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Patient Cost Sharing and Medical Expenditures for the Elderly<sup>\*</sup>

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## Abstract

Despite the rapidly aging population, relatively little is known about how cost sharing affects the elderly's medical spending. Exploiting longitudinal claims data and the drastic reduction of coinsurance from 30% to 10% at age 70 in Japan, we find that the elderly's demand responses are heterogeneous in ways that have not been previously reported. Outpatient services by orthopedic and eye specialties, which will continue to increase in an aging society, are particularly price responsive and account for a large share of the spending increase. Lower cost sharing increases demand for brand-name drugs but not for generics. These high price elasticities may call for different cost-sharing rules for these services. Patient health status also matters: receiving medical services appears more discretionary for the healthy than the sick in the outpatient setting. Finally, we found no evidence that additional medical spending improved short-term health outcomes.

Key words: Medical spending, cost sharing, price elasticity, elderly population  
JEL Classification: I11, I13, I18

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