



Medicare Health Accounts: A New Policy Option to Help Adults Save for Health Care Expenses Not Covered by Medicare

Findings from the Commonwealth Fund Survey of Older Adults

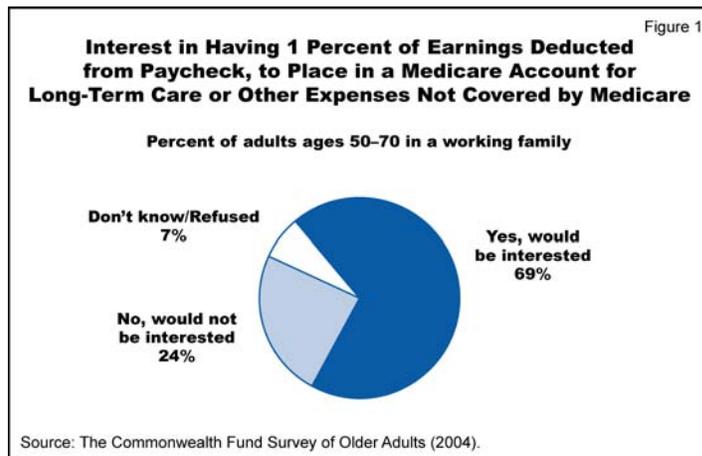
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U.S. health care costs are climbing by 7 percent a year and are expected to continue to outpace growth in the economy over the next decade.¹ Rapid medical cost inflation disproportionately affects those with the greatest health care needs and the most exposure to health costs. Among those at greatest risk are older adults. While Medicare was designed to protect people over age 65 from health costs and facilitate access to needed services, the program has substantial cost-sharing requirements and does not cover such high-cost services as long-term care. Medicare beneficiaries spend 22 percent of their incomes on premiums and out-of-pocket medical expenses—a figure that is projected to increase to 30 percent by 2025.² In 2004, Medicare Part B monthly premiums for physician and other services averaged \$67, while premiums for private supplemental insurance ranged from \$144 to \$230.³ Employer retiree health benefits have provided relief to some retirees, but in the past few years many employers have limited benefits or dropped them altogether.⁴

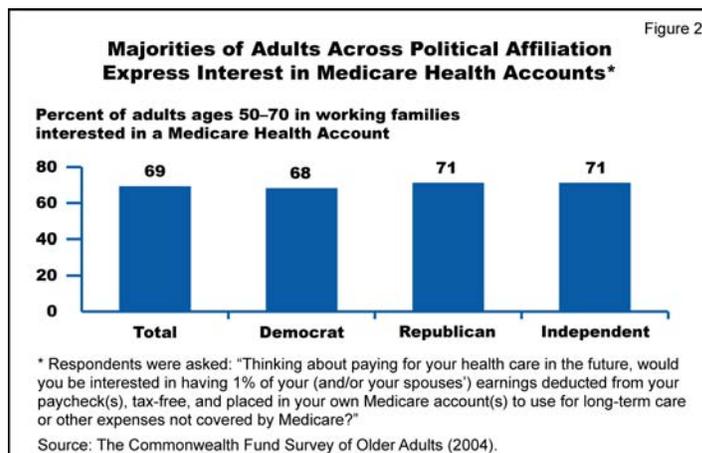
While savings will increasingly be needed to fill the gaps in Medicare benefits, Americans are saving less than ever before. In 2004, personal savings dropped to just 1 percent of household disposable income, down from a peak of 11 percent 20 years earlier.⁵

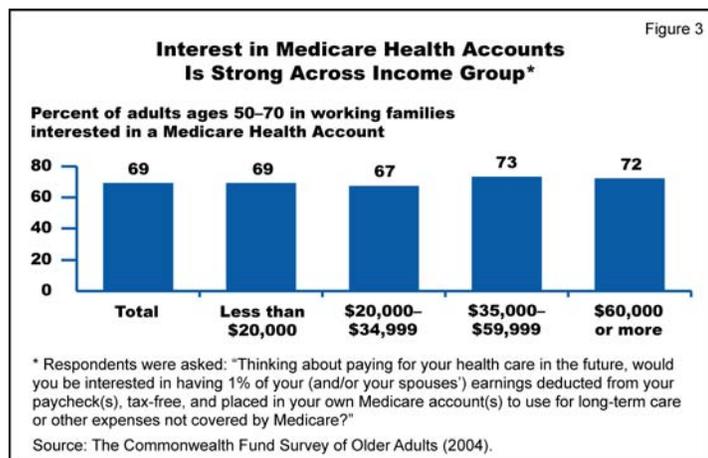
New strategies are needed to encourage people to save more for their retirement. The Commonwealth Fund Survey of Older Adults, a nationally representative sample of 2,007 adults ages 50 to 70 conducted in late 2004, asked respondents about their interest in new savings accounts that could be created within the Medicare program. Such accounts would allow people to automatically save for health costs that are not currently covered by Medicare. With Medicare Health Accounts, up to 1 percent of earnings could be deducted automatically from people's paychecks and placed in an account in the Medicare program. The savings could then be used by people in their retirement to cover costs of long-term care, home health, and other costs not covered by Medicare.

Among older adults in households in which at least one member was working, nearly seven of 10 (69%) said they would be interested in having a Medicare Health Account



(Figure 1). Respondents were asked whether they would be interested in having 1 percent of their or their spouse's earnings deducted from their paycheck, tax-free, and placed in their own Medicare account to use for long-term care or other expenses not covered by Medicare. There was broad-based, majority interest in the proposal across income groups, regions of the country, and health status. Democrats, Republicans, and Independents expressed equally high rates of interest (Figure 2). Similarly, interest among older adults with incomes of less than \$20,000 was nearly as high as that among older adults with incomes of \$60,000 or more (Figure 3). Interest was greatest among the youngest in the age range. More than three-quarters (76%) of older adults under age 55

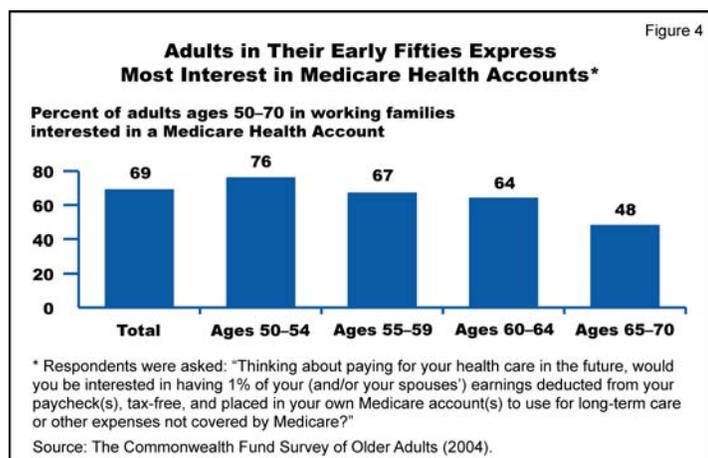




were interested in the accounts compared with a little less than half (48%) of working adults 65 and older (Figure 4).

The new Medicare Health Accounts would be distinct both from the Administration's proposed private investment accounts for Social Security and the new health savings accounts (HSAs) now available to adults of all ages with high-deductible health plans. In contrast to the Administration's proposed investment accounts, Medicare Health Accounts would allow people to save new dollars in addition to receiving the traditional Medicare benefit, rather than substituting private investment or savings for an existing guaranteed benefit. In a similar fashion, Medicare Health Accounts differ from HSAs, which give people the option of enrolling in a high-deductible health plan (\$1,000 minimum for individuals and \$2,000 for families) along with the use of a tax-free savings account to pay for the uncovered services.⁶ Medicare Health Accounts would represent a net increase in retirement savings and would not require individuals to pay more out of pocket for current health expenses.

Making participation in Medicare Health Accounts automatic with the ability to opt out may be a key to their success. Research has shown that participation in 401(k) plans would soar if employees were automatically enrolled in the



plans and given the ability to opt out.⁷ The 2005 EBRI Retirement Confidence Survey found that two-thirds of employees who were not enrolled in their company's 401(k) plan said they would stay in the plan if they were automatically enrolled.⁸ The broad-based support for Medicare Health Accounts found in the Commonwealth Fund survey is further evidence of a strong desire among older adults to increase their retirement savings. Making it easier for them to get started may be the first step.

Notes

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About the Survey

The Commonwealth Fund Survey of Older Adults, conducted by International Communications Research from September 14 through November 21, 2004, was conducted among a random, nationally representative sample of 2,007 adults ages 50 to 70 living in the continental United States. The study included 1,591 adults ages 50 to 64 and 416 adults ages 65 to 70. Statistical results are weighted to the U.S. adult population by age, sex, race/ethnicity, education, and geographic region using the 2004 March Supplement of the Current Population Survey. The resulting weighted sample is representative of the approximately 59 million adults ages 50 to 70, including 48 million adults ages 50 to 64 and 11 million adults ages 65 to 70.

The survey has an overall margin of sampling error of +/- 2.29 percentage points at the 95 percent confidence level. For the sample of adults ages 50 to 64 and those ages 65 to 70, the margins of error are +/- 2.58 and +/- 4.98 percentage points, respectively. The 71.6 percent survey response rate was calculated consistent with standards of the American Association for Public Opinion Research.