



Promoting research on retirement and Social Security policy

## Key findings on health insurance and retirement

*Phase IV working papers, 2014 to 2018*

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.

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### Affordable Care Act effects

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#### Is the Affordable Care Act Affecting

#### Retirement Yet? *by Helen Levy, Thomas*

*Buchmueller, and Sayeh Nikpay* WP 2018-393

- Previous studies suggest that having an alternative to employer-based health insurance makes older workers more likely to retire. Therefore, many analysts expected that the implementation of the coverage provisions of the Affordable Care Act (ACA) in 2014 would reduce labor supply of older workers.
- We find that insurance coverage of Americans ages 50 through 64 increased significantly after the ACA, with the uninsured rate dropping from 16 percent in 2013 to 12 percent in 2014 and 10 percent in 2015 and 2016.
- We find no changes in labor supply of older Americans either in response to subsidized marketplace coverage, which became available nationally in 2014, or in response to the expansion of Medicaid eligibility in some states but not others. We fail to find labor supply effects even for subgroups with less than a high school education or those with fair or poor health, who might have been expected to have a greater labor supply response.

- These results suggest that for Americans approaching retirement the Affordable Care Act achieved its primary goal of increasing coverage without the unintended consequence of reducing labor supply.

#### The Effect of Affordable Care Act Medicaid Expansion on Post-Displacement Labor

#### Supply among the Near-Elderly *by Chichun*

*Fang* WP 2017-370

- During the few months immediately following a state's Medicaid expansion, displaced workers in that state had a lower likelihood of unemployment exits to employment. That is, some displaced workers who benefited from Medicaid expansion spent a longer time in the job search.
- During the few months immediately following a state's Medicaid expansion, displaced workers in that state also had a higher likelihood of unemployment exits to not-in-labor-force. That is, some displaced workers stopped their job search and quit working.
- Robustness tests suggest that some of the above effects may be attributed to state-level idiosyncrasies. Nevertheless, the results reject a large and persistent effect of ACA Medicaid expansion on labor supply among near-elderly, displaced workers in they sample.

- There is no effect on longer-term re-employment outcomes, including the likelihood of re-employment and re-employment earnings, between expansion and nonexpansion states. However, the sample size used in the analysis of longer-term outcomes was quite small, which limited the statistical inference possible.

medical expense risk and might have the largest labor supply responses.

### **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

### **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.

### **The Effect of Health Reform on Retirement**

*by Helen Levy, Thomas Buchmueller, and Sayeh Nikpay* WP 2015-329

- We find no evidence of an increase in retirement or a shift to part-time work among older workers during the first 18 months in which the Affordable Care Act's new alternatives to employer-sponsored coverage were widely available.
- It may still be the case that over time, retirement patterns will shift in response to the significant new incentives embodied in these programs.
- Several factors may have led prospective retirees to exercise caution in relying on ACA coverage in 2014. First, there were well-publicized obstacles to enrollment in health insurance exchanges in the first open enrollment period in late 2013 and early 2014. Second, prospective retirees may have been prudently waiting to see whether the ACA reforms survived significant legal challenges that were not resolved until a U.S. Supreme Court ruling (*King v. Burwell*) in June 2015.
- As the ACA's reforms become more firmly established and more familiar, the availability of subsidized coverage that is not tied to employment may still lead to increases in early retirement or shifts to part-time work among older workers in the near future.

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## **Access to health insurance**

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**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.

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## Health insurance and Social Security reform

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### **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.

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## Health and retirement timing

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### **The Dynamic Effects of Health on the Employment of Older Workers** by *Richard Blundell, Jack Britton, Monica Costa Dias, and Eric French* WP 2016-348

- The dynamic properties of health are well described by the sum of a highly persistent AR(1) component, plus a transitory component.
- Transitory health shocks have little impact on employment.
- Permanent health shocks have much bigger effects on employment.
- Employment is highly persistent. Lagged employment strongly predicts current employment, even after accounting for the persistence in health.
- Model estimates suggest a larger impact of health on employment than what OLS estimates imply.

### **The Interaction between Consumption and Health in Retirement** by *John Karl Scholz and Ananth Seshadri* WP 2016-344

- We study the interaction between consumption and health in retirement. Our main contribution is the estimation of a consumption Euler equation taking health into consideration.
- We find that health shocks play an important role



in slowing down the decline of consumption with age in retirement. Without health shocks, retirees will run down their wealth at a much higher speed.

- We also find that including health into the utility function provides interesting interactions between health and consumption and could help explain the heterogeneous consumption-age profiles related to health.
- Finally, we find that health investments, such as physical exercise, have a significant effect on the evolutions of both health and consumption in retirement.
- The findings in this paper suggest that public programs like Medicare and Medicaid play an important role in shaping the consumption and health behavior of the retirees, as well as the retirement and saving decisions of working people.

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## Long-term care insurance

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### 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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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.