



Promoting research on retirement and Social Security policy

Key findings on health insurance & retirement

Phase IV working papers

Access to health insurance has the potential to affect older workers' labor and retirement decisions. Here are key findings from MRRC's current five-year funding cycle that touch on health reform and insurance access.

Affordable Care Act effects

The Effect of the Affordable Care Act on the Labor Supply, Savings, and Social Security of Older Americans

by Eric French, Hans-Martin von Gaudecker, and John Bailey Jones

WP 2016-354

- ▶ We construct a retirement model that includes health insurance, uncertain medical costs, a savings decision, a non-negativity constraint on assets, and a government-provided consumption floor. We model the ACA as a change in government insurance provisions rather than the provision of insurance where none existed before.
- ▶ We present evidence that those who cannot keep their employer-provided health insurance when they leave their job tend to remain on their job until age 65.
- ▶ Those who can maintain their insurance after they leave their job tend to exit the labor market earlier. This provides evidence that access to health insurance reduces labor supply.

- ▶ We show differences in both total and out-of-pocket medical spending prior to the enactment of the ACA. We show that average total medical spending is high for all groups: Those with no health insurance do not spend much more out-of-pocket than those who have private insurance.
- ▶ Those uninsured receive health care through a variety of sources such as worker's compensation and default on medical bills, which we refer to as a "consumption floor," which protects low-income individuals against catastrophic medical spending.
- ▶ Those who appear to have the highest resources appear to be those who pay the most for health care, consistent with the view that those with low resources are covered by the consumption floor, whereas those with high resources face the most medical expense risk and might have the largest labor supply responses.

Health Reform and Health Insurance

Coverage of Early Retirees

by Helen Levy, Thomas C. Buchmueller, and Sayeh Nikpay

WP 2016-345

- ▶ Between 2013 and 2014, the fraction of early retirees without health insurance declined from

14.7 percent to 11.2 percent, reversing a trend toward increasing uninsurance in recent years.

- Gains in coverage among early retirees were driven by increases in both Medicaid and private, nongroup coverage.
- Gains in coverage were larger in states that implemented the Affordable Care Act's Medicaid expansion in January 2014 than in states that did not.
- The gains in coverage disproportionately benefited low-income early retirees and, therefore, reduced the gradient in coverage with respect to income.
- There is no evidence of an acceleration of the decline in employer-sponsored coverage for early retirees, either overall or in states that expanded Medicaid.

The Affordable Care Act as Retiree Health Insurance: Implications for Retirement and Social Security Claiming by *Alan L. Gustman, Thomas L. Steinmeier, and Nahid Tabatabai*
WP 2016-343

- Using data from the Health and Retirement Study, we find no evidence that for those with health insurance at work but not in retirement, the Affordable Care Act increased retirements over the period 2010 to 2014.
- We also find no evidence that the Affordable Care Act changed retirement expectations or expected age of Social Security benefit claiming of those who, before ACA, had health insurance coverage when working, but not when retired.
- An analysis based on a structural retirement model suggests that eventually the ACA will increase the probability of retirement by those who initially had health insurance on the job but did not have employer-provided retiree health insurance by about half a percentage point at each year of age.
- The structural retirement analysis also suggests that much of the effect of ACA on retirement will be realized within a few years of the change in the law.

Access to health insurance

Long-term Individual and Population Consequences of Early-life Access to Health Insurance by *Etienne Gaudette, Gwyn Pauley, and Julie Zissimopoulos* WP 2016-355

- Gaining access to health insurance in childhood had long-term consequences for adult well-being. Compared to adult health and economic outcomes for individuals without childhood health insurance, gaining health insurance in childhood resulted in:
 - A decline in the prevalence at age 65 of most major diseases, excluding cancer;
 - An increase in life expectancy of 11 months and 16 additional months lived free of disability;
 - No change in lifetime total medical spending as increases in spending due to additional life years were offset by lower health care spending due to improved health;
 - A decline in Medicare and Medicaid outlays and expenditures on lifetime disability insurance;
 - An increase in lifetime earnings of approximately 8 percent.

Racial Difference in the Use of VA Health Services by *Chichun Fang, Kenneth M. Langa, Helen Levy, and David Weir* WP 2015-334

- Veterans who are more than 65 years old or who have health insurance coverage through employment are less likely to use VA services.
- The perception regarding quality of services delivered in VA versus non-VA facilities also strongly affects VA usage.
- Black veterans tend to have more favorable views about VA, and a sizable portion of racial difference in usage can be attributed to the racial difference in perception.
- We show that the health care services delivered

in VA are at least partially substituted by services obtained in other channels, and attitudinal factors play important roles in usage.

- Our findings provide insights to estimate the future demand for VA services and to improve the racial disparity in utilization.

Health Insurance and Retirement Decisions

by John Karl Scholz and Ananth Seshadri

WP 2013-292

- We develop a rich life-cycle model of optimal consumption and retirement decisions where the stock of health affects utility and longevity and is influenced by one's health insurance status.
- Some households respond to shortfalls in retirement wealth by working longer than originally anticipated or investing less in health.
- Households facing a delay in the availability of post-retirement health insurance find it attractive to work longer and to invest more in their health.
- While very adverse health shocks can lead to retirement well before age 62, we find that around 85 percent of early retirees at age 62 are in good health.
- Also, the availability of post-retirement health insurance induces households to retire about three months earlier than their counterparts without such insurance.

Health insurance & Social Security reform

Medicare Expenditures, Social Security Reform, and the Labor Force Participation of Older Americans *by Yuanyuan Deng and Hugo A. Benítez-Silva* WP 2015-330

- This paper provides an empirical analysis of the effects on Medicare costs of the changes in the OA system resulting from the 1983 amendments.
- Using data from the Medicare Current Beneficiary

Survey (MCBS), we empirically analyze the Medicare expenditures of individuals around retirement age as a function of their health insurance coverage and labor market attachment.

- Our results show a significant effect of employment measures as well as insurance coverage types, suggesting a sizable effect of employment and insurance on Medicare expenditures as well as on total health expenditures and on out-of-pocket health expenditures.
- Our findings allow us to compute the total savings to the Medicare system resulting from individuals working while receiving health insurance coverage at older ages. We estimate savings of 2.89 billion dollars a year, as well as another 333.67 million per year resulting from the delay in enrollment into the Medicare system, given that some individuals do not enroll in Medicare when first available, and this is more common among those who work and have insurance coverage.
- These results suggest that any future reform to the social insurance system will have to account for the effect on Medicare costs of policies that likely lead to increases in employment and employer provided health insurance coverage among populations eligible for Medicare.

Social Security Benefit Claiming and

Medicare Utilization *by John Bound, Helen*

Levy, and Lauren Nicholas WP 2013-297

- We use administrative Medicare claims linked to nationally representative Health and Retirement Study data to compare health care utilization at common ages among four groups of Social Security recipients.
- Social Security beneficiaries claiming prior to their Full Eligibility Age are modestly less healthy than those who delay, but significantly healthier than DI recipients or rejected applicants.
- Rejected applicants appear more similar to DI recipients than to beneficiaries who never apply for DI benefits, though this difference is attenuated with additional time in Medicare.

- Our results suggest there could be a modest increase in DI application and receipt in response to increases in the EEA and FRA, though most early claimers would be too healthy for DI.

Long-term care insurance

Narrow Framing and Long-Term Care

Insurance by *Daniel Gottlieb and Olivia S.*

Mitchell WP 2015-321

- We evaluate how key elements from prospect theory shape insurance decisions and delayed retirement. Theory suggests that narrow framing plays a particularly important role in decision-making under uncertainty. We show that narrow framers have a substantially lower demand for long-term care insurance, and the result is robust to controlling on a host of factors including health, cautiousness, risk aversion, probability of needing LTC, and sociodemographics.
- Narrow framing is a more important deterrent to people's LTC insurance purchases than factors previously suggested, such as risk aversion and private information.
- Narrow framing, therefore, is an important contributor for people's unwillingness to buy long-term care coverage, thus exposing them to old-age poverty.



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Michigan Retirement Research Center
Institute for Social Research
University of Michigan
426 Thompson Street, Room 3026
Ann Arbor, MI 48104-2321

Director: John P. Laitner
Associate Director: Dmitriy Stolyarov
External Relations: Susan Barnes
Administrative Manager: Cheri Brooks

Phone: (734) 615-0422
Fax: (734) 615-2180
E-mail: mrrcumich@umich.edu
Web: www.mrrc.isr.umich.edu

Regents of the University of Michigan

Michael J. Behm, Grand Blanc
Mark J. Bernstein, Ann Arbor
Shauna Ryder Diggs, Grosse Pointe
Denise Ilitch, Bingham Farms
Andrea Fischer Newman, Ann Arbor
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The MRRC promotes high quality research on retirement and Social Security policy; communicates findings to the policy community and the public; enhances access to relevant research data; and helps to train new scholars. MRRC serves the public and policy community as an authoritative source of information on a range of issues related to retirement income security. The MRRC is supported by a cooperative agreement with the Social Security Administration.