

## Ensuring Health and Income Security for an Aging Workforce

By Virginia Reno and June Eichner

### Summary

America's health and income security systems will face new challenges in the next two decades as baby boomers pass through the second half of their work lives. At older ages, the risk of illness and disability rises, employment-based health insurance costs more, and involuntary job loss takes on new dimensions. At the same time, employment relationships are changing and federal policies are seeking to encourage people to work longer and delay retirement. Existing health and income security systems — Social Security, Medicare, workers' compensation, unemployment insurance, employer-sponsored health insurance, pensions and disability insurance — tend to be analyzed one at a time. Yet, changes in one program can have unintended consequences on others, as well as on the fortunes and misfortunes of workers and their families. This Brief is the first in a new Academy series that will examine cross-cutting issues in ensuring health and income security for an aging workforce.

Policymakers are focusing on the challenges of financing the upcoming retirement for baby boomers. Many workers and their families, however, will encounter risks to their income and health security *before* they reach retirement age. To date, these risks and America's system for covering them have not been examined in any coordinated way. The Academy's project, *Ensuring Health and Income Security for an Aging Work Force*, takes a cross-cutting approach to examining ways to provide continuity in income and health care coverage for working-aged Americans and their families.

### What are the risks to health and income security?

With a strong economy, many Americans in the second half of their work lives can expect to enter retirement in good physical and financial health. Yet, unforeseen events can upset the best-laid plans. Events that jeopardize health, health care coverage, and secure income before retirement age include:

- Lack of affordable health coverage or loss of coverage due to job change or changes in employer's plan;
- Discrimination in health care coverage associated with age, disability or pre-existing conditions;
- Loss of income and health insurance at widowhood or divorce;
- Job loss due to economic downturns, company mergers, or employer restructuring or relocation;
- Stagnant or declining wages due to skill depreciation;
- Care-giving responsibility for seriously ill family members or friends;
- Acute illness, chronic conditions, and costly health care;
- Work-related injuries or impairments; and
- Career-ending disability.

People entering the second half of their work lives are a highly diverse group. While not everyone actually experiences the problems listed above, nearly everyone, in one way or another, is at risk of facing one or another of them. People who bring disadvantages from their earlier years — whether because of health problems, discrimination, language barriers, limited skills, low income or other disadvantages — are at particular risk of having these problems intensified at older ages.

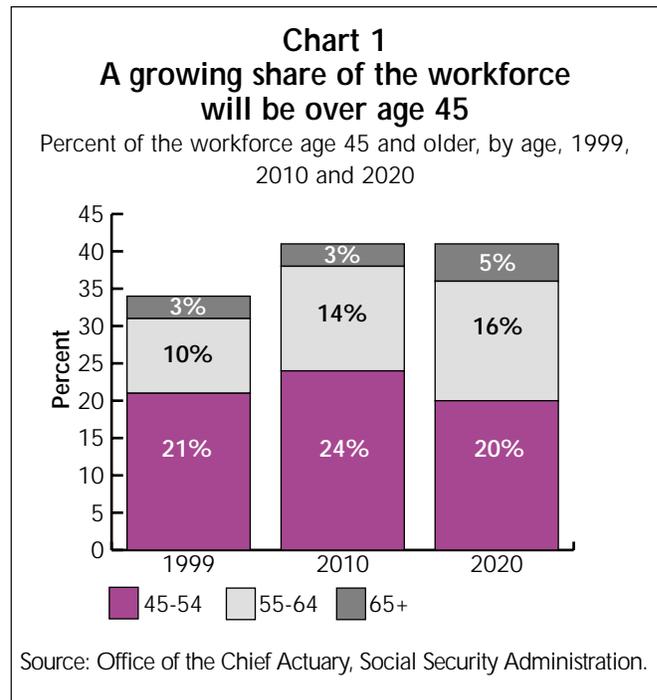
Health and financial security are closely linked. This link is demonstrated in a recent study of bankruptcy filings. It found that nearly half of the one million Americans who filed for bankruptcy protection in 1999 did so, at least in part, because they could not cope with medical bills or the loss in income associated with an illness or injury. Lack of medical insurance was a key factor in only a minority of filings; more typically, the problem was due to “underinsurance” (i.e., insurance that does not cover a significant amount of health care costs), lack of income to replace lost wages, or both (Jacoby, 2000).

### Why this project is important

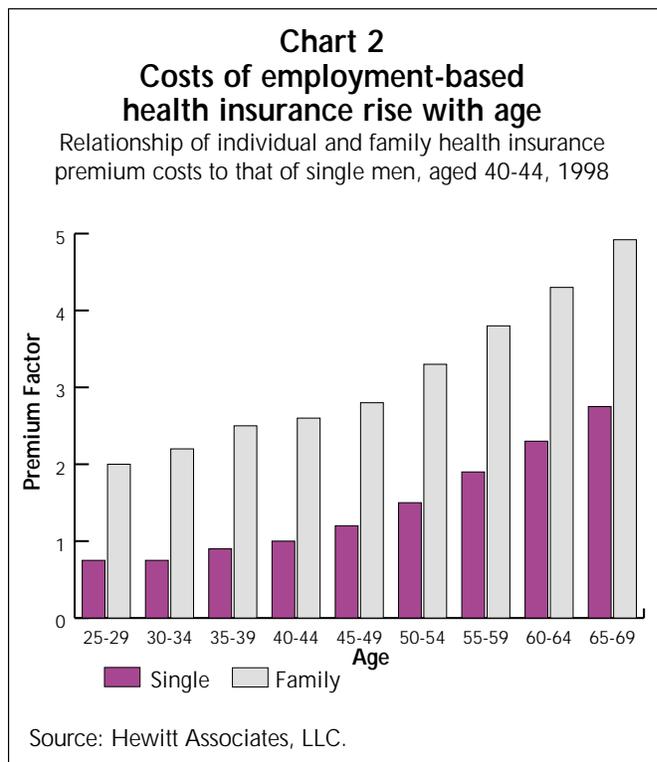
This project is important for three reasons. First, the workforce is aging. The number of people ages 45-64 will grow rapidly over the next 20 years. Second, many of the risks to income and health security are more prevalent or cost more to cover at these ages. Third, systems to cover these risks are split between federal and state jurisdictions, and many of those most important are provided at the discretion of employers. Consequently, these systems are often examined in isolation from each other.

**The Workforce is Aging.** Baby boomers will become older workers before they become retirees. As Chart 1 shows, the share of the workforce over age 45 is projected to grow from about one-third today to over 40 percent by 2010. By 2020, the proportion of workers over 45 will remain just over 40 percent, and a larger share of them will be age 55 or older.

**Employment-based health insurance costs more at older ages.** Other things being equal, an older workforce means higher average premiums to



be paid by employers and/or their employees. While employers do not distinguish among younger and older employees in terms of premiums or cost-sharing, an aging workforce is likely to affect the overall costs of employment-based health insurance. As shown in Chart 2, premium costs for both individual and family coverage rise with age. For example, premium costs for a single man in his 60s are



twice as high as for a single man in his 40s; family premiums for a worker in his early 60s are more than four times as high as individual premiums for a worker in his early 40s.

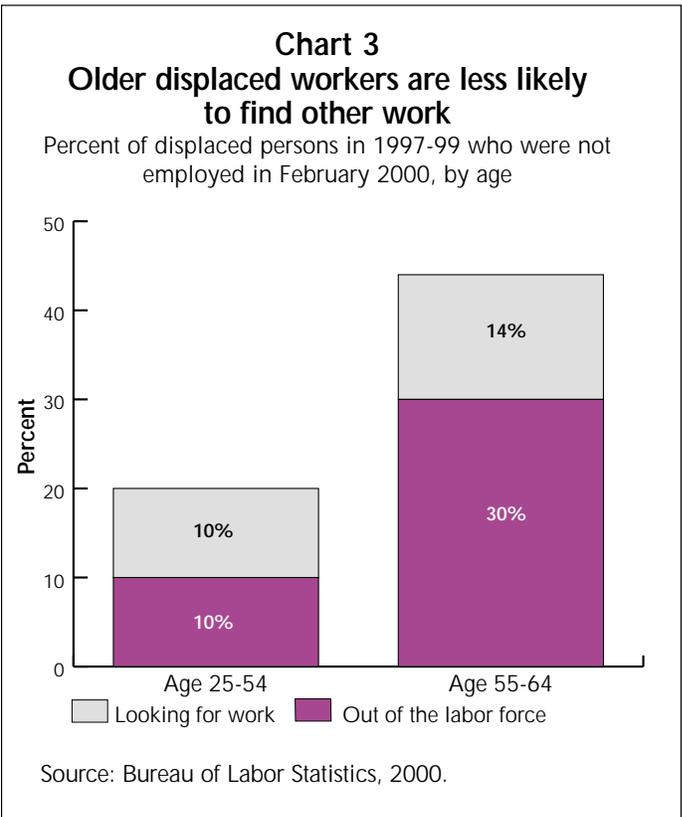
### Buying health insurance in the individual market can be problematic at older ages.

Health care coverage in the individual health insurance market — all that is available to those who do not have employer-based coverage or Medicaid — is often denied to people with a history of health problems. A recent study of the individual market in ten states found that six states (including California, Florida, and Pennsylvania) allow insurers to refuse coverage to applicants with health care problems such as rheumatoid arthritis, angina, heart disease, or kidney stones, all of which are more prevalent among older persons. In addition, individual premiums can rise significantly with age; those over 60 often pay two to four times as much as 25 year-olds. Insurers are also permitted to charge higher premiums or limit coverage to individuals who have pre-existing conditions or health risks (Chollet and Kirk, 1998).

**At older ages, displaced workers are less likely to find other work.** Displaced workers are those who have lost their jobs because their plant or company closed or moved, their positions or shifts were abolished, or their employer did not have enough work for them to do. From 1997 through 1999, 3.3 million displaced workers age 20 or older lost jobs they had held for at least three years because of one of these reasons (Bureau of Labor Statistics, 2000). The overall displacement rate generally declines during periods of economic growth. As the economy improved throughout the 1990s, the displacement rate declined from 3.9 percent in 1991-92 to 2.9 percent in 1995-96.

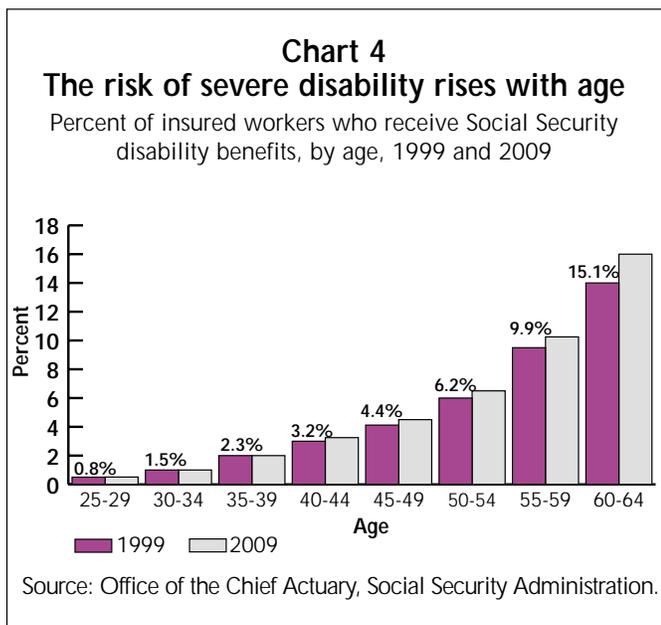
Job dislocations can be particularly disruptive for older workers. At older ages, workers are more likely to be displaced and are less likely than younger workers to find other jobs. Of persons who were displaced from their jobs in 1997-1999, about 44 percent of the displaced 55-64 year olds were without jobs when interviewed in February 2000: about 14 percent were looking for work and another 30 percent had dropped out of the labor force altogether. In contrast, fewer of the younger displaced

workers remained unemployed or had withdrawn from the labor force (Chart 3). Furthermore, older workers who subsequently find full-time jobs are more likely than younger workers to suffer large earnings losses. One study found that when displaced workers age 55-64 did find full-time, full year jobs, nearly 4 in 10 experienced a drop in earnings of 20 percent or more (Hipple, 1999).



**Caregiving duties are more common for older workers.** Older workers face the risk of having to stop working or reduce the hours they work (and the associated risk of losing employer-sponsored health insurance) when they have to care for elderly parents or spouses with serious health care problems. A national survey in 1996 found that more than one in eight Americans has to balance responsibilities for providing care to elderly relatives or friends with the demands of work. About 10 percent those with caregiving responsibilities quit working altogether, and another 11 percent took a leave of absence. More than a quarter of caregivers are aged 50-64 (National Alliance for Caregiving and AARP, 1997).

**The risk of career-ending disability rises with age.** The prevalence of disability severe enough to qualify for Social Security disability benefits rises with age, from less than one percent of younger workers to about 15 percent of insured workers aged 60-64 (Chart 4). Social Security actuaries project that the prevalence of disability at older ages will increase slightly, to about 17 percent of insured workers age 60-64 by 2009. To be eligible for Social Security disability benefits, a worker must meet a strict test of disability, with disability defined as the inability to engage in substantial gainful activity for at least 12 months (or result in death prior to the 12 months).



## Why a Comprehensive View is Needed

Benefits to ensure income and health security to working-age Americans are a mix of public social insurance programs and private employer-sponsored plans. Some of the most important benefits — health insurance, pensions, sick leave, and private disability benefits — are offered at the discretion of employers. Consequently, they do not cover all workers. Rules that affect employer provisions of these benefits are a mix of federal and state tax laws, worker protections and insurance regulations.

Public social insurance benefits for workers are divided between federal and state jurisdictions. States have

sole responsibility for workers' compensation benefits for workers injured on the job. States also have a lead role in unemployment insurance policies. On the other hand, Social Security (which pays benefits to disabled workers and their families, widowed spouses, and early retirees) and Medicare (which provides medical benefits for disabled workers) are exclusively federal responsibilities. Medicaid, which provides health benefits to some low-income families and disabled persons, is governed by both federal and state policies. Because of their divided jurisdictions, these public and private benefit systems are typically analyzed one at a time. Yet, changes in one can have unintended effects on others and on the well-being of workers and their families. A few examples illustrate these policy interactions.

**Retirement age policy interactions.** Policies are in place to raise the age at which full Social Security retirement benefits are paid from age 65 to age 67. These changes were enacted in 1983 and are starting to be implemented now. They were adopted to lower the long range cost of retirement benefits by encouraging people to work longer and retire later. Some have proposed to raise the eligibility age for Medicare as well, or to further raise the full benefit age or early retirement age for Social Security. To date, relatively little attention has focused on the impact of these changes on older workers who are unable to extend their work lives because of health problems or involuntary job loss. Similarly, few have examined the potential impact of such changes on employer provisions for health and retirement benefits or on state unemployment insurance and workers' compensation systems.

**Coordinating disability protection.** An aging work force poses new questions about how workers' compensation and other disability and health benefits should fit together. Workers' compensation systems in many states are tightening eligibility rules about work-related impairments that are exacerbated by aging, such as hearing loss, heart or respiratory conditions, cumulative trauma, and musculoskeletal conditions. The number of workers with such conditions is likely to grow as the workforce ages. If workers' compensation does provide medical and wage-replacement benefits to these workers, what are the

likely impacts on workers and their families? What new demands might be placed on other employment-based health and disability benefits or on Social Security disability insurance?

At the same time, gaps in health insurance coverage can place pressure on the workers' compensation system. If workers lack health insurance coverage, claiming workers' compensation might be the only way they can get medical treatment for health problems that are exacerbated by aging and the demands of work.

### Health coverage across multiple risks.

Employer-sponsored health insurance is facing stresses of rising costs and some employers are requiring more employee cost sharing for both individual and family coverage. At the same time, federal initiatives have sought ways to expand the reach of employer-financed health insurance when employers offer them. How will employers respond to these increased expectations? Experience with private pensions indicates that employers can find ways to limit their liability by changing the form of benefits, shifting financial risks to workers, or choosing not to offer health insurance.

Important gaps remain in health coverage of working Americans, particularly those who work for small firms. And, when workers who lose their connection to work because of job loss or illness, health coverage can be problematic. No national system ensures health coverage to unemployed workers. When a job-related injury results in long-term job loss, workers' compensation may continue to pay for medical care for the particular injury, but it does not cover the workers' family or any other health needs of the worker. Periods of illness that last a few months can bring gaps in income continuity or health coverage. In the case of career-ending disability, workers may receive Social Security disability insurance after a five-month wait, but there is another 24 month gap until Medicare coverage begins. While Medicare covers the worker, it does not cover family members who may have lost coverage when the worker lost his job.

## Conclusions

Health and income security are closely linked. Many risks to health and income security become more prevalent in the second half of the work life — between ages 45 and 65. This is the fastest growing segment of the working-age population. Benefit systems for ensuring health and income security for working-age Americans are divided between federal and state jurisdictions and some of the most important benefits are offered at the discretion of employers. This is the first in a series of briefs that will focus in more detail on the challenges of ensuring health and income security as the baby boomers become older workers during the next two decades.

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**Health and Income Security for an Aging Workforce** is a project of the National Academy of Social Insurance. It examines challenges to the nation's system of health and income security as Baby Boomers pass through the second half of their work lives. The project takes a cross-cutting look at the people, the risks to health and income security they face between mid-career and retirement age, and the programs that protect them — including employer-sponsored health insurance and pensions, Medicare, private disability insurance, Social Security disability insurance, workers' compensation and unemployment insurance. The purpose of the project is to anticipate the consequences of an aging workforce, to identify the implications for health and income security protection, and to help policy makers, employers and workers prepare for the future.

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