

# CRS Report for Congress

## Spending by Consumers on Health Care and Health Insurance: A Data Brief

December 21, 2007

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Prepared for Members and  
Committees of Congress

# Spending by Consumers on Health Care and Health Insurance: A Data Brief

## Summary

Over the 20-year period from 1986 to 2005, health care accounted for 5.4% of consumer spending, on average. According to data from the Consumer Expenditure Survey (CES), health care accounted for 5.7% of consumer spending in 2005, slightly higher than the 20-year average but lower than the 2004 share of 5.9%.

In the CES, consumer spending for health care includes spending for health insurance and spending for other health care (medical services, medical supplies, and drugs). In 2005, health insurance accounted for 2.9% of consumer spending. Other health care accounted for 2.8% of spending.

Consumers spent less on health care than on housing or transportation or food, both in 2005 and in every year since 1986. In 2005, housing accounted for 32.7% of consumer spending; transportation, 18.0%; and food, 12.0%. Average spending in these categories exceeded spending on health care in part because some consumers spend little or nothing on health care and health insurance. Those who spend relatively little on health may do so because they are healthy, because they have generous employer-sponsored or government health benefits, or because they are uninsured and lack access to care.

Health care accounts for a higher share of spending, on average, for lower-income people. In 2005, health care accounted for 7.6% of spending by consumers in the lowest income quintile, compared with 4.4% of spending by those in the highest income quintile. Housing and food also account for a higher share of spending for lower-income people. In 2005, housing accounted for 39.4% of spending by those in the lowest income quintile, compared with 31.0% for those in the highest quintile. The spending shares for food were 15.9% and 11.1% for the lowest and highest income quintiles, respectively.

As people age, they spend more on health care. In 2005, health care accounted for 2.5% of spending by consumers younger than 25, compared with 15.6% of spending by those 75 or older. Health care is different from other spending categories in its consistent pattern of increasing spending with increasing age. It accounted for 3.4% of consumer spending for those in the 25-to-34 age group, 4.1% of spending for those 35 to 44, 4.8% of spending for those 45 to 54, 6.9% of spending for those 55 to 64, and 10.8% of spending for those 65 to 74. Within the health care category, as people age, they spend more, on average, on both health insurance and other health care.

The data in this report reflect direct spending by consumers on health care. They do not include spending by employers for employee health benefits, even though consumers may pay indirectly for such benefits through lower wages. Similarly, the data presented here do not include government spending for health care programs, even though consumers help pay for government benefits through income and employment taxes. This report will be updated.

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# Spending by Consumers on Health Care and Health Insurance: A Data Brief

Americans report being worried about health care costs. Based on a survey in June 2007, 75% described themselves as very or somewhat worried about having to pay more for their health care or health insurance, and 63% said they were worried about being able to afford needed health care services. The level of worry about health care costs mirrored concern about rising prices generally, and it surpassed concern about the cost of housing (44% reported worry about being able to pay their rent or mortgage). Only 11% of respondents reported that they were not at all worried about the cost of health insurance or care, compared with 34% who were not worried about paying for housing.<sup>1</sup>

How much do Americans spend on health care? As shown below, consumers spend less on health care, on average, than they do on housing, transportation, or food. Lower spending is partly a function of averages — some consumers may pay many thousands of dollars for health care and health insurance, while others pay little or nothing at all — and partly because employers and government spend a lot on health care on behalf of consumers.<sup>2</sup>

Health care accounts for a greater share of spending for low-income and older consumers, on average, but spending also varies within income and age groups. For some consumers, health care and health insurance may be unaffordable. For others, worry about health care may reflect concern about two things: rising costs generally, and the risk of personally facing very high costs.

## About the Data

Information in this report is based on data from the Consumer Expenditure Survey (CES). This Department of Labor survey consists of two components — a quarterly interview survey and a weekly diary survey — that together provide information on the spending habits, income, and other characteristics of American consumers.<sup>3</sup>

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<sup>1</sup> The Henry J. Kaiser Family Foundation, “Health Security Watch,” *Kaiser Health Poll Report*, June 2007, at [<http://www.kff.org/currentedition/security/index.cfm>].

<sup>2</sup> For more information on employer spending, see CRS Report RS22735, *Spending by Employers on Health Insurance: A Data Brief*, by Jennifer Jenson.

<sup>3</sup> Descriptive information on the Consumer Expenditure Survey is from Bureau of Labor Statistics (BLS) report 998, *Consumer Expenditures in 2005*, February 2007, at (continued...)

- The *quarterly interview survey* collects information on spending that respondents can reasonably recall for a period of three months or longer, including relatively large expenses and regular purchases. Property and automobile purchases are examples of relatively large expenses; rent and utility payments are examples of regular purchases.
- The *diary survey* collects information on frequently purchased items that respondents may not recall over time; food and housekeeping supplies are examples. For this component, respondents keep a diary of expenses for two consecutive one-week periods.

The survey is designed to provide representative information for the U.S. population. Data are collected and reported for *consumer units*,<sup>4</sup> which may consist of (1) members of a household, (2) a financially independent single person (living alone or with others), or (3) two or more people who live together and share responsibility for at least two out of three major types of expenses, including food, housing, and other expenses. In this report, spending shares and amounts are for consumer units, unless otherwise indicated.

Like any survey, the Consumer Expenditure Survey has strengths and weaknesses. An important strength is its use of personal interviews and written diaries to collect extensive information on consumer spending. Potential weaknesses include sampling bias (does the sample provide representative information for the U.S. population and population subgroups?), response bias (do respondents report spending accurately?), and classification bias (are data properly classified in spending categories and subcategories?).

For this report, data from various consumer spending categories and subcategories were combined in the broad categories described in the **Appendix**. In the CES, the health care category includes four subcategories: health insurance, medical services, medical supplies, and drugs. In this report, data are presented for the inclusive *health care* category and for two subcategories: *health insurance* and *other health care*. Other health care includes spending for medical services, medical supplies, and drugs.

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<sup>3</sup> (...continued)  
[<http://www.bls.gov/cex/csxann05.pdf>].

<sup>4</sup> In this report, the term “consumers” is usually shorthand for “consumer units.”

## Consumer Spending on Health Care and Other Goods and Services

In 2005, consumers spent \$2,664 on health care on average, compared with \$15,167 on housing, \$8,344 on transportation, and \$5,931 on food.<sup>5</sup> Health care accounted for 5.7% of consumer spending, down slightly from 5.9% in 2004.

Health care usually has accounted for between 5% and 6% of consumer spending (see **Table 1** and **Figure 1**). Between 1986 and 2005, the average share of spending was 5.4%; the high was 5.9% (in 2003 and 2004), and the low was 4.6% (in 1987). Relative spending for housing, transportation, and food also has been fairly consistent. Over the 1986-2005 period, housing accounted for 31.9% of consumer spending, on average. The 20-year average shares for transportation and food were 18.7% and 14.0%, respectively.

**Table 1. Consumer Spending on Health Care, Health Insurance, and Other Goods and Services, 2001-2005**

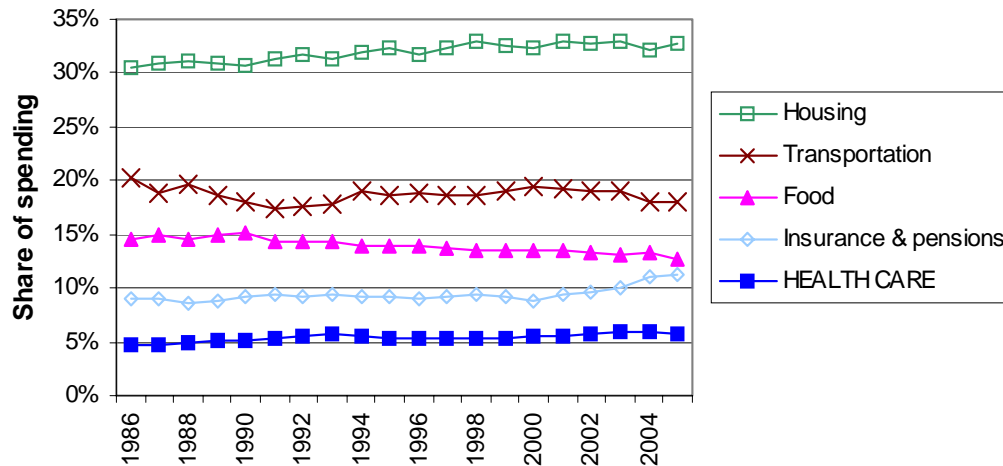
	2001	2002	2003	2004	2005
Average annual spending by consumers on all goods and services	\$39,518	\$40,677	\$40,817	\$43,395	\$46,409
<b>Share of average annual spending</b>					
<b>Health care</b>	5.5%	5.8%	5.9%	5.9%	5.7%
Health insurance	2.7%	2.9%	3.1%	3.1%	2.9%
Other health care	2.8%	2.9%	2.9%	2.9%	2.8%
<b>Other goods and services</b>					
Housing	32.9%	32.7%	32.9%	32.1%	32.7%
Transportation	19.3%	19.1%	19.1%	18.0%	18.0%
Food	13.5%	13.2%	13.1%	13.3%	12.8%
Personal insurance and pensions	9.5%	9.6%	9.9%	11.1%	11.2%
Entertainment	4.9%	5.1%	5.0%	5.1%	5.1%
Apparel and services	4.4%	4.3%	4.0%	4.2%	4.1%
Alcohol and tobacco products	1.7%	1.7%	1.7%	1.7%	1.6%
All other	8.3%	8.6%	8.4%	8.6%	8.8%

**Source:** CRS analysis based on data from the U.S. Bureau of Labor Statistics, "Average annual expenditures and characteristics of all consumer units, Consumer Expenditure Survey, 2000-2005," at [<http://www.bls.gov/cex/home.htm>].

**Notes:** Health care components may not sum to totals because of rounding. See the **Appendix** for more information on spending categories. Spending amounts and shares are for "consumer units." In 2005, the average number of persons in a consumer unit was 2.5.

<sup>5</sup> U.S. Department of Labor, Bureau of Labor Statistics (BLS), *Consumer Expenditures in 2005*, BLS report 998, February 2007, p. 3, at [<http://www.bls.gov/cex/csxann05.pdf>].

**Figure 1. Consumer Spending on Health Care and Selected Goods and Services, 1986-2005**



**Source:** CRS analysis based on data from the U.S. Bureau of Labor Statistics, Consumer Expenditure Surveys, 1986-2005.

**Note:** Categories not shown (entertainment, apparel and services, alcohol and tobacco products, and all other goods and services) accounted for 20.6% of consumer spending, on average, over the 1986-2005 period.

## But I Thought People Spent a Lot More on Health Care

If health care is a basic need, like housing or food, why is average spending for health care less than spending for other necessities? One reason is that data on average spending include information for a variety of people. Some people spend thousands of dollars on health care each year, while others spend little or nothing. Another reason is that employers and government spend a lot on health care on behalf of consumers.

Data on average spending mask differences between people with varied health care needs and preferences. One person may be healthy and use care rarely, while another has multiple chronic conditions that require costly, ongoing treatment. Even people with similar health status may have different preferences for health care. One person may seek treatment for every minor ailment, while another avoids using services except in extreme circumstances. Access to care also may differ because of individual characteristics, such as income, or community characteristics, such as the supply of health care providers.

Health care accounts for a relatively small share of consumer spending in part because many people get health benefits from their employer, the government, or both. In 2006, 59.7% of the population had employer-sponsored insurance and 27.0% received government health benefits under Medicare, Medicaid, and military health programs.<sup>6</sup> Although not all employers provide work-based coverage, those

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<sup>6</sup> In addition to employer-sponsored insurance and government health benefits, 9.1% of the (continued...)

that do pay most of the premium. In 2007, employers paid 84.5% of the cost for single coverage and 72.9% for family coverage.<sup>7</sup> Public spending on health is also substantial: in 2007, it is expected to total more than \$1 trillion, including federal, state, and local payments for Medicare, Medicaid, and other programs.<sup>8</sup>

## Consumer Spending, by Income

Health care accounted for 5.7% of consumer spending in 2005, but the average share of spending was higher for people with lower income. As shown in **Table 2**, for people in the lowest income quintile, health care accounted for 7.6% of spending in 2005. For those in the second-lowest quintile, the share was 8.1%. The pattern was similar for spending on health insurance. The average share of spending by all consumers for insurance was 2.9%, compared with 4.1% for people in the bottom two income quintiles. The 4.1% share for those in the two lowest quintiles was almost double the share of spending for insurance by those in the highest income group (2.1%).

Although the share of spending on health care is generally higher for lower-income people, it is not highest for those in the lowest-income quintile. Instead, it is highest for those in the second-lowest quintile. This result can be explained in part by Medicaid coverage and other public benefits for people with very low income. As in **Table 1**, the shares of spending in **Table 2** are averages. Within income groups, health care and health insurance may account for a lower or higher share of spending for individuals and their families.

Higher-income consumers spend more money on health care than lower-income consumers, even though health care accounts for a smaller share of their spending. In 2005, consumers in the highest income quintile spent \$3,962 on health care, 2.7 times as much as consumers in the lowest quintile, who spent \$1,448 (see **Table 2**). Because the average number of people per consumer unit is higher for consumers with higher income, the 2.7 ratio overstates the real difference in spending. Adjusting for the number of people per consumer unit, in 2005, consumers in the highest income quintile spent \$1,238 per person on health care, 1.5 times as much as consumers in the lowest quintile, who spent \$852. Spending amounts were similar in the middle income quintiles.

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<sup>6</sup> (...continued)

population purchased private health insurance directly and 15.8% of the population was uninsured. U.S. Census Bureau, *Income Poverty, and Health Insurance Coverage in the United States: 2006*, Current Population Report no. P60-233, August 2007, p. 58, at [<http://www.census.gov/hhes/www/hlthins/cps.html>]. Types of insurance are not mutually exclusive; for example, a Medicare beneficiary also may have employer-sponsored Medigap coverage.

<sup>7</sup> Kaiser Family Foundation and Health Research and Educational Trust, *Employer Health Benefits 2007 Annual Survey*, p. 70, at [<http://www.kff.org/insurance/index.cfm>].

<sup>8</sup> John Poisal et al, "Health Spending Projections Through 2016: Modest Changes Obscure Part D's Impact," *Health Affairs-Web Exclusive*, February, 21, 2007, p. w248.



Looking at subcategories of health care spending, higher-income consumers spent more than lower-income consumers on both health insurance and other health care (medical services, medical supplies, and drugs). In 2005, consumers in the highest income quintile spent \$601 per person on health insurance, 1.3 times as much as those in the lowest quintile, who spent \$459. The ratio was 1.6 for spending in the other health care subcategory, with consumers in the highest income quintile spending \$637, compared with \$393 for those in the lowest quintile. Differences in average spending per person are difficult to interpret without additional information on consumers' access to employer-sponsored insurance, government benefits, and medical products and services.

**Table 2. Consumer Spending on Health Care and Health Insurance, by Income Quintile, 2005**

	Income Quintile					
	Lowest 20%	Second 20%	Third 20%	Fourth 20%	Highest 20%	All Consumers
<b>Average annual spending on all goods and services, including health care</b>						
	\$19,120	\$28,921	\$39,098	\$54,354	\$90,469	\$46,409
<b>Average share of spending on health care</b>						
Health care	7.6%	8.1%	6.6%	5.5%	4.4%	5.7%
Health insurance	4.1%	4.1%	3.5%	2.9%	2.1%	2.9%
Other health care	3.5%	3.9%	3.1%	2.7%	2.3%	2.8%
<b>Average annual spending on health care</b>						
Health care	\$1,448	\$2,329	\$2,567	\$3,012	\$3,962	\$2,664
Health insurance	\$780	\$1,198	\$1,349	\$1,552	\$1,924	\$1,361
Other health care	\$668	\$1,131	\$1,218	\$1,460	\$2,038	\$1,303
<b>Average annual spending on health care, per person</b>						
Health care	\$852	\$1,059	\$1,027	\$1,039	\$1,238	\$1,066
Health insurance	\$459	\$545	\$540	\$535	\$601	\$544
Other health care	\$393	\$514	\$487	\$503	\$637	\$521
<b>Average number of persons in consumer unit</b>						
	1.7	2.2	2.5	2.9	3.2	2.5

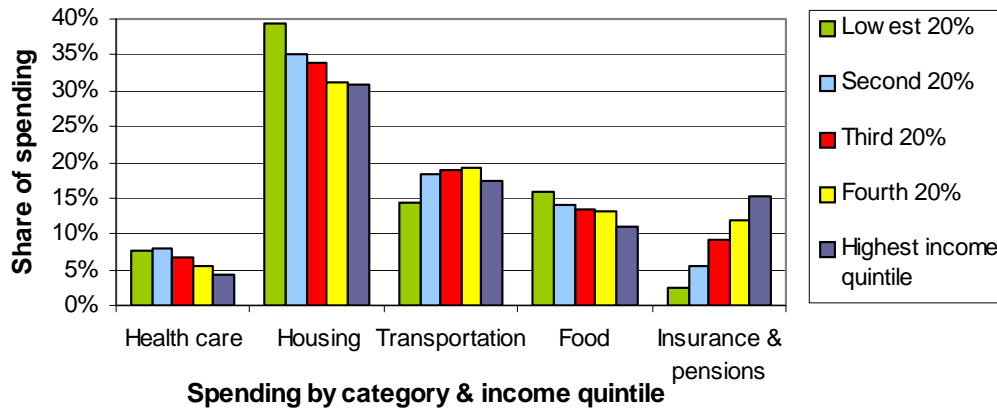
**Source:** CRS analysis based on data from the U.S. Bureau of Labor Statistics, "Table 1. Quintiles of income before taxes: Average annual expenditures and characteristics, Consumer Expenditure Survey, 2005," at [<http://www.bls.gov/cex/home.htm>].

**Notes:** Components may not sum to totals because of rounding. See the **Appendix** for more information on spending categories. Unless otherwise indicated, spending amounts and shares are for "consumer units."

**Figure 2** shows similarities and differences in the composition of average spending by income. For all income groups, consumers spent less on health care in 2005 than on housing, transportation, or food. Three spending categories — health care, housing, and food — are similar in that spending on these items accounts for

a smaller share of spending in higher income groups. In contrast, spending on personal insurance and pensions accounts for a larger share of spending in higher income groups.

**Figure 2. Consumer Spending on Health Care and Other Goods and Services, by Income Quintile, 2005**



Source: CRS analysis based on data from the 2005 Consumer Expenditure Survey (See **Table 2**).

## Consumer Spending, by Age

Spending on health care increases with age. As shown in **Table 3**, in 2005, health care accounted for 15.6% of spending for people aged 75 years and older, on average, compared with 2.5% of spending for those under age 25.<sup>9</sup> Part of the difference can be explained by changes in health status and the increase in chronic illness that comes with advancing age,<sup>10</sup> and part is a function of higher spending on health insurance by older people. In 2005, health insurance accounted for 8.4% of consumer spending in the 75-and-older age group, compared with 1.4% of spending in the under-25 population. Although the 65-and-older population has near-universal coverage under Medicare, this group nonetheless spends more on health insurance than younger people. Spending on Medicare supplemental (Medigap) coverage is itself a major expense for many seniors, and because such coverage eliminates most or all Medicare cost sharing, it also encourages policyholders to use more health care.

<sup>9</sup> For more information on spending by older Americans, see CRS Report RL34185, *Consumer Spending by Older Americans, 1985-2005*, by Patrick Purcell.

<sup>10</sup> Although health care spending increases with age, aging is not the most important factor in the growth of national health spending over time. More important is the rising cost of health care for all age groups. For more information, see CRS Report RS22619, *Health Care Spending and the Aging of the Population*, by Jennifer Jenson.

**Table 3. Consumer Spending on Health Care and Health Insurance, by Age of Reference Person, 2005**

	Age Group						
	Under 25	25-34 Years	35-44 Years	45-54 Years	55-64 Years	65-74 Years	75 Years and Older
<b>Average annual spending on all goods and services, including health care</b>							
	\$27,776	\$45,068	\$55,190	\$55,854	\$49,592	\$38,573	\$27,018
<b>Average share of spending on health care</b>							
Health care	2.5%	3.4%	4.1%	4.8%	6.9%	10.8%	15.6%
Health insurance	1.4%	1.8%	2.1%	2.3%	3.2%	6.1%	8.4%
Other health care	1.2%	1.6%	2.0%	2.5%	3.7%	4.7%	7.2%
<b>Average annual spending on health care</b>							
Health care	\$704	\$1,522	\$2,272	\$2,672	\$3,410	\$4,176	\$4,210
Health insurance	\$377	\$822	\$1,160	\$1,283	\$1,585	\$2,352	\$2,260
Other health care	\$327	\$700	\$1,112	\$1,389	\$1,825	\$1,824	\$1,950
<b>Average annual spending on health care, per person</b>							
Health care	\$335	\$544	\$710	\$990	\$1,624	\$2,198	\$2,807
Health insurance	\$180	\$294	\$363	\$475	\$755	\$1,238	\$1,507
Other health care	\$156	\$250	\$348	\$514	\$869	\$960	\$1,300
<b>Average number of persons in consumer unit</b>							
	2.1	2.8	3.2	2.7	2.1	1.9	1.5

**Source:** CRS analysis based on data from the U.S. Bureau of Labor Statistics, “Table 3. Age of reference person: Average annual expenditures and characteristics, Consumer Expenditure Survey, 2005,” at [<http://www.bls.gov/ces/home.htm>].

**Notes:** The “reference person” is the first person named by the respondent when asked to “start with the name of the person or one of the persons who owns or rents the home.” Components may not sum to totals because of rounding. See the **Appendix** for more information on spending categories. Unless otherwise indicated, spending amounts and shares are for “consumer units.” In 2005, the average number of persons in a consumer unit was 2.5.

Looking at spending amounts instead of shares does not change the central finding that health care spending increases with age. In 2005, consumer units with a reference person in the 75-and-older age group spent an average of \$4,210 on health care, six times as much as the \$704 in spending by those with a reference person in the under-25 age group. Adjusting for the number of people per consumer unit reveals an even larger age effect. In 2005, health care spending averaged \$2,807 per person for consumers in the 75-and-older age group, compared with \$335 for those under 25, amounts that differ by a factor of 8.4.

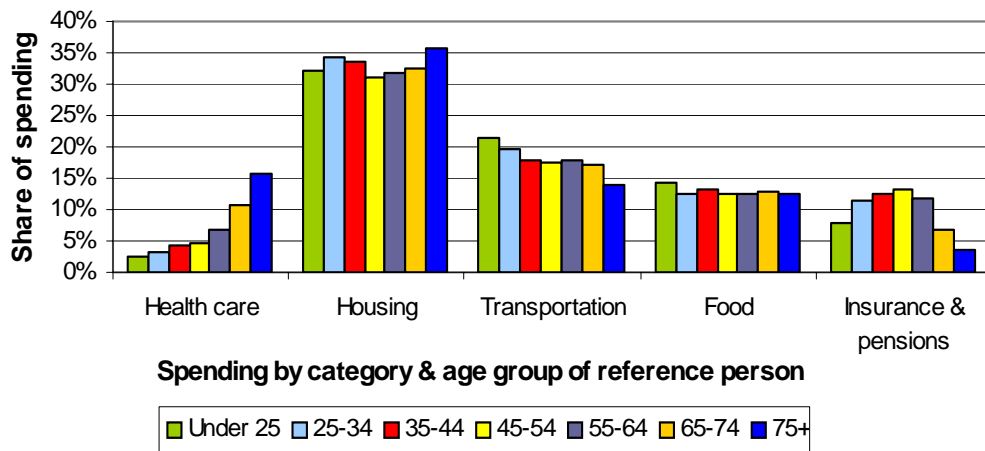
The pattern is the same for subcategories of health spending: average spending for both health insurance and other healthcare increases with age. Data for spending by consumer units and data adjusted for the number of people per consumer unit both show ever-increasing spending with age, with two exceptions.

First, looking at 2005 data, average spending for health insurance was \$2,352 for consumer units with a reference person in the 65-74 age group, compared with a slightly lower \$2,260 for those with a reference person who was 75 or older. However, after adjusting for the number of people per consumer unit, average spending on health insurance increases with every successive age group, from \$180 per person in the under-25 age group to \$1,238 per person in the 65-74 age group and \$1,507 per person for those aged 75 and older.

Second, when looking at data for consumer units, it appears that spending on medical services, medical supplies, and drugs (items in the “other health care” subcategory) was the same in 2005 for consumers in the 55-64 (pre-Medicare) and 65-74 (Medicare-eligible) age groups. Before adjusting for the number of people per consumer unit, spending on items in the other health care subcategory was \$1,825 and \$1,824 for the two age groups. After adjusting for the number of people, consumer spending on other health care was \$869 per person in the pre-Medicare group and almost \$100 more (\$964 per person) in the Medicare-eligible group — an interesting difference given the latter group’s eligibility for Medicare benefits.

Differences by age in spending for health care and other goods and services are not themselves surprising, as consumer needs and preferences vary with age. As shown in **Figure 3**, spending on health care is unique in that it accounts for a larger share of spending for each successive age group. On average, older consumers devote a larger share of spending to health care than do middle-age consumers, who in turn spend more than younger consumers. The pattern is different for other spending categories.

**Figure 3. Consumer Spending on Health Care and Other Goods and Services, by Age of Reference Person, 2005**



Source: CRS analysis based on data from the 2005 Consumer Expenditure Survey (See **Table 3**).

## Interpreting Data on Consumer Spending

Consumers spend less on health care, on average, than on housing, transportation, or food. They also spend less on health insurance than on entertainment or apparel and services (see **Table 1**). Does relatively lower spending imply that consumers value health care less than housing, or health insurance less than entertainment? It's not clear from the data presented here.

The Consumer Expenditure Survey provides information on what people spend their money on, but it does not explain why people make the spending choices they do. The data also do not tell the whole story about the cost of health care for consumers.

Like spending for other goods and services, spending for health care and health insurance reflects consumer preferences and decisions, but it also reflects a variety of factors that may be partly or fully beyond a consumer's control, including whether a person is healthy or sick, and whether he or she has access to employment-based or government health benefits. Low spending for health care could be desirable if it reflects a consumers' good health, or undesirable if it reflects a lack of access to care. High spending also may be desirable or undesirable, depending on whether the spending reflects an affordable choice or an unaffordable burden.

Spending on health insurance may be particularly difficult to interpret. Low spending could indicate a consumer's inability to afford coverage, or access to generous employment-based or public benefits. In addition, direct spending on health insurance does not capture the total cost of coverage for consumers. Because employers provide health benefits for nearly 60% of the population, and government provides benefits for 27% of the population, consumers also pay for health coverage indirectly through foregone wages and taxes.

## Appendix. Items Included in Spending Categories in This Report

Spending Category	Includes These Consumer Expenditure Survey Categories and Subcategories
Health care	Health insurance Medical services Medical supplies Drugs
Housing	Shelter Utilities, fuels, and public services Household operations Housekeeping supplies Household furnishings and equipment
Transportation	Vehicle purchases Gasoline and motor oil Other vehicle expenses Public transportation
Food	Food at home Food away from home
Personal insurance and pensions	Life and other personal insurance Pensions and Social Security
Entertainment	Fees and admissions Audio and visual equipment and services Pets, toys, hobbies, and playground equipment Other entertainment supplies, equipment, and services
Apparel and services	Apparel for men and boys, women and girls, and children under two Footwear Other apparel products and services
Alcohol and tobacco products	Alcoholic beverages Tobacco products and smoking supplies
All other	Personal care products and services Reading Education Miscellaneous Cash contributions

**Source:** Consumer Expenditure Survey categories and subcategories are detailed in various reports from the U.S. Bureau of Labor Statistics. See, for example, "Consumer Expenditures in 2005," BLS Report 998, February 2007, at [<http://www.bls.gov/cex/csxann05.pdf>]