

# THE SOCIAL SECURITY EARLY RETIREMENT BENEFIT AS SAFETY NET

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## Introduction

As the baby boom generation begins to retire and fiscal pressures from entitlement programs become more acute, evidence of improving health and increasing life expectancy in these cohorts has led many to suggest taking advantage of improved work capacity among older adults by increasing age requirements for the Social Security and Medicare programs. Currently, however, more than half of workers start receiving Social Security benefits before they reach full retirement age, and many of those who do are in relatively poor health. Data from the 1990 Census show that roughly one-half of men and one-third of women out of the workforce at age 62 identify themselves as having a health condition that limits their ability to work (Bound et al., 2000). While the health of the average 62 year old may well have improved, policies that reduce availability of benefits (e.g., raising the early retirement age), or reduce their value (raising the full retirement age, thereby reducing monthly benefits for early retirees) will affect both the healthy and unhealthy alike. The purpose of this paper is to systematically investigate the extent to which the availability of early Social Security benefits provides a safety net for those in poor health, who are either not in poor enough health to be eligible for disability benefits or who, for whatever reason, did not apply for them.

The estimation strategy compares the distributions of observable characteristics between those who receive such benefits and those who do not. The larger the degree of overlap in these distributions, the larger the fraction of non-recipients who might be eligible. One important policy implication of this estimate is that a larger potentially eligible pool among non-recipients would reduce the desired labor force participation response to an increase in eligibility age. A further implication of finding a large amount of overlap in these distributions is that an increased eligibility age for retirement benefits could induce an increased rate of application for DI benefits.

## Analysis and Discussion

Some analysts have used evidence of improving functional health of the elderly and near-elderly to support proposals to raise the full (and early) retirement ages for Social Security (Liebman et al., 2005; Mermin and Steuerle, 2006). The group most likely to be adversely affected by such a change are those who use early retirement as a safety net when declining health compromises their ability to work. In order to more fully evaluate this policy option, it is necessary to estimate the size of this group. If a substantial portion of early retirees look very much like those who qualified for DI/SSI, there is likely to be an increase in DI/SSI applications, as the most disabled early retirees seek to replace lost income. The larger this group, the larger the welfare loss from added costs of the application process for both the applicant and the government, and from classification errors created by imperfect screening of work capacity. Further, to the extent that early retirees successfully apply for DI/SSI, there will also be a smaller fiscal savings from unpaid benefits. In fact, because the DI benefit is actuarially more generous, payments for successful applicants will actually increase. To the extent that these workers do not meet the medical eligibility criteria for DI, but are still limited in their ability to work, an increased retirement age may induce workers to remain in jobs beyond the point where their reduced productivity warrants. Conversely, to the extent early retirees are largely those with the financial wherewithal to forego earnings, the more attractive are proposals to raise eligibility ages.

The analyses completed to this point suggest several preliminary conclusions. First, while the average early retiree is in better

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health than the average DI recipient, there are a notable fraction of early retirees who are observationally indistinguishable from DI recipients. For these people, eliminating their ability to collect on their retirement benefits at age 62 could result in their applying for DI benefits. Those who are successful would collect higher benefits from SSA, and those who are denied may still be too impaired to work. For men, early retirees look more like DI recipients than later retirees, lending support to the hypothesis that some use the ER benefit as a safety net against failing health. Women who use early retirement, on the other hand, appear to be healthier. More importantly, they are married. An analysis restricted to single women has dramatically different findings. Nearly half of women taking early retirement benefits meet the 25th-percentile criterion for simulated DI eligibility, while only 28 percent of women who waited to full retirement age have propensity scores this high. Thus, the reversal between men and women in the correlation between health and early retirement appears to be an artifact of differences in retirement behavior linked to marital status. Single women in relatively poor health would thus be most negatively affected by changes in retirement age policies.

### Directions for Future Analysis

To date, we have analyzed only self-reported data from the HRS. In addition to these analyses, we hope to be able to compare information on the Social Security Administration's 831 files -- which include administrative information on those who apply for DI or SSI disability benefits -- to the information available from HRS respondents. While we and other researchers have used the HRS respondents self-reports on their application for disability benefits, there is reason to believe that the information obtained from such reports may not be reliable. Indeed, there is reason to worry that respondents who have applied for DI or SSI benefits and had their applications denied may not always report this fact. The relatively few HRS respondents who report that they have applied for DI or SSI benefits but have these applications denied certainly suggests that this might be the case.

While the SIPP asks respondents about their employment situation and work limitations, it does not contain information regarding applications and application outcomes for DI. Several administrative files were used in order to identify beneficiaries, denied applicants, and non-applicants. These files were matched to SIPP records using respondent's Social Security Number (SSN). Since people who disclose their SSN systematically differ from people who do not, we reweight the original population weights provided by Census (Raghunathan, 2004) before selecting those respondents who disclosed their SSN. The administrative records are not available for SIPP panels 1986 to 1989. Therefore, our analysis is restricted to the SIPP panel 1984 and SIPP panels 1990s and later.

We restricted our sample to men ages 25 and 61 who report a work limitation. We eliminate men younger than 25 because very few such individuals apply for DI and those older than 61 because they would be eligible for Social Security retirement benefits. We limit ourselves to men who identify themselves as suffering from some kind of work limitation because men who experience no such limitations are very unlikely to either apply for DI benefits or have them awarded.

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