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Medical Spending Risk among Retired Households by Race

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We examine how total and out-of-pocket medical expenditures of retired households vary across race, both annually and over their remaining life spans. We find that in a given year all races have similar total expenditures, with any differences attributable to age, education, income, and household structure. Racial inequities in spending largely reflects inequities in other aspects of society, such as educational differences.

We also evaluate the remaining lifetime medical spending of 65 year olds. Because they have shorter life spans, total remaining lifetime medical spending is lower for Black than white or Hispanic households.

We also evaluate the different payors of medical spending. For all groups, Medicare and Medicaid pay the majority of all medical expenses. Black and Hispanic households spend less out-of-pocket than white households and have a greater share paid by Medicaid and Medicare. This largely reflects the greater Medicaid recipiency of racial minorities stemming from lower economic resources. At age 65, white households will, on average, incur around $100,000 in out-of-pocket medical spending on deductibles, co-pays, and other liabilities (but excluding insurance premia) over the remainder of their lives, versus $48,000 and $42,000 for Black and Hispanic households. Thus, Black and Hispanic households are better insured by Medicare and Medicaid.

We document differences in total and out-of-pocket medical spending between white, Black, and Hispanic households. While white households have higher total medical spending on average, racial gaps in total spending are explained by observable covariates such as household structure, health status, and education. White households pay a higher share of their medical expenses out of pocket. This is partially, but not fully, explained by their higher income and better health, which make them less likely to receive Medicaid. This shows that Medicaid provides important insurance against medical spending risk, especially for Black and Hispanic households.

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Using an estimated dynamic model of health and medical spending, we simulate lifetime medical spending histories. We show that at age 65, white people will incur significantly more medical spending than Black people over the rest of their lives, which largely reflects their shorter life spans. Because we model the budget sets households face, we can also calculate how much households pay out-of-pocket. Here the differences are even starker. Over the remainders of their lives, white households will, on average, incur twice as much out-of-pocket medical spending as Black or Hispanic households. This is because Black and Hispanic households are better insured by Medicare and Medicaid.

Our model can be used to evaluate counterfactual policies that impact co-insurance rates, including those designed to insure against nursing home or other catastrophic medical spending.

An important potential next step would be to better model why Black and Hispanic households are much more likely to receive Medicaid. Medicaid recipiency depends on a host of factors that we omit. Perhaps the most important of these is housing and non-housing wealth. Wealth is a difficult variable to model because it depends on not only medical spending, but also other spending choices. Furthermore, households may choose to run down their wealth to qualify for Medicaid. Building in this forward-looking behavior would be a challenging but worthwhile extension. ❖

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