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The Affordable Care Act as Retiree Health Insurance: Implications for Retirement and Social Security Claiming

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The Affordable Care Act (ACA) was passed in 2010. Among its other aims, it increases the availability of health insurance for those who did not have coverage from their employer, and subsidizes that insurance.

There has been concern about potential side effects of ACA, with an important focus on whether ACA reduces employment. The ACA's effect on retirement is one dimension of that question. If ACA accelerates retirement, this side effect might undermine decades of public policies designed to increase the retirement age.

The current literature is contradictory concerning the retirement effects of ACA. On the one hand, the literature suggests that firm-provided retiree health insurance accelerates retirement before age 65. This finding implies ACA may accelerate retirements since it provides health insurance to those individuals who retire before age 65, who would not otherwise be covered until they became eligible for Medicare. On the other hand, recent research (Levy, Buchmueller and Nikpay, 2015) has detected only a minimal effect of ACA on retirement.

This paper focuses on the question of whether ACA encourages earlier retirement. Our aim is to bridge the contradictory findings between the retiree health literature and the recent analysis of the retirement effects of ACA.

We focus on three major groups of employed individuals, categorized by their employer-provided health insurance coverage before the adoption of ACA. A first group consists of individuals with employer-provided health insurance when working, but not in retirement. ACA potentially creates a large change in the incentive to retire for members of this group. Two other groups, those whose employers provide health insurance both on the job and in retirement and those with no employer provided health insurance either at work or when retired, would not be subject to a large change in their marginal incentive to retire.

Our analysis is based on data from the Health and Retirement Study (HRS). After exploring descriptive data, we conduct a difference-in-difference analysis of the actual effects of ACA on retirement in the short term.

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This analysis uses data from the HRS Mid Boomer cohort (born 1954 to 1959) to calculate the differences in retirement outcomes between 2010 and 2014 for those whose retirement incentives are modified by ACA and those whose marginal incentives are not affected by ACA. These differences are then compared to analogous changes experienced by members of an older cohort (Early Boomers, born from 1948 to 1953) during a period when ACA did not affect incentives.

In view of the possibility that it is too early to find effects of ACA on actual retirements, our second step is to extend the time period for measuring retirement. We do this with difference-in-difference analysis of changes in respondent reports of their expected retirement and Social Security claiming dates.

We then use a previously estimated structural model of retirement to analyze the potential effects of ACA over an even longer period. We update the model and use it to simulate the full adjustments in retirement that might be observed for those who entered the labor market with ACA already in place, as well as for a short and intermediate term period relevant to those who were older when ACA was adopted.

Simulations suggest that the group subject to the largest marginal effect on their retirement incentives from the Affordable Care Act — those who initially had health insurance at work but not in retirement — will increase their retirement as a result of passage of ACA. But the reduction in work effort is quite modest, amounting to an increase of half a percentage point in the percent retired. These simulations also suggest that the period of adjustment to a change in the law will be relatively short.

Whatever the longer-run effects of ACA on retirement, these effects are not visible in retirement data through 2014. We find no statistically significant evidence in HRS panel data that respondents who initially had health insurance at work, but not in retirement, have begun to retire early as a result of ACA. Nor is there evidence of changes in expected retirement dates and dates of claiming Social Security as a result of adoption of ACA.

Too short a time may have passed to observe the effects of ACA on retirement to date. But our structural model also suggests that even after the adjustment period is completed, any effects of ACA on retirement outcomes will be quite small.

REFERENCE

Levy, Helen, Thomas Buchmueller and Sayeh Nikpay. 2015. "The Effect of Health Reform on Retirement." Michigan Retirement Research Center, *Working Paper 2015-329*.

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