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Public Health Insurance and Household Portfolio Choices: Unravelling Financial "Side Effects" of Medicare.#

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Abstract

Large, unpredictable and not fully insurable health-care costs represent a source of background risk that might deter households' financial risk taking. Using panel data from the Health and Retirement Study, we test whether universal health insurance, like Medicare for over-65 Americans, shields against this risk promoting stockholding. We adopt a fixed-effects estimation strategy, thereby taking into account household-level heterogeneity in health status and private insurance coverage. We find that, before Medicare eligibility, households in poor health, who face a higher risk of medical expenses, are less likely to hold stocks than their healthier counterparts. Yet, this gap is mostly eliminated by Medicare. Notably, the offsetting is primarily experienced by households in poor health and without private health insurance over the observation period.

JEL classification
D14; I13; G11
Keywords
Household portfolios; Health status; Medicare; Health insurance.

Introduction

The rise of health-care costs in the U.S. has become an increasingly important contributor to household financial risk, in most cases responsible for large outstanding debt and bankruptcy. Cunningham (2009) estimates that in 2007 about 19% of the U.S. population had problems paying medical bills (up