



Health Insurance Coverage in Retirement

The Erosion of Retiree
Income Security

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Acknowledgments

This report would not have been possible without the help of many knowledgeable people. We are especially grateful to Beth Almeida, Cary Burnell, Todd Elder, Teresa Ghilarducci, Neil Gladstein, Susan Ingargiola, Jeanne Lambrew, Shaun O'Brien, Ian Spatz, Terri Shaw, and Steve Woodbury for sharing their insights on the issues associated with retiree health insurance. The final report has greatly benefited from their expertise. We would also like to express our gratitude to Danielle Gao and Jin Dai for helping us in compiling consistent time series data from the Current Population Survey. Laura Singleton and Matthew Walters provided excellent research assistance. Finally, this report was made possible by the generous financial support of Merck & Co., Inc.

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ECONOMIC POLICY INSTITUTE
1660 L Street, NW, Suite 1200
Washington, D.C. 20036

<http://www.epinet.org>

ISBN: 1-932066-11-X

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Introduction

One of the great achievements of the twentieth century was making retirement a real option for many working families. Thanks to private pensions for millions of workers and public programs such as Social Security and Medicare, middle-class families have been able to afford a relatively comfortable standard of living in retirement.

This retirement security, however, is being eroded from a number of sides. The decimation of retirement savings due to a sharp stock market decline, historically low interest rates, and, in some cases, corporate fraud, has reduced household savings. In addition to these factors, retirement income security has also been undermined by rising health care costs. Specifically, health insurance has become more costly at the same time that costs for medical care have skyrocketed.

Access to affordable health insurance is crucial for maintaining the retirement income security of many retirees. In examining four groups of people age 55 and older—near-elderly employees (people between the ages of 55 and 64 who are still in the workforce); near-elderly retirees (those between 55 and 64 who have retired from the workforce); elderly employees (people 65 and older who are still in the workforce); and elderly retirees (those age 65 and older who have retired)—some trends in health coverage for these groups begin to emerge.

- **People age 55 and older are disproportionate users of health care because they have more frequent and more severe health problems than younger, healthier people.** Deteriorating health is often a powerful incentive for older workers to retire. However, in recent decades, health care costs have risen two to three times faster than inflation. Inadequate health insurance coverage puts working

families at risk of going without the health care they need in retirement.

- **Prescription drug coverage is declining for most of the 55-and-over population, and the gap between health insurance and prescription drug coverage increases with age and retirement.** Because early retirees do not qualify for Medicare, and because Medicare does not include certain benefits such as prescription drugs, many retirees must turn to private health insurance. Although private health insurance can be accessed either through an employer or by purchasing a non-group plan in the private market, the latter option is likely to be prohibitively expensive or simply not available. This leaves retirees to a large degree dependent on their former employers offering retiree health insurance. The share of retirees 55 and older who had part or all of their prescription drugs covered by insurance declined systematically and substantially from 1996 to 2000. The evidence suggests that older workers may stay in the labor force longer in order to maintain prescription drug coverage.
- **Fewer employers are offering retiree health insurance.** Firms are reducing access to retiree health care because employers are looking to limit rising health care costs. In 1988, 66% of large firms (those with more than 200 employees) offered health coverage to retirees, compared to 34% in 2002. Among small firms with less than 200 employees, only 5% offered employer-sponsored health insurance (ESI) in 2002.

Declining access to ESI for retirees has already caused a drop in health insurance coverage, and this trend is likely to continue. From 1996 to 2002, ESI coverage for men who retired prior to age 65 declined from 51.3% to 47.8%. ESI coverage for Medicare-eligible retirees also declined slightly from 1996 to 2002, particularly for 65- to 74-year olds, which suggests that fewer elderly retirees will have supplemental ESI coverage in the future.

About the organizations

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