
Could “Obamacare” encourage earlier retirement?

By Editor Test Wed, Jan 4, 2012

A review of Towers Watson retirement data shows that the presence of company-subsidized health insurance for retirees encourages people to retire before age 65. Researchers wonder if elements of “Obamacare”--the PPACA--could have a similar effect.

People who are eligible for employer-subsidized health benefits in retirement tend to retire earlier than people whose retirement health benefits (i.e., Medicare) don’t start until age 65, according to a new paper by economic researchers from Harvard, Towers Watson and elsewhere.

The research was undertaken to help policymakers predict the possible impact of the Patient Protection and Affordable Care Act of 2010 on labor market participation by older, pre-Medicare workers. The PPACA allows Americans under age 65 to buy group health insurance at below-market rates.

The findings suggested that the PPACA might encourage or facilitate earlier retirement. Using data on employees at 64 Towers Watson client firms, the researchers found that the probability of retirement at age 62 rose by 3.7 percentage points (an increase of 21.2%) at age 62 and by 5.1 percentage points (an increase of 32.2%) at age 63 when employers contributed toward health insurance premiums.

The effect was more pronounced if the employer paid half or more of the cost of insurance. Turnover rates rose by one to three percentage points at ages 56-61, by 5.9 percentage points (a 33.7% increase) at age 62, and by 6.9 percentage points (a 43.7% increase) at age 63.

“Overall, an employer contribution of 50% or more reduces the total number of person-years worked between ages 56 and 64 by 9.6% relative to no coverage,” wrote Stephen Nyce and Sylvester Schieber of Towers Watson, John B. Shoven of Stanford, Sita Slavov of Occidental College and David A. Wise of Harvard and the National Bureau of Economic Research (NBER).

Only 28% of firms with 200 or more employees and three percent of smaller firms offer employee health coverage that also extend benefits to retirees, according to a 2010 Kaiser Family Foundation report. The Consolidated Omnibus Budget Reconciliation Act (COBRA) of 1985 enables workers to retire at 63½ and stay on their employers’ health plans for 18 months at their own expense.

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