Summary of December 2014 JHE papers on health insurance and public sector labor markets

By Garret Johnson

Clark et al., 2014: "The effect of retiree health insurance plan characteristics on retirees' choice and employers' costs"

- Examined the effects of retirement health plan changes on retiree behavior and health plan costs (plan= NC state employee retirement plan).
- Prior to plan changes, generally no incentive for retirees to choose the less generous of two retirement health plan options; NC paid the entire premium for both plans even though one had more generous benefits.
- NC introduced incentives and penalties to push non-Medicare eligible retirees with higher predicted health spending (i.e. tobacco users and overweight retirees) into the less costly of two health plans.
- Found that the incentives/penalties were effective at changing enrollment patterns.
    - Over the course of the plan changes, > 1/3 of non-Medicare eligible enrollees switched into the less expensive plan. No such pattern was observed among Medicare eligible enrollees, whose coverage was exempt from plan changes.

Clemens et al., 2014: "Who pays for public employee health costs?"

- Examined 1998-2007 data on 6,429 school districts' finances from the National Center for Education Statistics to determine the incidence of financing increased costs of health benefits of school employees.
- Found that increases in benefit costs were largely funded by increased flows of funds from the state and local government, often from funds previously shown to be manipulated by school districts.
- Local funding actually declined in response to increased benefit costs.
- For each $1 in increased benefit cost, salaries declined just 20 cents (i.e. increased healthcare costs are largely not being borne by the workers using the healthcare)
- Where teachers unions were weaker (measured using a 5-category variable from Winkler et al., 2013), benefit cost growth was more likely to be shifted onto the worker.
- Increased benefit costs were associated with higher dropout rates; every $200 in increased cost per pupil was associated with .6 percent increase in dropout rate. The authors say, "The reorganization of students required to increase flows of categorical aid may thus have worked to students' detriment, though we do not have proof that this is the case." They discuss categorical aid as being for special needs, remedial, bilingual and other students to who funding is directly linked.

Hombert et al., 2014: "Can unemployment insurance spur entrepreneurial activity?"

- Examined effects of 2002 French law that allowed continuation of unemployment benefits for unemployed people who started a business; normally, the creation of their business would have terminated their benefits.
- Used difference-in-difference test to test whether law significantly boosted entrepreneurial activity (treatment group=industries with smaller newly created firms, control group=industries with larger newly created firms).
    - Found statistically significant increase in number of new firms in treatment industries relative to control industries (12% difference).
- Found that firms created in response the law are not of worse quality than firms created in control industries.
    - Quality measured by: failure rate, hiring rate, growth rate, educational background of founders.
- Found significant "crowding out" effects on incumbent firms in treated industries; these effects offset most of the effects of the reform on employment creation.
- However, newly created firms are, on average, more productive than the firms they replaced.
    - Estimated positive effect of the law of €350M per year, compared to cost of €100M per year.

Clark and Mitchell, 2014: "How does retiree health insurance influence public sector employee saving?"

- Used the Health and Retirement Study survey (N=6650) data to determine if retiree health coverage causes a "crowd out" of private household wealth accumulation.
- Found that public sector employees covered by retiree health plans reported having less wealth accumulated than similar private sector workers without retiree coverage.
    - Federal workers had $82,000 (18%) less wealth (statistically significant).
    - State/local government workers had $69,000 (15%) less.
    - After controlling for socioeconomic factors and pension funds:
        - Difference between federal workers and workers without retiree health insurance jumped to $116,000 (statistically significant).
        - Difference between state/local workers and workers without retiree health insurance fell to $35,000 (not statistically significant).
- Authors then suggest ways that Affordable Care Act may affect public employee labor market:
    - Exchanges/subsidies may make ACA-based coverage preferable to employer-based retiree coverage
    - Wages may rise at firms that drop their retiree health coverage
    - Predict that wealth difference between employees with retiree coverage and those without it will decline due to existence of exchanges/subsidies.
    - Expect market-driven wage differentials between those with and without retiree health insurance to decline due to ACA

Fitzpatrick, 2014: "Retiree health insurance for public school employees: Does it affect retirement?"

- Used Illinois Public Schools' administrative data for 1970-1971 and 1991-1992 to determine if availability of retiree health insurance causes increased rate of teachers retiring before age 65 (Medicare eligibility).
- Illinois introduced retiree health coverage (called THRIP) for teachers in 1980; teachers needed to have 8 years of service with Illinois Public Schools and be at least 55 years old.
- Found that introduction of retiree health coverage shifted the age profile of retirees:
  - Before THRIP, exit rate of teachers is highest at age 65.
  - After THRIP introduced, exit rate of teachers at 65 decreased 40 percent, from .51 to .29.
  - Exit rate of teachers at age 55 jumps 81%, from .054 to .098.
- Suggests that employees move forward the timing of their retirement when health insurance other than Medicare is available for retirees.

Qin and Chernew, 2014: "Compensating wage differentials and the impact of health insurance in the public sector on wages and hours"

- Used 1992-2011 data on **males aged 25-54 employed in state or local government** from the Current Population Surveys combined with Merged Outgoing Rotation Group data (which contains info on wages and earnings of household members) to examine the effect of having employer-sponsored health insurance on wages and hours worked.
- Having employer-sponsored health insurance was associated with a .36% decline in wages per year, which equals a 6.84% decrease from 1992-2011.
  - Employees whose insurance was fully paid by their employer had a .64% decline in wages per year (12.2% over the course of 1992-2011).
  - This effect was larger for non-unionized employees.
- Found that having employer-sponsored insurance had no effect on hours worked, but that among employees with employer-sponsored coverage, each 1% increase in per capita health spending was associated with a decrease of .03 hours worked per week (authors suggest that public sector employers may be shifting work onto part-time employees in response to higher fixed costs of full-time, i.e. employer-insured, laborers).

Shoven and Slavov, 2014: "The role of retiree health insurance in the early retirement of public sector employees"

- Use data from 4 cohorts of the Health and Retirement Study (HRS) to determine effects of retiree health insurance on likelihood of retiring:
  - Original HRS group (entered study in 1992)
  - War baby (entered study in 1998)
  - Children of depression (entered study in 1998)
  - Early Baby Boomer (entered study in 2004)
- Among public sector employees, retiree health coverage is associated with:

    - 4.3% increase over 2 years in probability of leaving full-time employment between ages 55-59 (predominant effect was switching from full-time to part-time)
        - Represents a 38% difference relative to probability of leaving employment for workers without retiree health coverage.
    - 6.7% increase over 2 years in probability of leaving full-time employment between ages 60-64 (predominant effect was retirement)
        - Represents a 26% difference relative to probability of leaving employment for workers without retiree health coverage.
- Among private sector employees, retiree health coverage is associated with:
    - 2.3% increase over 2 years in probability of leaving full-time work between ages 55-59.
    - 5.8% increase over 2 years in probability of leaving full-time work between ages 60-64.