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Statement

Before the

Senate Finance Subcommittee on Health for
Families and the Uninsured

Hearing on

Health Care for Non-Working People Between the Ages of 55-64

by

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Summary

- Many people find the period between age 55 and 64 to be one of transition. Marriages may end through divorce or death, health problems may arise which challenge a person's ability or desire to remain in the workforce, or retirement programs may offer inducements to retire before eligibility for public programs such as Social Security and Medicare. These events may both be a result of, and result in, changes in an individual's health and health insurance coverage. They may also increase the portion of income that is devoted to health expenditures.

- In 1992, the near-elderly comprised 8 percent (21.2 million) of the total U.S. population. By 2020, this cohort is projected to rise to almost 14 percent of the total population.

- EBRI analysis of the National Medical Expenditure Survey found that those individuals between the ages of 55 and 64 on average use 37 percent more health care services than those between 45 and 54 and over twice the health care services of individuals between the age of 35 to 44.

- The most obvious difference between 55 to 64 year olds and other age groups is in labor force participation. Almost 38 percent of the near-elderly did not work at all in 1992. That compares with less than 20 percent of the 46 to 55 years who reported that they did not work in 1992. Nine percent, or just under 2 million individuals between the ages of 55 and 64, did not work because they were either ill or disabled, 14.5 percent were retired, and 12.2 percent were taking care of their home or family.

- Although the near elderly have lower labor force participation rates than other age groups, the majority of those aged 55 to 64 get their health insurance coverage from an employment-based plan. A little over 64 percent of the near-elderly have employment-based health insurance coverage. This compares with 71 percent for individuals aged 45 to 54 and 67 percent for individuals aged 25 to 44. Almost 13 percent of the near-elderly have a health insurance policy purchased individually, compared with 8.8 percent for individuals aged 44 to 54, and 7.1 percent in the 25 to 44 age group.

Mr. Chairman, I am pleased to appear before you this morning to discuss the health and economic characteristics of the near elderly (those aged 55 to 64). I am Bill Custer, director of research for the Employee Benefit Research Institute (EBRI). EBRI, a nonprofit, nonpartisan public policy research organization, strives to contribute to the formulation of effective and responsible health, welfare, and retirement policies. Consistent with our charter, we do not lobby or advocate positions.

Many people find the period between age 55 and 64 to be one of transition. Marriages may end through divorce or death, health problems may arise that challenge a person's ability or desire to remain in the work force, or retirement programs may offer inducements to retire before eligibility for public programs such as Social Security and Medicare. These events may both be a result of, and result in, changes in an individual's health and health insurance coverage. They may also increase the portion of income that is devoted to health expenditures.

In 1992, the near elderly comprised 8 percent (21.2 million) of the total U.S. population (table 1). By 2020, this cohort is projected to rise to almost 14 percent of the total population.[1] Given this projected growth, it is important to consider this cohort's distinctive characteristics and sources of health insurance coverage when assessing the impact of proposed health care reforms.

Health Status

The degree to which labor force participation is determined by choice or is forced by deteriorating health is still controversial. Some researchers discount the possibility that changes in health status have increased the rate of withdrawal from the labor force by the near elderly, attributing the increased rate of early retirement to greater preferences for leisure and the increasing availability of Social Security and other pension income.

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[1]See U.S. Department of Commerce, Bureau of the Census, *Projections of the Population of the United States, by Age, Sex, and Race: 1988 to 2080*, Current Population Reports, Series P-25, no. 1018 (Washington, DC: U.S. Government Printing Office, 1989).

Others argue that deteriorating health among this population has had a small but significant effect on the lower labor force participation rates. Although mortality rates at each age have improved with medical advances, particularly in recent decades, researchers disagree about how this improvement will affect future demand for medical care and individuals' ability to participate in the work force. One hypothesis posits that, while advances in medical science decrease mortality rates, they may not reduce population morbidity. Although more people might be rescued from what would previously have been a fatal bout of illness, more of the population could be left disabled. Some of these individuals who have been rescued may be responsible for growing numbers of the near elderly who are not participating in the labor force because they are disabled. The major empirical difficulty in confronting the deteriorating health hypothesis is the absence of time series data on objectively measured health conditions among older individuals. All of the measures available to the authors are socially conditioned, and the most abundant and accessible measures are self-reported.

Age itself is a good indicator of the risk of needing health care services. EBRI analysis of the National Medical Expenditure Survey indicates that individuals between the ages of 55 and 64 on average use 37 percent more health care services than those between 45 and 54 and over twice the health care services of individuals between 35 to 44.

Employment is another good indicator of the risk of needing health care services. For the near elderly, EBRI tabulations show that those who are employed have total health expenditures very near the level of younger individuals, but the non-working individuals aged 55 to 64 have health expenditures 65 percent higher than the working near elderly, and those individuals who are disabled have expenditures that are over 2.5 times those of workers.

Although the literature on the health and economic status of the near elderly is ambivalent for the group as a whole, it is clear that for many individuals aged 55 to 64 health is a major determinant of labor force participation and economic status. The sources of income may differ for the near elderly in comparison with younger cohorts, and the total income may

be less. Moreover, there appear to be gender differences in both labor force participation and income. These factors may also be important in determining the presence and source of health insurance coverage at a time of life in which the need for health care may be increased.

The Demographics of 55 to 64 Year Olds

The most obvious difference between 55 to 64 year olds and other age groups is in labor force participation. As table 1 indicates, almost 38 percent of the near elderly did not work at all in 1992. That compares with less than 20 percent of those aged 46 to 55 who reported that they did not work in 1992. Nine percent, or just under 2 million individuals between the ages of 55 and 64, did not work because they were either ill or disabled, 14.5 percent were retired, and 12.2 percent were taking care of their home or family. Approximately 0.01 percent never worked.

The largest difference between the near elderly and younger cohorts in labor force participation is in the number of retirees among individuals aged 55 to 64. Of those near elderly individuals who did not work at all in 1992 almost 39 percent described themselves as retired. Only 1 percent of the 46–55 year olds described themselves as retired.

Differences in labor force participation manifest themselves in differences in family income as can be seen in table 2. The median family income for working near elderly individuals is over $40,000, while the median family income for nonworking near elderly is between $20,000 and $30,000.

Sources of Health Insurance Coverage

Although the near elderly have lower labor force participation rates than younger age groups, the majority of those aged 55 to 64 get their health insurance coverage from an employment-based plan. Table 3 shows that 64.1 percent of the near elderly have employment-based health insurance coverage. This compares with 70.6 percent for individuals aged 45 to 54 and 66.6 percent for individuals aged 25 to 44. The near elderly are more likely than other age groups to have individually purchased private insurance plans. Almost 13 percent have a health insurance policy purchased individually, compared with 8.8 percent for individuals aged 45 to 54, and 7.1

percent in the 25 to 44 age group. The near elderly's high rate of individual coverage is a result of their weak attachment to the labor force and their increased likelihood of being disabled. They are less likely to have employment-based health coverage, yet they are more likely to need some form of health insurance than other age cohorts.[2]

With the exception of the elderly, the near elderly are the most likely age group to have publicly provided health insurance coverage. Over 17 percent had some form of public coverage, compared with 10.0 percent for the population aged 45 to 54 and 9.8 percent for the population aged 25 to 44. The major source of public insurance for the near elderly is Medicare. Individuals between the ages of 55 and 64 are more likely to have Medicare coverage because they are more likely to be disabled and qualify for the Social Security Disability Insurance program (DI). Because of their higher disability rates, the near elderly are less likely to participate in the labor force than other non-elderly age groups.

The near elderly were less likely to be uninsured in 1992 than other non-elderly age groups. Less than 13 percent of the population aged 55 to 64 were uninsured, compared with 14 percent for the 45 to 54 age group and 18.5 percent for the 25 to 44 age group. The higher rates of insurance coverage result from greater numbers of the near elderly purchasing individual coverage and greater eligibility for Medicare due to disability.

Women in this cohort are also much more likely than men to have purchased individual coverage; coverage which is much more expensive than group coverage through an employer. For example, 60.6 percent of women aged 55–64 had employment-based coverage and 15.5 percent had other private individual coverage in 1992. This compared with 68.0 percent and 10.2 percent of men, respectively (table 4).

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[2] In order to qualify for disability benefits, an individual's disability should be expected to last at least 12 months. In addition, there is a mandatory 5-month waiting period before disability benefits begin; therefore, disabled individuals are more likely to need some form of individual coverage in the interim.

Work status, marital status, and family income are among the characteristics associated with sources of health insurance coverage for the near elderly. For example, 71.8 percent of the near elderly who were married reported having employment-based coverage in 1992, while only 44.2 percent of the near elderly unmarried reported having such coverage. In addition, 42.8 percent of the near elderly with family income below $30,000 reported having employment-based coverage, whereas the percentage was substantially higher—80.7 percent—for those with family income of $30,000 or more (table 3).

Individuals between the ages of 55 and 64 who were working were more likely than non-working individuals to have employment-based insurance, but many nonworking individuals also had employment-based coverage. For example, EBRI tabulations indicate that 40.3 percent of the early retirees had direct employment-based health insurance.[3] These benefits can come in the form of employer-sponsored retiree health insurance or continuation of coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA).[4] Interestingly, 11.5 percent of individuals who were looking for work were covered by an employment-based plan. These individuals are most likely using COBRA coverage as a bridge during job turnover.

The number of adults aged 18–64 who lacked health insurance coverage rose from 24.1 million (16.2 percent) in 1988 to 28.7 million (18.6 percent) in 1992. In 1992, among those aged 18 and over, individuals aged 18–24 were most likely to be uninsured (29.3 percent). Least likely to be uninsured were

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[3] Direct employment-based coverage is coverage in one's own name. Indirect employment-based coverage is coverage provided through someone else's employer.

[4] The Consolidated Omnibus Budget Reconciliation Act (COBRA) of 1985 requires employers with health insurance plans to offer continued access to group health insurance to qualified beneficiaries. COBRA requires continued access for 18 months for employees (29 months for the disabled) and 36 months for qualifying spouses and dependent children. Some states also have continuation of coverage laws. See Employee Benefit Research Institute, *Fundamentals of Employee Benefit Programs*, 4th edition (Washington, DC, 1990), for more information about the federal law, and J. Gruber, and B.C. Madrian, "Health Insurance Availability and the Retirement Decision," NBER Working Paper No. 4469 (Cambridge, MA: National Bureau of Economic Research, 1993), for a listing of state laws.

individuals aged 65 and over (1.2 percent). Among the near elderly, 12.9 percent lacked coverage in 1992 (table 3).

Among the near elderly reporting family income below $30,000, 21.7 percent had no health insurance coverage in 1992, compared with only 5.9 percent of those reporting family income of $30,000 or more. An even higher percentage of those aged 18-44 and 45-54 with family income below $30,000 (35.0 percent and 31.5 percent, respectively) reported lack of coverage, compared with 10.8 percent and 6.3 percent, respectively, of those with family income of $30,000 or more (table 4).

Although individuals between the ages of 55 and 64 are more likely to be covered by some form of health insurance, this is the only age cohort in which women are more likely than men to be uninsured (table 4). Women in this age cohort are less likely than men to have an attachment to the work force, and are thus less likely to have access to group health insurance coverage. Women do purchase more individual coverage than men, but that is much more expensive than group coverage, and the ability of nonworkers to purchase such coverage is dependent upon income.

Barriers to Health Insurance Coverage

The near elderly do differ from younger cohorts in the source of their health insurance coverage. Lower work force participation means that the near elderly have slightly lower rates of employment- based health insurance. They are less likely to have private health insurance, and are more likely to turn to public sources for health coverage.

Nonworkers are particularly reliant on public sources or on individually purchased health insurance. The nonworking near elderly are also more likely to be uninsured than workers. Only a third of those not working because they were disabled were covered under the Medicare program; another 20 percent receive coverage through the Medicaid program.

As the near elderly become less connected to the workplace, either through their own separation or that of a spouse, the source of health insurance, and the financial consequences of purchasing health insurance coverage change. Individual health policies are available to the near elderly,

but indemnity plans are expensive and prepaid plans may be unacceptable, or unavailable. Individual policies under traditional health plans may cost between $3,600 to $6,000 annually, while family policies may cost as much as $12,000, annually. These policies may not be available without medical underwriting (i.e., the applicant undergoes a physical before the policy is written).

As many as 40 percent of those near elderly who are retired may have coverage from a former employer, or continuation coverage under COBRA. Coverage under COBRA requires that the individual pay up to 102 percent of the premium for continuation of coverage under a former employer's health plan, but because the individual is allowed to continue to purchase coverage through a large group, there is likely to be considerable savings over the cost of purchasing coverage as an individual.

Employer Provision of Retiree Health Benefits

Generally, only large employers have historically offered health insurance to retirees. The growth in the costs of health benefits coupled with changes in the accounting of liabilities for retiree health benefits has led many employers who have offered health benefits to reconsider the nature and extent of that promise. A recent survey of employers by A. Foster Higgins[5] found that 42 percent of the large employers surveyed (those with more than 500 employees) offered health insurance to retirees; 41 percent of those offering coverage provide no contribution toward that coverage. Larger employers (those with more than 5,000 employees) are much more likely to offer retirees coverage and to contribute to that coverage. Over 70 percent of employers surveyed with more than 5,000 employees offered retirees health benefits.

The Foster Higgins survey found that over one-third of those employers who offer retiree coverage had made changes in that coverage, with the most common change resulting in increased out-of-pocket costs for retirees, either for increased contributions to the premium, or increased deductibles and

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[5]A. Foster Higgins, *National Survey of Employer-Sponsored Health Plans/1993.*

copayments. Another 35 percent of employers surveyed stated that they planned to make changes in their retiree health benefits by 1995.

Health Benefits and Retirement

Providing health care benefits for early retirees is an important policy issue because individuals within this age group are already least likely to be working and most likely to face uncertain health care expenditures when compared with other age groups within the nonelderly population.[6] The near elderly population is a relatively high-risk population that generally does not qualify for Medicare benefits; furthermore, privately purchased health insurance can be a costly commodity for this group. The availability of low cost post-retirement health insurance is an incentive for the near elderly to retire early. The Foster Higgins survey found that among large employers who offer retiree health benefits to retirees under the age of 65, the median age of retirement was 62; two-thirds of those retiring were under 65. For those large employers not offering retiree coverage, the median age of retirement was 64, while the median age of retirement for those small employers not offering retiree health benefits was 65, with only one-third retiring before age 65.

Conclusion

While it is clear that the cost of health care services is an important component of consumption of individuals aged 55 to 64, it is particularly important for nonworkers in this age group. Individuals unattached to the work force may be particularly vulnerable in that they are either in poorer health or face higher costs in purchasing health insurance benefits, or both.

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[6] Between 1955 and 1985 the labor force participation rate of males aged 55 to 64 declined by over 19 percent, compared with a 4.5 percent decrease for males aged 45 to 54. Some researchers attribute this decline to an increase in the ease of qualifying for disability benefits. See D.O. Parsons, "The Decline in Male Labor Force Participation," *Journal of Political Economy* (February 1980): 117-134, and J. Bound, "The Health and Earnings of Rejected Disability Insurance Applicants," *American Economic Review* (June 1989): 482-503, for alternative theories on the decline in the male labor force participation rate.

It is difficult to generalize about this age cohort: it contains many healthy individuals interested in working for many years to come, as well as individuals seeking sufficient income to retire. It includes individuals who are forced to withdraw from the labor force due to poor health, and individuals who lack health insurance coverage because their connection to employment-based coverage is lost due to death, divorce, or retirement of a spouse.

The ages between 55 and 64 is the period in which many people transition out of their career jobs, and often out of the labor force. This transition may be due to poor health, inability to meet the physical demands of the job, or preference for retirement. It is clear from looking at both individual and employer behavior that the transition is difficult without access to affordable health insurance. The availability of retiree health benefits is an important component of early retirement programs of employers attempting to downsize, for example. Any program to extend coverage to this group will affect the transition from worker to retiree.

Table 1
Major Activity of Individuals Aged 55-64, 1992

Activity	Percent	Millions
Total	100.0%	21.2
Worked	62.2%	13.2
Did Not Work	37.8	8.0
Ill or Disabled	9.1	1.9
Retired	14.5	3.1
Taking Care of Home or Family	12.2	2.6
Going to School	0.02	0.04
Could Not Find Work	1.5	0.3
Other	0.5	0.1
Never Worked	0.01	0.004

Source: Employee Benefit Research Institute tabulations of the March 1993 supplement to the Current Population Survey.

Table 2
Distribution of the Near Elderly by Work Status and Family Income

Family Income	Workers		Non-workers	
under $5 thou	167,125	1%	656,854	8%
$5 to $10 thou	431,967	3%	1,162,588	14%
$10 to $20 thou	1,533,447	12%	1,940,044	24%
$20 to $30 thou	1,988,572	15%	1,356,311	17%
$30 to $40 thou	1,953,121	15%	965,935	12%
$40 to $50 thou	1,623,021	12%	687,550	8%
$50 to $60 thou	1,404,694	11%	447,122	5%
$60 to $70 thou	1,009,627	8%	269,901	3%
more than $70	2,911,776	22%	683,483	8%
Total	13,023,350	100%	8,169,788	100%

Source: EBRI tabulations of the March, 1993 supplement to the Current Population Survey

Table 3
Sources of Health Insurance Coverage by Age, 1992
Employee Benefit Research Institute Analysis of the March 1993 CPS

Source of Health Insurance	Total Aged 18 and Over	18-24	25-44	45-54	55-64	65+
			(millions)			
Total	185.5	24.0	81.1	28.4	21.2	30.9
Total Private	134.0	14.4	59.8	22.6	16.4	20.9
employer	108.2	10.4	54.0	20.1	13.6	10.1
direct	76.1	4.9	39.8	14.4	9.6	7.3
indirect	32.1	5.5	14.1	5.6	4.0	2.8
other private	25.8	4.0	5.8	2.5	2.7	10.8
Public	47.5	3.3	7.9	2.8	3.7	29.8
Medicare	33.6	0.2	1.3	0.7	1.7	29.7
Medicaid	14.1	2.7	5.9	1.3	1.2	2.9
CHAMPUS[a]	5.5	0.6	1.4	1.1	1.3	1.2
Uninsured	29.1	7.0	15.0	4.0	2.7	0.4
			(percentage within age categories)			
Total	100.0%	12.9%	43.7%	15.3%	11.4%	16.6%
Total Private	100.0	10.8	44.6	16.8	12.2	15.6
employer	100.0	9.7	49.9	18.5	12.6	9.3
direct	100.0	6.5	52.4	19.0	12.6	9.6
indirect	100.0	17.2	44.1	17.5	12.5	8.7
other Private	100.0	15.4	22.4	9.7	10.6	41.9
Public	100.0	6.9	16.7	6.0	7.7	62.7
Medicare	100.0	0.5	3.8	2.2	5.0	88.5
Medicaid	100.0	19.2	42.2	9.3	8.6	20.7
CHAMPUS[a]	100.0	10.5	25.7	19.4	23.0	21.5
Uninsured	100.0	24.2	51.5	13.7	9.4	1.2
			(percentage within coverage categories)			
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Total Private	72.2	60.1	73.8	79.4	77.1	67.7
employer	58.3	43.6	66.6	70.6	64.1	32.6
direct	41.0	20.6	49.2	50.8	45.2	23.6
indirect	17.3	23.0	17.5	19.8	19.0	9.0
other private	13.9	16.6	7.1	8.8	12.9	35.0
Public	25.6	13.7	9.8	10.0	17.3	96.6
Medicare	18.1	0.7	1.6	2.6	8.0	96.2
Medicaid	7.6	11.3	7.3	4.6	5.7	9.4
CHAMPUS[a]	3.0	2.4	1.8	3.8	6.0	3.9
Uninsured	15.7	29.3	18.5	14.0	12.9	1.2

Note: Details may not add to totals because individuals may receive coverage from more than one source.

[a]Includes only the retired military and members of their families provided coverage through the Civilian Health and Medical Program for the Uniformed Service and the Civilian Health and Medical Program for the Department of Veterans' Affairs. Excludes active duty military personnel and members of their families.

Table 4
Sources of Health Insurance Coverage, by Age, Marital Status, Family Income, and Work Status, 1992
Employee Benefit Research Institute Analysis of the March 1993 CPS

	Employer Coverage				Individual Coverage				Total Public				Uninsured			
	18-44	45-54	55-64	65 and Over	18-44	45-54	55-64	65 and Over	18-44	45-54	55-64	65 and Over	18-44	45-54	55-64	65 and Over
	(percentage)															
Total	61.4%	70.6%	64.1%	32.6%	9.3%	8.8%	12.9%	35.0%	10.7%	10.0%	17.3%	96.6%	21.0%	14.0%	12.9%	1.2%
Men	60.2	71.1	68.0	39.6	9.5	8.3	10.2	29.7	7.4	9.9	17.2	95.8	24.7	14.3	12.2	1.2
Women	62.4	70.1	60.6	27.7	9.1	9.3	15.5	38.8	13.9	10.0	17.4	97.1	17.3	13.8	13.5	1.1
Marital Status																
Married	74.8	76.5	71.8	42.9	6.4	8.3	11.6	32.3	7.1	8.1	14.3	96.5	14.1	11.0	10.2	0.9
Men	74.8	76.7	74.6	43.7	6.1	7.6	9.3	30.8	6.1	8.3	14.9	96.0	15.1	11.3	9.2	1.0
Women	74.8	76.2	68.7	41.8	6.6	9.0	14.1	34.2	8.1	7.9	13.5	97.1	13.2	10.7	11.4	0.8
Unmarried	46.6	53.9	44.2	19.8	12.5	10.3	16.4	38.5	14.5	15.3	25.2	96.6	28.5	22.7	19.6	1.4
Men	45.9	51.3	44.1	26.9	12.9	10.6	13.2	26.3	8.6	15.9	25.6	95.3	34.2	25.0	22.9	1.9
Women	47.4	55.7	44.3	17.8	12.1	10.0	18.4	42.1	21.0	14.9	25.0	97.0	22.3	21.1	17.7	1.3
Family Income																
Under $30,000	37.5	40.1	42.8	24.6	9.8	11.0	16.5	38.0	20.5	20.4	26.3	97.9	35.0	31.5	21.7	1.1
Men	37.0	37.1	43.6	29.9	9.8	10.2	13.2	32.4	13.4	21.6	27.6	97.7	41.9	34.8	23.3	1.2
Women	38.0	42.4	42.2	21.3	9.7	11.7	18.9	41.4	26.7	19.5	25.3	98.0	28.9	29.0	20.6	1.1
$30,000 or more	78.6	84.1	80.7	51.3	9.0	7.8	10.2	28.2	3.6	5.3	10.3	93.4	10.8	6.3	5.9	1.2
Men	75.5	84.1	82.7	56.9	9.3	7.5	8.4	25.0	3.4	5.5	10.9	92.4	13.4	6.4	5.5	1.3
Women	81.8	84.0	78.4	45.9	8.6	8.1	12.3	31.5	3.8	5.2	9.6	94.4	8.1	6.2	6.5	1.1

Source: Employee Benefit Research Institute tabulations of the March 1993 Supplement to the Current Population Survey.

Table 5

Primary Sources of Health Insurance Coverage for the Near Elderly by Work Status[a]

	Employer Direct	Employer Spouse	Other Private	Medicare	Champus	Medicaid	Uninsured
Worked	7,936,482	1,919,903	1,465,858	83,746	233,943	54,119	1,514,625
Non-Working	1,656,044	2,108,380	1,058,949	1,103,117	245,370	644,055	1,214,716
			Percentage within Coverage category				
Worked	83%	48%	58%	7%	49%	8%	55%
Non-Working	17%	52%	42%	93%	51%	92%	45%
			Percentage within Work Status category				
Worked	60%	15%	11%	1%	2%	0%	11%
Non-Working	21%	26%	13%	14%	3%	8%	15%

Source: EBRI tabulations of the March, 1993 supplement to the Current Population Survey

[a]Numbers do not match table 2 because individuals are assigned to primary source of coverage only in this table; in table 2 individuals may have multiple sources of coverage.