

Panel 1: Health, Health  
Insurance, and  
Choice of When to Retire

# Effect of the Affordable Care Act on Retirement: Evidence from Tax and Survey Data

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**Preliminary: Please do not quote**

# Overview

- Prior literature and theory suggests receipts of subsidized health insurance may increase retirement by
  - 1) reducing need for earnings to finance health care
  - 2) Releasing “job lock”
- We test this using ACA-induced variation in insurance access
  - Medicaid expansion in 2014
  - Geographical variation in size of Marketplace subsidy
- Using tax data, we examine subsequent year behavior of those who are currently working and have predicted low retirement income

# Overview (continued)

- Summary findings:
  - No effects for the population as a whole, but some detectable evidence of increased retirement due to the availability of Medicaid among females and single individuals with access to employer health insurance while working.
    - Effect size small relative to prior studies
- Supplementary analysis
  - American Community Survey DD, and marketplace analysis. No detectable findings.
- Discussion
  - Reasons why ACA effects may be smaller than anticipated by prior literature

# Motivation

- Most working age Americans relied on their employers for health insurance coverage before the ACA (Nyce et al 2013).
- Historic decline in labor force participation rates
- Job lock is highly debated in public policy
- Public finance consequences of lower tax revenue from labor supply decreases due to expansions in public funded health insurance
- Almost  $\frac{1}{4}$  federal income taxes come from those 55-64 yrs old (IRS, 2010) despite some individuals in this age group being already retired
- ACA financial assistance provides non-employment based insurance for 21 million (CBO, 2016)
  - 10 million subsidized through Exchange, and 11 million subsidized through Medicaid, as of end of 2016

# Conceptual Framework

- ACA lowers health insurance price for:
  - non large- firm full-time employees, lower income, in worse health, no access to spousal or other coverage
- “employment-lock” may reduce and increase early retirement
  - Relevant only for those who were insured through own employment without source of spousal coverage
- Income effect may increase retirement among other populations too
  - Less need for precautionary savings
- Employer mandate may decrease retirement
  - Employers may add health insurance, and those who planned to retire may postpone because of this increase in compensation

# Policy variation in insurance access through ACA

- Main: state Medicaid adoption decisions DD
  - Second: Geographical variation in Marketplace subsidies
    - Higher in rating areas with higher benchmark premiums
- In Medicaid states, 0-138% FPL eligible for Medicaid, 138-400% FPL for subsidies
- In non-Medicaid states, 100-400% FPL eligible for subsidies
  - Thus, “treatment group” are those <100 FPL, in Medicaid expansion states

# Hypothesis

- Main (Medicaid)
  - As a result of exogenous increase in public health insurance
    - Among those close to retirement age, labor supply may reduce on both extensive and intensive margin
      - Expect reduction in hours worked (below threshold for health insurance eligibility), and exit from employment
    - We test effects among those anticipating retirement income  $<100$ , (otherwise DD expansion in public insurance not relevant)
- Second (Marketplace)
  - Retirement rates may be higher in areas with higher benchmark premiums (greater subsidies), post ACA vs before



# Prior Relevant Work

- Large literature on health insurance and employment
- Long literature on retirement and health insurance specifically
  - Blau and Gilleskie 2001, Blau and Gilleskie 2006, Blau and Gilleskie 2008, Boyle and Lahey 2010, Frenh and Jones 2011, Gruber and Madrian 1995, Gustman and Steinmeier 1994, Kapur and Rogowski 2011, Karoly and Rogowski 1994, Madrian 1994, Marton and Woodbury 2006, and Robinson and Clark 2010, Heim and Lin, 2016
- General finding: retirement sensitive to health insurance margin
- ACA: so far no evidence of significant effect on labor supply
  - Gooptu, Moriya, Simon and Sommers (Health Affairs) and Buchmueller, Levy and Nikpay (2015) use CPS basic monthly longitudinal
- Heim and Lin (forthcoming) find MA reform increased retirement among females

# Contribution

- Adds research on full ACA effects on retirement (Medicaid and marketplace)
- Adds tax data exploration of 2014 ACA labor market effects
  - Advantages over survey data
    - Large sample sizes
    - Longitudinally linked data can examine “flow”
    - Baseline employer provided insurance to separate job-lock effect from income effect

# Data

- Using population of U.S. tax records spanning 2008-2014, we tabulate data for those aged 56-64 from Form 1040 and informational returns
  - income (MAGI)
  - Age, gender, marital status
  - state of residence
  - SSA-1099 and 1099-R (receipt of social security or other retirement benefits)
  - Receipt of wages (W2)
- Generate cell-level probability that income in retirement in T will be <100% FPL
  - by marital status, gender, state, age, FPL buckets.
  - Measures to what extent your behavior should be driven by Medicaid expansion, in expansion states, post-expansion

# Method of Analysis

Are you more likely to retire after ACA,  
if you are in a Medicaid expansion state,  
and you are predicted  
to have MAGI below FPL once retired?

$$\begin{aligned} \Delta Retirement_{i,s,t-(t+1)} &= \alpha + \beta Medicaid_s + \varphi Prob(Income < FPL)_t + \gamma Post_t + \theta Medicaid_s \\ &* (Prob(Income < FPL) * Post_t + Twowayinteractions + \tau_{t,m} + \eta_s + \Gamma X_i \\ &+ e_i \end{aligned}$$

(after confirming if pre-policy trends similar in control and treatment states)

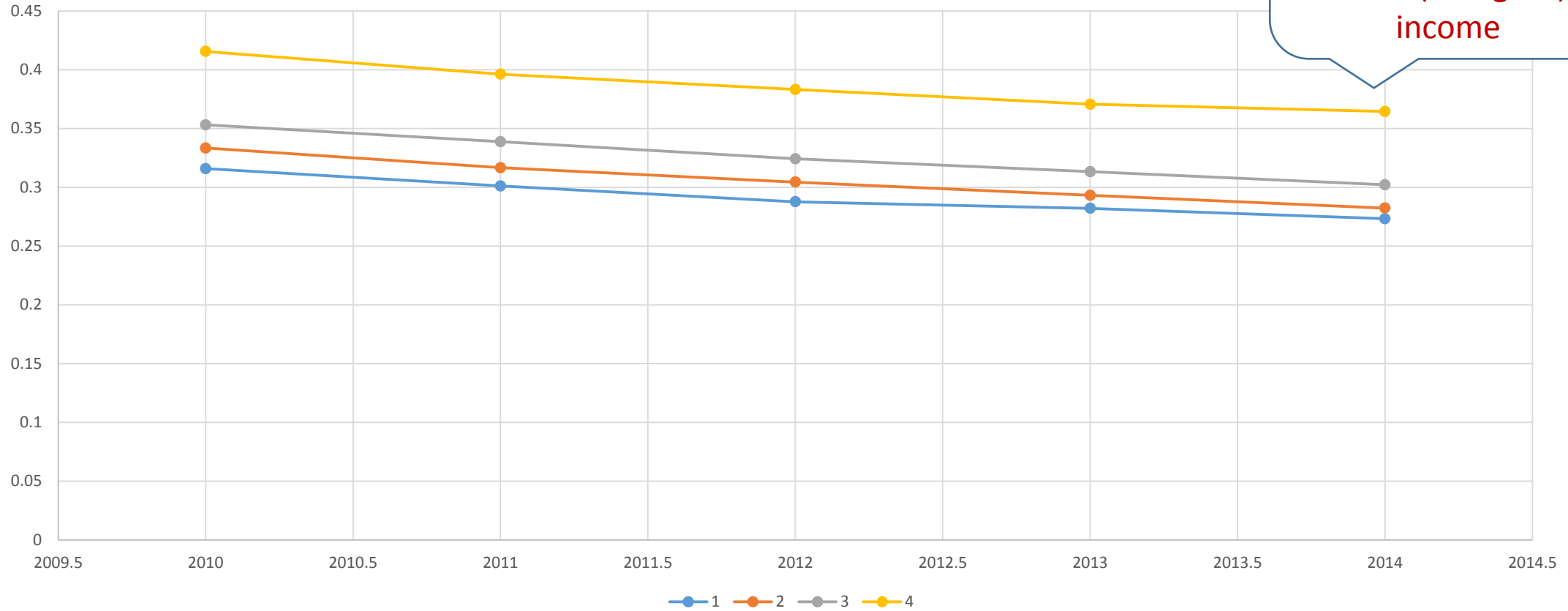
# Defining Retirement

- Retirement in tax data can be observed in three ways:
  - (1) receipt of social security benefits on form SSA-1099,
  - (2) distribution from a retirement plan on form 1099-R.
  - (3) no wages
- Form 1099-R reports distributions from pensions, annuities, profit-sharing plans, IRAs, 401k plans, 403(b) plans, and 457 plans.
- Retirement:
  - In year t: Has no wages OR has SSA income OR has 1099R pension income
  - In year t-1: Working: reporting positive wages, but no SSA or 1099R (retirement) income

# Categories of Medicaid Expansion States

- **(0) Control:** did not expand as of January 1, 2014 and had limited/no expansion prior to ACA (AL FL GA ID KS LA MS MO MT NE NC OK SC SD TN TX UT VA WY). Also included are states that fully expanded pre-2014 (DE DC MA NY VT)
- **(1) Full Expansion:** expanded as of January 1, 2014 and had limited or no expansion before 2014 (AR CO IL KY MD MI NJ NV NM ND OH OR RI WV)
- **(2) Partial Expansion:** states that expanded but had partial expansion before 2014 (AZ CA CT HI IA MN WA). States that expanded between 2014q2 and 2015q4 are also included in this list (AK IN NH PA).

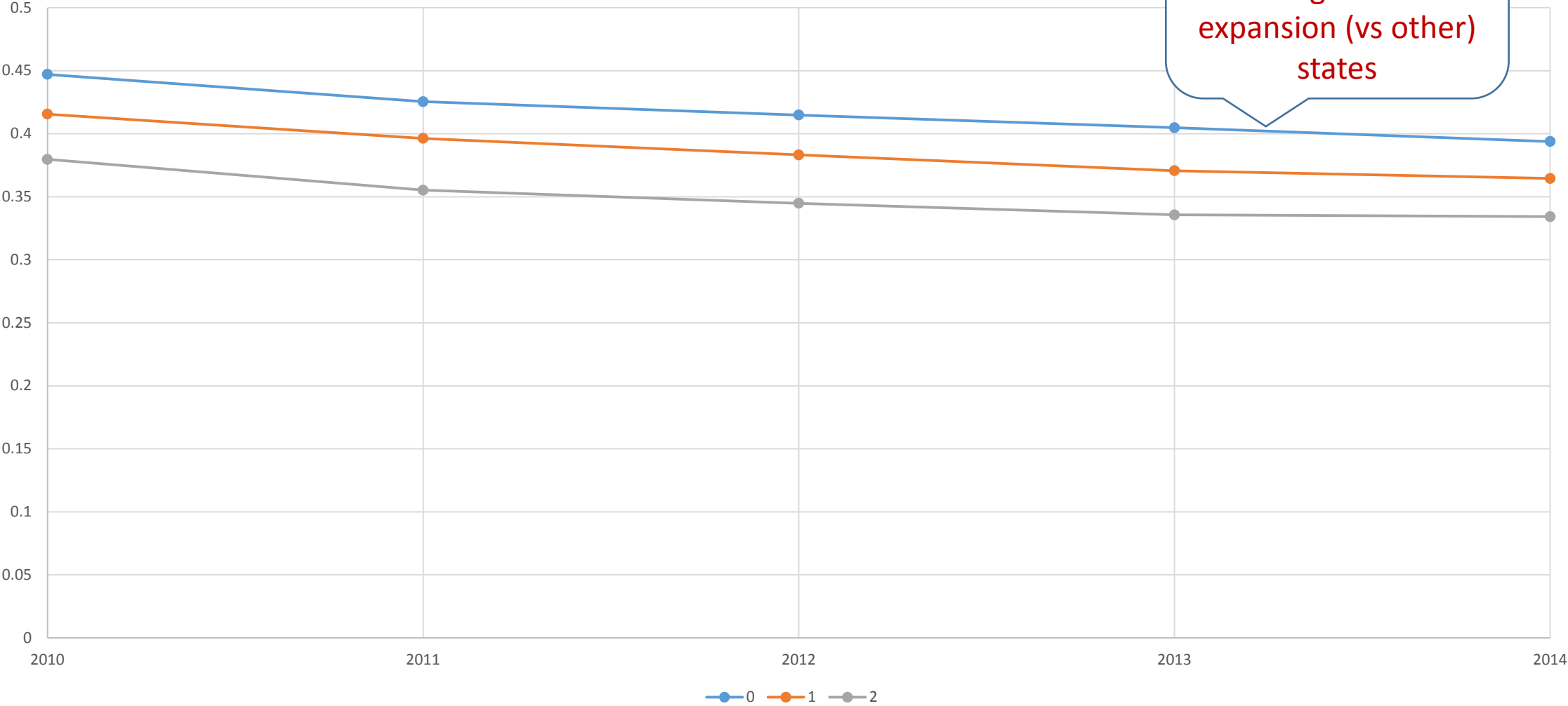
### Retirement Rate Over Time, In Medicaid Expansion States, by Quartile of Predicted Retirement Income<100% FPL



No evidence of retirement increase among those with lower (vs higher) income

Colors represent quartiles

Retirement Among Those Likely to be < poverty level: Quartile 4  
By State Expansion Status



No evidence of retirement increase among those in expansion (vs other) states

0 indicates states with no Medicaid expansion, 1 indicates states with Full Medicaid expansion, 2 indicates states with Partial Medicaid expansion



# Tax Data Regression Results

- Outcome: whether retired
  - Broad definition, and SSA income definition (just 62-64 yrs)
- Samples by age groups (56-58, 59-61, 62-64)
- Samples by whether had access to ESI while working
  
- Vast majority of specifications show no detectable effects, coefficient sizes are extremely small too
- Effects detected only among ESI sample, SSA income definition
  - These effects are only marginally statistically significant

(Only showing full expansion effects. No significant effects for partial expansion states, as expected)

# Findings

Table 1: ESI Sub Sample, SSA Income Definition (62-64)

	(1)	(2)	(3)	(4)	(5)
VARIABLES	Overall	Male	Female	Married	Single
FullExpansion XPostXPPRPL	0.01106 (0.00789)	0.00328 (0.00963)	0.01817* (0.00970)	0.00547 (0.01045)	0.01966* (0.01021)
Observations	2,737,458	1,262,365	1,475,093	2,002,377	735,081
R-squared	0.42001	0.38992	0.44548	0.50497	0.36212
mean_retire	0.15431	0.13440	0.17083	0.14986	0.16784
mean_prob	0.11901	0.12737	0.11207	0.09391	0.19531

Note: All models include two-way interactions and other controls. Standard errors are clustered at the state level. \* indicates p=.10; \*\* p=0.05, \*\*\* p=0.01

At the mean probability of being in poverty, the effect is  $.11207 \times 0.01817 = 0.2$  percentage points for women and  $0.01966 \times .19531 = .4$  percentage points for singles  
 From a base of ~17% for both populations, indicating less than a 1% , 2% effect respectively.

# ACS Analysis

- Relative to Tax Data
  - Pros: can look at hours of work (extensive margin), can look at heterogeneity by education, etc.
  - Cons: self-reports are less reliable than tax data.
- Medicaid:
  - Method: Among those who are near-elderly (55-64) and currently have income <100% FPL, is retirement, or part time work, more common in expansion states, in 2014 vs 2013?
  - Findings: no detectable impact
- Marketplace Subsidies
  - Method: Merged benchmark premiums by PUMA
    - Examined if retirement, pt work, more common in areas with higher benchmark premiums, in 2014 vs 2013, among near-elderly in 138-300%FPL
  - Findings: no detectable impact

# Summary and Next Steps

- Summary findings:
  - Small increase in early retirement (SSA income) among females and singles, with ESI while working
  - No other evidence of a detectable reaction in retirement behavior in tax data and ACS.
  - Uncertainty around ACA in 2014 may explain smaller than expected effects
- Next steps
  - Examine Marketplace subsidy variation by income vs. geography, in tax data
  - Alternative outcomes: reduced return to employment, retirement among self-employed
  - Alternative specifications of Medicaid expansion variable
- Further retirement research with new data:
  - Will effects increase over time? (2015 data)
  - Are effects present for those in worse health? (HRS)
  - Impact of change in pricing and access laws in individual health insurance markets?

# Effect of the Affordable Care Act on Retirement: Evidence from Tax and Survey Data

**Heim, Lurie, and Simon**

Discussion by  
Kathleen McGarry  
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Retirement Research Consortium, Washington DC  
August 4, 2016

# Health Insurance and Retirement

- **Effect of employer sponsored insurance on retirement**
  - Evidence of decreases in the probability of retirement
- **Effect retiree health insurance on retirement**
  - Evidence of increases in the probability of retirement
- **Effect of COBRA coverage on retirement**
  - Evidence of increases in the probability of retirement
- **Effect of Medicare eligibility**
  - Evidence of increases in retirement at age 65

# Health Insurance and Retirement

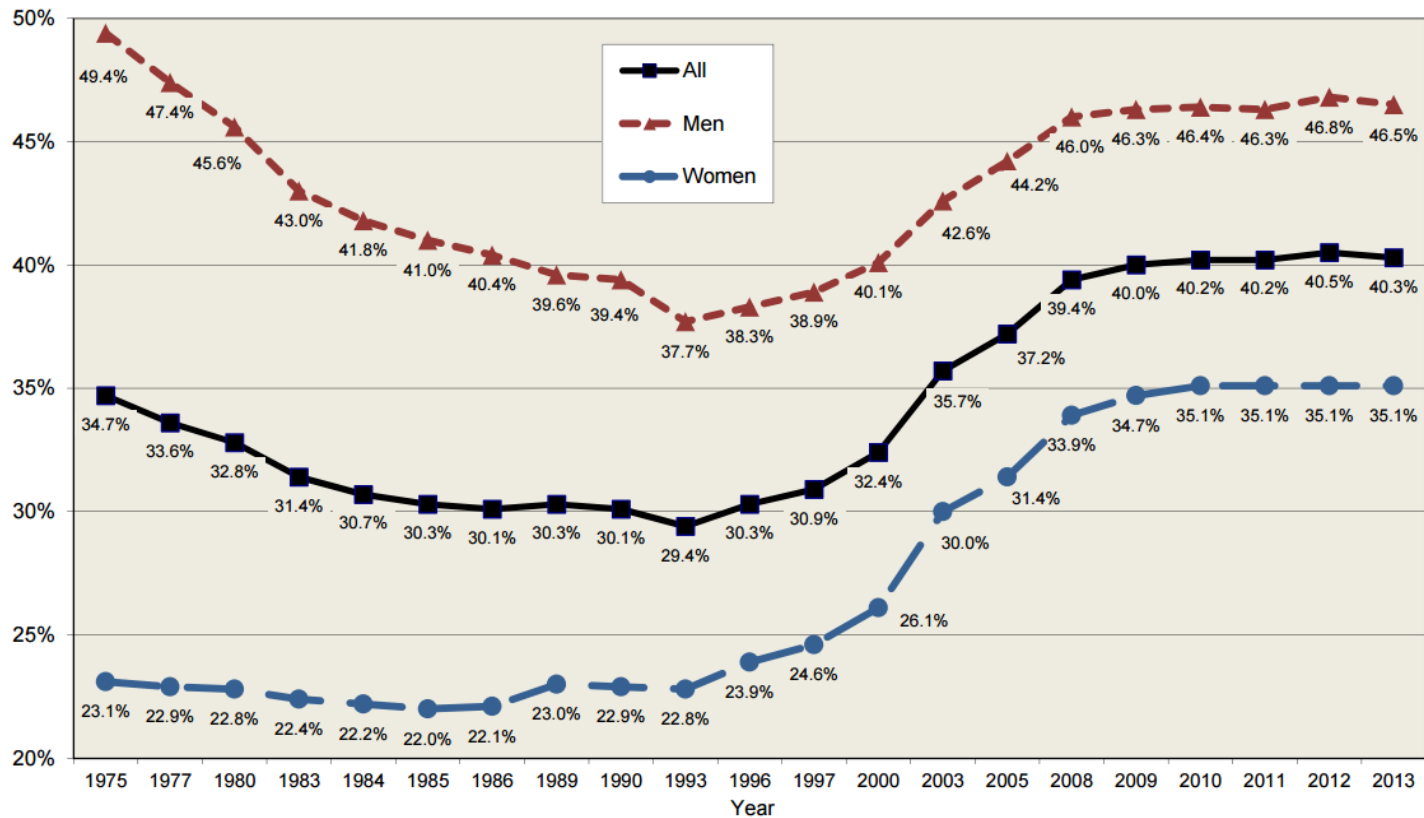
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- Effect of COBRA coverage on retirement
  - Evidence of increases in the probability of retirement
- Effect of Medicare eligibility
  - Evidence of increases in retirement at age 65
  - **→ Need to provide coverage for a younger spouse may delay retirement until spouse is 65**

# ACA and Labor Force Participation

- Recent research examining effects of Affordable Care Act on employment and retirement
  - Majority of work has found little or no effect
  - Many components so net effect is not clear
- On labor market demand side:
  - Employer mandate could discourage employers from hiring full-time workers
- Focus on employee side
  - New options both inside and outside employment



Figure 1  
**Annual Civilian Labor-Force Participation Rate for  
 Americans Ages 55 and Older, by Gender, 1975–2013**



Source: U.S. Department of Labor, Bureau of Labor Statistics, "Labor Force Statistics from the Current Population Survey--Civilian Labor Force Participation Rate," <http://www.bls.gov/data/home.htm>

# Affordable Care Act

- **Employer Mandate**
- **Individual Mandate**
- **Expansion of Medicaid up to 138% of poverty line**
  - **Option to the states based on Supreme Court Ruling**
- **Health Benefit Exchanges**
  - **Subsidies up to 400% of the poverty line**
  - **Coverage available for those with pre-existing conditions**
- **Dependent coverage up to age 26**
- **No lifetime limits on benefits**
- **Limits on size/length of deductibles and waiting periods**
- **Coverage of preventative care**

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# ACA and Labor Force Participation

- **Employer mandate → could increase participation if value of benefit offsets and reductions in wages / other benefits**
- **Individual mandate → could increase participation in that it increases the value of being employed**
- **Coverage of children up to 26 → increases the value of health insurance for those with dependents**

# ACA and Labor Force Participation

- **Exchanges**
  - → decrease employment, easier to get coverage outside employment
    - Guaranteed issue
    - Guaranteed renewal
- **Subsidies for < 400% of poverty line**
  - → decrease employment, easier to get coverage outside employment

# ACA and Labor Force Participation

- **Medicaid expansions < 138% of poverty line**
  - → decreases employment, easier to get coverage outside employment
  - → increase employment, can earn more and still be eligible for Medicaid coverage
  - → similar effect on hours, can decrease hours since it is easier to get coverage outside, or increase hours as earnings can increase and still be eligible for coverage

# Affordable Care Act

- **Expansion of Medicaid up to 138% of poverty line**
  - Option to the states based on Supreme Court Ruling
  - Begin as early as 2010 full Federal support in 2014
- **Health Benefit Exchanges**
  - Subsidized 100-400% of the poverty line
- **Note “Medicaid Gap”:**
  - Those with incomes < 100% FPL in non-expansion states not covered by subsidies or Medicaid
  - Compare labor market behavior of those <100% of poverty line in expansion / non-expansion states

# Numerous Effects of Expansion

- **Enrollment increases and reductions in uninsured**
  - Growth from newly eligible
  - Growth from previously eligible
- **Better access to health care**
- **Greater utilization**
- **Positive or neutral effects on employment**
- **Heim et al., focus on employment at older ages / retirement**



# Medicaid Expansions

- **Sample:**
  - Near retirement age
  - Employed
  - Expected retirement income below FPL
  - Not yet eligible for Medicare (<65)
  - Cross-state variation
- **Difficult due to sample size.**
  - Data from IRS 1040 forms
    - Show receipt of wages, retirement benefits
    - Little other information

# Medicaid and Retirement

- **Define retirement as any one of the following**
  - **Receipt of SS benefits**
    - Only 62+
    - Only those who claim
  - **Receipt of pension benefits**
    - Unlikely for low wage workers
  - **No wages**
    - May be looking for another job / unemployed rather than choosing retirement

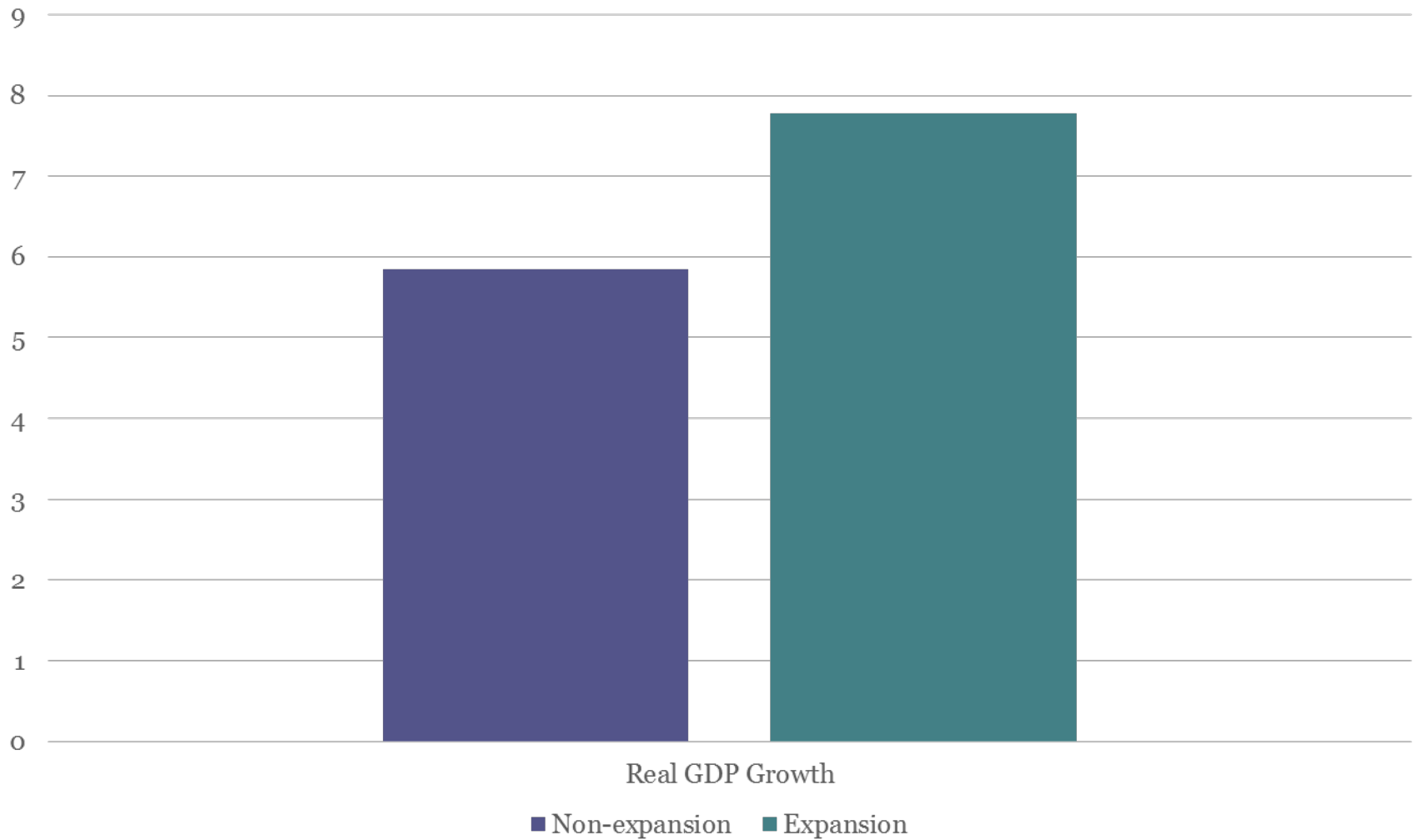
# Results

- Significant effect only for those with
  - ESI and SS income.
- Suggests that Medicaid expansions could affect those who are close to retiring anyway but don't want to give up health insurance

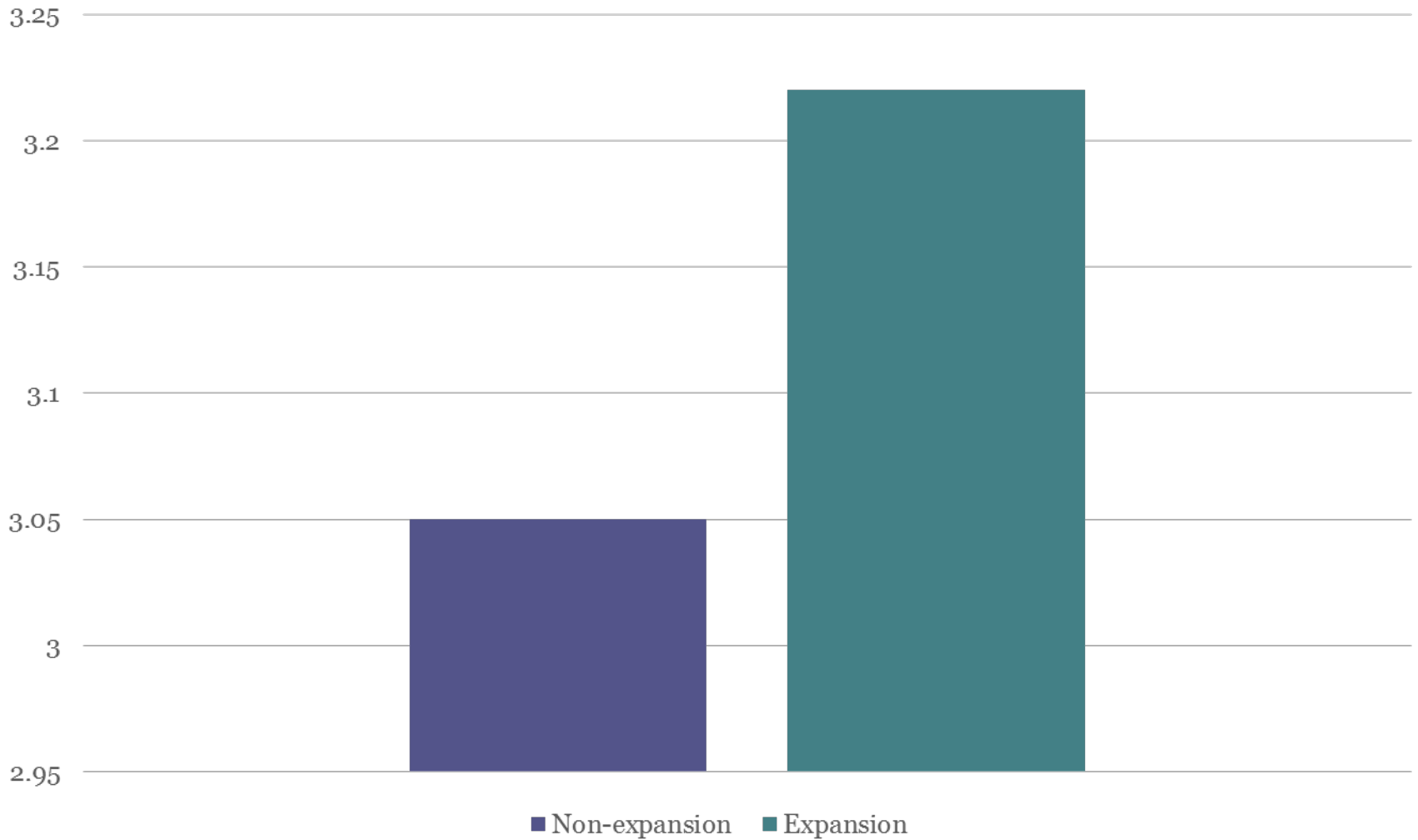
# Why a no or small effect?

- Medicaid may be a poor substitute private insurance
  - Quality or perceived quality of Medicaid
- Focus on low income
  - May be unable / unwilling to retire if they would have income below the poverty line
- ACA is new, no time to adjust behavior
- Not sure how well it will work
- Is difference-in-difference comparison valid?
  - Are trends over time the same?

## Real GDP Growth 2010-2014



## Decline in Unemployment Rate 2010-2014





# Other Effects

- **Implications for disability**
  - **Waiting period for Medicare eligibility less costly**
- **Implications for poverty rates if SS claimed at an earlier age**
  - **Claim at 62 rather than 65 means lifetime of lower benefits**
- **Joint retirement**
  - **Older spouse can retire at 65**



# Conclusion

- Carefully done paper
- Innovative use of administrative data
  - American Community Survey
  - Health and Retirement Study
- Look forward to more work on the subsidies and using ACS
- Interesting to see how behavior evolves over time