



# Short-run effects of job loss on health conditions, health insurance, and health care utilization



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## ABSTRACT

Job loss in the United States is associated with reductions in income and long-term increases in mortality rates. This paper examines the short-run changes in health, health care access, and health care utilization after job loss that lead to these long-term effects. Using a sample with more than 10,000 individual job losses and longitudinal data on a wide variety of health-related outcomes, we show that job loss results in worse self-reported health, activity limitations, and worse mental health, but is not associated with statistically significant increases in a variety of specific chronic conditions. Among the full sample of workers, we see reductions in insurance coverage, but little evidence of reductions in health care utilization after job loss. Among the subset of displaced workers with chronic conditions and those for whom the lost job was their primary source of insurance we do see reductions in doctor's visits and prescription drug usage.

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Over the course of the Great Recession more than eight million Americans lost their jobs. A growing body of research in economics points to adverse and long-lasting consequences of worker displacement. These include significant decreases in lifetime earnings, reduced job stability, increased likelihood of divorce, lower fertility, and negative impacts on health, education, and labor market outcomes for the children of the displaced.<sup>1</sup> A particularly grim addition to this literature is the finding that job loss results in sharply increased mortality for US workers. Sullivan and Von Wachter (2009) estimate that displacement is associated with a 10–15% increase in a worker's annual death hazard—an implied loss in life expectancy of 1–1.5 years for an individual displaced at age 40.

Despite the dramatic magnitude of the mortality effects of job loss in Sullivan and von Wachter's study, little is known about why

job loss leads to increased mortality. Many potential pathways exist, including reduced income and access to health insurance, reductions in continuity of care due to changes in insurance coverage or geographic mobility, increased prices of health care as a result of insurance loss or changes, and the substantial stress associated with reduced and variable earnings following job displacement. Persuasively identifying how job loss leads to reduced health is made difficult by the fact that poor health may lead to selection for displacement, or to difficulty becoming re-employed, both of which can raise doubts about causality in cross-sectional comparisons, even with large sample sizes and many control variables. These factors make it critical to utilize methods—often based on longitudinal data—that can more clearly establish the direction of causality between job loss and health outcomes. The multiple potential pathways by which job loss may affect health also make it important to consider a variety of outcomes, including health conditions, utilization of medical care, and insurance coverage, in the same study and estimation framework.

This paper combines short panels from the Medical Expenditure Panel Survey (MEPS) covering the years 1996 through 2012 to study the effects of job loss on health conditions, health insurance coverage, and health care utilization and expenditures. The MEPS

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<sup>1</sup> See, among others, Ruhm (1991), Jacobson et al. (1993), Stevens (1997), Charles and Stephens (2004), Lindo (2010), Lindo (2011), Stevens and Schaller (2011), Oreopoulos et al. (2006).

is uniquely suited for analysis of the health effects of displacement and allows us to improve on existing research in two ways. First, by combining many panels of the MEPS data we generate larger sample sizes of displaced workers than are typically available from non-administrative data, with over 10,000 involuntary job losses. This allows us to estimate models that more convincingly isolate the causal impact of job loss on health outcomes without concerns about statistical power. At the same time, because the MEPS contains detailed longitudinal information on a variety of health outcomes, health insurance coverage and its source, and detailed (self-) reports of expenditures on and utilization of health care, we are able to gain a broader understanding of the health effects of job loss and explore potential mechanisms behind our main effects.

Using models that include individual fixed effects and baseline health measures interacted with trends, we find that involuntary job loss is associated with a significant decline in self-reported mental health and increases in depression and anxiety. We also find that job loss results in a significant decline in self-reported physical health and increases in limitations on work and recreational activities. However, we find no significant effects of displacement on the incidence of diabetes, arthritis, hypertension, heart disease or high cholesterol within the first two years following job loss. Moreover, we find no evidence of increases in the incidence of trauma following displacement and we find that job loss results in significant reductions in the incidence of infectious disease.<sup>2</sup>

Turning to estimates of the effects of displacement on insurance status and health care utilization, we find that job loss is associated with a 17 percentage point increase in the probability of experiencing a spell without health insurance in the current interview round and a 13 percentage point decrease in the probability of being covered by any health insurance at the time of the next interview. The effects of job loss on health care utilization and expenditures are small for the sample as a whole, but we do find that job loss negatively impacts utilization among the sample of workers who held insurance through their employer prior to the job loss. Focusing on this group, we find no evidence that greater incidence of insurance loss leads to larger negative effects on health or mental health conditions in the short-run. When we limit our sample to people with existing chronic conditions prior to job loss, we find larger reductions in health care utilization, including prescription drug use, and larger increases in activity limitations and depression and anxiety following displacement. This suggests that some chronic conditions may become worse after displacement as people forgo medical care.

Overall, our results suggest that involuntary job loss has negative effects on the health of displaced workers in the short run, with significant effects on mental health, activity limitations, and self-reported health status. However, these effects are not accompanied by immediate increases in common chronic medical conditions or increases in traumatic injury or infectious illness. We also find that loss of insurance following displacement seems to drive reductions in health care utilization, but does not seem to result in more pronounced negative effects on self-reported health or mental health problems.

Our results are consistent with several possible mechanisms that could lead to long-term increases in mortality. First, we show reduced utilization of health care and prescription drugs, particularly among those losing insurance coverage. This could lead, ultimately, to increases in undiagnosed and untreated chronic diseases, such as hypertension or heart disease. Of course, it will

remain difficult to show this directly given that this mechanism relies on undiagnosed conditions. Second, increased stress and anxiety following job loss, for which we find very strong evidence, may ultimately lead to deterioration in physical health. Finally, we show that those with chronic conditions do seem to reduce their use of medical care following job loss, and so it may not be the onset of new conditions, but rather, less careful management and treatment of them, that could lead to long-term mortality effects.

## 1. Related literature

The background for this study and many other recent studies comes from early work that establishes the large and permanent effects of job loss on earnings (Jacobson et al., 1993; Couch and Placzek, 2010) and, more recently, the large effects of job loss on mortality. Specifically, Sullivan and Von Wachter (2009) show that displaced workers are 10–15% more likely to die in the two decades following job loss.<sup>3</sup> These results are concentrated among workers losing jobs before age 50, with older displaced workers facing much smaller mortality effects in the aftermath of job loss. Sullivan and von Wachter also show that the extent of the mortality effects seem to be correlated with the size of earnings losses and the volatility of earnings after job loss. Unfortunately, the administrative data utilized by Sullivan and von Wachter do not contain any information on the cause of death, or the types of underlying health changes that could lead to increased mortality.

These findings have sparked several recent investigations into short- and medium-run health changes that result from displacement. Findings using data from the United States (where evidence on negative earnings and mortality effects from job loss is strongest) produce mixed results. Salm (2009) uses the Health and Retirement Study (HRS) and a sample of workers ages 50 and over and finds little evidence of negative effects of job loss on mental or physical health outcomes. This lack of effect for older workers (average age in Salm's sample is 55 years) is consistent with the work by Sullivan and Von Wachter (2009) who argue that older workers may be close enough to eligibility for retirement benefits that the earnings losses and uncertainty that follow displacement are mitigated and with them, many of the negative health effects. Salm also has a relatively small sample (around 370) of displaced workers (defined as those losing jobs due to firm closings) and includes only two observations per worker—one pre- and one post-displacement. Other work using the HRS (Gallo et al., 2000, for example) faces similar sample size and age limitations.

Using data from the Panel Study of Income Dynamics, Strully (2009) finds that job loss is associated with a higher likelihood of self-reported fair or poor health and increased onset of new health conditions. Her sample includes a broader set of ages, but includes only 200 workers losing jobs due to a firm closing. She finds some evidence of negative effects on self-reported health and increases in the onset of new conditions after job loss. These results include controls for baseline health reports, but look only at a single point in time after the job loss.

Several studies have utilized large administrative data sets from European countries that contain large numbers of displaced workers, but typically lack repeated, longitudinal measures of health outcomes or other health measures. Black et al. (2012), for example, have longitudinal data on earnings and employment for all of Norway, but observe health outcomes for individuals only at a single point in time. They use a rich set of individual characteristics to control for differences between displaced and not-displaced individuals, but are unable to control for individual fixed-effects

<sup>2</sup> The reduction in infectious disease is consistent with the findings of Schaller and Zerpa (2015), who use MEPS data to look at the effects of parental job loss on child health and also find reductions in infectious disease among children following displacement.

<sup>3</sup> Smaller mortality effects have been found using European administrative data (Rege et al., 2009; Eliason and Storrie, 2009; Browning and Heinesen, 2012).

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