



Last Year Of Life Expenditures

The total health expenditures of Medicare beneficiaries tend to increase dramatically in their last year of life. While there are substantial increases in payments by all sources, Medicare spending increases at the greatest rate. This change in the distribution of payment sources is driven mainly by a tendency to more intensive use of hospital inpatient services in the last three months of a beneficiary's life.

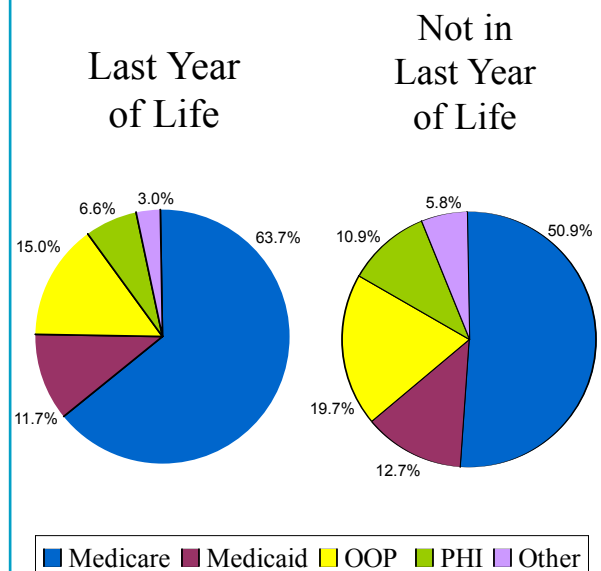
It is well-documented that Medicare expenditures are significantly higher for beneficiaries in their last year of life. In a recent Health Affairs' article the authors found that "about one-quarter of Medicare outlays are for the last year of life, unchanged from twenty years ago"¹. Much less is known about Medicare beneficiaries' total personal health expenditures (PHE) at end of life, including non-Medicare payment sources such as Medicaid, private health insurance (PHI), and out-of-pocket spending (OOP).

Spending on behalf of beneficiaries in their last year of life is almost five times as much as for those who are not in their last year of life. Of all sources Medicare spending shows the greatest differential. Medicare expenditures for those in the last year of life are almost six times that of spending for other beneficiaries. This compares to end-of-life Medicaid expenditures that are four times as great; OOP expenditures that are three and one half times as large; and, PHI spending that is three times as high. As a result, Medicare provides sixty-four percent of total health expenditures for beneficiaries in their last year of life, compared with fifty-one percent for surviving beneficiaries. By contrast, the OOP share of total spending for beneficiaries in their last year is fifteen percent of total spending, compared with twenty percent for other beneficiaries.

Average Annual Health Expenditures by Source of Payment, 1992-1999

	Last Year of Life	Not in Last Year of Life
Total	\$35,516	\$7,661
Medicare	\$22,588	\$3,901
Medicaid	\$4,167	\$974
OOP	\$5,345	\$1,507
PHI	\$2,341	\$835
Other	\$1,075	\$443

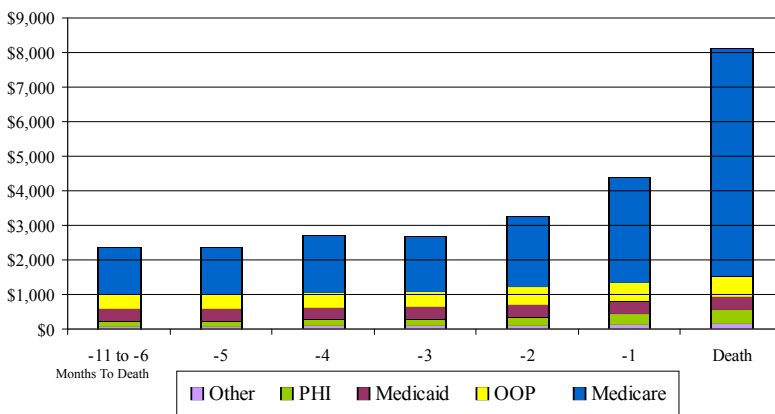
Source of Payment



Medicare expenditures are not distributed evenly across the last 12 months of life. There is a rapid acceleration of Medicare expenditures in the last few months of life. This pattern of acceleration is unique to Medicare among the various payment sources. In the last month of life, Medicare expenditures are twenty times as high as average monthly expenditures for beneficiaries who are not in their last year of life. This contrasts with PHI expenditures that are six times as large and Medicaid and OOP expenditures that are five times as high for beneficiaries in their last month of life.

The dramatic increase in Medicare spending in the last few months of life results from the rapid acceleration of inpatient hospital spending. The shift to inpatient hospital services in the final months of life also helps explain why the Medicare share of PHE rises in the last year of life. Medicare pays roughly 90% of covered Medicare inpatient stays, as opposed to 75% of Part B physician suppliers and 60% of outpatient hospital. Thus, not only is there an increase in the use of Medicare covered services, but the cost sharing associated with Medicare services does not increase as rapidly when the use of inpatient hospital services accelerates.

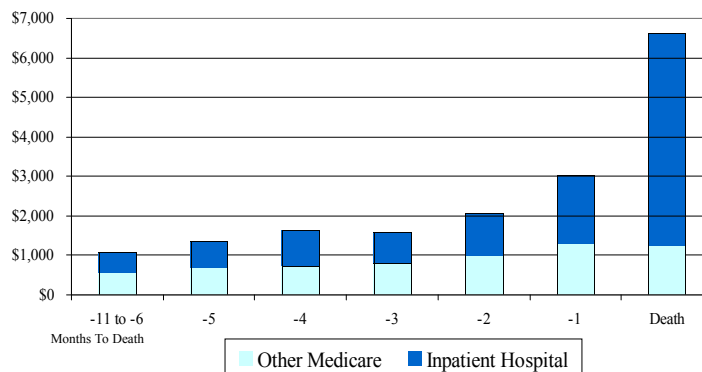
Average PHE in the Last Year of Life by Source of Payment



Average Monthly Health Expenditures by Source of Payment, 1992-1999

	Last Month of Life	Average Month Survivors
Total	\$8,139	\$638
Medicare	\$6,620	\$325
Medicaid	\$368	\$81
OOP	\$588	\$126
PHI	\$394	\$70
Other	\$169	\$39

Monthly Medicare Inpatient Hospital Spending in the Last Year of Life



1 Hogan, C et. al., "Medicare Beneficiaries' Costs Of Care In The Last Year Of Life", Health Affairs, 20;4

For Further Information Contact:
Frank Eppig at
MCBS@CMS.HHS.GOV