



The role of health insurance in labor supply decisions of divorced females

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ABSTRACT

Labor economics literature provides evidence that marital dissolution induces an increase in labor supply of females. This paper explores an explanation for this finding: Marital separation might place wives at risk of losing health insurance or increase the need for expanded health coverage. Thus, wives must increase their labor supply in order to qualify for health benefits. Using data from the National Longitudinal Survey of Youth, results confirm that marital dissolution is associated with increased female labor supply. However, this effect is mostly concentrated among women who were not previously enrolled in their husbands' health insurance plans. For wives who were dependent on their husbands for coverage, continuing coverage laws appear to mitigate the effect of marital dissolution on female labor supply.

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1. Introduction

Labor economics literature provides evidence that impending marital dissolution induces an increase in labor supply of females (Austen, 2004; Johnson & Skinner, 1986). The usual explanation is that wives increase their work activity to protect themselves from potential income loss associated with marital separation. This paper explores an additional explanation not discussed in the literature: Impending separation might place wives at risk of losing health insurance or increase the need for expanded health coverage, leading to an increase in labor supply. A separate strand of health economics research finds that, in general, female labor supply depends on spousal insurance arrangements (Bradley, Neumark, Luo, & Bednarek, 2005; Buchmueller & Valetta, 1999; Olson, 1998). However, absent from the literature is a study of how marital dissolution and spousal insurance arrangements interact to affect female labor supply.

The principal hypothesis tested in this paper is that wives who do not want or need insurance might have smaller, or nonexistent, labor supply responses in the event of marital separation. Consequently, health insurance might play an important role in employment decisions of divorced females. This topic has important policy implications, particularly given the close tie between

employment and health coverage in the United States. If marital dissolution and spousal insurance patterns affect labor supply, then policy makers might adjust unemployment insurance and income redistribution programs for separating spouses according to their insurance status (Mueller, 2005). Indeed, the Consolidated Omnibus Reconciliation Act of 1985 (COBRA) was enacted, in part, because of concerns that marital separation puts females at risk of losing insurance. In addition, family courts might consider labor supply effects and insurance arrangements when deciding divorce settlements, and employers might offer flexible working arrangements and insurance benefits to recently divorced employees.

Estimating the combined effects of marital dissolution and spousal insurance arrangements on female labor supply is complicated by the presence of unobserved heterogeneity that affects both marital stability and female labor supply. Moreover, the direction of causality might be reversed, as female employment activity might affect marital stability (Johnson & Skinner, 1986). To resolve these complications, this paper employs several different estimation procedures using data from the National Longitudinal Survey of Youth. Results are consistent with Johnson and Skinner (1986) and Austen (2004) in suggesting that marital dissolution is associated with increased female labor supply. However, results also indicate that this effect is concentrated among women who were not previously enrolled in their husbands' health insurance plans. For women who were dependent on their husbands for coverage, continuing coverage laws appear to mitigate the effect of marital disruption on female labor supply. This result implies that health

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Table 1
Labor supply by marital and insurance status.

	1994—Everyone married	Post-1994—Divorced with spousal insurance	Post-1994—Divorced without spousal insurance
Employed	0.80	0.80	0.86
Hours per week	29.62	30.34	35.53

insurance is an important part of the link between marital dissolution and labor supply of females.

2. Background and theory

Although economists recognize that spouses' labor supply decisions are likely determined jointly, there is little consensus as to an appropriate paradigm of family labor supply (Lundberg, 1988). One theory holds that a husband and wife share a joint utility function, which depends on employment and income. Models based on joint utility are restrictive, however, as they treat each spouse's wage only as an adjustment to income, and each spouse's labor supply must respond symmetrically to changes in the other spouse's wage. Household bargaining models generalize the joint utility framework by relaxing some of these restrictions (McElroy & Horney, 1981). The model estimated in this paper is a special version of a bargaining model, which represents an approximation to the case in which changes in wives' hours are marginal substitutions of market income for home production (see Lundberg, 1988).

Theoretical links between marital separation and labor supply have roots in Becker's (1981) model of intra-marriage specialization. If, for example, the wife has a comparative advantage in home-based activity while the husband has an advantage in market-based work, then each spouse will specialize according to his or her respective advantage. This implies that loss of specialization due to divorce will drive each spouse to his or her non-specialized activity. Thus, if a wife has an advantage in home-based activity, then divorce will force her into market-based work.

Theoretically, the direction of the impact of divorce on female labor supply is ambiguous. On one hand, the loss of a husband's contribution to household income might induce the wife to enter the workforce or increase her hours of work to offset his lost income. On the other hand, child care requirements for a single mother might reduce her work activity. In one of the earliest, and still most widely cited, papers linking divorce and labor supply, Johnson and Skinner (1986) show that a female's marginal utility of market-based income depends on her marital status. Their model highlights that in the event of divorce (or impending divorce), both income effects and the loss of intra-marriage specialization result in an increase in her labor supply as she seeks to replace her husband's lost earnings. They provide empirical evidence to support this theory: Based on Panel Study of Income Dynamics data, divorce is associated with a 20 percentage point increase in the probability of female labor force participation (from 0.68 to 0.88). Most of this change occurs between two years before and two years after divorce. They further show that increasing divorce rates between 1960 and 1980 account for approximately 40 percent of the increase in female labor force participation during that period. These conclusions have remained largely unchallenged, and have been replicated (Austen, 2004).¹

Of particular importance to this paper are the income effects associated with divorce. If the wife's nonwage income decreases due to divorce, then the income effect dictates that she increases

her labor supply (Mueller, 2005). One example of nonwage income is access to health benefits. For a married female who is not covered by insurance, access to her husband's income reduces the burden of medical expenses for her and her children. On the other hand, if she is covered under her own plan, access to her husband's income might allow her to purchase a less generous plan for herself, as her husband's income can be used to defray out-of-pocket expenses and child health care costs. In contrast, divorce potentially eliminates or reduces a wife's access to her husband's income. The implication is that whether a wife is insured or not, divorce might induce her to increase her labor supply in order to acquire coverage or improve upon her existing coverage.

In contrast, a wife enrolled as a dependent in her husband's plan might have a smaller, or nonexistent, short-term labor supply response to divorce. This is partly due to the Consolidated Omnibus Reconciliation Act of 1985 (COBRA), which aimed in part to protect wives and children who experience marital separation. A section of the law states that the spouse and children of a policy holder are eligible to continue purchasing group coverage for up to 36 months in the event of death, divorce, legal separation, or Medicare eligibility of the covered spouse. Individuals who qualify for this coverage enroll for an average of 22.9 months (Madrian, 1998). The implication is that divorce does not immediately terminate a wife's or her children's access to the husband's health insurance. Wives might continue to be enrolled in their husbands' employer-provided plans up to three years after marital dissolution.

3. Estimation sample

Data are drawn from the 1979 National Longitudinal Survey of Youth (NLSY), which originally consisted of 12,686 individuals who were between ages 14 and 21 in 1979. This cohort has been interviewed annually since 1979 (biennially since 1994). In 2002, 8033 individuals remained in the survey. The survey contains detailed information about labor market attachment, employment traits, demographic characteristics, and, beginning in the early 1990s, limited information about health insurance coverage. Previous research has documented the potential endogeneity of divorce (or impending divorce) with respect to female labor market behavior. The principal advantage of longitudinal data for the present application is that endogeneity of divorce can be partially taken into account.

The estimation sample is drawn from the 1994, 1996, 1998, 2000, 2002, and 2004 waves of the survey. The sample includes only women who were married in 1994 and observed in subsequent surveys. The final sample size consists of 2539 females, approximately 23 percent of whom experience divorce after 1994, and 15,234 person/year observations. In the present study, females who are legally separated from their spouses are considered divorced, as these females are also eligible for COBRA benefits.² This study considers two separate measures of labor supply: (1) whether the

¹ Related studies investigate labor supply consequences of changes in divorce legislation deemed favorable to females (Chiappori, Fortin, & Lacroix, 2002; Gray, 1998).

² A small number of women who became widowed are excluded from the sample. Women who divorce and then cohabitate with another partner are still considered to be divorced. Approximately 2 percent of divorcees remarry during the years under consideration. These observations are included in estimates presented below, although excluding them did not change the results.

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