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THE CENTER ON AGING & WORK | WORKPLACE FLEXIBILITY AT BOSTON COLLEGE

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Does Health Insurance Affect the Employment of Older Workers?

by Joanna Lahey, Ph.D.

Introduction

Since the mid 1980s, people have increasingly worked into their 60s and 70s. Enjoying good health and stimulation from their jobs, they postpone retirement. Many baby boomers will also need to work in their later years because of insufficient savings. This trend could prove critical to offset labor shortages in expanding industries and in those requiring greater numbers of skilled workers.

Yet older job applicants often have difficulty finding employment. This happens even when they have been displaced by layoffs and firm closings through no fault of their own.[1] In fact, recent evidence[2] suggests that employers prefer to interview younger applicants, implying a reluctance to hire older workers. One reason for their reluctance may be concern that older workers will cost firms more, especially in health insurance expenses. Nevertheless, many employers recognize that offering inclusive health plans attracts and keeps competent employees.

This issue brief confirms that health insurance costs are one factor affecting firms' employment decisions. When faced with expensive health care, employers may cut back on hiring older workers, but not reduce their wages. This problem could grow dramatically as health care costs spiral upward. Policy makers will have to consider the effects of health care costs on employment when making decisions about insurance mandates and programs such as Social Security and Medicare. Employers will find older workers relatively attractive to hire and retain as state health insurance mandates rapidly increase insurance costs for younger workers. The productivity of older workers can also outweigh costs and make them viable candidates.

Looking at Insurance Costs for Evidence

Looking at how employment rates change with different health insurance costs provides evidence for how health insurance affects employment. Health insurance costs vary by geographic region for numerous reasons, such as penetration by health maintenance organizations, technological diffusion[3], transportation costs, and comparable wages of college graduates[4], to name just a few. Many of these factors may not be directly related to employment. To single out the effect of health care costs on employment, it is helpful to rely on multiple sources of nationwide cost data for:

- Health insurance premiums
- Health care claims
- Government mandates for health benefits

Insurance premiums. Insurance carriers quote premiums for standard employer packages and

This Issue Brief explores health insurance costs and employment data to answer:

- What happens to health insurance costs as workers age?
- What factors reduce the relative health care costs of older workers?
- How do employees and employers respond to high insurance costs?

for typical low-cost individual packages outside of employment. Rates for individual packages help in determining the effect of age on insurance costs. Insurance rates from cities across the country can be linked to census data on employment and wages. Comparing data for employer and non-employer rates is useful to answer the question: in the face of expensive health care costs, what drives employment rates more - individuals' demand for work, or employers' hiring decisions?

Claims. Insurers often assign insurance rates to employers based on overall experience with health care claims. Rates are higher for employers in businesses or geographic areas with numerous claims. Similarly, rates may climb for employers who have staff of the ages and gender that generally incur expensive claims. As a result, claims data indirectly reflect employers' health care costs.

The Medstat database aggregates annual claims that employees file for health care services that they and their dependents have used. These claims come from employees in different industries in self-insuring firms with varying health care costs, health plan provisions, and workforce characteristics. Medstat codes these claims by diagnoses, procedures, and location of care. Costs for medical claims can be linked to other data such as state mandated coverage.

Mandates. States pass laws mandating that employers provide insurance coverage for specific kinds of health services. For example, they may mandate coverage for infertility or mental health services. Some of these mandates result in expensive premiums for employers. The Medstat claims data for mandated services indicate how much these mandates are expected to cost for different age groups of men and women.

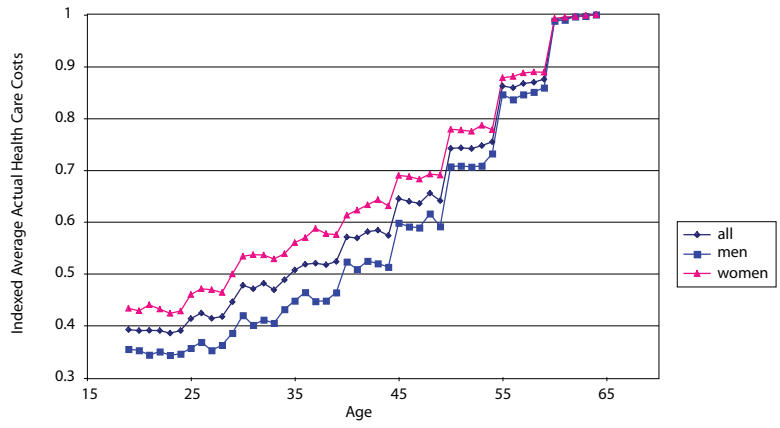
When altering entitlement programs, policy makers may want to take into account the effect their reforms will have on these sources of health care costs.

What Happens to Health Insurance Costs As Workers Age?

The costs for health insurance increase as people grow older. This applies to premiums for insurance that employers provide to employees alone or to both employees and their dependents.[5] Health insurance that individuals purchase outside of employment also increases with the age of the individual.[6] Premiums for men climb more steeply as they age than premiums for women. This is because women's age-related costs are partially offset by a decline in childbearing.

Figure 1 illustrates this rise in premiums for people who buy individual policies outside of the workplace.[6] It shows that, quite simply, as a person grows older, it costs more for him or her to buy a BC/BS plan outside of employment. The graph is based on premiums that Blue Cross Blue Shield (BC/BS) quoted in 22 states for its lowest-cost plan for a non-smoker, without coverage for dependents. Dividing costs for plans by a base premium provides indexed costs that clearly show the relative differences for age groups. In this figure, quoted premiums are indexed against the premium for the most expensive low-cost plan in each state.

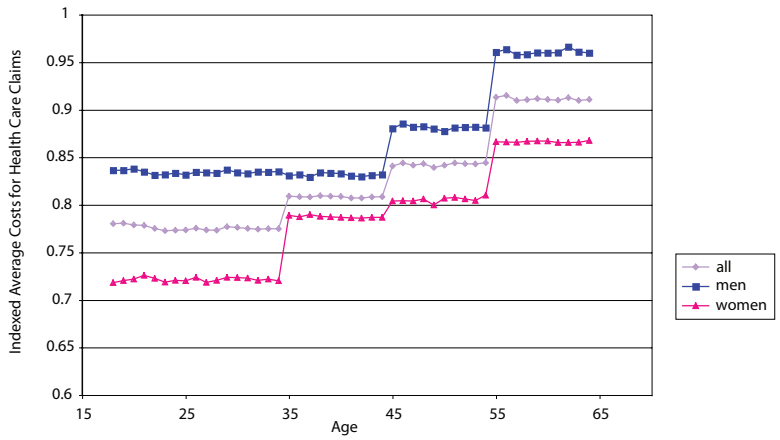
Figure 1: BC/BS Premiums Increase with Age of Insured Individuals



Source: Blue Cross/Blue Shield, (2006)

The costs of claims also increase with the age of the insured, as shown in Figure 2. The average costs of claims rise every 10 years for men from age 45 on and for women from age 35. The data in this figure represent actual costs of claims filed from 2001 to 2003 by employees from the Medstat sample of more than 100 self-insuring firms. These costs are indexed against the highest cost for an age group within a state for each year to simplify the comparison of age-related costs across states and time. These are costs paid by insurance companies and do not include copayments.

Figure 2: Costs of Claims Rise with Age of Insured Individuals



Source: Medstat, (2006)

Although little evidence exists to compare the *total* health insurance costs of older workers with those of younger workers, aging affects *separate* costs - premiums and claims - in a consistent way. Moreover, health costs rise with age whether considering the age of the individual workers (as in Figure 1) or also including the cost of their dependents (as in Figure 2).

Factors That Reduce the Relative Cost of Older Workers

Across the nation, the difference in health care costs between older and younger workers varies substantially. Various state mandates greatly reduce this difference. States that require employment-based insurance to cover specific conditions, drugs, or service providers actually increase insurance costs for different demographic groups.[7,8,9] In particular, they drive up costs for younger workers. The reason? The most expensive mandates required by state governments generally affect younger, not older, workers. The five most expensive state mandates are for infertility services, mental health coverage, alcohol treatment, substance abuse treatment, and chiropractors.[10,11,12,13] With the exception of chiropractors, which are used uniformly across age groups, these mandates cover primarily younger workers.[6]

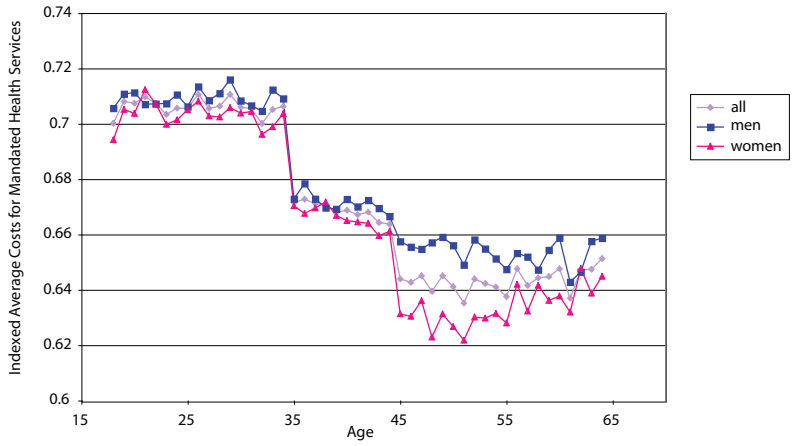
For example, women aged 28 to 44 are more likely to use infertility treatment than other groups. Women of this age have a higher cost in states with a mandate for infertility than they have in other states. Their costs are also relatively higher when compared to those of men and of women in other age groups within their state.

Maternity services are also expensive, but these are federally mandated for all states to protect the health of mothers and infants. Since their incremental costs cannot be determined by comparing states, they are not included in the following figure.

Even though older workers in states with mandates are still more expensive to cover overall, the difference between the health care cost of an older worker and that of a younger worker is greatly reduced. Older workers cost relatively less.

Figure 3 shows how costs for the five most expensive mandates raise the health care costs of workers under 35 years of age.[6] The figure uses Medstat costs of claims for mandated services. These are indexed against the highest cost that any age group experienced for mandated services within a state. The indexes for the states are then averaged.

Figure 3: Mandated Coverage Increases Costs of Younger Workers



Source: Medstat, (2006)

Older Employees' Responses to High Costs

High health care costs affect whether older employees stay in the labor force and whether they continue to seek employment.

Stay or leave. Do health care costs keep workers in the labor force? In cities where health costs are high, older men are more likely to stay in the labor force than to retire. Data from both premiums and claims support this finding.[6]

Older men respond to health insurance costs more than younger men. It affects their decision to continue work or to work full time. This is probably because older men value health insurance more than younger men, so they pay attention to its cost. Also under the option of partial retirement, many of these men have greater flexibility in arranging their number of work hours. Younger men, on the other hand, customarily work a traditional full-time workweek regardless of their health insurance options.

Seek employment. People with higher outside health care costs are *not* more likely to be *employed*, despite the decisions that employed workers make about leaving or continuing their employment. Workers' efforts to obtain jobs and so shift health insurance costs to employers do not boost employment rates in places where health care is expensive. This suggests that the effect of higher health care costs on employment rates is driven by forces such as employers' decisions, rather than employees' choices.[6]

How Are Employers' Decisions Affected?

Hiring decisions. Firms that offer health insurance hire older employees less frequently.[14] Could this be the result, not of health insurance costs, but of characteristics of companies that provide health benefits? Firms that provide health benefits do tend to be larger and tie wages closely to tenure.[15] They hire more younger workers and encourage workers to work their way up, so their staff learn about the firm from bottom to top.[16]

Information on employers' premiums and census data from 400 cities across the country, however, supports the view that health insurance costs, not company size or internal processes, drive employers' decisions to hire workers. Age is an important factor in pushing up health care costs. As regional health care costs rise, employment rates decrease.[5, 17] For every percentage point increase in these costs, employment for men, in particular, drops 3.4 percentage points, and full-time employment drops 3.7 percentage points. Instead of being fully employed, men tend to be unemployed, retired, or working part time when health insurance costs rise.[6]

Yet in states that mandate coverage for expensive health services, employers hire fewer employees from demographic groups with expensive mandates. For every percentage point increase in health care costs for a mandate, the probability of men's employment drops 1.39 percentage points.[6] Women's employment is not significantly affected. Older workers' employment is relatively higher, since the mandates affect younger workers.

In other words, the costs that employers carry for health care, not the age of the employee, drive hiring decisions.

Wage setting. Employers do not reduce wages to offset additional health care costs. When health insurance rates rise in cities with high health insurance, wages for older men do not drop, but may even increase. This suggests that, in these cities, expensive health care and higher wages are related.[6]

However, New York's experience illustrates that a decline in health insurance costs for older workers can also cause their wages to rise. When the state implemented its policy of community rating making insurance premiums the same for all ages, older workers' wages increased relative to younger workers' pay.[18]

Employers probably find it easier to increase wages when their costs drop than to decrease wages when their costs increase.

Treatment of older workers. Do employers single older workers out? For the most part, employers treat all workers with higher health care costs similarly. They do not specifically target older workers. Evidence shows that where health care costs are high, older men who have not left or lost their jobs, are able to keep their jobs longer, though they may switch to part-time work.

Options. As firms try to control the effect of rising health care costs on their bottom line, they will discover options other than decreasing employment. For instance, they can change their workforce composition and increase their use of part-time jobs that do not offer insurance benefits. Older workers with other sources of insurance benefits may find this option attractive. Firms may also consider hiring fewer workers for more hours.[19]

Firms can follow the example of large employers. They can open primary care health centers or short-term clinics to serve their staff before staff would need to visit a health care provider outside of work. To lower premiums (and trim time away from work), such services could include simple services like allergy and flu shots, pregnancy tests, weight management, smoking cessation, stress reduction, and monitoring for diabetes and asthma.[20] Companies that bring in such services need to implement strong safeguards to protect the confidentiality of their employee's medical conditions.

Adjusting wages to offset health care costs is probably not a feasible option for employers. Offering applicants lower salaries to offset their health care costs could lead to charges of discrimination and unfairness, even if the total compensation packages offered to employees at different ages were equal. Older workers, who are used to getting higher salaries because of their experience and higher productivity, may be unwilling to accept such wage cuts.

As long as employers remain responsible for health insurance coverage, their human resource and hiring managers need to think creatively about ways to control the overall effect of health insurance on their companies' bottom line, without increasing their workers' health risks from under insurance. Steering away from older job applicants is not a good strategy for addressing these costs.

Conclusion

This brief shows that health insurance costs are one of the reasons that employers are less likely to employ older workers. Demographic groups that have higher health insurance costs are less likely to be employed.

However, four of the five most expensive state mandates for health insurance increase the relative cost of younger to older workers. In states where older workers cost relatively less, employment rates for these workers are higher than in other states. Older men, in particular, are more likely to be employed; they also are not apt to take wage cuts to compensate for their higher health insurance costs.

Nevertheless, for the most part, employers treat all workers with higher health care costs similarly and do not specifically target older workers. Older men respond to high health insurance costs when deciding whether to work and for how many hours.

Policy makers need to consider potential effects on health care costs and employment when they develop new policies for health insurance and entitlement programs. Human resource managers can trim their high health care costs, without reducing employment, by trying strategies such as more part-time positions and onsite clinics.

The Center on Aging & Work/Workplace Flexibility at Boston College, funded by the Alfred P. Sloan Foundation, is a unique research center established in 2005. The Center works in partnership with decision-makers at the workplace to design and implement rigorous investigations that will help the American business community prepare for the opportunities and challenges associated with the aging workforce. The Center focuses on Flexible work options because these are a particularly important element of innovative employer responses to the aging workforce. The studies conducted by the Center are examining employers' adoption of a range of flexible work options, the implementation of them at the workplace, their use by older workers, and their impact on business and older workers.

The Center's multi-disciplinary core research team is comprised of more than 20 social scientists from disciplines including economics, social work, psychology, and sociology. The investigators have strong expertise in the field of aging research. In addition, the Center has a workplace advisory group (SENIOR Advisors) to ensure that the priorities and perspectives of business leaders frame the Center's activities and a Research Advisory Committee that provides advice and consultation on the Center's individual research projects and strategic direction. The Center is directed by Marcie Pitt-Catsouphes, Ph.D., and Michael A. Smyer, Ph.D.

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