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# Retiree Health Benefits and Retirement

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**L**abor markets and health insurance are closely linked in the United States because many employers provide health insurance to both current and retired workers. While economists and policy analysts have focused on the reasons for and consequences of employer provision of health insurance to current employees (Rosen 2000), retiree health benefits have received far less attention, partly because data on them have been scarce.

Nevertheless, retiree health benefits raise important issues for public policy. As Figure 1 shows, the percentage of employers offering retiree health benefits has fallen in the last decade (see also Fronstin [2001, 2005]). Early retirees, by definition, are not yet eligible for Medicare and may not be able to afford private coverage. Moreover, early retirees' expected health care expenses are larger than those of younger workers.

If society values the consumption of health care by early retirees, employer-provided retiree coverage may be a public policy concern.

Any number of policies could increase the health insurance coverage of early retirees. For example, Medicare could be extended to early retirees, or new incentives could be created (or mandates adopted) for employers to offer additional retiree health coverage. However, given the link between health markets and the labor market, such policies could have the unintended consequence of increasing the incentive to retire early in order to take advantage of the expanded health coverage. The extent to which this is a problem depends on the strength of the relationship between the availability of retiree health benefits and retirement.

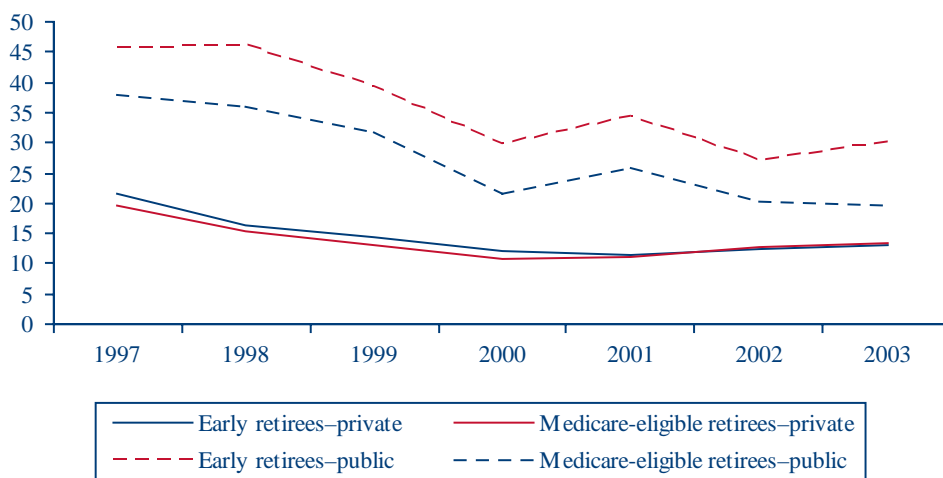
Existing studies have found an empirical link between the offer of retiree health benefits and retirement. For example, Rogowski and Karoly (2000) and Blau and Gilleskie (2001), among others, have examined the

relationship between retirement and retiree health benefits using the Health and Retirement Study (HRS), a major longitudinal survey sponsored by the National Institute of Aging and conducted by the University of Michigan.<sup>1</sup> The HRS has the unique advantage of being longitudinal and including questions on both retirement and the availability of retiree health benefits. Rogowski and Karoly find that workers with retiree health benefits in 1992 were about 11 percentage points more likely to be retired in 1996 than those without. Blau and Gilleskie examine the transition to retirement between 1992 and 1994 and find that retiree health benefits increased the probability of retirement by 2 to 6 percentage points, depending on the extent to which retirees share in the cost of those benefits.

Here, we summarize a recent study (Marton and Woodbury 2006) in which we use the HRS to add to the evidence on retiree health benefits in two ways. First, we develop a descriptive analysis of retiree health benefit coverage that compares the coverage of workers in 1992 with their coverage two and four years later. The analysis shows the following:

- Of the full-time employed workers who had retiree health benefits in 1992, 4 percent had lost those benefits by 1994, and 24 percent had lost them by 1996.
- Of the full-time employed workers who lacked retiree health benefits in 1992, 8 percent had gained them by 1994, and 15 percent had gained them by 1996.
- It follows that retiree health coverage of a given worker changes over time, so it may be important to account for such changes in formulating empirical models of retirement and in formulating policies.
- Some full-time employed workers who thought they had retiree health benefits in 1992, and who had retired by 1994 or 1996, did not have employer-provided health benefits in retirement. Of the full-time employed men who were covered by retiree health benefits in 1992 and had retired by 1994, 4 percent were uninsured, and 5 percent were covered by health insurance that was not employer-provided insurance.

**Figure 1 Percentage of Private- and Public-Sector Establishments Offering Health Insurance to Retirees, 1997–2003**



SOURCE: U.S. Department of Health and Human Services, Agency for Healthcare Research and Quality (n.d.).

The analysis is limited by changes in key survey questions between the 1994 and 1996 waves of the HRS, and we believe that further work with post-1996 HRS waves would be useful. Nevertheless, it seems clear that retiree health benefit coverage changes for a given worker over time.

Second, we extend the existing literature on retiree health benefits and retirement by using information on the availability of retiree health benefits and pensions in more than one year. Again using the HRS, we examine a pair of two-year retirement transitions, 1992–1994 and 1994–1996, for a sample of men who were employed full time in 1992, and allow for changes in retiree health benefits and pensions between 1992 and 1994. The approach is a simplified survival analysis or event history analysis with time-varying covariates, and it allows us to observe different impacts of retiree health benefits on retirement as the cohort of workers ages. It contrasts with the approach taken in earlier work, where a single two- or four-year transition is analyzed. The main findings can be summarized simply:

- For the 1992–1994 transition, workers with retiree health benefits were 4 percentage points more likely to retire than those without—a 55 percent increase in the retirement probability.
- For the 1994–1996 transition, workers with retiree health benefits were 3 percentage points more likely to retire than those without—a 29 percent increase in the retirement probability.

We infer that this cohort of workers was most likely to accept retiree health benefits when they were relatively young, then became less likely to do so as they aged.

The implications are twofold. From a modeling perspective, the findings suggest the importance of examining repeated transitions and accounting for changes over time in the explanatory variables. From a policy perspective, the findings are important because they suggest that workers who are eligible for retiree health benefits tend to take advantage of them when they are young. This makes sense, because retiree health benefits accepted when

a worker is younger yield a benefit for a longer period of time and hence are more valuable. The implication, though, is that retiree health benefits represent an expensive benefit that tends to induce experienced workers with several remaining productive years to retire. Policies that create additional retiree health coverage need to account for the reduction in labor supply that may be an unintended consequence of such policies.

In modeling the transition to retirement, we also attempt to improve on the previous literature by including the employment status of each worker's spouse in the retirement models. Including variables capturing the employment of each man's wife yields a test of the hypothesis that the labor force participation of a spouse may be important to a man's decision to retire. The findings suggest strongly that men with a full-time working spouse are less likely to retire than men who are not married. This suggests in turn that husbands and wives view each others' leisure time as complementary; hence, couples time their retirements to coincide. Including a spouse's employment status does not seem to appreciably change the estimated relationship between retiree health benefits and retirement.

Much work on retiree health benefits remains to be done. It would be interesting to examine additional two-year retirement transitions by analyzing more recent waves of the HRS. Also, in recent years the HRS has added cohorts of "War Babies" (born between 1942 and 1947), and of "Early Baby Boomers" (born between 1948 and 1953). Examining these younger cohorts would yield additional evidence on how retiree health benefit coverage has changed over time. Moreover, examining the retirement behavior of these younger cohorts and comparing it with the behavior of the original HRS sample could have important implications for public policy.

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## Note

1. The Health and Retirement Study is available at <http://hrsonline.isr.umich.edu>.

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