

Dementia and Long-run Trajectories in Household Finances

Jing Li, Amy Kelley, Kathleen McGarry, Lauren Hersch Nicholas, Jonathan Skinner¹

Abstract

We use two decades of the U.S. Health and Retirement Study data to compare long-run trajectories in household finances between individuals who eventually developed dementia and those who did not. Using inverse probability weighting and an event study framework, we find large and steady divergence in household wealth that starts 6-8 years prior to dementia onset, with a relative decline in net worth of about 40% and financial wealth of about 30% by the time of dementia onset, which results in much lower wealth (a difference of about \$100,000 in net worth) among the dementia cohort at and after the onset of the condition. These patterns are not explained by higher out-of-pocket healthcare expenses or intentional “spend-down” to qualify for Medicare coverage of nursing home residence. Rather, our findings suggest that they are driven by earlier exit from the labor force and potentially suboptimal investment decisions, which negatively affect long-term income in multiple areas among the dementia cohort relative to their counterparts. We also find that these patterns are more prominent among individuals with higher socioeconomic status.

JEL classification: D14, E21, G51, G53

Keywords: dementia, cognition, decision-making, wealth, income

¹ Li: Department of Population Health Sciences, Weill Cornell Medical College, Cornell University; Kelley: Department of Geriatrics and Palliative Medicine, Mount Sinai School of Medicine; McGarry: Department of Economics, University of California at Los Angeles and NBER; Nicholas: Department of Health Systems, Management & Policy, Colorado School of Public Health; Skinner: Department of Economics, Dartmouth College and NBER. We acknowledge grants from the National Institute on Aging of the National Institutes of Health (K01AG066946, R01AG054540 and K24AG062785). We thank Shao-Pang Wang, Cynthia Yee, and Evan Bollenslund for excellent research and programming assistance.