

# WORKING PAPER

## *Executive Summary*

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## SPOUSAL LABOR MARKET EFFECTS FROM GOVERNMENT HEALTH INSURANCE: EVIDENCE FROM A VETERANS AFFAIRS EXPANSION

BY MELISSA A. BOYLE AND JOANNA N. LAHEY

Increasing the labor force participation of older workers is vital to mitigating demographic pressures on government programs such as Social Security. At the same time, the move toward universal health insurance coverage will affect this labor force participation, potentially in the opposite direction. Although both theory and empirical evidence suggest that government expansion of health insurance to older workers decreases the labor supply of workers nearing retirement, there may be positive or negative spillover effects on the labor supply of spouses who are not covered by the programs, generally the younger spouse, or the wife. With the increasing labor force participation of women, these spillovers have the potential to have a sizeable impact on the economy and government programs.

This paper measures the complete effect of publicly provided health insurance on family labor supply and explores the complementarity of spousal retirement decisions. A husband's public insurance eligibility may increase the wife's likelihood of retirement either because the insurance is a positive income shock to the family, or because couples receive additional utility from joint retirement (e.g. Blau 1998, Coile 2004; Hurd 1990). However, wives may be less likely to retire, or may even enter the labor force, if they need to provide their own health insurance coverage or meet a target family income. Previous literature on the joint retirement decision has either been unable to control for positive selection of mates, studies the effect of insurance that covers the entire family, or has been focused on structural estimation, dynamic programming, or exogenous financial incentives (e.g. Abraham and Royalty 2006, Buchmueller and Valletta 1999, Kapinos 2009, Murasko 2008, Olson 1998).

We utilize variation in non-employer-provided health care coverage arising from a mid-1990s expansion in the VA health care system. In 1996, the U.S. government began an overhaul of VA health care, shifting from an emphasis on hospital-based specialty services to a focus on primary care and preventive medicine (Klein & Stockford 2001). This expansion changed the VA program in two ways. First, VA began offering health care to all veterans, rather than limiting care to those with service-related injuries or low incomes. Second, it moved from offering limited hospital-based services to providing a comprehensive menu of benefits, including primary and preventive care. As a result, many veterans gained access to a previously unavailable health care option that was a good substitute for employer-provided health insurance. This benefit was generally not extended to veterans' spouses or other family members, however, which enables us to test the impact on labor supply when one spouse becomes eligible for a public program for which the other is ineligible. Using data from the *Current Population Survey* (CPS) and the

*Health and Retirement Study (HRS)*, we employ a difference-in-differences strategy to compare the labor market behavior of the wives of older veterans and non-veterans before and after the VA health benefits expansion to test the impact of public health insurance on these spouses. This experiment models the potential impact on women's labor supply if the husband reaches the age of Medicare eligibility earlier than his wife. Because wives in these cohorts are generally younger than their husbands, a husband's acquisition of VA coverage creates a situation analogous to a household in which the husband reaches the age of Medicare eligibility before his wife does.

Our findings suggest that although household labor supply may decrease because of the income effect, the more flexible labor supply of wives allows the wife's labor supply to increase. This effect appears to dominate the propensity for a wife to retire at the same time as her husband. This outcome is stronger for wives with a high school education or less who are more likely than more educated women to seek occupations with flexible work hours. When husbands obtain health insurance independent of their jobs, wives with lower levels of education are more likely to enter the labor force. Although women with more education do not significantly increase their propensity to work on the extensive margin, they increase their earnings and hours worked, suggesting an increase on the intensive margin.

Although all women, on average, increase their full-time work and their labor force participation, women who were not working in the previous year are more likely to enter the labor force to participate in part-time work or self-employment. Women who worked part-time in the previous year are more likely to increase their hours to full-time work. Women who previously worked full-time do not seem to be as affected by their husband's access to publicly provided health insurance. These results suggest that women in "career" jobs either cannot or will not adjust their own work behavior compared to women in more flexible employment.

We also find that wives with lower total wealth are six times more likely to enter the labor force and to work more hours compared to those with high total wealth. Similarly, among those currently working, when the wife's job offers a pension, she works more hours upon the program change compared to when the wife's job does not offer a pension. On the other hand, the increase in work hours is larger for wives whose husbands do not have pensions than for those whose working husbands do have access to a pension.

We hypothesize that these changes occur because, as found in Boyle and Lahey (2010), when older men obtain public health insurance, they reduce their labor supply and are thus less likely to provide employer-based insurance to their families. Thus, in order to reach a target income, to provide family health insurance or to self-insure medical expenses, wives, particularly those with lower education levels, increase their labor supply. We do not find any evidence of work reductions based on complementarity of spousal leisure. These results differ from the results on retiree health insurance or COBRA, which found a joint retirement effect for these insurances. However, the policy change is also different than that of coverage that includes the entire family rather than one member. Although men's labor force participation decreases as a result of increased public health insurance coverage, some of this decrease in participation is offset by an increase in the labor force participation of their wives.

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CENTER FOR RETIREMENT RESEARCH AT BOSTON COLLEGE

Hovey House, 140 Commonwealth Avenue, Chestnut Hill, MA 02467-3808

phone 617.552.1762 fax 617.552.0191 [crr@bc.edu](mailto:crr@bc.edu) [crr.bc.edu](http://crr.bc.edu)