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PUBLIC LONG-TERM CARE INSURANCE AND THE HOUSING AND LIVING ARRANGEMENTS OF THE ELDERLY: EVIDENCE FROM MEDICARE HOME HEALTH BENEFITS

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As the American population ages and end-of-life medical costs rise, there is growing interest in insurance markets for long-term care. Because the private market for such insurance is small, and the publicly provided insurance in the form of Medicaid only covers older individuals who are sufficiently poor, particular attention has been placed on increasing coverage through tax incentives and the expansion of existing programs. The primary aim of this paper is to provide empirical evidence on the extent to which long-term care insurance affects the housing and living arrangements of the elderly. Because the decisions to purchase private long-term care insurance and housing are almost surely jointly determined, we do not focus on the market for private insurance. Instead, we attempt to identify the impact on housing and living arrangements by examining plausibly exogenous changes in the supply of public long-term care insurance through the Medicare program that occurred in the late 1990s. Prior to 1997, Medicare reimbursed home health care agencies on a retrospective-cost basis. Then, starting in October, 1997, as a result of the Balanced Budget Act of 1997 (BBA97), Medicare switched to a system of prospective payments for home health care. Using data from the CPS, our primary findings are:

- This switch to prospective payment resulted in a 30% decline in Medicare expenditures on home health care and a substantial decline in home health care use.
- The new prospective payment system was implemented in a way that effectively differed across states, so that the 1997 law induced state-by-calendar-year variation in the supply of this type of public long-term care insurance.
- Our estimates indicate that increases in home health care benefits decrease the incidence of shared living arrangements among the elderly: the elasticity of shared living to benefits is -0.7 over all elderly and -1 for widowed elderly.

- There was little impact of changes in home health care benefits on household headship among the elderly. This suggests that the bulk of the shared-living response occurred through co-residents living in elderly households (and not the reverse).
- There is some, but weak, evidence that increases in benefits raised elderly homeownership, with an elasticity of 0.2 for all elderly.
- Overall, the results suggest that future expansions in public benefits have the potential to alter elderly housing and living arrangements significantly.

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