

The protective effects of a healthy spouse: Medicare as the family member of last resort

Executive summary

As populations age, long-term care becomes a central challenge. Projections for the United States and other high-income countries point to rapid growth in the share of adults who need help with the basic activities of daily living. We use novel Medicare data that link spouses to examine how one spouse's sudden incapacitation (due to a heart attack or a stroke) affects their partner's need for formal care. We find that a spouse's health shock causes their partner to be 18% more likely to visit a skilled nursing facility. We assess that this pattern reflects both a change in health (accounting for 10% of the total effect) and a shift from informal care to formal care (accounting for 90% of the total effect). Exploiting a discontinuity in Medicare's coverage of SNF days, we further show that after one spouse is incapacitated, the other spouse becomes less sensitive to the price of formal care. This means that the loss of informal care leads to a more price-inelastic demand for formal care, which we show in a standard model to imply that people are willing to pay roughly four times more for formal care when their spouses become incapacitated. We explore the implications of our new findings for optimal health insurance contracts. We specifically show that the within-household spillovers we identify imply optimal health insurance contracts should provide significantly more generous coverage to those whose spouses are incapacitated relative to those whose spouses are available to provide them with care.

Itzik Fadlon
University of California
San Diego and NBER

Tal Gross
Boston University
and NBER

Alex Hoagland
University of Toronto

Tim Layton
University of Virginia
and NBER

About the authors

Itzik Fadlon is an Associate Professor of Economics at the University of California, San Diego (UCSD) and a Research Associate in the programs on the Economics of Health, Aging, and Public Economics at the National Bureau of Economic Research (NBER). He is also an Invited Researcher at J-PAL North America at MIT and an Associate Editor at the Journal of Health Economics. His primary fields of interest are public finance and health economics, with a particular interest in addressing central questions in the economics of aging and the optimal design of social policies. He received his PhD in economics from Harvard University in May 2015. Before joining UCSD in 2016 as an Assistant Professor, Itzik spent a year as a Postdoctoral Fellow in Disability Policy Research at the NBER funded by the Social Security Administration, and he spent the academic year of 2019-2020 as a Visiting Scholar in Aging and Health Research at the NBER funded by NIH/NIA.

Tal Gross is a professor in the Department of Markets, Public Policy & Law at Boston University. He is also a Research Associate at the National Bureau of Economic Research. His research focuses on health insurance and household finance. He received his bachelor's degree from The University of Chicago and his PhD from the Massachusetts Institute of Technology. He previously taught at the University of Miami School of Business Administration and the Columbia University Mailman School of Public Health.

Alex Hoagland is an Assistant Professor and early-career researcher in the University of Toronto's Institute of Health Policy, Management and Evaluation in the Dalla Lana School of Public Health, and Co-Director of the Canadian Centre for Health Economics. He received his PhD in Economics from Boston University in May 2022. His primary field is health economics, with additional research in industrial organization and applied econometrics. His research focuses on how information shapes equitable access to health care, health decision-making by patients and providers, and innovation adoption in healthcare.

Tim Layton is an Associate Professor of Public Policy and Economics in the Batten School of Leadership and Public Policy at the University of Virginia, a Research Associate at the National Bureau of Economic Research, Co-Editor of the Journal of Health Economics, and an affiliated researcher at J-PAL at MIT. His research focuses on the economics of health insurance markets, with a particular focus on markets and social health insurance programs for low-income households. He received his bachelor's degree from Brigham Young University and his PhD from Boston University. Before coming to UVA, he was the 30th Anniversary Associate Professor of Health Care Policy at Harvard Medical School.

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