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ABSTRACT

A study used data from the Employee Benefits Surveys conducted by the Bureau of Labor Statistics to examine the influence of employer-provided retiree health insurance on retirement decisions. The analysis found that most coverage is similar to that of active workers but takes Medicare into consideration, and requires retiring workers to meet eligibility conditions (length of service). Analysis indicates that retiree health plans tend to discourage job turnover and delay retirement up to the time a worker meets the eligibility requirements of the health plan. Retiree health plans encourage retirement after workers have achieved this eligibility. The strength of incentives depends on the extent and nature of the benefits of the plans. Further analysis using Current Population Survey data supported the same findings and also found that the eligibility for Medicare benefits affects the retirement decision. Conclusions argue that economic and policy studies of the retirement decision may have overestimated the effect of pensions by ignoring the influence of retiree health insurance. The close economic association between pension and retiree health plans suggest that both types of benefits influence the timing and rate of retirements. (Contains 27 references.) (JB)

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Influence of Employer-Provided Retiree Health Insurance on Retirement Decisions

This issue of Research Dialogues *summarizes a study commissioned by the U.S. Department of Health and Human Services to examine the effect of employer-sponsored retiree health insurance plans on employees' retirement decisions. The authors of the original study and this summary are Robert L. Clark, professor and interim dean, College of Management; Linda Shumaker Ghent, Ph.D. candidate, Department of Economics; and Alvin E. Headen, Jr., associate professor, Department of Economics (all at North Carolina State University).*

With comprehensive changes in the U.S. health-care insurance system now being considered in Washington, study of the relationship of health-care coverage to the retirement decision is especially timely to educational administrators. Many are already grappling with accrual accounting for retiree health-care benefits and next year's "uncapping" of mandatory retirement for tenured faculty.

Introduction

Employer-provided retiree health insurance is an important employee benefit offered by many public and private employers. The continuation after retirement of health-care coverage under an employer's plan can help reduce the decline in real income that may occur when an older worker leaves a career job. Retiree health insurance is itself an important source of real income to many current retirees, improving their economic well-being and helping to protect them against increases in health-care costs.

Incidence of Coverage by Retiree Health Insurance

No single, comprehensive survey of employer-provided retiree health insurance currently exists.[1] Instead, a variety of public and private surveys must be examined to obtain a detailed assessment of the current coverage rate. The most representative information on coverage is contained in various Employee Benefits Surveys (EBS) conducted by the Bureau of Labor Statistics (BLS).[2] In the recent EBS, the definition of coverage by retiree health plans has been limited to plans in which the employer pays some of the health-care costs; workers who are included in plans that require retirees to pay the entire cost of health-care premiums are not counted in the surveys as having retiree health insurance.[3]

The EBS data indicate that a declining proportion of workers in private establishments with 100 or more employees are covered by health-insurance plans with retiree health-insurance provisions.[4] Table 1 shows a steady decline in the proportion of participants in health-care plans with retired employee coverage. Between 1986 and 1988, the sampling frame of the EBS was changed to include more employers from the service sector of the economy and more employers with between 100 and 250 employees. These changes were responsible for half of the reported decline in coverage between 1986 and 1988 (see Table 1).

Based on the sampling frame of the most current survey, the data suggest that during the mid-1980s, over 50 percent of the full-time workers in medium and large establishments participating in health plans were covered by retiree health-insurance provisions in which the employer paid part or all of the cost. By the end of the decade, this coverage rate had declined to about 40 percent.

It is important to note that the EBS cover only employers having health-insurance plans for active employees. The proportion of the total labor force in medium and large establishments covered by retiree health plans is even lower, since some firms do not offer a health plan, and part-time workers are less likely to be included in health plans.[5]

The EBS also provide information on coverage in other segments of the economy. In 1990, 15 percent of workers participating in health-care plans in small private establishments were employed by firms that paid at least part of the costs of retiree health insurance.[6] In contrast, among participants in health-care plans provided by state and local government employers, 58 percent were covered by retiree health insurance in 1990.[7]

A more detailed examination of the 1989 EBS of medium and large firms reveals considerable variation in retiree coverage throughout the economy (see Table 2). For example, the percentage of participants in employer-financed health-insurance plans that cover retirees under 65 (who are thus not eligible for Medicare) varied widely by occupation, industry, and size of firm. Health-care coverage for retirees under 65 was available to 42 percent of professional and administrative workers but

Table 1

Percentage of Full-time Participants in Health-Care Plans with Coverage after Retirement, Medium and Large Firms, 1985-1989[a]

Coverage Provisions	1985	1986	1988[b]	1989
All participants				
Retirees under 65	62%	63%	45% (54)	41%
Retirees 65 and over	51	57	37 (45)	36
Professional/administrative				
Retirees under 65	65	68	48 (58)	45
Retirees 65 and over	59	63	42 (51)	41
Technical/clerical				
Retirees under 65	66	67	46 (53)	39
Retirees 65 and over	58	63	42 (47)	41
Production/service				
Retirees under 65	59	59	42 (52)	39
Retirees 65 and over	45	51	33 (42)	33

[a] Only plans that require some employer contributions are included as retiree health plans in this analysis. The 1985 and 1986 percentages are estimated from published data in *Employee Benefits in Medium and Large Firms*, Bureau of Labor Statistics bulletin nos. 2262 and 2281. Information for 1988 and 1989 is reported in bulletin nos. 2336 and 2363.

[b] The sampling frame of the EBS was changed between 1986 and 1988 to include more firms with between 100 and 250 employees and more firms in the service sector. Numbers in parentheses represent coverage rates for 1988 using the 1986 sampling frame. These data indicate that half of the decline between 1986 and 1988 is attributable to changes in the sampling design.

Source: Bureau of Labor Statistics, *Employee Benefits in Medium and Large Firms*, bulletin nos. 2262, 2281, 2336, and 2363 (Washington, D.C.: Government Printing Office, various years).

to only 36 percent of technical and clerical workers and 37 percent of production and service workers. Coverage rates for retirees under 65 declined between 1988 and 1989 in all occupations.

Coverage rates by industry also varied widely in 1989. The percentage of health-care plan participants with coverage for retirees under 65 ranged from a low of 19 percent in the service sector and 21 percent in construction to 46 percent in manufacturing and 65 percent in the transportation/communications/utilities sector.

The EBS data show a close relationship between a firm's size and its retiree health-care coverage. In establishments with less than 250 employees, only 15 percent of participants were covered by retiree health-care provisions for those under 65, while just over 30 percent of those in establishments with 250 to 499 employees were covered. In contrast, for participants in establishments with more than 2,500 employees, the coverage rate for retirees under 65 was 67 percent.[8]

While coverage rates for many types of benefits increase with the size of a firm, the magnitude of the difference is much greater for retiree health-care coverage than for other benefits such as pension plans or health-care plans for active employees. And the proportion of participants in plans with coverage for retirees 65 and over is generally lower than the proportion in plans with coverage for retirees under 65. This is true across all the occupation, industry, and firm-size categories shown in Table 2.[9]

Recent changes in acceptable accounting practices, as announced in the Financial Accounting Standards Board Statement, no. 106, have also led to a sharp decline in employer-sponsored retiree health insurance. The changes required firms to recognize the liabilities associated with retiree health plans, the rapid rise in the cost of health insurance, reductions in Medicare reimbursement, and the aging of the population.

In response, employers are attempting to reduce their liabilities associated with retiree health plans. Some are eliminating their retiree health plans, while others are shifting costs to retirees, as described in the next section. Still others are considering switching to defined-contribution type plans, where the employer sets aside a fixed amount of funds for the purchase of health insurance during retirement. These changes are reducing the incidence of coverage among retirees and the value of health insurance for those who are covered.

Characteristics of Retiree Health-Care Coverage

Retiree health insurance is typically offered as a part of the health-insurance plan or plans covering active workers. Generally, retirees are covered under the same plans as active workers, with similar benefits, taking into account coordination with Medicare (see Table 3). In 1989, 79 percent of workers covered by retiree health plans were in plans that promised to retirees under 65 the same coverage as for current workers; only 15 percent were in plans that reduced coverage for retirees under 65. But this proportion of covered workers facing reductions in the extent of health-care coverage at retirement before age 65 in 1989 was up sharply from the 9 percent found in 1988.

For retirees 65 and older, virtually all plans coordinate the payment of retiree health-care benefits with Medicare. Health-care payments from employer-sponsored plans are normally made for

Table 2

Percentage of Full-time Participants in Health-Care Plans with Coverage after Retirement, Medium and Large Firms, by Occupation, Industry, and Establishment Size

	1988 Coverage for Retirees		1989 Coverage for Retirees	
	Under 65	65 and over	Under 65	65 and over
Occupation				
Professional/administrative	45%	39%	42%	38%
Technical/clerical	43	37	36	34
Production/service	40	31	37	32
Industry				
Mining	58	59	43	47
Construction	39	39	21	26
Manufacturing	48	39	46	41
Transportation/communications/utilities	68	60	65	57
Wholesale trade	51	43	28	22
Retail trade	20	15	27	20
Finance/insurance/real estate	51	47	43	45
Services	23	18	19	15
Establishment size				
Less than 250	26	22	15	17
250-499	30	25	31	22
500-999	41	33	34	29
1,000-2,499	47	39	43	38
2,500 and over	67	56	67	60

Note: The 1988 and 1989 values in this table are based on our calculations from EBS data tapes that were updated after the publication of the EBS in *Employee Benefits in Medium and Large Firms, 1988*, and *Employee Benefits in Medium and Large Firms, 1989*, bulletin nos. 2336 and 2363. The values thus differ slightly from those presented in Table 1, which are based on data published earlier in the BLS bulletins.

Table 3

Percentage of Participants in Retiree Health-Care Plans with Various Benefit Provisions, Medium and Large Firms

	1988 Coverage for Retirees		1989 Coverage for Retirees	
Provisions	Under 65	65 and over	Under 65	65 and over
Benefit level				
No change in coverage	89%	85%	79%	72%
Reduced coverage	9	13	15	21
Increased coverage	1	1	0	1
Not determinable	1	1	6	6
Financing				
Retiree pays some	46	44	52	50
Retiree pays none	53	55	45	47
Not determinable	1	1	3	3

Source: All values are based on published information in Bureau of Labor Statistics bulletins reporting findings from the EBS in 1988 and 1989 (Bureau of Labor Statistics, *Employee Benefits in Medium and Large Firms, 1988*, and *Employee Benefits in Medium and Large Firms, 1989*, bulletin nos. 2336 and 2363).

retirees on a secondary-payer basis so that Medicare pays first, thereby reducing employer costs and avoiding duplication of benefits.[10] In most plans, coverage is offered to all qualified retirees regardless of age; however, some plans terminate coverage at age 65 when the retiree becomes eligible for Medicare. Among active participants in employer-sponsored health plans that included retiree health-insurance coverage in 1989, 5 percent to 10 percent were in plans that discontinue coverage at age 65.[11]

Most retiree health-care plans require retiring workers to meet various eligibility conditions to continue in the health-insurance plan after retirement. Typical requirements include a minimum length of service, such as ten years, or eligibility to receive benefits from the company pension plan. Of course, most pension plans require that certain age and service standards be met before a worker is eligible to receive a retirement benefit. Having met these requirements, the retiree may then become eligible for coverage in the employer-sponsored health plan for life or until a specified age.

In the past, retiree health-care benefit provisions generally remained constant throughout retirement.[12] More recently, however, employers have introduced cost-sharing and other changes in their retiree health plans, such as increased deductibles, increased coinsurance, reductions in maximum benefits, preadmission certification, elimination of certain types of coverage, and increased premiums. Table 3 shows that in 1989, 45 percent of workers covered by retiree health plans were in plans that did not require any payment by retirees under 65. This was down sharply from the 53 percent reported in 1988.[13]

Shifting of costs from employers to retirees is now one of the most important factors associated with retiree health insurance. And the cost-shifting pattern is expected to continue.

Retiree health plans are an integral component of employers' compensation and personnel practices and policies. Participation clearly represents a benefit to workers and a cost to employers. The plans can be considered as a form of deferred compensation, which implies that the benefits are paid in the future for services performed today. As a result, the promise of benefits to be available during retirement to current workers can affect worker behavior today. The influence of retiree health-care plans on retirement decisions of older workers is explored below.

Joint Coverage—Retiree Health-Care and Pension Plans

In offering future benefits to current workers, both retiree health-insurance plans and pension plans give employers the potential to modify employee behavior through a series of financial incentives. These incentives occur because eligibility for future benefits and the value of the future benefits depend on specific employee actions during employment.

There is a considerable literature examining the impact of pension plans on job turnover[14] and retirement.[15] Two primary effects of pension plans have been identified.

First, retirement benefits from defined-benefit pension plans are typically a function of final earnings and therefore pay substantially lower total benefits to workers who leave before the designated retirement age.[16] The resulting penalty in the value of lifetime pension benefits reduces job turnover until the worker reaches the age of eligibility for early pension benefits.[17]

Second, a worker who is eligible to begin receiving pension benefits has an alternative source of income and thus is more likely to retire. Further, after the earliest specified retirement age in the defined-benefit plan, workers often find that continued employment reduces the lifetime value of pension benefits, which therefore encourages retirement.[18]

Retiree health-care plans have similar incentives, as described below. These similarities in the incentives associated with retiree health and pension plans suggest that employers may use both plans to achieve specific personnel objectives, such as reducing job turnover and altering the timing of retirement.

Among the medium and large firms in the Employee Benefits Surveys, virtually all workers covered by retiree health-care plans were also covered by a pension plan. In 1989, less than 0.5 percent of all participants in health plans that included retiree health provisions were not covered by a pension (in 1988, the proportion was 2 percent). Among the participants in health plans, 40 percent were covered by both pension and retiree health plans; 50 percent were covered by pensions only; and 10 percent were covered by neither type of plan. Statistical examination of the joint coverage rates indicates a significant positive correlation in the incidence of these two types of benefit plans.[19]

A worker's decision to retire from a career job is influenced by a variety of economic, social, health, and personal variables.

Retiree Health Insurance and Retirement Decisions

Simple Models of Retirement Incentives

A worker's decision to retire from a career job is influenced by a variety of economic, social, health, and personal variables. Economic factors include personal wealth at retirement, the availability of employer-provided retirement benefits, Social Security benefits, and the gain from continued employment.

Retiree health-care plans can alter the timing of retirement because of their impact on wealth and on the payoff to continued work. Older workers whose health plan includes retiree coverage are likely to delay retirement until they meet all the eligibility requirements for retiree health insurance. In fact, their incentives to remain on the job increase dramatically as they come closer to attaining eligibility.

Consider the case of a worker participating in a health-care plan that extends coverage to retirees. Assume that this plan requires retirees to be receiving a pension benefit before becoming eligible for retiree health-care coverage. This pension plan has an early-retirement benefit option that is available to workers who have completed thirty years of service at age 55. If a worker retires before meeting these conditions, the retirement benefit can't begin until age 62.

What are the economic incentives facing a worker at age 52 who began working for a firm at age 25? If the worker retires at age 52, pension benefits will not start until age 62, and the worker will have no employer-provided health insurance between the ages of 52 and 62. By working three more years, he or she will be able to retire at 55, begin pension benefits, and continue in the employer's health plan.

Part of the gain from working the three additional years is the value of the health insurance between the ages of 55 and 62. For married older workers in plans that cover spouses, the annual value of health-insurance coverage could be as much as $3,000 to $5,000. Thus, the gain in lifetime wealth associated with meeting the eligibility requirements for retiree health insurance at 55 instead of at 62 would be in excess of $20,000.

Retiree health-care plans associated with defined-contribution retirement plans prompt a similar pattern of retirement decision-making. Workers will tend to delay retirement under the defined-contribution pension plan until they reach the age or years-of-service requirements (or a combination of the two) that make them eligible for retiree health-care benefits.[20]

The strength of the health-plan incentive to delay retirement is a function of the worker's age and level of earnings. As noted, it increases as the worker nears the age of eligibility for the retiree health-care plan. This occurs because the value of the insurance—between ages 55 and 62 in the illustration above—remains constant, but the number of years of work necessary to obtain the payoff progressively decreases. Since the dollar value of health-insurance benefits typically does not vary with the level of earnings, this incentive will tend to be more important to low-wage workers and, therefore, will influence their behavior to a greater extent.[21]

After the worker has qualified for immediate coverage by retiree health insurance, the plan may tend to encourage earlier retirement through a "wealth" effect associated with the value of the promised health-care benefits. Since the retiree's wealth is greater because of the promised benefits, the gain from continuing to work is substantially reduced.

Compare two workers: The first worker is participating in an employer-provided health plan that does not extend benefits to retirees. The second is participating in a health plan with retiree health insurance and has already met all conditions necessary for immediate eligibility for retiree health insurance.

For the uncovered worker, the economic gain from continued employment includes cash earnings plus the value of employer-provided health insurance, and any other benefit provided to employees. Disposable income from working could be compared with that associated with retirement, including the income from the expected pension. But at retirement, this first worker must then provide for his or her health insurance needs out of retirement income.

The effect of retiree health insurance on the timing of retirement is expected to be much greater for workers under age 65.

The second worker is also provided cash income, health insurance, and other benefits by the employer. However, if this worker retires, both pension income and health-insurance coverage are received from the employer. The difference in the value of continued employment is the value of the health insurance. The second worker will be more likely to retire because his or her gain from continued employment is substantially less than the gain from continued employment to the first worker. If the identical health insurance is provided whether the person remains at work or retires, employment compensation declines by the amount of the value of the health insurance. Therefore, the second retiree has greater real income in retirement because of the coverage by the employer-sponsored retiree health plan.

The effect of retiree health insurance on the timing of retirement is expected to be much greater for workers under age 65. Without retiree health insurance, workers retiring before 65 must provide for all their health-care needs. Those 65 and older need only worry about medical expenses in excess of those reimbursed by Medicare. Since payments by employer-provided health insurance plans typically are reduced by Medicare payments, the value to the retiree of the employer-provided insurance is lower after age 65.[22]

Our analysis indicates that retiree health plans tend to discourage job turnover and hence delay retirement up to the time a worker meets the eligibility requirements of the retiree health plan. Employer-sponsored retiree health plans also encourage retirement after workers have achieved this eligibility. The strength of these incentives depends on the extent and nature of the benefits of the health-care plans, including the premiums associated with the plans and the level of the plan deductibles and coinsurance. As noted, it also varies with the age and earnings of the worker. The timing of the switch in the incentives from delaying retirement to encouraging it depends on the eligibility criteria and the parameters of the company pension plans.

Impact on the Timing of Retirement As a further analysis, data from the August 1988 supplement of the Current Population Survey (CPS) of the Census Bureau were examined for information concerning coverage by retirement plans and the impact of these plans on the retirement decision. This survey contained a sample of 11,760 respondents age 55 or older who were retired in 1988.[23] Based on the sample weights, these respondents represented 20.7 million retirees. Because of missing values concerning coverage by retiree health insurance, 134 respondents were deleted from the analysis, leaving a sample of 11,626.[24]

The CPS contains information on many individual characteristics, such as age, marital status, race, sex, and educational attainment. In addition, respondents identify the number of years since they left their last job and give information concerning receipt of benefits from pension and retiree health plans. In the CPS, retiree health coverage includes those participating in plans even if the retiree is required to pay the full cost of the insurance. About a quarter of retirees report that their employer-sponsored health coverage will be terminated at age 65. The survey also contains information on job tenure, company size of last employer, industry of employer, and other relevant worker, firm, and industry characteristics. Unfortunately, the CPS does not contain information on many of the key determinants of the timing of retirement, including preretirement earnings, health status, spouse's retirement status, and level of Social Security and pension benefits.

Our analysis suggests that economic and policy studies of the retirement decision may have overestimated the effect of pensions by ignoring the influence of retiree health insurance.

The CPS data pertain to current retirees who were participating in employer-sponsored retiree health-care plans in 1988. The data indicate that 30 percent of retirees were currently covered by employer-sponsored retiree health plans. Coverage rates were much higher for men (39 percent) than for women (16 percent), for whites (31 percent) than for blacks (22 percent), and for unionized workers (64 percent) than for nonunion workers (41 percent). The pattern of coverage by age suggests that coverage by this employee benefit was increasing during the 1970s and early 1980s. Forty-three percent of retirees 55 to 64 were covered by retiree health-care plans, while only 32 percent of those 65 to 74 and 19 percent of retirees 75 and over were covered.

The pattern of joint coverage by retiree health-care and pension plans was also apparent in the CPS survey of retirees and was confirmed by statistical analysis. Twenty-six percent of the retirees were covered by both a health-care and a pension plan; 16 percent had only pension benefits; 4 percent were only covered by retiree health plans; and 54 percent were not receiving either pension or retiree health benefits.[25]

The influence of retiree health insurance on the timing of retirement was estimated using an ordered probit model with the dependent variable being the length of time spent in retirement.[26] The analysis indicates that relative to retirees with no employer-provided benefit coverage, current retirees with employer-provided benefits retired at older ages. This finding indicates, at least for the retirees in the 1988 CPS, that retiree health-care coverage encouraged older workers to remain on the job until they had qualified for immediate eligibility in the employer-sponsored retiree health plan.

Coverage by employer-sponsored pension plans was also found to have delayed retirement among these retirees. For this analysis, respondents were identified as having (1) retiree health insurance only; (2) pensions only; (3) retiree health insurance and pension coverage; and (4) no retirement benefits. Respondents were sorted into young retirees (55 to 64) and old retirees (65 to 74). The dependent variable indicates the number of years the person has been retired.

For both groups of retirees, coverage by retirement benefit plans tended to delay retirement. For retirees 55 to 64, the influence of retiree health insurance on the timing of retirement was much greater than that of pension coverage. For retirees 65 to 74, the effect of retiree health insurance was somewhat greater than the pension effect. For both age groups, the effect of coverage by both forms of retirement benefits exceeded the effect of coverage by only one of the benefits. Thus, joint coverage by the two retirement benefits (health care and pensions) does more to alter the timing of retirement than coverage by only one of the benefit plans.

These results also support the hypothesis that the influence of retiree health insurance depends on whether the person is eligible for Medicare benefits. The estimated effect of retiree health insurance on retirement timing was greatest among those who retired before 65. Thus, the economic incentives associated with retiree health insurance are greatest for the younger retirees.

Conclusion

Our analysis suggests that economic and policy studies of the retirement decision may have overestimated the effect of pensions by ignoring the influence of retiree health insurance. The retirement incentives associated with retiree health plans can be quite substantial, especially for those considering retirement before age 65. They tend to encourage employees to delay retirement until qualifying for immediate coverage by the retiree health plan and to retire after that.

Thus, ignoring the incentives associated with retiree health insurance may have biased previous studies of retirement decisions and resulted in giving too much weight to the influence of pensions. Data limitations have been the primary reason for omitting retiree health insurance from retirement studies until now. The new Health and Retirement Survey funded by the National Institute on Aging should remedy this problem by providing information both on pensions and on retiree health insurance.[27] Future studies can then directly examine the relative importance of these two types of benefits.

The close economic association between pension and retiree health plans suggests that both types of benefits influence the timing and rate of employee retirements. Public policies and changes in personnel and accounting practices that affect one of these benefits may result in corresponding changes in the other. Employers can use both benefit plans to complement or offset shifts in government policies aimed at altering retirement patterns, as well as to help achieve specific, institutionally related personnel objectives.❑

Endnotes

1 Detailed reviews of the economic and policy literature concerning retiree health plans are provided in Robert L. Clark and Juanita Kreps, "Employer-Provided Health Care Plans for Retirees," *Research on Aging* 11 (1989): 206-24; Michael Morrisey, Gail Jensen, and Stephen Henderlite, "Employer Sponsored Health Insurance for Retired Americans," *Health Affairs* 9 (1990): 57-73; and Mark Warshawsky, *The Uncertain Promise of Retiree Health Benefits* (Washington, D.C.: American Enterprise Institute, 1992).

2 Periodically, the Bureau of Labor Statistics conducts surveys of establishments to ascertain coverage and provisions of employee benefit plans. The surveys are based on nationally representative samples of the designated population. Target populations have included medium and large firms, small firms, and government agencies. The unit of observation is the establishment.

3 Inclusion in a health plan is a benefit to the retiree even if he or she is required to pay the full premium. Premiums in these employer plans will tend to be much lower than what the retiree could purchase as an individual in the open market. The Consolidated Budget Reconciliation Act of 1985 requires that firms offer retirees the option of continuing in an employer's health plan for up to eighteen months and allows the firm to charge the retiree a premium of 102 percent of the cost of the plan. Thus, in a sense, short-term retiree health insurance coverage is mandatory for all who participate in health plans as active workers prior to retirement; however, this mandatory coverage has a time limit and is based on the retiree's paying the full cost of the insurance.

4 The percentages reported in these surveys correspond to the proportion of current participants in health-care plans that offer retiree health insurance. The survey population is all full-time workers. Among these workers, those who are covered by health-care plans are identified. The retiree coverage rates are the proportion of these participants who are in health-care plans that extend coverage to retirees.

5 Tabulations of Current Population Survey (CPS) data collected by the Bureau of the Census as of March 1992 indicate that about one-third of full-time, full-year employees do not have health-insurance coverage under an employer-sponsored health-care plan. See Employee Benefit Research Institute, "Sources of Health Insurance and Characteristics of the Uninsured—Analysis of the March 1992 Current Population Survey," *EBRI Issue Brief*. no. 133 (January 1993): 21.

6 U.S. Department of Labor, Bureau of Labor Statistics, *Employee Benefits in Small Private Establishments, 1990*. bulletin no. 2388 (Washington, D.C.: Government Printing Office, September 1991).

7 U.S. Department of Labor, Bureau of Labor Statistics, *Employee Benefits in State and Local Governments, 1987*, bulletin no. 2309 (Washington, D.C.: Government Printing Office, 1988).

8 For a more detailed discussion of these coverage rates, see Robert L. Clark, Alvin E. Headen, Jr., and Linda Shumaker [Ghent], *Retiree Health Insurance Benefits and the Retirement Decision*. Final Report, Health and Human Services grant no. 90 ASPE 231A (June 1992).

9 A 1992 study of employer-sponsored health-care plans among colleges, universities, and independent schools found that 92 percent of public four-year colleges and universities, 50 percent of private four-year colleges and universities, and 21 percent of independent schools provided health-care coverage for retired employees. See Francis P. King, "Survey of Group Health-Care Plans for Retired Employees of Colleges, Universities, and Independent Schools," *Research Dialogues*, no. 36 (March 1993).

10 This coordination with Medicare places firms at risk from changes in government policy. Reductions in Medicare payments increase employer costs unless benefits to retirees are reduced.

11 See Table 2 for information on the percentage of participants in plans with coverage for retirees 65 and over as compared with the percentage in plans with coverage for retirees younger than 65.

12 The legal status of retiree health benefits is currently being defined in the courts. For private pension plans, the Employee Retirement Income Security Act of 1974 (ERISA), as amended, defines welfare benefit plans, including health-care plans, and imposes certain requirements on them, except for vesting and funding. At present, there is no comprehensive legislation governing the provision of welfare benefits or their funding similar to ERISA for private pensions.

Recently, in response to changing employee demographics, increasing health-care costs, and the recent requirements of the Financial Accounting Standards Board Statement of Financial Accounting Standards, no. 106, many companies have restructured their retiree welfare benefit plans or, in some cases, terminated them. As a result, the level of litigation on retiree health-care coverage issues has increased, and the courts have been determining the nature of the health-care promise. Their determination of the promise depends on written and oral representations that firms have made to their workers.

Generally, if the official plan documents unambiguously reserve the right of the employer to modify or terminate a postretirement welfare benefit plan, this right will be respected by the courts. If the official plan documents are found to be ambiguous, the courts will consider oral representations by the employer, correspondence, etc. In the case of union retirees, the nature of the benefit promise will be based not only on plan documents but also on the terms of a collective bargaining agreement.

See Donald H. Seifman and Mark B. Wychulis, "Changing or Eliminating Retiree Welfare Benefits," *Journal of Pension Planning and Compliance* 18, no. 4 (Winter 1992); Employee Benefit Research Institute, "Retiree Health Benefits: Issues of Structure, Financing, and Coverage," *EBRI Issue Brief*. no. 112 (March 1991); and Warshawsky, *Uncertain Promise*.

13 Data from the 1988 Current Population Survey show that among current retirees in plans where the employer paid at least some of the costs, 56 percent were enrolled in plans where the employer paid all of the costs.

[14] Robert L. Clark and Ann McDermed, *The Choice of Pension Plans in a Changing Regulatory Environment* (Washington, D.C.: American Enterprise Institute, 1990); Olivia Mitchell, "Fringe Benefits and Labor Mobility," *Journal of Human Resources* 17 (1982): 286-98; Steven Allen, Robert L. Clark, and Ann McDermed, "Pensions, Bonding, and Lifetime Jobs," *Journal of Human Resources*, forthcoming (Summer 1993).

[15] For reviews of this literature, see Laurence Kotlikoff and David Wise, *The Wage Carrot and the Pension Stick* (Kalamazoo, Michigan: Upjohn Institute for Employment Research, 1989); and Joseph Quinn, Richard Burkhauser, and Daniel Myers, *Passing the Torch: The Influence of Economic Incentives on Work and Retirement* (Kalamazoo, Michigan: Upjohn Institute for Employment Research, 1990).

[16] Richard Ippolito, "The Labor Contract and True Economic Pension Liabilities," *American Economic Review* (December 1985): 1031-43.

[17] Allen, Clark, and McDermed, *J. Human Resources*.

[18] See Kotlikoff and Wise, *Wage Carrot*.

[19] Robert L. Clark, Alvin E. Headen, Jr., and Linda Shumaker Ghent, "Retiree Health Insurance and Pension Coverage: Variations by Firm Characteristics," unpublished manuscript, North Carolina State University, 1993.

[20] Eligibility provisions for retiree health-care plans reported by educational institutions are described in Francis P. King, *Research Dialogues*, no. 36.

[21] A $20,000 gain in lifetime wealth is likely to have a greater influence on the retirement plans of a worker making $25,000 per year than on the plans of one making $100,000 per year.

[22] It is probably not a coincidence that retiree health-care plans spread throughout the economy during a period when employers were actively encouraging older workers to retire at earlier ages. The value of retiree health insurance very likely played a major role in the decisions of many workers to retire before age 65.

[23] Individuals were considered retired if they said they were retired (or "other") in response to a question regarding their current major activity during the previous week. Other possible answers to this question were: working, have a job but not working, at school, work in the home, unable to work, or looking for a job.

[24] See Clark, Headen, and Shumaker [Ghent], *Retiree Health Insurance Benefits*, for a detailed description of the data and analysis of the CPS.

[25] The CPS has a higher proportion of people not covered by retirement benefits than the EBS. This is primarily a function of the sampling design of the two surveys. The EBS is based on coverage of current full-time workers in medium and large firms. The CPS covers current retirees including those who worked in small firms and those who had irregular work histories.

[26] For a discussion of this statistical procedure, see William Greene, *Econometric Analysis* (New York: Macmillan Publishing Co., 1990).

[27] The Health and Retirement Survey is a nationally representative survey of people in their final working years. The survey is designed to be a continuing longitudinal survey that tracks them as they move from work into retirement. Detailed socioeconomic and health information will be obtained from the respondents and their spouses. In particular, the survey will gather information on pension coverage and plan characteristics along with participation in retiree health insurance plans.