



Michigan Retirement Research Center

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Promoting research on retirement and Social Security Policy

Director's Corner

John P. Laitner

This Newsletter features MRRC research on health status and the well-being of older Americans.

Ruth Shamraj, associate director for external relations, presents her Q&A interview with MRRC researcher Eric French. The subject is Medicaid use in old age, including Medicaid sponsored nursing-home care. The research uses the Health and Retirement Study, collected at the University of Michigan. While Medicaid benefits are especially important to households at the bottom of the income distribution, they are also significant at the top for those with exceptional longevity. In fact, De Nardi, French and Jones find the fallback protection of Medicaid to be extremely valuable at all income levels.

In MRRC working papers, Maestas, Mullen and Strand examine the effect on Massachusetts health insurance reform on Social Security Disability Insurance (SSDI) and Supplemental Security Insurance (SSI) applications, and Bond, Levy and Nicholas examine Medicare claims among early Social Security claimants, SSDI recipients, and rejected SSDI applicants. Maestas et al. suggest

that the Affordable Care Act may reduce SSDI and SSI applications somewhat. Bound et al. find that hypothetical changes in the Early Eligibility Age and Full Retirement Age might, in the end, affect SSDI take-up quite modestly.

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Who Benefits from Medicaid in Old Age?

MRRC Researcher Eric French discusses the research behind his paper "Medicaid Insurance in Old Age," coauthored with Mariacristina De Nardi, Eric French and John Bailey Jones (WP 2012-278)

MRRC: What motivated you to do this study?

EF: Given that it appears that Medicaid is important for understanding the savings decisions of the elderly, we tried to dig a little deeper to better understand exactly who receives Medicaid benefits, how big the benefit amounts are, and how big the impacts on both savings and medical spending decisions might be.

Based upon previous research, we found that Medicaid has important impacts upon both the savings and, potentially the medical spending decisions of the elderly. We found that Medicaid has very important savings impacts for those at the bottom of the permanent income distribution, because Medicaid benefits them the most. The savings impacts tend to be extremely large, because in order to be eligible for the Medicaid program, the individual

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has to have close to zero assets. This creates a very strong savings disincentive. Yet, on the other hand, Medicaid provides extremely valuable insurance for those who have been hit the hardest by severe health shocks.

MRRC: What did you learn from this paper?

EF: First, those at the bottom of the income distribution receive more in the way of Medicaid benefits than those at the top. Second, those at the top actually do receive a nontrivial amount of Medicaid benefits. Very few high-income individuals actually receive Medicaid payments. However, when they do, it is typically for health concerns that are extremely serious. The main way by which high-income individuals wind up on Medicaid is by being in a nursing home. Individuals in nursing homes can spend \$70,000 per year out-of-pocket if they are not covered by Medicaid. High-income individuals who do wind up on the Medicaid program often benefit extremely greatly from it.

MRRC: What percent of low-income people end up on Medicaid? And what percent of high-income people?

EF: Those at the bottom of the income distribution have a Medicaid reciprocity rate of about 70%. Those at the top of the income distribution have much lower Medicaid reciprocity rates, very close to 0, until age 90. However, once individuals hit their 90s, and they run down other forms of savings, and wind up in very expensive nursing homes, the Medicaid reciprocity rates can rise to over 20%. On average, those at the bottom receive about \$5,000 per year in the way of Medicaid benefits. For those at the top, it's a little closer to \$1,500 per year. Those at the bottom receive more, but those at the top still receive a nontrivial amount.

MRRC: What about the middle class?

EF: Those in the middle receive somewhere in between those at the top and those at the bottom in the way of Medicaid benefits. Many of these individuals are receiving about \$3,000 per year in the way of benefits. That's about comparable to, on average, what people spend out-of-pocket on medical care.

MRRC: What does the model that you used tell you?

EF: The model tells us that individuals value Medicaid benefits very highly. To put things in perspective, what we have done is to try and think about what would happen if there was a nontrivial cut that reduced the generosity of the Medicaid program. We found that for every dollar in Medicaid benefits, individuals would actually be willing to pay \$2 to avoid that cut, on average. So people value the insurance aspect of the Medicaid program extremely highly.

MRRC: What does this tell policymakers?

EF: The key thing that we learned from this paper is that cuts to Medicaid might have serious impacts upon the well-being of the elderly population, especially if individuals don't have time to adjust their savings in response to benefit cuts.

MRRC: Is there one segment of the population that would be hurt more than another if there were benefit cuts?

EF: What we found is that people valued Medicaid benefits throughout the income distribution. Those at the top of the income distribution received less on average than those at the bottom, but those at the top of the income distribution valued these benefits extremely highly. The reason is that when they receive these benefits, they are in terrible straits.

MRRC: You write that the rich tend to live longer and incur higher expenses. Could you tell us more about that?

EF: Many people believe that Medicaid is just a program for the poor — and to some extent, that is correct. However, those at the top of the income distribution do benefit from the Medicaid program quite highly, just because those at the top of the income distribution tend to live longer and have more years to accrue benefits. Furthermore, when high income individuals do wind up incurring medical expenses that land them in the program, their medical expenses tend to be big. □

Featured Key Findings

Disability Insurance and Healthcare Reform: Evidence from Massachusetts *by Nicole Maestas, Kathleen Mullen and Alexander Strand* WP 2013-289

- ▶ We find that the MA health insurance reform in 2006-07 initially increased applications slightly for SSDI in MA relative to neighboring states, although the difference in application rates disappeared by late 2008.
- ▶ Counties with low pre-reform health insurance coverage rates experienced net decreases in total SSDI and SSI applications, whereas counties with high pre-reform health insurance coverage rates experienced net increases in SSDI and SSI applications relative to neighboring states.
- ▶ New SSDI applications in high insurance counties came from the newly unemployed, whereas the new SSDI applications in low insurance counties came from the long term unemployed/disabled.
- ▶ Since MA had higher health insurance coverage rates than the rest of the U.S. prior to the reform, this may point to a potential decrease in SSDI and SSI applications in the coming years, with a shift (at least initially) in the composition of new applications toward the SSDI program, as provisions of the Affordable Care Act go into effect.

Social Security Benefit Claiming and Medicare Utilization *by John Bound, Helen Levy and Lauren Nicholas* WP 2013-297

- ▶ We use administrative Medicare claims linked to nationally representative Health and Retirement Study data to compare health care utilization at common ages among four groups of Social Security recipients.
- ▶ Social Security beneficiaries claiming prior to their Full Eligibility Age are modestly less healthy than those who delay, but significantly healthier than DI recipients or rejected applicants.
- ▶ Rejected applicants appear more similar to DI recipients than to beneficiaries who never apply for DI benefits, though this difference is attenuated with additional time in Medicare.
- ▶ Our results suggest there could be a modest increase in DI application and receipt in response to increases in the EEA and FRA, though most early claimers would be too healthy for DI.

Call for Paper Proposals: Social Insurance and Lifecycle Events Among Older Americans Conference

With support from AARP, a conference on Social Insurance and Lifecycle Events Among Older Americans will be held on December 5, 2014, in Washington, DC. Topics will focus on lifecycle events commonly encountered by older Americans, the responsiveness of current policies to those events, and new thinking about policies consistent with a changing political environment. Papers containing applied empirical analysis should focus on how existing policies address the focal issues of the conference. Authors are also encouraged to submit broader papers that focus on policy reform and recommendations. Send paper proposals to Kenneth Couch at the University of Connecticut (Kenneth.Couch@UConn.edu) by March 15, 2014. More information is available on Dr. Couch's web page.

Costs and Benefits of In-Kind Transfers: The Case of Medicaid Home Care Benefits *by Ethan Lieber and Lee Lockwood* WP 2013-294

- ▶ In-kind provision of home care benefits significantly distorts the use of formal and informal care.
- ▶ In-kind provision significantly improves program targeting.
- ▶ In-kind provision appears to have little effect on tax system efficiency and moral hazard in the context of the Samaritan's Dilemma.
- ▶ The measurable benefits of in-kind provision appear to be of a similar size to the consumption distortion cost.

MRRC Researchers in the Media

Marco Angrisani was interviewed about the paper *Labor Force Transitions at Older Ages: The Roles of Work Environment and Personality*, coauthored by Michael Hurd, Erik Meijer, Andrew Parker and Susann Rohwedder, in *When to retire? It's not just about the money*, Jan 24, 2014, **MarketWatch**.

John Laitner spoke with the **Chicago Tribune** in *Steering older workers into new careers*, Nov 24, 2013, regarding *Technological Progress and the Earnings of Older Workers*, a paper coauthored by Yuriy Gorodnichenko, Jae Song and Dmitriy Stolyarov.

Research by Yuriy Gorodnichenko, Jae Song and Dmitriy Stolyarov in the paper *Macroeconomic Determinants of Retirement Timing* was cited in:

- *Is this the new way to retire?* Jan 13, 2014. **Philly.com**
- *When it's OK to retire with debt*, Dec. 14, 2013, **MarketWatch**.
- *7 New Trends in Retirement*, Dec 6, 2013, **DailyFinance.com**.
- *First Person: My Gen-X Plan to Survive Partial Retirement*, Dec 3, 2013, **Yahoo Finance**.
- *The rise of the 'partial retirement'*, Nov 15, 2013, **MarketWatch**.

Annamaria Lusardi and Olivia S. Mitchell were quoted in *Mortgage debt a threat for near-retirees*, Sep 25, 2013, **MarketWatch** for their paper *Older Adult Debt and Financial Frailty*.

Olivia S. Mitchell was quoted in *Navigating your retirement future* by **Marketplace.org**, Sep 6, 2013.

MRRC Researchers in Publication

Alan L. Gustman, Thomas L. Steinmeier, and Nahid Tabatabai, *Mismeasurement of pensions before and after retirement...* **Journal of Pension Economics and Finance**, Vol 13(1), Jan 2014, pp. 1-26.

John Laitner, Keiichiro Matsushita, and Noriko Nishimura, *Technological Progress and the Wage Growth of Older Japanese Workers*. **The Review of Socionetwork Strategies**, 7(2), Dec 2013, pp. 65-83.

Michael D. Hurd and Susann Rohwedder, *Heterogeneity in spending change at retirement*, **The Journal of the Economics of Ageing**, Vol. 1-2, Nov 2013, pp. 60-71.



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Michigan Retirement Research Center
Institute for Social Research
University of Michigan
426 Thompson Street, Room 3026
Ann Arbor, MI 48104-2321

Director: John P. Laitner
Associate Director: Dmitriy Stolyarov
External Relations: Ruth Shamraj
Administrative Manager: Becky Bahlubi

Phone: (734) 615-0422
Fax: (734) 615-2180
E-mail: mrrcumich@umich.edu
Web: www.mrrc.isr.umich.edu

Regents of the University of Michigan
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