The Looming Economics of Health Care for an Aging Society

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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

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

- 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
Age-Adjusted Rates of Disability Are Falling

High Costs Occur in Last Year of Life

Figure 3. Per capita health care expenditure profiles

Shang & Goldman (2008)
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)

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)
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

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
Simulated Distribution of Years of LTC Need for 65 year old

Kemper (2005)

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

Kemper (2005)
Health Spending Threatens Retirement Security:
Health Spending as % of Median After-Tax Income for 65+

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