Study: Health 'shocks' diminish wealth more later in life

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A new study underscores the need for seniors to maintain their health -- in order to maintain their wealth. Building on a 2003 study that found that healthy seniors are more likely to retain their savings, Ohio State University researchers have now discovered that the later in life a serious illness occurs, the more damage it does to a person’s finances.

The study found that when seniors develop a new and serious health problem -- experiencing what the researchers call a “health shock” -- early in retirement, they lose a substantial portion of their savings immediately. But if they experience the health shock later in life, they will lose even more.

Study participants over 70 years of age lost 40 percent more of their savings than similar seniors who were just four years younger.

The results appear in a recent issue of the *Journal of Population Economics*.

The impact of health problems on seniors’ finances has been studied over the years, but scientists have drawn different conclusions -- in part because they measured health and wealth in different ways, said Jinkook Lee, professor of consumer sciences at Ohio State.

This study is the first to gather a long-term perspective on how chronic illness diminishes seniors’ wealth over time.

"When someone has a chronic health problem, they tend to find a way to manage in their daily life, but financially, the negative effect doesn't go away," Lee said. "If you develop diabetes, for instance, it costs you for your entire life."

She and coauthor Hyungsoo Kim of the University of Kentucky, Lexington, have been tracking the health and wealth of seniors using a broad based, national survey: the National Institute on Aging's Asset and Health Dynamics of the Oldest Old (AHEAD) survey.

In a 2003 study of AHEAD data, they found that seniors who maintain their health are 6 to 7 percent more likely to retain a significant portion of their savings, compared to those who suffer from health problems.

This new study compared the long term financial repercussions of pre-existing chronic health problems with those caused by the sudden onset of a new health problem late in life. Lee and Kim focused on five common and serious health conditions: diabetes, cancer, lung disease, heart condition, and stroke.

They examined how the wealth of more than 5,500 AHEAD participants changed between 1995 and 2002. All were aged 70 or older at the start of the study.

When participants developed a new and serious health condition, the researchers categorized those incidents as a "health shock."

The later in life that health shocks occurred, the more they diminished a person's wealth, the researchers found. In 1998, participants who had recently experienced a health shock lost an average of 5.5 percent of their overall wealth as a result. But when they were two years older, the average loss for a health shock was 8.7 percent of wealth.

When they were four years older (in 2002), it was 9.5 percent -- 40 percent more than when the participants were first studied in 1998.

"If you have a chronic health condition, it diminishes your wealth throughout your life. And if you get a health shock, it diminishes your wealth even more," Lee said. "Though over time the costs associated with that shock may decrease, that illness will still deflate your wealth continuously thereafter."

To Lee, this research demonstrates how costly healthcare is to Americans, even if they have Medicare coverage.

Medicare typically pays a little over half of someone's medical bills, and seniors -- most of whom are living on a fixed income -- are forced to make up the difference by dipping into their savings. Add to that the fact that Americans are living longer, and the cost of healthcare keeps increasing.

Even if seniors can recover physically from a health shock, they can't recover financially.

"If we have some kind of health shock during our working years, maybe we are lucky and we have good health insurance from our job. Or maybe we can go out and get a second job or try to work longer hours to make up the cost. But seniors are past the age when they can do that," Lee said.

The lesson, she said, is that even average Americans need to give serious thought to the health care system, and plan for their retirement with healthcare costs in mind. People with chronic diseases in their family history can talk to their doctor to learn about the likelihood of developing these diseases themselves. And then they can try to make better estimates of what their healthcare costs will be after they retire. They can also try to live healthier lives with the goal of staving off these diseases.

As part of her continuing research, Lee is traveling around the world to examine how different healthcare systems impact people’s wealth. She is focusing on how universal healthcare systems, such as those in France and Canada -- and now, even in developing countries like Korea -- are easing the burden of citizens’ healthcare costs.

Source: Ohio State University