CONSUMER ISSUES AND THE ELDERLY

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Older Americans constitute a vital subgroup of our population and one that is often singled out for special treatment. But should we view this group as particularly deserving or in need of special attention as compared to other adults? This lecture raises the policy and research issues that arise from this question.

In preparing for this talk on consumer issues facing the elderly, I was intimidated by the enormity of the possible issues to discuss. But as an economist, I was also struck by how closely the issues discussed track what economists like to term market failures and redistributional issues. Rather than the mainstream concerns of microeconomics of maximization and efficiency issues, consumer interests focus on the problems and issues that the market fails to appropriately address. Efficiency and pure competition constitute the main thrust of neoclassical economic analysis; what is being discussed here are the problems that such a laissez faire system fails to address. There is a natural link between researchers interested in redistributional issues (who gets what) and the market failures that require regulation or direct government provision.

This emphasis leads rather quickly to research with practical applications and away from the realm of the purely theoretical--an emphasis with which I am very sympathetic. In fact when I refer to myself as a "defrocked" economist, I am placing myself squarely in the camp of skepticism about the ability of the market to always find the "just" solution. I am very glad to see so much interest in how economic issues affect individuals and what adjustments or constraints to the free market would improve the lot of individuals.

The 1980s will be remembered, I believe, as the decade of the cult of the free market. Deregulation was a major goal of many prominent politicians in the 1980s--as was reducing the general role of the federal government. Trickle down economics and tax reform implicitly reduced government's activities in redistributing income as well. In fact, interest in market failure, regulation or the distribution of well-being was often viewed as negative thinking and consumer groups and academic researchers working on these issues were placed on the defensive. Even today remnants of this negativism can be found in political circles. For example, proponents of a capital gains tax change have referred to those who raise concerns about the distributional impact of the tax as "demagogues" promoting "class warfare". Rather than viewing redistribution and market failure as legitimate concerns, the fashionable response has been a preference for market solutions and suspicion that government intervention could ever improve the lot of the American people.

I do believe that the tone of the discussion is changing. However, even as we are moving away from some of these notions, the consequences of the emphasis in the 1980s on unfettered market responses will likely carry over to the 1990s. And these consequences may spur a reaction. The alarms sounded over the increased inequality in incomes and some of the negative consequences of deregulation will likely swing the pendulum in the other direction and may redress some of the imbalance in attention to the full range of issues with which economists and others need to grapple. My hope for those of us interested in consumer issues is that we may once again find ourselves in the mainstream or at least toiling on issues deemed relevant by our peers.

The goal of the Colston Warne lecture is to try to encourage better communication between researchers and advocates on issues critical to the well-being of individuals in our society. Rather than trying to talk about the process of bridging these two areas, I propose to spend most of my time discussing consumer issues facing the elderly with a focus on current policy concerns.

But let me first briefly sum up what I have gleaned from working closely with advocacy groups. In addition to the test of theoretical consistency in economics or other disciplines, research that will be useful to policy must also meet the test of reality or common sense. Counterintuitive results are fine as long as you can provide a context in which the results make logical sense. Reliability of data also concerns nonresearchers who fear that the quality of

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the data may drive the results. These are not unreasonable demands; in fact, they may make researchers more honest in assessing what they can say and with what reliability. Research then moves beyond the realm of an academic exercise and into the need to be supportable. There is nothing like a skeptical nonresearcher to test whether or not you can defend your work.

THE ELDERLY AS A CRITICAL CONSUMER GROUP

Historically, the elderly in our society have been viewed as a sympathetic and vulnerable group. Rates of poverty were high for those who could no longer participate in the paid labor force, often because of poor health or frailty. As a group, the elderly were termed the "deserving poor" and treated to a host of protective legislation. But just as the 1980s represented a time of skepticism about consumerism, some of the usual stereotypes of the elderly also began to change in recent years. Nonetheless, a reasonable case can certainly be made that the elderly represent a critical consumer group.

Economic Status and the Elderly

Perhaps the most important transition in attitudes toward the elderly during the 1980s occurred in the area of economic well-being. By almost any measure of financial status, the average person over the age of 65 gained during the 1980s. The rate of poverty declined from 15.7% in 1980 to 12.1% in 1988. Moreover, this increasing affluence occurred when income growth for younger adults was slowing. For example, average incomes of those over the age of 65 increased 20.3% in real terms between 1980 and 1988, while persons aged 15 to 64 over averaged only a 13.9% increase in income. Older persons are largely outside the workforce and did not suffer from the severe recession in the early part of the decade. Moreover, the cost-of-living adjustments they enjoy have partially sheltered this group from inflation.

The rising affluence of the elderly as a group came to pass at a time when we also became reluctant to expand the size of the government. A considerable share of the well-being of the elderly stems from government programs--a fact not lost on those who wish to shift away from support for this group. In fact, the swing in the portrayal of older persons in the media has been dramatic, shifting from sympathy to antipathy toward those "greedy geezers." But these stereotypes are not any more subtle or accurate than were the old notions of all the elderly as poor. And it has become more difficult to argue on income grounds alone that the elderly should be treated as an homogenous group in need of special protections.

Despite the growth in average incomes for older Americans, the financial picture is not all rosy. More than three million persons over age 65 remain below the poverty level (set at slightly about $125 per week for an elderly individual living alone). This is the highest rate of poverty among all adult Americans. An equal or greater percentage of older persons have incomes just above this threshold. Thus, nearly a quarter of older Americans--and over a third of those who are widowed and living alone--are near or below poverty.

Crucial Economic Decisions

Older persons often face critical decisions regarding their finances. Investment of savings to supplement retirement income can make the difference between living well and just getting by. Often retirement benefits are available in a lump sum payment that individuals must invest.

The death of a spouse creates major disruptions in the financial affairs of the survivor and decisions must often be made while the individual is under great stress. Changing needs and circumstances may necessitate the sale of the family home, generating a major shift in resources.

Health

Older Americans use more health care services than any other age group by a factor of nearly 3 to 1. They interact with the full array of health care providers and services consuming more hospital care, more nursing home care, more drugs, more home care, more physician services per capita. The implications of asking health care users to be more aggressive consumers thus places a disproportionate burden on older persons.

Layered on top of this service use is the necessity to deal with a public program, Medicare, and generally either one or more private supplemental insurance plans or Medicaid. After those payers interact with providers, the elderly must still cope with substantial out-of-pocket costs for this care. To appreciate the problems posed by the confusing forms and bills, listen to the tale of woes of health care analysts like myself when friends and relatives ask for some help in sorting out who owes what to whom. It's a good thing that many older persons are retired, since keeping track of health care expenditures can be a full time job. And medigap policies historically have been pushed aggressively--and don't always represent good value to policy holders.

Unfortunately, the greatest of these burdens normally come at a time of illness for individuals or their families. The task of

being a prudent consumer becomes complicated by the diminished ability of individuals to handle stress.

Vulnerability

Another dimension of the greater health care needs of the elderly is the impact on meeting other needs. Frailty associated with chronic conditions or the aging process creates special needs in housing and everyday activities such as marketing. Consequently, older persons may rely more on services to meet their needs. At the same time, because of frailty or ill health, they may become more isolated and have less access to friends and other sources of information or support.

Cognitive problems--whether mild or full cases of dimentia--also create special consumer needs. Intervention to protect a person of diminished capacity may be necessary. Such individuals are more vulnerable to abuse from unscrupulous salespersons or service providers.

On the other hand, it may be easy to stereotype older persons and assume that any confusion on their part is due to "senility." If so, older persons may be victims not only of those who seek to abuse them, but also of those who seek to be helpful. While Alzheimers and other cognitive dysfunctions consitute very real problems for older persons, we should not forget that only 1 out of every 6 persons aged 80 suffers from dimentia.

Any of these examples could be modified to demonstrate the special needs of individuals in similar circumstances but who are not over the age of 65. For example, poverty and low incomes disproportionately affect female-headed families with young children. Disability and high medical costs can occur for anyone; in fact, even greater health expenditures are likely to be associated with neonatal care for premature infants or trauma injuries to young adults. And financial decisions also occur at all ages. Purchase of a first home creates many possibilities for abuse as well.

SPECIAL NEEDS, SEGREGATED TREATMENT?

Many examples of age-based consumer protections exist; others are frequently suggested. In some states, for instance, penalties for persons convicted of mugging older persons are more severe than when younger adults are victimized. Private health insurance plans that supplement Medicare--and which are marketed primarily to the elderly--are specifically regulated by the Baucus Amendment. Federal tax returns offer favored treatment to those aged 65 and older (although to a lesser degree after the tax changes in the 1980s).

On the other side of the ledger are regulations that place particular restrictions on older persons: requirements that all individuals over a particular age take additional drivers' license tests for example. Insurance for automobiles and health may be age-rated. Liability damages paid to injured individuals are generally lower for older persons than for working-age adults.

A related example arises in food standards. Often our taste buds alert us to problems in foods; if it tastes or smells bad, we are likely to avoid the food. Older persons, on the other hand, are less likely to benefit from that built-in protection. They may be more suseptible to tainted food--and then may suffer more from the ill effects if they are frail. Should we have separate standards for seniors or should we think about setting standards that take such vulnerabilities into account? Should the overall standards be raised to reflect the special needs of one group but protecting everyone?

Another example of this issue comes from an actual consumer problem that the AARP tried to address: sleepwear flammability. Studies have shown that the two most vulnerable groups to apparel fires are the very young and the very old. Moreover, when older persons are burned they are more likely to die from their injuries. Sleepwear for children are subject to flammability standards, but no such protections exist for older persons. Since it is difficult to identify sleepwear that would be used by persons over the age of 65 or 70, any standards would have to apply to all adult sleepwear. If the costs of making sleepwear safer are very high, the benefits, when also averaged across all adults, might not be high enough to justify requiring that nightwear be treated.

Thus, it becomes difficult to argue for protection for a minority when the regulations would affect a much larger group. In this particular case the request was for improved labeling--a low cost solution that would allow those concerned about sleepwear flammability to identify those products that offered better protection. Unfortunately even this low cost alternative was just recently rejected by the Consumer Product Safety Commission.

IMPLICATIONS FOR RESEARCH

Thus far most of my discussion has centered on advocacy and policy. What are the implications of this discussion for research? Implicitly I have suggested a number of ways in which older persons may not be a unique group for study and

analysis, or certainly not in all cases. The issue of whether to "mainstream" the elderly can best be addressed by improving some research to ensure that the answer will reflect reality rather than perceptions and stereotypes.

I have already suggested that many changes have occurred in the economic status of persons over the age of 65 in recent years. But a great deal of controversy and unresolved questions remain. Are older persons as well off as their younger counterparts? The answer depends on the measures used and adjustments that are made to ensure comparability. Further careful work indicating what matters most in making comparisons between the young and the old would help sort out this debate.

In addition, the issue of economic status is not just one of measurement but also one of an implied sense of fairness recognizing other dimensions facing older persons. For example, what is the implied contract in retirement programs that promises a certain level of benefits and elicits behavioral responses? Are changes in those benefits more troublesome than other changes since older persons may not be able to adjust after the fact? How much lead time should be given before such benefits are changed?

The extra burdens that health spending and health problems impose on older persons will also need continued research over time. While there has been considerable analysis in this area we have by no means exhausted the relevant questions. Rising costs of health care in general will likely increase the pressures on individuals to be prudent purchasers of care and the elderly will not be exempt from these challenges. Debate over the types of financial protections for both acute and long term care costs can be better informed with additional research on how individuals are and would be affected by policy.

In those areas where special protections may be needed for older persons, what is the appropriate age cutoff? Our traditional use of age 65 has always been an arbitrary standard. Increased life expectancies and pressures to reevaluate public program eligibility will place the age limits under increased scrutiny. Further research, often specific to the particular issue at hand, will be needed to keep the next age cutoff from being as arbitrary.

The issue of whether the needs of one group can be accommodated in standards for all raises perhaps the toughest issue for research and public policy. Standards are often set on the basis of comparing the costs of the protection (in terms of compliance) to the benefits of reduced injuries, etc. When those benefits exceed the costs, a strong economic argument can be made for establishing the protection. If we are setting high standards to protect a vulnerable subgroup of the population, the benefits may mainly be felt by the subgroup while the costs would be incurred for all consumers.

Take for example my earlier description of the special needs of the elderly in setting food standards. If the benefits to the average consumer are used to set the standard, less might be required say of poultry producers to inspect and screen out products of marginal quality. Such an equation would yield the greatest difference between the expected benefits and costs to society as a whole. If the calculation was conducted instead on older persons, tainted food may cause more harm and hence the benefits from higher standards could be justified. But it is not feasible to have a food section where poultry is marked: "for the elderly only." How do we reconcile these concerns?

When there are high benefits for, say, 10% of the population but the costs will be spread over the other 90% as well, will standards ever be set high enough to protect the vulnerable group? Some basic methodological research on the problems of protecting vulnerable subgroups when setting standards could be very useful in addressing this issue.

In the case of drugs, the issue might be somewhat simpler if protections consisted mainly of labeling or education of users. In those cases distinctions could be made that help in protecting vulnerable populations by directing the information at particular subgroups. On the other hand, the challenge here would be to undertake research in the developmental stage that focused on subgroups such as the elderly to determine whether there are special needs. At a minimum, more research is necessary on costs and benefits to understand when there are varying levels of harm.

Finally, let me extend a last challenge to the research community to find ways to get information into the hands of the policy makers and to the general public as well. The type of policy relevant research I have been discussing today will only be useful to the world at large if people take some time to make their results accessible to a broader community than the academic world. There exists today a more receptive audience for research findings in the legislative and--in the post Reagan era--the executive branch of the federal government. State governments are also becoming more tuned in to research and new policy ideas.

Perhaps an even greater challenge arises in communicating with the public at large for

it is also clear that policymakers are very attuned to polls and influence from constituents. The failure of the recent Medicare catastrophic letgislation is perhaps the most telling example of how leaving consumers out of the policy discussion can cause a major backlash. I hope you will consider it your responsibility to think of these audiences as well as your academic peers when you do policy-relevant work.