

Eric French

*talks about who benefits from
Medicaid in old age**

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Medicaid Insurance in Old Age

MRRC: What motivated you to do this study?

EF: 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 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.

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.



Eric French is a professor of economics at University College London and a senior economist and research advisor at the Federal Reserve Bank in Chicago.

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.

** In this Researcher Q&A, Eric French discusses the research behind the paper he coauthored with Mariacristina De Nardi and John Bailey Jones, Medicaid Insurance in Old Age, MRRC Working Paper WP 2012-278.*



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. □



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