HARVARD Kennedy School
JOHN F. KENNEDY SCHOOL OF GOVERNMENT

Comments on "The Long-Term Fiscal Benefits (and Costs) of Better Disease Prevention" and "Socioeconomic Disparities in Disabled Life Expectancy: Implications for Our Fiscal Future"

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Both papers use relevant, sophisticated models with great care

As you have seen from the authors' papers and presentations, both the Future Adult Model (FAM) and DYNASIM are elaborate simulation models built to analyze crucial policy issues. Both models:

- Combine a number of micro datasets
- Track numerous transitions in health and disability status
- Include fiscal calculators to translate health and disability status into effects on government budgets
- Can project outcomes far into the future

I have great admiration for the modeling efforts of Melissa and Bryan and Dana and their many collaborators and predecessors, and their modeling teaches us a lot.

Still, important caveats about the modeling apply

When models get very complicated, tracing the effects of each separate decision regarding data use and model specification becomes very difficult. Decisions that are individually sensible can combine some times in unexpected and revealing ways and at other times in unexpected and misleading ways.

Notwithstanding the large amounts of data used and the elaborate transition matrices and so on, the future is still hugely uncertain. Both rigorous analysis of forecasts and reflection on my own experiences suggest that forecasters are generally too confident about their forecasts. As various people have argued, the future may be stranger than we can imagine.

My comments will accept the estimates as given and consider the implications for fiscal policy

First, what are the implications of these estimates regarding disease prevention?

Second, what are the implications of these estimates regarding disability?

Better disease prevention matters more for lives than for budget dollars

If we “perfectly prevent” diabetes or cancer or heart disease or hypertension or chronic lung disease or stroke, 1 to 2 million more people will be alive in 2050. That is a big deal, and we should use estimates like these to guide prevention efforts.

However, even if we “perfectly prevent” one of those diseases, the effects on government budgets in 2050 will be fairly small.

How significant are the budgetary effects of disease prevention?

Expenditures on Social Security, Medicare, Medicaid, and SSI:

2018:		$2043 billion
2050:	Base case:	$6417 billion
	Alternatives:	$6115 to 6564 billion

Differences in spending:	-$302 billion to $147 billion
Differences in net fiscal burden:	-$444 billion to $65 billion

Base case spending in 2050 is 314 percent of current spending. Differences in net fiscal burden from "perfect" disease prevention range from 7 percent below to 1 percent above the base case.

Better disease prevention matters more for lives than for budget dollars (cont.)

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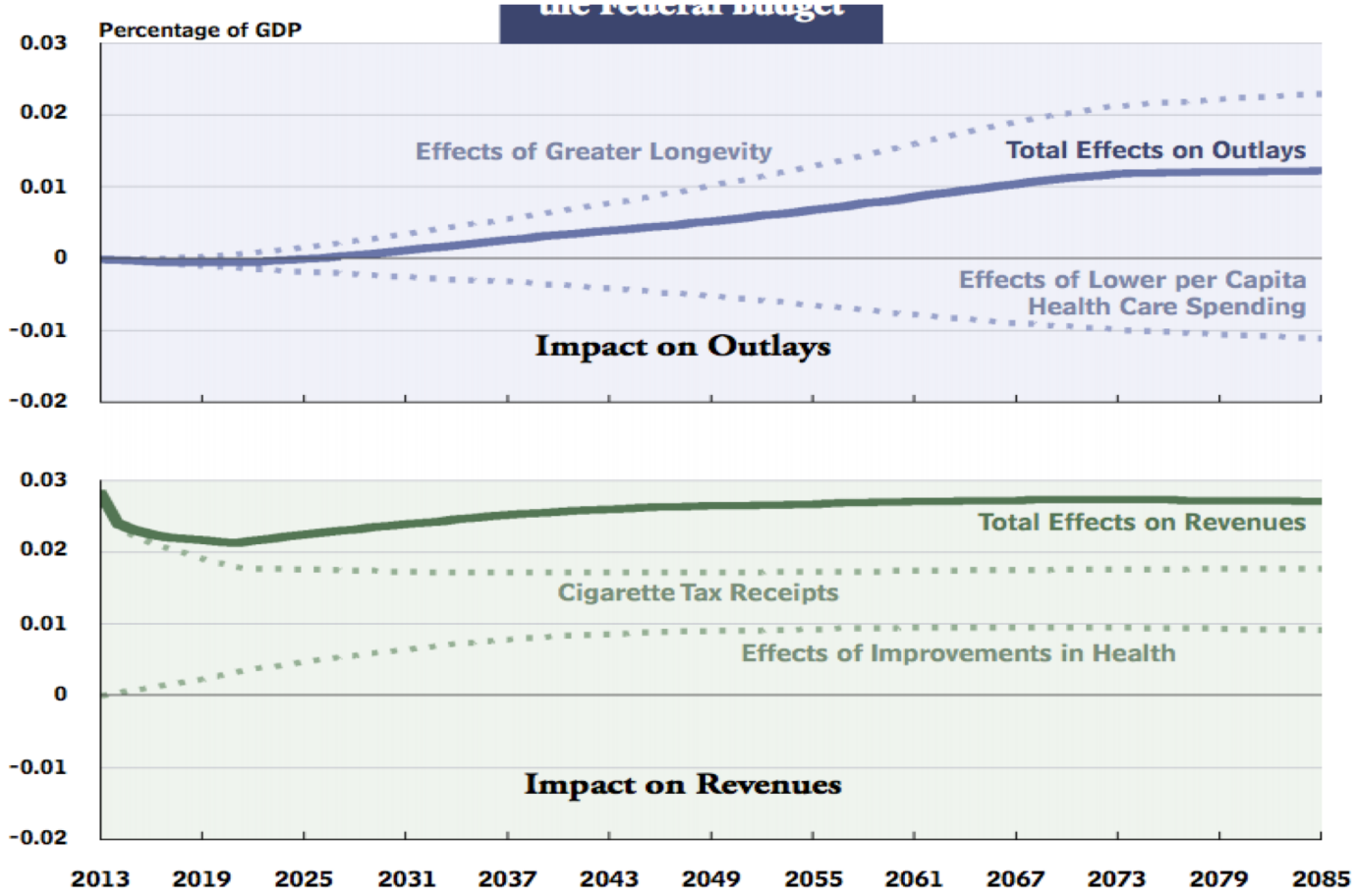
Why? Because people who don't get one disease may get another, and because the government provides annuities as well as paying for health care.

I learned these lessons in some detail several years ago through CBO's analysis of the effects of raising the excise tax on cigarettes.

Similarly, raising the excise tax on cigarettes would have a fairly small net effect on the federal budget



Better disease prevention matters more for lives than for budget dollars (cont.)

Studying the implications for private budgets would be very interesting as well.

Concluding that disease prevention does not help the federal budget very much can be easily misinterpreted and is not popular even if correctly interpreted:

- Analysts should emphasize that preventing disease can be a very good use of public funds even if it is not a source of additional funds.
- Still, it is too bad that preventing disease would not solve more of our looming budget challenge.

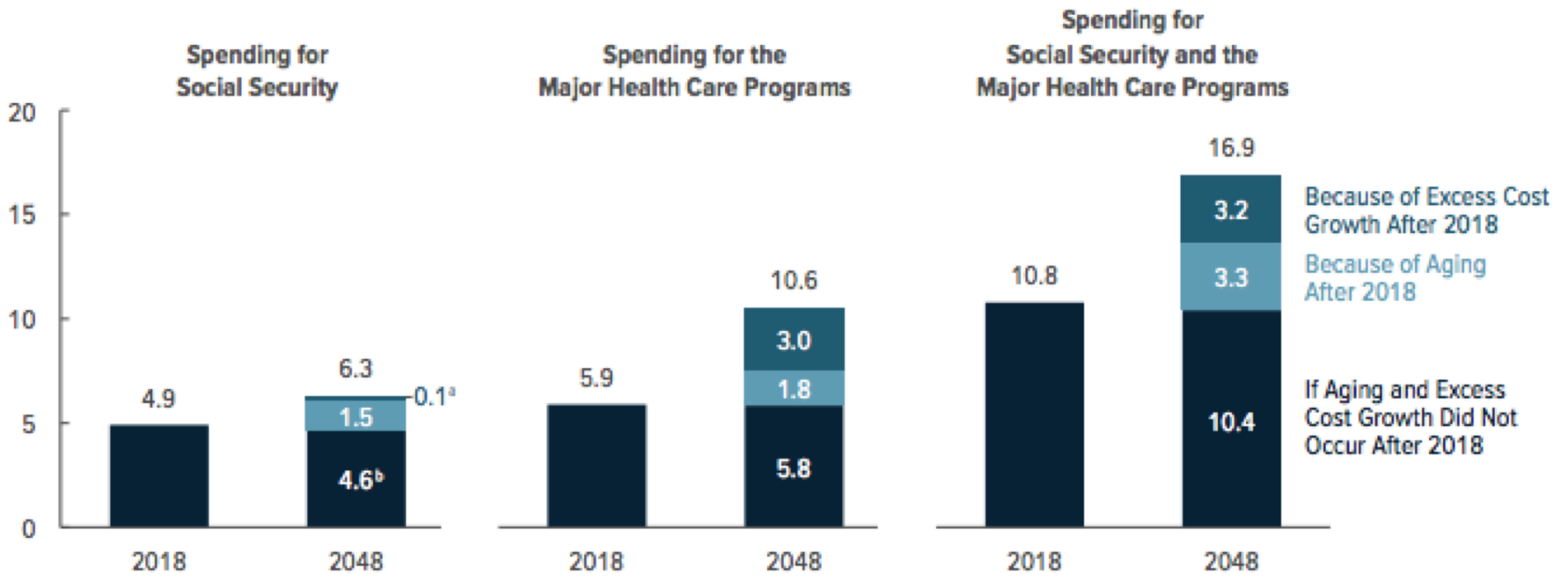
To make conscious decisions about how much to spend on health care, we should continue to focus on increasing competition or expanding regulation.

Demographics and underlying health spending growth will drive budget outcomes

Figure 9.

Spending Growth in Social Security and the Major Health Care Programs in CBO's Extended Baseline

Percentage of Gross Domestic Product



Source: Congressional Budget Office.

Disability varies dramatically by education and lifetime income

Share of people who need help with 2 or more ADLs for at least 90 days or are severely cognitively impaired:

	Over 65	65-69 ……	90+
No high school diploma	17%	7%	37%
High school diploma	11%	8%	36%
Some college	7%	4%	25%
Bachelor's degree or more	5%	2%	18%

A significant share of government benefits for older Americans will go to the severely disabled

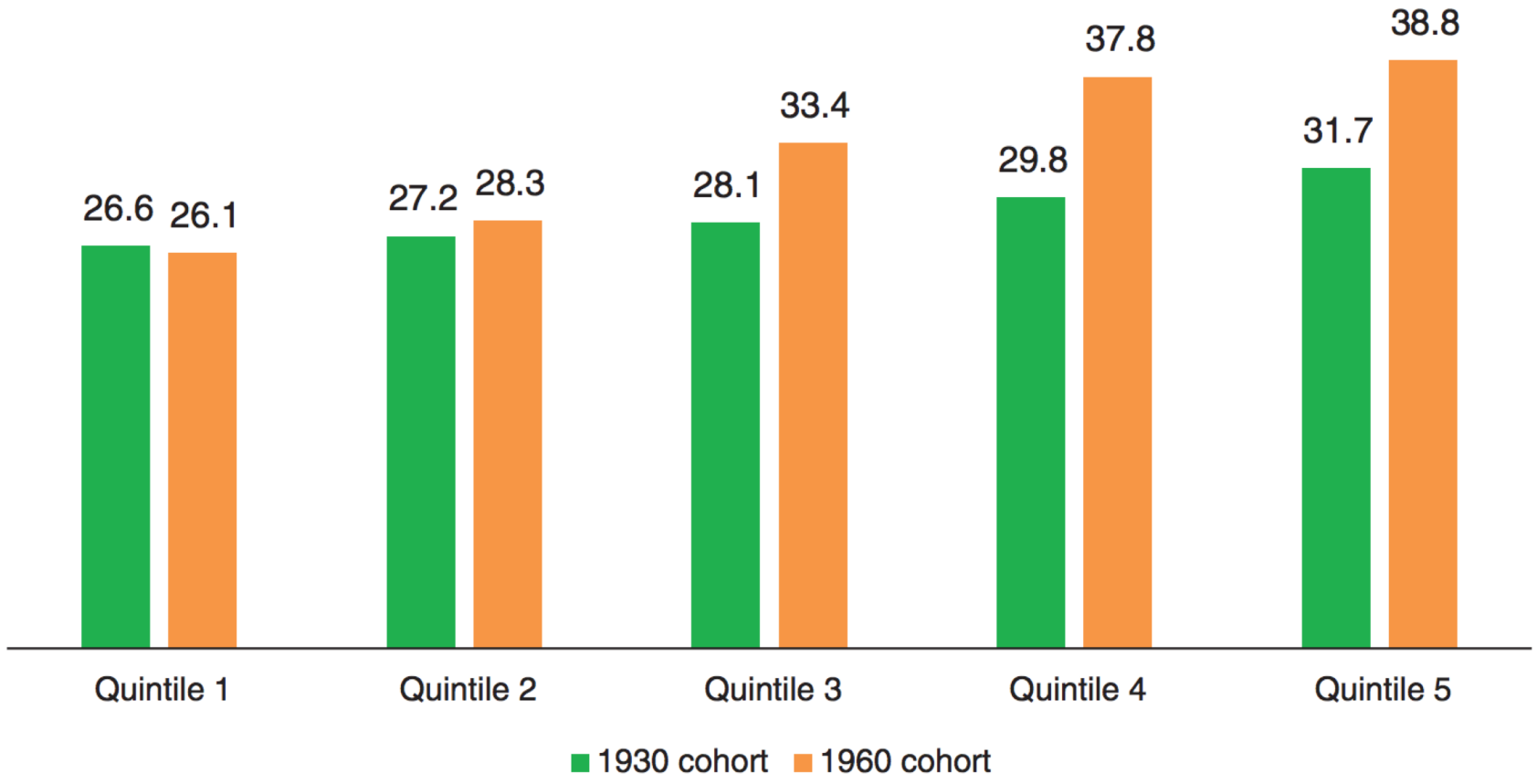
Combined OASDI and HI benefits:	Total	While severely disabled
No high school diploma	$412K	52%
High school diploma	$415K	38%
Some college	$466K	33%
Bachelor's degree	$509K	27%
More than bachelor's degree	$552K	25%
Out-of-pocket costs for Mcare/LTSS:	**Total**	**While severely disabled**
No high school diploma	$ 58K	40%
High school diploma	$ 81K	39%
Some college	$ 98K	37%
Bachelor's degree	$127K	43%
More than bachelor's degree	$149K	44%

Policy proposals should take differences in health and disability status among retirees seriously

Differences in longevity across lifetime income levels matter crucially for the distributional effects of Social Security and Medicare.

Differences in changes in longevity over time matter crucially for certain policy proposals, such as raising the age of eligibility for full benefits in Social Security.

Life expectancy has not risen for people in the bottom quintiles of lifetime income like it has for others



Policy proposals should take differences in health and disability status among retirees seriously (cont.)

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Differences in disability across lifetime income levels matter crucially for policy proposals in OASI, Medicare, and DI. In particular, benefit cuts for people in the lower part of the lifetime income distribution will hurt people who not only are experiencing little gain in life expectancy and are likely to die earlier, but also are much more likely to be disabled.

In conclusion …

Thanks for the chance to join this conversation!