1 INTRODUCTION AND HIGHLIGHTS OF FINDINGS

Health and Health Care of the Medicare Population: Data from the 1998 Medicare Current Beneficiary Survey is the seventh in a series of Medicare beneficiary sourcebooks. The information presented here is drawn from the Medicare Current Beneficiary Survey (MCBS), a rotating panel survey of a nationally representative sample of aged and disabled Medicare beneficiaries. The MCBS is sponsored by the Centers for Medicare and Medicaid Services (CMS), under the general direction of its Office of Research, Development, and Information. Westat, a survey research organization with offices in Rockville, Maryland, is collecting and disseminating data for the first 10 years of the survey.

The MCBS is a comprehensive source of information on the health status, health care service use and expenditures, health insurance coverage, and socioeconomic and demographic characteristics of aged and disabled Medicare beneficiaries. Survey data are collected three times each year over 4 years, regardless of whether the beneficiary lives in a household or a long-term care facility. The resulting data are disseminated in annual public use files (PUFs) that contain a cross-section of all persons entitled to Medicare during the year. The 1998 MCBS, for example, includes beneficiaries who were entitled to Medicare for all or part of the year, as well as beneficiaries who died in 1998. These data can be used for cross-sectional analyses, or linked to PUFs from previous years for longitudinal analyses of the Medicare population.

One of the strengths of the MCBS is its scope of information on personal health care utilization and expenditures. Respondents are asked about expenditures on Medicare-covered services and health services not typically covered by the Medicare program. Those services typically not covered by Medicare include purchases of prescription medicines, dental care, hearing aids, eyeglasses, and long-term care facility services. The MCBS also collects information on out-of-pocket (OOP) payments, third party payers, and use of health care services provided by such agencies as the Veterans Administration to more fully understand the financing of services not covered by Medicare. This information is used in conjunction with Medicare claims data to determine the amounts paid by Medicare, Medicaid, other public programs, private insurance, and households for each medical service reported by a beneficiary.

Annual data from the MCBS are released to the public in two different PUFs. The Access to Care PUFs, available for calendar years 1991 through 2000, contain information on beneficiaries' access to medical providers, satisfaction with health care, health status and functioning, and demographic and financial characteristics. The files include Medicare claims data for beneficiaries who were enrolled in Medicare for the entire calendar year and were community residents.[1] They provide a snapshot of the "always enrolled" Medicare population, and can be used to analyze characteristics of beneficiaries who were potential or actual users of Medicare-covered services during the entire 12-month period.

The Cost and Use PUFs, available for calendar years 1992 through 1999, are more comprehensive than the Access to Care PUFs. The Cost and Use PUFs include information on services not covered by Medicare, and the samples are chosen to represent all beneficiaries who were ever enrolled in Medicare at any time during a calendar year. The Cost and Use PUFs also contain detailed information on health insurance coverage, as well as health status and functional capacity. The data can be used to analyze total and per capita health care spending by the entire Medicare population, including part-year enrollees and persons who died during the year.

The MCBS sourcebooks include information from both sets of PUFs. The 1998 sourcebook also uses data from previous PUFs. Chapter 2 contains information on emerging trends and patterns between 1992 and 1998. It has sections on the Medicare population, personal health care expenditures (PHCE) by Medicare beneficiaries, funding sources, PHCE by service category, and

[1] Beneficiaries who did not live in long-term care facilities for the entire year are referred to as community residents in the sourcebook.

health insurance status of the Medicare population. Sections 1-5 in Chapter 3 contain the same set of the cross-sectional data from the Access to Care and Cost and Use PUFs as previous sourcebooks. Section 6 data tables highlight emerging trends in health and health care utilization between 1992 and 1998.

Appendix A provides a description of the sample design, survey operations, response rates, and structure of the MCBS PUFs. It also includes a discussion of procedures to calculate standard errors for cross-sectional statistics and estimates of net change over time. Appendix B contains a glossary of terms and variables used in the detailed tables.

HIGHLIGHTS OF FINDINGS

The Medicare Population

In 1998, total Medicare beneficiaries grew to an ever-enrolled population of 40.1 million, representing 14.6 percent of the total U.S. population. The annual growth rate for the Medicare population remained under 1 percent between 1997 and 1998.

From 1992 to 1998, several subgroups of Medicare beneficiaries were growing much faster than the entire Medicare population. Compared with an average annual growth rate of 1.5 percent for all Medicare beneficiaries during this period, average annual growth rates were 3.4 percent for the oldest old, 6.3 percent for Hispanics, 9.8 percent for other race/ethnicity, and 5.9 percent for the disabled.

The Medicare population became increasingly diverse between 1992 and 1998. By 1998, the proportion of White non-Hispanic beneficiaries decreased to 81.6 percent; and the proportions of the oldest old, Hispanics, other race/ethnicity, and disabled beneficiaries increased, respectively, to 10.8 percent, 6.8 percent, 2.6 percent, and 12.8 percent.

Personal Health Care Expenditures

Between 1997 and 1998, PHCE by Medicare beneficiaries increased from $365.0 billion to $368.3 billion, a growth of 0.9 percent. The significant low growth of PHCE may be attributed to key factors such as the implementation of the Balanced Budget Act (BBA), greater beneficiary enrollment in Medicare managed care, cost-containment strategies used by managed care organizations, and government antifraud and abuse activities.

The Medicare population consumed health care resources in amounts disproportionate to their numbers in the U.S. population. Medicare beneficiaries (14.6 percent of the U.S. population) spent 36.7 percent of total U.S. PHCE; whereas the non-Medicare population (83.4 percent) spent 63.3 percent of the total PHCE.

In 1998, per capita PHCE for Medicare beneficiaries ($9,194) stayed virtually constant compared to 1997. As in 1997, the growth in per capita PHCE by Medicare beneficiaries was below that of the non-Medicare population. Nevertheless, per capita PHCE by Medicare beneficiaries in 1998 was 3.5 times higher than the non-Medicare population ($2,631).

Due to their significant health care needs, several segments of the Medicare population continued to incur higher than average per capita PHCE in 1998. These groups included full-year nursing home residents, Medicare/Medicaid dual eligibles, the oldest old, the disabled, and racial/ethnic minorities.

Funding Sources

In 1998, public funding, in the form of Medicare and Medicaid payments, covered 66.7 percent of PHCE by the Medicare population and private funding covered 30.0 percent. The annual growth rate for public funding began falling gradually

in 1994, followed by sharp declines from 1995 to 1998. At the same time, annual growth rates for private funding remained relatively stable at close to or above 7 percent.

- In 1998, Medicare financed 54.4 percent ($200.3 billion) of total PHCE by Medicare beneficiaries, representing a 1.5 percent decline of its 1997 funding level. This reduced level of Medicare spending was mainly attributed to sharp decreases in spending on inpatient hospital, skilled nursing facility (SNF), and home health care. In 1998, per capita Medicare payment ($4,997) was a 2.3 percent decline from 1997.

- In 1998, private health insurance (PHI) paid 10.7 percent ($39.3 billion) of total PHCE by Medicare beneficiaries, and beneficiaries paid another 19.3 percent ($71.1 billion) out of their own pocket. In 1998, average OOP payments by Medicare beneficiaries ($1,774) remained 4 times higher than those made by the non-Medicare population ($447).

PHCE by Service Category

- Shares of PHCE by type of service for Medicare beneficiaries shifted between 1992 and 1998. The share of spending on inpatient hospital services steadily declined, while the shares of ambulatory care and prescription medicines increased. The share of home health care spending continued its decline, a trend evident since 1996.

- Between 1997 and 1998, inpatient hospital expenditures decreased by 4.1 percent. The decline in spending was attributed to the BBA's 1-year freeze on Prospective Payment System rates for inpatient services, increased government fraud and abuse detection activities, greater beneficiary enrollment in Medicare managed care, and site-of-care substitution.

- Growth of ambulatory care spending accelerated to 5.4 percent between 1997 and 1998. Expenditures on physician/supplier services grew by 5.5 percent during this period, due to greater medical providers' participation and increased beneficiary enrollment in managed care. In contrast, spending growth of hospital outpatient services by Medicare beneficiaries slowed to 5.3 percent.

- Home health care spending by Medicare beneficiaries decreased by 25.4 percent from 1997 to 1998. Reduced spending was mainly due to the BBA's provisions that restricted beneficiary access and reduced payments to home health agencies, as well as government activities to combat fraud and abuse.

- Between 1997 and 1998, spending levels on nursing home care showed a 0.5 percent decline. The decline was mainly caused by a 9.8 percent reduction in the level of spending on SNFs by Medicare beneficiaries, due to the BBA's changes to payment methods as well as government fraud and abuse detection activities. In contrast, expenditures on long-term facility care grew by 1.5 percent during the same period.

- From 1997 to 1998, prescription medicine (PM) spending grew by 20.6 percent, reaching an 8.9 percent share of total PHCE by the Medicare population. Factors contributing to the rapid growth in recent years included increased PM coverage, lower OOP spending on PMs, increased access to physicians, the speedup of the Food and Drug Administration's (FDA) drug approval process, and direct-to-consumer advertising by pharmaceutical manufacturers.

Insurance Status

- Over the 1992 to 1998 period, Medicare HMO enrollment had an average annual growth rate of 18.8 percent. By 1998, 17.9 percent of Medicare beneficiaries were enrolled in a Medicare HMO, representing 7.2 million beneficiaries.

Concurrent with increasing enrollment in Medicare managed care in this 1992-1998 time period, PHI enrollment (in particular, individually-purchased PHI) declined steadily among Medicare beneficiaries. The proportion of noninstitutionalized Medicare beneficiaries with individually-purchased PHI decreased from 37.8 percent in 1992 to 30.7 percent in 1998; and beneficiaries with employer-sponsored PHI decreased from 36.1 percent to 33.5 percent.