

The Looming Economics of Health Care for an Aging Society

Christine E. Bishop

Schneider Institutes for Health Policy
Heller School for Social Policy and Management
Brandeis University
Research Showcase: Living Long, Living Well

April 3, 2009



*Boomer Bust? Economic and Political Issues of the
Graying Society.* Edited Robert B. Hudson.
Volume 1: Perspectives on the Boomers.
Westport CT: Praeger, 2009, pp. 95-109.

2



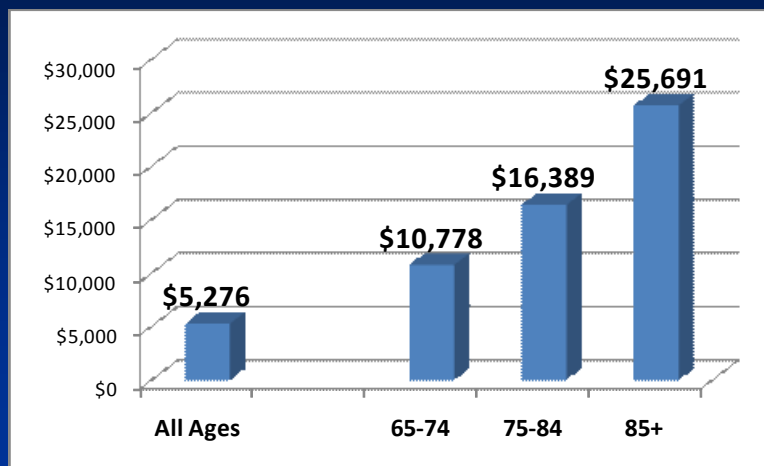
What will increasing numbers of elders do to health costs?

- Number of persons 65+ is increasing
- Number of Oldest-Old (85+) rising rapidly due to increase in longevity

3



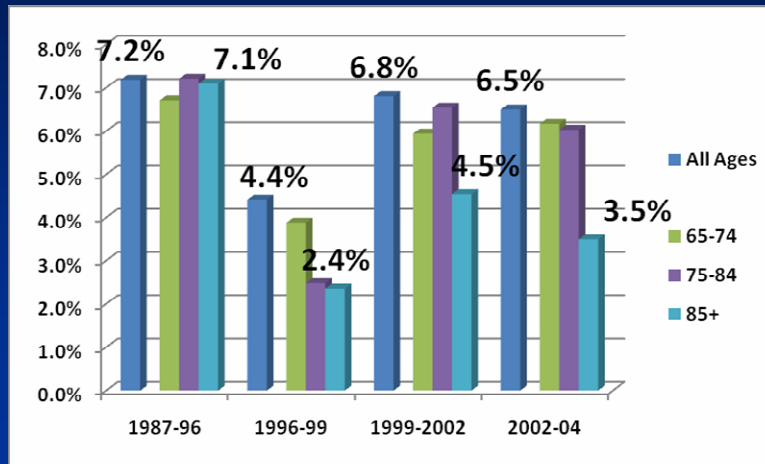
Average Per Capita Health Costs are Greater for Older Americans



Total Per Capita Personal Health Expenditures 2004
Source: www.cms.gov



**But per capita health costs are growing
MORE SLOWLY for seniors
--And even more slowly for oldest old**



5

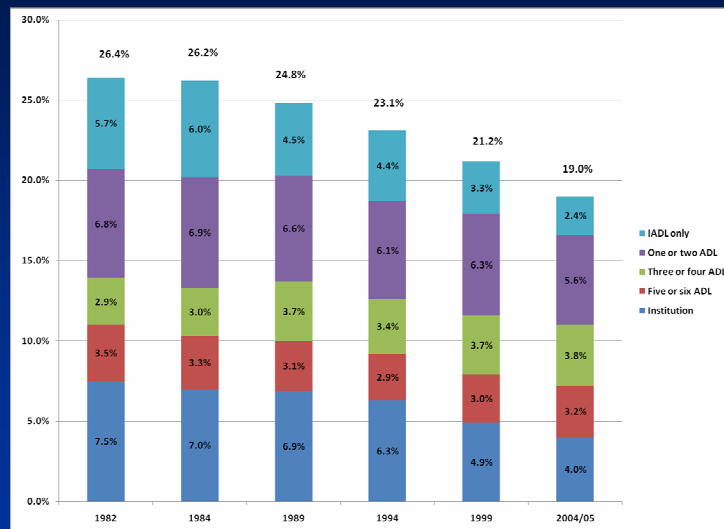


- **Mix of elders is changing favorably as young elders cross the 65+ threshold**
- **Health costs are related to disability – and age-adjusted disability is declining**
 - ◆ Lifestyle changes
 - ◆ Better medical care
- **Lengthening lifespans mean lower cost per life year**
 - ◆ High costs occur in last year of life
 - ◆ Costs of last year are LOWER when it occurs at older age

6



Age-Adjusted Rates of Disability Are Falling



7



High Costs Occur in Last Year of Life

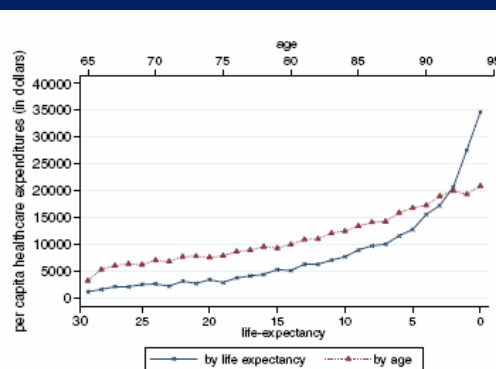


Figure 3. Per capita health care expenditure profiles

Shang & Goldman (2008)

8



Long-lived Elders Die at Older Ages– and Costs are Lower when Death is Later

- Medicare spends 30-50% less in the last year of life on decedents 85+ vs. decedents 65-74
 - ◆ And this is falling as the 85+ grow older
 - ◆ Cumulative lifetime Medicare costs actually fall for those who live beyond 90

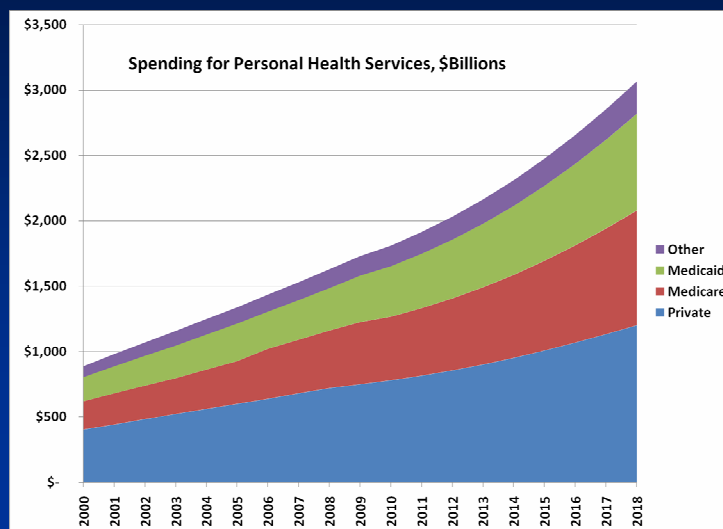
Payne et al. (2007)

9



Aging is Swamped by Other Factors

Aging of Population Expected to Contribute only **.4%** to Expected Annual Growth of Health Expenditures of **6.2%** (2007-18)



10



Health Costs Are Rising For Everyone Are Boomers Prepared to Meet Health and Related Costs?

- **Assume Medicare follows current law**
 - ◆ Deductibles, coinsurance will increase with costs
 - 20% copay for ambulatory care
 - Part D copays
 - ◆ Fewer seniors will have retirement health coverage from employer
 - Those who have will pay rising proportion of premium
 - ◆ Medigap premiums will increase to cover increased copays
- **Services for disability (in contrast to health services) are not covered by Medicare**

11



Wealth for Health Security

- **EBRI estimate of savings a couple aged 65 needs to fund Medicare B & D and Medicare supplement premiums in retirement with increases expected under current law (Fronstin 2006)**
 - ◆ For average life expectancy: \$154,000
 - ◆ \$282,000 to age 90
- **Disability-related care**
 - ◆ At age 65, 52% simulated to need services for lost functional ability (including cognitive) for 1+ years (Kemper 2005)
 - ◆ Most will use informal care; paid care at home, residential care
 - Availability of adult children, other relatives?
 - ◆ 16% will have costs over \$100,000

12



Simulated Distribution of Years of LTC Need for 65 year old

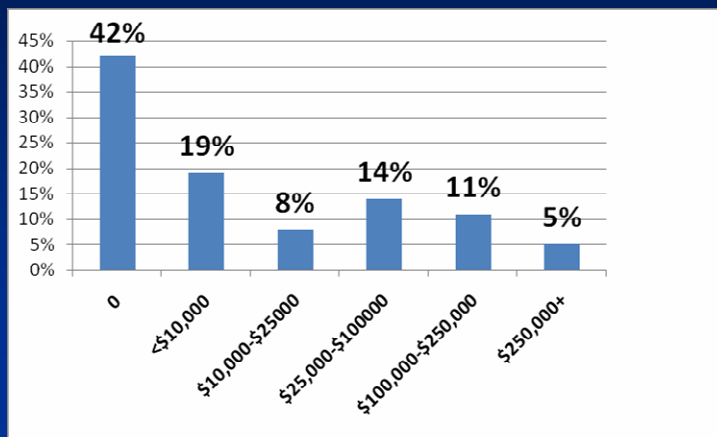


Kemper (2005)

13



Distribution of Long-term Care Spending Simulated for 65-year-old (2004)

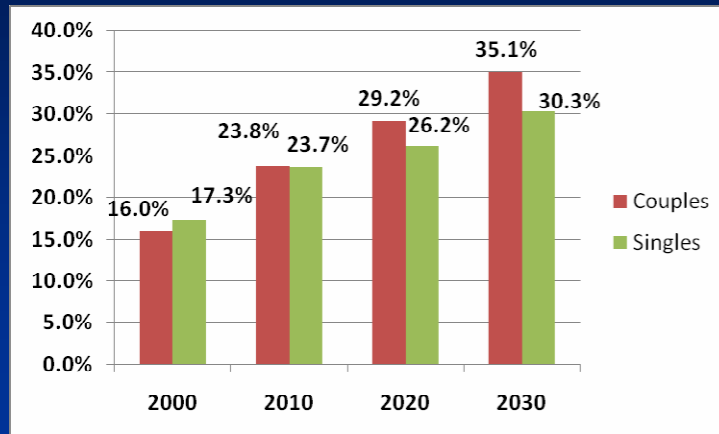


Kemper (2005)

14



Health Spending Threatens Retirement Security: Health Spending as % of Median After-Tax Income for 65+



Johnson 2004

15



What We Can Do Now

- **Contain health care expenditures!**
 - ◆ Healthy aging saves health costs
- **Save more to prepare for future health expenditures**
 - ◆ Delay in retirement already seen for those with higher expected health costs
- **Prepare for long-term care needs**
 - ◆ Housing, services innovation
 - ◆ Private financing: saving, insurance, informal care
 - ◆ Share catastrophic costs: public programs

16

