

Does Public Health Insurance Affect How Much People Work?

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19th Annual Joint Meeting of the Retirement Research Consortium
August 3-4, 2017
Washington, DC

The research reported herein was pursuant to a grant from the U.S. Social Security Administration (SSA), funded as part of the Retirement Research Consortium. The findings and conclusions expressed are solely those of the author and do not represent the views of SSA, any agency of the federal government, or the Center for Retirement Research at Boston College.

Most Americans get their health insurance through their employer, so they may be reluctant to leave a job if such a change affects their coverage. This situation is known as “job lock,” which may be a particular concern for those with health problems. As a result, expansions of public health insurance, which are not tied to a job, could reduce job lock and result in some workers scaling back from full- to part-time work or leaving the labor force entirely. This paper uses the introduction of Medicare Part D in 2006 to assess the extent to which the availability of drug coverage not tied to an employer induces older individuals to work less.

Background

Medicare has provided universal health insurance to all Americans ages 65 and over since 1966. However, it was only with the January 2006 introduction of Medicare Part D that the program began to cover prescription drugs.¹ Virtually all employer health insurance plans cover prescription drugs for their current employees (Kaiser Family Foundation, 2014). However, drug insurance options for retirees prior to Part D were limited if they did not have employer-provided retiree health insurance. This situation made them vulnerable to high drug costs if they left their employer plans. After 2006, they could get drug coverage through Medicare.

Data and Design

The data used in the analysis are from the *Health and Retirement Study*, a large panel of Americans over age 50 and their spouses. The survey started in 1992 and follows up with its subjects every two years.

The sample used in the analysis is restricted to individuals around age 65 (ages 55-68) and around the year 2006 (years 2000-2010). This restriction provides a group of individuals (55-64) who saw no change in their drug insurance availability and a group of individuals (65-68) who had no access to Part D coverage in 2000-2004 and acquired it in 2006-2010. This approach allows for an estimation of the effect of subsidized drug insurance on labor outcomes for individuals ages 65-68.

¹ Medicare did cover some drugs, such as those provided in hospitals, through Medicare Part A. Medigap and HMO plans covering drugs also existed but were chosen by only a small minority of those eligible.

Before 2006, not everyone faced an incentive to keep working in order to maintain insurance coverage. For example, workers at firms that did not offer employer-sponsored insurance certainly would not be affected by passage of Part D. To focus on a relevant population, the study restricts attention to individuals who have retiree health insurance (RHI) and divides them into two groups. The first is a treatment group made up of those who have RHI only until age 65 (14 percent of the total sample).² Before 2006, such individuals who retired at or after 65 would lose their drug coverage when they transitioned from their employer plan to Medicare. The only way to keep their drug coverage was to keep working. After 2006, they could keep their coverage past age 65 through Medicare regardless of when they retired.

The second group, which functions as a control group, is those who have RHI for life (12 percent of the total sample). They form a good control group, as they are quite similar to the treatment group. Both groups have RHI; they differ only in whether that insurance is limited to age 65 (treatment) or not (control). The control group is also observed at the same ages as the treatment group in the same years, so if something unobservable happens to change the labor outcomes of 65-68 year olds after 2006, they would experience that same shock and could be used to control for it.³

Results

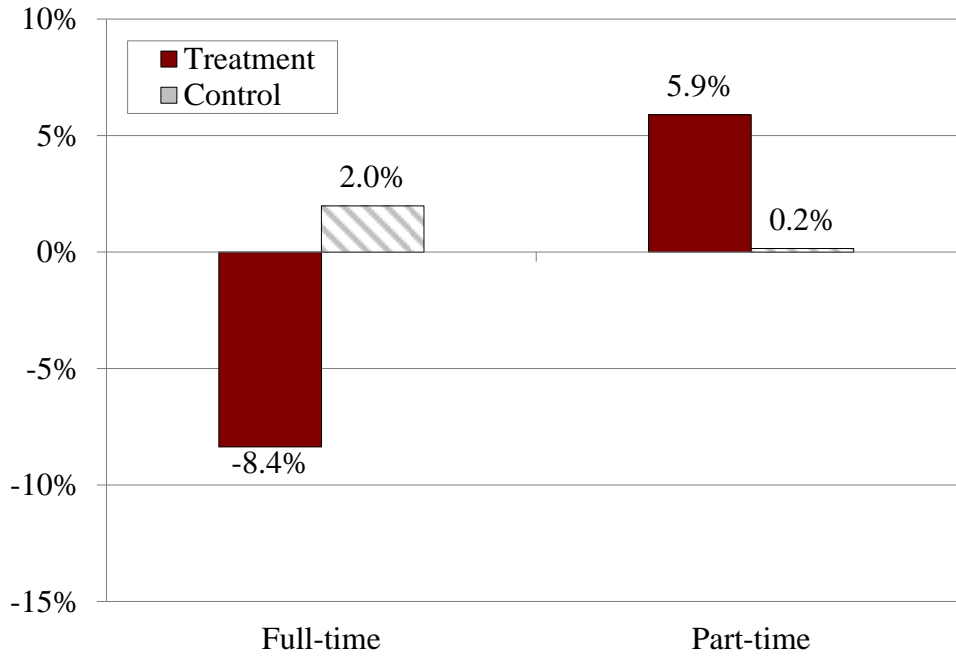
The Figure below shows the key estimation results for the effects of Part D on full- and part-time work. Part D led to a statistically significant decline of 8.4 percentage points in full-time work among individuals who were dependent on their employer insurance for drug coverage. The average full-time work rate at the baseline was 35 percent, so Part D led to a 24-percent reduction from that average. Of course, this result does not mean that all of the affected individuals moved into retirement. Instead, they may have shifted to part-time work.⁴ Indeed, part-time work did increase in the treatment group by 5.9 percentage points out of the 8.4-percentage-point overall effect. Thus, the reduction in full-time work can be decomposed into 70 percent switching into part-time work and 30 percent going into full retirement.

² This arrangement is fairly common, applying to about half of those with RHI, as everyone gains access to Medicare at age 65.

³ In practice, no such shock is found, and this control group merely serves to reinforce the validity of the estimates found in the treatment group alone.

⁴ Few employers offer health benefits to part-time workers (Kaiser Family Foundation, 2014), so the introduction of Part D could have made such a shift attractive to those ages 65 and over.

Figure. *Estimated Effect of Part D on Labor Outcomes for Treatment and Control Groups*



Note: Solid bars are statistically significant.

Source: Author's estimates from the *Health and Retirement Study* (2000-2010).

These results are driven almost entirely by less healthy individuals. Sick individuals (those with chronic conditions such as diabetes or heart disease) see a decline in full-time work of 12.2 percentage points and an increase in part-time work of 9.9 percentage points. In contrast, healthy individuals display no statistically significant response to Part D in their labor outcomes.

Overall, decoupling labor force decisions from insurance decisions can affect labor supply among those near retirement. This study finds that, prior to the availability of Medicare Part D, many individuals worked past age 65 to maintain access to their employer-sponsored drug insurance. While this barrier to retirement is relevant only to those who have such employer-sponsored insurance, which is a relatively modest share of the total population over age 65, it seems to provide a large incentive to delay retirement for this group.

References

Kaiser Family Foundation and Health Research & Educational Trust.. 2014. Employer Health Benefits, 2014 Annual Survey. Menlo Park, CA.