

The Impact of Medical and Nursing Home Expense Risk and Social Insurance Policies on Savings and Inequality

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Discussion by Rui Castro, Université de Montréal

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Overall Assessment

Nice, ambitious, careful attempt to consider the impact of

1. uninsured medical and nursing expense risk
2. public insurance and welfare programs

on wealth distribution.

Main contributions:

1. Detailing health expenses, public policies.
2. General equilibrium: key for large-scale public policy analysis.

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Health expenses as shocks from common process?

- ▶ Hall and Jones (QJE, 2007)
 - ▶ Why did health expenditures rise so much over time in the U.S.?
 - ▶ Because health is a luxury good.
 - ▶ As economy grows, individuals spend relatively more on health, live longer.
 - ▶ Same should be true in the cross-section.
- ▶ De Nardi, French and Jones (2006), and others before - it is true!
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My point is:

1. (*expense shocks?*) much lower underlying health risks than observed variance in health expenses,
2. (*common process?*) health expenses are tied to lifetime income.

Income-rich individuals *anticipate* large health expenses when old, and live longer $\implies$ save more, remain wealth-rich for longer.

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Simple suggestion:

Specify medical health expense schedule as

$$\ln M(\text{age, health, } \gamma) = \beta_1(\text{age}) + \beta_2(\text{age})^2 + \text{health} \times \gamma(\text{past earnings}).$$

- Would public health care have still such a large negative impact on wealth accumulation?

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Other questions

2. Are borrowing constraints too tight?
Accumulation incentives too strong?

Model features:

- (i) agents born without assets,
- (ii) accidental bequests fully taxed away and used to finance welfare programs.

3. Is life-cycle saving too high? (Kotlikoff and Summers (JPE, 1981))

Model features:

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4. No lump-sum redistribution of accidental bequests?

Model features:

- (i) estate taxation is source of government revenue,
- (ii) incomes taxes are endogenous,
- (iii) income taxes distort saving behavior.

⇒ Policy changes may produce unintended effects.

5. Is public health insurance welfare-improving? (Aiyagari (JPE, 1995))

6. Effect of aging population?

7. Canada - U.S. comparison? We have the outcome of some counterfactual experiments!

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