

MRRC RESEARCHER

*Nicole Maestas discusses her MRRC-
supported research*

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Q: Talk about your interest in labor supply behavior.

A: In graduate school, I was interested in questions of poverty. Working on an NIA training grant with Ron Lee at Berkeley, I discovered that it was at least as interesting to me to look at questions related to poverty in the elderly as it was to examine childhood poverty. In fact, some of the issues were even more interesting to me as an economist because of this complex retirement decision. The decisions people make and the life events that occur leading up to and in retirement are very important for elderly poverty and well-being.

In modeling retirement, there are several important concerns including the individual's own preferences and constraints such as the pension environment. There has been a lot of work attempting to characterize pensions and their impact on behavior, but less attention has been paid to the role of preferences in the retirement decision. Even though economic incentives clearly are important, there is a large unexplained component of behavior that I have always found very interesting.

The Health and Retirement Study (HRS) has a wide range of variables measuring different psychological constructs that may allow us to identify, in economic models, aspects of preferences we have only guessed at until now. In my papers for MRRC, I have made use of the HRS to explore various aspects of the retirement decision. In particular, I have been interested in choices about retirement timing and decisions about either continued work or return to work after retirement.

In my first paper for MRRC (WP 2004-085), I attempted to describe the patterns of retirement and work after retirement observed in the HRS. In the simplest life-cycle model, people retire when the cost of working an additional period just equals the benefit. The benefit includes income as well as pension accruals. The cost is seen as the value of foregone leisure. People enter retirement once and for all, completely withdrawing from the labor force. On the contrary, only half of respondents in the HRS follow this pattern. The other half pass through partial retirement on the way to full retirement and/or retire and then go back to work, or "unretire." I wanted to think about what we would need to add to this very simple life-cycle framework in order to generate behavior like this. For example, is it just uncertainty (for example, about asset returns) or is something else going on?

I found that most people who "unretire" had planned to do so before retiring. Going back to work doesn't seem to be something driven by unexpectedly low retirement income. For the most part, unretirement is qualitatively similar to partial retirement. However, those in worse health are more likely to partially retire rather than unretire, possibly reflecting a need for continuous health insurance coverage during retirement. Second, those who said they did not plan to work in retirement were more likely to unretire than partially retire, which suggests that unretirement remains an option for the small subset of individuals who find themselves with inadequate retirement income.

Q: What is a discouraged worker?

A: The findings from the uretirement paper suggest that there are many people who apparently desire to remain in or return to the labor force. There were also a large percentage who said they expected to work during retirement but who, in fact, did not. In a second paper for MRRC (WP 2006-133), Xiaoyan Li and I sought to understand more about job search outcomes for older workers. This is especially important to understand more about given calls for policies that explicitly encourage the elderly to work.

So we were interested to what extent the elderly can readily find suitable jobs. In fact, we find that only half of older searchers find jobs. After examining several potential explanations (such as varying search intensity, intervening health problems, expecting too high a wage), we find that about 13 percent of older job searchers become discouraged, which means that they are willing to work at a reasonable wage but are unable to find a job.

Q: Describe your work on job burnout and how it potentially affects labor supply decisions.

A: Job burnout is a psychological response to chronic work stress. People who are burned out feel exhausted, cynical, and ineffective--essentially, they're sick of their jobs. In WP 2007-166, Xiaoyan Li and I speculated that burnout might be important for retirement behavior. We hypothesized that since burnout is related to work, you should see it rise prior to retirement and fall afterward. Also, you might expect that people who are experiencing burnout would come to favor leisure more highly. Likewise then, you might see the value of leisure rise prior to retirement but fall after retirement. As the value of leisure falls over time and the person recovers from burnout, working may begin to appear attractive again.

Our findings support this hypothesized pattern. We are really excited by these findings because they are strong and robust. Burnout is a strong predictor of retirement (both complete retirement and unretirement) even after controlling for health. Interestingly, burnout is much lower among those who partially retire, and remains steady over time.

There is a lot of interest in whether or not older Americans can be attracted back to the work force. What factors from your research do you think affect that probability?

It's a good news and bad news story, I think. The first thing is desire, and I think we see evidence that there is a good deal of interest in some form of working past normal retirement age. We find half of people in the HRS follow a nontraditional retirement path. They either partially retire on the way to full retirement, or they go back to work after retiring. That seems like a pretty good sign of interest in working.

I do think that retirement is an opportunity for many people to take a break and make a plan to do something different. The catch is that for many people something different includes working part-time. It's not clear how willing employers are to go for part-time. It may be that, as employers become more and more in need of workers as the numbers of retirees increases, they might be more willing to offer part-time and flex-time arrangements for older workers. Certainly some employers already see some benefit in this, and I think more employers will with time. So that's the good news.

The second thing is health, and here the news is not good. Health really distinguishes who is going to go back to work and who is not. In the burnout paper, we show very clearly that you can have two equally burned out people, but the person with other health problems will not be likely to go back

to work. They are much more likely to retire completely than the person who doesn't have health problems.

There are a couple of different issues that are important to consider here. First, you might have someone whose financial plan for retirement included working. However, when they come to retirement age, they find that they're not able to because of poor health. A second issue that we uncovered in the discouraged workers paper is that there are many older people looking for jobs, but we don't observe them actually transitioning to jobs. Many of them have chronic health problems, but are still willing and able to work. We don't know for sure, but it may be that they have a hard time finding employers who are willing to accommodate their health issues whether it be via health insurance, hours, performance criteria, or physical accommodations. I don't think we have a good sense yet of what these problems are and whether and how they can be addressed.

Q: What direction do you see this work taking?

A: I see us moving in at least two directions. The first is going into greater depth considering the psychology of retirement. The burnout paper was a first attempt to do that, and we will certainly continue to pursue those questions in greater depth. I think our burnout paper showed that these psychological constructs matter a lot, something economists now appreciate more than ever. The other direction for us is beginning to unpack the black box of health status and understand more about different types of health trajectories that people follow from their 50s through their 70s. For example, what if based on their inventory of health conditions and risk factors at age 45 people could forecast their future potential labor supply into their 70s? This could help them figure out to what extent they can rely on future potential earnings to help fund retirement or whether they need to save more now while they can. This would be very important information for retirement planning.

Sources:

Burnout and the Retirement Decision by Nicole Maestas and Xiaoyan Li WP 2007-166, October 2007

Discouraged Workers: Job Search Outcomes of Older Workers by Nicole Maestas and Xiaoyan Li WP 2006-133, October 2006

Back to Work: Expectations and Realizations of Work After Retirement by Nicole Maestas WP 2004-085, July 2004



Nicole Maestas (Ph.D., Economics, UC Berkeley) is an Economist at RAND. Her research interests include applied microeconomics, the economics of aging, and health economics. She has developed and estimated models of the retirement and annuitization behavior of married couples, and is currently working on a comparative study of retirement behavior by married couples in the U.S. and U.K. In past and current MRRC-funded work, she is studying labor force transitions of older workers, with emphasis on work after retirement,

job search and labor demand, and self-employment, and, most recently, psychological burnout. In other work, she has studied the effect of medical expenditure risk on the portfolio choices of older Americans, pricing in the Medigap insurance market, and the effect of the Medicare program on disparities in health, health care utilization, and treatment intensity.

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