



How Do Retirees Cope with Uninsured Healthcare Costs?

Webinar

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Agenda

- Logistics and Introductions
- Presentation
- Q&A



Speakers



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How Do Retirees Cope with Uninsured Medical and Long-Term Care Costs?

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National Institute on Retirement Security Webinar
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Disclaimer

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- The views in this paper do not represent the views of the Jackson National Life Insurance Company or Boston College.
- All errors and omissions are our own.

Roadmap:

- Introduction
- Methods
- Healthcare Risk Survey Results
- Quasi-Experimental Sample Characteristics
- The Impacts of Shocks
- Conclusion

What happens when plans to deal with healthcare costs fail?

- Nearly all Americans over age 65 have health insurance through Medicare.
- Most individuals also have plans for how to deal with long-term care (LTC) costs which Medicare does not cover.
- But insurance cost-sharing and spotty LTC coverage leave households exposed to substantial risk nevertheless.
- In this paper we ask how households cope with such out-of-pocket (OOP) costs.

Some terminology:

- Medical care: periodic care provided by trained professionals.
 - Specifically: services received in doctors' offices, hospitals, dentist offices, or outpatient surgery, as well as prescription drugs.
- Long-term care: routine assistance with activities of daily living (ADLs, e.g., eating) and instrumental activities of daily living (IADLs, e.g., preparing food).
 - Specifically, nursing home stays and home-based care.
- “Healthcare” refers to services of either type.

The analysis consists of two parts.

- First, we present results from a survey we conducted on how households perceive and plan to deal with healthcare risks.
- We then use the *Health and Retirement Study* (HRS) to analyze how households in fact cope with OOP healthcare costs.
- Because households experiencing OOP shocks are different from those who do not, we use a quasi-experimental design to estimate the causal effects of shocks.

There is limited evidence on healthcare shocks for retired households.

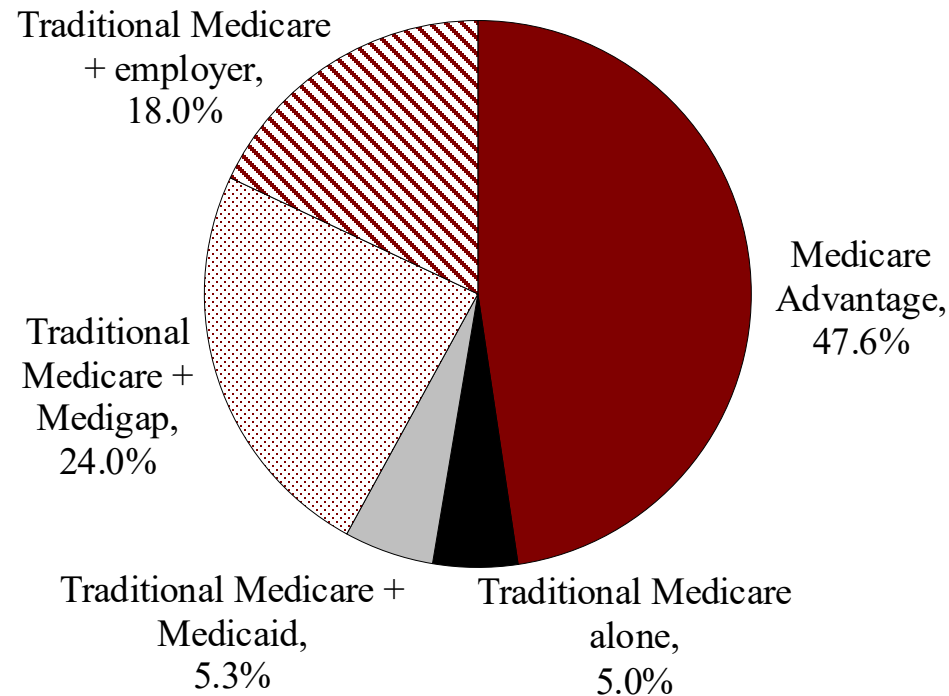
- In European contexts, studies find labor and health behavior responses to health shocks (Fadlon and Nielsen 2019, 2021).
- In the U.S., recent work uses the HRS to analyze health shocks for working-age households (Gorry and Leganza 2024).
- But retirees have different response margins than younger households (e.g., they are unlikely to go back to work).
- And existing research focuses on diagnoses rather than OOP costs, so does not isolate the financial dimension of shocks.

What is the medical insurance landscape for U.S. retirees?

- Medical insurance is nearly universal, through Medicare.
- Even supplemental coverage is held by around 95 percent of seniors.
- Nevertheless, cost sharing can be substantial, particularly before Medicare Part D in 2006.
- In contrast, LTC insurance is rare.
- Coverage here is typically limited to around 2 years.

99% of retirees have Medicare, and 95% of those have supplemental coverage.

Sources of Health Insurance for Individuals Ages 65+, 2021



Source: Authors' calculations from Nancy Ochieng, Jeannie Fuglesten Biniek, Meredith Freed, Anthony Damico, and Tricia Neuman. 2023. "Medicare Advantage in 2023: Premiums, Out-of-Pocket Limits, Cost Sharing, Supplemental Benefits, Prior Authorization, and Star Ratings." Issue Brief. KFF.

But cost sharing can still be substantial.

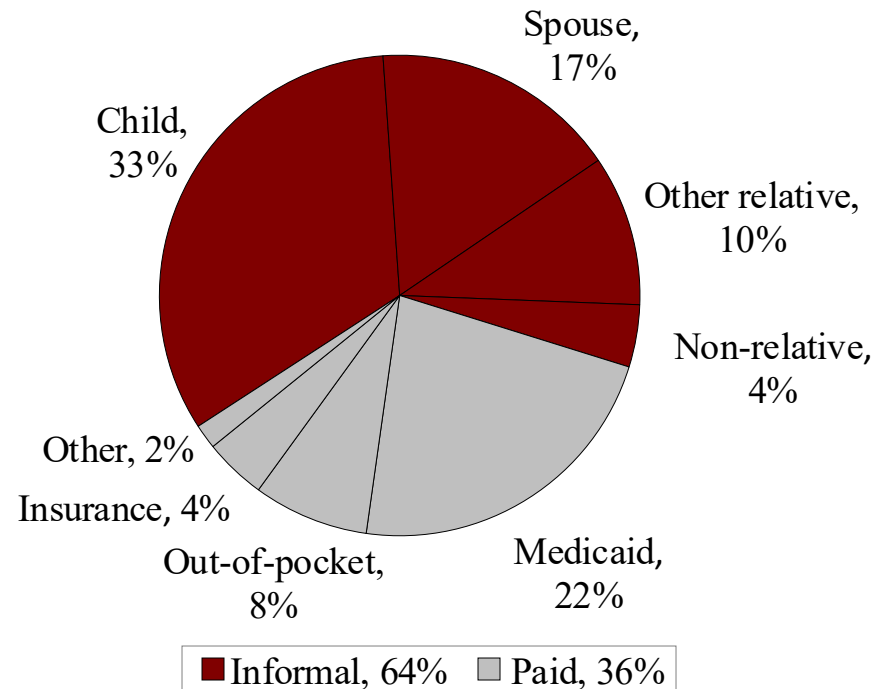
- In Traditional Medicare, OOP costs are uncapped.
- Even for others, before Part D drug coverage was rare, and until recently Part D still included a “donut hole”.
- Other than Rx, gaps include uncovered services, like dental, vision, extended post-acute stays, and out-of-network care.
- Finally, co-pays, co-insurance, and deductibles can add up.
 - In 2024, MA plans could involve nearly \$20k of OOP costs for a married household.

For LTC, uninsured risk is worse.

- 80% of 65-year-olds will need some LTC (Chen, Munnell, and Wettstein 2025).
- A quarter will need intensive care for over two years.
- Most LTC insurance policies do not cover more than two years of care.
- The average annual cost of a semi-private nursing home room was over \$100k in 2023 (Genworth 2023).

As a result, LTC is provided informally, and Medicaid covers the bulk of formal care.

Percentage of Total Caregiving Hours Provided to Individuals Ages 65+, by Source



Source: Anek Belbase, Anqi Chen, and Alicia H. Munnell. 2021. "What Resources Do Retirees Have for Long-Term Services and Supports?" *Issue in Brief* 21-15. Center for Retirement Research at Boston College.

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We present two complimentary analyses.

- Results from a survey of healthcare risks we conducted.
- And quasi-experimental evidence on the impact of healthcare shocks in the HRS.
 - We consider medical and LTC shocks separately.
- In this section, I will present the data for both and the quasi-experimental approach for the latter.

Data: Survey on healthcare risks.

- The survey was conducted by Greenwald Research July 12-23, 2024.
- 508 respondents online.
- The respondents all:
 - had at least \$100k of financial assets;
 - were ages 48-78;
 - and were involved in household financial decision-making.

Data: Health and Retirement Study (HRS)

- A biennial survey representative of the U.S. population over age 50 and their spouses.
- Respondents are sampled from the non-institutionalized population but are tracked if they enter nursing homes.
- We focus on the years 2002-2016, and report in 2023 dollars.
- We define a Medical shock as being in the top 10% of OOP medical spending in a given year.
- We define a LTC shock as having any OOP spending on LTC.

Data: Healthcare shocks in the HRS

- Only the first of each such shock for an individual is counted.
- We find 2,000 unique individuals with LTC shocks.
- And 5,500 individuals with medical shocks.

Those who experience health shocks are unobservably different from others.

- We adapt the approach from Fadlon and Nielsen (2021): consider *only* those who experience a shock.
- Households in the year of the shock and two years later are “treated.”
- Households receiving the same shock four years later are “controls.”
- The intuition is that receiving a shock is not random, but the precise timing is as good as random.

The approach yields causal effects in the year of, and two years following, a shock.

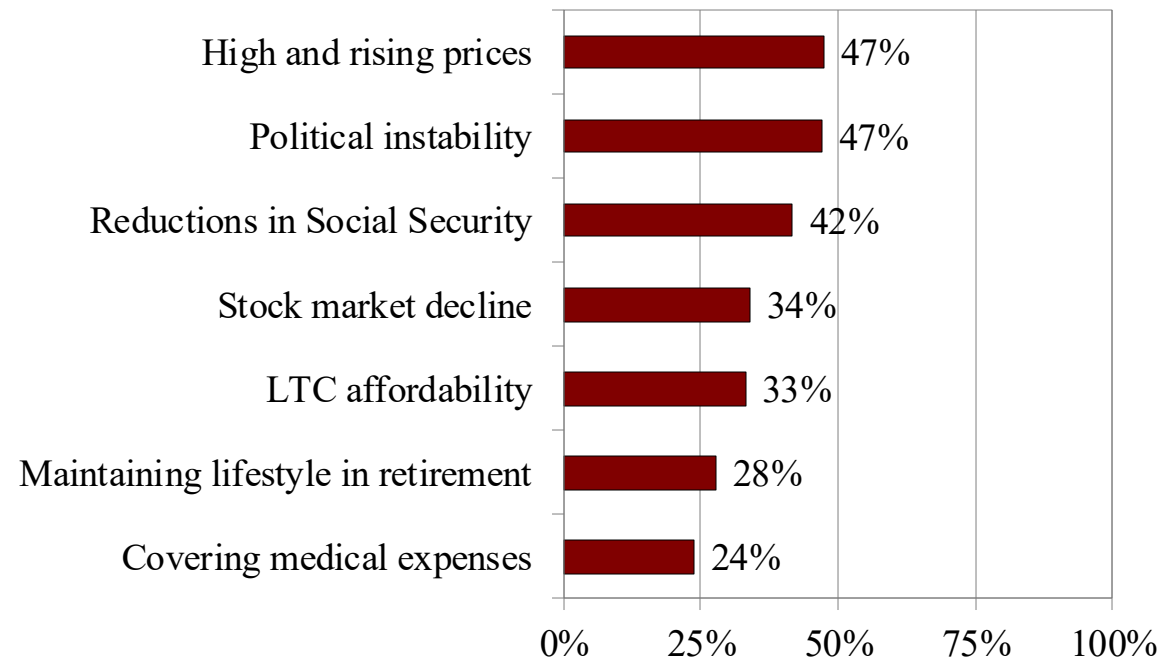
- In the fourth year, “control” households become “treated.”
- We use a difference-in-differences design, controlling for age and individual fixed effects.
 - Age matters because controls tend to be younger than treatment.
 - Individual FEs account for gender, race, pre-shock health, etc.
- We cluster standard errors by individual.
- Pre-shock coefficients test for parallel pre-trends, post-shock coefficients give the estimates of shock effects.

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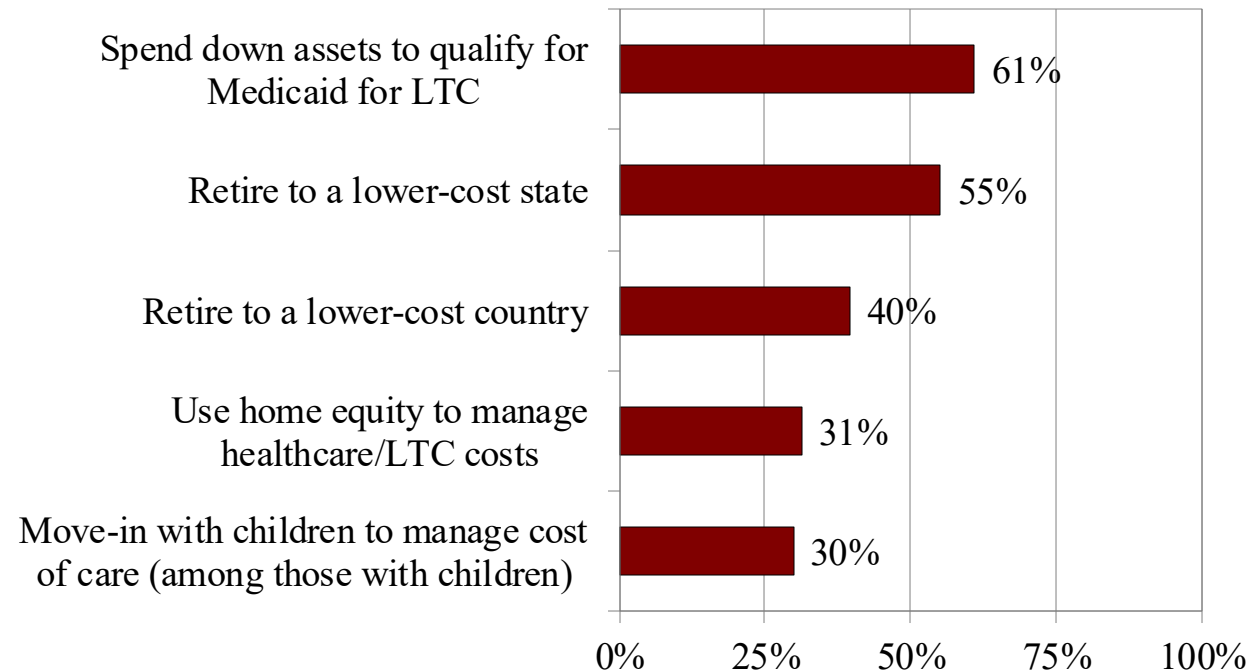
Respondents are relatively unconcerned by healthcare shocks.

Percentage of Respondents Who Are Worried or Very Worried About Various Retirement Risks



This may be because many are sanguine about Medicaid providing a safety net.

Percentage of Respondents Making or Considering Various Changes if Healthcare Costs Are Too Large



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The two types of shocks generate two distinct samples.

Demographics of HRS Respondents Who Experience an LTC Shock

Variable (N=1,894)	Mean	Median	SD
Age	79.76	80	8.69
White	0.87	1	0.33
Black	0.10	0	0.30
Other race	0.03	0	0.17
Hispanic	0.04	0	0.19
College graduate	0.22	0	0.41
On Medicaid	0.06	0	0.23
Has health insurance	0.92	1	0.27
Has long-term care insurance	0.15	0	0.35
Has private insurance	0.46	0	0.50
Total wealth	658,881	266,754	1,318,459
Non-housing wealth	457,824	103,516	1,163,587
Primary residence value	205,651	139,736	284,445
Probability of >\$10,000 bequest	66.67	90	39.63
Probability of >\$100,000 bequest	43.72	30	43.09
Probability of >\$500,000 bequest	18.05	0	32.58
Live with children	0.06	0	0.24
Live <10 miles from children	0.51	1	0.50

Note: Non-demographic variables are measured in the wave before the shock.

Source: HRS (2002-2016).

The two types of shocks generate two distinct samples.

Demographics of HRS Respondents Who Experience a Medical Shock

Variable (N=1,894)	Mean	Median	SD
Age	75.17	74	7.60
White	0.89	1	0.32
Black	0.08	0	0.27
Other race	0.04	0	0.18
Hispanic	0.05	0	0.22
College graduate	0.27	0	0.44
On Medicaid	0.04	0	0.19
Has health insurance	0.90	1	0.30
Has long-term care insurance	0.16	0	0.37
Has private insurance	0.56	1	0.50
Total wealth	1,001,395	428,911	2,271,423
Non-housing wealth	704,128	172,932	1,969,936
Primary residence value	299,992	199,070	459,184
Probability of >\$10,000 bequest	73.39	95	36.29
Probability of >\$100,000 bequest	51.97	50	43.31
Probability of >\$500,000 bequest	25.33	0	37.00
Live with children	0.05	0	0.22
Live <10 miles from children	0.51	1	0.50

Note: Non-demographic variables are measured in the wave before the shock.

Source: HRS (2002-2016).

Mean costs for each sample are high – and their variance is also very high.

Healthcare Spending, Medical Shock Sample in the Wave of the Shock

Population	Cost category	Mean	p25	p50	p75	SD
Medical shock (N=5,419)	Total OOP	11,809	6,005	7,623	10,921	17,870
	Total LTC OOP	598	0	0	0	6,428
	Nursing home	368	0	0	0	3,690
	At-home services	230	0	0	0	5,130
	Special facilities	87	0	0	0	1,727
	Total medical OOP	11,124	5,906	7,421	10,522	16,480
	Hospitals	1,625	0	0	498	6,767
	Doctor visits	1,513	0	254	1,694	4,365
	Dental costs	1,598	0	349	1,820	3,136
	Outpatient surgery	455	0	0	0	3,339
	Prescription drugs	5,933	813	3,397	6,620	14,592
Full population (N=83,497)	Total OOP	2,424	343	1,065	2,574	7,151
	Total LTC OOP	119	0	0	0	2,365
	Nursing home	79	0	0	0	1,811
	At-home services	40	0	0	0	1,463
	Special facilities	29	0	0	0	651
	Total medical OOP	2,276	335	1,042	2,515	6,610
	Hospitals	209	0	0	0	2,055
	Doctor visits	293	0	7	169	1,368
	Dental costs	459	0	76	398	1,183
	Outpatient surgery	67	0	0	0	928
	Prescription drugs	1,249	0	439	1,236	5,652

Notably, medical spending is higher than LTC spending even for the LTC-shock sample.

Healthcare Spending, LTC Shock Sample in the Wave of the Shock

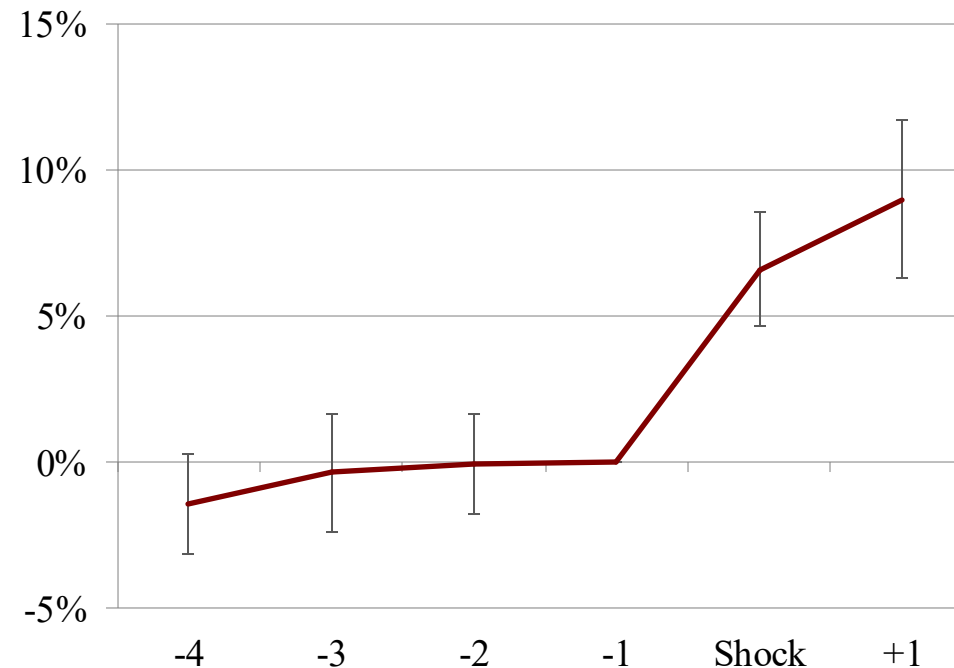
Population	Cost category	Mean	p25	p50	p75	SD
Long-term care shock (N=1,894)	Total OOP	9,861	2,236	4,812	10,494	16,609
	Total LTC OOP	4,469	177	664	2,912	13,368
	Nursing home	2,859	0	0	1,177	9,703
	At-home services	1,611	0	65	515	9,338
	Special facilities	273	0	0	0	1,728
	Total medical OOP	5,119	1,090	2,943	5,936	8,403
	Hospitals	1,647	0	142	1,213	6,016
	Doctor visits	971	0	166	680	3,633
	Dental costs	581	0	69	484	1,458
	Outpatient surgery	129	0	0	0	668
	Prescription drugs	1,792	309	838	2,096	2,907
Full population (N=83,497)	Total OOP	2,424	343	1,065	2,574	7,151
	Total LTC OOP	119	0	0	0	2,365
	Nursing home	79	0	0	0	1,811
	At-home services	40	0	0	0	1,463
	Special facilities	29	0	0	0	651
	Total medical OOP	2,276	335	1,042	2,515	6,610
	Hospitals	209	0	0	0	2,055
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Results: A clear increase in Medicaid following a LTC shock.

Share of Respondents Who Experience an LTC Shock on Medicaid

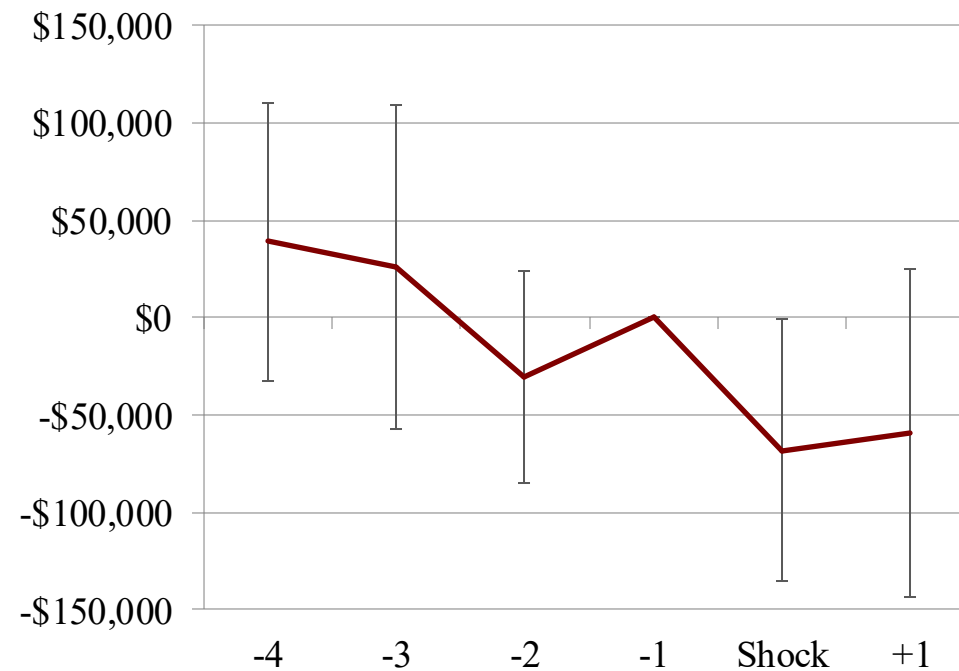


Notes: Error bars denote the 95 percent confidence interval.

Source: University of Michigan, *Health and Retirement Study* (HRS) (2002-2016).

At the same time, a significant decline in wealth, much larger than the shock itself.

Total Wealth of Respondents Who Experience an LTC Shock

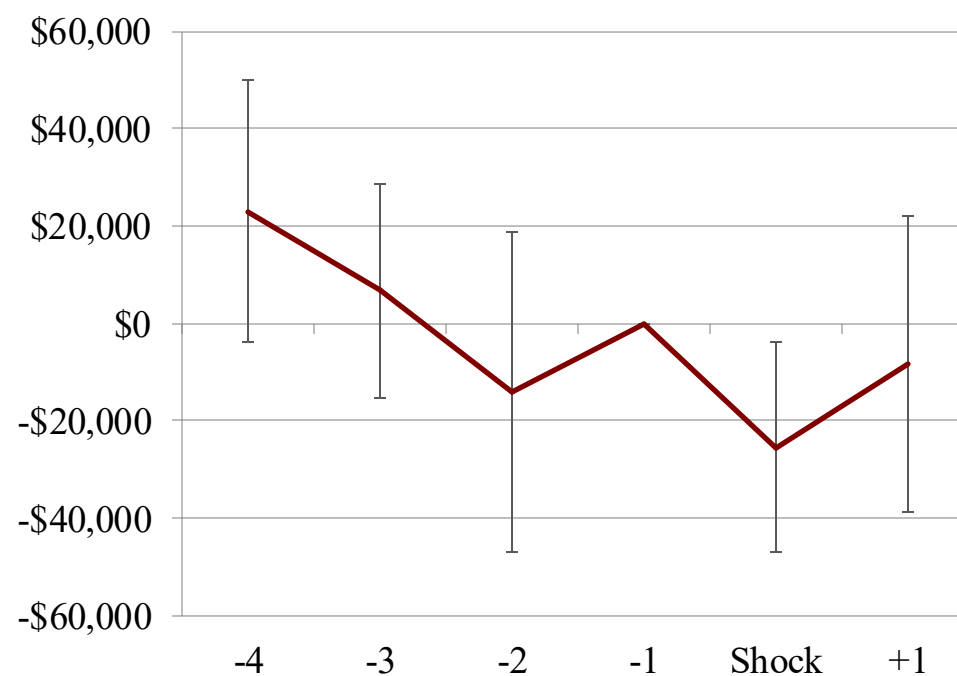


Notes: Error bars denote the 95 percent confidence interval.

Source: HRS (2002-2016).

Wealth fall is driven by housing, consistent with Poterba et al. (2011), but *not* with survey.

Primary Residence Value of Respondents Who Experience an LTC Shock

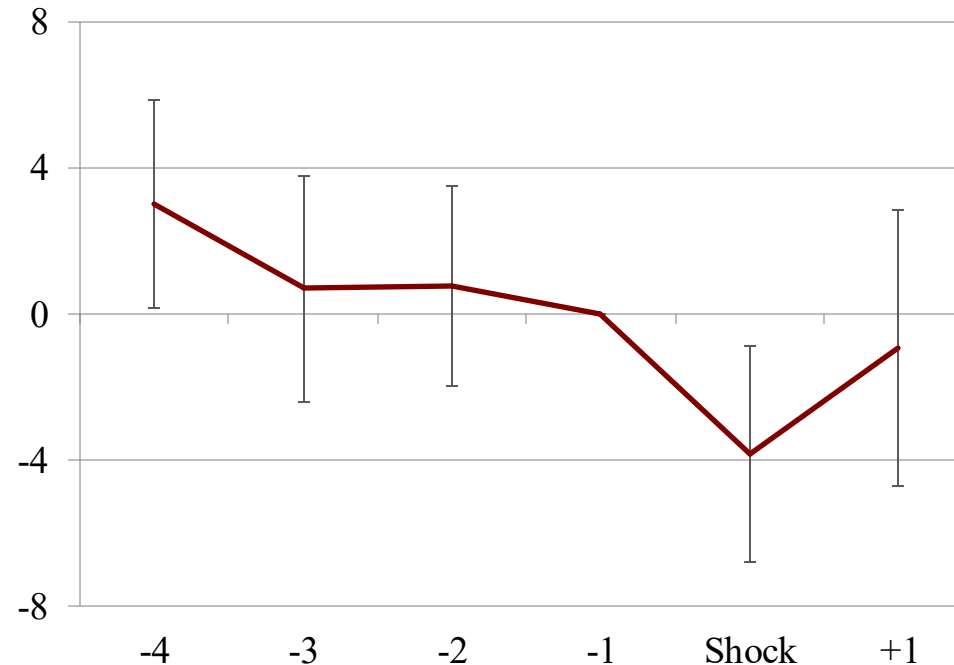


Notes: Error bars denote the 95 percent confidence interval.

Source: HRS (2002-2016).

We also find a fall in bequest expectations, consistent with Lockwood (2018).

Self-Reported Probability of Leaving More Than \$100,000 of Bequests of Respondents Who Experience an LTC Shock

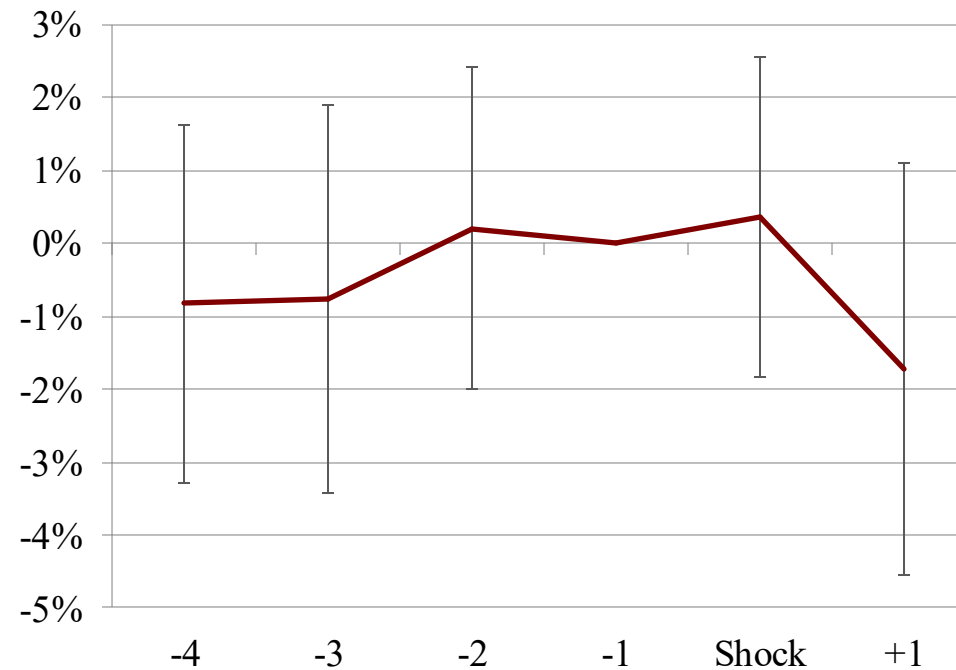


Notes: Error bars denote the 95 percent confidence interval.

Source: HRS (2002-2016).

The dog that didn't bark: No change in living with/near kids; consistent with preferences.

Share of Respondents Who Experience an LTC Shock Living with Their Children

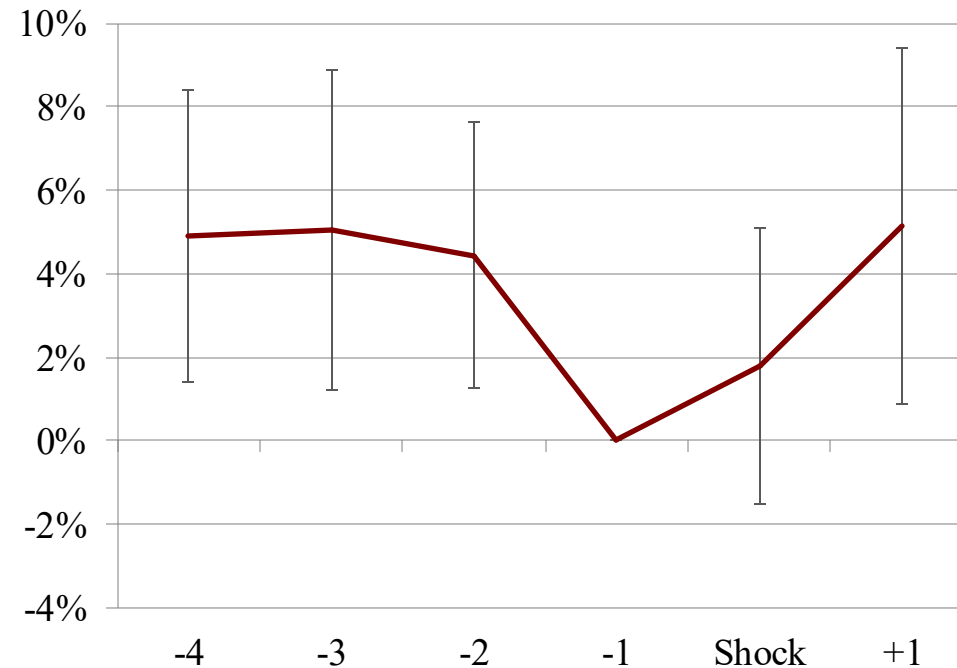


Notes: Error bars denote the 95 percent confidence interval.

Source: HRS (2002-2016).

A concern: A fall in supplemental insurance coverage starting two years before the shock.

Share of Respondents Who Experience an LTC Shock with Private Health Insurance

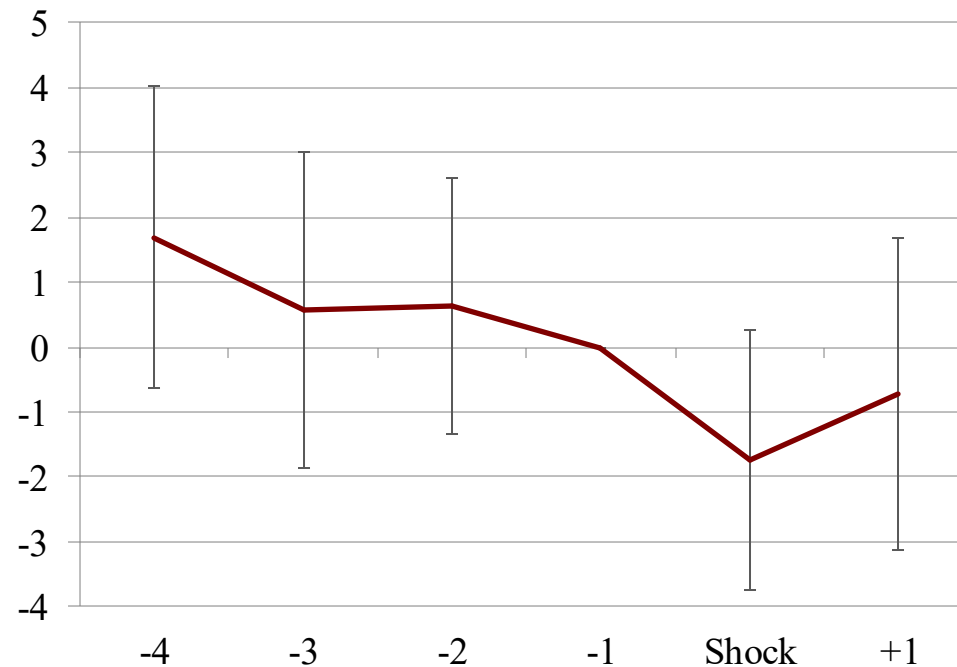


Notes: Error bars denote the 95 percent confidence interval.

Source: HRS (2002-2016).

In contrast to LTC, we find much less action after a medical shock.

Self-Reported Probability of Leaving More Than \$100,000 of Bequests of Respondents Who Experience a Medical Shock



Notes: Error bars denote the 95 percent confidence interval.

Source: HRS (2002-2016).

Null effects on all outcomes except bequest expectations.

- Even there, results are only significant at the 10% level.
- The overall lack of response is consistent with medical shocks being much better insured than LTC shocks.
- A remaining puzzle: given the insurance context, LTC shocks as defined involve a very similar financial hit.
- Why, then, do we observe much more response to LTC events?

One hypothesis is that LTC shocks may be more persistent.

- This is particularly likely since having paid OOP for LTC, any preexisting insurance is likely exhausted.
- In contrast, medical OOP maximums typically reset annually.
- Thus, the response to LTC shocks may reflect:
 - the current-year hit;
 - expected future LTC needs conditional on current needs;
 - and, finally, also more future risk exposure given lifetime coverage limits.

However, we find only limited evidence of this in the data.

Healthcare Spending After a Shock						
Population	Cost category	Mean	p25	p50	p75	SD
Long-term care shock (N=1,504)	Total OOP	3,210	694	1,638	3,276	5,415
	Total LTC OOP	1,330	0	30	349	4,646
	Nursing home	1,060	0	0	131	4,372
	At-home services	270	0	0	35	1,383
	Special facilities	88	0	0	12	478
	Total non-LTC OOP	1,793	541	1,195	2,226	2,257
	Hospitals	358	0	23	253	1,374
	Doctor visits	289	7	94	334	598
	Dental costs	266	0	85	315	544
	Outpatient surgery	67	0	0	7	330
	Prescription drugs	813	168	487	1,058	1,159
Medical shock (N=4,421)	Total OOP	2,672	713	1,436	2,692	5,741
	Total LTC OOP	683	0	0	0	4,075
	Nursing home	609	0	0	0	3,987
	At-home services	73	0	0	0	636
	Special facilities	41	0	0	0	288
	Total non-LTC OOP	1,948	647	1,302	2,316	3,719
	Hospitals	246	0	0	91	1,102
	Doctor visits	255	0	68	278	555
	Dental costs	364	0	130	423	706
	Outpatient surgery	58	0	0	2	276
	Prescription drugs	1,025	215	546	1,136	3,349

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Conclusion

- Retirees are imperfectly insured against healthcare shocks.
- Households must absorb the resulting OOP costs in some way.
- Most households are not very concerned about this risk – but some of that may be driven by misapprehensions of how shocks will impact them.
- Typically, households plan to rely on Medicaid and eschew drawing down home equity or relying on their children.

Conclusion (continued)

- Sanguine views of medical shocks seem justified, with impacts limited to possible reductions in intended bequests.
 - Consistent with the view of bequests as luxury goods.
- LTC shocks are less well-insured; impacts include:
 - increased Medicaid enrollment (albeit less than survey expectations);
 - drawdown of home equity (in contrast to survey);
 - reduced bequest expectations; and,
 - reduced supplementary medical insurance (possible cream skimming).
- Results highlight the limitations of household retirement plans, and underscore the importance of Medicaid as LTC insurance.

Thank you!



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Questions

