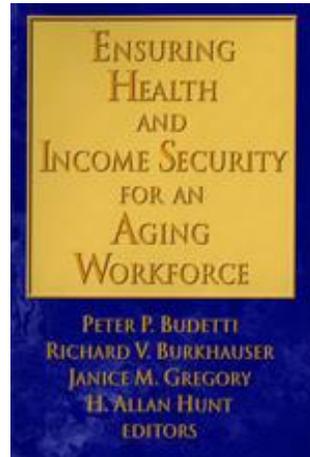

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Commentary [on Chronic Illness and Disability]

Barbara Wolfe
University of Wisconsin-Madison



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Ensuring Health and Income Security for an Aging Workforce

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Commentary

Barbara Wolfe
University of Wisconsin–Madison

These papers address the topic of chronic illness, disability, and related policy issues for an aging workforce. Biddle, Boden, and Reville ask about the adequacy of workers' compensation benefits for those with long-term or permanent disabilities; Burkhauser, Daly, and Houtenville ask how well the disabled have fared in terms of work and income over the last business cycle; Gottlich and Nemore provide a primer on obtaining health care insurance coverage.

What might we like to know about the circumstances that led to these papers? Here are a few pertinent questions.

- 1) How well do our insurance/protection systems perform for older workers who develop chronic illness or suffer an accident that leads to a disability with long-term consequences? Can we learn something from alternative approaches among the states that can guide us in better designing workers' compensation? How well do our other programs that provide benefits to the long-term disabled perform as a safety net?
- 2) Overall, how well are the disabled doing, and how has this changed in the last decade? Are the disabled gaining in this booming labor market? How are they doing in terms of earnings? Are they doing as well as other groups; if so, which groups? How hard were they hit in the last recession and what might this suggest for the future when macroeconomic conditions change? How well do transfers do in maintaining the income of persons with disabilities and the families in which they live?
- 3) Do persons with disabilities have access to comprehensive health insurance? If working, what are their rights to employer-provided coverage? To individual insurance? What role does the public sector play in terms of direct provision, helping gain private coverage? If persons with disabilities were to regain or

improve health, what is their access to coverage? Does the “system” inhibit the return to work of disabled individuals? What are the recent changes designed to minimize this negative incentive to return to work?

- 4) And, finally, we would like to derive a sense of how well the disabled are doing overall—in earnings, income, total compensation, and health insurance coverage. How are they faring compared with how they would have been expected to fare if not disabled? How well are they faring in terms of avoiding poverty?

Addressing these issues is clearly a tall order; however, I am going to use this framework to think about these papers. I discuss them in the order they were presented.

BIDDLE, BODEN, AND REVILLE

The first paper, by Biddle, Boden, and Reville, analyzes the experience of three states with regard to the replacement of earnings by workers' compensation. It is an interesting presentation of those policies, including the schedule in each of the three states and the philosophy underlying these approaches. Learning about replacement of lost earnings is more difficult in the case of workers' compensation, because there are continuing earnings in most cases, in contrast with the traditional income replacement programs such as Social Security (SSDI). The calculation when individuals have earnings is much more complicated than when they do not.

The authors calculate a unique replacement rate: replacement of earnings that the individual would have expected to receive if not injured. This way of asking the question poses a technical or econometric difficulty: how to know the correct counterfactual, or what the person would have earned if not injured. The authors use different approaches in each state; the biggest difference is between California and the other two states. (It would be preferable if the authors could use a similar approach, but it is not clear whether this is possible given data constraints.)

The Comparison Groups for the Counterfactual Are Troublesome

Why use individuals who had “some accident”? Is this the appropriate counterfactual? Why use individuals in the same firm, since this leads to very small sample sizes and many firms have very heterogeneous workers? What do they do with individuals who work in smaller firms where there are few similar employees? I’d prefer to see the authors use employees of the same occupation, age, gender, and industry to develop the counterfactuals. This should be feasible among states.

Methodology

Using fixed effects may overcorrect for factors that directly influence earnings. They want to correct for unobserved factors such as motivation, drive, etc., but they also correct for young children at home (which changes over time) and for on-the-job training, which also changes over time.

Discount Rate

The rate they use, 2.3 percent, is rather low; they should test for sensitivity.

Results

Perhaps most interesting is the relative success of a two-tiered system, such as that of Wisconsin, where payments are better targeted on those with the greatest need. Thus, the comparison using quintiles provides insight on the relative success of these alternative workers’ compensation programs. This is a system that uses a functional impairment benefit along with an earnings capacity benefit, and the advantage of this, at least as indicated by the results, appears to be that they can target payments to individuals who do not return to work or are rehired at a much lower proportion of their former wage.

The comparison among states also suggests that there is a trade-off between the percentage of awards that provide cash for permanent disability and the replacement rate (which is not surprising). Unfortu-

nately, since the statistical match and dates differ somewhat among states, the paper cannot fully eliminate the role of state differences in comparing the states.

BURKHAUSER, DALY, AND HOUTENVILLE

I turn next to the paper by Burkhauser, Daly, and Houtenville, who address an interesting question: how well have disabled persons and their families fared in this labor market during an economic boom? They cover two aspects: how persons with disabilities fare in the labor market, and the probability of application to, and the resulting leniency and generosity of, transfers to persons with disabilities.

During a labor market expansion, especially a sustained one, we would expect a decline in unemployment among all groups, including those with disabilities. We expect opportunities to substantially increase for most persons and, given a sustained increase, to improve for those with the poorest labor market opportunities, including the disabled.

We also expect that with welfare reform (TANF) there will be some increase (shift over) of claims for SSDI and SSI. A recent Lewin report (1999) tracks some of this, and we know that there has been a considerable expansion of the earned income tax credit (EITC), designed to make work pay for lower-income workers with children. We don't know a great deal about health coverage of this population, although we do know that insurance coverage is down for adults, especially those with health difficulties (and there may be associated incentives concerning working).

Approach

The authors use annual CPS data. The key identification issue is who is disabled, which they base on a general question on disability: whether the respondent is limited in ability to work or kind and amount of work. This is a very general question, as the authors recognize. The years covered in the analysis are 1988–1999. This is undoubtedly the best data source, but the disability measure is limited, and there are sig-

nificant underreporting issues, especially of income from transfers that have increased over time.¹

The authors first examine the pattern of disability, finding an increase through 1994 and then a decline, as we would expect. One can see in particular a decline in the number of young people with reported disabilities, such that mean age is up over the period. In addition, there appear to be more females with disabilities; and in terms of education, high school graduates show the biggest increase. Overall, the pattern of demographic changes might lead one to expect a decline in earnings and earnings-related transfers. (On average, females earn 75 percent on the dollar.) This would be the case without a change in the macroeconomy, simply focusing on demographic characteristics.

Minor Issues

Why use a 0.5 equivalence scale? There is at least some increasing agreement that it is preferable to use two- and three-parameter scales for the poverty measure, as they better incorporate economies of scale. I would like to see a sensitivity test using alternative scales.

Studies of income distribution are heavily affected by the different procedures that researchers choose to measure inequality. A major issue is to assess the direction and the extent of the change in inequality when different adjustments for household size and composition are allowed. For example, Coulter, Cowell, and Jenkins (1992) found that when the value of e was increased from zero to 1, inequality first decreases and then increases, forming a U-shape. They explained the theoretical relationship between equivalence scales and inequality: the well-being (W_i) of an individual is a function of four different variables: total household income (H), household size (S), elasticity of scale (ϵ), and household characteristics (η):

$$W_i = Y(H_i, S_i, \epsilon, \eta).$$

An example of a two-parameter scale is that for OECD:

$$W = \frac{H}{1 + 0.7(A - 1) + 0.5C}$$

where *A* are adults and *C* are children. So, there is an issue with regard to the relatively arbitrary value of an equivalence scale utilized.

There is an issue regarding the sample as well: Why call someone with 1 hour of work per week a member of the labor force? What would happen if they looked only at those who work a minimum of 20 hours per week for at least half of a year? The authors might perform a sensitivity analysis to see how sensitive the results are to this broad definition.

Bigger concerns include the EITC, other noncash forms of compensation, and a change in underreporting. The EITC was greatly expanded over this time period, which is most important for those with low earnings and with children. While it is not clear how important this issue is to this population, it seems clear that omitting the EITC leads to an understatement of income. There is systematic underreporting, but it is not consistent across types of income. Most recently there has been a big shift concerning transfers: a large decline in reporting relative to administrative totals, so underreporting is likely to add to the decline in reported (but not in actual) income. This problem has grown worse in recent years. For example, Douglas Besharov (1999) has stated that

assertions about declines in Medicaid coverage are often based on analyses of the Census Bureau's Current Population Survey (CPS), the government's primary data source for measuring employment, earnings, poverty, welfare receipt, and a range of other important outcomes. Unfortunately, the survey appears to miss about one-third of AFDC/TANF, food stamp, and Medicaid recipients. Perhaps even more important, this problem has been getting worse in recent years, a deterioration that has important implications for judging the impact of welfare reform.

According to the CPS, between 1993 and 1997 the number of children under 15 enrolled in Medicaid declined by 3.2 million. But reliable administrative data from the Health Care Financing Administration (HCFA) show an increase of 400,000. For the period 1995–1997, HCFA data also show a decline of 700,000 children, but the CPS shows a much larger decline of 1.7 million. These kinds of discrepancies document the importance of underreporting.

Another issue concerns the measurement of income. Is the measure reported the one that the analysts should be interested in, or is it a

fuller measure of disposable income and close substitutes? If the latter, then there are two questions: 1) whether and how to value noncash income, such as health insurance and, for those of low income, food stamps; and 2) how to measure disposable income rather than gross income (subtract taxes).

Noncash income to U.S. families has grown substantially in the past 25 years. In the 1980s, over half of government transfer spending for the poor was in the form of noncash benefits, according to the U.S. Bureau of the Census. This growth of benefits to the poor has been paralleled by a growth of nonwage compensation to wage earners, induced in part by tax laws exempting such compensation from income and payroll taxes. By 1990, employer costs for nonwage compensation had grown to over one-quarter (27.6 percent) of total compensation costs, up from 19.4 percent in 1966. By excluding this form of income and its distribution, the story is incomplete.

To conclude, it may well be true that persons with disabilities have not done as well, and this clearly seems to be the case for earnings. The authors might improve this study if they included an imputed value for EITC; conducted a Oaxaca decomposition to see how much is change in characteristics (more women, older); tested for sensitivity to equivalence scale used; and adjusted for underreporting following Census Bureau methodology. Finally, there is a puzzle regarding applications for benefits. A recent Lewin study (1999) found a sharp decline in SSI applications after 1993. While these are not strictly comparable, the big difference is surprising.

The pattern that the authors find, however—the largest declines in employment in middle-income groups, far bigger increases in dollars of SSDI awarded to women, and lower income among women and men in the middle-income group compared to 1989 levels—seems unexpected and surely worthy of further exploration to try to understand why these individuals and their families are not doing as well as we might anticipate.

GOTTLICH AND NEMORE

The final paper, by Gottlich and Nemore, is a useful guide for anyone interested in learning how to obtain benefits under three different sets of programs (private, Medicaid, or Medicare), taken one at a time. This is very useful to someone who wants to know the options for coverage. For researchers and policymakers, it might be more useful to draw them together to obtain a picture of the probability that older persons with disabilities could obtain private, social security, or public health insurance (Medicaid or Medicare) coverage. And, the authors could usefully add a discussion of the issue of returning to work; that is, if a person has coverage through one system, such as Medicare, and wishes to return to the work force, what are the options and probabilities of private coverage? Finally, it would be very helpful to have some sense of adequacy of coverage; that is, are these folks at high risk of lacking coverage? Of lacking coverage for some required care? Are high deductibles or high required co-pays an issue that needs to be considered? If these are policy problems, it would be a welcome addition if the authors would make suggestions for obtaining and improving coverage.

Other questions could be asked. Is ERISA a problem in terms of persons with disabilities obtaining coverage, or does it help? Are there antidiscrimination laws that might aid this population under ERISA? Is an individual with a specific medical condition who is returning to work more likely to be covered with a firm under ERISA or under state law? (And does the answer differ by state?) Are there likely to be labor market consequences if there is increased regulation on the provision of coverage? There is an issue that links this paper to the others, and here I quote from Daniel Weinberg (1995):

Of key concern to understanding well-being is the valuation of medical benefits, both the government health programs—Medicare (medical aid to the elderly) and Medicaid (medical aid to the poor)—and employer-provided health insurance. The valuation of medical benefits is particularly difficult, because coverage of high medical expenses for someone who is sick does nothing to improve his or her poverty status (although the benefits clearly make him or her better off). Even if one imputes the value of an equivalent insurance policy to program participants, these benefits

(high in market value due to large medical costs for the fraction who do get sick) cannot be used by the recipients to meet other needs of daily living. However, not having coverage clearly detracts from economic well-being and possibly health itself.

The bottom line of this message is that we need to incorporate the value of coverage (or lack of it) in order to get a more comprehensive view of the well-being of persons with disabilities over time, across characteristics, and in comparison with persons who are not disabled.

OVERVIEW ISSUES

Is the best way to learn about the success of a program to address the replacement rate? I would like to see more on dollar value of benefits. I would like to have the authors address the role of workers' compensation in reducing or eliminating poverty, an income concept like net income of individual and family. What is presented is earnings loss and replacement of lost earnings, a valid measure of economic well-being, nonetheless.

As in the Burkhauser paper, I would like a full measure of income, including EITC, taxes, and other disability-related transfer programs benefits such as SSDI and SSI, to see what has happened to income and to poverty rates over this time period. How are those worst off among the disabled who receive workers' compensation faring?

To conclude my comments, these three studies bring readers a sense of the economic well-being and access to health care of persons with disabilities. At some level the papers all critique the others: earnings and income as defined in the Burkhauser study does not include the value or even the presence of health insurance, which is clearly very important for this population. Workers' compensation is only one part of income. We would like to know more about its role and interaction with other transfers and with earnings. The studies are also linked in trying to answer an additional question: "Does the potential for high medical expenditures influence future earnings opportunities?"

Ultimately these studies are purely descriptive. They do not ask whether a change in one program, such as health care coverage, would influence such choices as whether or not to work and number of hours,

nor whether better labor market opportunities change the generosity of workers' compensation. The studies all add to our knowledge of the situation of persons with disabilities with regard to income and access to health care coverage, but our picture is still incomplete. In the future, we would like to add to the picture painted by Burkhauser, Daly, and Houtenville the presence and value of health care coverage and workers' compensation benefits (though they may be included), to adjust for underreporting of various sources of income, and take account how these change with the state of the economy, with the workers' compensation policy of the state, and state and ERISA laws regarding health insurance coverage.

Note

1. According to the Census Bureau, ". . . for many different reasons, there is a tendency in household surveys for respondents to underreport their income. From an analysis of independently derived income estimates, it has been determined that income earned from wages or salaries is much better reported than other sources of income and is nearly equal to independent estimates of aggregate earnings" (Coder and Scoon-Rogers 1996).

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