Title: Effects of Public Sector Retirement and Health Care Changes on Social Security and Labor Supply (year 2)

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Focal Area #6: State and Local Pensions for Non-Covered Workers
The widespread underfunding of state and local government pension plans creates financial risk for plan participants, which could have spillover effects on Social Security.

Brief project summary:

Given the current level of underfunding of retirement and health care benefits for public sector workers, many states and localities have been actively investigating and engaging in ways to reduce their future liabilities. Due to legal restrictions, many governments are unable to increase retirement eligibility ages or reduce the generosity of benefit formulas for current employees. As such, to reduce the liabilities of their pension funds, many states have resorted to decreasing cost of living adjustments (COLAs). Some states have eliminated any COLAs for the foreseeable future and some have restricted future COLA increases. Given that decreases to COLAs compound each year, the effect of these adjustments on a retiree's lifetime benefits can be large. For example, based on a standard simple model, moving from a 3 percent annual COLA to no COLA decreases the present value of lifetime pension benefits by about 25 percent (Munnell, Aubry, and Cafarelli 2004).

Our year 1 project, currently underway, is focused on creating a database of changes over the last two decades in adjustments to cost-of-living adjustments (COLAs) across public sector employers at the state and municipal level. Our plan is to match this database with available survey-based datasets, including the Survey of Income and Program, the March CPS and the American Community Survey, which annually sample approximately 7,000, 15,000 and 165,000 state and local public sector employees between the ages of 50-64, respectively (Morrill, 2014). This will give us a sense of how many people are undergoing substantial changes in COLAs.

We are ultimately interested in exploiting cross-plan, cross-state and over-time variation in estimating the effects of these changes on labor supply and Social Security claiming in a nationally-representative datasets. Unfortunately, cross-sectional datasets are ill-suited to address these issues, because we only observe details about one's current employer and do not have information regarding previous employers. Longitudinal datasets are helpful in this regard, but sample size is significantly smaller. Therefore, we have come to the conclusion that further study on the effects of these changes on labor supply and Social Security can be significantly enhanced by the use of administrative datasets.

To that end, we have explored the use of two large administrative datasets that we have discovered would be appropriate: the universe of tax returns and the SSA Continuous Work History Sample (CWHS). We do not have definitive arrangements to access either of the datasets for our project, and given the current environment, we are not confident that we can get this certainty in time for the proposal deadline. However, if SSA were able to help facilitate a connection for us to access the CWHS, we think a year 2 project that leverages the policy

variation documented during the first year to explore behavioral responses in labor supply and Social Security claiming would be fruitful.