

HEALTH INSURANCE, HEALTH CARE AND LABOR SUPPLY BY OLDER ADULTS

LAUREN HERSCH NICHOLAS*

September 2011

Early workforce exits are publicly costly due to foregone payroll taxes and disability benefit payments, but also costly to workers, whose SSDI benefits are typically lower than their earnings, and who lose the additional contributions to retirement benefits and Social Security earnings credits associated with paid work. Despite a large literature that has shown the importance of health status and disability on work and retirement decisions of older workers, relatively little is known about the role of health care utilization in preventing or delaying workforce exit.

In this paper, I consider the role of commonly performed elective surgical treatments for chronic illness in older adults' decisions to apply for SSDI or claim Social Security Old Age (retirement) benefits prior to full retirement age. I focus on elective joint repair for arthritis patients and angioplasty for heart disease patients. The medical literature suggests that these treatments target patient quality of life rather than length of life. Thus, by improving patients' pain and mobility, elective surgical procedures may facilitate increases in recipients' functional status and ability to participate in paid and unpaid work.

I use panel data from the Health and Retirement Study to follow older adults with work-limiting disabilities who develop new chronic conditions between 1996–2008. Comparisons of patients who do and do not receive elective surgery suggest that both angioplasty and joint replacement surgery reduce the probability of applying for Social Security Disability Insurance by up to 22 percentage points for arthritis patients and 19 percentage points for heart disease patients. These surgeries also appear to delay the age at which a respondent first claims Social Security benefits including SSDI or early retirement benefits by 1.3 years for those with arthritis and 4.5 years for heart disease patients.

Patients who experience spells of uninsurance between condition onset and Medicare eligibility are 13 percentage points less likely to receive angioplasty than other patients with heart disease. There was no difference in the probability of receiving joint replacement for those with and without uninsurance spells.

Findings from this study have important implications for beneficiary well-being, Social Security financing, and expansion of comparative effectiveness research. Expansion of workplace policies to promote use of surgical procedures that would allow employees to return to their jobs could help to extend work lives. While the current SSDI program does not provide access to medical care for the first 27 months, alternative programs could be created to provide temporary benefits to workers using unpaid leave for surgery and rehabilitation under the Family and Medical Leave Act, for example. Alternatively, the program could provide targeted health care benefits for uninsured or underinsured workers to reduce or eliminate their share of out-of-pocket spending on surgery.

Findings also suggest that changes to the Medicare program may have important consequences for OASI outlays. Although this paper demonstrates a link between medical care utilization and economic outcomes, comparative effectiveness analyses often fail to consider these endpoints. Provisions in the Affordable Care Act aim to reduce variation in rates of elective procedure utilization in Medicare. This may have adverse effects on work and Social Security claiming behavior amongst younger beneficiaries, including those qualifying through SSDI. Further research on these program interactions can help to inform policymakers about the consequences of changes to Medicare policy for OASDI financing. Reductions in availability of

**Lauren Hersch Nicholas is a Faculty Research Fellow, Survey Research Center, and a Faculty Affiliate, Population Studies Center in the Institute for Social Research at the University of Michigan. This Research Brief is based on forthcoming MRRC Working Paper WP 2011-256.*

discretionary treatments designed to save money in the Medicare program may be costly in the long-term if they reduce labor supply from older adults who would otherwise keep working. Policy changes or demonstration programs targeted at specific subgroups of workers with chronic health conditions may be one way for the SSDI program to help enable them to remain in the workforce rather than claiming benefits long-term.

University of Michigan Retirement Research Center
Institute for Social Research 426 Thompson Street Room 3026
Ann Arbor, MI 48104-2321 Phone: (734) 615-0422 Fax: (734) 615-2180
mrrc@isr.umich.edu www.mrrc.isr.umich.edu

The research reported herein was performed pursuant to a grant from the U.S. Social Security Administration (SSA) through the Michigan Retirement Research Center (MRRRC). The findings and conclusions expressed are solely those of the author(s) and do not represent the views of SSA, any agency of the federal government, or the MRRRC.

Regents of the University of Michigan: Julia Donovan Darlow, Laurence B. Deitch, Denise Ilitch, Olivia P. Maynard, Andrea Fischer Newman, Andrew C. Richner, S. Martin Taylor, Katherine E. White, Mary Sue Coleman, Ex Officio