

**Statement Before the  
U.S. Senate Special Committee on Aging**

**Hearing on  
“Scrambling for Health Insurance Coverage:  
Health Security for People Between 55–64 Years of Age”**

**April 3, 2008  
562 Dirksen Senate Office Building**

**Testimony by:**

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T-150**



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## Highlights

- In 2006, nearly 162 million individuals under age 65 had health insurance through an employment-based plan. Sixty-two percent were covered by an employment-based health plan, with 70.9 percent of working adults covered, 37.5 percent of nonworking adults covered, and 57.1 percent of children covered.
- In 2005, 59 percent of employers with 3–199 employees offered health benefits, down from 68 percent in 2000. The decline in employer sponsorship followed an expansion in sponsorship that occurred between 1996 and 2000. Between 2005 and 2007, the percentage of employers with 3–199 employees that offered health benefits remained constant at about 59 percent.
- The percentage of workers reporting that they have access to health benefits through their job is largely unchanged from the mid-1990s. In 2005, 74 percent of workers who were not self-employed reported that they were eligible for health benefits through their own job, up slightly from 73.6 percent in 1995, but down from 77.8 percent in 1988.
- Between 1994 and 2000, the percentage of workers with health benefits through an employer held steady at between 73 percent and 75 percent. Since 2000, the percentage of workers with health benefits has fallen to about 71 percent.
- Despite the vulnerabilities that older individuals face when it comes to health insurance coverage, they are the least likely age group among adults to be uninsured. In 2006, 12.7 percent of individuals ages 55–64 were uninsured.
- Like the overall trend for workers, workers ages 55–64 have experienced a slight erosion in coverage and a slight increase in the likelihood of being uninsured. In 2006, 78.4 percent of workers ages 55–64 were covered by an employment-based health plan, down from 80.1 percent in 2003, but higher than the levels seen in the late-1990s. Similarly, the percentage uninsured increased from 9.7 percent in 1999 to 11.1 percent in 2006, which is essentially the same uninsured rate among these workers (11.3 percent) from back in 1994.
- There was no erosion in health insurance coverage rates among retirees ages 55–64. The percentage of these retirees with employment-based health benefits from either a former employer or spouse has bounced around between 56 percent and 60 percent between 1994 and 2006. During this time period, the uninsured rate for this group bounced around between 13.6 percent and 16.4 percent.
- Retirees ages 55–64 are becoming more likely to get employment-based coverage through another family member and less likely to get it through a former employer. The percentage of retirees with coverage through a former employer was at 35.4 percent in 2006, the lowest point between 1994 and 2006 except during 2000. Similarly, the percentage of retirees with coverage through a family member was 22.6 percent in 2006, essentially the highest level during 1994–2006.

Chairman Kohl and members of the committee: My name is Paul Fronstin. I am director of the Health Research and Education Program of the nonpartisan Employee Benefit Research Institute (EBRI). I am pleased to appear before you today to testify on trends in health care coverage for workers and retirees. Established in 1978, EBRI is committed exclusively to data dissemination, policy research, and education on financial security and employee benefits. EBRI does not lobby or advocate specific policy recommendations; the mission is to provide objective and reliable research and information. All of our research is available on the Internet at [www.ebri.org](http://www.ebri.org). All views expressed are my own, and should not be attributed to EBRI.

## **Introduction**

There is a strong link between health benefits and employment. As a result, employment-based health benefits are the most common form of health insurance for nonpoor and nonelderly individuals in the United States. In 2006, nearly 162 million individuals under age 65 had health insurance through an employment-based plan (Fronstin, 2007a). Just over 62 percent of individuals below age 65 were covered by an employment-based health plan, with 70.9 percent of working adults covered, 37.5 percent of nonworking adults covered, and 57.1 percent of children covered.

It was during World War II that many employers began to offer health benefits. Because the National War Labor Board froze wages, employers sought ways to get around the wage controls in order to attract scarce workers. In 1943, the National War Labor Board ruled that employer contributions to insurance did not count as wages, and, thus, were not subject to the wage controls. Health insurance became an attractive means to recruit scarce workers.

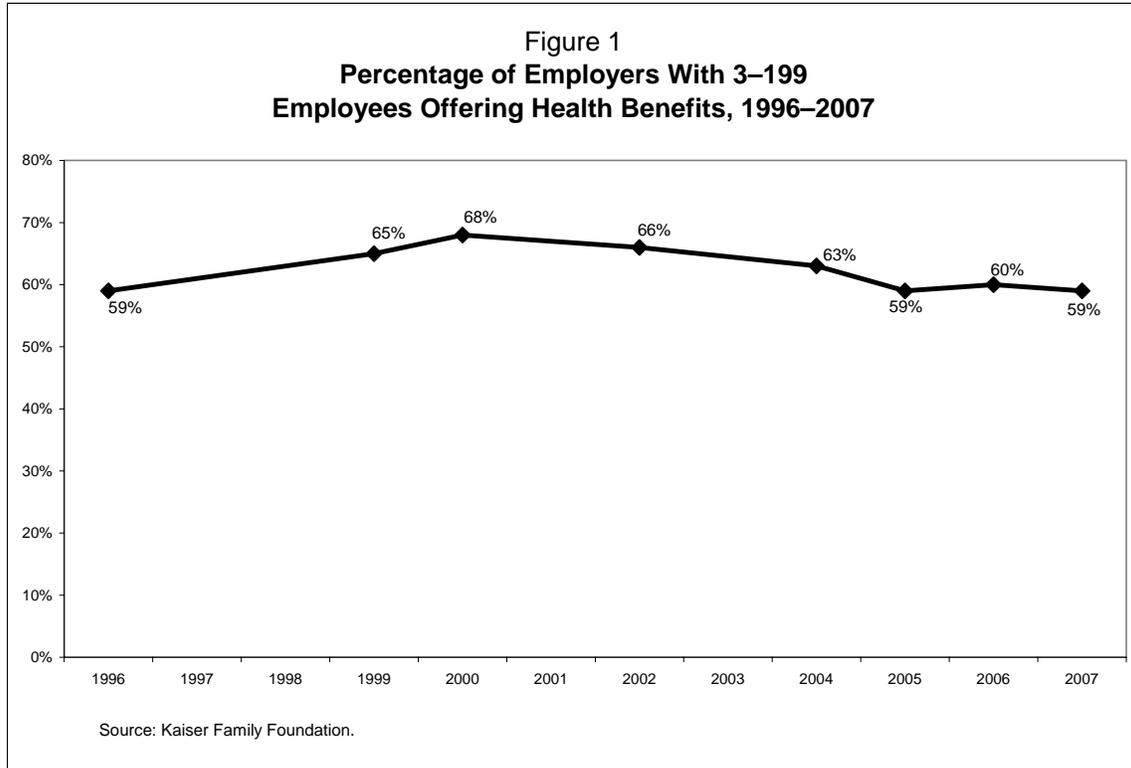
Today, employers provide health benefits voluntarily. They offer health benefits to attract and retrain workers based on the generally accepted view that most employees desire them more than the equivalent cash compensation and evidence that they outrank every other employee benefit in importance (Helman and Fronstin, 2004). Employers also offer health benefits in order to provide workers and their families with protection from financial losses that can accompany unexpected serious illness or injury, to promote health, and to increase worker productivity. They generally regard health benefits as a voluntary compensation arrangement dependent on business priorities, and their level of commitment to this benefit fluctuates in response to a variety of economic pressures. However, they also have a motivation to provide health benefits as a means of protecting their investment in workers. The cost of absenteeism and presenteeism related to health status reduces productivity and can trigger other costs, such as sick pay and disability costs.

## **Trends in Coverage for Workers**

The question of whether employers have reached a tipping point with health benefits is starting to be asked (Fronstin, 2007b). The question is coming up for various reasons but is being primarily driven by the ever-increasing cost of providing health benefits to workers. Between 2000 and 2007, the cost of providing health benefits doubled, while workers' wages and overall inflation increased only 25 percent and 21 percent, respectively.<sup>1</sup> While the growth rate in the cost of providing health benefits fell between 2003 and 2007 from 13.9 percent to 6.1 percent, growth in the cost of providing health

benefits to workers continues to run double the growth in workers' earnings and is also double the rate of overall inflation.

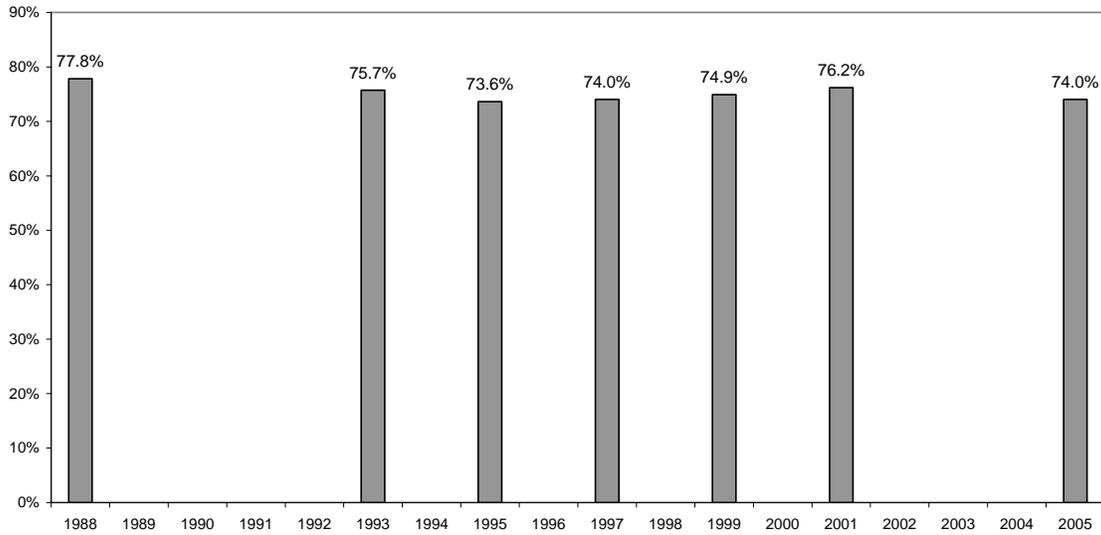
Because of the rising cost of providing benefits, there has been some erosion in the availability of health insurance through smaller employers (in large part, all large employers offer health benefits to workers). In 2005, 59 percent of employers with 3–199 employees offered health benefits, down from 68 percent in 2000 (Figure 1). The decline in employer sponsorship followed an expansion that occurred between 1996 and 2000. Between 2005 and 2007, the percentage of employers with 3–199 employees offering health benefits remained constant at about 59 percent.



While there has been an erosion of availability of health benefits at the small employer level since 2000, the percentage of workers reporting that they have access to health benefits through their job is largely unchanged from the mid-1990s and down only slightly from the late-1980s. In 2005, 74 percent of workers who were not self-employed reported that they were eligible for health benefits through their own job, up slightly from 73.6 percent in 1995, but down from 77.8 percent in 1988 (Figure 2).

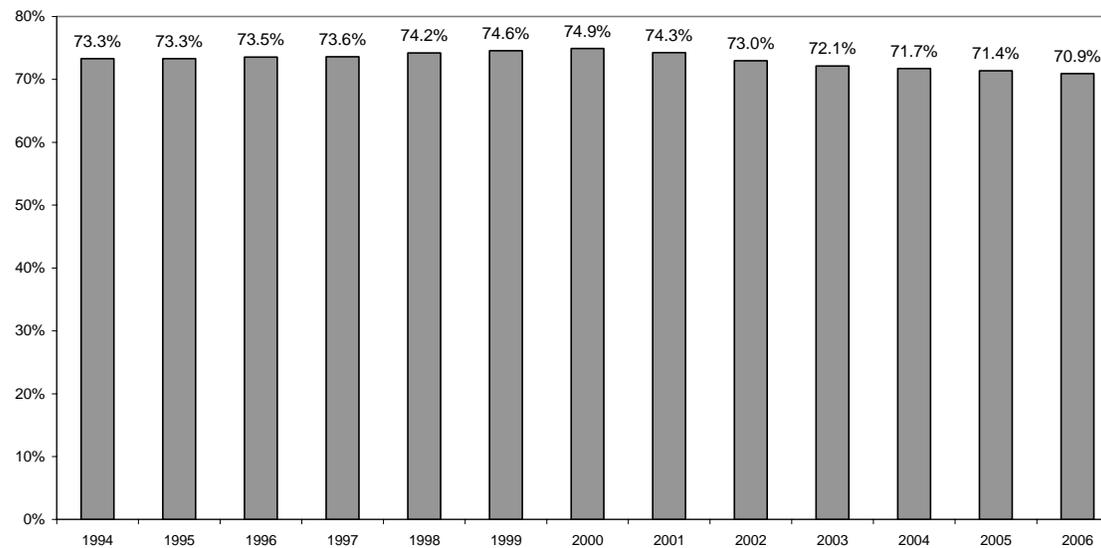
In terms of whether workers have health insurance coverage, for the most part, the percentage of workers with coverage either from their own employer or from someone else's employer has been remarkably stable, considering what has happened with the cost of providing health benefits and the fact that fewer small employers have offering coverage since 2000. Between 1994 and 2000, the percentage of workers with health benefits through an employer held steady at between 73 percent and 75 percent (Figure 3). Since 2000, the percentage of workers with health benefits has fallen to about 71 percent.

**Figure 2**  
**Worker Eligibility Rate for Own Employer Health Benefits,**  
**Wage and Salary Workers Ages 18–64, 1988–2005 (Select Years)**



Source: Employee Benefit Research Institute estimates based on data from the Current Population Survey.

**Figure 3**  
**Percentage of Workers, Ages 18–64, With**  
**Employment-Based Health Benefits, 1994–2006**

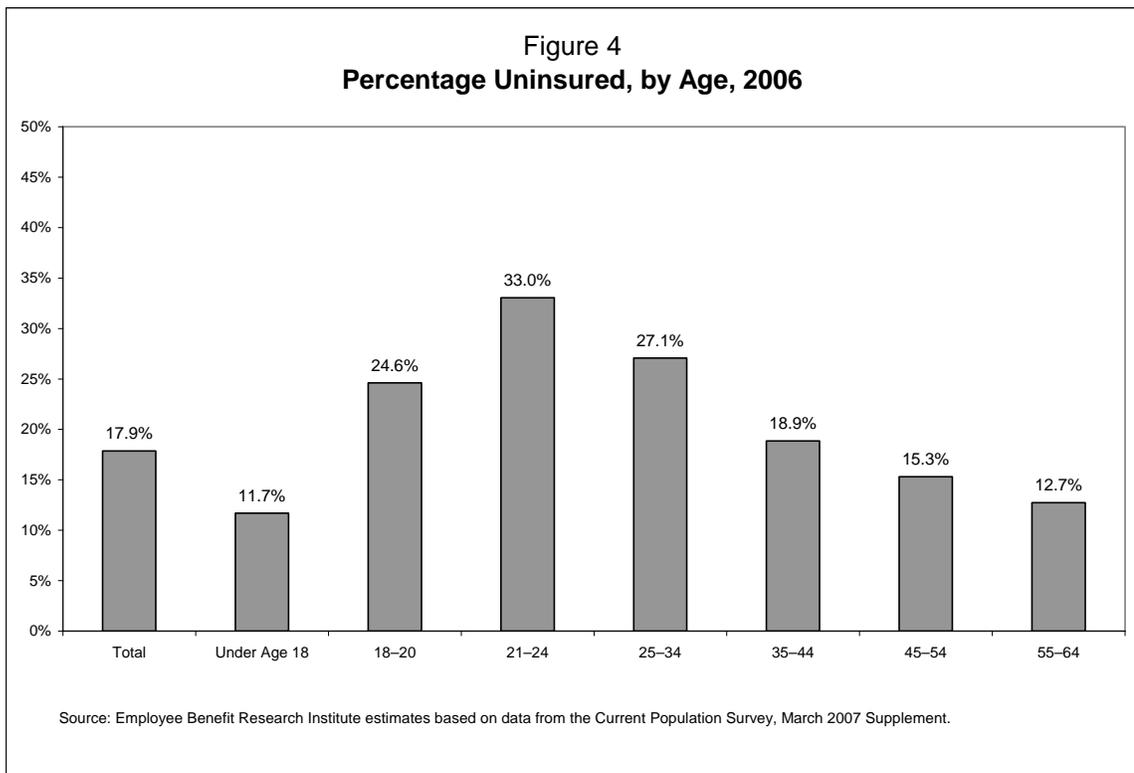


Source: Employee Benefit Research Institute estimates based on data from the Current Population Survey, March Supplement.

## Trends in Coverage for Individuals 55–64

While workers have for the most part experienced a small erosion in coverage, older workers and individuals are particularly vulnerable if they were to lose health insurance coverage. Older workers may lose coverage because of job displacement and may be unable to afford or obtain health insurance on their own due to their age and/or health status. Furthermore, retirees are less likely than in the past to have access to retiree health benefits as employers have been cutting back on this benefit (Fronstin, 2006).

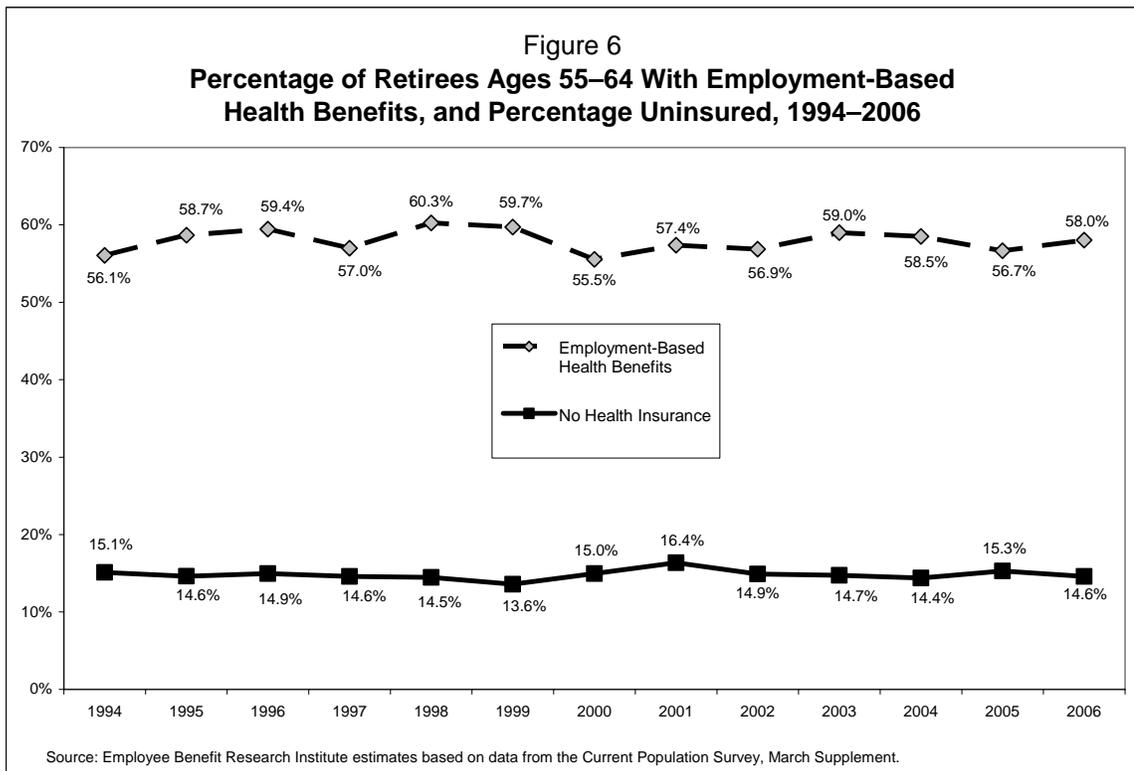
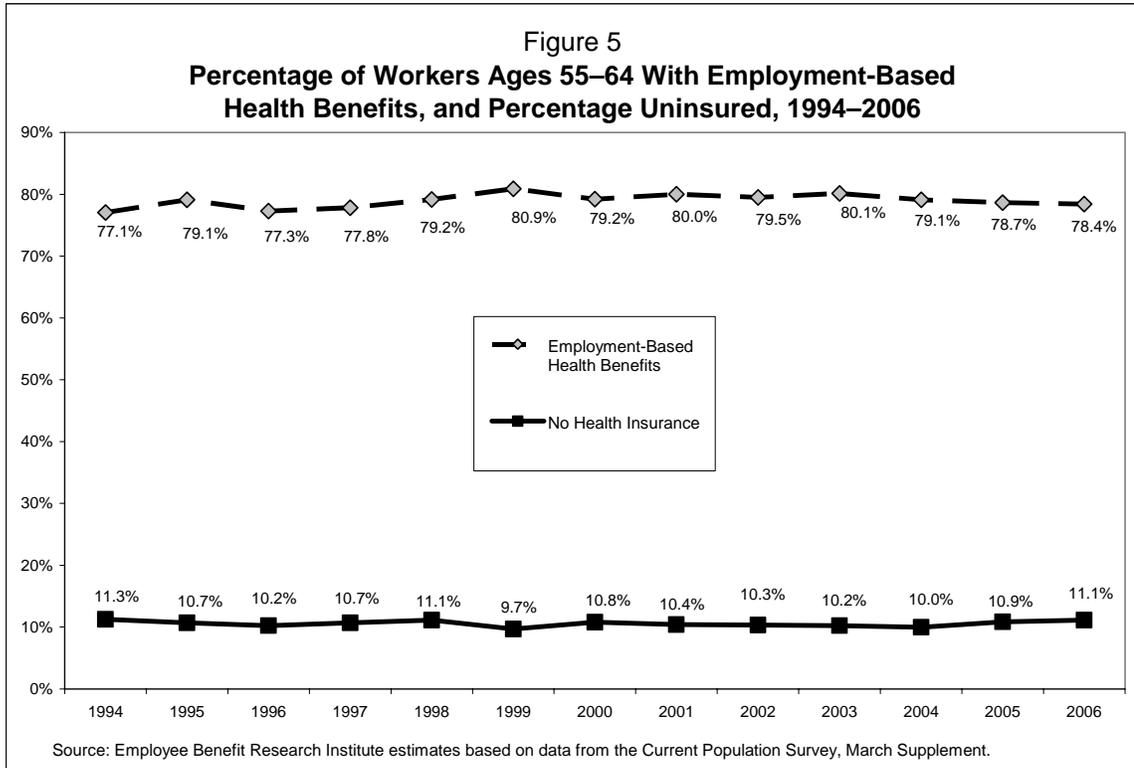
Despite the vulnerabilities that older individuals face when it comes to health insurance coverage, they are the least likely age group among adults to be uninsured. In 2006, 12.7 percent of individuals ages 55–64 were uninsured (Figure 4). This is lower than the overall uninsured rate of 17.9 percent among persons under age 65, and lower than all other age groups except for children.



Like the overall trend for workers, workers ages 55–64 have experienced a slight erosion in coverage and a slight increase in the likelihood of being uninsured. In 2006, 78.4 percent of workers ages 55–64 were covered by an employment-based health plan, down from 80.1 percent in 2003, but higher than the levels seen in the late-1990s (Figure 5). Similarly, the percentage uninsured increased from 9.7 percent in 1999 to 11.1 percent in 2006, which is essentially the same uninsured rate among these workers (11.3 percent) from back in 1994.

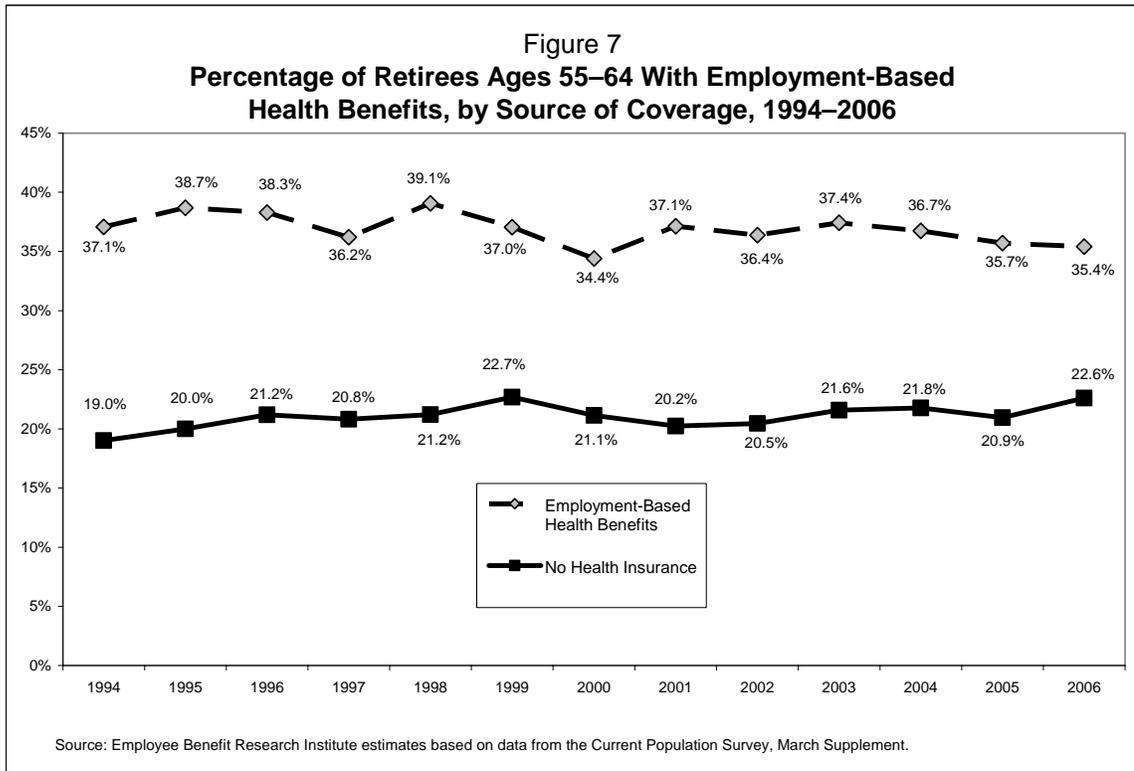
There is no erosion in health insurance coverage rates among retirees ages 55–64. The percentage of these retirees with employment-based health benefits from either a former employer or spouse has bounced around between 56 percent and 60 percent between 1994 and 2006 (Figure 6). In 2006, 58 percent of 55–64 year old retirees had

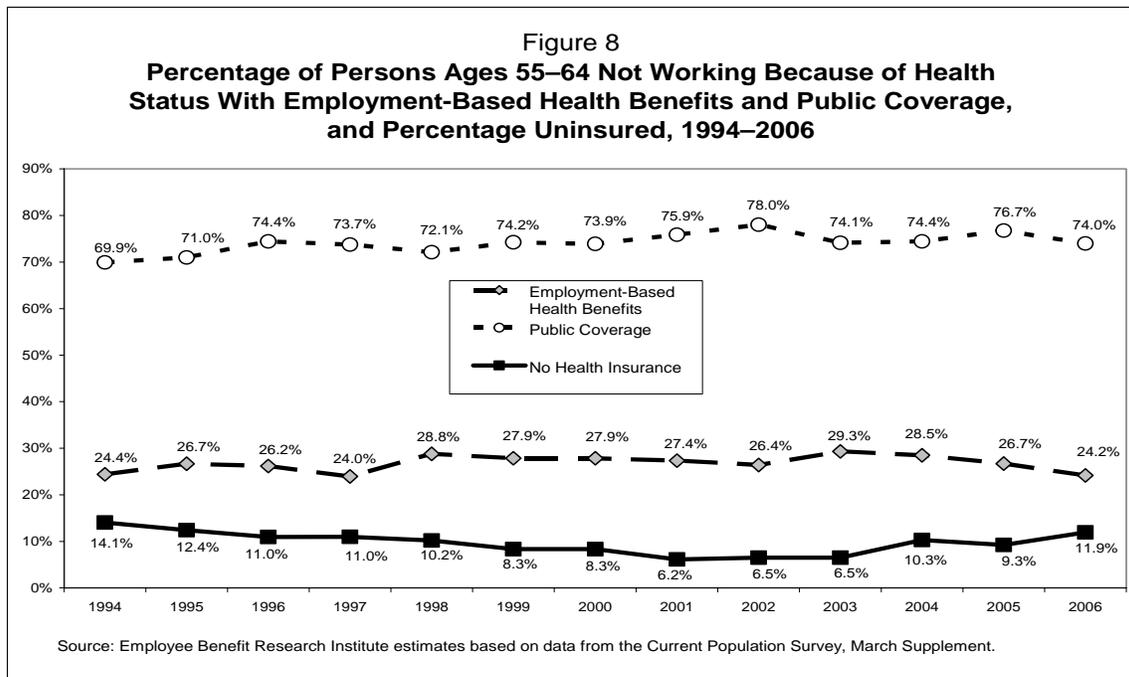
some form of employment-based health benefit. During this time period, the uninsured rate for this group bounced around between 13.6 percent and 16.4 percent. In 2006, 14.6 percent of retirees ages 55–64 were uninsured.



It does appear, however, that retirees ages 55–64 are becoming more likely to get employment-based coverage through another family member and less likely to get it through a former employer. For the most part, the percentage of retirees with coverage through a former employer or through a spouse did not show a clear trend between 1994 and 2006 (Figure 7). However, the percentage of retirees with coverage through a former employer was at 35.4 percent in 2006, the lowest point between 1994 and 2006 except during 2000. Similarly, the percentage of retirees with coverage through a family member was 22.6 percent in 2006, essentially the highest level during 1994–2006.

Some individuals ages 55–64 are not working because of their health status. They do not report being retired, but instead report that they are not working because of an illness or disability. About three-quarters of these individuals get health insurance through a public program, such as Medicare or Medicaid (Figure 8). The recent trend for these individuals is that public programs are becoming less prevalent. Between 2002 and 2006, the percentage covered by a public program fell from 78 percent to 74 percent. This occurred after an expansion of public program availability, increasing from about 70 percent in 1994. The percentage of these individuals who are uninsured increased between 2003 and 2006, rising from 6.5 percent to 11.9 percent. Prior to 2003, the uninsured rate among these individuals had been falling. It was 14.1 percent in 1994. Employment-based coverage is less prevalent for persons not working because of illness or disability, and it has fallen from 29.3 percent in 2003 to 24.2 percent in 2006.

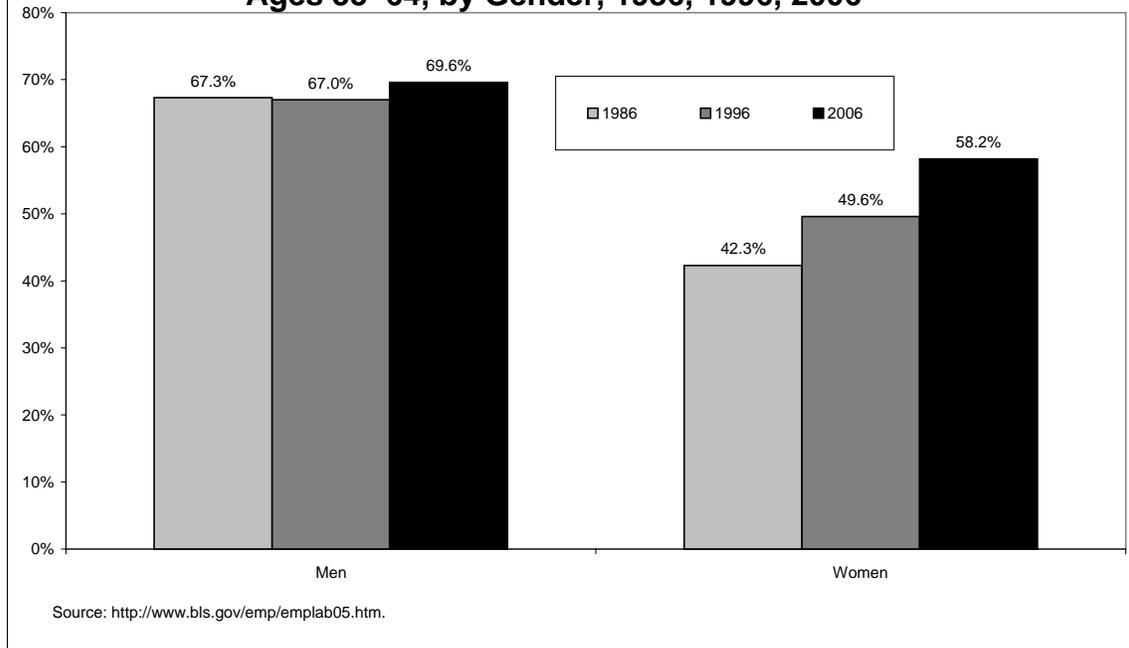




Given the erosion in availability of retiree health benefits it might be surprising that the percentage of retirees ages 55–64 with health benefits through a former employer have not fallen more than we have seen. Rates of retiree health benefits coverage may not be falling for a number of reasons. First, there is a strong link between the availability of retiree health benefits and the decision to retire early. Workers often remain in the labor force longer than expected to maintain health insurance. EBRI’s Health Confidence Survey (HCS) has found that 30 percent of workers expecting to retire before becoming eligible for Medicare would not do so if they did not receive retiree health benefits.<sup>2</sup>

The declining availability of retiree health benefits may in part explain the rising labor force participation rate among individuals 55–64. Between 1996 and 2006, the labor force participation rate for men increased from 67 percent to 69.6 percent, while for women it increased from 49.6 percent to 58.2 percent (Figure 9). The percentage of retirees with health coverage from a former employer may not be declining as quickly as the availability of retiree health benefits because workers without access to this benefit may be remaining in the labor force longer than workers with access to retiree health coverage.

**Figure 9**  
**Labor Force Participation Rates Among Persons**  
**Ages 55–64, by Gender, 1986, 1996, 2006**



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## Endnotes

<sup>1</sup> See <http://www.kff.org/insurance/7672/index.cfm>.

<sup>2</sup> See <http://www.ebri.org/pdf/surveys/hcs/2003/03hcsqp.pdf>.