

## **Financial Well-Being in Late Life: Understanding the Impact of Adverse Health Shocks and Spousal Deaths**

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### Key Findings and Policy Implications

This paper explores the role of health shocks in contributing to the draw-down of people's assets during retirement. It focuses on eight health conditions: stroke, heart attack, cancer, lung disease, arthritis, diabetes, high blood pressure and psychiatric conditions; as well as other health-related events such as a hospital stay, nursing home stay, home health care, or loss of a spouse. The analysis is conducted, using ten waves of data from the Health and Retirement Study (HRS). The paper finds that:

- Health shocks are common. For example, the lifetime probability of being diagnosed with arthritis is 55 percent for a 65-year-old arthritis-free woman, and 46 percent for a man. For a stroke, the probabilities are 24 percent and 21 percent, respectively.
- In the two years between HRS waves, we identify many new diagnoses not reported in the previous wave. The most common is arthritis (14.7 percent), followed by hypertension (13.8 percent), cancer (4.9 percent), diabetes (4.3), stroke (3.8), psychiatric problems (3.3), lung disease (3.0 percent), and heart attack (2.8). A married individual has a 3.6 percent chance of a spousal death. The chance of a hospital admission is 43.1 percent, a nursing home stay 8.9 percent, and using home health care, 15.7 percent.
- For six of the diagnoses studied, we cannot reject the null hypothesis that net worth is unaffected by a new diagnosis. For two conditions, however, stroke and lung disease, we find substantial declines in net worth following the diagnosis: just over \$25,000 for a stroke, and \$29,000 for lung disease.
- The decline in wealth is larger for those with substantial initial wealth than for those with relatively little. For example, a stroke (lung disease) is associated with a decline in net worth of \$4,682 for low wealth individuals and \$59,290 for wealthier individuals. The corresponding declines for lung disease are \$9,986 and \$84,959 for low and high wealth individuals, respectively.
- The average expected "wealth cost" of health shocks is about 3 percent of household net worth at age 65 for single men, 9 percent for married men, 10 percent for married women, and 14 percent for single women. These disparities are more reflective of differences in average wealth by group than of differences in the change in net worth coincident with diagnosis.

How much savings do I need to prepare for late-life health shocks?" is one of the most vexing financial planning questions faced by individuals nearing retirement. The answer to this question depends on the probability of a substantial adverse health event, and the cost of such an event should it occur. This study provides new insights on these potential financial costs in later life.

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