How Much Does Access to Health Insurance Influence the Timing of Retirement?

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Key Findings and Policy Implications

This paper explores the likely effect of the Affordable Care Act on retirement behavior, based on state-level reforms that are most similar to those included in the ACA. These policy variations across states include guaranteed issue and community rating regulations, which have been shown to have a large impact on premium rates and enrollment in the non-group market. The paper uses 1996-2010 geographically-identified data from the Health and Retirement Study, enabling the respondent data to be linked to state-specific variation in insurance regulations. It finds that:

- Non-group health insurance reform substantially increases the likelihood of leaving the labor force. Overall, for workers aged 63, the probability of retirement nearly doubles.

- For workers in fair or poor health, those who most likely gain access to the individual market through these regulatory changes, the effects are even bigger. At age 62, for example, sicker individuals in states that have regulated the non-group market have a 180 percent higher probability of retiring. (Part of this effect is due to lower retirement at age 61.) At age 64, the probability of retirement increases by more than 50 percent.

- Sicker individuals in the regulated states also accelerate their Social Security benefit claiming. At age 63, for example, there is a 330 percent increase in claiming at that age.

- When we compare the retirement probabilities with individuals who are less impacted by the reforms, the results suggest that access to health insurance accelerates retirement or labor force exits by 1-2 years among those who we predict to be more sensitive to the regulations. This suggests that while the labor market will be affected by the Affordable Care Act, it will not lead to a great flight from the labor market at all ages; any impact will be focused near the traditional retirement ages.

In addition to better understanding the likely impact of the Affordable Care Act on retirement behavior at older ages, the study has implications for other areas of policy as well, including the revenues and expenditures of the Social Security and Medicare programs.

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