Out-of-Pocket Medical Expenses and Retirement Security

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Policy Abstract

The overall cost of health care for older Americans has grown significantly over time and will continue to grow in the future. Some of this cost is paid for by Medicare, some by Medicaid, some by employer-provided health insurance plans, some by privately-purchased health insurance supplements, some by privately-purchased long-term care insurance, and some out-of-pocket. There is an important financial obligation and risk to retirees associated with health care costs that are paid out-of-pocket, through both insurance premiums and direct payments to providers. This study explores recent trends in out-of-pocket medical spending, the implications of out-of-pocket medical costs for financial security in retirement, and what might be expected in the future. The primary finding of the study is that out-of-pocket health care expenditures are both larger than previous estimates and growing over time. As a result, out-of-pocket medical expenditures have become a very important component of financial need for a surprisingly large fraction of older people in the United States.