

SOCIAL SECURITY BENEFIT CLAIMING AND MEDICARE UTILIZATION

JOHN BOUND, HELEN LEVY, AND LAUREN HERSCH NICHOLAS *

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Introduction

How does the health of retirees vary with the age at which they claim Social Security benefits? This question is interesting for two reasons. First, although a large literature has examined the work disincentive effects of the Disability Insurance program, the question of whether these effects are economically significant remains unsettled. One way to measure these disincentive effects is to analyze whether DI recipients are really in worse health than rejected applicants, as we do here. Second, one policy option for extending the solvency of the Old Age and Survivors Insurance (OASI) program is increasing the age at which individuals may first claim benefits, known as the Early Entitlement Age (EEA), which is currently age 62 (Congressional Budget Office, 2012). In order to accurately estimate the overall budgetary impact of such a policy, it is necessary to know how many individuals would take up Disability Insurance (DI) if the EEA were increased.

Methodology

In order to shed light on both of these issues, we use new data to consider differences in health across DI recipients, applicants and early OASI claimers. We use administrative Medicare claims linked to nationally representative Health and Retirement Study data to compare health care utilization at common ages among four groups of Social Security recipients; (1) DI recipients; (2) rejected DI applicants who subsequently claim OASI benefits at or after the EEA; (3) individuals who never applied for DI and claim Social Security benefits after EEA but before FRA (62–64 during the study period); (4) individuals who never applied for DI and claim OASI benefits at Full Retirement Age (FRA), which for these cohorts is 65 or older. We compare the Medicare spending of individuals in these four groups at age 65 — when those who have never received DI become eligible for Medicare on the basis of age — and at age 70, once all of them have been Medicare eligible for at least five years. We use total Medicare spending as a measure of health status, with the assumption that higher utilization implies a greater need for health care driven by worse health. Beneficiaries with significant health care needs are less likely to be able to continue working than those who are healthier. In addition to having face validity, we show that Medicare spending is correlated with an index of health designed to capture the odds that a respondent has a health condition that causes a work disability.

* **John Bound** is the George E Johnson Collegiate Professor of Economics at the University of Michigan and research professor at the Institute for Social Research. **Helen Levy** is research associate professor at the Institute for Social Research and adjunct associate professor of Public Policy at the Gerald R Ford School of Public Policy. **Lauren Hersch Nicholas** is a faculty associate at the Institute for Social Research, University of Michigan, and assistant professor of Health Policy and Management at the Johns Hopkins Bloomberg School of Public Health. This Research Brief is based on MRRC Working Paper 2013-297.

Findings

We find that DI recipients use more health care on average than those who never received DI. These differences are pronounced at age 65, when all older adults become eligible for Medicare if they have not previously qualified through DI receipt. These comparisons may understate the difference between the two groups, however, if those who have just become eligible for Medicare have a spike in utilization, as documented by Card, Dobkin and Maestas (2008) in administrative data and McWilliams et al. (2007, 2009) using the Health and Retirement Study. In order to minimize this problem, we also compare health care spending at age 70, when all patients have had access to Medicare for at least 5 years. Both of these sets of comparisons tell the same story. At age 65, early claimers average \$400–\$500 more in annual Medicare spending than those who claim benefits at Full Retirement age, but \$4,400 less than DI recipients; these differences persist at age 70. Our results suggest that poor health may contribute to EEA claiming decisions, though this group is considerably healthier than those who were too disabled to work and qualified for DI benefits.

Although we have a relatively small sample of rejected SSDI applicants, the data that we have suggests that rejected applicants have greater health needs than those who never apply. These differences are attenuated with additional time in Medicare, but are not explained by periods of uninsurance or difficulties accessing care prior to Medicare coverage.

Overall, our study of Medicare utilization at common ages suggests that Social Security beneficiaries claiming prior to their Full Eligibility Age are modestly less healthy than those who delay, but significantly healthier than DI recipients or rejected applicants. Rejected applicants appear more similar to DI recipients than to beneficiaries who never apply for DI benefits, though this difference is attenuated with additional time in Medicare. Our results suggest that there could be a modest increase in DI application and receipt in response to increases in the EEA and FRA, though many early claimers would be too healthy for DI.

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
mrrcumich@umich.edu www.mrrc.isr.umich.edu

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