

**Employee Benefits and Two-Earner Households**

**A Research Prospectus**

**Michael A. Morrissey, Ph.D.  
Lister Hill Center for Health Policy  
University of Alabama at Birmingham**

**Constantijn (Stan) Panis, Ph.D.  
RAND Corporation**

**For the**

**U.S. Department of Labor  
Employee Benefits Security Administration**

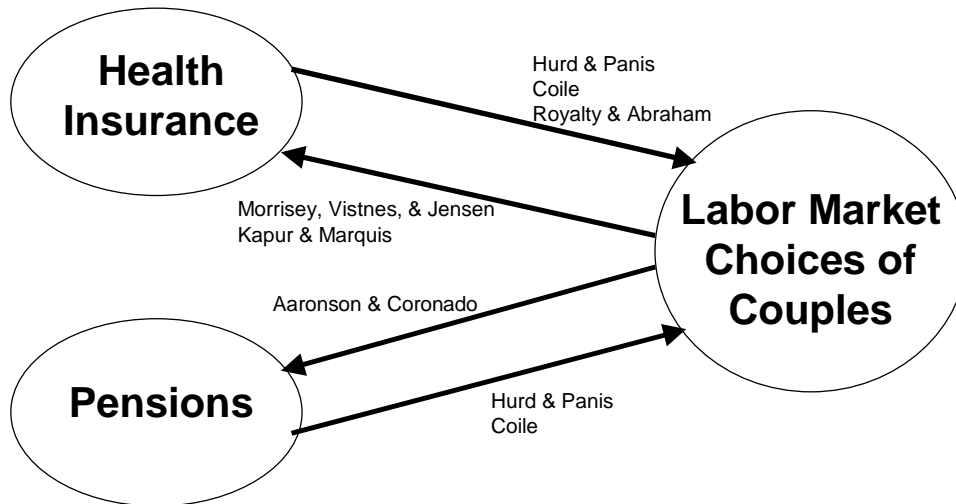
**One-Day Conference on  
May 7, 2004  
Hotel Washington, Washington, DC**

# EMPLOYEE BENEFITS AND TWO-EARNER HOUSEHOLDS

## Introduction

A defining feature of U.S. labor markets in the 20<sup>th</sup> century was the dramatic increase in the labor force participation of married women, from 6 percent in 1900 to 61 percent a century later.<sup>1</sup> Dual-earner couples have become the norm, with important implications for the demand of such employer-provided benefits as health insurance and pension plan coverage. For example, workers may opt out of their company's health insurance plan, instead choosing coverage through their spouse's employment. At the same time, the structure of employee benefit offerings may have important implications for labor market choices of married couples. For example, access to spousal health and pension benefits lowers the barriers to self-employment.

This conference on *Employee Benefits and Two-Earner Households*, supported by the U.S. Department of Labor's Employee Benefits Security Administration (EBSA), explores the interactions between labor market choices of married couples and the structure of employer-provided benefits. The conference will feature six presentations of original research that was sponsored by EBSA but carried out by scholars outside the Department of Labor.



### The Conference Highlights the Interaction Between Employer-Provided Benefits and Labor Market Choices of Couples

Three presentations focus on the effects of employer-provided benefits on couples' employment choices, whereas three other presentations are concerned with the implications of dual-earnership for health and pension plan design and choices. In addition, Linda Waite from the University of Chicago will frame the issues in the broader context of the interrelationships between marriage and the labor market, and Ann L.

<sup>1</sup> Claudia Goldin, *Understanding the Gender Gap: An Economic History of American Women*, New York: Oxford University Press, 1990; U.S. Bureau of the Census, *Statistical Abstract of the U.S.*, Washington, D.C., 2002.

Combs, Assistant Secretary of the Employee Benefits and Security Administration, will discuss the policy context of the presentations.

### **Labor Market Choices of Married Couples**

Employer-provided benefits are an essential part of workers' total compensation package. Once known as "fringe" benefits, their costs to employers and value to employees are now often quite substantial. The main employer benefits are health insurance and pensions. It is well known that health insurance and pension plans affect many dimensions of worker choices: part-time vs. full-time work, self-employment vs. traditional employment, retirement age, etc. Moreover, employer-provided benefits affect not just the worker, but also his or her spouse. Many benefits cover the worker's spouse, in some cases explicitly as in the case of family health insurance coverage, but in some cases only implicitly as in the case of a worker's pension that provides income to the entire household upon retirement. These employer-provided benefits contain incentives for spousal labor force participation that the economics literature is only just beginning to explore.

The morning session of the conference is devoted to health insurance and pension benefits as determinants of joint spousal decision-making regarding labor market participation.

*Constantijn (Stan) Panis* and *Michael Hurd* study retirement behavior of married couples toward the end of their careers. Because of sharply increased female labor force participation and the imminent retirement of "baby boomers," an unprecedented number of married couples is approaching retirement. Husbands and wives are known to often retire around the same time. Potential explanations are leisure time enjoyed more when spent with the partner than alone, the need to care for a disabled spouse, shared financial resources, and similar preferences because of assortative mating. When deciding on when to retire, workers take not just their own pension characteristics into account, but also those of their spouse. Access to health insurance through the (former) employer of one's spouse also may play an important role in retirement decisions. Panis and Hurd develop a new theoretical model of couples' retirement patterns and empirically estimate it on 1992-2002 Health and Retirement Study (HRS) data. The results have implications for the costs and effectiveness of incentives in employer-provided benefits.

*Courtney Coile* explores the effects of such negative health shocks as a heart attack, onset of chronic illness, or accidental injury on the labor supply of both the affected person and his or her partner. Workers in their 50s and 60s are at high risk of experiencing a negative health shock, often resulting in a diminished capacity to work. The responses are determined by both the severity of the health shock and by access to pensions and retiree health insurance. While the implications for own work effort are poorly understood, the effects on spousal work have received even less attention. These effects are ambiguous. The healthy spouse may increase labor supply to make up for lost income or to obtain health insurance for the family.

Alternatively, the healthy spouse may decrease labor supply to care for the ailing spouse. Coile examines these relationships using the 1992-2002 HRS. Spousal choices have important implications for financial wellbeing and for the effective role of public and private disability insurance.

*Anne Royalty and Jean Abraham* analyze the effects of health insurance on a host of labor market choices by couples. Employer-group health insurance is generally much less costly than privately obtained insurance and enjoys a tax advantage; however, some employers do not offer health insurance. Workers in part-time jobs and in small companies are much less likely to be offered health insurance, so that health insurance provision create incentives to work full-time in larger establishments. Royalty and Abraham study the implications of access to health insurance through a spouse on own and spousal labor force participation, part-time vs. full-time work, self-employment, and willingness to work for a smaller firm. These relationships are tested using the Household Component of the 1996-98 Medical Expenditure Panel Survey (MEPS). The results have implications for assessing the complex functioning of the employer-sponsored health insurance market and the potential roles of insurance tax credits, insurance purchasing alliances, and continuation-of-coverage mandates for separating employees.

### **Implications of Dual-Earner Families for Employer-Provided Benefits**

Among other advantages, marriage provides a form of informal insurance against income fluctuations. Loss of income due to, say, unemployment or disability may be attenuated by compensatory work effort by the spouse. The insurance offered by marriage thus permits spouses to accept greater income uncertainty, such as in a new job or in self-employment. Within geographic area, the greater job mobility of the two-earner family also has important implications for the types of employer-provided benefits that workers find attractive. For example, defined benefit pension plans penalize job mobility and therefore may be considered less attractive than defined contribution or cash balance plans. The prevalence of dual-earner families may also give employers incentives to change the relative out-of-pocket premiums of individual vs. family health insurance coverage. Dual-earner couples face decisions on which spouse, if either, provides coverage for the other and the children.

The afternoon session of the conference is devoted to the implications of households with two workers for the design of and the demand for employer-provided benefits.

*Stephanie Aaronson and Julia Lynn Coronado* analyze the shift from defined benefit pension plans to defined contribution and cash balance plans over the past several decades. The changing household structure of workers provides one potential set of explanations. The greater job mobility of dual-earner couples implies an advantage to such portable plans as defined contribution and cash balance plans. The informal insurance against income fluctuations extends to retirement income, so that the greater investment risks of defined contribution plans are more easily managed. Aaronson and Coronado also consider macroeconomic explanations. Shifts in the

relative sizes of industries imply shifts in the returns to firm-specific human capital and general human capital. This has implications for the role of pensions as an instrument to retain workers and to encourage or discourage early retirement. These alternative explanations for the shift in pension plan offerings are examined using the Current Population Survey (CPS) and the Survey of Income and Program Participation (SIPP).

*Michael Morrissey, Jessica Vistnes, and Gail Jensen* map out employer choices of cost-sharing of health insurance premiums for family coverage. The increasing prevalence of dual-earner families has changed the incentives facing employers regarding family insurance coverage. Notably, some argue that employers compete to not be the provider of family coverage when both spouses are employed. Morrissey, Vistnes, and Jensen describe how employee contributions for family coverage have varied over time, across categories of establishments, and across health insurance plan types. They attempt to attribute the changes to work force characteristics (proportion female or part-time), healthcare costs, local labor market conditions (proportion dual-earner households, female labor force participation), and firm size. These relationships are estimated using the Insurance Component of the 1997-2001 MEPS. The findings offer insight into the future of family coverage in employer-sponsored health plans.

*Kanika Kapur and M. Susan Marquis* consider family health insurance from the perspective of workers. Their study investigates which working spouse provides health insurance for the family in cases where both spouses are offered health insurance. At issue is coverage for the worker, his or her spouse, and their children. If the cost of health insurance is not fully discounted in wages, workers have incentives to exploit cross-subsidies. A number of families choose double coverage, which may increase the range of covered benefits and reduce the cost-sharing requirements they would face under single coverage. Kapur and Marquis examine the effects of household characteristics, family health, out-of-pocket premiums, and benefits on family health insurance coverage. Their empirical analysis relies on the 1997-2001 CPS and the 1997 Robert Wood Johnson Foundation (RWJF) Employer Health Insurance Survey. The findings have implications for how changing employer benefits and contribution policies will affect future private health insurance coverage for families.