

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

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## 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.

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