



Research Highlights

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Health Insurance and Retirement

In recent months, a number of proposals have been put forward to change Medicare and other health programs for older Americans. One plan would enable all individuals between ages 62 and 64 — and certain individuals between ages 55 and 61 — to purchase the Medicare insurance benefits that are already provided to those aged 65 and older. Other proposals call for moving back the age of eligibility for Medicare benefits to age 67 to match the older “normal” retirement age that will be phased in to the Social Security program in the future.

By changing the availability of health insurance for older persons, these proposals could have important effects on the retirement decisions of American workers. Extending Medicare availability to those between ages 62 and 64 would make retirement more attractive for about 25 percent of workers in this age group who are covered by an employer-provided health insurance plan as active employees, but who would lose these benefits if they retire. By contrast, moving back the age of eligibility for Medicare from 65 to 67 would make retirement before age 67 less attractive. But by how much would these health policy reforms affect retirement decisions in the labor market as a whole?

The National Institute on Aging (NIA) is supporting a number of research projects that address the relationship between health policy and retirement. This issue of *Research Highlights* summarizes recent research findings from the NIA Centers at the University of Chicago, the National Bureau of Economic Research, and the RAND Corporation; and from NIA-supported projects at the University of North Carolina.

Three types of evidence have emerged from this research, each concluding that health insurance availability induces more people to retire. The first focuses on employer-provided health insurance plans. This research documents higher retirement rates among workers who are eligible for post-retirement health care benefits, as compared with workers who are not eligible for

health benefits in retirement. The second looks at government-imposed “continuation of coverage” laws, which enable workers to continue to purchase health insurance for a specified number of months after leaving a job. Here, too, the research shows an increase in retirement rates that results from the increase in health insurance availability. The third set of studies focuses on the effects of Medicare eligibility at age 65. These studies find that retirement rates increase when either a worker or a worker’s spouse becomes eligible for Medicare.

Employer-Provided Health Insurance for Retirees

A number of studies have compared the retirement decisions of individuals who are eligible for retiree health insurance from their employers with the retirement decisions of those who are not eligible for retiree health benefits.

- Using data from the Health and Retirement Survey (HRS), David Blau and Donna Gilleskie find that men with employer-provided retiree health insurance leave the labor force at a significantly faster rate after age 56 than otherwise

similar men without such coverage. At age 61, for example, 17.2 percent of men with retiree health benefits leave the labor force, compared with 8.5 percent of men without such benefits.

- Further analysis of HRS data by Lynn Karoly and Jeannette Rogowski finds that men between ages 51 and 61 who are eligible for post-retirement health benefits are 62 percent more likely to retire than men who have health insurance while working, but no health benefits in retirement. The effect on retirement occurs even when the retired employee needs to pay an increased out-of-pocket premium for health benefits. Karoly and Rogowski also find that workers eligible for retiree health benefits are more likely to move from full-time work to part-time work. The transition to part-time work, however, depends much more on whether an increased out-of-pocket premium must be paid for retiree health benefits. (This study was funded by the Department of Labor and the Agency for Health Care Policy and Research.)

- Applying data from the National Medical Expenditure Survey (NMES) and the Survey of Income and Program Participation (SIPP), Brigitte Madrian finds that workers at companies that provide retiree health insurance retire between 5 and 16 months earlier than workers at companies without such insurance.

- Using HRS data on people's future expectations about work and retirement, Michael Hurd and Kathleen McGarry estimate that about half of full-time workers aged 55 to 59 plan to have stopped working full-time by age 63. But those workers who are eligible for fully-paid retiree health benefits report, on average, that they are 11 percentage points more likely to have stopped full-time work than those without such benefits.

Continuation of Coverage Laws

State and federal "continuation of coverage" mandates are in some ways similar to current proposals that would make Medicare insurance available (for purchase) to individuals

younger than age 65. Continuation of coverage mandates enable individuals who are covered by an employer-provided health insurance plan to continue to purchase the same insurance for a specified number of months after leaving their jobs. This coverage can benefit those leaving a job for any reason, including early retirement.

The most significant continuation of coverage mandate was enacted by the federal government under the Consolidated Omnibus Budget Reconciliation Act of 1985, or COBRA. This legislation mandated 18 months of continuation coverage nationwide. Some states had already implemented their own continuation coverage requirements, though most of these states required fewer than 18 months of continuation coverage. And many states had no prior mandate. To evaluate the effect of the COBRA legislation, Jonathan Gruber and Brigitte Madrian calculate the changes in retirement taking place after its enactment, comparing those states that already had a continuation of coverage mandate with those that did not have a prior mandate. The table below summarizes the findings.

ANNUAL RETIREMENT RATES Men, Ages 55-64

	Pre-COBRA (1983-1985)	Post-COBRA (1988-1990)
States <u>with</u> a pre-COBRA law →	6.9%	7.2%
States <u>without</u> a pre-COBRA law →	6.8%	8.9%

In the states with a prior continuation of coverage mandate, there was a relatively small increase in annual retirement rates after COBRA's enactment, which can be attributed to the additional months of continuation coverage required by COBRA, and to other factors. In the states whose first continuation coverage mandate resulted from COBRA, the increase in retirement rates was much larger, and equivalent to an increase in retirement of over 30 percent. Because this large change in retirement behavior was not experienced

in the states that already had continuation coverage protection, a large majority of the effect on retirement appears to result from the new availability of continuation coverage, and not from other factors.

Gruber and Madrian extend this analysis by comparing the effects of different pre-COBRA continuation coverage requirements implemented by different states and in different years. The length of the continuation coverage requirement has varied considerably from one state to another, encompassing periods of 1, 2, 3, 6, 9, 10, 12, 18, and 20 months. As one would expect, higher retirement rates are found to result from longer periods of coverage. On average, one year of continuation coverage is estimated to increase the probability of retirement by 32 percent.

Medicare and Retirement

A final set of findings relates to the effects of current Medicare policy on retirement. Many investigators have identified a disproportionate “spike” in retirement rates at age 65 that can not be explained by the financial incentives in the Social Security program or firm pension policies. At least part of this increase in retirement rates at age 65 is often attributed to Medicare eligibility.

Brigitte Madrian and Nancy Beaulieu explore this issue by comparing the retirement decisions of married men whose spouse is eligible for Medicare (i.e., their spouse is age 65 or older) with that of married men whose spouse is not eligible for Medicare (i.e., their spouse is age 64 or younger). Using Census data on 800,000 couples, they find that men with a Medicare-eligible spouse are between 3 and 4 percent more likely to retire in a year than men of the same age whose spouse is not eligible for Medicare.

A study by John Rust and Christopher Phelan compares the effect of Medicare eligibility at age 65 on individuals with different health insurance arrangements. They find that individuals who would lose their employer-provided health insurance by retiring often wait to retire until they become eligible for Medicare. The results also suggest that people in this pre-Medicare age group place a very high value on health insurance — higher than what it costs (on

average) to provide the insurance. Thus the potential loss of employment-based health insurance has a major impact on retirement decisions, and explains a large part of the “spike” in retirement rates that occurs at age 65.

Future Research

The consistent conclusion of this research is that health insurance availability increases retirement rates. Whether through one’s eligibility for employer-provided health insurance in retirement, or through government-imposed continuation of coverage mandates, or through Medicare eligibility at age 65, those who have a health insurance option in retirement are more likely to retire than those without one. Thus policy reforms that either increase or decrease the availability of health insurance for retirees will also change the number of older workers who choose to retire each year.

While research to date has confirmed a significant relationship between health insurance and retirement, it has yet to define the precise quantitative effect of health insurance on retirement, or explain the inter-related effects on retirement of health insurance and other influences, such as pensions, and health, and household finances. New data from the Health and Retirement Study (HRS) will allow unprecedented analysis of these relationships. The HRS is an ongoing survey of about 13,000 people, most of whom were between ages 51 and 61 when the survey began in 1992. These individuals are reinterviewed every two years, and are followed through the course of work and retirement decisions, and other life changes taking place at older ages. Understanding the complex inter-relationships between household finances (such as income and wealth), health and disability, employer-provided benefits (such as pensions and health insurance), public policies (such as Social Security, Medicare, and Medicaid) and work decisions is a critical part of the survey design.

Future analysis of the HRS and other data will contribute importantly to our understanding of the retirement decision, and the particular role of health insurance in increasing retirement.

HRS Data

The Health and Retirement Study is sponsored by the National Institute on Aging, a component of the National Institutes of Health. Additional support is provided by the Social Security Administration, the Pension and Welfare Benefits Administration, and the Office of the Assistant Secretary for Planning and Evaluation (DHHS). The HRS is conducted and managed by the Survey Research Center at the University of Michigan. Electronic access to the data and additional information can be obtained from the HRS internet site at <http://www.umich.edu/~hrswww/>.

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The National Institute on Aging supports nine research centers on the demography and economics of aging, based at the University of California at Berkeley, the University of Chicago, Duke University, Johns Hopkins University, the University of Michigan, the National Bureau of Economic Research, the University of Pennsylvania, RAND Corporation, and Syracuse University. *Research Highlights in the Demography and Economics of Aging* is prepared for NIA as a cooperative activity of these NIA research centers. The managing editor is Richard Woodbury. For information on the Centers, call Lora Myers at 734-998-8693; for NIA programs in the demography and economics of aging, call 301-496-3138; for the series editor, call 207-847-9300.