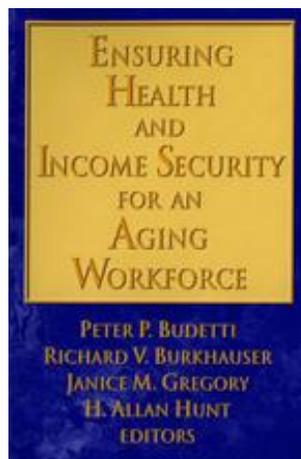


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Commentary [on Job Loss]

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I thought maybe that cold air was supposed to make us more cognizant of what it's like to be one of the unfortunates. I've been asked to pinch-hit as a discussant on these three papers, so let me try to do a reasonable job here. I want to focus my comments more about the aspect that Karen just talked about, the dynamic issues involved with job loss, income, and health insurance coverage. That is to say, if we start with a job loss, that increases the probability (as Ann was describing) that a person will have a subsequent job loss, and all of this has ripple effects on a person's pension, the ability to save (and therefore what kinds of nonpension savings a person has when starting retirement), and on health insurance. These papers highlight the dynamic issues that are involved here. We have unemployment spells, spells without health insurance, and spells that are short-lived (we hope) of having poor health.

The first comment I want to make has to do with the bank merger case study. I found this especially interesting because many people who lose jobs in these huge bank mergers are lower-wage, less-educated groups of workers. Judging by the response rates to the study's survey, however, the study has respondents who happen to be older workers who were better educated and had higher incomes when they lost their jobs.

I happen to live in Boston now, and as some of you know, Boston (and New England) has been experiencing bank mergers recently. I can tell you from colleagues and friends that the recent Bank Boston merger with Fleet Bank targeted older employees for severance. They've been provided with very generous severance packages—in part because of their long tenure with the banks—so that the bank would not be sued for the age discrimination that Jill talks about in her paper. Her discussion of this issue resonated with what I am observing in Boston.

However, what I found distressing about this case study is that I'm seeing similar subtleties at work now in other types of firms and not

just banks. For example, we now see changes in job descriptions that are intended to drive workers from their jobs. Changes such as requiring a worker to know how to use a new computer system or a new accounting system are not uncommon. At the same time, employers are not doing enough of the training, which Wally Maher and Dave Smith talked about earlier, that would enable workers to learn the new systems. This situation then leads to what appears to be a voluntary change of job, so you have a voluntary spell without a job. Or is this really a “push and shove” and an involuntary job change? The interpretation, of course, has impacts on the kinds of health insurance one may have, what happens to one’s pensions, and what happens to one’s current income and ability to save.

I find all of this quite chilling. It leads again to the comment that Burt Seidman raised earlier about some kind of balance being needed between flexibility for employers in terms of their employee labor costs and protections for workers. Employers do need flexibility with labor; as we have seen in Western Europe, employers complain vociferously about all of their labor costs tied up with fringe benefits. On the other hand, there is a need for employee protections, particularly for workers 50 and older, who face higher probabilities of chronic health problems and demands to care for aging parents. Right now, we have a 10-year demographic trough in terms of the people who are 55 to 64 years old, but I can assure you—being on the leading edge of the baby boom, as are many of you in this room—we haven’t seen anything yet in terms of the needs for employee protections. I suspect, since the baby boomers have led the way on a lot of things over the last 50 years, we will be heard on this issue as well.

The second point I want to make has to do with the effects of job losses on incomes and pensions. The finding that Ann and her coauthor have that earnings are significantly lower after a job loss (between a quarter to a third less) is incredibly important for those of us who are studying the issue of job loss among older workers. It means that not only are such workers’ earnings less, but so is their ability to save money for retirement to round out Social Security and for any health care costs that they’re going to have to incur once they are 65 and older.

Also, the finding that pensions are no longer so connected to particular employers really does alter the incentives to retire or not and to change jobs. These changed incentives may increase the probability of

having a spell without health insurance; I found that quite interesting and would like to see it explored further.

My third set of comments relate to the loss of jobs and the effect on health insurance coverage. I'll spend more time on this area since my own research has focused on health insurance. We're primarily talking here about the effects of an involuntary loss of a job. That's why my earlier point about how much of job changing or job loss is involuntary versus voluntary is really important to know. People who are married and who voluntarily switch jobs are very likely to be relying on a spouse as a source of access to health insurance. We know that losing a job does not necessarily cause loss of health insurance, because frequently job losers or job changers are covered by health insurance from their spouse.

However, if a person is not married (and in my paper I show that the "unfortunates" are much less likely to be married), then clearly losing a job increases the probability of having a spell without health insurance, or it increases the probability of using up a great deal of one's savings to be able to purchase some type of nongroup health insurance policy. In addition, if a person has any type of preexisting health condition that he/she knows about or is concerned about because of a familial history, then being in a spell without a job and without health insurance is very scary. The health condition may crop up suddenly and an individual may not have the money to pay for care. Older workers also fear that they are less likely to gain a new job because a potential employer may say, "Well, you look like you're a little older and even though I worry about age discrimination, I'll just say that the other person was more qualified for that job." We ought to be worried about these subtle effects related to preexisting health conditions and what they do for employment and health coverage.

A third point about job changes and health insurance (as Karen aptly describes) is that COBRA is not as helpful as it's cracked up to be. A person has to work for an employer with at least 20 employees to even be covered by COBRA. A person also has to have an employer that offers health care coverage. Thus, if an employer goes bankrupt and the business folds, so a worker loses his or her job, the workers do not have access to the former employer's health insurance. A person also needs to have a lot of money to retain coverage under COBRA, because 102 percent of a premium is a lot of money, especially if a

former employer offers generous coverage that costs \$4,000 or more annually.

Another issue with COBRA is that people are often misled about their eligibility at a time when they're most vulnerable. COBRA is available not just for people who lose a job voluntarily or involuntarily; it's also there for 36 months for people who, through divorce or the death of a spouse, lose their access to the employer-sponsored coverage they have had. Those of you who have been through such circumstances know that's a particularly vulnerable period of time, and yet, a person has only 30 days to decide to continue coverage under COBRA.

So, COBRA is not all its cracked up to be, and as Karen pointed out, HIPAA also does not provide much protection for people. It doesn't prevent insurers from increasing premiums when a person changes from group coverage to nongroup coverage. There's nothing in HIPAA that says that the insurance company can't set whatever premium it deems appropriate. Although HIPAA did help place a floor on the protections that individuals have when they shift from a group policy to a nongroup policy, it is still the case that the states have the right to regulate the nongroup, individual insurance market. These markets are not competitive in terms of premium competition. Rather, they are competitive in the way that the insurers go about selecting who they want to cover and who they want to stay far away from. One group that insurers particularly want to stay far away from is anybody over the age of 50. They can do this by setting high premiums, say, \$15,000 to \$20,000 a year, and most people then say, "I can't afford that." So technically, while older people may not be denied a policy, they really are not offered a policy.

Let me add one other observation about the difficulties faced by older people in trying to purchase affordable nongroup health insurance policies. This relates to the web site Karen mentioned: I am struck by the fact that it is very difficult to find a high-deductible insurance policy. This is also true if you have access to insurance through employer groups. I cannot get a high-deductible policy, and my husband's employer does not offer a high-deductible insurance policy. Most people whom I've asked cannot get a high-deductible insurance policy from where they work. If you go into the nongroup market and try to buy a high-deductible, catastrophic policy, I suspect that you will find enormous difficulty because insurers are immediately suspicious.

Somebody who wants a high-deductible policy knows something—adverse selection is the issue. Insurers fear that you know that you have cancer or some kind of cardiovascular problem and you're expecting to use medical care in excess of \$10,000 a year.

All of which brings me back to where I started—the dynamic aspects of income, pensions, and health insurance facing people who lose jobs, particularly people who are older than 50 or in the 55- to 64-year-old group that we're talking about in this conference. The issue that we really have to be thinking hard about is how do we develop public policies to help people during these spells or periods of time when they are experiencing loss of a job, loss of health insurance, loss of income—without at the same time increasing the moral hazard incentives for somebody voluntarily to enter a spell without a job. I am very concerned about unintentionally creating incentives, then, for an employer to feel that somebody who is 55 to 64 years of age is expendable because a public safety net exists that will catch a person shoved from a job. How do we put in place public policies that help older workers in spells without jobs without at the same time increasing incentives for more people to enter these spells?