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The Retirement and Social Security Benefit Claiming of U.S. Military Retirees

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While past studies have considered the post-service outcomes on military veterans, there is little research on the effects of military service on labor force exit and the claiming of Social Security benefits. This paper focuses on a subset of veterans, namely military retirees. Military retirees become eligible for a lifetime, immediate annuity upon completing at least 20 years of service. This subgroup is particularly interesting because their access to military pension income might affect their retirement decision from their post-military career and their Social Security claiming behavior. Furthermore, Congress has recently enacted major reform legislation to alter the military retirement benefit, and these reforms might alter this group's retirement and Social Security claiming behavior.

We developed a simple theory of how military pensions might affect retirement timing. On the one hand, military pensions increase the incentive to retire as a result of the standard income effect (i.e. greater income leads to less work), but pensions may also increase a retiree's post-military job search, allowing for a greater wage and improved job satisfaction due to a better employer-employee match. Access to a steady source of pension income may also reduce short-term liquidity constraints, encouraging military retirees to delay claiming their Social Security benefit in order to benefit from delayed retirement. Thus, the effect of military pensions is ambiguous *a priori*. We use data from the original Health and Retirement Study cohort to examine empirically which effect dominates. To identify the effect of military pension income, we exploit an unanticipated expansion of the military health benefit known as Tricare for Life (TFL) to Medicare-eligible military retirees after 2001 to estimate difference-in-difference models of retirement and of Social Security claiming. TFL eliminated the need to purchase Medigap coverage, thereby effectively increasing military pension income.

We find evidence consistent with the income effect being the dominant effect. Specifically, we find that a higher military retirement benefit increases the likelihood of retiring from the labor force among Medicare-eligible

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military retirees, conditional on still working full time at age 64. Our estimates imply that these military retirees' work decisions after age 64 are very responsive to an expansion of the military retiree benefit: a 1% increase in the monthly benefit would result in a 5.9% greater likelihood of retirement at ages 65 and older. Our point estimates also suggest that expansion of the military pension results in delayed claiming of Social Security benefits, though our estimates are not statistically significant.

Caution should be taken in over-interpreting our results. Our findings are limited to older military retirees who are near the end of their work life. Given that the military retirement system vests active duty members in an immediate annuity after 20 years of service, military retirees may be as young as 38 years old if they enlisted in the military at age 18. Thus, our findings are for only a subset of the broader military retiree population. Furthermore, the sample size of military retirees in the HRS is quite small. For that reason, we believe further research is needed.

One fruitful way to extend our research is to use administrative data on military retirees together with Social Security earnings data. Aside from a larger sample, administrative data could provide information on military retirees who are younger and still working as part of their second civilian career.

In addition to exploring retirement and claiming behavior of military retirees, an innovation of our study is that we accounted for credits provided to those who served in the military when we compute the present value of Social Security benefits, an important control variable in our analysis. These credits enter as additional income when the Social Security Administration calculates an individual's average indexed monthly earnings (AIME), and we estimate that they provide an additional 10% of expected lifetime benefits. It is unclear whether military veterans applying for Social Security benefits are aware of these credits and how the availability and awareness of these credits affect claiming behavior. This is another potential area for future research.

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