Chapter 11
Lifetime Consumption

We now turn our attention to how people pay for necessities when they do have financial resources. If we go to the grocery store for a loaf of bread, we can pay by cash, check, or debit card. These are immediate payments, at least compared to paying by a credit card, a delayed payment that may incur finance charges. Unlike bread, expensive purchases cannot typically be paid for immediately.

In general, people pay for things in three different ways:

- Contemporaneous payments are used to buy now and pay now. We make use of money we have now, whether in the bank or on our person.
- Deferred payments are used to buy now and pay later. Big-ticket items such as houses, automobiles, furniture, and major appliances are often too expensive for most people to pay for contemporaneously.
- Prepayments are used to pay now and buy later. These are used to pay toward future large expenses that we are not likely to have enough money for when they occur. Some insurance falls into this category. Small amounts paid annually for life insurance may pay relatively large benefits if a person dies. So-called 529 plans allow people to accumulate funds to pay the future college expenses of their children or young relatives. Before credit cards were offered

indiscriminately, banks encouraged "Christmas club" savings accounts in which their customers saved all year to have enough money for the expensive holiday season.

When people make a purchase with deferred payments, they must include these payments along with contemporaneous payments in their budget. Because they buy a car or other expensive item today, their future spending must be reduced in order to allow deferred payments. This is also true for businesses, non-profit organizations, and governments. Future spending may be limited by previous purchases that are still unpaid. To pay off existing debt and avoid incurring additional debt, government must receive more revenue (from taxes, fees, assessments, etc.) each year than it spends on the services it provides that year.

People find it easy to incur contemporaneous and deferred payments, since in both cases they get the satisfaction of buying something now. A much more difficult issue is purchasing future necessities that are so expensive they require prepayment. For example, nursing home care and even in-home care can be very expensive. Very few people can pay for this care contemporaneously. Long-term care insurance is offered by many companies, but most people don't buy it.

Medicare

What about retirement medical insurance? Unlike long-term care, anyone who gets old enough will almost certainly incur medical expenses. For the overwhelming majority of older people, Medicare or some other government insurance program is the only health insurance available. There are four reasons that private companies don't offer primary health insurance for senior citizens:

- Such insurance violates the Insurance Principle (chapter 8). Health problems are the norm, not the exception, among the elderly. Everyone who is sixty-five or older has a preexisting condition that has always led to death, often at great expense. That pre-existing condition is being sixty-five or older. For health insurance purposes, the elderly represent adverse selection, (i.e., a population of undesirable customers). This explains why the private health insurance industry does not use its extensive congressional lobbying resources to advocate the elimination of Medicare so that "the free-market can handle it."
- Elderly people cannot pay for late-in-life health insurance because their income is reduced and the premiums would be prohibitive. Therefore, compared to providing health insurance for younger people who make near-contemporaneous insurance payments, retiree health insurance is not feasible. Very few people would be able to afford it.
- If Medicare were replaced with private sector coverage and there were no government involvement whatsoever, people would have to make the same prepayments they make now for Medicare throughout their lifetime, plus the amount their employers now pay to Medicare, plus

enough to make up for current Medicare shortfalls, plus enough to cover the profits and advertising expenses of private companies.

- If people had to use a private sector company for retirement medical insurance, they would have to pay for many years before they were actually covered. But would the company they chose still be in business when they turned sixty-five? Suppose the company offering the best plan in 1985 was Enron Health Insurance.