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DO HEALTH PROBLEMS REDUCE CONSUMPTION AT OLDER AGES?

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The possibility of serious illness poses significant financial risks for older adults. Although virtually all Americans ages 65 and older are covered by Medicare, cost-sharing requirements and the exclusion of certain services often lead to large out-of-pocket medical expenses, especially for those who lack private supplemental health benefits. Adults in their fifties and early sixties, who are not eligible for Medicare unless they are disabled, may face more serious financial risks because they may be uninsured or underinsured.

High out-of-pocket health care costs may have serious repercussions for older people and their families. If their incomes are not high enough to cover these expenses, older adults with health problems may have to deplete their savings, turn to family and friends for financial help, or forego necessary care. Or they may be forced to reduce their consumption of other goods and services to pay their medical bills. Relatively little is known about how health problems affect economic well-being. Widespread anecdotal evidence suggests that some older Americans are forced to choose between buying medications and paying for rent or groceries. There are no careful empirical studies, however, that measure the pervasiveness of the problem.

This paper uses data from the Health and Retirement Study (HRS) and the related Consumption and Activities Mail Survey (CAMS) to examine the impact of health problems at older ages on out-of-pocket health care spending and other types of expenditures. The analysis estimates fixed effects models of total out-of-pocket health care spending, out-of-pocket health care spending exclusive of premiums, total spending on all items except health care, and total spending on all items except health care and housing. The models are estimated separately for households ages 65 and older and those ages 51 to 64.

The results show that medical conditions increase health spending, particularly for households ages 51 to 64, but that health conditions do not generally reduce nonhealth spending. Medical conditions do, however, reduce nonhealth spending for low-income households ages 51 to 64, suggesting that holes in the health safety net before the Medicare eligibility age force some low-income people to lower their living standards to cover medical expenses.

Key findings include the following:

- Medical conditions are quite common at older ages. More than two-fifths of households ages 51 to 64 and two-thirds of households ages 65 and older have two or more medical conditions per adult member. In contrast, less than one in four households ages 51 to 64 and 1 in 14 households ages 65 and older report fewer than one medical condition per adult member.
- Households ages 65 and older spend more out of pocket on health care than households ages 51 to 64 in both absolute and relative terms. Younger households average about \$2,400 per capita on health expenses, about 8 percent of their total spending. In contrast, older households average about \$3,000 on health care, about 12 percent of their total spending. The health spending distribution is skewed towards high spenders, with mean values exceeding median values by substantial margins in all spending categories.
- Health care spending increases with the number of medical conditions. Typical households ages 65 and older with fewer than one medical condition per adult member spend about \$1,500 on health care, compared with about \$2,000 for those with 1 or 1.5 conditions, \$2,400 for those with 2 or 2.5 conditions, and about \$2,600 for those with four or more conditions. The relationship between out-of-pocket health care spending and medical conditions is even stronger when premium payments are excluded.
- Fixed effects models that control for income, wealth, age, and marital status show that medical conditions substantially increase health spending among households ages 51 to 64. The presence of two or three conditions per capita increases health expenditures excluding premiums by 63 percent, while the presence of four or more conditions increases these expenditures by 206 percent. However, medical conditions do not reduce spending on nonhealth items.
- However, the models show that medical conditions significantly reduce nonhealth spending for low-income households (with per capita annual income less than \$20,000). The presence of two or three conditions per capita reduces total household expenditures excluding health and housing costs by 30 percent, and the presence of four or more conditions reduces this spending category by 35 percent.
- We find no evidence that health care expenses force Americans ages 65 and older to reduce their living standards. The coefficients on the medical condition variables are small and insignificant in the models of nonhealth spending, even when the sample is restricted to households with less than \$15,000 per year in per capita income.

Our findings do not, however, necessarily imply that health problems pose no financial hardships for Americans ages 65 and older, especially given Medicare's high cost-sharing requirements and gaps in the Medicare benefits package. Many older people may deplete their savings or go into debt to finance their health care while maintaining other types of spending. They may turn to family members to help with their medical bills, potentially creating financial difficulties for this wider social network. Or they may forego necessary medical care to keep their health costs down. More research is needed on the financial consequences of health problems at older ages to assess each of these possible outcomes.

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