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Trends

Wealth Patterns Among Elderly Americans: Implications For Health Care Affordability

The elderly may be much wealthier and better able to handle health-related financial shocks in 2030 than they were in 2000.

by James R. Knickman, Kelly A. Hunt, Emily K. Snell, Lisa Maria B. Alecxih, and David L. Kennell

ABSTRACT: This paper estimates the ability of the elderly to pay for necessary health care services and emerging technologies. Projections from the Long Term Care Financing Model paint a promising picture of the income and assets that elders in the future will have available to support discretionary, uncovered health care and service costs. Nevertheless, policymakers should pay close attention to the finances of the "Tweeners"—people who are middle class with low levels of discretionary assets available for health and long-term care.

THE ABILITY OF today's health care system to provide high-quality care to an aging society depends on the resources available to pay for these services. Although the public sector will bear much of the burden of health and long-term care costs, many of the required future resources will need to come from the elderly themselves, as is the case today.

Unless public insurance systems become much more generous in coming years, the elderly will bear the costs of many types of uncovered services. Drug and long-term care costs now top the list of uncovered services.¹ However, emerging elective procedures, perhaps in the area of gene therapies and cuttingedge diagnostic tools, may not be uniformly covered by future insurance programs.

This paper presents projections of income and wealth for the elderly population in 2015 and 2030 using state-of-the art simulation methods. An indicator of "resources available" for uncovered services is also developed. We address important policy and planning questions for 2030 such as (1) How big will markets be for elective, high-cost health and preventive services if insurance does not cover the interventions? (2) How much extra burden can the government expect related to health and long-term care for the poor and the part of the population that becomes impoverished trying to pay for care? (3) Will wealth patterns and emerging technology lead us increasingly toward a multiple-tier medical care system, with the wealthy in the top tier and the poor and middle-income in the lowest tiers?²

Data And Methods

The projections of the elderly's income and assets in 2015 and 2030 are based on a simulation model originally constructed by researchers at the Brookings Institution and the Lewin

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Group.³ This model has been developed and refined since 1986, and the federal government and researchers use it extensively to understand income and asset distributions of the elderly as well as their patterns of disability and use of long-term care services over time.⁴

The model uses data from the April 1993 and March 1994 Current Population Survey (CPS) as the starting point for simulations.⁵ Most behavioral estimates that affect the simulations have been reviewed by experts. Key assumptions of the projections reported in this paper are about how the economy will grow or contract over the next thirty years. In almost all cases, the simulation model uses the economic assumptions used for the Intermediate Scenario in the 1999 Social Security Trustees Report.⁶

The model is designed to capture the interaction of demographic and economic factors that affect the resources of the elderly and their use of acute and long-term care services. Using demographic assumptions primarily from the Census Bureau and the Social Security trustees, the model simulates the changes in family structure (births, death, divorces, marriage) and disability for both the elderly and the nonelderly. The model tracks the effects of changes in cohort size as well as trends in the number and characteristics of people in various sociodemographic groups.

The model simulates the number of disabled widows age eighty-five and older in 2030 based upon the size of that cohort of women who will be age eighty-five and older in 2030 along with assumed trends in marriage, di-

EXHIBIT 1

vorce, mortality, and disability. Some of these trends (cohort size and reduced mortality) raise the number of disabled widows, while others (declining disability rates) tend to decrease it. Similarly, the model simulates the work experience of the representative population, their incomes while working, and their entitlement to future Social Security and pension benefits. Based on assumed retirement rates, the model simulates Social Security, pension income, and retirement wealth.

All of the projections we present are measured in 2000 dollars to adjust for inflation's effects on purchasing power. The assumptions about inflation rates used for the projections mirror those used for the Intermediate Scenario of the Social Security Trustees Report: 3.3 percent, on average, for 2007 and beyond.

Study Results

■ Income and assets. Real income among the elderly will increase greatly between 2000 and 2030 (Exhibit 1). In particular, fewer elderly will be in the lowest income bracket, and the percentage with real incomes exceeding \$80,000 per year will almost double.

Exhibit 2 suggests similar patterns for liquid assets, which include all savings other than assets in the form of real estate. For example, while 55 percent of the elderly had less than \$10,000 in liquid assets in 2000, this percentage drops to 39 percent in 2030. Total assets, which include home equity, show similar although not quite so dramatic growth between 2000 and 2030. In comparing estimates for 2015 and 2030 for both income and liquid assets, it appears that the growth rates are some-

Distribution of Annual Income, in 2000 Donars, An Elderly, 2000, 2015, And 2030					
	2000	2015	2030		
\$0-\$19,999	48%	38%	30%		
\$20,000-\$39,999	29	32	35		
\$40,000-\$59,999	11	13	17		
\$60,000-\$79,999	6	7	8		
\$80,000 or more	6	10	11		

SOURCE: Authors' simulation analysis of data from the 1993/94 Current Population Survey using the Long Term Care Financing Model.

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	Liquid assets			Total assets		
	2000	2015	2030	2000	2015	2030
\$0-\$9,999	55%	45%	39%	22%	17%	14%
\$10,000-\$24,999	12	11	12	9	6	5
\$25,000-\$99,999	13	11	10	17	11	7
\$100,000-\$199,999	9	11	13	21	19	16
\$200,000-\$299,999	4	6	7	10	12	13
\$300,000 or more	7	15	19	19	35	44

EXHIBIT 2 Distribution Of Assets, In 2000 Dollars, All Elderly, 2000, 2015, And 2030

SOURCE: Authors' simulation analysis of data from the 1993/94 Current Population Survey using the Long Term Care Financing Model.

what faster during the first fifteen-year period than during the second.

■ Resources for catastrophic health events. In an attempt to integrate the impact of growth in both income and assets over the period, we developed an index of resources available for catastrophic health events. Since the largest uncovered health-related services are associated with chronic diseases and longterm care, it makes sense to consider multiple years of income as well as assets.⁷ For single people, we consider total income over three years and all liquid assets.

The long-term care resource estimate for single people is often an overestimate because people would still need some income to pay for day-to-day expenses if they were living in the community. However, we wanted to be as conservative as possible in considering who might have inadequate resources and thus require public resources. Perhaps the most appropriate perspective is from the vantage point of a single person entering a nursing home: Such a person can devote all available income and assets to covering expenses associated with a long, terminal nursing home stay.

For married couples, the estimate divides a couple's assets and income using the principles adopted by many states for determining Medicaid eligibility.⁸ The principle is to leave the healthy spouse who remains in the community with enough resources and assets to support an adequate standard of living.

Distribution. Exhibit 3 presents the distribution of our indicator for resources available for catastrophic events. We divide the elderly population into three categories that characterize their ability to handle costs.

EXHIBIT 3

Distribution Of Resources Available For Catastrophic Service Needs, In 2000 Dollars, All Elderly, 2000, 2015, And 2030

	2000	2015	2030	
Financially Independent	27%	35%	38%	
Tweeners	28	29	33	
Medicaid Bound	45	36	29	

SOURCE: Authors' simulation analysis of data from the 1993/94 Current Population Survey using the Long Term Care Financing Model.

NOTES: Resources available for catastrophic service needs are defined as three years of annual income plus liquid assets. People labeled as Financially Independent had resources exceeding \$150,000 in 2000, \$180,000 in 2015, and \$210,000 in 2030. People labeled as Tweeners had resources between \$50,000 and \$150,000 in 2000, \$60,000 and \$180,000 in 2015, and \$70,000 and \$210,000 in 2030. People labeled as Medicaid Bound had resources less than \$50,000 in 2000, \$60,000 in 2015, and \$70,000 in 2030.

(1) The Financially Independent: This group represents the market for expensive discretionary health and preventive services, and should be able to afford most long-term care episodes with current income and savings. Their available resources would cover a two-and-a-half-year-stay in most nursing homes in the country.⁹

(2) The Tweeners: These people often spend down to Medicaid levels if they have a catastrophic health or long-term care need but could have afforded private long-term care coverage if they had been encouraged to purchase it during their working years.¹⁰

(3) The Medicaid Bound: Generally, this group does not have discretionary resources for catastrophic events and will need to depend on public programs.

Adjustments for inflation. When categorizing the elderly into these three subgroups, we increased the resource categories by 20 percent in 2015 and by 40 percent in 2030 to account for the expectation that health and long-term care prices will rise faster than the general inflation rate. The 40 percent adjustment reflects an average 1.12 percent annual increase in health and long-term care prices in excess of inflation over the thirty years.

Projections. The projections in Exhibit 3 are positive, as would be expected from the estimates of growing income and assets. Perhaps most striking is the decrease in the Medicaid Bound in 2030 compared with 2000. Symmetrically, the percentage in the Financially Independent grouping, most able to take care of

themselves with out-of-pocket resources, increases from 27 percent to 38 percent. The Tweener category (people at high risk of someday needing public assistance for services) actually increases slightly from 2000 to 2030.

The oldest-old, disabled, and single elderly. One problem with the estimates for the entire elderly population is that most elderly are not at high risk of a catastrophic health event until they are in their seventies or eighties.¹¹ In addition, elderly people who are single generally are at high risk of needing services in later years.¹²

The patterns over time presented in Exhibit 4 mirror the patterns reported in earlier exhibits: The population age seventy-five and older, the disabled elderly, and the single elderly are much more likely to be Financially Independent and much less likely to be Medicaid Bound in 2030 than in 2000. However, all three of these subpopulations have smaller percentages of Financially Independent members in both years than the entire elderly population or the married elderly population.

Discussion And Policy Implications

Our forecasts paint a promising picture of income and asset patterns, suggesting that many elders in the future will be able to pay for both necessary services such as long-term care and discretionary, uncovered services. For medical researchers and high-technology firms pondering whether there will be a market for costly new health interventions that Medicare may not cover, the data are good

EXHIBIT 4

Distribution Of Long-Term Care Resources, In 2000 Dollars, By Age, Disability, And Marital Status, 2000 And 2030

	75 and older		Disabled		Single		Married	
	2000	2030	2000	2030	2000	2030	2000	2030
Financially Independent	19%	31%	18%	24%	19%	27%	34%	47%
Tweeners	29	32	21	23	28	30	28	35
Medicaid Bound	53	37	61	53	54	43	38	18

SOURCE: Authors' simulation analysis of data from the 1993/94 Current Population Survey using the Long Term Care Financing Model.

NOTE: See Exhibit 3 for explanation of elderly groups.

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news. In absolute terms, the number of elderly with total assets exceeding \$150,000 (in real terms) will more than triple from 13.2 million in 2000 to 44.5 million in 2030.

Without major changes in the way we pay for health care, however, multiple-tier medicine will become more and more pronounced. There will be a substantial market among the elderly for high-tech, expensive, discretionary care. It seems unlikely—given current political and social dynamics—that all or even most of these new interventions will be covered by insurance, especially Medicaid.

The data also show promise, but some challenges, for the public sector concerned about the future growth of Medicaid costs. The Medicaid Bound will decrease substantially in percentage terms. Of course, given the doubling of the absolute number of elders, Medicaid can expect slightly higher numbers of eligible elderly in 2030 than in 2000.¹³

The Medicaid Bound, of course, are at risk in another way: They likely will remain dependent on the ups and downs of publicly financed health care. How generous the government can be to this group will depend in part on who bears the burden of care for the Tweeners. It is the interplay of personal and social responsibilities for the care of these two large subsets of the population that will define philosophical and political debates about health care financing over the next thirty years.

The Medicaid program faces additional, large potential liabilities if the Tweeners are not urged or forced to put money aside during their working years to pay for expected service costs in their retirement years. The Tweeners represent an important population that could only hope to afford long-term care insurance if they purchase it in their forties or fifties, when premium rates are at low levels. If many of the Tweeners do not find ways to avoid Medicaid, the total costs of Medicaid will likely grow quickly over the next thirty years.

It is the Tweeners who face the greatest risks of being left behind in a multiple-tier medical system. This is the group that most needs to be educated about the complexity of long-term care financing and about their lack of current coverage for long-term care. Educational efforts should emphasize to the Tweeners (and the elderly in general) that retirement resource planning needs to consider retaining some assets for service needs or the use of some assets to buy insurance for expensive items such as long-term care services.

■ Important factors in predicting change. To assess the believability of the relatively positive simulation findings, it is important to get "inside" the model to understand which factors drive the positive findings. Five factors seem to be most important: higher wages during working years, higher education levels, higher women's labor-force participation, more dual-income families, and the maturation of the pension system.

In most years since 1960, wages have grown more quickly than inflation, and this translates to more wealth, greater likelihood of pension income, and greater likelihood of receiving higher Social Security payments for future elderly. Some of this real wage growth is undoubtedly attributable to the higher education levels of baby boomers compared with earlier generations: Close to 90 percent of baby boomers graduated from high school, compared with 66 percent of the current elderly cohort, and college education also has increased dramatically.¹⁴

The future elderly will see their wealth and retirement income increase in part because of greater female labor-force participation and the associated increase in families with two income earners. In 1950 just over 30 percent of women were in the labor force, compared with near 60 percent in 2000.¹⁵ Dual-income families increased from about 25 percent in 1960 to 37 percent in 2000.¹⁶

While pension coverage levels and perhaps generosity have stagnated in the private sector over the past twenty years, many more elderly of the baby-boom generation will have worked most of their careers under meaningful pension plans than today's elderly will have done. The current stagnation of pension benefits probably will affect the wealth of elders of the second half of the twenty-first century more than it will the elderly of the next thirty years.

■ Factors that could threaten future wealth patterns. Forecasts include uncertainty and generally synthesize what might occur if life goes on much the way it has in past years. Five key changes could make our forecasts far less positive in the future.

(1) Medical care or long-term care costs could grow much more quickly than inflation over the next thirty years. If higher costs lead to cutbacks in Medicare funding and out-ofpocket costs increase dramatically, then wealth and retirement income could quickly become more constrained.

(2) The economy could enter a long-term slowdown, resulting in wages' growing more slowly than inflation and health costs. While this has rarely happened over the past forty years (really only in the 1970s), some observers fear that the current recession could signal more enduring economic problems than are typical in our cyclical economy.¹⁷ Employment opportunities also could erode, especially for the cohort ages 50–70. If combined with a decline in equity markets in the years just before retirement, this could greatly affect total retirement wealth and income.

(3) Government policies could change economic factors related to retiring. These changes could include extending retirement ages beyond what is already scheduled; changing spousal impoverishment rules, which might leave less income and assets for surviving spouses; and changing Medicare and Medicaid benefits.

(4) Pension plans could continue to become less generous. While most pension policies affecting baby boomers are pretty much set by now, unexpected pressures could lead to unexpected changes in the way that pensions get paid over the next thirty years. Social Security payments, which represent 40 percent of retirement income for the average person, also could increase more slowly than expected if current laws and political pressures change.

(5) Elderly baby boomers could spend their retirement wealth more quickly than projected, leaving fewer resources for service needs at the end of life. The simulation model assumes that some people spend part of their wealth each year of retirement; some live only on interest, pensions, and Social Security; and some continue to save in retirement years. On balance, the model projects a slight net dissaving rate among the elderly in the early years of retirement. Consumption-oriented baby boomers could spend retirement wealth more quickly than earlier generations did, which would result in fewer resources' being available for medical and long-term care needs.¹⁸

THE CURRENT DYNAMICS for elderly baby boomers are promising. If the economy grows at a moderate rate and if public and private forces keep health prices somewhat in line with general inflation, the outlook for private wealth as a source of resources to handle a large share of service costs in retirement years is positive: The elderly will be much wealthier and better able to handle health-related financial shocks in 2030 than they were in 2000.

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