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STICKY AGES: WHY IS AGE 65 STILL A RETIREMENT PEAK?

BY NORMA B. COE, MASHFIQUR R. KHAN, AND MATTHEW S. RUTLEDGE

In order to address an immediate and long-term funding problem, the Social Security Amendments of 1983 gradually increased the Full Retirement Age (FRA), changed the actuarial adjustment for individuals claiming benefits between the early and full retirement ages, and increased the delayed retirement credit. Together, these changes increase the financial gain to individuals who delay claiming their Social Security benefits. Recent work has shown that individuals are delaying retirement in response to the incentives laid out in the 1983 Amendments (Blau and Goodstein 2010, Kopczuck and Song 2008, Pingle 2006, Mastrobuoni 2009, Song and Manchester 2008, Behaghel and Blau 2011).

However, claiming and retirement peaks remain at age 65. While Behaghel and Blau (2011) focus on who is increasing their retirement age lock-step with the FRA increases, the emphasis of this study is on who is *not*. We explore whether two policy-relevant parameters help explain the remaining age-65 spike: understanding of the financial incentives to delay retirement and Medicare eligibility.

An extensive literature documents that retirement and claiming decisions are responsive to Social Security incentives (see Krueger and Meyer (2002) for a review). If individuals do not understand the financial incentives related to delayed benefit claiming, or are unaware of the increase in the FRA altogether, then they may select sub-optimal retirement or claiming dates. We test whether inaccurate expectations about future Social Security benefits help explain the age 65-spike.

Second, access to Medicare may also play a critical role explaining the age 65 peak. There is an extensive literature that finds that access to health insurance is an important component of the retirement decision. While the size of the impact is debated, the literature is virtually unanimous that access to health insurance as a retiree increases the probability of retirement (see Monk and Munnell (2009) for a review). Since the Social Security FRA and Medicare eligibility ages were previously identical (age 65), the current evidence on the role of Medicare in the retirement decision is derived from simulations based on structural models. Rust and Phelan (1997) conclude that Medicare is important; Blau and Gilleskie (2006, 2008) conclude that it was much less important in the 1990s. Estimates from French and Jones (2011) are in between. Therefore this paper tests whether individuals who do not have access to retiree health insurance help explain the age-65 claiming and retirement peaks.

To understand why age 65 remains “sticky,” we estimate hazard models for exiting the labor force, retiring, and claiming Social Security benefits. We then examine whether the accuracy of self-reported Social Security benefit levels are significant determinants of claiming at precisely 65. Our findings suggest that the ability of individuals to predict their Social Security benefits is, for the most part, unrelated to whether or not they claim benefits, retire, or exit the labor market on the 65th birthday or at their full retirement age. However, we find that individuals without access to retiree health insurance are more likely to retire at age 65, and less likely to postpone retirement until their FRA. We interpret these findings as suggestive evidence of a Medicare-eligibility effect on retirement behavior.

The results of this paper imply that projections of retirement behavior need to account for the extent to which Medicare eligibility affects retirement and claiming. Currently, the FRA is scheduled to increase to 67, but the Medicare-eligibility remains at 65. The results in this paper suggest that a retirement spike would remain at age 65; indeed, with a larger gap between Medicare eligibility and the FRA, this spike could grow larger relative to the FRA peak, if individuals’ health care and health insurance needs supercede the financial incentives to delay retirement.

Other policy experts have expressed interest in increasing the Medicare eligibility age beyond 65 to address budgetary concerns. Such a policy would realign the health insurance and financial incentives, and could restore the prominent peaks in retirement and claiming at FRA that we observed before 2002. The results of this paper suggest that this policy change would help keep some older workers in the labor force longer than further increases in the FRA alone; whether this policy is desirable depends on the relative importance of welfare loss among seniors who would have otherwise retired versus reduced Medicare and Social Security outlays. On the other hand, if health insurance exchanges are implemented as detailed by the Affordable Care Act, concerns about health insurance access need not delay retirement as much as we observe under current conditions.

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CENTER FOR RETIREMENT RESEARCH AT BOSTON COLLEGE

Hovey House, 140 Commonwealth Avenue, Chestnut Hill, MA 02467-3808
phone 617.552.1762 fax 617.552.0191 crr@bc.edu crr.bc.edu