

#2006-20  
September 2006

**Health Insurance Coverage and Costs at  
Older Ages: Evidence from the  
Health and Retirement Study**

**by  
Richard W. Johnson  
The Urban Institute**

The AARP Public Policy Institute, formed in 1985, is part of the Policy and Strategy Group at AARP. One of the missions of the Institute is to foster research and analysis on public policy issues of importance to mid-life and older Americans. This publication represents part of that effort.

The views expressed herein are for information, debate, and discussion, and do not necessarily represent official policies of AARP.

© 2006, AARP.

Reprinting with permission only.

AARP, 601 E Street, NW, Washington, DC 20049

<http://www.aarp.org/ppi>

## Foreword

In recent years, research has documented a decline in the offering of retiree health benefits, an increase in employer efforts designed to limit the growing cost of retiree health coverage, and the termination of a small number of health plans. These findings come from surveys of employers. Because the findings signal trends that are of great concern to people who are currently retired and to those planning to retire, it is important to understand how employers' decisions are affecting current and future retirees. Some media stories have already revealed how these changes have affected particular retirees.

This study by Richard Johnson of the Urban Institute looks beyond the anecdotes to see how the trends identified in employer surveys translate to a population of individuals. This analysis focuses on the extent of retiree health coverage and its cost, as well as the level of out-of-pocket health spending. On the basis of an analysis of Health and Retirement Survey data from the mid-1990s to 2002, a picture emerges of how retirees are experiencing the changes that employers have made in their health benefits.

Because some changes in employer-sponsored retiree health benefits have an immediate impact and others are evident only with the passage of time, it is important to continue to monitor trends in health coverage and costs. For instance, if employers continue to offer coverage to current retirees but curtail the offer for current workers, the decline in the share of retirees with employer-sponsored health benefits will not be captured by surveys until enough workers who are ineligible retire. Similarly, if employers cap their liability for future retiree health benefits, retirees will not feel the full impact of that decision until costs reach the cap. The monitoring of trends will also reveal the availability and affordability of coverage and health care for older adults without access to employer-sponsored health benefits who rely on other private or public sources of coverage. When information about more recent years is analyzed, our understanding of the impact of changes in health coverage and costs at older ages will progress.

As debates about health coverage and Medicare unfold, it is important to recognize how health care competes for household dollars. For many, health care already consumes a significant share of finite household income.

Gerry Smolka  
Senior Policy Advisor  
AARP Public Policy Institute

# TABLE OF CONTENTS

<b>Executive Summary .....</b>	<b>i</b>
<b>Introduction.....</b>	<b>1</b>
<b>Health Insurance Coverage Options at Older Ages.....</b>	<b>2</b>
The Role of Employer-Sponsored Insurance.....	2
Other Coverage Options at Older Ages .....	4
<b>Health Insurance Coverage Rates at Older Ages.....</b>	<b>5</b>
Coverage at Ages 55 to 64.....	5
Coverage at Age 65 and Older.....	9
Availability of Future Early Retiree Health Benefits among Workers.....	13
<b>Out-of-Pocket Health Care Spending .....</b>	<b>15</b>
Cost of Coverage for Plan Participants.....	15
Out-of-Pocket Spending for Health Care Services.....	18
Total Out-of-Pocket Health Care Spending by Adults Aged 55 to 64 .....	20
Total Out-of-Pocket Health Care Spending by Adults Aged 65 and Older.....	22
Total Out-of-Pocket Spending Relative to Income by Adults Aged 55 to 64 and Their Spouses.....	24
Total Out-of-Pocket Spending Relative to Income by Adults Aged 65 and Older and Their Spouses..	26
<b>Conclusions.....</b>	<b>29</b>
<b>References.....</b>	<b>32</b>
<b>Methodological Appendix .....</b>	<b>34</b>
<b>Appendix Tables.....</b>	<b>37</b>

## LIST OF FIGURES

Figure 1: Insurance Coverage Rates for Adults Aged 55-64, 2002 .....	6
Figure 2: Share of Adults Aged 55-64 without Health Insurance, 2002.....	7
Figure 3: Coverage Rates for Adults Aged 55-64, by Work Status, 2002.....	8
Figure 4: Coverage Rates among Adults Aged 59-64 in 2002, Who Were Retired or Disabled in 1998 and Receiving Health Benefits from Their Former Employers .....	8
Figure 5: Coverage Rates for Adults Aged 65+ with Medicare, 2002.....	10
Figure 6: Share of Adults Aged 65+ with Only Traditional Medicare Benefits, 2002.....	10
Figure 7: Coverage Rates among Adults Aged 65+ with Medicare, 1998-2002 .....	11
Figure 8: Coverage Rates among Adults Aged 79+ in 2002, by Source of Coverage in 1995.....	12
Figure 9: Coverage Rates among Women Aged 79+ in 2002, Who Were Married and Receiving Benefits from Their Husbands' Employers in 1995 .....	13
Figure 10: Share of Full-Time Wage and Salary Workers Aged 55-63 Offered Retiree Health Insurance Until Age 65, 2002 .....	14
Figure 11: Share of Full-Time Wage and Salary Workers Aged 55-63 Offered Retiree Health Insurance Until Age 65, among Those with Employer-Sponsored Insurance, 2002 .....	14
Figure 12: Median Monthly Participant Contributions for Employer-Sponsored Health Insurance, among Covered Adults Aged 55-63, 1994-2002 .....	16
Figure 13: Median Monthly Premiums for Private Nongroup Insurance, among Covered Adults Aged 55-63, 1994-2002.....	16
Figure 14: Median Monthly Premiums for Employer-Sponsored Retiree Health Insurance, by Age, 1998-2002 .....	17
Figure 15: Median Monthly Premiums for Medigap Insurance, by Age, 1998-2002.....	18
Figure 16: Median Annual Out-of-Pocket Payments to Health Care Providers, by Adults Aged 55-64, 1998-2002 .....	19
Figure 17: Median Annual Out-of-Pocket Payments to Health Care Providers, by Adults Aged 65+, 1998-2002 .....	19
Figure 18: Median Total Annual Out-of-Pocket Health Care Costs for Adults Aged 55-64, 1998-2002 ..	20
Figure 19: Median Total Annual Out-of-Pocket Health Care Costs for Adults Aged 55-64, by Insurance Coverage, 2002.....	21
Figure 20: Median Total Annual Out-of-Pocket Health Care Costs for Adults Aged 55-64, by Personal Characteristics, 2002 .....	21
Figure 21: Median Total Annual Out-of-Pocket Health Care Costs for Adults Aged 65+, 1998-2002 .....	22
Figure 22: Median Total Annual Out-of-Pocket Health Care Costs for Adults Aged 65+, by Insurance Coverage, 2002 .....	23
Figure 23: Median Total Annual Out-of-Pocket Health Care Costs for Adults Aged 65+, by Personal Characteristics, 2002.....	23

Figure 24: Out-of-Pocket Spending on Health Care by Adults Aged 55-64 and Their Spouses, 1998-2002 .....	24
Figure 25: Share of Income Spent on Health Care by Adults Aged 55-64 and Their Spouses, by Insurance Coverage, 2002.....	25
Figure 26: Share of Adults Aged 55-64 and Their Spouses Spending More than One-Third of Their Income on Health Care, by Insurance Coverage, 1998-2002 .....	25
Figure 27: Share of Adults Aged 55-64 and Their Spouses Spending More than One-Third of Their Income on Health Care, by Personal Characteristics, 2002 .....	26
Figure 28: Out-of-Pocket Spending on Health Care by Adults Aged 65+ and Their Spouses, 1998-2002 .....	27
Figure 29: Share of Income Spent on Health Care by Adults Aged 65+ and Their Spouses, by Insurance Coverage, 2002.....	28
Figure 30: Share of Adults Aged 65+ and Their Spouses Spending More than One-Third of Their Income on Health Care, by Insurance Coverage, 1998-2002 .....	28
Figure 31: Share of Adults Aged 65+ and Their Spouses Spending More than One-Third of Their Income on Health Care, by Personal Characteristics, 2002 .....	29

## LIST OF APPENDIX TABLES

Table A1: Insurance Coverage Rates among Adults Aged 55-64, by Personal Characteristics and Source of Coverage, 2002 (%).....	37
Table A2: Insurance Coverage Rates among Adults Aged 59-64 in 2002, Who Were Retired or Disabled in 1998, by Source of Coverage in 1998 (%).....	38
Table A3: Insurance Coverage Rates among Adults Aged 55-63, by Work Status and Source of Coverage, 1994-2002 (%).....	39
Table A4: Insurance Coverage Rates among Adults Aged 65+ with Medicare, by Personal Characteristics and Source of Coverage, 2002 (%).....	40
Table A5: Insurance Coverage Rates among Adults Aged 65+ with Medicare, by Age and Source of Coverage, 1998-2002 (%).....	41
Table A6: Insurance Coverage Rates among Adults Aged 79+ in 2002, by Source of Coverage in 1995 (%).....	42
Table A7: Insurance Coverage Rates among Adults Aged 79+ in 2002, by Source of Coverage in 1995, 1998-2002 (%).....	43
Table A8: Insurance Coverage Rates among Women Aged 79+ in 2002 Who Were Married in 1995, by Marital Status in 2002 and Source of Coverage in 1995 (%).....	44
Table A9: Share of All Full-Time Wage and Salary Workers Aged 55-63 Offered Retiree Health Insurance Until Age 65 by Their Employers, 1996-2002 (%).....	45
Table A10: Share of Full-Time Wage and Salary Workers Aged 55-63 Offered Retiree Health Insurance Until Age 65 by Their Employers, among Those with Employer-Sponsored Health Insurance, 1996-2002 (%).....	46
Table A11: Insurance Coverage Rates at Retirement, among Those Who Retired before Age 65 and Were Offered Retiree Health Benefits Until Age 65 from Their Employers, by Personal Characteristics and Source of Coverage (%).....	47
Table A12: Monthly Health Insurance Costs for Covered Adults Aged 55-63, in Constant Dollars, by Source of Coverage, 1994-2002.....	48
Table A13: Monthly Health Insurance Costs for Covered Adults Aged 65+, in Constant Dollars, by Age and Source of Coverage, 1998-2002.....	49
Table A14: Attributes of Insurance Coverage, by Source of Coverage and Age of Policyholder, 1996-2002 (%).....	50
Table A15: Annual Out-of-Pocket Payments to Health Care Providers, in Constant Dollars, by Type of Service and Age, 1998-2002.....	51
Table A16: Annual Out-of-Pocket Health Care Costs for Adults Aged 55-64, in Constant Dollars, by Insurance Coverage, 1998-2002.....	52
Table A17: Total Annual Out-of-Pocket Health Care Costs for Adults Aged 55-64, in Constant Dollars, by Personal Characteristics, 1998-2002.....	53
Table A18: Annual Out-of-Pocket Health Care Costs for Adults Aged 65+, in Constant Dollars, by Insurance Coverage, 1998-2002.....	54

Table A19: Total Annual Out-of-Pocket Health Care Costs for Adults Aged 65+, in Constant Dollars, by Personal Characteristics, 1998-2002.....	55
Table A20: Total Annual Out-of-Pocket Health Care Costs Relative to Income for Adults Aged 55-64 and Their Spouses, 2002.....	56
Table A21: Share of Income Spent on Health Care by Adults Aged 55-64 and Their Spouses, and Share Experiencing Catastrophic Costs, 1998-2002 (%).....	58
Table A22: Total Annual Out-of-Pocket Health Care Costs Relative to Income for Adults Aged 65+ and Their Spouses, 2002.....	60
Table A23: Share of Income Spent on Health Care by Adults Aged 65+ and Their Spouses, and Share Experiencing Catastrophic Costs, 1998-2002 (%).....	62

## Executive Summary

### Background

Employer-sponsored retiree health insurance plays a critical role in the health and income security of older adults. These benefits provide primary insurance coverage for many Americans who retire before they qualify for Medicare at age 65. They also supplement Medicare coverage after age 65, typically reducing the burden of Medicare cost-sharing requirements and defraying the cost of services excluded from the Medicare benefits package. In recent years there has been concern that employer-sponsored retiree health benefits are eroding.

### Purpose

This report examines the availability and cost of health insurance coverage at older ages and pays particular attention to employer-sponsored health benefits. Unlike most previous studies using employer surveys of retiree health benefits, this study is based on benefit and cost information reported by individuals. The analysis calculates the share of older Americans with employer health benefits and other types of insurance coverage and computes average and median levels of insurance premiums (including required contributions to employers for health benefits) and out-of-pocket health care costs paid by older consumers. It examines how coverage changes as people age and assesses the likelihood that people lose employer-sponsored retiree health benefits over time. The report also examines the availability of retiree benefits for full-time workers approaching retirement.

### Methodology

Data come from the Health and Retirement Study (HRS), a large, nationally representative longitudinal survey of older Americans. Estimates are reported separately for those aged 65 and older with Medicare, and those younger than 65, who cannot receive Medicare coverage unless they are disabled. The sample excludes nursing home residents. The analysis focuses on coverage and costs in 2002 but, where data permitted, also examines trends since the mid-1990s.

### Findings

**Despite concerns about the declining availability of employer-sponsored retiree health benefits, HRS evidence through 2002 does not show a widespread reduction in employers as a source of coverage for early retirees or adults aged 65 and older or for future retirees.** Yet the evidence shows that employer-sponsored health insurance coverage can be somewhat volatile over time for people who receive it.

- Between 1994 and 2002, the share of *retirees* aged 55 to 63 with coverage from former employers increased from 46 percent to 50 percent.<sup>1</sup> During the same period, the share of

---

<sup>1</sup> The comparisons over time excluded 64-year-olds because HRS did not sample adults older than 63 in 1994.



full-time *workers* aged 55 to 63 with coverage from their own current employers increased from 66 percent to 70 percent. Uninsurance rates fell for all groups.

- Among those between the ages of 55 and 60 who were retired in 1998 and were receiving health benefits from their former employers, 84 percent continued to report employer coverage four years later (in 2002, when they were aged 59 to 64). Only 1 percent were uninsured.
- Among those between the ages of 55 and 60 who were disabled in 1998 and receiving employer benefits, only 51 percent continued to receive benefits from their employer four years later. Nonetheless, none of the respondents reported being uninsured in 2002; 17 percent had coverage through a spouse's employer (past or current), 21 percent had Medicaid or Medicare coverage, and 11 percent purchased private nongroup coverage.
- The share of Medicare beneficiaries aged 65 and older with employment-based coverage increased by 2 percentage points between 1998 and 2002. Even among relatively young beneficiaries (those aged 65 to 69), the share with employer-sponsored benefits increased by 3 percentage points.
- Among adults aged 72 or older receiving health benefits from their own employers (past or current) in 1995, only about 58 percent reported own employer coverage in 2002. Coverage through a spouse's employer is even less stable, with only 18 percent reporting spousal coverage in 2002, among people age 72 or older with spousal coverage in 1995.
- In 2002, 45 percent of all full-time wage and salary workers aged 55 to 63 reported that they could receive health benefits from their employers until age 65 if they were to retire immediately. This share has remained remarkably steady since 1996.

**Health insurance premiums among aged Americans not old enough to qualify for Medicare have soared in recent years.** Out-of-pocket premium costs increased rapidly between 1994 and 2002 for those obtaining coverage from their former and current employers, as well as for those purchasing coverage in the private nongroup market.

- Between 1994 and 2002, median required premium contributions by former employees aged 55 to 63 enrolled in employer health plans nearly tripled after inflation, rising from \$23 per month (in constant 2002 dollars) to \$65 per month.
- Active workers aged 55 to 63 paid less than retirees for employer-sponsored coverage but experienced nearly the same absolute increase in median required premium contributions between 1994 and 2002. In 2002, median contributions by active workers reached \$48 per month.
- Median monthly premiums for private nongroup insurance at ages 55 to 63 roughly doubled in inflation-adjusted dollars between 1994 and 2002, to \$250.

**Mandatory premium contributions by participants in employer-sponsored retiree health plans have increased even more rapidly among those aged 65 and older than among retirees under age 65.** The growth in median contributions to employer plans outpaced the

growth in median Medigap premiums charged by insurance companies, although Medigap plans remain much more expensive than employer plans.

- Between 1998 and 2002, median monthly premium contributions to employer health plans by Medicare beneficiaries aged 65 and older more than tripled in inflation-adjusted dollars, increasing from \$13 (measured in constant 2002 dollars) to \$50.
- Median monthly premiums for Medigap insurance at age 65 and older amounted to \$130 in 2002. Medigap premiums increased by only 12 percent between 1998 and 2002, after adjusting for inflation.
- The HRS offers some evidence that employers have cut back on specific retiree health benefits in recent years. Among Medicare beneficiaries age 65 and over, 80 percent of those with benefits from their own former employers reported drug coverage in 2002, down from 90 percent in 2000.

**Rising premium costs and payments to health care providers are forcing older Americans to allocate more of their income to health care.** Costs are highest among those who purchase nongroup insurance, as either primary coverage for those under age 65 or supplemental coverage for Medicare beneficiaries. Increases in drug spending accounted for most of the increase in out-of-pocket payments to health care providers between 1998 and 2002.

- Among adults aged 55 to 64, median annual out-of-pocket health care spending (including insurance premiums) increased by 60 percent above inflation between 1998 and 2002.
- Among Medicare beneficiaries aged 65 and older, median annual out-of-pocket health care spending increased by 25 percent above inflation between 1998 and 2002.
- Health care spending by adults aged 55 to 64 and their spouses consumed 7 percent of their before-tax household income in 2002, up from 5 percent in 1998.
- Health care spending by Medicare beneficiaries aged 65 and older and their spouses consumed 13 percent of their before-tax income in 2002, up from 10 percent in 1998.

**More older Americans are facing catastrophic health care costs.** Catastrophic costs are most common among those with nongroup insurance coverage, although the share experiencing catastrophic costs has increased sharply in recent years among retirees with employer-sponsored coverage.

- In 2002, 9 percent of adults aged 55 to 64 devoted more than one-third of their income to health care spending, up from 6 percent in 1998.
- Among adults aged 55 to 64 with coverage from former employers, the share spending more than one-third of their income on health care doubled between 1998 and 2002, increasing from 6 percent to 12 percent.
- Among Medicare beneficiaries aged 65 and older, 16 percent devoted more than one-third of their income to health care spending in 2002, up from 10 percent in 1998.

- Between 1998 and 2002, the share of Medicare beneficiaries aged 65 and older with catastrophic costs more than doubled among those with employer-sponsored coverage, rising from 5 percent to 11 percent.

The rising cost of health benefits threatens financial security at older ages. Although many older Americans continue to receive health benefits from their employers after they retire, many employers have been rapidly raising the premiums they charge plan participants. Retirees are also paying more to health care providers, as health care costs continue to increase faster than wages and the prices of other goods and services. The trends shown in this study suggest that older Americans are now devoting more of their income to health care than they did only a few years ago, and more are experiencing catastrophic health care costs. As policymakers consider reforms to restrain the growth of Social Security, Medicare, and Medicaid, they should recognize the financial difficulties that rising health care costs are already creating for many older adults.

# **Health Insurance Coverage and Costs at Older Ages: Evidence from the Health and Retirement Study**

## **Introduction**

Employer-sponsored retiree health insurance plays a crucial role in the health and income security of older adults. These benefits provide primary insurance coverage for many Americans who retire before they qualify for Medicare at age 65. Workers who lack retiree benefits but wish to retire before age 65 have to turn to the private nongroup insurance market for coverage, which is generally quite expensive, especially for those with pre-existing health problems. Employer-sponsored retiree health benefits also supplement Medicare coverage after age 65, typically helping beneficiaries with Medicare's cost-sharing requirements and defraying some of the cost of services excluded from the Medicare benefits package.

In recent years, however, employers appear to have cut back on retiree health benefits. Employer surveys indicate that many firms have increased the level of contributions they require from enrollees to offset the rising cost of premiums, have imposed caps on the amount of money they will pay for these benefits, or have eliminated retiree coverage altogether. These trends have potentially serious consequences for the well-being of older Americans.

This report examines the availability and cost of health insurance coverage at older ages and pays particular attention to employer-sponsored benefits. Unlike most previous studies, which used employer surveys of retiree health benefits, this study is based on benefit and cost information reported by individuals.

The analysis seeks to answer a series of questions about health benefits. What is the relative importance of the employer as a source of coverage for older adults and how does that shift for those retiring before age 65? Did availability of employer-sponsored coverage decline between the mid-1990s and 2002 for older adults generally and for retirees in particular? For older adults with retiree health benefits, did their costs for the coverage change in real terms and relative to those without access to retiree health benefits? What portion of income did they spend on health coverage and services if they had retiree health benefits and if they didn't?

Data came from the Health and Retirement Study (HRS), a nationally representative longitudinal survey of older Americans that collected information on health insurance coverage, out-of-pocket health care spending, income, work status, health, demographics, and other topics. The analysis examines outcomes in 2002 as well as point-in-time trends since the mid-1990s, all computed at the individual level. Throughout the report, the analysis looks separately at the population in 2002 aged 55–64 and those aged 65 and older with Medicare coverage. For the younger group, findings are generally presented for the population as a whole as well as for those who were retired, highlighting differences by work status. Where data permitted, longitudinal analysis of the stability of insurance coverage over time is reported. For the younger group, the study compares health insurance coverage in 1998 and 2002 for the subset of respondents who were aged 55 to 60 in 1998 and retired or disabled in that year. For the older sample, the study compares coverage in 1995 and 2002 for a group of respondents aged 72 and older in 1995. The analysis also examines retiree health benefit offers from employers. Beginning in 1996, the survey that forms the basis of this report asked workers with employer-sponsored health

insurance coverage whether they could continue their coverage until age 65 if they retired immediately. The analysis looks at full-time workers aged 55 to 63, and a subset of respondents who were working full-time in 1996 and who reported that their employers offered retiree health benefits, and who then retired by 2002 before age 65.

All financial amounts are expressed in constant 2002 dollars, adjusted by the change in the overall Consumer Price Index. The analysis defines retirees as adults who described themselves as retired and worked no more than 19 hours per week (if at all). Similarly, respondents who described themselves as disabled and worked no more than 19 hours per week were classified as disabled. Key findings are displayed graphically in figures within the body of the report. Appendix tables present more detailed results. A methodological appendix provides additional information about the data and study methods.

To set the context for the analysis, the next section of the report discusses the role of employer-sponsored health coverage for retirees and reviews the recent literature on changes in retiree health benefits based on reports from employers. It also outlines the options available to older adults who do not have access to employer-sponsored health coverage when they retire.

## **Health Insurance Coverage Options at Older Ages**

Although important throughout the life course, health insurance is especially critical to the health and income security of older adults because the risk of costly health problems increases with age.

### ***The Role of Employer-Sponsored Insurance***

Medicare provides health benefits to virtually all Americans aged 65 and older, but it does not cover all types of services and requires beneficiaries to share the cost of the services it does cover through deductibles, copayments, and premium payments. For example, in 2006 Medicare imposes a \$952 deductible for hospital stays and requires monthly premiums of \$88.50 for participants in Medicare Part B, which covers physician and other outpatient services. Medicare provides only limited coverage of long-term care services and does not cover routine dental care at all, which accounts for a sizeable share of out-of-pocket health care spending by older Americans (Crystal et al. 2000).

The most significant omission in the Medicare benefit package was outpatient prescription drug coverage, which was added in 2006. Beneficiaries seeking drug coverage must enroll either in private stand-alone drug plans or in private managed care plans that cover drugs and other Medicare benefits. Premiums for drug plans can be substantial; the average premium offered was about \$32 per month in 2006. Most plans also stop paying benefits once annual drug spending reaches \$2,250, until annual out-of-pocket spending totals \$3,600 (Gold 2006). Although it is still too early to assess the impact of the new Medicare drug coverage, it is likely that many beneficiaries who rely solely on Medicare will continue to make significant out-of-pocket payments for prescription drugs.

Because Medicare coverage is incomplete, some beneficiaries receive supplemental retiree health benefits from their former employers. Employer plans generally help with

Medicare's cost-sharing requirements by covering part of the deductibles and copayments, and fill some of the gaps in the Medicare benefits package. For example, before 2006 virtually all employer-sponsored retiree health plans offered drug benefits (Laschober 2004), so most beneficiaries in employer plans had help with pharmaceutical bills before Medicare covered drugs. Like most workers in employer health plans, enrollees in retiree health plans generally must contribute toward the cost of health premiums. In 2004, more than one-quarter of large private employers (with 1,000 or more employees) with retiree health plans required retirees aged 65 and older to pay more than 60 percent of the plan's premium (Kaiser Family Foundation and Hewitt Associates 2005). Only 11 percent did not collect any contributions from these retirees.

Employer-sponsored retiree health benefits are especially important for those who retire before age 65 and thus are not eligible for Medicare coverage unless they are disabled. These plans generally allow retirees to continue the coverage they held while working, although some employers raise the required premium contributions when workers retire. Most plans also cover spouses, although they usually must make higher contributions for their coverage than workers or retirees.

Retiree health insurance offers dropped sharply about 15 years ago. Between 1988 and 1993, the share of private firms with 200 or more employees offering health insurance to retirees of any age fell from 66 percent to 36 percent (Kaiser Family Foundation and Health Research and Educational Trust 2005). Most analysts attribute this plunge to the 1993 introduction of new accounting rules that required private employers to recognize the present value of expected future retiree health care costs as liabilities on their balance sheets.<sup>2</sup>

Although fragmentary, the available evidence suggests less erosion in access to retiree health benefits since 1993. For example, employer surveys by KPMG and the Kaiser Family Foundation and Health Research and Educational Trust show that between 1993 and 2003, the share of private firms with 200 or more employees providing retiree health insurance fluctuated between 40 percent and 35 percent. From 2003 to 2005, however, the share fell from 38 percent to 33 percent (Kaiser Family Foundation and Health Research and Educational Trust 2005). Mercer Human Resources Consulting (2006) found that the share of employers with 500 or more workers offering health benefits to retirees declined steadily from 1993 to 2001, falling from 46 percent to 29 percent for early retirees and from 40 percent to 23 percent for Medicare-eligible retirees. Between 2001 and 2005, however, the offer rate remained roughly constant for the younger group and showed a two-percentage-point drop for the older group. Hewitt Associates found that among employers with 1,000 or more workers, the share offering health benefits to early retirees fell from 88 percent in 1991 to 73 percent in 2000 (Coppock and Zebrak 2001).

Employers are also increasingly shifting costs to retirees as health expenses climb. According to employer surveys, nearly four in five large private employers increased retiree contributions for plan premiums between 2003 and 2004, and 45 percent increased cost-sharing requirements (Kaiser Family Foundation and Hewitt Associates 2004a). In addition, in the same period, 8 percent of large private employers reported that they had eliminated subsidized health

---

<sup>2</sup> Financial Accounting Statement No. 106 (FAS 106) requires employers to accrue the cost of retiree health and other post-employment benefits during the working careers of active employees.

benefits for future retirees in the past year, in most cases terminating benefits for employees hired after a certain date, not those who retire after a certain date. Premium contributions by pre-65 retirees increased by 20 percent between 2002 and 2003 and by 23 percent between 2003 and 2004 (Kaiser Family Foundation and Hewitt Associates 2004a, 2004b). For retirees aged 65 and older, required premium contributions increased by 18 percent between 2002 and 2003, by 21 percent between 2003 and 2004, and by 10 percent between 2004 and 2005. The vast majority of large employers reported raising premiums or cost-sharing requirements for retirees in 2005 (Kaiser Family Foundation and Hewitt Associates 2005).

To protect themselves against the uncertainty of future health costs, more and more employers are placing caps on future financial obligations for retiree health coverage. In 2005, nearly two-thirds of large private employers with retiree health plans had these types of limits in effect (Kaiser Family Foundation and Hewitt Associates 2005). Some of these caps limit the total costs that employers pay for retiree health benefits. For example, some firms stipulate that they will spend no more, in total, for retiree medical benefits than twice the amount that they paid in a given historical year. Other employers apply the cap to individuals by, for example, specifying that lifetime subsidies for retiree health costs at age 65 and older not exceed a particular per capita amount. Once employer payments reach the specified cap, insurance costs are paid in full by plan enrollees.

### ***Other Coverage Options at Older Ages***

The erosion of employer benefits for retirees is especially ominous because other coverage options are limited at higher ages. Some married adults are able to supplement their Medicare coverage through their spouses' employer plans, but they generally have to pay larger shares of the premiums than workers, which might not be cost-effective for individuals needing a plan that merely wraps around Medicare coverage. Moreover, spousal coverage is available only for those with working spouses or with spouses who receive retiree health benefits from their past employers. Older Americans can also obtain supplemental Medicare coverage from private Medigap plans, health maintenance organizations (HMOs), and Medicaid. But Medigap policies and Medicare HMOs provide less comprehensive protection than most employer plans, and Medicaid is available to only a fraction of Medicare beneficiaries.

Medigap is private health insurance that wraps around Medicare's benefit package. Most policies sold before the start of the Medicare drug program, however, did not cover prescription drugs. In 1992, federal rules established ten standard benefit designs, only three of which covered prescription drugs. Only 8 percent of enrollees in standard Medigap plans had drug coverage in 2001 (Chollet 2003). Another drawback of Medigap coverage is its relatively high price. For example, in 2005 65-year-old women faced average annual premiums of about \$1,750 for Medigap policies providing comprehensive coverage of deductibles, coinsurance, and Part B premiums, but no drug coverage (Weiss Ratings 2005).

Older Americans can also supplement their health benefits by enrolling in Medicare HMOs through the Medicare Advantage program (known until recently as Medicare+Choice). Although these plans often offer services not available in the traditional Medicare package for relatively low premiums, they generally limit choice of doctors and hospitals. In addition, plans are not widely available in certain parts of the country, especially in rural areas (Gold and

Achman 2004). Providers had been raising premiums and cutting benefits in recent years, but Congress' decision to raise provider reimbursement rates in the 2003 Medicare Modernization Act appears to have stemmed the growth in premiums and erosion in benefits (Achman and Harris 2005).

Finally, state Medicaid programs provide supplemental coverage for certain low-income Medicare beneficiaries. By federal law, state Medicaid programs must provide full Medicaid benefits to eligible individuals. Other low-income beneficiaries ineligible for full Medicaid benefits may receive help from state Medicaid offices with Medicare premiums, deductibles, and coinsurance through the Medicare Savings Programs. Fewer than half of aged beneficiaries eligible for Medicaid assistance actually enroll, however, in part because of the stigma associated with Medicaid and the complex enrollment process (Moon, Brennan, and Segal 1998). Low-income beneficiaries can also receive help from Medicare with their Medicare drug benefit premiums, deductibles, and copayments.

Alternatives to employer plans at older ages are even more limited for those who are not yet 65. Spousal coverage in an employer plan is available to some married people, but it is often relatively expensive. Purchasing coverage in the private nongroup market is generally even more expensive (Chollet and Kirk 1998). Older adults younger than 65 can qualify for Medicaid or Medicare benefits only if they are blind or disabled. In addition, Medicaid benefits are subject to strict income and asset tests, and Medicare benefits do not begin until at least 29 months after the onset of a qualifying disability.

Retirees who received health benefits from their employers when they were working but do not have access to retiree benefits can generally continue their employer-sponsored coverage for a limited time. The Consolidated Omnibus Budget Reconciliation Act (COBRA) requires employers with 20 or more employees to provide continuation coverage to former workers for up to 18 months (or 29 months if the worker is disabled). However, COBRA coverage is generally costly for enrollees, who must pay 102 percent of the employer's group rate. Less than 3 percent of nonworking adults aged 55 to 62 had COBRA coverage in 1998 (Johnson 2003).

The following sections turn to the analysis of the HRS survey data related to sources of health coverage and health costs for adults aged 55 to 64 and at age 65 and beyond.

## **Health Insurance Coverage Rates at Older Ages**

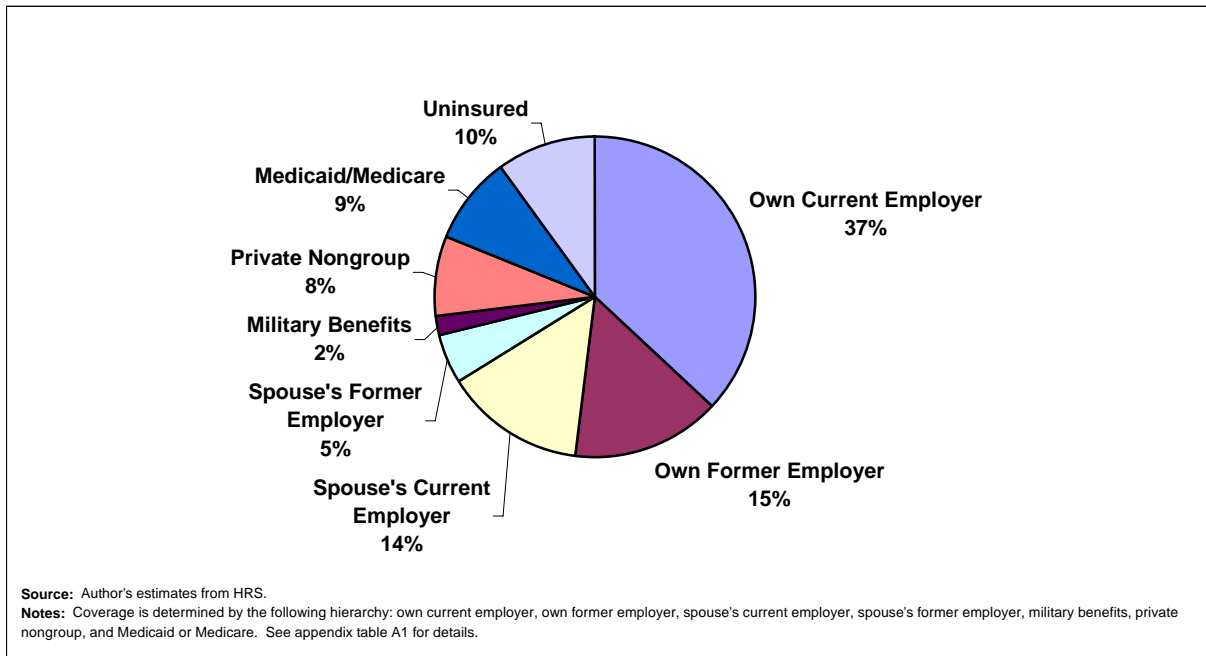
The majority of older Americans too young to qualify for Medicare receive health insurance from their employers, and some aged Medicare beneficiaries continue to receive supplemental insurance coverage from former employers.

### ***Coverage at Ages 55 to 64***

Employers provided health insurance coverage for nearly three of every four adults approaching traditional retirement age in 2002. Among adults aged 55 to 64, 37 percent received coverage from their own current employers, 15 percent received coverage from their past employers, 14 percent received coverage from their spouses' current employers, and 5 percent received coverage from their spouses' former employers (figure 1). Another 8 percent purchased nongroup insurance from private insurance companies and did not receive employment-based



**Figure 1: Insurance Coverage Rates for Adults Aged 55-64, 2002**

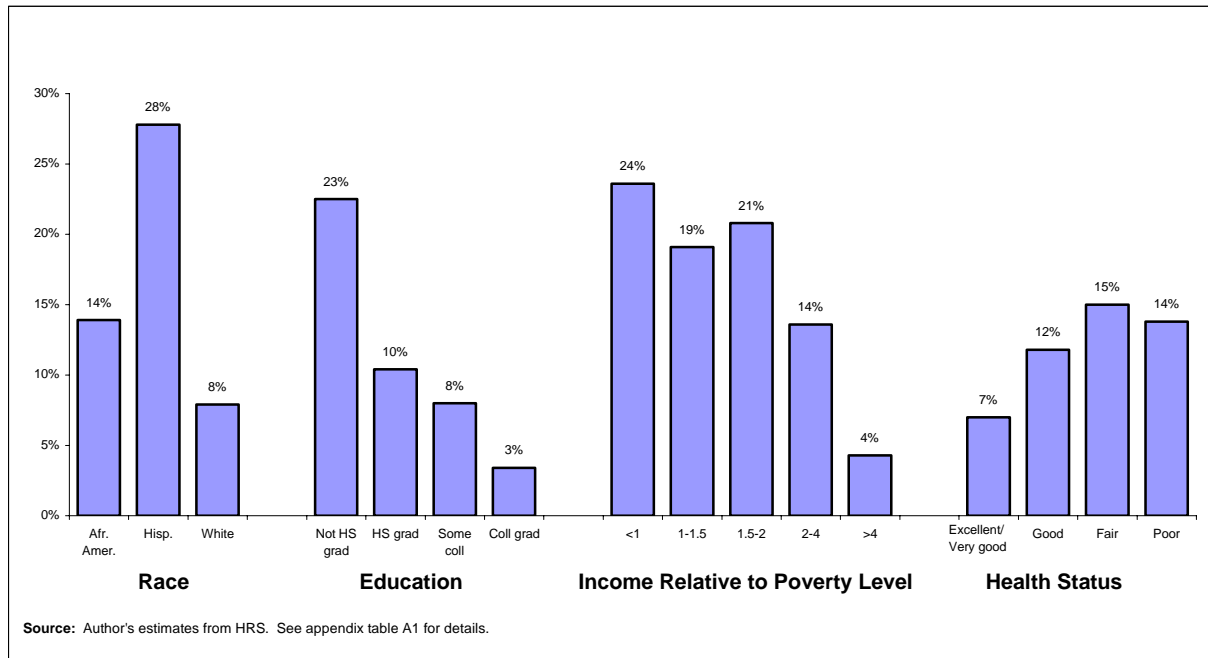


benefits. About 9 percent received public benefits from Medicare or Medicaid, and 2 percent received military-related health benefits.

Overall, one in ten adults aged 55 to 64 lacked health insurance coverage in 2002. Uninsurance rates varied sharply by socioeconomic group (figure 2). For example, 28 percent of Hispanics in this age group lacked coverage, compared with 14 percent of African Americans and 8 percent of non-Hispanic whites. Uninsurance rates fell as education and income rose. About 56 percent of midlife adults had incomes more than four times as high as the federal poverty level, and only 4 percent of them lacked health insurance. In contrast, nearly one-quarter of those with incomes below the poverty level, who accounted for 10 percent of midlife adults, lacked coverage. The Medicaid program provides health benefits to those with low incomes and few assets, but it is available only to selected groups, including those age 65 and older, those with disabilities, and those with dependent children. People at midlife without disabilities have few alternatives to private insurance.

For those with insurance, the source of coverage varied by personal characteristics. Women were more than twice as likely as men to receive coverage from their spouses' current or former employers. Rates of Medicare or Medicaid coverage were especially high among those in poor health, those with limited incomes and education, and Hispanics and African Americans. College graduates, those with high incomes, and those in excellent health were especially likely to receive health benefits from their own current employers. (For more information, see appendix table A1.)

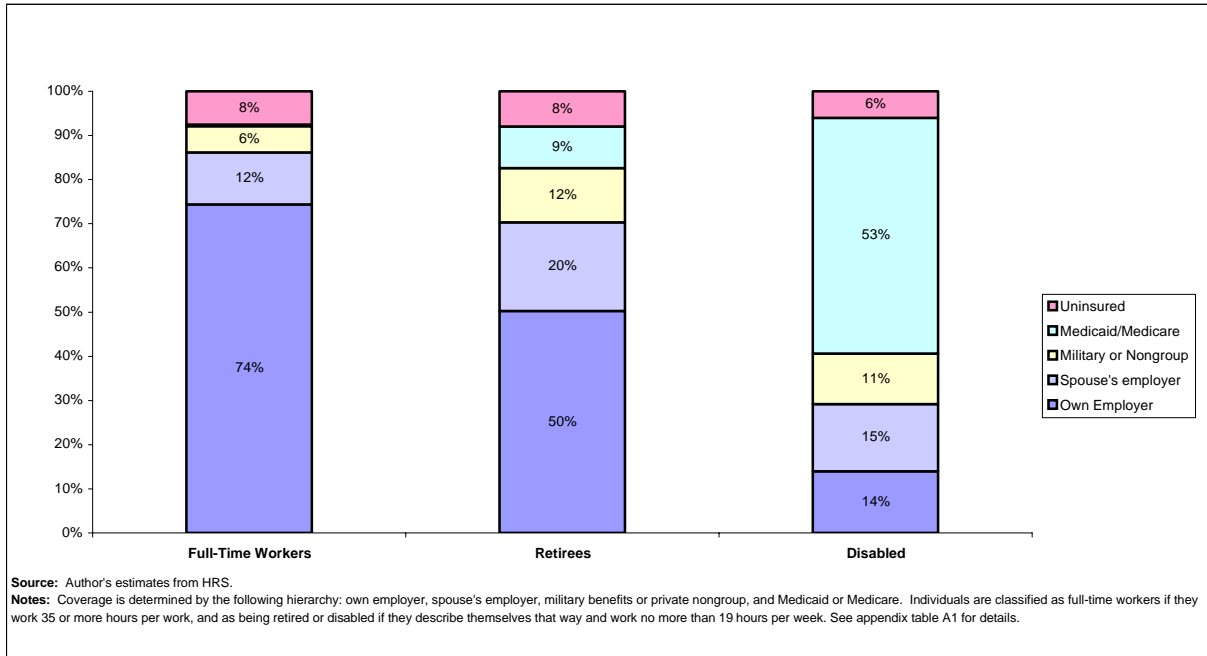
**Figure 2: Share of Adults Aged 55-64 without Health Insurance, 2002**



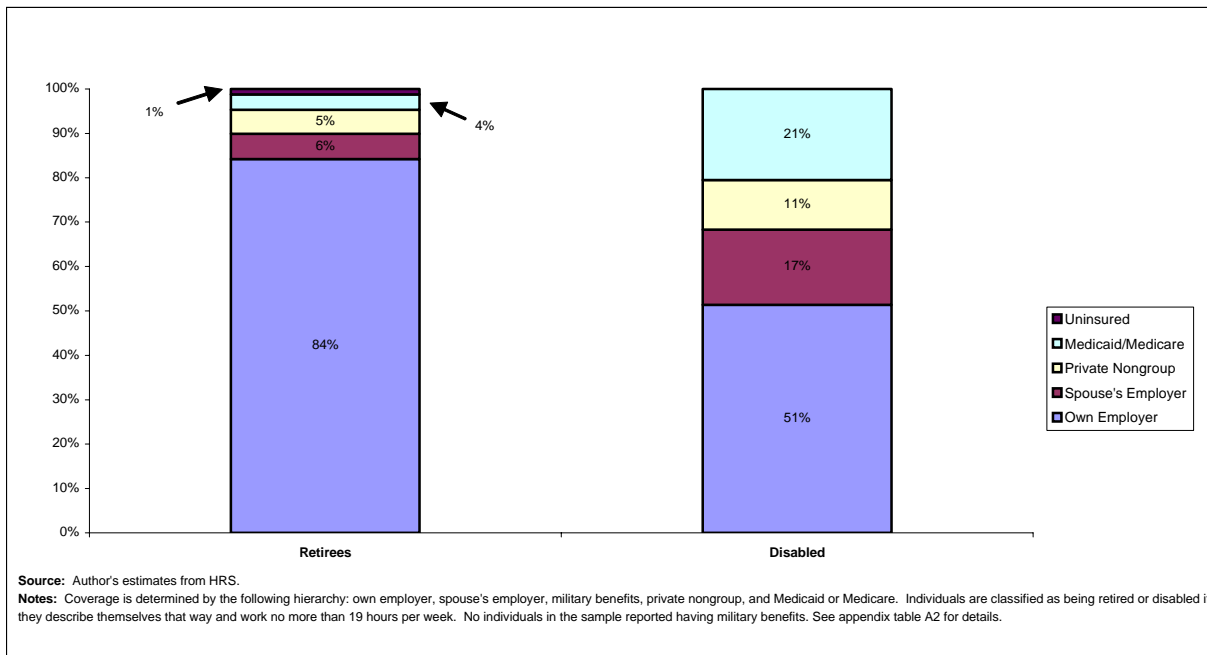
Work status is an important predictor of health insurance coverage at midlife. Nearly half of adults aged 55 to 64 worked full time in 2002, 19 percent described themselves as being retired and did not work for pay or worked fewer than 20 hours per week, and 10 percent described themselves as disabled and worked fewer than 20 hours per week; the remaining 23 percent either worked between 20 and 34 hours per week or worked less than 20 hours per week but did not describe themselves as retired or disabled. Although uninsurance rates were similar for full-time workers, retirees, and those with disabilities, the source of coverage varied by work status. Nearly three-quarters of full-time workers received coverage from their own current or former employers, compared with about one-half of retirees and only 14 percent of those with disabilities (figure 3). More than half of those with disabilities received health benefits from Medicaid or Medicare, compared with only about one-tenth of retirees and less than 1 percent of full-time workers.

Despite rising concern about the declining availability of employer-sponsored retiree health benefits, there is no evidence in the HRS of pervasive loss of employer-sponsored insurance coverage among people who retired early with such coverage, although the story is different for people with disabilities. Among those retired in 1998 between the ages of 55 and 60 and receiving health benefits from their former employers, 84 percent continued to report employer coverage four years later in 2002, when they were aged 59 to 64 (figure 4). Another 6 percent reported spousal coverage in 2002, and 5 percent reported private nongroup coverage.

**Figure 3: Coverage Rates for Adults Aged 55-64, by Work Status, 2002**



**Figure 4: Coverage Rates among Adults Aged 59-64 in 2002, Who Were Retired or Disabled in 1998 and Receiving Health Benefits from Their Former Employers**



However, among adults with disabilities in 1998 between the ages of 55 and 60 and receiving employer health benefits, only 51 percent continued to receive coverage from their employers four years later.<sup>3</sup> Nonetheless, none of these respondents reported being uninsured in 2002; 17 percent had coverage through a spouse's employer (past or current), 21 percent had Medicaid or Medicare coverage, and 11 percent purchased private nongroup coverage.

There is also no evidence in the HRS that employer-sponsored coverage rates fell during the second half of the 1990s among early retirees not yet eligible for Medicare. Between 1994 and 2002, the share of retirees aged 55 to 63 with coverage from former employers increased from 46 percent to 50 percent.<sup>4</sup> During the same period, the share of full-time workers aged 55 to 63 with coverage from their own current employers increased from 66 percent to 70 percent, and the share of adults with disabilities in the age group with coverage from their own former employer showed a slight dip from 14 percent but returned to 13 percent. Uninsurance rates fell for all groups. (See appendix table A3 for details.)

### ***Coverage at Age 65 and Older***

The majority of older Americans supplement their traditional Medicare coverage with private health benefits. Only 15 percent of adults aged 65 and older living at home (not in nursing homes) relied solely on traditional Medicare coverage in 2002 (figure 5). One-quarter received supplemental benefits from their own employer, usually from one where they worked in the past but sometimes from a current employer if they were still working. Another 9 percent received benefits from a spouse's employer, and 4 percent received military benefits. Medigap policies provided supplemental benefits for 27 percent of aged Medicare beneficiaries in 2002, while 14 percent were enrolled in Medicare HMOs and 6 percent were enrolled in Medicaid.<sup>5</sup>

Low-income groups were especially likely to lack supplemental benefits. For example, 25 percent of adults aged 65 and older with incomes below the federal poverty level and 26 percent of those with incomes between 100 percent and 150 percent of the poverty level had only traditional Medicare benefits in 2002, compared with 8 percent of those with incomes that exceeded four times the poverty level (figure 6). Fully 27 percent of African Americans and 20 percent of Hispanics lacked supplemental benefits, and women were less likely to have supplemental benefits than men. Supplemental coverage increased with education but fell with age. One in five adults aged 80 and older, who use more health services than younger adults, relied solely on traditional Medicare benefits.

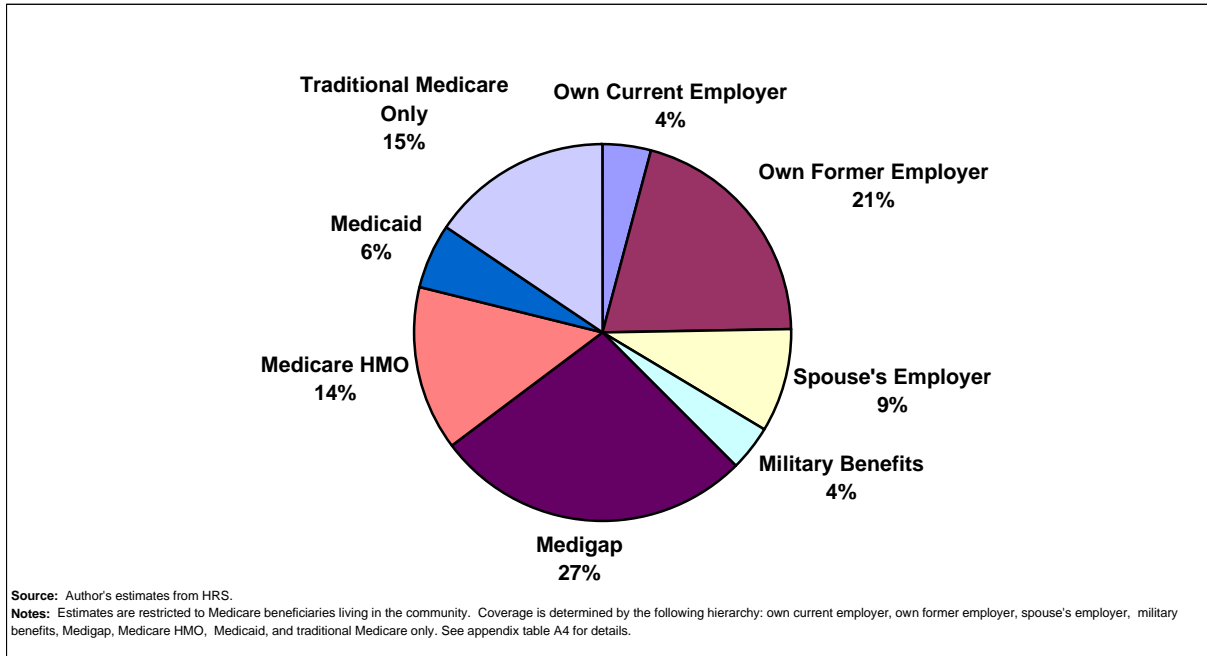
---

<sup>3</sup> Individuals with disabilities who reported employer health benefits may not have received retiree health benefits. Instead, if they left their jobs, they may have had COBRA continuation coverage, which runs out within three years for people with disabilities.

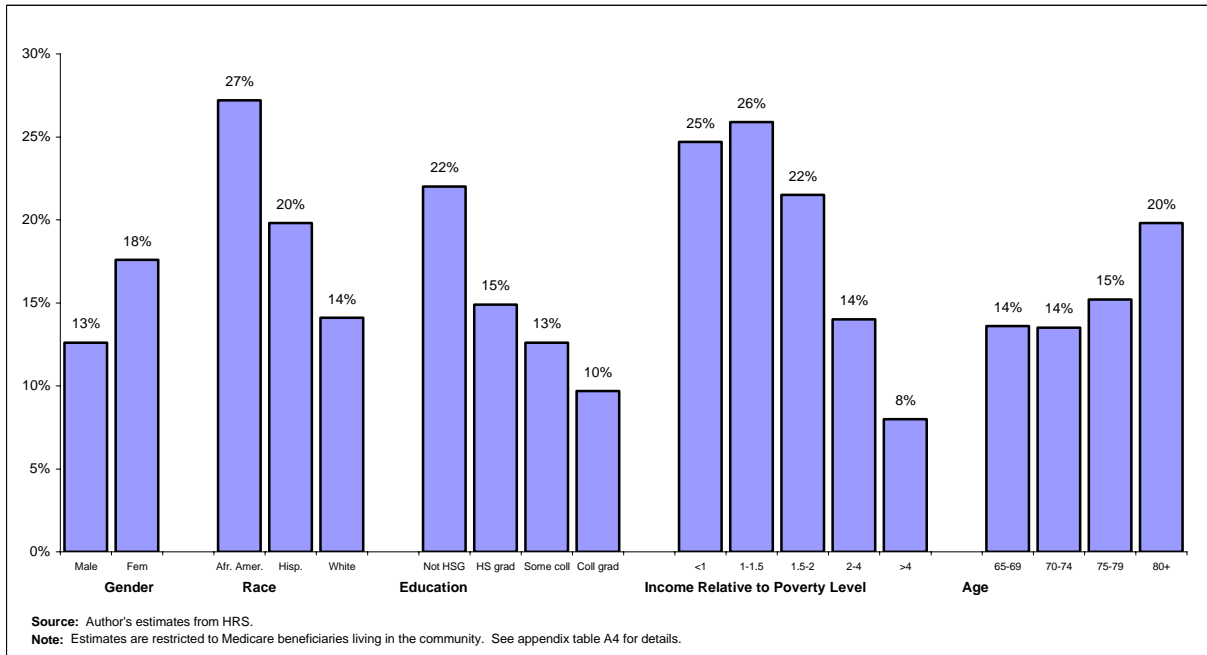
<sup>4</sup> The comparisons over time excluded 64-year-olds because HRS did not sample adults older than 63 in 1994.

<sup>5</sup> Estimates based on the Medicare Current Beneficiary Survey (MCBS) reveal higher rates of supplemental coverage than the HRS estimates reported here. Only 12 percent of MCBS respondents living at home relied solely on traditional Medicare coverage in 2002 (Federal Interagency Forum on Aging Related Statistics 2004). Nearly 11 percent of MCBS respondents reported Medicaid coverage.

**Figure 5: Coverage Rates for Adults Aged 65+ with Medicare, 2002**



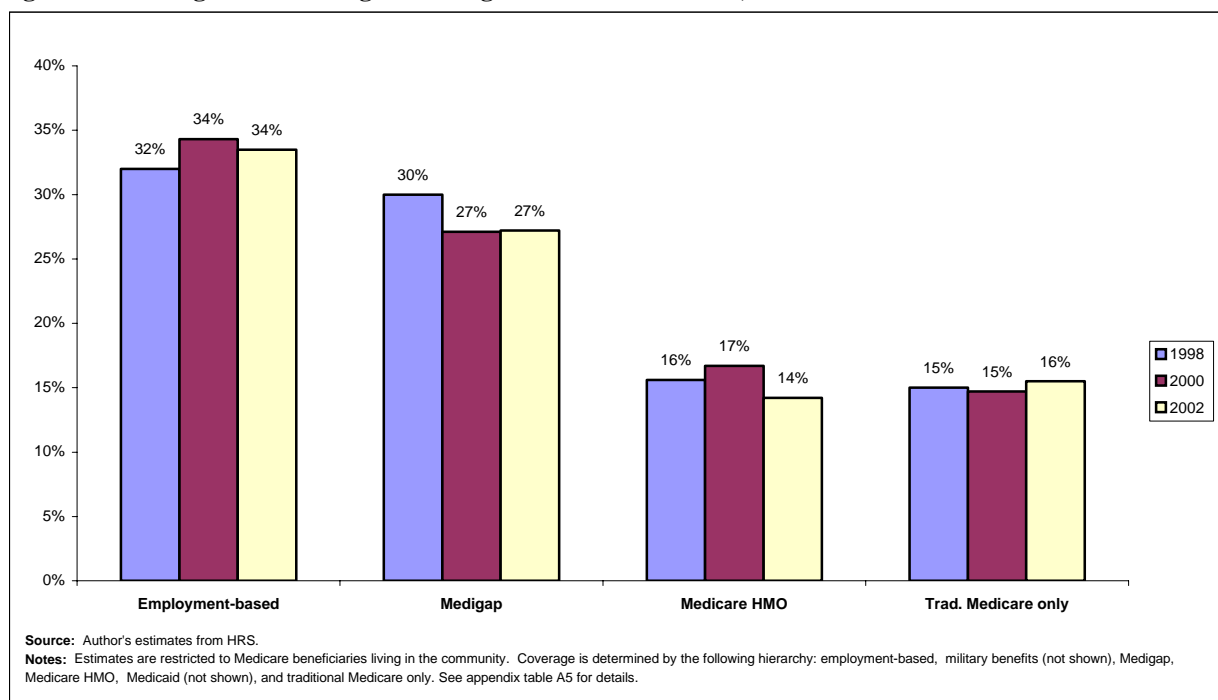
**Figure 6: Share of Adults Aged 65+ with Only Traditional Medicare Benefits, 2002**



For Medicare beneficiaries with supplemental benefits, the source of coverage varied by socioeconomic status. Medicaid enrollment was relatively high among those with incomes below the poverty level, those without high school diplomas, and those in poor health. Rates of employer coverage were relatively high among high-income adults and college graduates. Men were more than twice as likely as women to receive benefits from their own past employers, but women were twice as likely as men to receive benefits from their spouses' employers. Whites were three times as likely to purchase Medigap coverage as Hispanics. (For more information, see appendix table A4.)

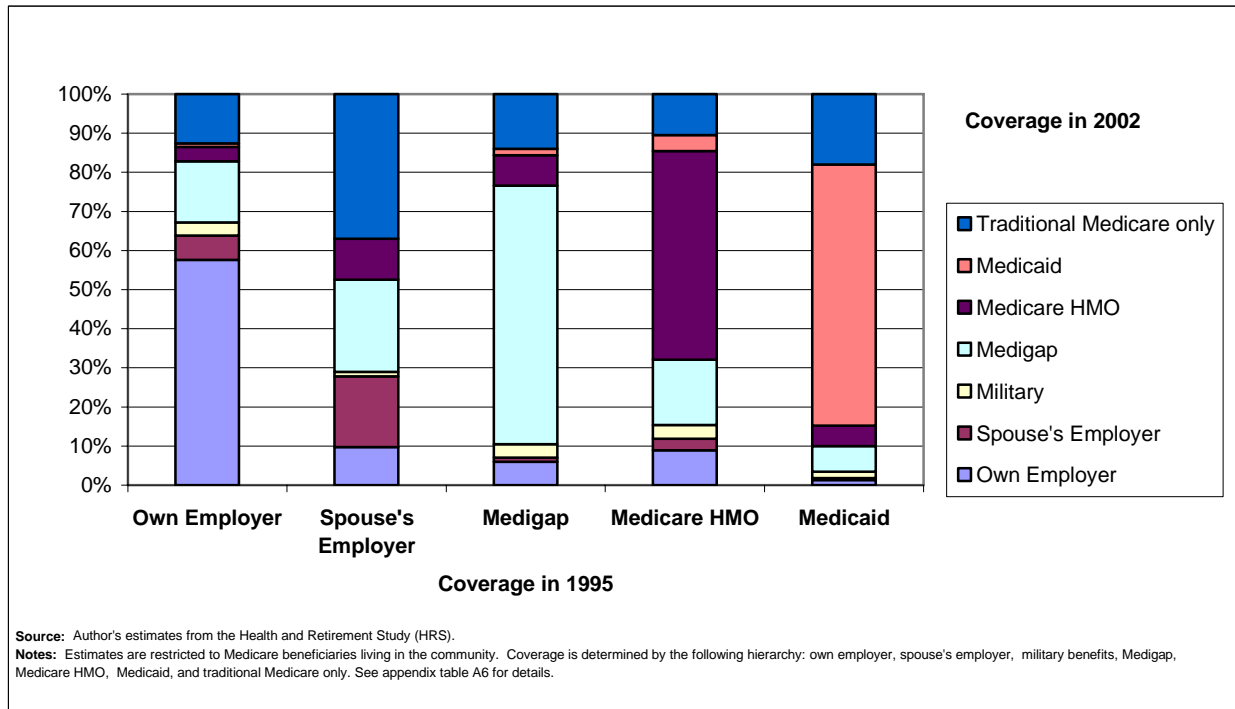
Insurance coverage rates among aged Medicare beneficiaries remained fairly steady between 1998 and 2002. The share with employment-based coverage increased by 2 percentage points, while the share with Medigap coverage fell by 3 percentage points (figure 7). The share enrolling in Medicare HMOs fell by 3 percentage points between 2000 and 2002. These patterns generally persisted within five-year age groups. In particular, even among Medicare beneficiaries aged 65 to 69, the share with employer-sponsored benefits increased by 3 percentage points, despite concerns about the erosion of health benefits among recent retirees.

**Figure 7: Coverage Rates among Adults Aged 65+ with Medicare, 1998-2002**



Health insurance coverage at older ages appears to be somewhat volatile. Figure 8 shows the distribution of coverage among Medicare beneficiaries aged 79 and older in 2002, by the source of their supplemental coverage seven years earlier in 1995. Only about 58 percent of those receiving health benefits from their own employers (past or current) in 1995 reported employer coverage in 2002. Spousal coverage in employer plans was especially tenuous. Less than one in five aged Medicare beneficiaries receiving spousal benefits in 1995 reported coverage through their spouses' employer plans seven years later. Medicaid and Medigap coverage were most stable over time. Two-thirds of those enrolled in Medicaid in 1995

**Figure 8: Coverage Rates among Adults Aged 79+ in 2002, by Source of Coverage in 1995**

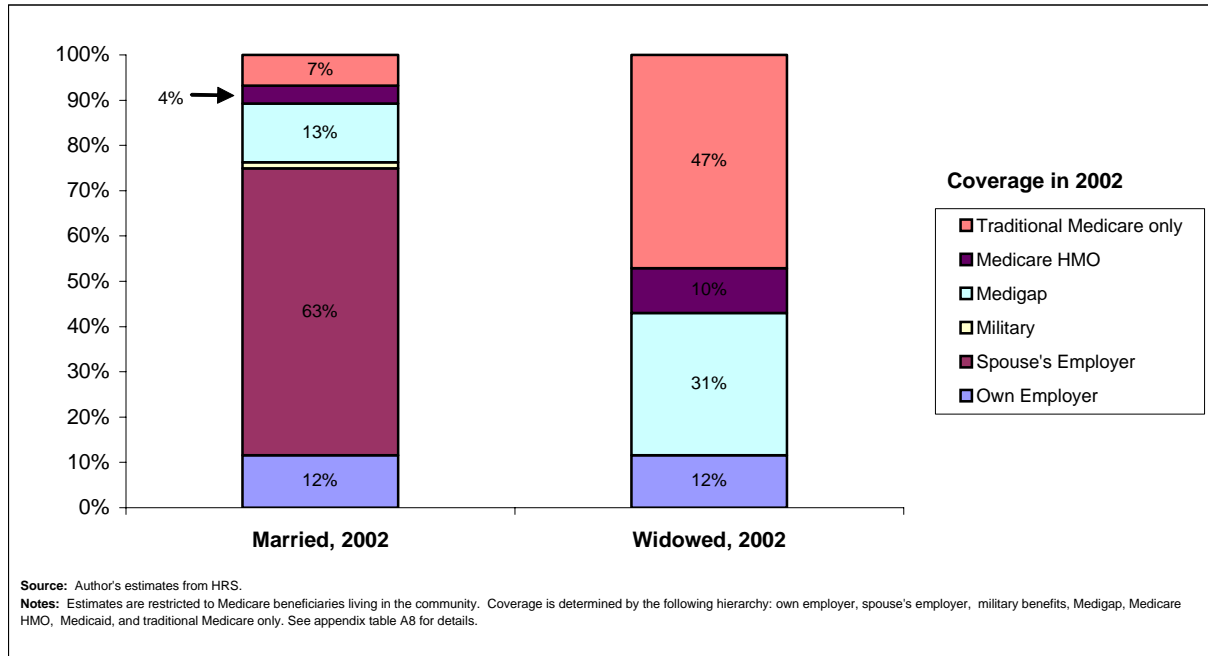


remained on Medicaid in 2002, and nearly two-thirds of those with Medigap coverage in 1995 continued their coverage seven years later.

People who reported the same type of coverage in 1995 and 1998 were much more likely to have maintained that coverage throughout the seven-year observation period. For example, among people aged 72 and older in 1995 who reported insurance coverage from their own employers, only 53 percent reported employer coverage in 1998. Between 1998 and 2002, however, the share with employer coverage did not change much. Spousal coverage was the exception, with coverage rates falling sharply in 2002 among those reporting coverage in 1995. (See appendix table A7 for details.)

The stability of spousal coverage appears to depend critically on the survival of the spouse. Figure 9 shows the distribution of coverage among women aged 79 and older on Medicare in 2002, who were married seven years earlier and received spousal benefits through their husbands' employer plans. The first bar shows coverage for women who were still married in 2002. Fully 63 percent of them continued to receive supplemental benefits from their husbands' plans, and only 7 percent relied solely on traditional Medicare coverage. The second bar shows coverage for women who were widowed as of 2002. Only 12 percent of these women reported any employer coverage in 2002, and nearly one-half (47 percent) had no supplemental coverage at all. Although most employers offering retiree health benefits extend coverage to surviving spouses (Kaiser Family Foundation and Hewitt Associates 2004a), relatively few women may be able to afford to continue coverage after their husbands die. Many married women fall into poverty or near poverty when they become widowed (Weir and Willis 2000).

**Figure 9: Coverage Rates among Women Aged 79+ in 2002, Who Were Married and Receiving Benefits from Their Husbands' Employers in 1995**



**Availability of Future Early Retiree Health Benefits among Workers**

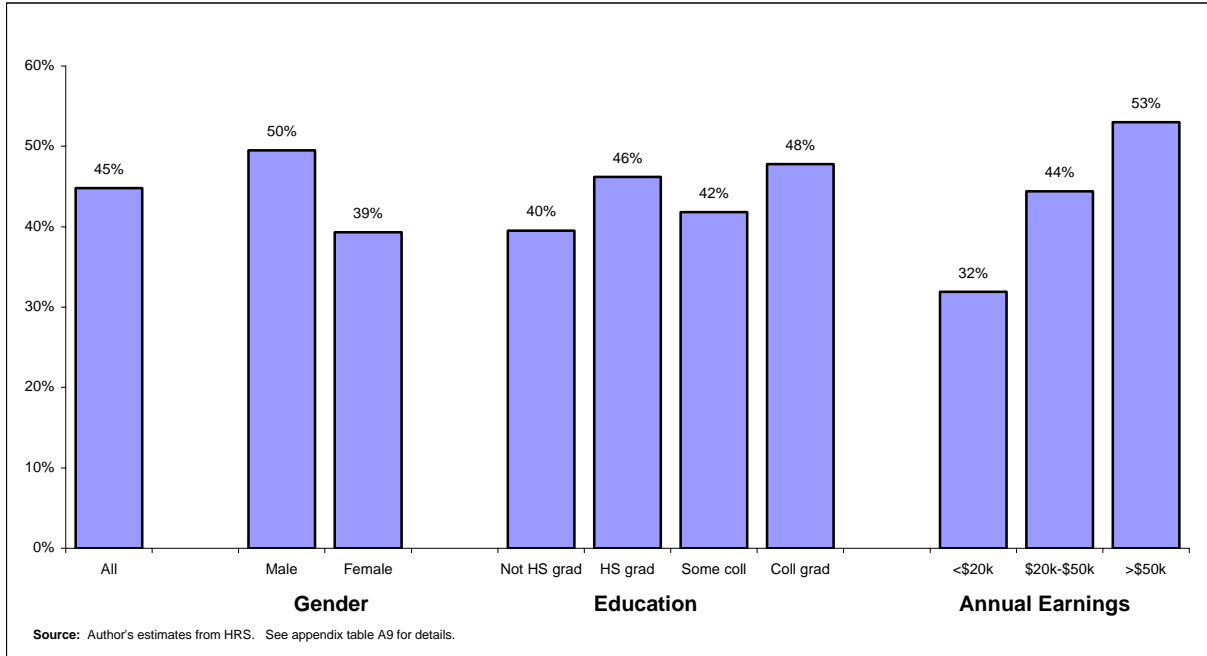
In 2002, 45 percent of all full-time wage and salary workers aged 55 to 63 reported that their employers offered retiree health benefits until age 65 if they retired in 2002 (figure 10).<sup>6</sup> This share has remained remarkably steady since 1996, when 44 percent reported employer offers. Access to retiree health benefits was higher among college graduates than high school dropouts and increased with earnings. For example, 53 percent of full-time workers earning more than \$50,000 reported access to retiree benefits in 2002, compared with 32 percent of those earning less than \$20,000. Men were also substantially more likely to report offers of retiree health benefits than women.

Among full-time wage and salary workers aged 55 to 63 receiving employer-sponsored health insurance, 56 percent reported that they could continue that coverage until age 65 if they retired before then (figure 11). Access to future retiree health benefits varied less by earnings and demographic characteristics among those receiving employer health benefits when working than among all full-time wage and salary workers.

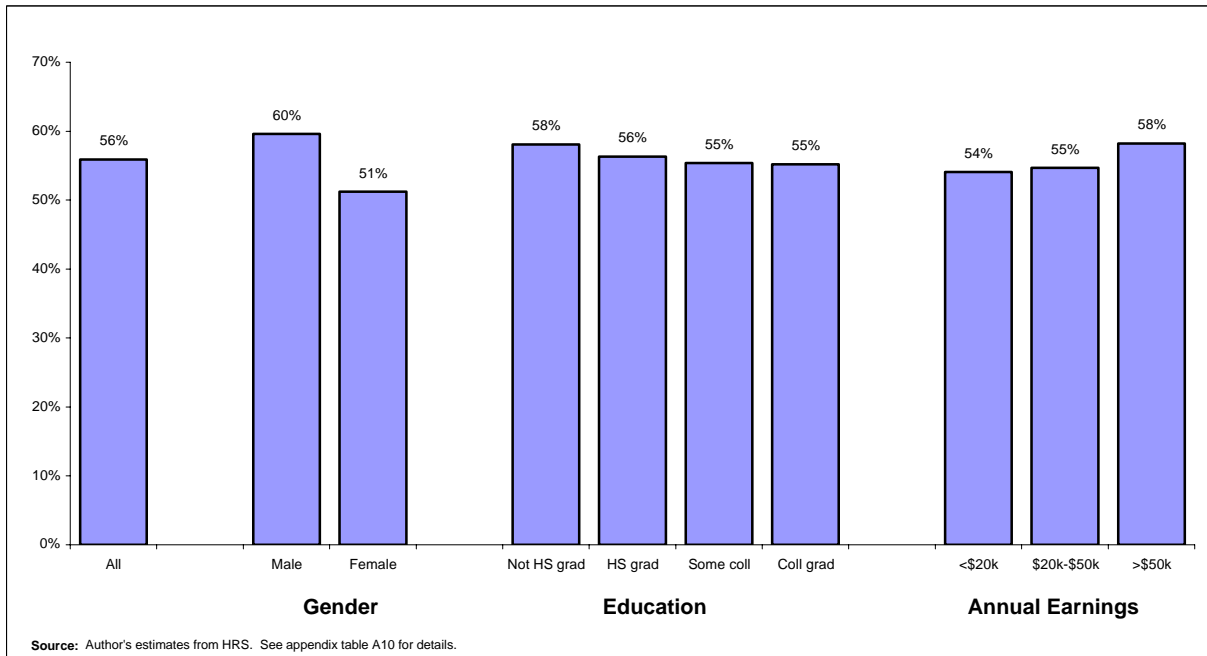
<sup>6</sup> As noted in the methodological appendix, the HRS does not directly ask respondents about the availability of retiree health insurance. Instead, the survey asks whether they could continue to receive their employer health benefits until age 65 if they immediately left their employer.



**Figure 10: Share of Full-Time Wage and Salary Workers Aged 55-63 Offered Retiree Health Insurance Until Age 65, 2002**



**Figure 11: Share of Full-Time Wage and Salary Workers Aged 55-63 Offered Retiree Health Insurance Until Age 65, among Those with Employer-Sponsored Insurance, 2002**



The survey showed that nearly three-quarters of full-time workers aged 55 to 63 who reported access to retiree health insurance until age 65 went on to receive health insurance coverage from past employers later after they had retired (see appendix table 11 for details).<sup>7</sup> The remaining quarter without employer coverage may have turned it down when they retired (perhaps because the required premium contributions were too expensive) or they may have been misinformed about the availability of retiree health benefits. Alternatively, their employers may have dropped coverage by the time they retired. Employer coverage rates among retirees who reported retiree health offers while working increased with income and education, perhaps because high-income people could better afford the premium contributions or well-educated people were better informed about employee benefit programs.

### **Out-of-Pocket Health Care Spending**

An individual's health care spending consists of premium contributions (for those with coverage) as well as spending associated with covered benefits and spending for services not covered by insurance.

#### ***Cost of Coverage for Plan Participants***

Between 1994 and 2002, median required premium contributions by former employees aged 55 to 63 enrolled in employer health plans nearly tripled, after adjusting for inflation (figure 12). In 2002, the median monthly contribution was \$65 for adults aged 55 to 63 who were enrolled in health plans offered by their former employers, up from \$23 in 1994 (expressed in constant 2002 dollars). Over the course of an entire year, the median retiree too young to qualify for Medicare paid about \$500 more in inflation-adjusted dollars for employer health benefits in 2002 than in 1994. By definition, exactly half of enrollees paid more than the median value and half paid less. The average contribution for early retiree health benefits, which — unlike the median value — can be skewed by a few unusually large reported payments, was \$129 per month in 2002.

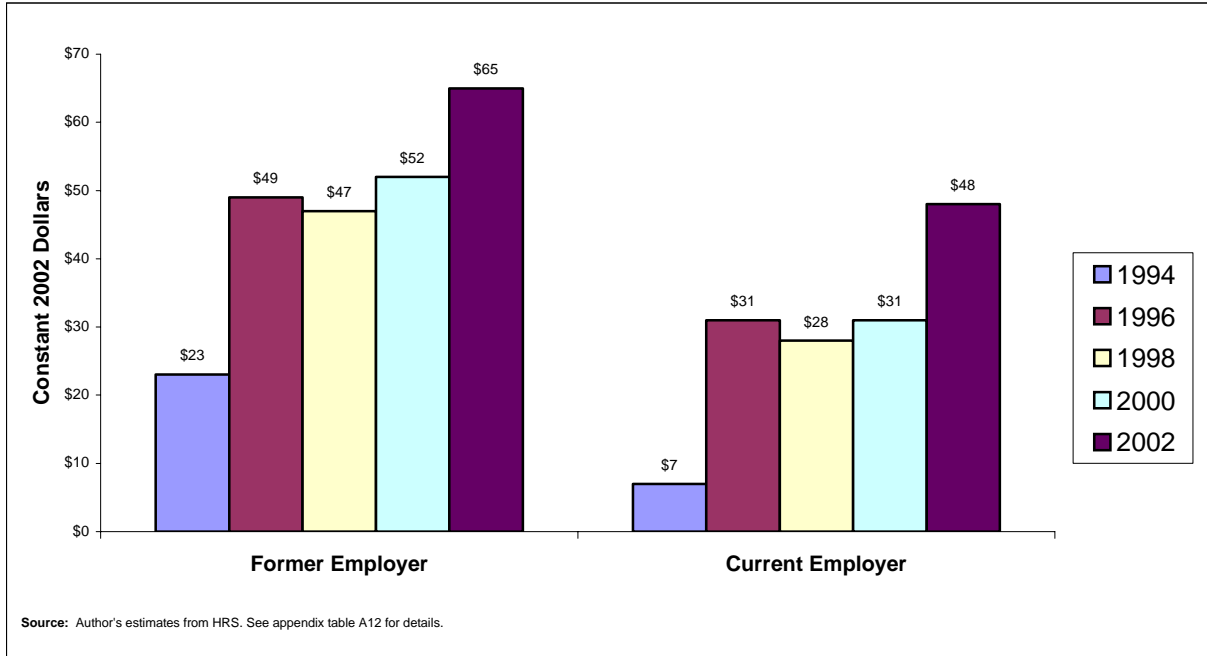
Active workers aged 55 to 63 paid less than early retirees for employer-sponsored coverage in 2002, but median required contributions have grown more rapidly (in relative terms) for workers than retirees since 1994. Between 1994 and 2002, median monthly contributions by current employees enrolled in employer health plans rose from \$7 (in constant 2002 dollars) to \$48, an increase of almost 600 percent. The absolute increase in monthly premium contributions among current employees was nearly identical to the increase experienced by former employees.

While those with employer-sponsored coverage experienced major cost increases in their coverage, their premium contributions still lagged well behind those of their peers who had no employer-sponsored coverage and bought health coverage on their own. Median monthly payments for private nongroup insurance at age 55 to 63 stood at \$250 in 2002 (figure 13). Since 1994, monthly median premium costs have increased by \$129 in inflation-adjusted dollars—a 107-percent increase—and annual costs have increased by more than \$1,500.

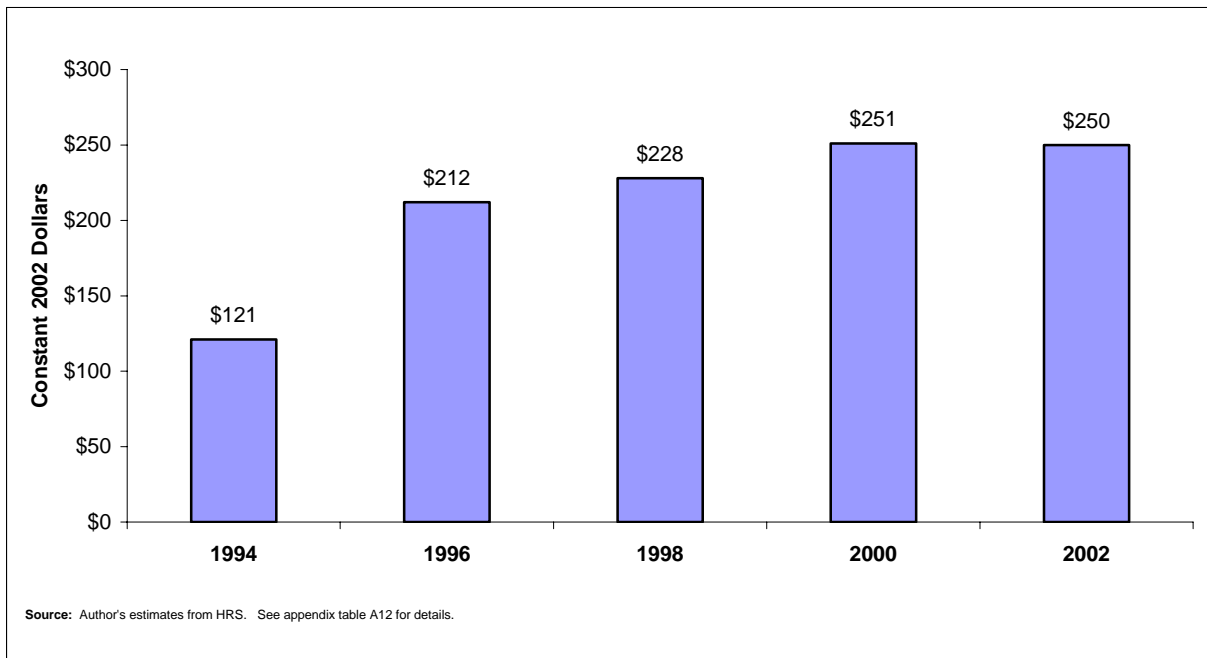
---

<sup>7</sup> By 2002, 485 HRS respondents had retired, among those who were full-time wage and salary workers in 1996 and had reported that their employers offered retiree health benefits. Of these, 73 percent reported health benefits from their past employers during their first post-retirement interview.

**Figure 12: Median Monthly Participant Contributions for Employer-Sponsored Health Insurance, among Covered Adults Aged 55-63, 1994-2002**

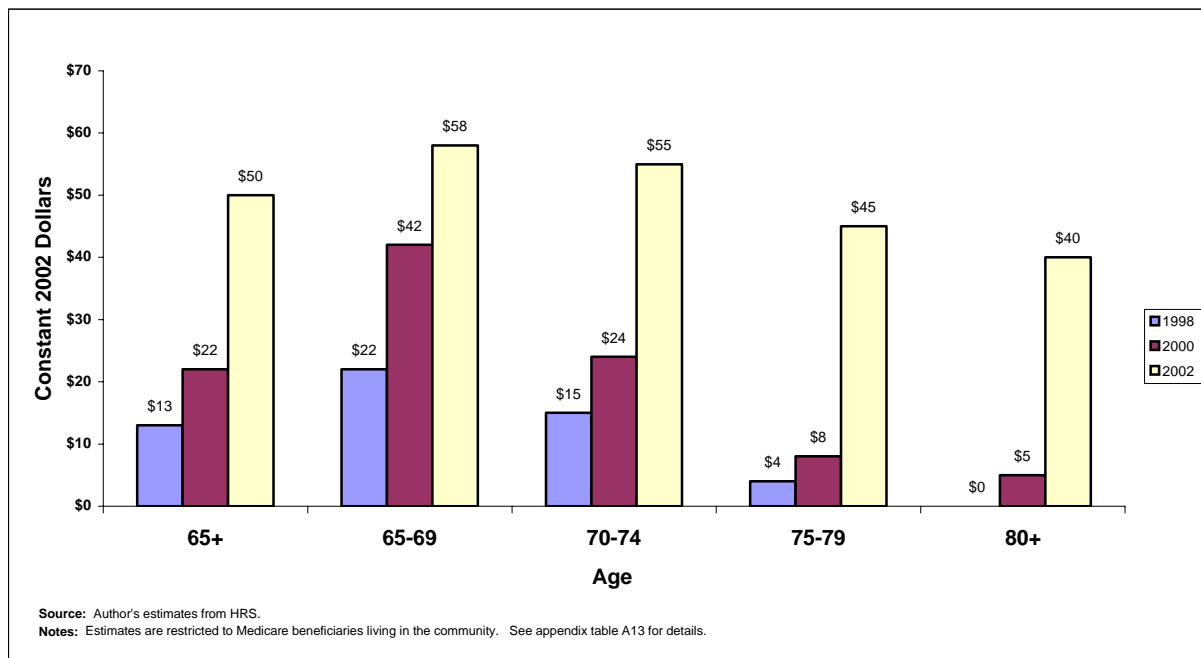


**Figure 13: Median Monthly Premiums for Private Nongroup Insurance, among Covered Adults Aged 55-63, 1994-2002**



Between 1998 and 2002, median monthly premium contributions to employer health plans by Medicare beneficiaries aged 65 and older more than tripled in inflation-adjusted dollars, increasing from \$13 to \$50 (figure 14). On an annual basis, after adjusting for inflation, typical aged Medicare beneficiaries paid nearly \$450 more for health benefits from their own former employers than they did in 1998. Average (as opposed to median) premiums in 2002 stood at \$90 per month. Premium contributions declined with age, because recent retirees are often subject to different pricing rules than retirees who have been collecting benefits for many years. For example, retirees aged 80 and older paid only \$40 per month in 2002 for their employer-provided health benefits, compared with \$58 per month for those aged 65 to 69. Nonetheless, contributions have been growing rapidly for all age groups since 1998.

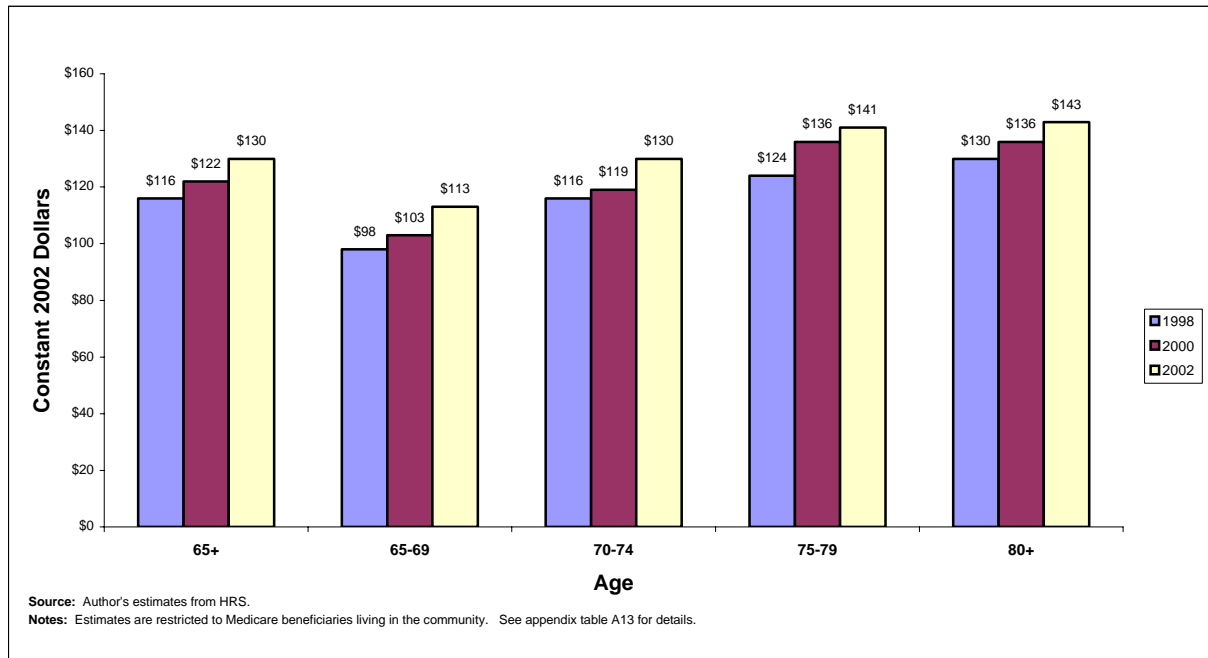
**Figure 14: Median Monthly Premiums for Employer-Sponsored Retiree Health Insurance, by Age, 1998-2002**



Median monthly payments for Medigap insurance at age 65 and older amounted to \$130 in 2002, more than twice as high as median contributions for retiree health benefits by Medicare beneficiaries (figure 15). Median Medigap premium payments by HRS respondents aged 65 and older increased by only 12 percent between 1998 and 2002, after adjusting for inflation. Median Medigap premiums increased with age, the opposite of the pattern observed for the beneficiary's contribution to the premium for retiree health benefits.

The HRS offers some evidence that employers have cut back on retiree health benefits in recent years. Among Medicare beneficiaries aged 65 and older, 80 percent of those with retiree health benefits from their former employers reported drug coverage in 2002, down from 90 percent in 2000. By comparison, only one-third of Medigap enrollees reported prescription drug coverage in 2002. Among adults aged 55 to 64, 92 percent of those receiving health benefits from their past employers reported drug coverage in 2002, compared with 66 percent of those with private nongroup coverage. (See appendix table A14 for more information.)

**Figure 15: Median Monthly Premiums for Medigap Insurance, by Age, 1998-2002**

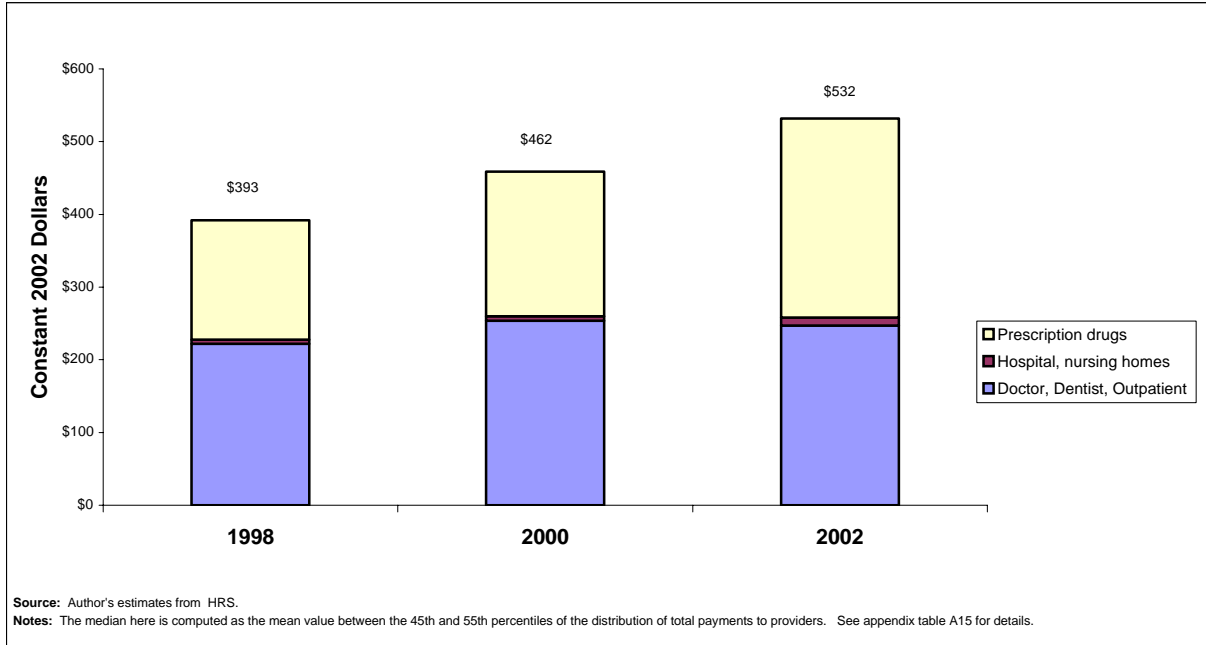


### *Out-of-Pocket Spending for Health Care Services*

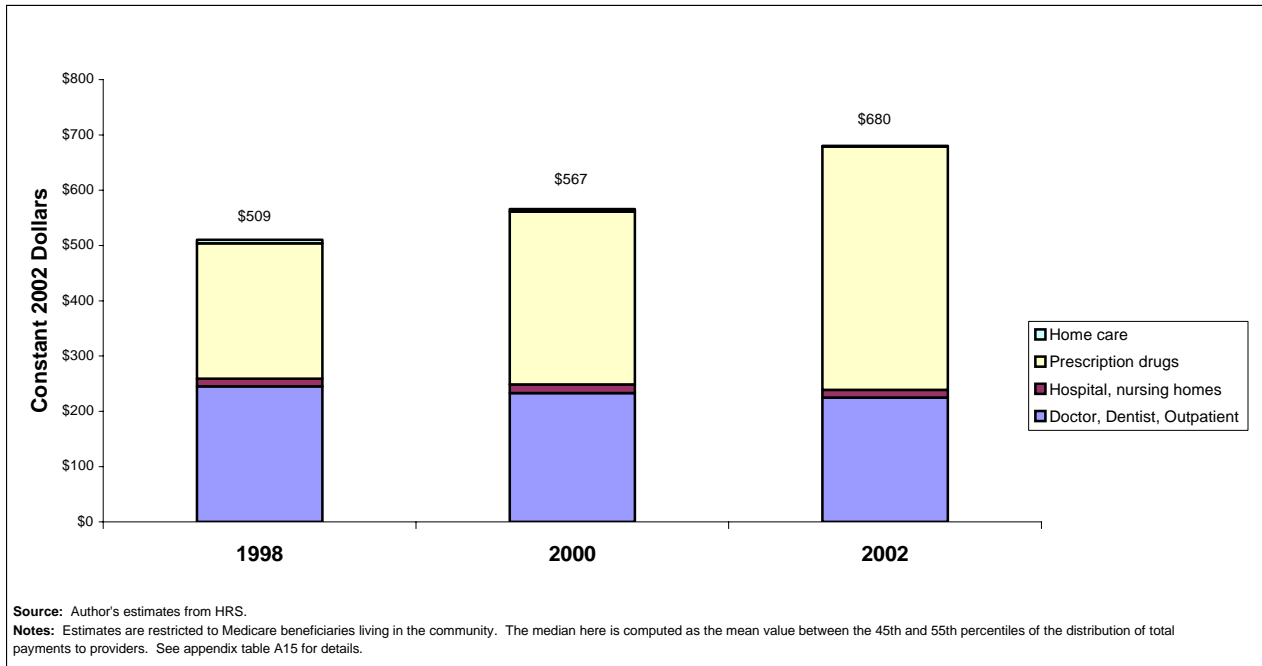
Between 1998 and 2002, typical out-of-pocket payments to health care providers for services by adults aged 55 to 64 grew by 35 percent after inflation. Median annual out-of-pocket payments to providers totaled \$532 in 2002 (figure 16). Nearly all the increase among typical spenders came from prescription drug costs, which accounted for 52 percent of out-of-pocket payments in 2002, up from 42 percent in 1998. Doctors, dentists, and other outpatient care providers received virtually all the remaining payments by median spenders. The average value of out-of-pocket payments was nearly three times as high as the median, reaching \$1,485 in 2002, because costs were unusually high for a small number of older adults with hospital and nursing home stays. As a result, payments to hospitals and nursing homes consumed 11 percent of all out-of-pocket payments to providers in 2002 by adults aged 55 to 64, but only 2 percent of spending by those with median costs.

At age 65 and older, median annual out-of-pocket payments to health care providers reached \$680 in 2002, up 34 percent after inflation since 1998 (figure 17). As for the younger group, nearly all the growth for typical adults aged 65 and older came from drug spending, which consumed 65 percent of out-of-pocket payments to providers in 2002. In 1998, median spenders devoted only 48 percent of their out-of-pocket payments to drugs. Average values of out-of-pocket payments to providers for adults aged 65 and older were much higher than median values. In 2002, average out-of-pocket payments totaled \$1,810.

**Figure 16: Median Annual Out-of-Pocket Payments to Health Care Providers, by Adults Aged 55-64, 1998-2002**



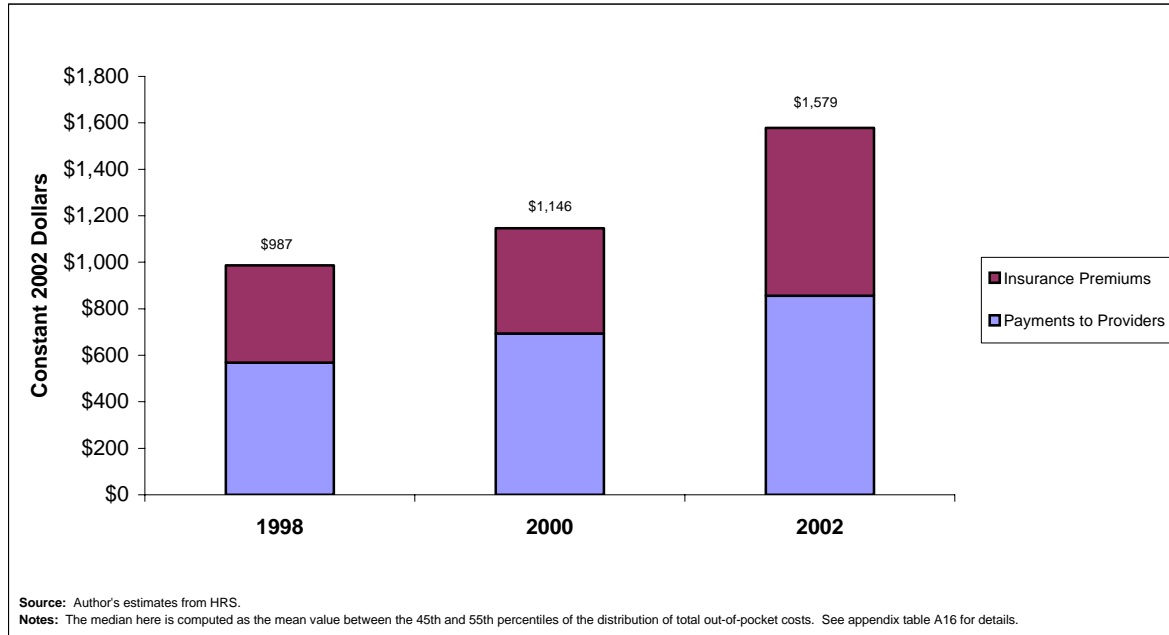
**Figure 17: Median Annual Out-of-Pocket Payments to Health Care Providers, by Adults Aged 65+, 1998-2002**



### Total Out-of-Pocket Health Care Spending by Adults Aged 55 to 64

Rising insurance premiums and out-of-pocket payments to providers drove total annual out-of-pocket health care costs for the median adult aged 55 to 64 to \$1,579 in 2002, a 60-percent increase after inflation since 1998 (figure 18). (Average costs in 2002 reached \$2,837.) Between 1998 and 2002, the share of median out-of-pocket costs going to insurance premiums increased from 42 percent to 46 percent.<sup>8</sup>

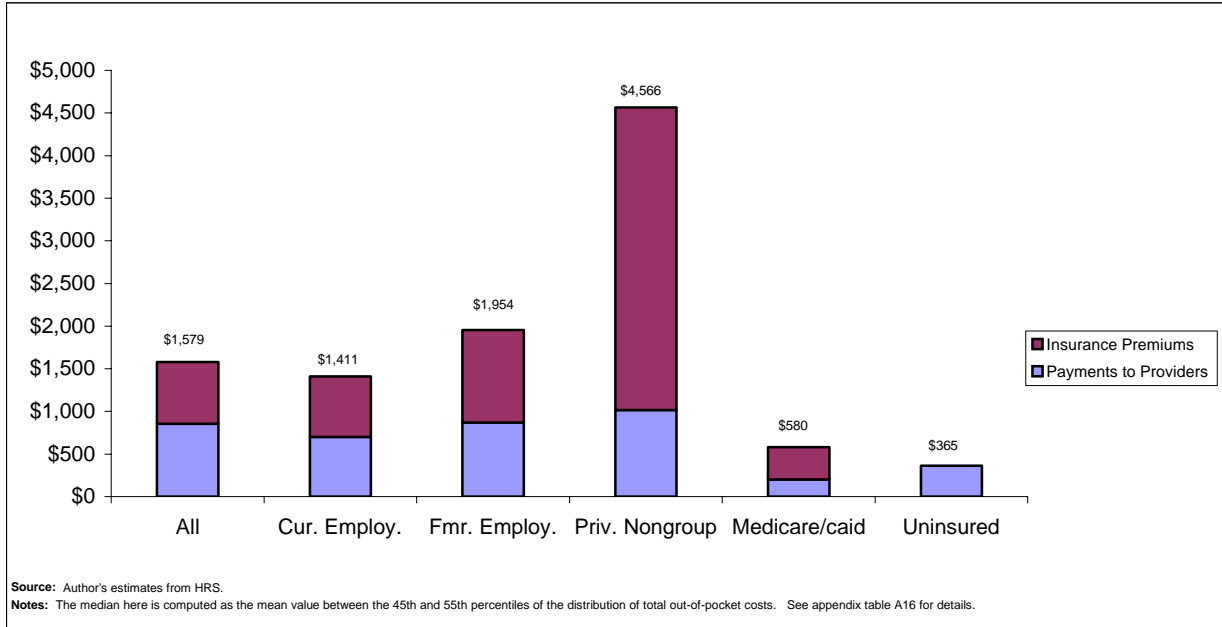
Figure 18: Median Total Annual Out-of-Pocket Health Care Costs for Adults Aged 55-64, 1998-2002



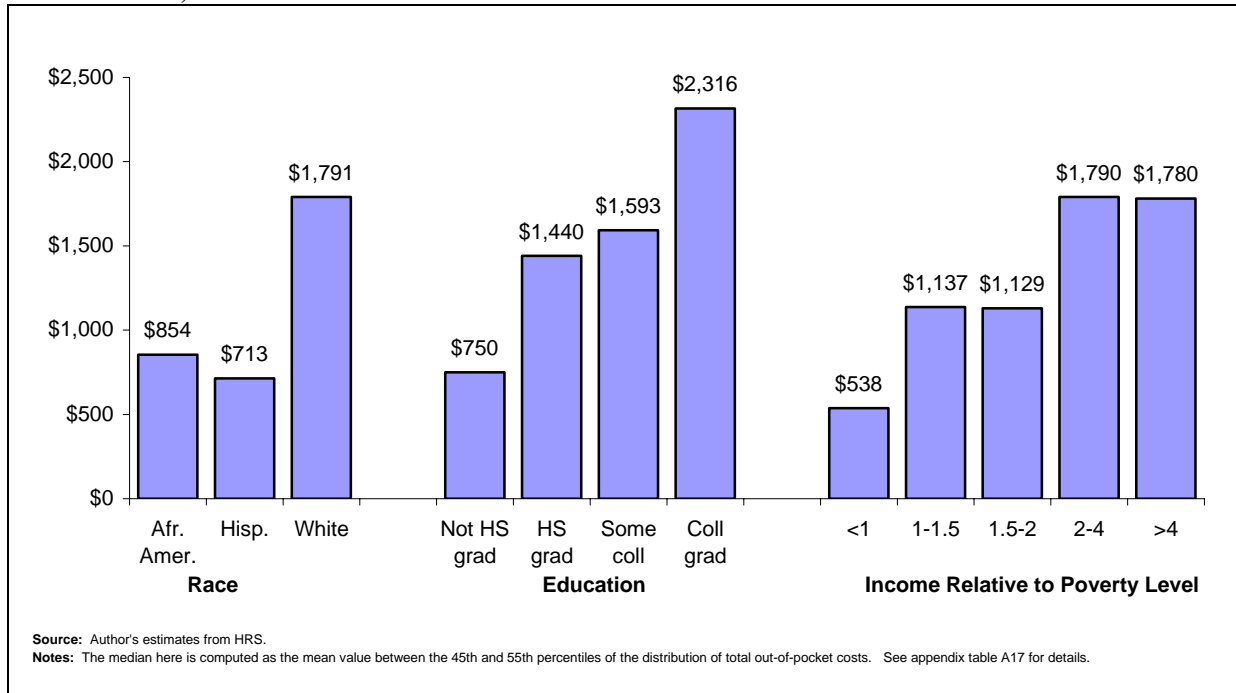
Total out-of-pocket health care spending varied sharply by insurance coverage and other personal characteristics. Median annual out-of-pocket health care spending in 2002 by adults aged 55 to 64 totaled \$4,566 for those with private nongroup coverage, compared with \$1,954 for those receiving benefits from past employers, \$1,411 for those receiving benefits from current employers, \$580 for those with Medicare or Medicaid, and \$365 for those without any coverage (figure 19). The uninsured spend little on health care because they tend to use few health services (Johnson and Crystal 2000). Out-of-pocket spending increased with education and income, and whites typically spent more than twice as much as African Americans and Hispanics (figure 20).

<sup>8</sup> The median values of out-of-pocket payments to health care providers reported in figure 18 differ somewhat from the median values reported in figure 16. The estimates in figure 18 are based on observations in the middle of the distribution of *total* out-of-pocket health care costs, which are not necessarily the same observations as those in the middle of the distribution of out-of-pocket payments to *providers*.

**Figure 19: Median Total Annual Out-of-Pocket Health Care Costs for Adults Aged 55-64, by Insurance Coverage, 2002**



**Figure 20: Median Total Annual Out-of-Pocket Health Care Costs for Adults Aged 55-64, by Personal Characteristics, 2002**

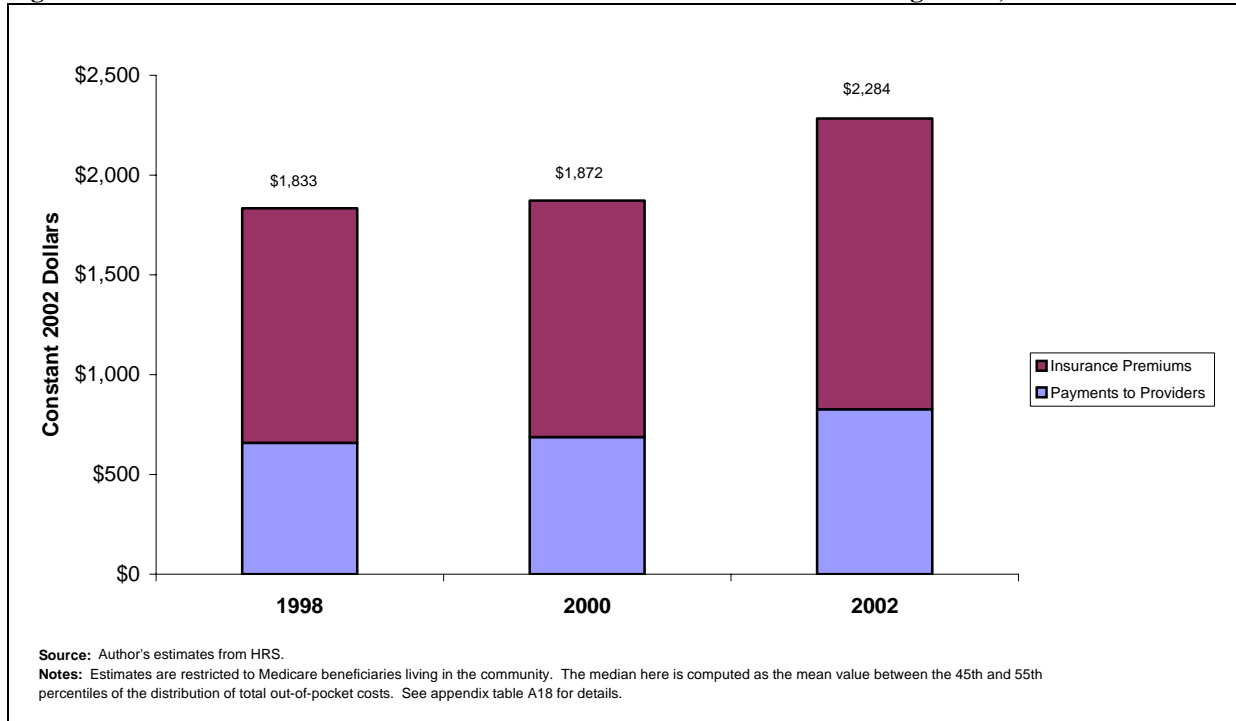




### *Total Out-of-Pocket Health Care Spending by Adults Aged 65 and Older*

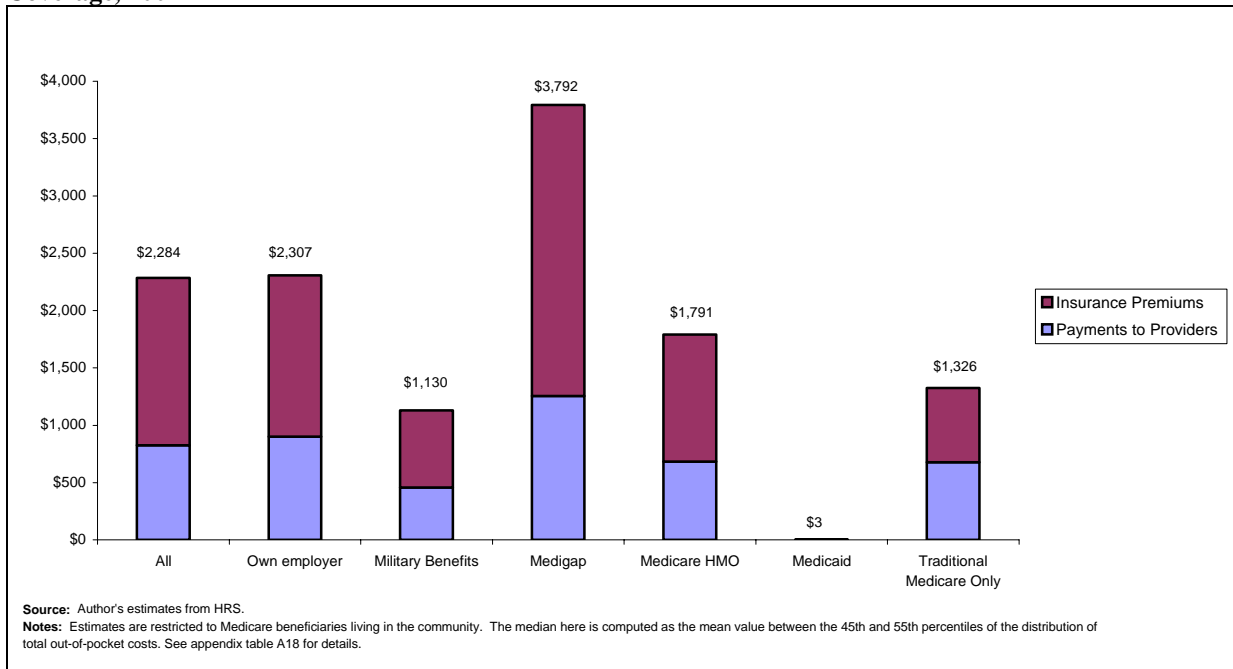
For adults aged 65 and older, median total annual out-of-pocket health care spending was \$2,284 in 2002, up 25 percent after inflation since 1998 (figure 21). Mean out-of-pocket spending reached \$3,384 in 2002, up 35 percent after inflation since 1998. Insurance premiums accounted for 64 percent of total out-of-pocket health care spending for typical older adults in 2002.

**Figure 21: Median Total Annual Out-of-Pocket Health Care Costs for Adults Aged 65+, 1998-2002**

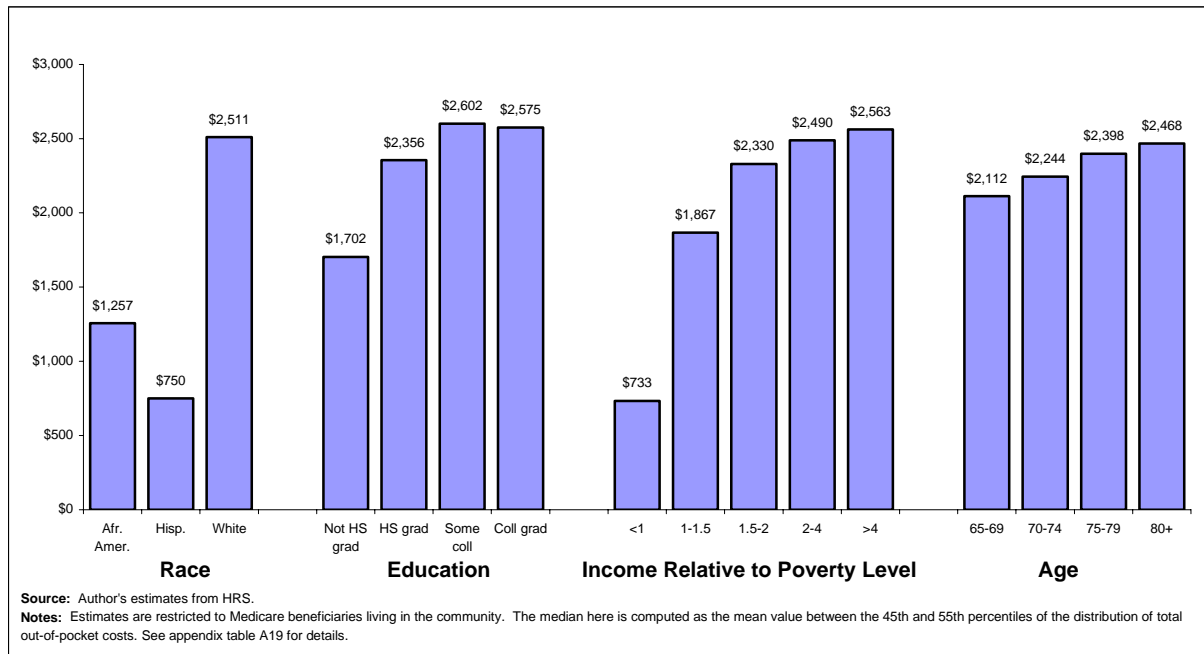


Across all insurance groups, median total out-of-pocket health care spending was highest among those with Medigap coverage, at \$3,792 annually in 2002 (figure 22). By comparison, typical older adults receiving supplemental benefits from their own (past or current) employers paid \$2,307, those in Medicare HMOs paid \$1,791, and those with only traditional Medicare coverage paid \$1,326. (Those receiving Medicaid benefits paid virtually nothing.) Median spending between 1998 and 2002 grew most rapidly for those in Medicare HMOs, whose costs increased by 54 percent after inflation. This high rate of growth in spending is consistent with other evidence that plans participating in the Medicare Advantage (formerly called Medicare+Choice) program increased premiums and cut back on benefits in the years between 1999 and 2003 (Gold and Achman 2004). Median total annual out-of-pocket health care costs at older ages also generally increased with education and income (figure 23).

**Figure 22: Median Total Annual Out-of-Pocket Health Care Costs for Adults Aged 65+, by Insurance Coverage, 2002**



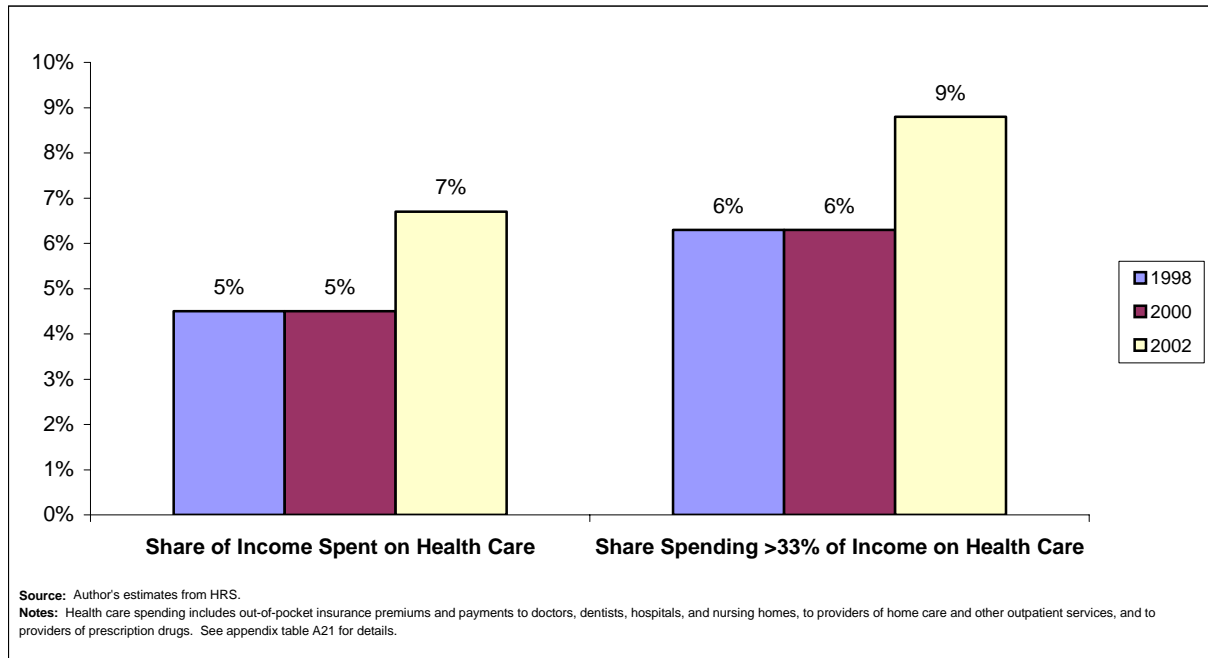
**Figure 23: Median Total Annual Out-of-Pocket Health Care Costs for Adults Aged 65+, by Personal Characteristics, 2002**



### Total Out-of-Pocket Spending Relative to Income by Adults Aged 55 to 64 and Their Spouses

Insurance premiums and payments to health care providers by adults aged 55 to 64 and their spouses in 2002 consumed 7 percent of their before-tax household income, up from 5 percent in 1998 (figure 24).<sup>9</sup> About 9 percent of adults aged 55 to 64 experienced catastrophic health care costs in 2002, defined as spending more than one-third of their household income on health care for themselves or their spouses, compared with 6 percent in 1998.

**Figure 24: Out-of-Pocket Spending on Health Care by Adults Aged 55-64 and Their Spouses, 1998-2002**

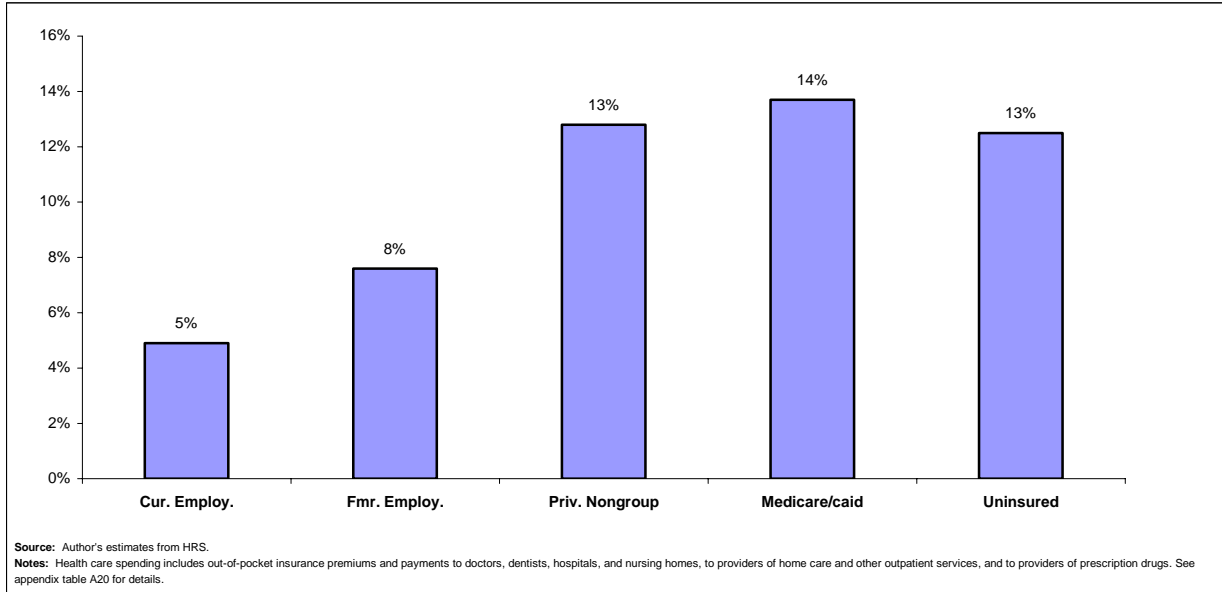


People at midlife in employer health plans, even if they were already retired, spent less of their income on health care than those without employer coverage. In 2002, health care spending consumed 5 percent of the income received by 55- to 64-year-olds with health benefits from their current employers and 8 percent of the income received by those with benefits from their past employers, compared with 14 percent for those with Medicare or Medicaid coverage and 13 percent for those with private nongroup coverage and those without any coverage (figure 25).

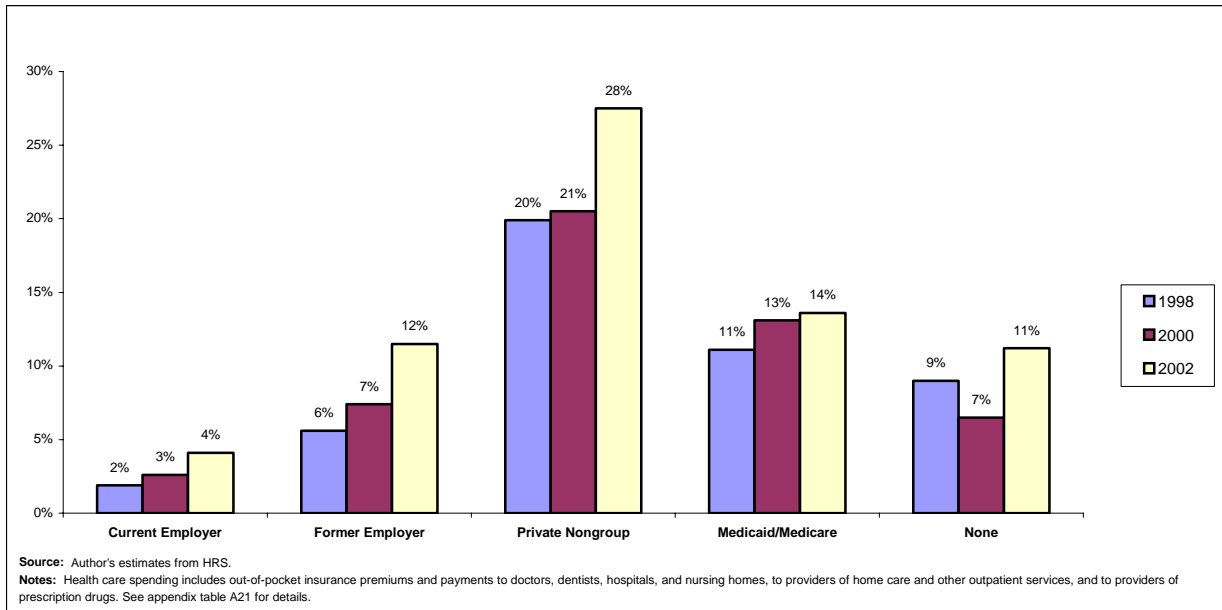
However, 12 percent of those aged 55 to 64 with coverage from past employers reported catastrophic health care costs in 2002 (figure 26), about the same rate of catastrophic spending as among the uninsured (11 percent) and slightly less than among their peers with Medicare or Medicaid (14 percent). Among those aged 55 to 64 with coverage from past employers, the share reporting catastrophic costs doubled between 1998 and 2002. Fully 28 percent of those with private nongroup coverage experienced catastrophic costs in 2002, compared with only 4 percent of those who received health benefits from their current employers.

<sup>9</sup> This out-of-pocket spending percent was calculated using the population's health care spending divided by the population's income.

**Figure 25: Share of Income Spent on Health Care by Adults Aged 55-64 and Their Spouses, by Insurance Coverage, 2002**

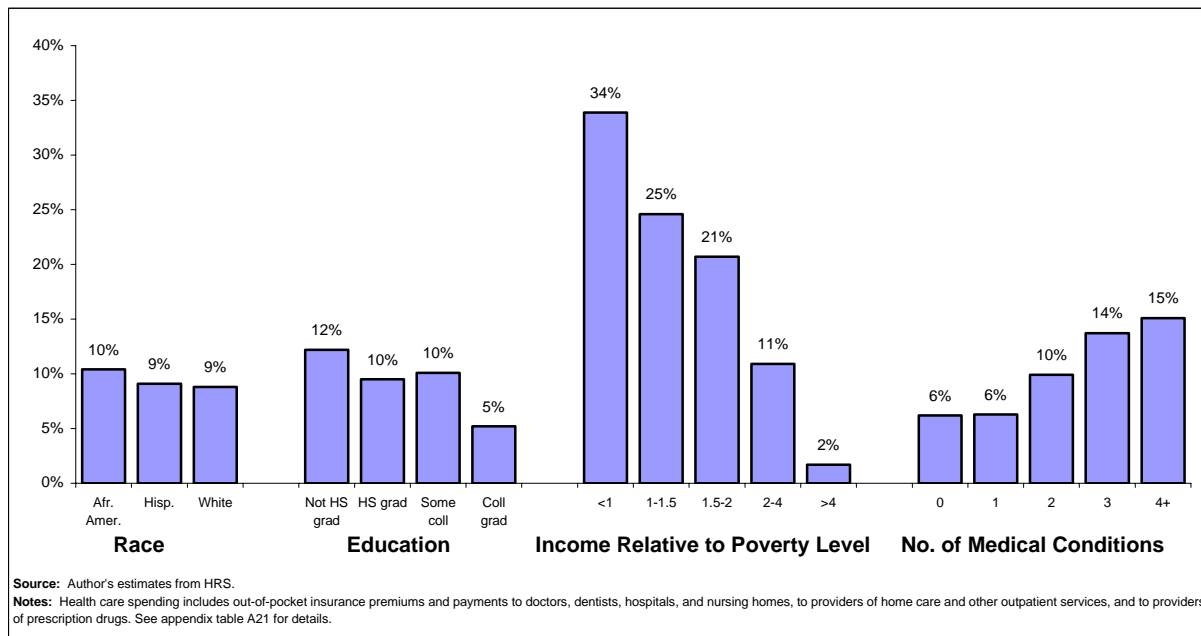


**Figure 26: Share of Adults Aged 55-64 and Their Spouses Spending More than One-Third of Their Income on Health Care, by Insurance Coverage, 1998-2002**



The share of adults aged 55 to 64 experiencing catastrophic health care costs increased with health problems and declined with income and education. For example, one in ten Americans aged 55 to 64 had four or more medical conditions in 2002, and 15 percent of them spent more than one-third of their household incomes on health care (figure 27). By contrast, only 6 percent of those with no medical conditions or just one such condition devoted at least one-third of their incomes to health care. Further, 34 percent of those aged 55 to 64 in poverty experienced catastrophic health care costs in 2002, compared with just 2 percent of those whose incomes exceeded four times the federal poverty level.

**Figure 27: Share of Adults Aged 55-64 and Their Spouses Spending More than One-Third of Their Income on Health Care, by Personal Characteristics, 2002**

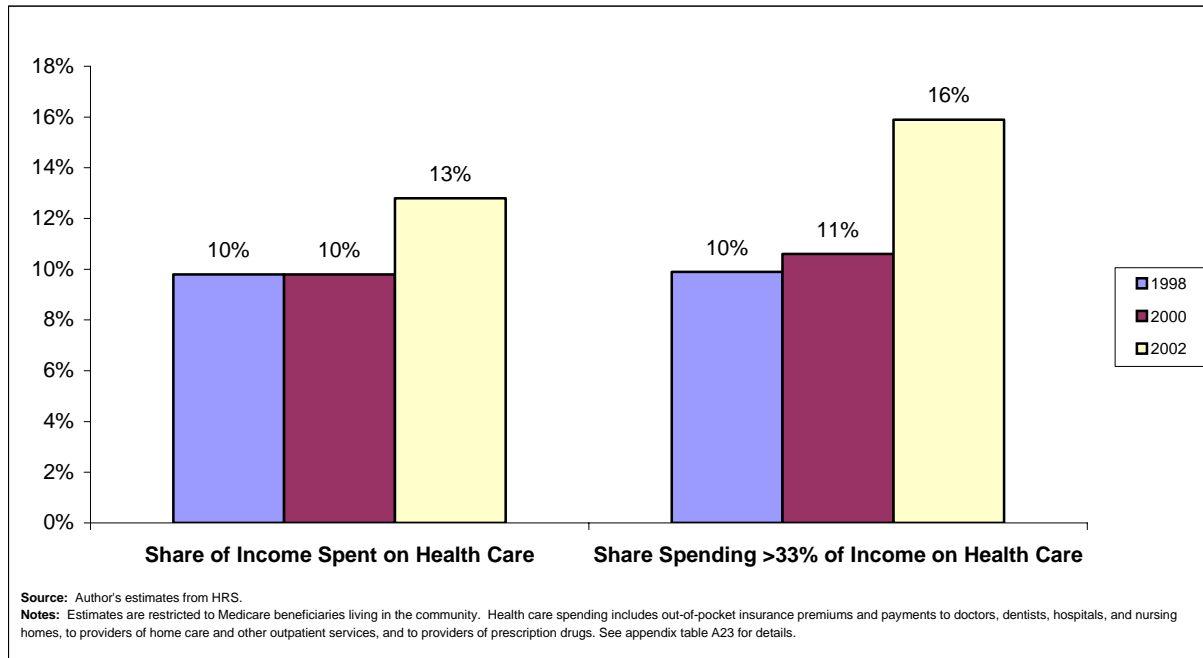


### ***Total Out-of-Pocket Spending Relative to Income by Adults Aged 65 and Older and Their Spouses***

Health care costs accounted for a larger share of household budgets among aged Medicare beneficiaries than among those at midlife, and the share has increased since 1998. Out-of-pocket insurance premiums and payments to providers consumed 13 percent of the income<sup>10</sup> received by married couples and single adults aged 65 and older in 2002, up from 10 percent in 1998 (figure 28). In addition, 16 percent of aged adults and their spouses spent more than one-third of their incomes on health care in 2002, compared with 10 percent in 1998.

<sup>10</sup> This out-of-pocket spending percent was calculated using the population's health care spending divided by the population's income.

**Figure 28: Out-of-Pocket Spending on Health Care by Adults Aged 65+ and Their Spouses, 1998-2002**

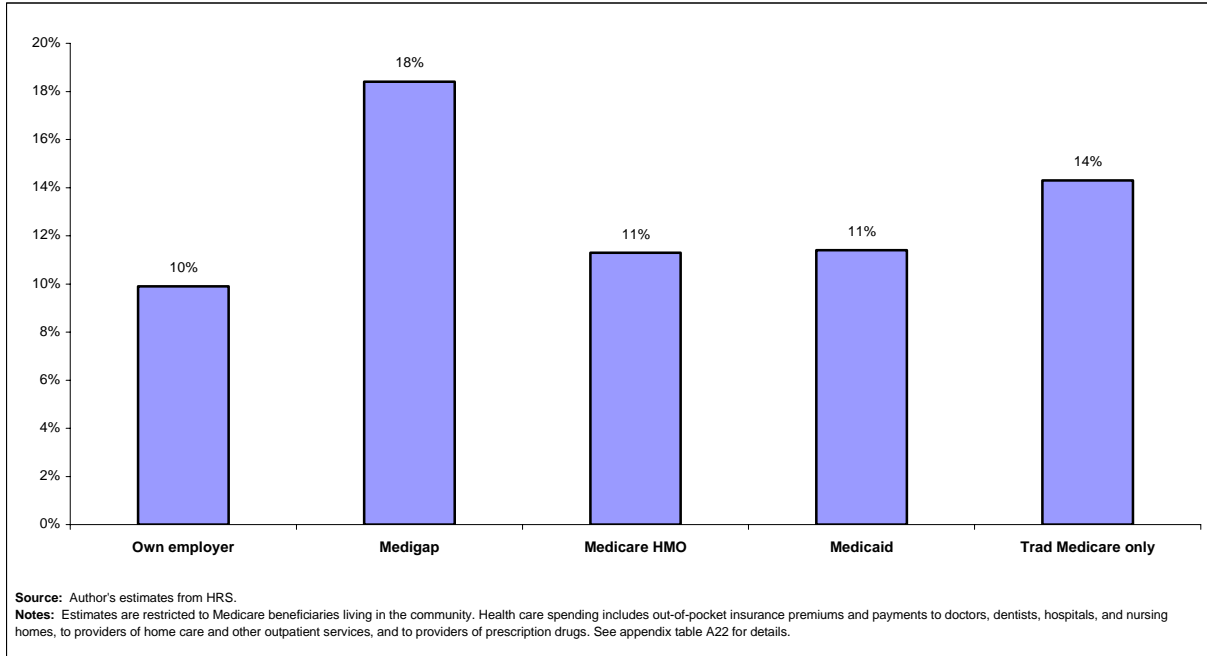


Aged Medicare beneficiaries who received supplemental coverage from their (past or, in some cases, current) employers generally devoted less of their incomes to health care than other Medicare beneficiaries aged 65 and older. In 2002, 10 percent of the income received by those in employer plans and their spouses went to health care expenses, compared with 18 percent for those with Medigap coverage, 14 percent for those with traditional Medicare coverage only, 11 percent for those in Medicare HMOs, and 11 percent for those with Medicaid coverage (figure 29).

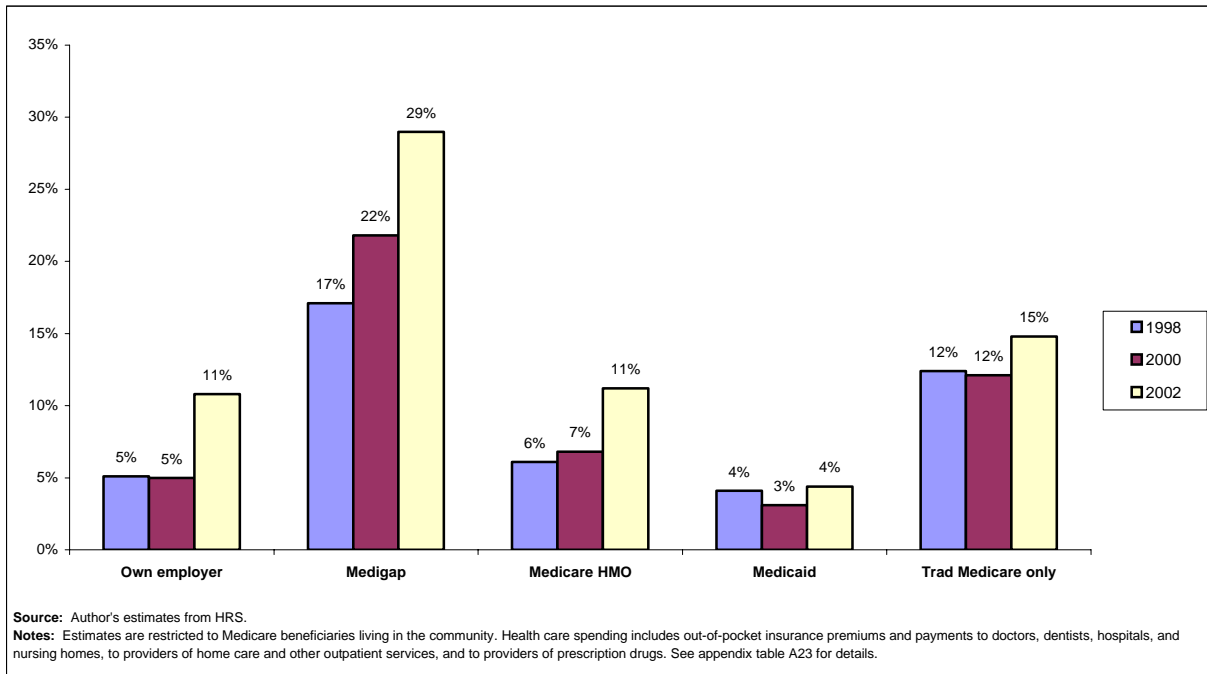
Although Medicaid pays for nearly all health services not covered by Medicare, medically needy beneficiaries qualify for Medicaid only after incurring substantial out-of-pocket costs. Some other Medicaid enrollees were not covered by the program for the entire year. As a result, the *average* financial burden of health care was relatively high for Medicaid beneficiaries (who have very low incomes). The *median* share of income devoted to health care for aged Americans dually entitled to both Medicare and Medicaid was only about 1 percent, meaning that only one-half of dual beneficiaries spent more than 1 percent of their incomes on health care in 2002.

The financial burden of health care increased substantially in recent years for aged Medicare beneficiaries with supplemental employer benefits or Medigap coverage and for those in Medicare HMOs. Between 1998 and 2002, the share of adults aged 65 and older spending more than one-third of their household incomes on health insurance premiums and payments to providers (for themselves and their spouses) increased by 6 percentage points for those in employer plans, by 12 percentage points for those with Medigap coverage, and by 5 percentage points for those in Medicare HMOs (figure 30). By contrast, the share experiencing catastrophic health care costs increased by only 3 percentage points for those with traditional Medicare coverage and remained fairly constant for Medicaid enrollees.

**Figure 29: Share of Income Spent on Health Care by Adults Aged 65+ and Their Spouses, by Insurance Coverage, 2002**

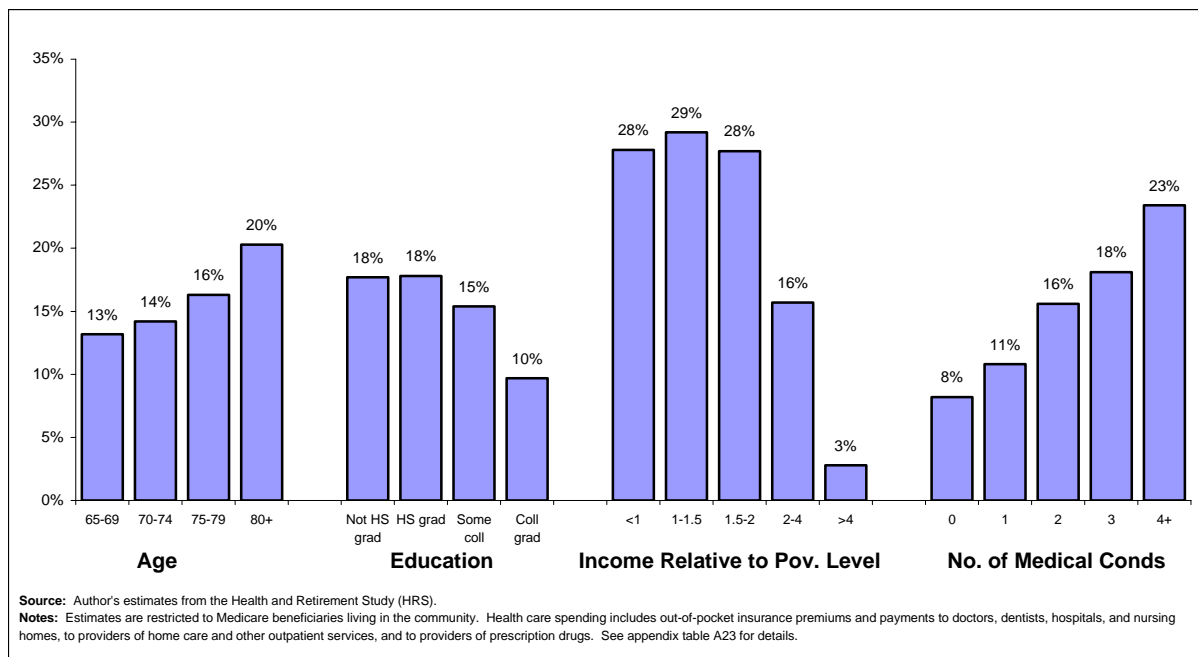


**Figure 30: Share of Adults Aged 65+ and Their Spouses Spending More than One-Third of Their Income on Health Care, by Insurance Coverage, 1998-2002**



The prevalence of catastrophic health care costs among aged Medicare beneficiaries increased with age and health problems and decreased with education and income. In 2002, 20 percent of adults aged 80 and older and their spouses spent more than one-third of their incomes on health care costs, compared with 13 percent of adults aged 65 to 69 (figure 31). Fully 23 percent of those with four or more medical conditions, who make up nearly one-fifth of all aged Medicare beneficiaries, experienced catastrophic health care costs. But only 3 percent of those with incomes exceeding four times the federal poverty level experienced catastrophic costs.

**Figure 31: Share of Adults Aged 65+ and Their Spouses Spending More than One-Third of Their Income on Health Care, by Personal Characteristics, 2002**



## Conclusions

Rising out-of-pocket health care costs threaten to undermine financial security at older ages. Between 1994 and 2002, median required premium contributions by former employees aged 55 to 63 enrolled in employer plans nearly tripled, after adjusting for inflation. For those aged 65 and older in employer health plans, median required premium contributions nearly quadrupled after inflation in just the four-year period between 1998 and 2002. Despite these dramatic premium increases, those with employer sponsored health benefits face premiums well below those faced by their peers who buy their own coverage in the nongroup and Medigap markets. At the same time, out-of-pocket payments for doctor visits, dentists, prescription drugs, and other health services have also been growing, increasing between 1998 and 2002 by about one-third in constant dollars at older ages.

Older adults have been devoting ever-increasing shares of their income to health care. Health care spending by adults aged 55 to 64 and their spouses consumed 7 percent of their before-tax income in 2002, up from 5 percent in 1998. Medicare beneficiaries aged 65 and older and their spouses allocated 13 percent of their before-tax income to health care in 2002. As a result, more older Americans have been experiencing catastrophic health care costs. In 2002, 16



percent of aged Medicare beneficiaries devoted more than one-third of their income to health care spending, up from 10 percent in 1998. The share experiencing catastrophic costs more than doubled between 1998 and 2002 among those with employer-sponsored retiree health coverage. Nonetheless, the share of Medicare beneficiaries with employer-sponsored benefits who experienced catastrophic costs was well below that for beneficiaries with Medigap coverage, slightly lower than that for beneficiaries who only have traditional Medicare coverage, and on a par with those in Medicare HMOs.

Despite reports of employers cutting back on the offer of employer-sponsored retiree health benefits, nearly three in four Americans aged 55 to 64 (regardless of retirement status) received employment-based health insurance coverage in 2002, and about one in three aged Medicare beneficiaries (regardless of retirement status) received supplemental health benefits from employers. Only one in ten adults aged 55 to 64 were uninsured, and less than one in six adults aged 65 and older did not have any private or public coverage to supplement traditional Medicare benefits.

There is no evidence in the HRS that overall employer coverage rates fell at older ages over the past decade. Nearly half of all full-time wage and salary workers aged 55 to 63 reported access to future early retiree health benefits in 2002, about the same share reporting access in 1996. Further, relatively few *retired* adults aged 59 to 64 have recently lost or dropped employer benefits. For example, eight in ten adults aged 59 to 64 receiving benefits from their own employers in 1998 continued to receive benefits four years later, in 2002. *Disabled* adults aged 59 to 64 were less likely to retain health benefits from a former employer; only half of those with benefits from their own employer in 1998 continued to receive them in 2002. There also was volatility in supplemental coverage among older adults with Medicare. While nearly six in ten adults aged 72 + receiving supplemental benefits from their own employers in 1995 continued to receive that coverage seven years later in 2002, four in ten did not. One of the four had traditional Medicare and no supplemental coverage in 2002.

Although coverage rates remain high overall, they are much lower among certain vulnerable groups than among others. African Americans, Hispanics, and those with limited incomes and education were especially likely to be uninsured before age 65 and to lack supplemental benefits after age 65. In addition, supplemental health benefits appear to be quite tenuous for women who received coverage through their husbands' employers. Nearly 90 percent of the married women in the sample aged 72 and older in 1995 who were receiving supplemental benefits through their husbands' plans and subsequently became widowed lost or dropped their employer-provided benefits as of 2002, and nearly half of them relied solely on traditional Medicare benefits in 2002.

Rising out-of-pocket health care spending darkens the retirement prospects for the baby boomers, the generation born between 1946 and 1964 that will begin reaching age 65 in 2011. Current projections suggest that boomers will receive more income in retirement than previous generations of older Americans (Butrica and Uccello 2004). However, health care costs continue to rise faster than wages and the prices of other goods and services (Smith et al. 2005), and the growth in spending is not expected to slow appreciably in the foreseeable future (Heffler et al. 2005). Income and health care spending projections by the Social Security and Medicare trustees imply that health care costs and taxes will consume nearly all the increase in income experienced

by older adults between 2000 and 2030, despite 30 years of productivity gains (Johnson and Penner 2004).

Cuts to Social Security, Medicare, and Medicaid could further strain household budgets at older ages. If left unchecked, public spending on retirement and health care programs will soar in coming years as the population ages (U.S. Government Accountability Office 2005). As policymakers consider reforms to restrain the growth of these programs, they should recognize the financial difficulties that rising health care costs are already creating for many older adults.

## References

- Achman, Lori, and Lindsay Harris. 2005. "Early Effects of the Medicare Modernization Act: Benefits, Cost Sharing, and Premiums of Medicare Advantage Plans, 2005." Washington, DC: AARP.
- Butrica, Barbara, and Cori Uccello. 2004. "How Will Boomers Fare at Retirement?" Washington, DC: AARP.
- Chollet, Deborah. 2003. "The Medigap Market: Product and Pricing Trends, 1999–2001." *Operational Insights* No. 11. Washington, DC: Mathematica Policy Research, Inc.
- Chollet, Deborah J., and Adele M. Kirk. 1998. "Understanding Individual Health Insurance Markets: Structure, Practices, and Products in Ten States." Kaiser Family Foundation Report No. 1376. Menlo Park, CA: Kaiser Family Foundation
- Coppock, Steve, and Andrew Zebrak. 2001. "Finding the Right Fit: Medicare, Prescription Drugs and Current Coverage Options." Testimony before the Committee on Finance, U.S. Senate.
- Crystal, Stephen, Richard W. Johnson, Jeffrey Harman, Usha Sambamoorthi, and Rizie Kumar. 2000. "Out-of-Pocket Health Care Costs Among Older Americans." *Journal of Gerontology: Social Sciences* 55B(1): S51–S62.
- Federal Interagency Forum on Aging Related Statistics. 2004. *Older Americans 2004: Key Indicators of Well-Being*. Washington, DC: U.S. Government Printing Office.
- Gold, Marsha. 2006. "Premiums and Cost-Sharing Features in Medicare's New Prescription Drug Program, 2006." Menlo Park, CA: Henry J. Kaiser Family Foundation.
- Gold, Marsha, and Lori Achman. 2004. "Monitoring Medicare+Choice: What Have We Learned? Findings and Operational Lessons for Medicare Advantage." Washington, DC: Mathematica Policy Research, Inc.
- Heffler, Stephen, Sheila Smith, Sean Keehan, Christine Borger, M. Kent Clemens, and Christopher Truffer. 2005. "U.S. Health Spending Projections for 2004–2014." *Health Affairs Web Exclusive* W5: 74–85.
- Johnson, Richard W. 2003. "Changing the Age of Medicare Eligibility: Implications for Older Adults, Employers, and the Government." Washington, DC: The Urban Institute.
- Johnson, Richard W., and Stephen Crystal. 2000. "Uninsured Status and Out-of-Pocket Costs at Midlife." *Health Services Research* 35 (5, Part I): 911–932.
- Johnson, Richard W., and Rudolph G. Penner. 2004. "Will Health Care Costs Erode Retirement Security?" Issue in Brief No. 23. Chestnut Hill, MA: Center for Retirement Research at Boston College.

- Kaiser Family Foundation and Health Research and Educational Trust. 2005. "Employer Health Benefits: 2005 Annual Survey." Menlo Park, CA: Henry J. Kaiser Family Foundation.
- Kaiser Family Foundation and Hewitt Associates. 2004a. "Current Trends and Future Outlook for Retiree Health Benefits: Findings from the Kaiser/Hewitt 2004 Survey on Retiree Health Benefits." Menlo Park, CA: Henry J. Kaiser Family Foundation.
- Kaiser Family Foundation and Hewitt Associates. 2004b. "Retiree Health Benefits Now and in the Future: Findings from the Kaiser/Hewitt 2003 Survey on Retiree Health Benefits." Menlo Park, CA: Henry J. Kaiser Family Foundation.
- Kaiser Family Foundation and Hewitt Associates. 2005. "Prospects for Retiree Health Benefits as Medicare Prescription Drug Coverage Begins: Findings from the Kaiser/Hewitt 2005 Survey on Retiree Health Benefits." Menlo Park, CA: Henry J. Kaiser Family Foundation.
- Laschober, Mary. 2004. "Trends in Medicare Supplemental Insurance and Prescription Drug Benefits, 1996–2001." Menlo Park, CA: Henry J. Kaiser Family Foundation.
- Mercer Human Resources Consulting. 2006. *National Survey of Employer-Sponsored Health Plans: 2005 Survey Report*. New York: Mercer Human Resources Consulting.
- Moon, Marilyn, Niall Brennan, and Misha Segal. 1998. "Options for Aiding Low-Income Medicare Beneficiaries." *Inquiry* 35(3): 346–356.
- Smith, Cynthia, Cathy Cowan, Art Sensenig, Aaron Catlin, and the Health Accounts Team. 2005. "Health Spending Growth Slows in 2003." *Health Affairs* 24(1): 185–194.
- U.S. Government Accountability Office. 2005. "Highlights of a GAO Forum: The Long-Term Fiscal Challenge." GAO 05-282SP. Washington, DC: U.S. Government Accountability Office.
- Weir, David R., and Robert J. Willis. 2000. "Prospects for Widow Poverty." In *Forecasting Retirement Needs and Retirement Wealth*, edited by Olivia S. Mitchell, P. Brett Hammond, and Anna M. Rappaport (208-34). Philadelphia: University of Pennsylvania Press.
- Weiss Ratings, Inc. 2005. "Striking Price Differences Persist in Medigap Despite Identical Benefits." [http://www.weissratings.com/News/Ins\\_Medigap/20050830medigap.pdf](http://www.weissratings.com/News/Ins_Medigap/20050830medigap.pdf).

## Methodological Appendix

This report explores retiree health benefits by examining insurance coverage rates, cost of coverage, and out-of-pocket health care spending at older ages. The analysis examined coverage and costs in 2002 as well as changes from the mid-1990s to 2002, all computed at the individual level. All financial amounts were expressed in constant 2002 dollars, adjusted by changes in the overall Consumer Price Index. The study computed estimates separately for those aged 65 and older on Medicare and those younger than 65, who cannot receive Medicare coverage unless they are disabled.

Data for the study came from the Health and Retirement Study (HRS), a nationally representative longitudinal survey of older Americans living in the community that collected information on health insurance coverage, out-of-pocket health care spending, income, work status, health, demographics, and other topics. Conducted by the University of Michigan for the National Institute on Aging, the survey began in 1992 with interviews on a large sample of noninstitutionalized adults born between 1931 and 1941, when they were between the ages of 51 and 61. It interviewed them again every other year. The survey also began interviewing in 1993 an older cohort of adults, born before 1924 and living in the community, who were interviewed again in 1995, 1998, and every other year thereafter. Additional cohorts were added in 1998, consisting of those born between 1924 and 1930 (aged 68 to 74 in 1998) and those born between 1942 and 1947 (aged 51 to 56). Spouses of respondents were also interviewed, regardless of age. The survey oversamples African Americans and Hispanics but includes sample weights that were used to adjust estimates so that they represented the underlying national population. When the analysis presented in this paper was completed, data on a random sample of adults aged 55 and older living in the community were available through 2002.

The 2002 samples consisted of 5,986 adults aged 55 to 64 and 10,827 adults aged 65 and older. Although the presence of longitudinal data allowed for the examination of trends, changes over time in how the HRS collected information limited the number of years that could be compared. The analysis did not use data from 1992 or 1993 because the health insurance questions changed substantially in 1994 and 1995. The 1992 survey asked only one respondent per household about coverage for both spouses, whereas subsequent surveys asked both spouses about their own coverage. The 1993 survey did not distinguish between Medigap and employer health benefits. Moreover, the 1994 survey did not sample adults older than 63. Surveys before 1998 did not collect as much information on out-of-pocket health care spending as the 1998, 2000, and 2002 surveys.

The first set of tabulations computed coverage rates by source of insurance and by personal characteristics. The analysis defined a hierarchy of coverage, from the most comprehensive sources to the least comprehensive, because some people obtain coverage from more than one source. For adults younger than 65, the hierarchy consisted of own current employer, own former employer, spouse's current employer, spouse's former employer, military benefits, private nongroup coverage, Medicaid or Medicare, and no coverage. For those aged 65 and older, the insurance hierarchy consisted of own current employer, own former employer, spouse's employer (current or past), military benefits, Medigap, enrollment in a Medicare HMO, Medicaid, and traditional Medicare coverage only. Coverage rates were computed by gender, education, race and ethnicity, income relative to the federal poverty threshold, self-rated overall health status, weekly hours of work, age (for the older group), and the presence of health problems that limit work activity (for the younger group). The analysis also examined coverage rates separately by work status for the younger group. Retirees consisted of those who described

themselves as being retired and worked fewer than 20 hours per week (or not at all). Similarly, people with disabilities consisted of those who described themselves as being disabled and worked fewer than 20 hours per week. (Very few people who described themselves as retired or disabled worked between 1 and 19 hours per week.) Full-time employment was defined as 35 or more hours of work per week.

The presence of longitudinal data permitted an examination of the stability of insurance coverage over time. For the younger group, the study compared health insurance coverage in 1998 and 2002 for the subset of respondents who were aged 55 to 60 in 1998 and retired or disabled that year. The sample included 440 retirees and 412 persons with disabilities. A longer follow-up period would have provided a better opportunity to examine changes in coverage, but examining retirees in 1994 or 1996 would have reduced the size of the sample, because few people retire before their late 50s. For the older sample, the study compared coverage in 1995 and 2002 for a group of respondents aged 72 and older in 1995.

The next set of tabulations examined retiree health benefit offers from employers. Beginning in 1996, the HRS asked workers with employer-sponsored health insurance coverage whether they could continue their coverage until age 65 if they retired immediately.<sup>11</sup> This set of tabulations was restricted to full-time workers, because part-time workers might have already left long-term employers that offered retirement benefits. The analysis focused on workers aged 55 to 63, because 64-year-olds could continue their employer coverage under COBRA, even if their employers did not offer retiree health plans. The research also examined health insurance coverage in retirement for the 485 HRS respondents who were working full time in 1996 and reported that their employers offered retiree health benefits, and who then retired by 2002, before the age of 65. Although relatively small, this subset provided information about the share of workers with retiree health offers who eventually received benefits.

The report then turns to out-of-pocket health care spending, computing insurance premium payments (including required employee and retiree contributions to employer health plans) and out-of-pocket payments to providers. Tables report premium payments separately for those receiving coverage from current employers, former employers, and private nongroup insurance. Payments to providers consisted of payments for doctor, dentist, and other outpatient services; hospital and nursing home services; prescription drugs; and home care services.

The analysis generally focuses on median values. Because the spending distribution is skewed, mean values are not generally representative of a typical individual. The author also computed median 10 percent values, defined as the mean value for observations between the 45th and 55th percentiles of the distribution. This statistic is similar to the median of the distribution, but it is a better measure for examining the components of out-of-pocket spending for the typical person. The composition of spending for the median person may be unusual, because the median is based on a single observation. The median individual may have unusually high hospital expenses, for example, even though her total spending lies in the center of the distribution. The median 10 percent value, which incorporates information from one-tenth of the sample, is likely to be more representative of typical values.

Tables report costs by insurance coverage and personal characteristics, including gender, education, race and ethnicity, marital status, household income relative to the federal poverty threshold, self-rated overall health status, number of medical conditions, weekly work hours and

---

<sup>11</sup> In earlier years, the survey asked workers with employer-sponsored coverage whether the plan was available to retirees, potentially causing some respondents to confuse COBRA coverage with retiree health plan offers.

the presence of health problems that limit work (for those aged 55 to 64, many of whom are employed), and age (for those aged 65 and older). Medical conditions include heart problems (such as coronary heart disease, angina, congestive heart failure, or history of a heart attack), cancer, stroke, diabetes, chronic lung diseases (such as chronic bronchitis or emphysema, but excluding asthma), hypertension, arthritis, and psychiatric problems.

The final set of tables relates out-of-pocket health care spending to before-tax household income. In these tables, health care spending includes spending by both the respondent and spouse (if married), because the income measure includes amounts received by the spouse. The analysis computes the average share of total income spent on health care, the median share of income spent on health care, and the share spending more than one-third of income on health care costs. This last measure is one possible indicator of catastrophic health care costs.

## Appendix Tables

**Table A1: Insurance Coverage Rates among Adults Aged 55-64, by Personal Characteristics and Source of Coverage, 2002 (%)**

	Share of Population	Source of Coverage							
		Own Current Employer	Own Former Employer	Spouse's Current Employer	Spouse's Former Employer	Military Benefits	Private Nongroup	Medicaid or Medicare	Uninsured
<b>All</b>	100.0	37.3	14.9	14.3	5.1	2.0	7.6	8.6	10.1
<b>Gender</b>									
<b>Male</b>	47.2	43.8	19.6	10.5	1.1	2.6	5.7	7.8	9.0
<b>Female</b>	52.8	31.6**	10.8**	17.7**	8.7**	1.4**	9.3**	9.4*	11.1**
<b>Education</b>									
<b>Not high school grad</b>	16.5	20.6	8.5	11.0	4.2	0.9	7.0	25.4	22.5
<b>High school grad</b>	35.4	36.9**	15.4**	13.0	6.7**	2.2**	7.5	8.0**	10.4**
<b>Some college</b>	24.0	37.0**	15.8**	16.5**	5.4	3.0**	8.7	5.5**	8.0**
<b>College graduate</b>	24.2	49.6**	17.8**	16.2**	3.1	1.5	7.2	1.3**	3.4**
<b>Race and Ethnicity</b>									
<b>African American</b>	9.9	32.4	14.7	8.7	1.2	2.8	3.8	22.3	14.0
<b>Hispanic</b>	7.9	30.5	7.6**	9.7	1.6	0.7**	5.2	16.8*	27.8**
<b>White and other</b>	82.3	38.6**	15.7	15.4**	5.9**	2.0**	8.3**	6.2**	7.9**
<b>Ratio of Income to Poverty Level</b>									
<b>Less than poverty level</b>	10.1	8.4	11.7	2.0	1.4	2.0	10.8	40.2	23.6
<b>1.0 to 1.49</b>	5.0	10.2	14.5	3.1	5.3**	0.4**	10.9	36.5	19.1
<b>1.5 to 1.99</b>	5.7	20.0**	15.2	5.6**	6.2**	4.4	11.6	16.2**	20.8
<b>2 to 4</b>	23.6	32.9**	17.2**	11.8**	7.9**	2.5	9.1	5.1**	13.6**
<b>More than 4</b>	55.5	48.6**	14.5	19.5**	4.5**	1.7	5.7**	1.2**	4.3**
<b>Health Status</b>									
<b>Excellent</b>	16.1	45.3	14.4	16.1	4.7	2.2	8.8	1.1	7.4
<b>Very good</b>	32.4	43.1	16.5	15.6	6.2	1.6	7.9	2.2**	6.8
<b>Good</b>	29.4	39.1**	15.1	13.5	5.6	1.8	7.5	5.7**	11.8**
<b>Fair</b>	15.6	25.4**	13.0	13.2	3.4	2.3	6.5	21.1**	15.0**
<b>Poor</b>	6.5	9.1**	12.0	9.6**	3.0*	3.3	6.8	42.4**	13.8**
<b>Work Status</b>									
<b>Full-time</b>	48.5	69.9	4.5	10.1	1.7	1.5	4.4	0.4	7.5
<b>Retired</b>	19.3	1.9**	48.4**	10.6	9.5**	2.2	10.1**	9.4**	8.0
<b>Disabled</b>	9.6	0.8**	13.2**	11.5	3.7**	3.7**	7.7**	53.4**	6.0
<b>Part-time</b>	8.4	26.9	13.3	21.8	5.7	2.7	9.9	2.3	17.4
<b>Other</b>	14.3	5.1	9.4	30.6	11.8	1.6	13.4	7.2	20.9
<b>Any Work Limitations</b>									
<b>No</b>	77.1	44.8	14.6	14.4	5.0	1.6	7.6	2.1	9.8
<b>Yes</b>	22.9	12.1**	16.1	13.8	5.7	3.3**	7.6	30.5**	11.0

**Source:** Author's estimates from the HRS.

**Notes:** Estimates are based on a sample of 5,986 noninstitutionalized adults aged 55 to 64 and are weighted to account for the sampling design of the HRS. Coverage is determined by the following hierarchy: own current employer, own former employer, spouse's current employer, spouse's former employer, military benefits, private nongroup, and Medicaid or Medicare. The analysis defines full-time workers as those employed 35 or more hours per week, retirees as those who describe themselves as retired and work no more than 19 hours per week, adults with disabilities as those who describe themselves as disabled and work no more than 19 hours per week, part-time workers as those employed 20-34 hours per week, and other as those not describing themselves as retired or disabled and working no more than 19 hours a week. Totals do not always sum to 100 percent because of rounding.

\* Indicates marginally significant differences from first row in category,  $.05 < p < .10$

\*\* Indicates significant differences from first row in category,  $p < .05$



**Table A2: Insurance Coverage Rates among Adults Aged 59-64 in 2002, Who Were Retired or Disabled in 1998, by Source of Coverage in 1998 (%)**

Source of Coverage in 1998	Share with Coverage in 1998	Source of Coverage in 2002						
		Own Employer	Spouse's Current Employer	Spouse's Former Employer	Military Benefits	Private Nongroup	Medicaid or Medicare	Uninsured
<b>Retirees</b>								
All	100.0	49.7	8.2	12.3	3.4	12.4	10.3	3.7
Own employer	47.2	84.2	1.6	4.1	0.0	5.4	3.5	1.2
Spouse's current employer	10.1	3.8	34.8	27.8	4.4	15.9	11.7	1.8
Spouse's former employer	15.5	22.4	13.4	35.1	0.0	16.6	2.7	9.8
Military benefits	3.5	NA	NA	NA	NA	NA	NA	NA
Private nongroup	10.0	22.4	1.7	13.4	1.6	50.7	6.8	4.5
Medicaid/Medicare	7.5	11.9	8.5	0.0	1.8	0.0	74.6	3.2
Uninsured	6.1	NA	NA	NA	NA	NA	NA	NA
<b>Persons with Disabilities</b>								
All	100.0	9.4	9.7	4.8	3.3	8.0	60.5	4.4
Own employer	13.8	51.4	12.1	4.8	0.0	11.2	20.5	0.0
Spouse's current employer	8.6	1.6	65.4	9.3	5.6	0.0	18.2	0.0
Spouse's former employer	5.0	NA	NA	NA	NA	NA	NA	NA
Military benefits	2.8	NA	NA	NA	NA	NA	NA	NA
Private nongroup	7.2	NA	NA	NA	NA	NA	NA	NA
Medicaid/Medicare	52.6	3.9	1.4	0.0	1.4	5.1	88.9	0.7
Uninsured	10.0	0.0	2.2	0.0	1.8	9.7	54.5	31.8

**Source:** Author's estimates from the HRS.

**Notes:** Estimates are based on a sample of noninstitutionalized adults aged 59 to 64 in 2002 who described themselves as retired or disabled in 1998 and who worked no more than 19 hours per week in 1998. The sample includes 440 retirees and 412 persons with disabilities.

Estimates are weighted to account for the sampling design of the HRS. Coverage is determined by the following hierarchy: own employer, spouse's current employer, spouse's former employer, military benefits, private nongroup, and Medicaid or Medicare. Totals do not always sum to 100 percent because of rounding. Coverage rates for groups with fewer than 30 observations are not computed.

NA = Not Ascertained

**Table A3: Insurance Coverage Rates among Adults Aged 55-63, by Work Status and Source of Coverage, 1994-2002 (%)**

	N	Source of Coverage							
		Own Current Employer	Own Former Employer	Spouse's Current Employer	Spouse's Former Employer	Military Benefits	Private Nongroup	Medicaid or Medicare	Uninsured
<b>Full-Time Workers</b>									
1994	3184	66.0	0.0	9.8	3.9	1.6	6.8	0.3	11.6
1996	3276	65.3	3.0**	6.4**	1.7**	1.2	7.0	0.6*	14.9**
1998	3183	65.9	3.2**	6.6**	1.8**	0.9**	5.8	0.7	14.9**
2000	2737	68.1	4.2**	9.3	2.2**	0.9**	6.1	0.5	8.8**
2002	2363	70.1**	4.4**	10.2	1.7**	1.5	4.3**	0.4	7.4**
<b>Retirees</b>									
1994	1166	0.0	45.5	8.7	14.9	6.0	8.6	6.5	9.8
1996	1250	3.0**	40.5**	7.8	12.9	3.8**	12.6**	7.4	12.1*
1998	1243	2.3**	43.7	7.6	13.7	3.9**	10.7	8.5*	9.7
2000	1102	2.2**	45.9	8.1	14.8	3.1**	9.9	8.4	7.5*
2002	1093	2.1**	49.9*	10.9	9.3**	2.2**	8.3	9.7**	7.5*
<b>Adults with Disabilities</b>									
1994	788	0.0	13.8	10.5	6.4	7.7	6.3	42.5	12.9
1996	870	3.0**	10.5*	9.3	5.7	2.9**	8.5	49.6**	10.4
1998	802	3.9**	10.7	7.8	4.6	3.2**	7.9	52.8**	9.1**
2000	724	2.1**	13.2	10.6	5.0	2.2**	4.9	51.0**	11.0
2002	659	0.8	13.4	11.6	3.7**	3.8**	7.2	53.1**	6.3**

**Source:** Author's estimates from the HRS.

**Notes:** Estimates are based on a sample of noninstitutionalized adults aged 55 to 63 and are weighted to account for the sampling design of the HRS. Coverage is determined by the following hierarchy: own current employer, own former employer, spouse's current employer, spouse's former employer, military benefits, private nongroup, and Medicaid or Medicare. The 1994 survey did not ask respondents with coverage from their own employers whether they received benefits from current or former employers. The analysis assumes that all coverage for full-time workers came from current employers, and that coverage from part-time workers came from former employers. The analysis defines full-time workers as those employed 35 or more hours per week, retirees as those who describe themselves as retired and work no more than 19 hours per week, and adults with disabilities as those who describe themselves as disabled and work no more than 19 hours per week. Totals do not always sum to 100 percent because of rounding.

\* Indicates marginally significant differences from 1994,  $.05 < p < .10$

\*\* Indicates significant differences from 1994,  $p < .05$

**Table A4: Insurance Coverage Rates among Adults Aged 65+ with Medicare, by Personal Characteristics and Source of Coverage, 2002 (%)**

	Share of Population	Source of Coverage							Traditional Medicare Only
		Own Current Employer	Own Former Employer	Spouse's Employer	Military Benefits	Medigap	Medicare HMO	Medicaid	
<b>All</b>	100	4.1	20.6	8.9	4.0	27.2	14.2	5.6	15.4
<b>Gender</b>									
Male	42.3	5.7	30.0	5.5	5.8	22.9	13.7	3.7	12.6
Female	57.7	2.9**	13.7**	11.5**	2.6**	30.3**	14.5**	7.0**	17.6**
<b>Education</b>									
Not high school grad	27.3	1.9	12.6	5.0	2.8	25.2	14.9	15.6	22.0
High school grade	36.8	3.4**	20.5**	10.5**	3.6*	30.6**	13.6	2.8**	14.9**
Some college	18.0	4.1**	20.9**	10.6**	5.6**	29.5**	15.3	1.4**	12.6**
College graduate	17.9	8.5**	32.4**	10.0**	4.7**	20.9**	13.1	0.6**	9.7**
<b>Race and Ethnicity</b>									
African American	8.3	4.7	16.4	5.6	4.6	11.6	14.8	15.2	27.2
Hispanic	5.3	2.6*	6.0**	4.4	3.1	9.5	21.5**	33.0**	19.8**
White and other	86.5	4.1	21.8**	9.5**	3.9	29.7**	13.7	3.1**	14.1**
<b>Age</b>									
65 to 69	27.9	9.1	18.9	13.4	4.5	22.3	13.2	5.1	13.6
70 to 74	25.7	4.5**	21.4**	9.1**	3.7	25.0**	17.0**	5.8	13.5
75 to 79	20.9	1.2**	21.5**	8.4**	4.7	29.1**	14.0	6.0	15.2
80 and older	25.6	0.4**	20.8*	4.4**	3.1**	33.0**	12.6	5.8	19.8**
<b>Ratio of Income to Poverty Level</b>									
Less than poverty level	9.2	1.0	4.8	1.2	0.8	16.2	14.9	36.4	24.7
1.0 to 1.49	12.9	1.0	8.4**	1.6	3.4**	32.1**	15.8	12.0**	25.9
1.5 to 1.99	11.8	0.9	15.3**	4.4**	2.4**	34.4**	18.1*	2.9**	21.5
2 to 4	34.9	2.6**	25.1**	10.4**	4.1**	28.0**	14.3	1.3**	14.0**
More than 4	31.3	9.0**	27.0**	14.2**	5.5**	24.6**	11.7**	0.1**	8.0**
<b>Health Status</b>									
Excellent	9.8	8.8	22.0	10.4	4.2	24.1	15.2	1.7	13.5
Very good	27.1	4.4**	22.6	11.3	3.8	27.1*	14.5	2.1	14.2
Good	33.1	4.4**	20.0	8.8	4.0	28.3**	15.1	4.2**	15.2
Fair	20.7	2.1**	20.2	6.8**	3.8	27.3*	12.6	9.7**	17.5**
Poor	9.4	1.3**	15.9**	5.7**	4.2	26.2	12.6	16.1**	18.2**

Source: Author's estimates from the HRS.

Notes: Estimates are based on a sample of 10,827 noninstitutionalized adults aged 65 and older with Medicare coverage and are weighted to account for the sampling design of the HRS. Coverage is determined by the following hierarchy: own current employer, own former employer, spouse's employer, military benefits, Medigap, Medicare HMO, and Medicaid. Totals do not always sum to 100 percent because of rounding.

\* Indicates marginally significant differences from 1994,  $.05 < p < .10$

\*\* Indicates significant differences from 1994,  $p < .05$

**Table A5: Insurance Coverage Rates among Adults Aged 65+ with Medicare, by Age and Source of Coverage, 1998-2002 (%)**

	Source of Coverage					Traditional Medicare Only
	Employment-Based	Military Benefits	Medigap	Medicare HMO	Medicaid	
<b>Age 65 and Older</b>						
1998	32.0	1.3	30.0	15.6	6.1	15.0
2000	34.3**	1.3	27.1**	16.7**	5.9	14.7
2002	33.5**	4.0**	27.2**	14.2**	5.6	15.5
<b>Ages 65 to 69</b>						
1998	38.5	1.4	24.2	16.4	5.1	14.5
2000	40.9*	1.3	21.9*	17.8	5.3	12.7*
2002	41.4**	4.5**	22.3	13.2**	5.1	13.6
<b>Ages 70 to 74</b>						
1998	32.9	1.6	28.8	16.9	6.1	13.9
2000	37.2**	1.6	25.5**	17.4	6.4	12.0*
2002	35.0	3.7**	25.0**	17.0	5.8	13.5
<b>Ages 75 to 79</b>						
1998	32.3	1.4	32.4	15.4	5.8	12.9
2000	32.6	1.9	30.1	16.9	5.1	13.5
2002	31.1	4.7**	29.1**	14.0	6.0	15.2**
<b>Age 80 and older</b>						
1998	22.5	0.9	36.6	13.1	7.7	19.2
2000	25.0*	0.7	32.1**	14.4	6.8	20.9
2002	25.7**	3.1**	33.0**	12.6	5.8**	19.8

**Source:** Author's estimates from the HRS.

**Notes:** Estimates are based on a sample of noninstitutionalized adults aged 65 and older with Medicare coverage, and are weighted to account for the sampling design of the HRS. Coverage is determined by the following hierarchy: employer-based coverage, military benefits, Medigap, Medicare HMO, and Medicaid. The sample includes 10,631 observations in 1998, 10,627 observations in 2000, and 10,827 observations in 2002. Totals do not always sum to 100 percent because of rounding.

\* Indicates marginally significant differences from 1998,  $.05 < p < .10$

\*\* Indicates significant differences from 1998,  $p < .05$

**Table A6: Insurance Coverage Rates among Adults Aged 79+ in 2002, by Source of Coverage in 1995 (%)**

Source of Coverage in 1995	Share with Coverage in 1995	Source of Coverage in 2002							Total
		Own Employer	Spouse's Employer	Military Benefits	Medigap	Medicare HMO	Medicaid	Traditional Medicare Only	
<b>All</b>	100.0	21.1	5.2	3.2	33.1	12.5	5.7	19.3	100.0
<b>Own Employer</b>	16.1	57.6	6.2	3.4	15.6	3.7	0.9	12.6	100.0
<b>Spouse's Employer</b>	8.0	9.7	18.1	1.2	23.5	10.5	0.0	37.0	100.0
<b>Military Benefits</b>	3.1	25.4	3.6	9.6	26.0	16.1	1.0	18.3	100.0
<b>Medigap</b>	22.9	6.0	1.0	3.5	66.0	7.8	1.6	14.0	100.0
<b>Medicare HMO</b>	11.6	8.9	3.0	3.5	16.7	53.3	4.1	10.5	100.0
<b>Medicaid</b>	5.4	1.3	0.5	1.6	6.6	5.2	66.8	18.0	100.0
<b>Traditional Medicare Only</b>	32.9	23.4	6.2	2.8	31.8	7.0	3.2	25.5	100.0

**Source:** Author's estimates from the HRS.

**Notes:** Estimates are based on a sample of 2,924 noninstitutionalized adults aged 79 and older with Medicare coverage, and are weighted to account for the sampling design of the HRS. Coverage is determined by the following hierarchy: own employer, spouse's employer, military benefits, Medigap, Medicare HMO, and Medicaid. Totals do not always sum to 100 percent because of rounding.

**Table A7: Insurance Coverage Rates among Adults Aged 79+ in 2002, by Source of Coverage in 1995, 1998-2002 (%)**

	Source of Coverage, by Year						
	Own Employer	Spouse's Employer	Military Benefits	Medigap	Medicare HMO	Medicaid	Traditional Medicare Only
<b>Own Employer, 1995</b>							
1998	52.8	9.6	0.3	21.5	3.0	0.6	12.3
2000	55.4	10.0	0.4	20.5	5.0	0.3	8.4
2002	57.6	6.2	3.4	15.6	3.7	0.9	12.6
<b>Spouse's Employer, 1995</b>							
1998	6.8	52.6	0.0	24.7	6.5	0.0	9.5
2000	5.9	49.2	1.6	24.4	7.8	0.0	11.1
2002	9.7	18.1	1.2	23.5	10.5	0.0	37.0
<b>Medigap, 1995</b>							
1998	3.8	1.0	1.3	71.6	10.8	0.5	11.0
2000	3.1	1.3	0.7	65.3	12.0	0.9	16.6
2002	6.0	1.0	3.5	66.0	7.8	1.6	14.0
<b>Medicare HMO, 1995</b>							
1998	8.8	5.1	0.8	11.7	66.5	3.0	4.1
2000	10.4	5.1	0.3	9.2	63.0	2.6	9.3
2002	8.9	3.0	3.5	16.7	53.3	4.1	10.5
<b>Medicaid, 1995</b>							
1998	0.5	3.2	2.0	6.1	9.0	64.2	15.0
2000	0.9	1.5	0.7	5.1	12.6	64.4	14.8
2002	1.3	0.5	1.6	6.6	5.2	66.8	18.0

**Source:** Author's estimates from the HRS.

**Notes:** Estimates are based on a sample of 2,924 noninstitutionalized adults aged 79 and older in 2002 with Medicare coverage, and are weighted to account for the sampling design of the HRS. Coverage is determined by the following hierarchy: own current employer, employer-based coverage, military benefits, Medigap, Medicare HMO, and Medicaid.

**Table A8: Insurance Coverage Rates among Women Aged 79+ in 2002 Who Were Married in 1995, by Marital Status in 2002 and Source of Coverage in 1995 (%)**

Source of Coverage in 1995	Share with Coverage in 1995	Source of Coverage in 2002							Total
		Own Employer	Spouse's Employer	Military Benefits	Medigap	Medicare HMO	Medicaid	Traditional Medicare Only	
<b>Women Who Were Still Married in 2002</b>									
All	100.0	11.2	28.5	3.0	29.5	14.9	2.7	10.3	100.0
Own Employer	13.3	23.7	39.8	3.3	22.1	4.3	0.0	6.8	100.0
Spouse's Employer	12.9	11.6	63.3	1.4	13.0	3.9	0.0	6.8	100.0
Military Benefits	3.8	NA	NA	NA	NA	NA	NA	NA	NA
Medigap	23.5	6.7	5.6	3.2	59.9	10.7	1.4	12.4	100.0
Medicare HMO	10.7	6.5	7.2	2.3	16.7	56.4	2.5	8.3	100.0
Medicaid	2.7	NA	NA	NA	NA	NA	NA	NA	NA
Traditional Medicare Only	32.9	12.5	37.0	3.6	25.2	8.0	1.6	12.0	100.0
<b>Women Who Were Widows in 2002</b>									
All	100.0	13.1	0.0	4.4	34.6	13.4	2.7	31.7	100.0
Own Employer	16.9	38.7	0.0	8.9	17.3	2.2	0.0	32.9	100.0
Spouse's Employer	16.8	11.6	0.0	0.0	31.4	9.9	0.0	47.1	100.0
Military Benefits	2.0	NA	NA	NA	NA	NA	NA	NA	NA
Medigap	22.5	4.4	0.0	4.1	62.8	7.9	1.2	19.6	100.0
Medicare HMO	12.7	3.0	0.0	1.6	17.6	52.1	1.5	24.1	100.0
Medicaid	4.6	0.0	0.0	0.0	15.0	0.0	45.4	39.6	100.0
Traditional Medicare Only	24.1	11.5	0.0	5.6	38.9	9.6	0.5	33.8	100.0

**Source:** Author's estimates from the HRS.

**Notes:** Estimates are based on a sample of noninstitutionalized women aged 79 and older in 2002 with Medicare coverage, who were married in 1995. The sample includes 407 women who were still married in 2002 and 315 women who were widows in 2002. Estimates are weighted to account for the sampling design of the HRS. Coverage is determined by the following hierarchy: own employer, spouse's employer, military benefits, Medigap, Medicare HMO, and Medicaid. Coverage rates for groups with fewer than 25 observations are not computed. Totals do not always sum to 100 percent because of rounding.

NA = Not Ascertained

**Table A9: Share of All Full-Time Wage and Salary Workers Aged 55-63 Offered Retiree Health Insurance Until Age 65 by Their Employers, 1996-2002 (%)**

	1996	1998	2000	2002
<b>All</b>	44.1	44.4	44.3	44.8
<b>Gender</b>				
<b>Male</b>	48.9	48.3	47.8	49.5
<b>Female</b>	37.6	39.2	40.1	39.3
<b>Education</b>				
<b>Did not complete high school</b>	36.0	33.3	32.8	39.5
<b>High school graduate</b>	43.2	43.1	44.4	46.2
<b>Some college</b>	46.3	46.8	41.9	41.8
<b>College graduate</b>	49.5	50.5	52.5	47.8
<b>Industry</b>				
<b>Manufacturing</b>	48.4	47.1	46.9	53.1
<b>Transportation</b>	56.3	46.1*	41.9**	49.6
<b>Trade</b>	34.3	34.6	36.0	32.4
<b>Finance, insurance, real estate</b>	36.9	39.6	50.6**	35.4
<b>Services</b>	41.4	45.8*	43.2	44.5
<b>Public administration</b>	58.2	53.6	57.8	51.8
<b>Other</b>	39.5	38.4	42.6	43.4
<b>Real Annual Earnings</b>				
<b>Less than \$20,000</b>	28.3	31.0	29.4	31.9
<b>\$20,000 to \$50,000</b>	44.7	44.0	44.7	44.4
<b>More than \$50,000</b>	54.9	54.8	54.5	53.0

**Source:** Author's estimates from the HRS.

**Notes:** Estimates are based on a sample of full-time wage and salary workers aged 55 to 63, and are weighted to account for the sampling design of the HRS. The sample includes 2,550 observations in 1996, 2,465 observations in 1998, 2,076 observations in 2000, and 1,792 observations in 2002. Annual earnings are measured in constant 2002 dollars.

\* Indicates marginally significant differences from 1996,  $.05 < p < .10$

\*\* Indicates significant differences from 1996,  $p < .05$



**Table A10: Share of Full-Time Wage and Salary Workers Aged 55-63 Offered Retiree Health Insurance Until Age 65 by Their Employers, among Those with Employer-Sponsored Health Insurance, 1996-2002 (%)**

	1996	1998	2000	2002
<b>All</b>	58.2	58.6	57.7	55.9
<b>Gender</b>				
<b>Male</b>	61.5	61.0	61.2	59.6
<b>Female</b>	53.2	55.1	53.3	51.2
<b>Education</b>				
<b>Did not complete high school</b>	57.0	56.5	55.0	58.1
<b>High school graduate</b>	56.0	55.9	56.9	56.3
<b>Some college</b>	60.5	61.0	55.4	55.4
<b>College graduate</b>	60.4	61.2	61.7	55.2
<b>Industry</b>				
<b>Manufacturing</b>	56.2	57.5	56.5	60.0
<b>Transportation</b>	69.5	56.4**	57.3*	58.5*
<b>Trade</b>	52.8	53.9	54.8	49.4
<b>Finance, insurance,     real estate</b>	50.9	57.8	61.4	41.0
<b>Services</b>	56.5	60.7	55	55.8
<b>Public administration</b>	66.4	60.3	69.2	61.8
<b>Other</b>	67.2	61.1	67.7	61.3
<b>Real Annual Earnings</b>				
<b>Less than \$20,000</b>	53.7	56.4	52.6	54.1
<b>\$20,000 to \$50,000</b>	56.4	56.2	56.0	54.7
<b>More than \$50,000</b>	63.1	63.1	62.5	58.2

**Source:** Author's estimates from the HRS.

**Notes:** Estimates are based on a sample of full-time wage and salary workers aged 55 to 63 receiving health insurance benefits from their current employers, and are weighted to account for the sampling design of the HRS. The sample includes 1,905 observations in 1996, 1,837 in 1998, 1,569 in 2000, and 1,411 in 2002. Annual earnings are measured in constant 2002 dollars.

\* Indicates marginally significant differences from 1996,  $.05 < p < .10$

\*\* Indicates significant differences from 1996,  $p < .05$

**Table A11: Insurance Coverage Rates at Retirement, among Those Who Retired before Age 65 and Were Offered Retiree Health Benefits Until Age 65 from Their Employers, by Personal Characteristics and Source of Coverage (%)**

	Share of Population	Source of Coverage							
		Own Current Employer	Own Former Employer	Spouse's Current Employer	Spouse's Former Employer	Military benefits	Private Nongroup	Medicaid or Medicare	Uninsured
<b>All</b>	100.0	2.9	72.8	4.0	3.5	2.5	5.6	0.9	7.7
<b>Gender</b>									
<b>Male</b>	64.3	3.1	75.1	4.9	0.1	3.3	5.0	0.7	7.8
<b>Female</b>	35.7	2.5	68.6	2.5	9.6	1.1	6.6	1.4	7.7
<b>Education</b>									
<b>Did not complete high school</b>	13.7	3.5	51.2	3.9	0.7	3.4	13.7	4.0	19.6
<b>High school graduate</b>	38.2	2.9	72.9	4.2	4.3	2.0	4.4	0.8	8.5
<b>At least some college</b>	48.1	2.6	79.0	4.0	3.6	2.7	4.2	0.2	3.7
<b>Race</b>									
<b>African American or Hispanic</b>	11.8	2.0	67.0	5.3	0.8	0.9	4.5	3.0	16.5
<b>White or other</b>	88.2	3.0	73.6	3.9	3.8	2.8	5.7	0.7	6.5
<b>Ratio of Income to Poverty Level after Retirement</b>									
<b>Less than 2</b>	19.7	0.0	62.2	3.8	0.5	4.3	9.0	2.8	17.4
<b>2 to 4</b>	22.5	2.5	74.2	2.1	4.5	3.5	5.1	1.3	6.8
<b>More than 4</b>	57.8	4.0	75.9	4.9	4.1	1.6	4.6	0.2	4.8
<b>Weekly Hours of Work after Retirement</b>									
<b>None</b>	76.1	1.1	75.9	3.9	3.9	1.7	5.5	1.2	6.7
<b>1–19</b>	6.0	18.8	55.7	6.8	4.2	0.0	8.1	0.0	6.3
<b>20–34</b>	7.9	4.8	62.5	1.5	3.4	9.5	8.0	0.0	10.2
<b>35 or more</b>	9.9	5.2	67.4	5.4	0.0	4.6	2.6	0.0	14.7
<b>Any Work Limitations after Retirement</b>									
<b>No</b>	78.3	3.1	73.7	3.5	3.8	2.6	6.0	0.3	6.9
<b>Yes</b>	21.7	2.0	69.5	6.0	2.4	2.5	4.0	3.1	10.5
<b>Health after Retirement</b>									
<b>Excellent</b>	15.4	6.4	65.0	1.9	1.4	2.3	10.4	1.4	11.3
<b>Very good</b>	36.6	2.0	78.6	5.2	4.7	1.3	2.1	1.3	4.8
<b>Good</b>	30.5	3.0	74.0	2.4	4.1	3.5	5.6	0.0	7.2
<b>Fair</b>	13.4	0.0	65.2	7.2	2.3	3.0	11.5	0.0	10.9
<b>Poor</b>	4.0	5.4	65.6	3.0	0.0	5.9	0.0	6.5	13.6

**Source:** Author's estimates from the HRS.

**Notes:** Estimates are based on a sample of 485 noninstitutionalized adults who in 1996 were aged 55 to 63, were full-time wage and salary workers, and were offered retiree health benefits from their employers, and who retired in 1998, 2000, or 2002 before reaching age 65. Retirement status is determined by how individuals classify themselves. Estimates are weighted to account for the sampling design of the HRS. Insurance coverage is determined by the following hierarchy: own current employer, own former employer, spouse's current employer, spouse's former employer, military benefits, private nongroup, and Medicaid or Medicare. Totals do not always sum to 100 percent because of rounding.

**Table A12: Monthly Health Insurance Costs for Covered Adults Aged 55-63, in Constant Dollars, by Source of Coverage, 1994-2002**

	1994	1996	1998	2000	2002
<b>All Covered Adults</b>					
<b>Median Values</b>					
<b>From former employer</b>	23	49**	47**	52**	65**
<b>From current employer</b>	7	31**	28**	31**	48**
<b>Private nongroup</b>	121	212**	228**	251**	250**
<b>Average Values</b>					
<b>From former employer</b>	98	90	101	112	129**
<b>From current employer</b>	66	83**	58*	82**	96**
<b>Private nongroup</b>	181	248**	276**	295**	288**
<b>Adults with Individual Coverage</b>					
<b>Median Values</b>					
<b>From former employer</b>	NA	46	39	27	60**
<b>From current employer</b>	NA	23	18**	21	28**
<b>Private nongroup</b>	NA	172	183	212**	215**
<b>Average Values</b>					
<b>From former employer</b>	NA	76	73	83	108**
<b>From current employer</b>	NA	66	34**	57	55
<b>Private nongroup</b>	NA	187	196**	245**	217**
<b>Adults with Family Coverage</b>					
<b>Median Values</b>					
<b>From former employer</b>	NA	53	62	95**	82**
<b>From current employer</b>	NA	46	50	63**	79**
<b>Private nongroup</b>	NA	344	331	334	413
<b>Average Values</b>					
<b>From former employer</b>	NA	100	124**	136**	147**
<b>From current employer</b>	NA	97	83**	108	125**
<b>Private nongroup</b>	NA	340	382	365**	408**

**Source:** Author's estimates from the HRS.

**Notes:** All financial amounts are expressed in constant 2002 dollars. Estimates are based on a sample of noninstitutionalized adults aged 55 to 63, and are weighted to account for the sampling design of the HRS. In 2002, the sample included 809 observations with coverage from a former employer, 1,796 observations with coverage from a current employer, and 425 observations with coverage from a private nongroup. The survey did not collect information to distinguish between individual and family coverage in 1994.

\* Indicates marginally significant differences from earliest year in row,  $.05 < p < .10$

\*\* Indicates significant differences from earliest year in row,  $p < .05$

NA = Not Ascertained

**Table A13: Monthly Health Insurance Costs for Covered Adults Aged 65+, in Constant Dollars, by Age and Source of Coverage, 1998-2002**

	1998	2000	2002
<b>Median Values</b>			
<b>From Former Employer</b>			
Age 65 and older	13	22**	50**
Ages 65–69	22	42*	58**
Ages 70–74	15	24	55**
Ages 75–79	4	8	45**
Age 80 and older	0	5**	40**
<b>Medigap</b>			
Age 65 and older	116	122**	130**
Ages 65–69	98	103**	113**
Ages 70–74	116	119	130**
Ages 75–79	124	136**	141**
Age 80 and older	130	136**	143**
<b>Average Values</b>			
<b>From Former Employer</b>			
Age 65 and older	54	66**	90**
Ages 65–69	61	74**	100**
Ages 70–74	56	65	89**
Ages 75–79	46	63**	90**
Age 80 and older	52	58	83**
<b>Medigap</b>			
Age 65 and older	138	154	156**
Ages 65–69	116	128*	140**
Ages 70–74	147	181	157
Ages 75–79	144	153	166**
Age 80 and older	143	154**	160**

**Source:** Author's estimates from the HRS.

**Notes:** All financial amounts are expressed in constant 2002 dollars. Estimates are based on a sample of noninstitutionalized adults aged 65 and older, and are weighted to account for the sampling design of the HRS. In 2002, the sample included 2,146 observations with coverage from a former employer and 2,856 observations with coverage from a private nongroup.

\* Indicates marginally significant differences from 1998,  $.05 < p < .10$

\*\* Indicates significant differences from 1998,  $p < .05$

**Table A14: Attributes of Insurance Coverage, by Source of Coverage and Age of Policyholder, 1996-2002 (%)**

	1996	1998	2000	2002
<b><u>Ages 55 to 64</u></b>				
<b>Share of Covered Adults Receiving Prescription Drug Coverage</b>				
Own former employer	93.4	95.5*	94.3	92.2
Own current employer	90.5	94.3**	96.1**	95.0**
Private nongroup	57.0	64.8**	69.5**	66.2**
<b>Share of Covered Adults in Plans with Preferred List of Providers</b>				
Own former employer	69.9	72.2	73.1	72.3
Own current employer	74.2	80.1**	82.8**	81.0**
Private nongroup	50.0	35.4**	62.0**	56.3**
<b><u>Age 65 and older</u></b>				
<b>Share of Covered Adults Receiving Prescription Drug Coverage</b>				
Own employer	NA	88.8	89.7	80.7**
Medigap	NA	33.9	33.1	33.2

**Source:** Author's estimates from the HRS.

**Notes:** Estimates are weighted to account for the sampling design of the HRS and are restricted to adults living in the community. The sample of adults aged 55 to 64 in 2002 consists of 963 observations with coverage from former employers, 1,936 observations with coverage from current employers, and 495 observations with private nongroup coverage. The sample of adults aged 65 and older in 2002 consists of 2,559 observations with coverage from employers and 2,807 observations with Medigap coverage.

\* Indicates marginally significant difference from earliest year in row,  $.05 < p < .10$

\*\* Indicates significant difference from earliest year in row,  $p < .05$

NA=Not Ascertained

**Table A15: Annual Out-of-Pocket Payments to Health Care Providers, in Constant Dollars, by Type of Service and Age, 1998-2002**

	1998	2000	2002
<b><u>Ages 55 to 64</u></b>			
<b>Median 10% Values</b>			
Doctor, dentist, outpatient care	222	254**	247**
Hospital and nursing home	6	6	11
Prescription drugs	164	199	274**
Home care	1	2	0**
Total	393	462**	532**
<b>Average Values</b>			
Doctor, dentist, outpatient care	445	448	534**
Hospital and nursing home	154	114*	168
Prescription drugs	410	464	781**
Home care	12	12	2**
Total	1,022	1,038	1,485**
<b><u>Age 65 and Older</u></b>			
<b>Median 10% Values</b>			
Doctor, dentist, outpatient care	245	233**	225**
Hospital and nursing home	14	16**	14**
Prescription drugs	245	312**	440**
Home care	6	5**	1**
Total	509	567**	680**
<b>Average Values</b>			
Doctor, dentist, outpatient care	337	356*	451**
Hospital and nursing home	127	92**	169*
Prescription drugs	686	790**	1,180**
Home care	41	36	10**
Total	1,191	1,274*	1,810**

**Source:** Author's estimates from the HRS.

**Notes:** All amounts are expressed in constant 2002 dollars. The median 10 percent value is computed as the mean of observations between the 45th and 55th percentiles of the distribution of total payments to providers. Estimates are weighted to account for the sampling design of the HRS, and restricted to adults living in the community. The sample consists of 7,484 adults aged 55 to 64 and 10,631 adults aged 65 and older in 1998; 6,666 adults aged 55 to 64 and 10,627 adults aged 65 and older in 2000; and 5,986 adults aged 55 to 64 and 10,827 adults aged 65 and older in 2002. Components do not always sum to totals because of rounding.

\* Indicates marginally significant difference from 1998,  $.05 < p < .10$

\*\* Indicates significant difference from 1998,  $p < .05$

**Table A16: Annual Out-of-Pocket Health Care Costs for Adults Aged 55-64, in Constant Dollars, by Insurance Coverage, 1998-2002**

	Median 10% Values			Average Values		
	1998	2000	2002	1998	2000	2002
<b>All</b>						
Payments to providers	569	694**	856**	1,022	1,038	1,485**
Insurance premiums	418	452**	723**	910	1,106**	1,352**
Total out-of-pocket costs	987	1,146**	1,579**	1,932	2,143**	2,837**
<b>Current Employer</b>						
Payments to providers	487	694**	703**	752	862*	1,092**
Insurance premiums	533	571**	707**	941	1,356**	1,158**
Total out-of-pocket costs	1,020	1,266**	1,411**	1,693	2,218**	2,250**
<b>Former Employer</b>						
Payments to providers	655	605	871**	993	979	1,414**
Insurance premiums	908	990	1,083**	1,282	1,382	1,672**
Total out-of-pocket costs	1,563	1,595	1,954**	2,275	2,361	3,086**
<b>Private Nongroup</b>						
Payments to providers	954	1,021*	1,018*	1,492	1,646	2,196**
Insurance premiums	2,849	3,179*	3,548**	3,084	3,535**	3,510**
Total out-of-pocket costs	3,803	4,201	4,566*	4,575	5,180*	5,706**
<b>Medicare or Medicaid</b>						
Payments to providers	138	169	204	1,372	1,037	1,631
Insurance premiums	441	339	376	276	287	308
Total out-of-pocket costs	579	508	580	1,649	1,325	1,940
<b>Uninsured</b>						
Payments to providers	460	354	365	1,222	1,378	2,485*
Insurance premiums	18	0	0	346	0**	0**
Total out-of-pocket costs	478	354	365	1,568	1,378	2,485

Source: Author's estimates from the HRS.

**Notes:** All amounts are expressed in constant 2002 dollars. The median 10 percent value is computed as the mean of observations between the 45th and 55th percentiles of the distribution of total out-of-pocket costs. Estimates are based on a sample of noninstitutionalized adults aged 55 to 64, and are weighted to account for the sampling design of the HRS. The sample includes 7,484 observations in 1998, 6,666 observations in 2000, and 5,986 observations in 2002. Payments to providers include doctors, dentists, hospitals, outpatient facilities, nursing homes, home care providers, and prescription drug suppliers. Components do not always sum to totals because of rounding.

\* Indicates marginally significant difference from 1998,  $.05 < p < .10$

\*\* Indicates significant difference from 1998,  $p < .05$

**Table A17: Total Annual Out-of-Pocket Health Care Costs for Adults Aged 55-64, in Constant Dollars, by Personal Characteristics, 1998-2002**

	Median 10% Values			Average Values		
	1998	2000	2002	1998	2000	2002
<b>Gender</b>						
Male	1,054	1,188	1,546	1,981	2,179	2,834
Female	942	1,091	1,585	1,898	2,114	2,851
<b>Education</b>						
Did not complete high school	627	700	750	1,630	1,676	2,006
High school graduate	953	1,080	1,440	1,822	2,076	2,751
Some college	1,174	1,280	1,593	2,202	2,361	2,859
College graduate	1,300	1,476	2,316	2,184	2,439	3,530
<b>Race and Ethnicity</b>						
African American	687	804	854	1,506	1,594	2,248
Hispanic	460	553	713	1,519	1,642	2,006
White and other	1,110	1,268	1,791	2,031	2,274	3,001
<b>Marital Status</b>						
Married	1,094	1,254	1,862	2,032	2,209	3,096
Divorced or separated	807	894	1,016	1,676	1,973	2,321
Widowed	937	1,080	1,129	1,868	2,061	2,444
Never married	746	562	634	1,444	1,999	1,636
<b>Ratio of Income to Poverty Level</b>						
Less than poverty level	303	389	538	1,443	1,311	2,814
1.0 to 1.49	919	940	1,137	2,031	2,244	2,725
1.5 to 1.99	1,006	1,080	1,129	2,070	2,337	2,636
2 to 4	1,103	1,255	1,790	2,021	2,439	2,934
More than 4	1,088	1,253	1,780	1,970	2,136	2,842
<b>Health Status</b>						
Excellent	831	1,080	1,533	1,613	2,008	2,398
Very good	964	1,069	1,505	1,697	1,943	2,723
Good	975	1,140	1,624	1,898	2,059	2,699
Fair	1,098	1,324	1,568	2,089	2,418	3,468
Poor	1,345	1,603	1,619	3,246	3,209	3,442
<b>Number of Medical Conditions</b>						
Zero	740	918	1,236	1,561	1,807	2,139
One	952	1,080	1,500	1,831	1,930	2,853
Two	1,201	1,247	1,749	2,300	2,344	3,044
Three	1,166	1,348	2,043	1,997	2,359	3,313
Four or more	1,278	1,563	1,623	2,601	3,176	3,244
<b>Weekly Work Hours</b>						
None	1031	1,109	1,702	2,137	2,195	3,334
1 to 19	1058	1,251	2,093	2,027	2,410	3,587
20 to 34	1,116	1,260	1,747	1,977	2,584	2,706
35 or more	942	1,115	1,432	1,758	2,001	2,409

**Source:** Author's estimates from the HRS.

**Notes:** All amounts are expressed in constant 2002 dollars. The median 10 percent value is computed as the mean of observations between the 45th and 55th percentiles of the distribution. Estimates are based on a sample of noninstitutionalized adults aged 55 to 64, weighted to account for the HRS sampling design. The sample includes 7,484 observations in 1998, 6,666 observations in 2000, and 5,986 observations in 2002. Health costs include out-of-pocket insurance premiums and payments to doctors, dentists, hospitals, and nursing homes, to providers of home care and other outpatient services, and to providers of prescription drugs.



**Table A18: Annual Out-of-Pocket Health Care Costs for Adults Aged 65+, in Constant Dollars, by Insurance Coverage, 1998-2002**

	Median 10% Values			Average Values		
	1998	2000	2002	1998	2000	2002
<b>All</b>						
<b>Payments to providers</b>	658	688**	827**	1,191	1,274*	1,810**
<b>Insurance premiums</b>	1,175	1,184**	1,457**	1,307	1,338	1,574**
<b>Total out-of-pocket costs</b>	1,833	1,872**	2,284**	2,499	2,612*	3,384**
<b>Own Employer (current/former)</b>						
<b>Payments to providers</b>	700	693**	901**	1,000	1,108	1,554**
<b>Insurance premiums</b>	992	1,079	1,405**	1,381	1,399	1,733**
<b>Total out-of-pocket costs</b>	1,692	1,772	2,307**	2,381	2,506	3,287**
<b>Military Benefits</b>						
<b>Payments to providers</b>	565	453	458	747	673	1,464**
<b>Insurance premiums</b>	636	843	672	1,037	1,082	945
<b>Total out-of-pocket costs</b>	1,202	1,297	1,130	1,784	1,756	2,409*
<b>Medigap</b>						
<b>Payments to providers</b>	933	1,040**	1,256**	1,549	1,726*	2,460**
<b>Insurance premiums</b>	2,129	2,212**	2,537**	2,240	2,430	2,537**
<b>Total out-of-pocket costs</b>	3,062	3,252**	3,792**	3,789	4,156**	4,997**
<b>Medicare HMO</b>						
<b>Payments to providers</b>	456	475**	683**	978	1,063	1,528**
<b>Insurance premiums</b>	707	908**	1,107**	784	858**	1,130**
<b>Total out-of-pocket costs</b>	1,164	1,383**	1,791**	1,762	1,921	2,658**
<b>Medicaid</b>						
<b>Payments to providers</b>	43	7**	3**	536	395	983
<b>Insurance premiums</b>	0	0	0	0	0	0
<b>Total out-of-pocket costs</b>	43	7**	3**	536	395	983
<b>Medicare Only</b>						
<b>Payments to providers</b>	600	586	678**	1,481	1,533	1,962**
<b>Insurance premiums</b>	589	574	648**	630	571**	650**
<b>Total out-of-pocket costs</b>	1,188	1,160	1,326**	2,111	2,103	2,612**

**Source:** Author's estimates from the HRS.

**Notes:** All amounts are expressed in constant 2002 dollars. The median 10 percent value is computed as the mean of observations between the 45th and 55th percentiles of the distribution of total out-of-pocket costs. Estimates are based on a sample of noninstitutionalized adults aged 65 and older with Medicare coverage, and are weighted to account for the sampling design of the HRS. The sample includes 10,631 observations in 1998, 10,627 observations in 2000, and 10,827 observations in 2002. Payments to providers include doctors, dentists, hospitals, outpatient facilities, nursing homes, home care providers, and prescription drug suppliers. Components do not always sum to totals because of rounding.

\* Indicates marginally significant difference from 1998,  $.05 < p < .10$

\*\* Indicates significant difference from 1998,  $p < .05$

**Table A19: Total Annual Out-of-Pocket Health Care Costs for Adults Aged 65+, in Constant Dollars, by Personal Characteristics, 1998-2002**

	Median 10% Values			Average Values		
	1998	2000	2002	1998	2000	2002
<b>Gender</b>						
Male	1,804	1,861	2,244	2,516	2,617	3,400
Female	1,852	1,901	2,303	2,493	2,609	3,367
<b>Education</b>						
Did not complete high school	1,486	1,408	1,702	2,158	2,105	2,750
High school graduate	1,892	1,936	2,356	2,493	2,736	3,331
Some college	2,048	2,068	2,602	2,737	2,906	3,994
College graduate	2,076	2,243	2,575	2,977	2,963	3,833
<b>Race and Ethnicity</b>						
African American	1,076	1,116	1,257	1,702	1,735	2,211
Hispanic	650	778	750	1,386	1,426	1,685
White and other	1,981	2,039	2,511	2,657	2,795	3,626
<b>Marital Status</b>						
Married	1,965	1,988	2,534	2,663	2,846	3,581
Divorced or separated	1,208	1,458	1,664	1,853	1,900	2,633
Widowed	1,749	1,804	2,112	2,449	2,452	3,295
Never married	1,407	1,543	1,858	1,865	2,131	2,910
<b>Age</b>						
65 to 69	1,640	1,769	2,112	2,296	2,419	3,269
70 to 74	1,836	1,812	2,244	2,469	2,465	3,155
75 to 79	1,981	2,066	2,398	2,533	2,874	3,259
80 and older	1,997	1,962	2,468	2,777	2,766	3,833
<b>Ratio of Income to Poverty Level</b>						
Less than poverty level	620	583	733	1,600	1,293	1,891
1.0 to 1.49	1,576	1,553	1,867	2,336	2,230	3,106
1.5 to 1.99	1,987	2,023	2,330	2,724	2,982	3,516
2 to 4	1,925	1,963	2,490	2,539	2,676	3,485
More than 4	2,083	2,147	2,563	2,750	2,940	3,763
<b>Health Status</b>						
Excellent	1,443	1,630	1,950	2,121	2,163	2,820
Very good	1,740	1,872	2,250	2,287	2,338	3,135
Good	1,905	1,931	2,348	2,441	2,656	3,498
Fair	1,925	1,944	2,426	2,686	2,893	3,635
Poor	2,096	1,825	2,388	3,061	3,136	3,711
<b>Number of Medical Conditions</b>						
Zero	1,326	1,430	1,628	1,999	1,852	2,311
One	1,687	1,729	2,019	2,221	2,225	2,795
Two	2,021	1,931	2,409	2,594	2,682	3,335
Three	2,062	2,074	2,570	2,760	3,019	3,855
Four or more	2,060	2,223	2,517	3,058	3,142	4,093

**Source:** Author's estimates from the HRS.

**Notes:** All amounts are expressed in constant 2002 dollars. The median 10 percent value is computed as the mean of observations between the 45th and 55th percentiles of the distribution. Estimates are based on a sample of noninstitutionalized adults aged 65 and older, weighted to account for the HRS sampling design. The sample includes 10,631 observations in 1998, 10,627 observations in 2000, and 10,827 observations in 2002. Health costs include out-of-pocket insurance premiums and payments to doctors, dentists, hospitals, and nursing homes, to providers of home care and other outpatient services, and to providers of prescription drugs.

**Table A20: Total Annual Out-of-Pocket Health Care Costs Relative to Income for Adults Aged 55-64 and Their Spouses, 2002**

	Share of Population (%)	Average Health Care Costs (\$)	Average Income (\$)	Share of Income Spent on Health Care (%)	Median Share of Income Spent on Health Care (%)	Share Spending >33% of Income on Health Care (%)
<b>All</b>	100.0	5,106	74,731	6.8	5.1	9.0
<b>Gender</b>						
<b>Male</b>	47.2	5,386	83,187	6.5	5.0	8.3
<b>Female</b>	52.8	4,857	67,218	7.2	5.4	9.7
<b>Education</b>						
<b>Not high school grad</b>	16.5	3,581	34,912	10.3	6.2	12.2
<b>High school graduate</b>	35.3	4,983	55,273	9.0	6.0	9.5
<b>Some college</b>	24.0	5,033	74,286	6.8	5.2	10.1
<b>College graduate</b>	24.2	6,385	130,347	4.9	3.8	5.2
<b>Race and Ethnicity</b>						
<b>African American</b>	9.9	3,479	43,174	8.1	4.5	10.4
<b>Hispanic</b>	7.9	3,433	36,682	9.4	4.7	9.1
<b>White and other</b>	82.2	5,487	82,402	6.7	5.2	8.8
<b>Marital Status</b>						
<b>Married</b>	70.1	6,248	88,160	7.1	5.7	9.0
<b>Divorced or separated</b>	18.6	2,502	41,154	6.1	3.5	7.8
<b>Widowed</b>	7.2	2,604	33,388	7.8	4.5	13.1
<b>Never married</b>	4.2	1,806	69,127	2.6	2.1	7.7
<b>Ratio of Income to Poverty Level</b>						
<b>Less than poverty level</b>	10.1	4,452	5,321	83.7	9.1	33.9
<b>1.0 to 1.49</b>	5.0	3,961	13,314	29.7	12.7	24.6
<b>1.5 to 1.99</b>	5.7	4,136	19,418	21.3	11.9	20.7
<b>2 to 4</b>	23.6	5,249	33,365	15.7	9.8	10.9
<b>More than 4</b>	55.5	5,366	115,961	4.6	3.6	1.7
<b>Health Status</b>						
<b>Excellent</b>	16.1	4,756	101,389	4.7	3.9	4.8
<b>Very good</b>	32.5	5,286	89,273	5.9	4.4	7.9
<b>Good</b>	29.4	4,830	67,529	7.2	5.3	8.7
<b>Fair</b>	15.6	5,638	48,051	11.7	7.0	12.4
<b>Poor</b>	6.5	5,057	31,922	15.8	8.8	18.8

(continued)

**Table A20. (continued)**

	Share of Population (%)	Average Health Care Costs (\$)	Average Income (\$)	Share of Income Spent on Health Care (%)	Median Share of Income Spent on Health Care (%)	Share Spending >33% of Income on Health Care (%)
<b>Number of Medical Conditions</b>						
Zero	22.2	4,682	88,373	5.3	3.7	6.2
One	29.8	5,184	87,316	5.9	4.7	6.3
Two	24.3	5,193	71,194	7.3	5.7	9.9
Three	13.7	5,159	57,023	9.0	6.7	13.7
Four or more	10.1	5,535	39,405	14.0	8.3	15.1
<b>Weekly Work Hours</b>						
None	38.9	5,631	53,078	10.6	7.4	15.1
1 to 19	4.3	5,988	97,593	6.1	4.9	8.3
20 to 34	8.4	5,000	77,211	6.5	5.1	6.6
35 or more	48.5	4,630	89,459	5.2	4.0	4.8
<b>Work Limitation</b>						
Yes	22.9	5,673	43,860	12.9	8.2	15.7
No	77.1	4,937	83,902	5.9	4.6	7.1
<b>Source of Insurance Coverage</b>						
Own current employer	37.6	4,462	90,898	4.9	4.0	4.1
Own former employer	15.0	5,317	69,779	7.6	6.2	11.5
Spouse current employer	14.3	6,039	102,935	5.9	5.5	4.4
Spouse former employer	5.2	6,675	68,718	9.7	8.7	13.0
Military benefits	2.0	3,149	58,896	5.3	2.5	7.6
Private nongroup	7.6	9,318	73,016	12.8	18.6	27.5
Medicaid/Medicare	8.6	2,630	19,228	13.7	4.3	13.6
None	9.8	4,353	34,723	12.5	3.5	11.2

**Source:** Author's estimates from the HRS.

**Notes:** All amounts are expressed in constant 2002 dollars. Estimates are based on a sample of 5,941 noninstitutionalized adults aged 55 to 64 with positive income, and are weighted to account for the sampling design of the HRS. Health costs include out-of-pocket insurance premiums and payments to doctors, dentists, hospitals, and nursing homes, to providers of home care and other outpatient services, and to providers of prescription drugs. For married adults, amounts include payments by spouses and income they received. Totals do not always sum to 100 percent because of rounding.

**Table A21: Share of Income Spent on Health Care by Adults Aged 55-64 and Their Spouses, and Share Experiencing Catastrophic Costs, 1998-2002 (%)**

	Share of Income Spent on Health Care			Share Spending >33% of Income on Health Care		
	1998	2000	2002	1998	2000	2002
<b>All</b>	4.6	4.6	6.8	6.3	6.3	9.0**
<b>Gender</b>						
<b>Male</b>	4.1	4.2	6.5	5.5	5.3	8.3**
<b>Female</b>	5.2	5.2	7.2	7.0	7.3	9.7**
<b>Education</b>						
<b>Not high school grad</b>	6.2	8.0	10.3	9.8	10.0	12.2*
<b>High school graduate</b>	5.6	6.3	9.0	5.9	6.2	9.5*
<b>Some college</b>	4.8	4.9	6.8	6.2	5.6	10.1**
<b>College graduate</b>	3.0	2.8	4.9	3.7	4.3	5.2
<b>Race and Ethnicity</b>						
<b>African American</b>	5.5	5.7	8.1	8.8	7.3	10.4
<b>Hispanic</b>	4.0	7.0	9.4	9.9	8.3	9.1
<b>White and other</b>	4.6	4.5	6.7	5.6	6.1	8.8**
<b>Marital Status</b>						
<b>Married</b>	4.5	4.6	7.1	6.1	6.1	9.0**
<b>Divorced or separated</b>	4.3	5.1	6.1	6.5	6.2	7.8
<b>Widowed</b>	6.6	5.8	7.8	7.7	8.3	13.1**
<b>Never married</b>	4.1	3.0	2.6	5.1	7.3	7.7
<b>Ratio of Income to Poverty Level</b>						
<b>Less than poverty level</b>	37.8	37.1	83.7	28.2	28.9	33.9*
<b>1.0 to 1.49</b>	24.3	23.8	29.7	19.4	21.1	24.6
<b>1.5 to 1.99</b>	16.5	18.6	21.3	10.8	15.3*	20.7**
<b>2 to 4</b>	10.5	11.9	15.7	5.5	5.9	10.9**
<b>More than 4</b>	3.0	3.1	4.6	0.5	0.6	1.7**
<b>Health Status</b>						
<b>Excellent</b>	3.1	3.4	4.7	3.8	3.3	4.8
<b>Very good</b>	3.6	4.0	5.9	3.9	4.2	7.9**
<b>Good</b>	4.8	4.6	7.2	5.6	6.8	8.7**
<b>Fair</b>	7.0	8.1	11.7	8.6	9.0	12.4**
<b>Poor</b>	15.3	8.1	15.8	17.7	16.9	18.8

(continued)

Table A21. (continued)

	Share of Income Spent on Health Care			Share Spending >33% of Income on Health Care		
	1998	2000	2002	1998	2000	2002
<b>Number of Medical Conditions</b>						
Zero	3.7	3.6	5.3	4.2	3.2	6.2*
One	4.0	4.2	5.9	5.1	5.2	6.3*
Two	5.9	5.0	7.3	8.0	6.9	9.9
Three	4.6	6.3	9.0	6.6	9.3*	13.7**
Four or more	10.7	11.3	14.0	14.3	14.8	15.1
<b>Weekly Work Hours</b>						
None	7.4	6.4	10.6	10.9	10.8	15.1**
1 to 19	5.2	4.3	6.1	7.1	6.1	8.3
20 to 34	4.8	5.4	6.5	5.6	5.4	6.6
35 or more	3.3	3.7	5.2	2.7	3.1	4.8**
<b>Work Limitation</b>						
Yes	9.0	7.6	12.9	12.4	12.1	15.7**
No	3.9	4.0	5.9	4.3	4.4	7.1**
<b>Source of Insurance Coverage</b>						
Own current employer	3.1	3.5	4.9	1.9	2.6	4.1**
Own former employer	5.7	5.3	7.6	5.6	7.4	11.5**
Spouse current employer	3.4	3.1	5.9	2.3	3.0	4.4
Spouse former employer	6.2	5.4	9.7	7.9	5.6	13.0
Military benefits	3.1	5.0	5.3	2.0	3.9	7.6
Private nongroup	10.0	10.4	12.8	19.9	20.5	27.5**
Medicaid/Medicare	5.8	12.2	13.7	11.1	13.1	13.6
None	5.4	5.7	12.5	9.0	6.5	11.2

**Source:** Author's estimates from the HRS.

**Notes:** All amounts are expressed in constant 2002 dollars. Estimates are based on a sample of noninstitutionalized adults aged 55 to 64 with positive income, and are weighted to account for the sampling design of the HRS. The samples includes 7,453 observations in 1998, 6,633 observations in 2000, and 5,941 observations in 2002. Health costs include out-of-pocket insurance premiums and payments to doctors, dentists, hospitals, and nursing homes, to providers of home care and other outpatient services, and to providers of prescription drugs. For married adults, amounts include payments by spouses and income they received.

\* Indicates share spending more than 33 percent of income on health care differs marginally significantly from 1998,  $.05 < p < .10$

\*\* Indicates share spending more than 33 percent of income on health care differs significantly from 1998,  $p < .05$

**Table A22: Total Annual Out-of-Pocket Health Care Costs Relative to Income for Adults Aged 65+ and Their Spouses, 2002**

	Share of Population	Average Health Care Costs	Average Income	Share of Income Spent on Health Care	Median Share of Income Spent on Health Care	Share Spending >33% of Income on Health Care
<b>All</b>	100.0%	\$5,444	\$42,375	12.8%	11.8%	15.9%
<b>Gender</b>						
<b>Male</b>	42.3	6,153	52,833	11.6	10.9	14.8
<b>Female</b>	57.7	4,925	34,709	14.2	12.5	16.7
<b>Education</b>						
<b>Did not complete high school</b>	27.3	4,272	25,055	17.0	12.5	17.7
<b>High school graduate</b>	36.8	5,392	35,432	15.2	13.4	17.8
<b>Some college</b>	18.0	6,351	48,250	13.2	11.8	15.4
<b>College graduate</b>	17.9	6,430	77,154	8.3	8.2	9.7
<b>Race and Ethnicity</b>						
<b>African American</b>	8.2	3,153	23,682	13.3	8.9	13.4
<b>Hispanic</b>	5.2	3,192	20,722	15.4	8.3	10.9
<b>White and other</b>	86.6	5,848	45,628	12.8	12.5	16.5
<b>Marital Status</b>						
<b>Married</b>	55.7	7,198	55,580	13.0	13.1	17.4
<b>Divorced or separated</b>	9.1	2,888	30,034	9.6	8.4	11.1
<b>Widowed</b>	32.1	3,352	24,643	13.6	11.2	15.1
<b>Never married</b>	3.1	3,143	25,149	12.5	9.1	10.4
<b>Age</b>						
<b>65 to 69</b>	27.8	5,654	54,648	10.3	9.8	13.2
<b>70 to 74</b>	25.7	5,400	47,356	11.4	10.7	14.2
<b>75 to 79</b>	20.9	5,284	36,423	14.5	13.4	16.3
<b>80 and older</b>	25.6	5,390	28,763	18.7	14.8	20.3
<b>Ratio of Income to Poverty Level</b>						
<b>Less than poverty level</b>	9.0	2,277	6,739	33.8	13.0	27.8
<b>1.0 to 1.49</b>	12.9	3,975	11,624	34.2	20.1	29.2
<b>1.5 to 1.99</b>	11.8	5,060	16,851	30.0	20.1	27.7
<b>2 to 4</b>	35.0	5,869	28,806	20.4	14.3	15.7
<b>More than 4</b>	31.3	6,643	90,185	7.4	6.4	2.8
<b>Health Status</b>						
<b>Excellent</b>	9.8	5,092	67,029	7.6	7.5	9.2
<b>Very good</b>	27.1	5,380	48,901	11.0	10.4	12.0
<b>Good</b>	33.1	5,615	40,944	13.7	12.2	15.7
<b>Fair</b>	20.7	5,486	32,590	16.8	13.9	19.9
<b>Poor</b>	9.4	5,304	24,240	21.9	16.6	26.2

(continued)

**Table A22. (continued)**

	Share of Population	Average Health Care Costs	Average Income	Share of Income Spent on Health Care	Median Share of Income Spent on Health Care	Share Spending >33% of Income on Health Care
<b>Number of Medical Conditions</b>						
<b>Zero</b>	8.6%	\$4,526	\$54,743	8.3%	8.3%	8.2%
<b>One</b>	22.5	4,830	49,016	9.9	9.7	10.8
<b>Two</b>	28.3	5,529	43,255	12.8	12.2	15.6
<b>Three</b>	21.8	5,876	39,313	14.9	13.1	18.1
<b>Four or more</b>	18.8	5,970	30,995	19.3	14.7	23.4
<b>Source of Insurance Coverage</b>						
<b>Own employer</b>	24.6	5,522	55,835	9.9	9.5	10.8
<b>Spouse's employer</b>	9.0	6,618	61,053	10.8	11.1	11.8
<b>Military benefits</b>	4.0	4,358	46,212	9.4	5.8	7.3
<b>Medigap</b>	27.1	7,601	41,294	18.4	20.7	29.0
<b>Medicare HMO</b>	14.2	4,189	36,955	11.3	10.9	11.2
<b>Medicaid</b>	5.6	1,192	10,491	11.4	0.8	4.4
<b>Traditional Medicare only</b>	15.5	3,954	27,609	14.3	10.9	14.8

**Source:** Author's estimates from the HRS.

**Notes:** All amounts are expressed in constant 2002 dollars. Estimates are based on a sample of 10,423 noninstitutionalized adults aged 65 and older with positive income, and are weighted to account for the sampling design of the HRS. Health costs include out-of-pocket insurance premiums and payments to doctors, dentists, hospitals, and nursing homes, to providers of home care and other outpatient services, and to providers of prescription drugs. For married adults, amounts include payments by spouses and income they received.



**Table A23: Share of Income Spent on Health Care by Adults Aged 65+ and Their Spouses, and Share Experiencing Catastrophic Costs, 1998-2002 (%)**

	Share of Income Spent on Health Care			Share Spending >33% of Income on Health Care		
	1998	2000	2002	1998	2000	2002
<b>All</b>	9.8	9.8	12.8	9.9	10.6*	15.9**
<b>Gender</b>						
<b>Male</b>	9.0	9.0	11.6	8.9	9.8	14.8**
<b>Female</b>	10.7	10.8	14.2	10.6	11.2	16.7**
<b>Education</b>						
<b>Did not complete high school</b>	14.6	13.8	17.0	13.9	13.9	17.7**
<b>High school graduate</b>	11.0	11.9	15.2	9.7	10.7	17.8**
<b>Some college</b>	8.5	9.6	13.2	6.8	9.5**	15.4**
<b>College graduate</b>	6.6	5.8	8.3	5.1	5.5	9.7**
<b>Race and Ethnicity</b>						
<b>African American</b>	11.0	10.7	13.3	11.2	10.9	13.4
<b>Hispanic</b>	12.0	11.2	15.4	9.7	9.4	10.9
<b>White and other</b>	9.7	9.8	12.8	9.7	10.8*	16.5**
<b>Marital Status</b>						
<b>Married</b>	10.0	10.1	13.0	10.1	10.9	17.4**
<b>Divorced or separated</b>	6.8	6.8	9.6	7.0	7.9	11.1**
<b>Widowed</b>	10.2	9.9	13.6	10.4	10.9	15.1**
<b>Never married</b>	8.1	8.5	12.5	7.1	9.4	10.4
<b>Age</b>						
<b>65 to 69</b>	7.6	7.5	10.3	7.6	6.9	13.2**
<b>70 to 74</b>	10.2	8.9	11.4	9.1	8.6	14.2**
<b>75 to 79</b>	10.6	12.0	14.5	9.4	12.9**	16.3**
<b>80 and older</b>	13.0	13.8	18.7	14.2	15.2	20.3**
<b>Ration of Income to Poverty Level</b>						
<b>Less than poverty level</b>	30.7	25.7	33.8	23.9	23.1	27.8*
<b>1.0 to 1.49</b>	26.1	24.1	34.2	23.8	23.6	29.2**
<b>1.5 to 1.99</b>	23.8	26.9	30.0	18.5	20.1	27.7**
<b>2 to 4</b>	14.6	15.3	20.4	5.4	7.4**	15.7**
<b>More than 4</b>	5.3	5.6	7.4	0.8	1.6**	2.8**
<b>Health Status</b>						
<b>Excellent</b>	6.4	6.4	7.6	4.3	6.7**	9.2**
<b>Very good</b>	7.8	7.9	11.0	6.6	6.3	12.0**
<b>Good</b>	9.8	10.0	13.7	8.5	9.7	15.7**
<b>Fair</b>	12.8	14.1	16.8	12.2	14.7**	19.9**
<b>Poor</b>	17.2	17.8	21.9	19.9	21.7	26.2**

(continued)

**Table A23. (continued)**

	Share of Income Spent on Health Care			Share Spending >33% of Income on Health Care		
	1998	2000	2002	1998	2000	2002
<b>Number of Medical Conditions</b>						
<b>Zero</b>	7.9	6.9	8.3	5.1	5.0	8.2**
<b>One</b>	8.4	7.8	9.9	6.9	7.5	10.8**
<b>Two</b>	10.0	9.9	12.8	10.2	9.3	15.6**
<b>Three</b>	11.4	11.4	14.9	12.5	14.1	18.1**
<b>Four or more</b>	14.4	16.1	19.3	16.5	17.9	23.4**
<b>Source of Insurance Coverage</b>						
<b>Own employer</b>	7.2	6.6	9.9	5.1	5.0	10.8**
<b>Spouse's employer</b>	8.4	8.0	10.8	5.3	4.8	11.8
<b>Military benefits</b>	6.9	6.8	9.4	9.1	3.0	7.3
<b>Medigap</b>	13.8	15.1	18.4	17.1	21.8**	29.0**
<b>Medicare HMO</b>	7.9	9.1	11.3	6.1	6.8	11.2**
<b>Medicaid</b>	6.8	6.4	11.4	4.1	3.1	4.4
<b>Traditional Medicare only</b>	11.2	10.7	14.3	12.4	12.1	14.8*

**Source:** Author's estimates from the HRS.

**Notes:** All amounts are expressed in constant 2002 dollars. Estimates are based on a sample of noninstitutionalized adults aged 65 and older with positive income, and are weighted to account for the sampling design of the HRS. The sample includes 10,378 observations in 1998, 10,281 observations in 2000, and 10,423 observations in 2002. Health costs include out-of-pocket insurance premiums and payments to doctors, dentists, hospitals, and nursing homes, to providers of home care and other outpatient services, and to providers of prescription drugs. For married adults, amounts include payments by spouses and income they received.

\* Indicates share spending more than 33 percent of income on health care differs marginally significantly from 1998,  $.05 < p < .10$

\*\* Indicates share spending more than 33 percent of income on health care differs significantly from 1998,  $p < .05$