

## Distribution of Health Care Expenses, 1996

### Estimates for the U.S. Civilian Noninstitutionalized Population

#### Introduction

The Medical Expenditure Panel Survey (MEPS) is the Nation's primary source of detailed, nationally representative data on medical care spending and sources of payment for the U.S. civilian noninstitutionalized (community) population. MEPS provides researchers and policymakers with data on how much is paid for various types of health care services and who pays for them. This *Highlights* describes total spending for medical expenses in 1996, overall and by type of service. Data are also presented on the proportion of expenses paid by different sources, including out-of-pocket, Medicare, Medicaid, and private insurance. Detailed information of this sort has not been available since data from the 1987 National Medical Expenditure Survey (NMES) were released in the early 1990s.

#### Definitions

*Expenses* in MEPS are defined as the sum of direct payments for care provided during the year, including out-of-pocket payments and payments by private insurance, Medicare, Medicaid, and other sources. MEPS and the Health Care Financing Administration's National Health Accounts (NHA) have substantial differences in methodologies and objectives. In particular, the NHA are based on a composite of data from multiple sources at the aggregate national level and are used primarily to track aggregate medical expenditures in the U.S. economy. In contrast, MEPS collects survey data on individuals that can be used to estimate direct payments made for medical care and services purchased by the civilian noninstitutionalized

#### Briefly Stated

- In 1996, about \$554 billion in payments were made for health care services and supplies used by the U.S. community population.
- Hospital inpatient stays made up the largest share of national health expenses (38 percent), followed by ambulatory services from both physician and nonphysician providers (33 percent).
- Private insurance paid for the largest portion of national medical expenses.
- Medicare and out-of-pocket spending each accounted for about 1 of every 5 dollars spent on health care.

population. Data from the survey are widely used for behavioral and socioeconomic analyses of the relationship between individual characteristics and health care spending.

National health care expenditure estimates from MEPS are lower than those estimated by the NHA for several reasons. First, the NHA are more expansive in the scope of included expenditures, including, for example, expenditures for over-the-counter drugs, nursing home care, program administration, Government public health activities, and construction, as well as some hospital and physician revenues not associated with patient care. Second, the NHA include health care expenditures for individuals who are not members of the civilian noninstitutionalized population, such as individuals in the military and those residing in nursing homes, assisted living facilities, and prisons. Researchers at the Agency for Healthcare Research and Quality (AHRQ) and the Health Care Financing Administration estimate that adjustments for differences in the scope of included expenditures and population reduce the NHA's national estimate to \$606 billion (versus the corresponding MEPS national estimate of \$554 billion). For the most part, the remaining difference is likely to reflect some combination of (a) irreconcilable definition and measurement differences between NHA and MEPS and (b) statistical uncertainty associated with sampling error (in both MEPS and the NHA).

Expenses are grouped into six broad *types of service*: hospital inpatient, ambulatory, prescribed medicines, dental, home health, and other medical. Ambulatory services include office-based care as well as visits to hospital outpatient departments and emergency rooms. The "other medical" category includes glasses, ambulance services, orthopedic items, hearing devices, prostheses, bathroom aids, medical equipment, disposable supplies, and other miscellaneous items or services.

Expenses are also grouped into five broad *sources of payment*: private health insurance, Medicare, Medicaid, out-of-pocket, and other. "Other" includes payments from the Department of Veterans Affairs; Worker's Compensation; nonhealth insurance sources (such as automobile, homeowner's, and liability insurance); miscellaneous Federal, State, and local programs; and unknown sources.

## Type of Service

In 1996, approximately \$554 billion in payments were made for health care services and supplies used by

the U.S. community population. Inpatient hospital care, the largest component, accounted for nearly 4 of every 10 dollars spent, followed by ambulatory services, which accounted for about 1 in 3 dollars spent (Figure 1). Prescribed medicines accounted for 13 percent of the total.

## Source of Payment

As shown in Figure 2, private health insurance paid for about 45 percent of all health care expenses. Medicare and out-of-pocket spending each accounted for about 2 of every 10 dollars spent (21 and 18 percent, respectively). In combination, these three sources comprised more than 8 of every 10 dollars spent on health care during the year. Medicaid (the primary public health insurance program for the poor and disabled) accounted for the next largest share of the total (9 percent).

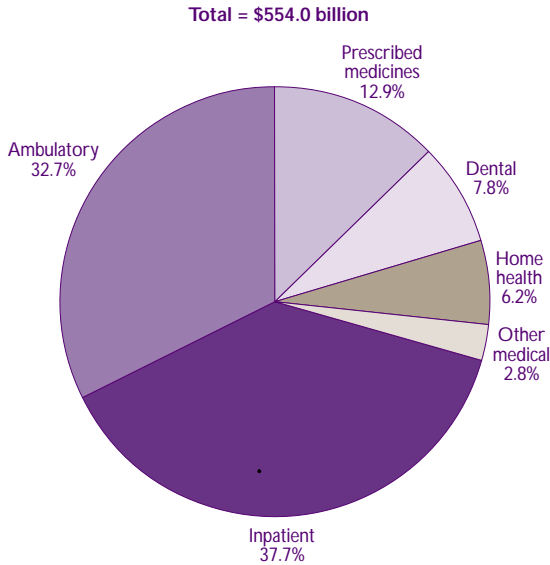
## Out-of-Pocket-Spending

Out-of-pocket medical spending varied dramatically by type of service (Figure 3). Overall, 18 percent of the dollars spent for medical care in 1996 were paid for out of pocket. However, the proportion of expenses paid out of pocket was much larger for other medical expenses (mostly equipment and supplies), 54 percent; dental care, 52 percent; and prescribed medicines, 45 percent. In contrast, the out-of-pocket portion was lower than the overall average for home health services (12 percent) and inpatient hospital care (2 percent).

## About MEPS

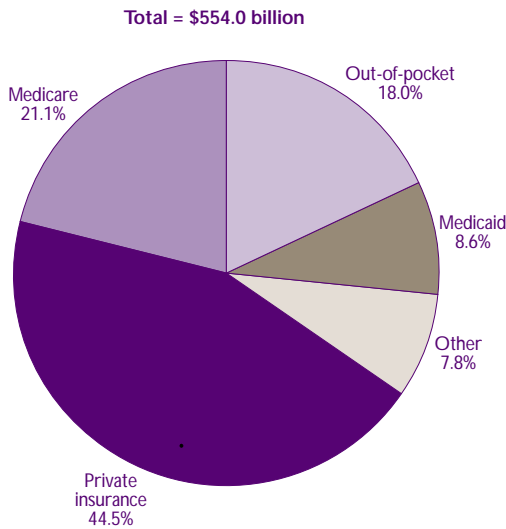
MEPS collects nationally representative data on health care use, expenses, sources of payment, and insurance coverage for the U.S. civilian noninstitutionalized population. It is co-sponsored by AHRQ and the National Center for Health Statistics (NCHS). This *Highlights* summarizes data concerning health care expenses in the United States during 1996, as derived from the MEPS Household Component, Rounds 1-3. For more information about MEPS, see the sources listed on the back page.

**Figure 1. Percent distribution of health expenses, by type of service: 1996**



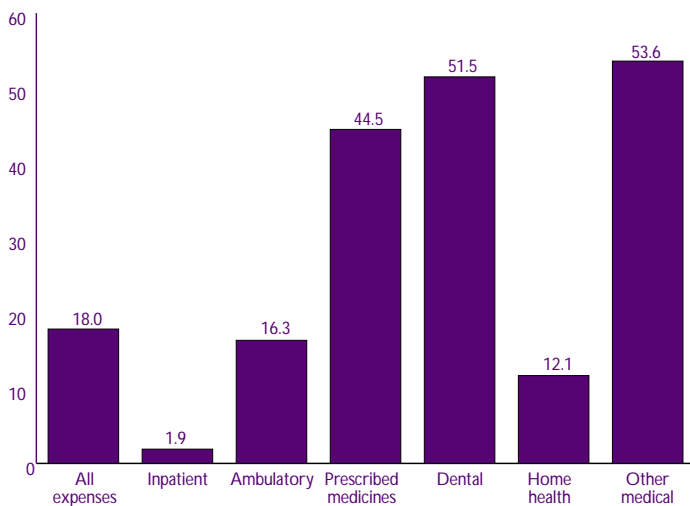
◀ The largest share of national health care expenses was for inpatient hospital care, followed by ambulatory services.

**Figure 2. Percent distribution of health expenses, by source of payment: 1996**



◀ Private health insurance was by far the largest payer of medical care expenses. Medicare and out-of-pocket spending were the next largest.

**Figure 3. Percent of health expenses paid out of pocket, by type of service: 1996**



◀ "Other medical" (mostly supplies and equipment), dental care, and prescribed medicines were the service categories that had the highest proportion of expenses paid out of pocket.

**DATA SOURCE:**  
1996 Medical Expenditure Panel Survey Household Component.

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For more information about MEPS, call the MEPS information coordinator at AHRQ (301-594-1406) or visit the MEPS Web site at:

**<http://www.meps.ahrq.gov/>**

For a detailed description of the MEPS survey design, sample design, and methods used to minimize sources of nonsampling error, see the following publications:

Cohen J. Design and methods of the Medical Expenditure Panel Survey Household Component. Rockville (MD): Agency for Health Care Policy and Research; 1997. MEPS Methodology Report No. 1. AHCPR Pub. No. 97-0026.

Cohen S. Sample design of the 1996 Medical Expenditure Panel Survey Household Component. Rockville (MD): Agency for Health Care Policy and Research; 1997. MEPS Methodology Report No. 2. AHCPR Pub. No. 97-0027.

Machlin S, Taylor A. Design, methods, and field results of the 1996 Medical Expenditure Panel Survey Medical Provider Component. Rockville (MD): Agency for Healthcare Research and Quality; 2000. MEPS Methodology Report No. 9. AHRQ Pub. No. 00-0028.

The estimates in this *Highlights* are based on the MEPS Expenditure File (HC-011), which is available on the MEPS Web site. More detailed information on national medical expenses will be published in:

Cohen JW, Machlin SR, Zuvekas SH, et al. Health care expenses in the United States, 1996. MEPS Research Findings. Forthcoming.

MEPS publications are available from the AHRQ Clearinghouse (800-358-9295) and on the MEPS Web site.



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<http://www.ahrq.gov/>