

Ensuring Health and Income Security for an Aging Workforce

Copyright©2000 National Academy of Social Insurance

Editors' Introduction

Peter B. Budetti, Richard V. Burkhauser,
Janice M. Gregory, and H. Allan Hunt

The number of older workers will nearly double in the next two decades. Without immediate attention to the issues they present to public and private health and income security programs, some worker- protection programs will be strained to bursting, and policymakers will migrate from one quick-fix solution to another as they scramble to respond to gaps in coverage and benefit inequities that become more urgent as they grow larger.

Individuals and institutions concerned about preparing for the sharp increase in the number of retired individuals in the United States can turn to many volumes of excellent work that profile the characteristics and resources of present and future retirees, examine their impact on the retirement and health programs designed to support them, and suggest policy options to accommodate those programs to the future. For the next 20 years, however, those who will produce this future retirement bulge will first transform the workplace and the social insurance programs that are designed to support individuals while they are working.

In 1999, almost 23 million Americans were between ages 55 and 64. But aging members of the so-called baby-boom cohort (individuals born between 1946 and 1963) will nearly double that number in the next two decades. In 1999, the age 45–54 cohort numbered 35.3 million, and the age 35–44 cohort checked in at 44.8 million. Who are these people? What will they want? Who among them will be vulnerable? What will society ask of them? Should social insurance policies support a pro-work agenda that keeps these cohorts in the workplace longer? Or should those policies expand the income and health support programs available to older workers, even if it encourages early retirement? If so, how?

Responding to the phenomenon of an older workforce with rational policies and structurally sound programs is vitally important to both the short- and long-term economic well-being of all of us. Many older workers are at the height of their earning capabilities, but they also frequently carry heavy family responsibilities and have the least ability to recoup and prepare adequately for their old age if disaster strikes. How well we respond to older workers will, to a considerable degree, dictate how much and what kind of assistance these same individuals will require when they leave the workforce.

Very little research is available to guide employers, employees, and policymakers through this period. This volume—based on the National Academy of Social Insurance’s 12th annual conference, “Ensuring Health and Income Security for an Aging Workforce,” which was held in Washington, D.C., on January 26–27, 2000—begins to fill that gap. The conference kicked off a multiyear, interdisciplinary study of the social insurance problems of our aging workforce.

A group of papers were commissioned by the Academy about the implications of an aging workforce for various social insurance programs in the coming decades. Those papers are presented here, together with the comments of the assigned conference reactors. While authors were offered a chance to revise their remarks, the edited papers in this volume reflect the content of the conference very well. The papers in this volume provide a foundation for discussion of the social insurance challenges affecting these older workers and the policy issues that will be raised as they move toward retirement.

A critical feature of the Academy’s work is its broad approach to social policy questions. This is essential to any effort to address the impact and needs of older workers; otherwise, efforts to deal with issues and problems related to older workers that appear in one program can lead to dislocations in another program or create gaps in protection that had not been there before. For example, policies that make social security early retirement benefits less generous or that increase the age of “early” retirement will likely lead to greater use of disability programs. Policies designed to limit access to disability programs may put pressure on workers’ compensation and unemployment insurance programs or may increase the number of individuals without adequate health care insurance. Hence, policymakers must consider the implications of any single policy change for the entire social safety net in order to mitigate the economic risks associated with exiting the labor force at older ages.

In the first section of this volume, four papers chart the current landscape of older workers’ access to and use of health insurance, workers’ compensation, unemployment compensation, and disability insurance. These examinations are then synthesized into cross-cutting themes. Subsequent sections of the book target the worker risks of job loss, chronic illness and disability, earlier (or later) retirement, and access to health care from the specific vantage point of the older worker.

SESSION I. CHARTING THE LANDSCAPE: WHAT RISKS DO OLDER WORKERS FACE?

Katherine Swartz and Betsey Stevenson analyze 1999 Current Population

Survey data to provide a profile of health insurance coverage of current 55- to 64-year-olds. Striking a theme that will recur in other studies, they note that increases in the fraction of individuals in this age cohort with no health coverage could have more serious short- and long-term consequences than similar gaps for younger individuals. In the short term, older workers are more likely than younger ones to need medical care, and in the long term, because they are less likely to avail themselves of preventive care services, uninsured older workers may later increase Medicare costs. Determining the causes of coverage gaps among older workers will enable the development of better- targeted public policies to provide coverage for this group at a critical time.

John Burton and Emily Spieler examine older workers in workers' compensation programs and highlight another recurring theme: current programs often do not match the needs of older workers. In particular, chronic impairments and disabilities common among older workers present both diagnostic and therapeutic hurdles for workers' compensation programs. These programs have focused on traumatic injury treatment and rehabilitation. However, many older workers are neither impairment-free nor fully disabled—they are somewhere in between. Since workers' compensation programs are relatively unique among social insurance programs in that they recognize partial disabilities, pressure on these programs may intensify as the number of aged workers increases.

Of course, as the number of older workers swells in the next decades, the number of younger workers will decrease relatively. Christopher O'Leary and Stephen Wandner call for greater understanding of the current and potential impact of unemployment insurance programs on the income security and labor force participation of older workers. They consider the labor market situation of older workers in the context of unemployment insurance policies, including the plight of older workers who move to part-time work or self-employed arrangements.

Mark Nadel examines older workers' risk of long-term disability, including circumstances under which long-term disability also leads to loss of employment and income among older workers. He also reviews systems of insurance coverage and gaps in protection of older workers with disabilities, as well as the implications for disability programs of increasing the age at which early retirement benefits are available.

Robert Haveman poses a central policy question arising from these profiles, i.e., how should social insurance policy respond to the needs of a growing group of older workers who tend to be more work- impaired than their younger peers and who face eroding personal capabilities and difficult decisions regarding transitioning into retirement? Several additional questions flow from Haveman's overarching challenge: Should public policy promote a pro-work agenda or seek

to improve the adequacy of income support? How can social insurance policies simultaneously address the needs of two very different groups of older workers, one group that is generally healthy, educated, and working and a second group that has health conditions that limit their ability to work, eroding job skills, and limited education? Where can older workers get the training they need to stay current in their career or to change to a new career? What access to public income support and publicly financed health benefits should be provided to older workers who are working less than full time or in other “bridge” jobs prior to full retirement?

Session I concludes with the comments of Walter Maher and David Smith, who provide employer and union perspectives on these questions.

SESSION II. JOB LOSS: INCOME AND HEALTH COVERAGE

The use of employment-based insurance plans as the predominant source of health coverage has created a complex interaction between job status and access to health insurance. Not all individuals or families will have the requisite employment link at all times in their lives, and not all employers will choose to offer coverage in a voluntary system. Public programs have filled some of the inevitable gaps, but these programs are not comprehensive in their protection. Workers and their spouses aged 65 and over, as well as those workers who become so seriously disabled that they cannot work at all, are well covered by Medicare. Persons who are aged 65 and older, or are unable to work at all because of a disability and who are poor, are covered by Medicaid. In addition, children are also eligible for Medicaid if their family income is not substantially over the federal poverty level.

But other non-employed groups, such as “early retirees” and individuals “between jobs” who are not sufficiently poor, are not protected by public sources, nor are many workers younger than age 65 and their families whose employers do not offer affordable coverage. Problems of securing coverage in the private insurance market, especially for older persons or persons with chronic health conditions, are well documented. Thus, job loss has profound implications for older workers (less than age 65) with employment-based health coverage, because they are likely to fall outside of the scope of publicly provided health coverage and may not be able to find new employment or affordable private insurance that provides adequate coverage. This section focuses on this issue and others related to job loss at older ages.

Ann Huff Stevens and Sewin Chan assess the effects of job loss on the economic status of older workers. Analyzing Health and Retirement Study (HRS) data on the employment history of displaced workers aged 50 and over, they

identified “large and lasting effects of job loss on the future employment probabilities of older workers.” That is, workers who lose jobs at this stage of their lives are far less likely to be working at subsequent ages than their nondisplaced counterparts. Moreover, those who do find new jobs face substantial reductions in earnings, averaging only two-thirds of what they would have made if they had not lost their previous jobs. Finally, although the findings are less dramatic, displaced workers may use up their savings to cover lost earnings, and job loss may also lead to substantial reductions in pension benefits.

Jill Quadagno, David Macpherson, and Jennifer Reid Keene surveyed and conducted in-depth interviews with bank officers shortly after layoffs were announced following a takeover of a major West Coast bank. Some losses in retirement benefits occurred, and younger displaced workers tended to spend down their retirement savings and assets. But, even some of those who were retained felt they were being set up to resign rather than being offered a generous severance package. In addition, older employees were less likely than younger ones to find new full-time jobs. Overall, however, most workers were employed at follow-up, and there was very little disruption in their health coverage. Thus, at least for this group of relatively well-educated and high-income workers, the effects of job loss were moderate.

Karen Pollitz reviews the effects of public policies with respect to the health and insurance status of older workers and early retirees, aged 55–64. The health care needs of this age group are far greater than for younger individuals, but coverage opportunities may be less. Certain specific federal policies play an important role for this age group. COBRA continuation rights keep employment-related plans available for 1.5 years after job loss. Medicare and Medicaid help to make up for lower rates of work-based coverage in this age group, at least for those with disabilities. Because premiums are relatively expensive, even when people have the opportunity to buy individual insurance, other federal statutes have had uncertain or quite limited effects, and state laws and programs vary greatly in their ability to assist the near-elderly in obtaining coverage. New legislation may be required to assure adequate coverage as the baby boom enters this age group.

This session finishes with the observations of Katherine Swartz on the job problems and health insurance access problems of aging workers.

SESSION III. CHRONIC ILLNESS AND DISABILITY: POLICY ISSUES FOR AN AGING WORKFORCE

Jeffrey Biddle, Leslie Boden, and Robert Reville present evidence from three states (Washington, Wisconsin and California) that income replacement programs for permanent partial disability under workers’ compensation programs

vary greatly, but in each case they leave workers with substantial losses. Older workers face particular problems; they suffer more permanently disabling injuries, and even though those disabilities are partial, older workers have higher rates of injury-related non-employment. In addition, at least for the first few years after injury, older workers recover a smaller proportion of their losses.

Richard Burkhauser, Mary Daly, and Andrew Houtenville raise an issue that becomes increasingly worrisome if the rate of disability among working-age individuals continues to grow. They found that workers with disabilities did not do as well as other workers during the recent economic expansion, and many had their employment and earnings fall in times of expansion, not just recession. Incomes of households with working-age individuals with disabilities either lagged behind other households or actually fell below previous levels even during the economic boom of the 1990s. In particular, individuals with disabilities had lower levels of employment and lower annual earnings, and their households became increasingly dependent on public income transfers to sustain income.

Bruce Flynn reports on the results of a survey of disability management practices at large employers by the Washington Business Group on Health and Watson Wyatt Worldwide. They found that employer costs of disability have leveled off, or even decreased, in the past three years. This is largely due to market forces, but also partly to the emergence of integrated disability management programs. The implications for older workers in the areas of health care, functional outcomes, and workplace flexibility are discussed.

Commentary by Vicki Gottlich and Patricia Nemore focused on a consumer perspective of the problems that older workers and persons with disabilities have dealing with private health insurance, Medicare, and Medicaid. The session concludes with an overview by Barbara Wolfe. She provides a framework for and a detailed critique of the papers presented.

SESSION IV. IS WORKING LONGER AND RETIRING LATER POSSIBLE? IS IT DESIRABLE?

Finally, we return to the question asked by Robert Haveman in his overview: what about work at older ages? Is working longer and retiring later possible, or desirable? Gary Burtless and Joseph Quinn argue that the burden of an aging population would rise more gradually if workers delayed retirement and thereby continued contributing to the health and pension systems rather than only being beneficiaries. After a long slide, the long-term trend for earlier retirement, especially among males, seems to have halted and perhaps even reversed in the United States. Burtless and Quinn outline policies that might reinforce this nascent turnaround.

Anna Rappaport explores these policies from the very different perspective of employers, for whom retirement is defined as an employee leaving a particular employer rather than exiting the workforce completely. Employers focus on business need when structuring human resource programs, but they must also consider the constraints of public policy. She calls for additional research on the costs and benefits of employing older workers.

Glen Pransky brings a medical perspective to the question of aging and work capacity. He asks whether recent success in mortality reduction has resulted in an aging population with more morbidity, less ability to function, and thus less average work capacity at a given age; or, have gains in morbidity paralleled the gains in mortality, with a prolongation of functional capacity? He reviews the evidence and finds few broadly generalizable conclusions. Further research is needed to define and evaluate the issues.

In her commentary, Teresa Ghilarducci examines the issue of how much choice older workers should have over whether they continue to work or not. Who is to decide when enough work is enough, if not the worker him or herself? She cites falling male workforce participation rates as a demonstration of how workers have chosen to spend the increases in the nation's productive capacity. She questions whether public policy initiatives should encourage later retirement or whether alternative ways to enable worker choice should be found.

SESSION V. FILLING GAPS IN HEALTH COVERAGE: SHARING RESPONSIBILITY AND COSTS

Len Nichols makes a strong case for public policy initiatives to assist the age 55–64 cohort with health coverage—despite their relatively high insurance coverage rate—by demonstrating, first, that their health needs and the risks they face from being uninsured are far greater than are those of younger cohorts, and second, that their numbers are rapidly expanding even as their likelihood of having employer-sponsored retiree health insurance is declining.

After examining the opportunities and limitations presented by public program and COBRA expansions, tax credits, and direct subsidies, and outlining the high financial costs of the current-nongroup market and the high political costs of trying to reform that market, he presents and simulates the costs and effects of three promising subsidy policy options. He argues that major gains can be achieved at relatively low cost by targeting those with the most pressing needs within the 55–64 age group, i.e., uncovered persons with low incomes and those whose health is fair or poor but not impaired enough to qualify for the current Medicare or Medicaid programs. Nichols concludes with a set of four principles for public policy based on the greater needs of these subgroups and the relative

ease with which our society could address those needs.

Deborah Chollet examines these arguments with a critical eye. She wonders about the source of health care coverage, given experience with high-risk pools at the state level. She submits that a principal danger is to try and fix too much. Frank McArdle contributes an employer's perspective on the policy solutions of the Nichols paper. He finds merit in a defined-contribution approach to health care coverage for retirees. Diane Rowland urges that we not throw out the good in our public programs. Sometimes it is preferable to work on reforming what is "in the box" rather than going "outside the box."

CONCLUSION

After seven years of vigorous economic growth, not only has the federal budget been balanced for the first time in decades, but we are actually rolling up sizable surpluses. Politicians are competing over the most creative ways to invest this surplus, but it is clear that substantial reforms of our social welfare system will be required to finance the growing income and health care needs of future cohorts of older workers. The authors in this book provide a variety of ways in which our current public and private publicly financed safety net could be reconstructed to provide this protection.

In a very real sense, the future is in our hands. It is time for both the public and private sector to focus on the special questions, challenges, and needs of the growing population of older workers on payrolls across the land. The papers in this volume provide a beginning for this process. The National Academy of Social Insurance intends to pursue these issues at greater length and invites all interested parties to participate.