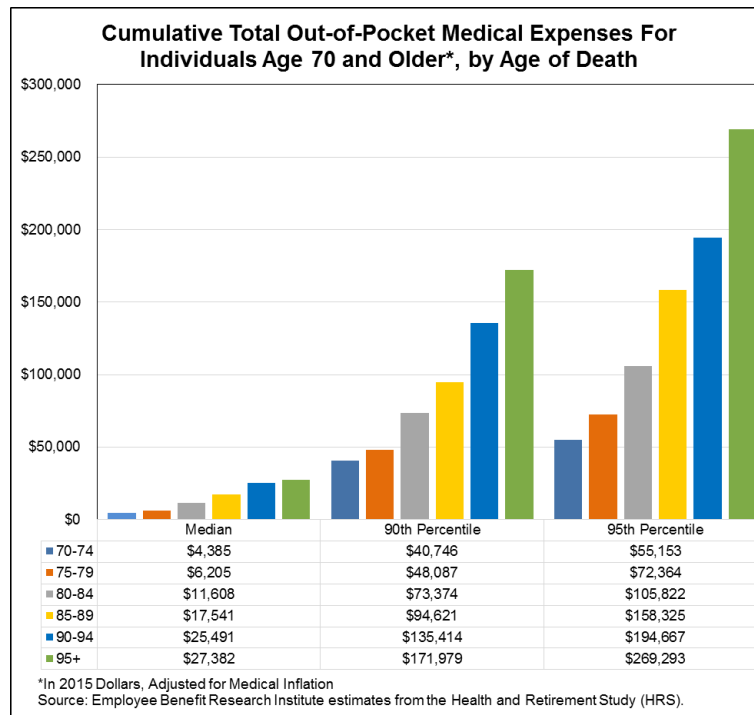


## How Fear of Catastrophic Health Care Expenses May Cause Retirees to Inefficiently Self-Insure

One of the biggest risks American retirees face is the cost of health care. And indeed, for some, cost such as out-of-pocket nursing home expenses can be substantial. But, the majority of older people pay modest out-of-pocket health care expenses in retirement, according to the Employee Benefit Research Institute (EBRI), which has just released its analysis of data from the Health and Retirement Study (HRS). So, are people inefficiently self-insuring against catastrophic health care expenses that are unlikely to be incurred?

Data from the HRS reflect actual cumulative out-of-pocket health expenses reported by individuals from ages 70 until death, including the oldest birth cohort of individuals--those who live to age 95 or beyond (the long-lived elderly).<sup>1</sup> The analysis shows that the median cumulative out-of-pocket medical expenses for the long-lived elderly is quite modest at \$27,000. At the same time, it is true that some long-lived elderly report very high cumulative out-of-pocket medical expenses: 10 percent of this older cohort say they racked up more than \$172,000 in out-of-pocket medical expenses in, and 5 percent report spending more than \$269,000 in out-of-pocket medical expenses.<sup>2</sup>



<sup>1</sup> The study uses panel data from 1993 through 2014 for the Assets and Health Dynamics Among the Oldest of Old birth cohort from HRS.

<sup>2</sup> Out-of-pocket health care services include hospital stays, nursing home stays, outpatient surgery, doctor's visits, prescription drugs, dental services, home health care, and hospice care. The out-of-pocket medical expenses reported in this study are measured in real dollars (2015) and are adjusted for medical inflation.

Nursing home costs are a driving factor for those experiencing the highest costs. When nursing home costs are excluded, out-of-pocket medical expenses for the long-lived elderly drop by 44 percent at the 90th percentile (to \$96,000) and by 43 percent at the 95th percentile (to \$154,000).

While most (61 percent) long-lived elderly do enter a nursing home, less than one-third (32.2 percent) incur out-of-pocket nursing home expenses. Further, the analysis shows that while nursing home costs can be substantial for some, median out-of-pocket nursing home expenses are zero at all ages, and moderate even when conditioned on nursing home entry. For those who died between the ages of 70 and 74, the median out-of-pocket cost (conditioned on entering a nursing home) was \$3,200. For the long-lived elderly, it was \$21,800.

Clearly, for some, nursing home expenses can be truly catastrophic. This may cause older people to preserve their assets as long as possible in retirement to insure themselves in case they are the ones that face these catastrophic expenses. However, it is possible that if such risks could be insured more efficiently, retirees would be able to spend their retirement assets more freely, potentially improving their personal welfare.

The EBRI report, “Cumulative Out-of-Pocket Health Care Expenses After the Age of 70” is published as the April 3, 2018 *EBRI Issue Brief*, and is available online [here](#).

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