

Burden of Health-Care Costs Moves to the Middle Class

Rising out-of-pocket health care costs 'means less money for other things'

Cindy Sikkema, right, and her husband, Joe, prepare their lines for fishing at a reservoir near Boise, Idaho. Higher health-care costs have pushed the couple to find ways to spend less in other areas, and devote more to time fishing and hunting to avoid buying meat at the supermarket. ENLARGE

Cindy Sikkema, right, and her husband, Joe, prepare their lines for fishing at a reservoir near Boise, Idaho. Higher health-care costs have pushed the couple to find ways to spend less in other areas, and devote more to time fishing and hunting to avoid buying meat at the supermarket. PHOTO: KYLE GREEN FOR THE WALL STREET JOURNAL

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Growth in overall health-care spending is slowing, but middle-class families' share of the tab is getting larger, squeezing households already feeling stretched financially.

Overall, health-care spending across the economy reached 18.2% of gross domestic product as of June, up from 13.3% in 2000, according to Altarum Institute, a health research group.

However, the mix of who pays has evolved. The government has taken on a larger share in recent years as more people age into Medicare, and the Affordable Care Act expanded Medicaid and provided subsidies for low-income people buying insurance on state exchanges. Middle-class households are finding more of their health-care costs are coming out of their own pockets.

David Cutler, a Harvard health-care economist, said this may be "a story of three Americas." One group, the rich, can afford health care easily. The poor can access public assistance. But for lower middle- to middle-income Americans, "the income struggles and the health-care struggles together are a really potent issue," he said.

A June Brookings Institution study found middle-income households now devote the largest share of their spending to health care, 8.9%, a rise of more than three percentage points from 1984 to 2014.

By 2014, middle-income households' health-care spending was 25% higher than what they were spending before the recession that began in 2007, even as spending fell for other "basic needs" such as food, housing, clothing and transportation, according to an analysis for The Wall Street Journal by Brookings senior fellow Diane Schanzenbach. These households cut back sharply on more discretionary categories like dining out and clothing.

Workers aren't the only ones feeling the pain of rising health-care costs. Employers still typically pay roughly 80% of individual health-insurance premiums, a share that has held fairly steady in the past five years, thanks in part to changing plan designs that shift more costs to workers, said Beth Umland, director of research on health and benefits at Mercer US Inc.

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For many of the 55% of Americans under 65 covered through an employer, plans are getting stingier.

The Kaiser Family Foundation, a health-care research nonprofit, found deductibles for individual workers have soared in the past five years, rising 67% since 2010 without adjusting for inflation, roughly seven times earnings growth over the same period. A separate Kaiser analysis of tens of millions of insurance claims found patient cost-sharing rose by 77% between 2004 and 2014, driven by a 256% jump in deductible payments.

"The growth in deductibles for workers shows no sign of slowing," said Larry Levitt, senior vice president at the foundation. "What consumers have been paying has been going up much faster than wages. Even people who are insured are having problems paying medical bills."

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Rising out-of-pocket health-care costs, combined with slow economic growth and years of tepid wage growth, pose risks for an economy in which consumer spending accounts for more than two-thirds of overall output, economists say. In 2015, 8% of Americans' household spending went toward health care, up from 5.8% in 2007, according to the Labor Department.

Health care costs are "eating up a larger share, and it means less money for other things," said Diane Swonk of consultancy DS Economics.

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Economists say the increased burden on middle-class households may be partially responsible for a broader moderation in health spending, as they use health care more judiciously.

That is the case for Cindy Sikkema, a 47-year-old writer in Boise, Idaho. When her husband's employer eliminated their previous health-insurance plan, they chose one of the company's new offerings for its lower monthly premiums, despite a deductible of \$6,850. After getting hit last year by a \$1,500 bill for a diagnostic mammogram, they choose carefully when to see a doctor.

"Just to step into the office it's \$180 to see the doctor," she said, instead of a \$20 or \$30 co-pay under the old plan. "We're feeling the impact of every little medical decision we make, because it's all straight out of our pocket first."

For the Sikkema family, their higher health-care costs have meant avoiding buying anything new in favor of shopping at consignment stores and garage sales. She and her husband will skip travel overseas this year and go camping instead. They spend more time fishing and elk hunting to avoid buying meat at the supermarket.

"It's not like we're spending tens of thousands more, but it's just enough that it changes everything," said Ms. Sikkema, acknowledging the impact was as much psychological as financial.

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In addition, price increases for prescription drugs have been accelerating. The average price of brand-name drugs rose 16.2% in 2015, and is up 98.2% since 2011, according to drug-benefits manager Express Scripts Holding Co.

While prescription drugs are a relatively small share of national health-care spending, roughly 10% in 2015 according to the Centers for Medicare and Medicaid Services, they're "a very visible expense for consumers," Mr. Levitt said.

In the 15 years since B.J. Welborn, 66, started taking the leukemia medication Gleevec, its list price has risen from under \$24,000 for a year's supply, to over \$121,400, according to drugmaker Novartis. Now on Medicare, Ms. Welborn has a co-pay of \$491 for a 30-day supply of Gleevec, seven times the co-pay on her old Blue Cross Blue Shield plan. She estimates she now pays between \$11,000 and \$12,000 a year for the drug.

"I look at my college roommates...they're traveling, they go see their grandchildren, they go to Europe," she said. "I did not picture retirement as a trip into anxiety and sometimes fear. I thought I was set."

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