2011, Annual Survey, 2011*, available at http://ehbs.kff.org/pdf/2011/8225.pdf.

6. KFF & HRET, *Employer Health Benefits, Annual Survey, 2011*.

7. These amounts do not include premiums.

8. KFF, "Health Care Costs: A Primer."

9. These totals do not include spending for long-term services and supports including non-Medicare nursing home care.

10. KFF, "Health Care on A Budget: The Financial Burden of Health Spending by Medicare Households," Data Spotlight, March 2012, available at www.kff.org/medicare/8171.cfm.

11. Anna Sommers and Peter J. Cunningham, "Medical Bill Problems Steady for U.S. Families, 2007 – 2010," Center for Studying Health Systems Change, Tracking Report, December 2011, available at http://hschange.com/CONTENT/1268/.

12. KFF, "Health Security Watch," June 2012, available at www.kff.org/healthpollreport/CurrentEdition/security/upload/8322.pdf.

13. See www.nhpf.org/library/details.cfm/2508.

14. Barbara A. Butrica, Richard W. Johnson, and Karen E. Smith, "How Will the Great Recession Affect Future Retirement Incomes?" Urban Institute, May 2011, available at www.urban.org/uploadedpdf/412339-Future-Retirement-Incomes.pdf.

15. Jack VanDerhei, "Retirement Income Adequacy for Boomers and Gen Xers: Evidence from the 2012 EBRI Retirement security Projection Model," Employment Benefit Research Institute (EBRI), Notes, 33, no. 5, May 2012, available at www.ebri.org/publications/notes/index.cfm?fa=notesDisp&content_id=5062. Early Boomers were born between 1946 and 1954; Late Boomers were born between 1955 and 1964; Generation Xers were born between 1965 and 1974.

16. EBRI, "The 2012 Retirement Confidence Survey: Job Insecurity, Debt Weigh on Retirement Confidence, Savings," Issue Brief No. 369, March 2012, available at www.ebri.org/publications/ib/index.cfm?fa=ibDisp&content_id=5017.