



Public health insurance and disparate eligibility of spouses: The Medicare eligibility gap[☆]



Allison Witman^{*}

3040 E. Cornwallis Road, P.O. Box 12194, Research Triangle Park, NC 27709-2194, United States

ARTICLE INFO

Article history:

Received 14 February 2013

Received in revised form 4 June 2014

Accepted 19 October 2014

Available online 24 December 2014

JEL classification:

I13

I18

G22

Keywords:

Public health insurance

Private health insurance

Medicare

Crowd-out

Regression discontinuity

ABSTRACT

I exploit the age-based eligibility structure of Medicare and the age gap between spouses to examine the impact of Medicare eligibility of an older spouse on the insurance coverage of younger, Medicare-ineligible spouses. Using a regression discontinuity framework, I find that Medicare eligibility of an older spouse can crowd-out the health insurance coverage of a younger spouse. Medicare eligibility of older wives increases the likelihood that younger husbands are uninsured. Younger wives are less likely to be covered through an employer-based plan and more likely to have non-group coverage after an older husband turns 65.

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1. Introduction

An estimated 10,000 people per day turn 65 and become eligible for Medicare, a program that provides insurance coverage for 50 million people and comprises 21% of national health care spending (Kaiser Family Foundation, 2012).¹ Given its size and role as the primary health insurance provider to elderly Americans, Medicare's effects have been widely studied by economists interested in the program's impact on beneficiaries. Medicare beneficiaries experience sudden changes in health insurance and health care use at age 65, increasing the likelihood of insurance coverage, the rate of multiple coverage, the use of preventative services, hospitalization, and prescription medications (Card et al., 2008, 2009; Decker and Rapaport, 2002; Duggan and Morton, 2010; Finkelstein and

McKnight, 2008; Lichtenberg, 2002; McWilliams et al., 2003, 2007). Despite the breadth of research investigating the effects of Medicare, the program's spillovers to Medicare-ineligible individuals have been largely overlooked.

Medicare is unlike the private health insurance plans that cover most Americans under age 65 in that it has no coverage provision for family members or other dependents—Medicare only covers the eligible individual. The age-based eligibility structure of Medicare means that households with an age difference between spouses will inevitably encounter a period of time in which the older spouse is eligible for the program and the younger spouse is not, creating a Medicare-eligibility gap between spouses.² Medicare eligibility of an older spouse creates the potential for spillovers to a younger spouse, caused by an interaction between the individual-based nature of Medicare and the household-based nature of private insurance. When an older spouse turns 65 the household will have to decide whether the older spouse will take up Medicare coverage, in which case the younger spouse will need to have their own coverage or go uninsured.

[☆] I am grateful to Kelly Bedard, Olivier Deschenes, Shelly Lundberg, Peter Kuhn, Heather Royer, Jenna Stearns, and seminar participants at the UCSB Economics Labor Lunch for helpful comments and suggestions.

^{*} Tel.: +1 9195417211.

E-mail address: awitman@rti.org

¹ In addition to being at least 65, age-based qualification for Medicare requires at least 10 years of Medicare-covered employment by one's self or spouse. Individuals under age 65 with certain disabilities also qualify for the program.

² Assuming the younger spouse does not qualify based on disability status.

In this paper, I use data from the National Health Interview Survey (NHIS) and a regression discontinuity design to examine the impact of an older spouse's Medicare eligibility on the insurance coverage of a younger, Medicare-ineligible spouse. I find that Medicare eligibility of an older spouse can crowd-out the health insurance coverage of a younger spouse, reducing coverage on the extensive margin and the generosity of coverage. In households with an older wife and a younger husband, Medicare-ineligible husbands are 3.49 percentage points more likely to be uninsured just after a wife turns 65. This is a 44% increase in the fraction of married men in this age range without insurance coverage. I also provide evidence that the men who are going uninsured are less educated, working, and relatively healthy. Second, Medicare-ineligible wives experience large changes in the source of private coverage when a husband becomes eligible for Medicare. Ineligible wives move out of private plans in their husband's name (10.43 percentage point fall) and into private plans in their own name (9.10 percentage point increase), with a shift toward coverage that can be characterized as less generous. Additionally, I find that healthier women are more likely to be uninsured just after a husband turns 65.

These findings add to existing knowledge on the effects of the Medicare program as well as identify Medicare's age-based eligibility structure as a new source of crowd-out. Crowd-out is a reduction in private health insurance coverage caused by eligibility for public health insurance and has exclusively been studied in the context of Medicaid and Veteran's Insurance. Newly-eligible individuals may drop private coverage in favor of public insurance (Blumberg et al., 2000; Boyle and Lahey, 2010; Busch and Duchovny, 2005; Card and Shore-Sheppard, 2004; Dubay and Kenney, 1996, 1997; Sasso and Buchmueller, 2004; Yazici and Kaestner, 2000; Shore-Sheppard et al., 2000); however, declines in private coverage may not be limited to those who become eligible for public insurance. Crowd-out can spill over to the family members of public insurance eligibles as documented by Cutler and Gruber (1996) and Gruber and Simon (2008), who report that men whose family members become eligible for Medicaid reduce employer insurance coverage. Similar to this paper, Boyle and Lahey (2012) exploit disparate spousal eligibility for public health insurance. The authors show that wives increased labor supply after Veterans Insurance expansions granted coverage to their husbands. One explanation for this result is that wives increased labor supply in order to provide health insurance for themselves. In contrast to previous studies, the crowd-out generated by Medicare results from a perfectly anticipated increase in access to public coverage. Although the crowd-out experienced by younger spouses is temporary because they will eventually age into Medicare themselves, continuous and adequate insurance coverage is important for the near-elderly because they are high users of health care and at a higher risk for health shocks due to their age.

This paper has the advantage of using a regression discontinuity design previously used once in the crowd-out literature to study Medicaid-generated crowd-out (Card and Shore-Sheppard, 2004). Medicare's age-65 threshold lends itself to regression discontinuity and the research design has been used to estimate the causal impact of eligibility on the insurance coverage, health outcomes, and labor market participation of Medicare-eligible individuals (Card et al., 2008, 2009; Decker, 2005; Fairlie et al., 2012). Regression discontinuity has the advantage of relying on relatively weak identifying assumptions that approach a randomized experiment; therefore providing credible evidence that Medicare eligibility of older spouses reduces the health insurance coverage of younger spouses.

The younger spouses of Medicare-eligible individuals are a group to watch as the Patient Protection and Affordable Care Act (ACA) is implemented. The insurance coverage mandate combined

with new options for younger spouses (e.g. health insurance exchanges and Medicaid expansions) will likely reduce the number of younger spouses going uninsured. Given that relatively healthy younger spouses are forgoing coverage, the addition of these people to the risk pool will potentially reduce average costs in this age range. Additionally, new coverage options for younger spouses that are not tied to employment will reduce the incentive for older spouses to remain in the workforce in order to provide health insurance to the household. Post-ACA, older spouses may take up Medicare at a higher rate and transitions in coverage for younger spouses could increase when an older spouse turns 65.

As the baby boom generation ages into Medicare eligibility, policymakers will undoubtedly propose changes to the benefit structure of the program in an effort to reduce costs while providing coverage to aging Americans. These results demonstrate that changes to the Medicare program will not only affect eligible individuals, but may also impact their family members. Analyses of proposed modifications to the program should include assessments of the impact on beneficiaries as well as potential spillovers to the spouses of Medicare beneficiaries.

The next section provides an introduction to the Medicare program with a discussion of how eligibility of one spouse may impact an ineligible spouse. Section 3 presents the data, econometric specification and identification assumptions. Section 4 presents results and Section 5 concludes.

2. Background

Medicare is government subsidized insurance available to American citizens ages 65 years and older.³ Eligible individuals have access to the four components of Medicare, each covering a specific type of service. Part A covers hospital-related expenses and is free for most enrollees. Part B covers doctor visits, outpatient care, and other general services at a cost between \$96 and \$115 per month.⁴ Medicare Parts A and B have relatively high cost sharing requirements and do not cover certain benefits including dental and long term care. As a result, most beneficiaries have some form of supplemental insurance (e.g. employer retiree coverage, a Medigap plan, or Medicaid) to fill in holes in the benefit package and reduce Medicare's cost sharing burden (Kaiser Family Foundation, 2010). An alternative to purchasing supplemental coverage is Medicare Part C, also known as Medicare Advantage. Medicare Part C is comprised of government subsidized, privately-administered plans that offer more comprehensive benefits than Parts A and B alone. In 2006, a prescription drug insurance plan was introduced as Medicare Part D.

An older spouse deciding to take up Medicare coverage represents a tradeoff for families between individual-based and household-based coverage. Using the example of a Medicare-eligible husband with a Medicare-ineligible wife, let us consider several cases. First, a wife who provided her own health insurance prior to her husband's Medicare eligibility will experience no required change in coverage when her husband turns 65. Second, if the Medicare-eligible husband is the primary provider of health insurance to the family, then he can continue to provide health insurance for the ineligible wife, the wife can purchase insurance

³ Some individuals under age 65 who are disabled or have certain diseases also qualify for Medicare.

⁴ Enrollment in Medicare Parts A and B at age 65 is automatic for individuals receiving Social Security benefits. Individuals not receiving Social Security benefits at age 65 must contact the Social Security Administration in order to enroll in the program. Those automatically enrolled due to receipt of Social Security benefits have the right to refuse Part B coverage.

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