New Study Tracks Impact of Aging on Health Costs

Society of Actuaries-Sponsored Study Using HCCI Data Estimates Early Retirees Need $226,000 More to Cover Health Care Costs

Schaumburg, Ill. and Washington, DC – A new study evaluating the impact of aging on health care costs from birth until very old age determines that the average 55-year-old retiree will spend $226,000 more on health care than a person retiring at age 65, assuming they both live to age 85. The research, sponsored by the Society of Actuaries (SOA) using data from the Health Care Cost Institute (HCCI), estimates that retiree health care costs will be $146,400 for someone age 65 who lives 20 more years, while individuals retiring at age 55 will need $372,400 to cover their health care costs to age 85.

The study, Health Care Costs from Birth to Death, examines the impact of age and gender on overall and retiree health costs, Medicare spending, and spending on disease over 2002-2010. The report includes a number of key findings:

- America’s aging population is not an overwhelming driver of increased health care spending;
- The cost of children’s health care is rising;
- Delaying childbirth has shifted the high point of young women’s health care spending from the late 20s to the early 30s;
- Health costs are twice as high for people with cancer, circulatory, or musculoskeletal conditions than for people without; and
- Medical costs for older men are higher than for older women.

As people age, they spend more on health care and Health Care Costs from Birth to Death evaluated how much aging affects spending. It shows that America’s aging population has consistently contributed an average increase of less than half a percent per year to health care cost growth for decades. Study author and actuary Dale Yamamoto says age is just one of many
variables accelerating health care spending, including generational attitudes towards health, treatment pattern changes, changing technology, and the availability of new drugs.

“The aging of America is often cited as a key driver of the nation’s high health care bill. This study shows it’s a much smaller factor than most people think,” says Yamamoto, an independent actuarial consultant based in Chicago.

**Birth to Death Assessment of Health Care Spending**

*Health Care Costs from Birth to Death* is one of the first research reports to examine health care spending from birth to age 98 for people covered by commercial health insurance and for those covered by Medicare fee-for-service.

“The results of this research provide useful information for those working on a number of important health care issues,” commented Greg Heidrich, executive director of the SOA.

“By combining commercial and Medicare data, Yamamoto has presented a more complete picture of how age contributes to health care costs,” said HCCI Executive Director, Dr. David Newman. “The breadth and depth of HCCI’s data makes this assessment of health care costs and utilization possible. This report should spur further research and help inform policymakers about what is driving health spending.”

**Retiree Health Care Costs**

In assessing retiree health care costs, the report evaluates the impact of increasing the eligibility age of Medicare. Raising eligibility from age 65 to 70 changes who is covered by Medicare and would exclude younger and possibly healthier people. Yamamoto found that raising the eligibility age would reduce overall Medicare costs by about 19 percent but will increase the per person costs by 12.5 percent for those over age 70.

Retiring before age 65 results in higher out-of-pocket spending for consumers. The report’s findings show that people who retire at age 55 and live to age 75 can expect to pay $155,000 more than the average 65-year-old retiree who lives to age 75 in total out-of-pocket spending, including non-Medicare premiums.

**Health Reform and Premium Ratios**

Beginning in 2014, the ratio of premiums for the older and younger adults is limited to no more than 3 to 1 for non-grandfathered small groups and individuals. In order to help states and insurers set rates, the Centers for Medicare & Medicaid Services (CMS) proposed an "age curve" that insurers could use to set premiums between ages 21 and 64. Based on the data from HCCI, *Health Care Costs from Birth to Death* concludes that the CMS age curve was very close to Yamamoto’s estimated age cost curve for adults ages 35 to 55. However, the CMS age curve is 27% higher for adults ages 21 to 29 and 3% lower for adults ages 60 to 64 than Yamamoto’s estimates. While the higher CMS cost curve for younger adults is by design, Yamamoto's findings suggest the premium ratio for the youngest adults would be set higher
than their estimated spending, and the premium ratio for the oldest adults would be set lower than estimated spending.

Other report highlights:

- **Spending to treat disease**: For people over age 30 with cancer, circulatory, or musculoskeletal conditions health care costs were two times more than costs for those without disease. People younger than 30 with chronic diseases have much higher average costs, particularly children with cancer, for whom health care spending is nearly eight times more than for the average child.

- **Spending on women**: The bump in women’s health care spending—associated with child-bearing—has shifted outward three years as women delay childbirth from their late 20s until after age 30. The report also concludes that spending for women exceeds spending for men until age 60, when men’s health care becomes more costly.

- **Spending on children**: The study suggests health care costs have been rising faster for children ages 8-20. Health costs are very high in the first year of life and drop significantly until age 8.

*Health Care Costs From Birth to Death* uses data from 2002 through 2010, including Medicare fee-for-service data, and data on the privately insured held by HCCI. The study is the first in a series from the SOA to support independent actuarial research using HCCI’s unique database of more than 6 billion commercial claims covering over 50 million privately insured Americans. This independent research was funded and supported by the SOA.

For a copy of *Health Care Costs from Birth to Death*, visit: [http://www.healthcostinstitute.org/SOA-1-2013](http://www.healthcostinstitute.org/SOA-1-2013)

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The SOA, through research and education, advances actuarial knowledge and improves decision making to benefit society. We enhance the ability of actuaries to be trusted financial and business advisors on problems involving uncertain future events. We provide and ensure the integrity and relevance of our credentials. The SOA’s vision is to be the leading provider of globally recognized credentials establishing actuaries as business leaders who measure and manage risk to support financial security for individuals, organizations and the public. Visit [http://www.soa.org](http://www.soa.org).

**About the Health Care Cost Institute**
The Health Care Cost Institute promotes independent, nonpartisan research and analysis on US health care spending. HCCI believes a better understanding of the forces driving health care cost growth will help policy makers, researchers, and the public make decisions that will lead to more accessible and affordable care. HCCI is governed by an independent board that includes distinguished economists, actuaries and health care experts. For more information, visit [www.healthcostinstitute.org](http://www.healthcostinstitute.org) or follow us on Twitter @healthcostinst