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MICHIGAN RETIREMENT RESEARCH CENTER
UNIVERSITY OF MICHIGAN

Promoting research on retirement and Social Security policy

Key Findings | *2015 Working Papers*

I. Macroeconomic Analyses of Social Security

Does Eliminating the Earnings Test Increase the Incidence of Low Income among Older Women? *by Theodore F. Figinski and David Neumark* WP 2015-325

- The elimination in 2000 of the retirement earnings test (RET) beyond the Full Retirement Age (FRA) was intended to boost employment of those in this age range. But the elimination of the RET makes those who are working more likely to claim Social Security benefits at earlier ages, reducing benefits in the longer-run. This latter effect could lead to lower family income (including benefits) at older ages – perhaps in particular for older women who are likely to outlive their spouses.
- We confirm past findings that the elimination of the RET led to earlier claiming of benefits for women, and hence lower benefits.
- We find evidence that the elimination of the RET is associated with higher incomes and hence of lower incidence of low family incomes initially – when women are around age 70 – but higher incidence of low income as women reach their mid-70s and beyond.
- These findings raise cautionary flags about proposals to reduce or eliminate the RET between ages 62 and the FRA.

Do Payroll Taxes in the United States Create Bunching at Kink Points? *by David Powell* WP 2015-327

- Using data from the Social Security Administration, I exploit two recent short-term changes in payroll taxes to study whether labor earnings responded:
  - The Making Work Pay Tax Credit reduced the payroll tax by 6.2 percentage points up to $6,451 ($12,903 for couples) of earnings in 2009 and 2010. I test for bunching at this kink.
  - In 2011, payroll taxes were reduced by two percentage points, changing the incentives to bunch at the taxable earnings maximum.
- I find evidence of bunching induced by the payroll tax changes.
- I estimate a tax elasticity of labor earnings of 0.08 at the taxable earnings maximum, which suggests that policy proposals to raise or eliminate the payroll tax cap should consider labor supply behavioral responses to this policy.
- I also estimate larger responsiveness to the Making Work Pay Tax Credit.

II. Wealth and Retirement Income

Sources of Lower Financial Decision-making Ability at Older Ages *by Shachar Kariv and Dan Silverman* WP 2015-335

- The Longitudinal Internet Studies for the Social Sciences (LISS) data reveal, after late middle age, an economically substantial and statistically significant negative correlation between age and measures of economic rationality in the experiment. Rationality scores are significantly lower for those age 63 and older.
- There is no evidence that the negative relationship between age and economic rationality in the experiment is attributable to a cohort effect. Conditioning on the ability of participants to implement a particular choice using the experimental interface does not alter the negative correlation between rationality and age. Older people are more likely to have trouble with the interface

in this way, but this ability is not strongly correlated with violations of transitivity in the experiment.

- There is also no strong evidence that the correlation between age and economic rationality is the inevitable result of normal aging and its associated cognitive declines. Performance on the standard cognitive ability task is lower among older people in the sample, but conditioning on this measure of cognitive ability does not much alter the negative correlation between rationality and age. Thus, the lower levels of economic decision-making ability among older people appear to be a distinct phenomenon.

- There is no evidence that health is an important driver of the negative relationship between age and economic rationality. Older people who self-report worse health, are at an unhealthy weight, or report more difficulties with activities of daily living do not have lower decision-making abilities in the experiment.

Measuring Economic Preparation for Retirement: Income Versus Consumption

by Michael D. Hurd and Susann Rohwedder
WP 2015-332

- The income replacement rate (IRR), the ratio of income after retirement to earnings before retirement, was developed to help people plan financially for retirement. For many people, however, such a broad rule of thumb is simplistic and misleading. The IRR does not consider other sources of support in retirement such as financial wealth; in the case of married persons it does not have a good way of defining retirement.

- We augmented the simplest of the IRR by including a drawdown of financial and IRA wealth; we defined and estimated a household IRR to more fully account for the advantages of dual-earner households in which joint ownership of resources results in savings. The augmented measures increased the percentage of the population economically prepared for retirement by as much as 20 percentage points over the simple measure.

- We compared these extended IRRs with a measure of economic preparation based on consumption, which is theoretically preferable because consumption translates directly into well-being. Further, in the consumption-based measure, we accounted for the likelihood of events that impact spending needs many years into retirement. Our estimated consumption-based measure indicates retirement preparation at 59 percent for single persons and 81 percent for couples, well over the quantities derived from income replacement rates (46 percent for both single and married persons). Moreover, there is little relationship between the income replacement measures and the comprehensive consumption-based measures. Even when broadened in scope, the IRRs do not give good guidance to individual households.

Comprehensive Wealth of Immigrants and Natives *by David Love and Lucie Schmidt*

WP 2015-328

- Immigrants have lower total wealth than natives, but appear to be drawing down resources at a slower pace in retirement.

- These drawdown patterns are consistent with the predictions of a life-cycle model of saving that includes roles for uncertainty in longevity, medical expense risk, bequests, and housing.

- The typical immigrant is relatively well situated in retirement, but more recent immigrants have low levels of total resources and are likely to have difficulty maintaining adequate levels of spending in retirement.

Declining Wealth and Work among Male Veterans in the Health and Retirement Study *by Alan L. Gustman, Thomas L. Steinmeier, and Nahid Tabatabai* WP 2015-323

- We study the characteristics, wealth, and retirement of veterans and nonveterans in four cohorts of males from the Health and Retirement Study, ages 51 to 56 in 1992, 1998, 2004, and 2010.

- In the oldest cohorts, roughly half the male population served in the military, while in the presence of a draft. Only about one-sixth of the youngest cohort had served, and that was as a volunteer in the all-volunteer military.

- Veterans in the 1992 cohort were better educated, were healthier, had more wealth going into retirement, and were more likely to work into a later age (less likely to retire) than nonveterans.

- Relative to nonveterans, the cohort of veterans in 2010 is less well educated, less healthy, has lower wealth entering retirement, and is less likely to work than nonveterans.

- After standardizing for differences in observable variables, the wealth of veterans from the 1992 cohort entering retirement is similar to the wealth of nonveterans. This is not the case for the 2010 cohort. After standardizing for differences in observable factors, veterans have about 10 to 13 percent less wealth than nonveterans.

Couples' and Singles' Savings After Retirement *by Mariacristina De Nardi, Eric French, and John Bailey Jones* WP 2015-322

- We develop a model of optimal lifetime decision-making and estimate key properties of the model. We find that singles live less long than people who are part of a couple and are more likely to end up in a nursing home in any given year. For that reason, singles also have higher medical spending, per person, than people who are part of a couple.
- We also find that assets drop sharply with the death of a spouse. By the time the second spouse dies, a large fraction of the wealth of the original couple has vanished, with the wealth falls at the time of death of each spouse explaining most of the decline.
- A large share of these drops in assets is explained by the high medical expenses at the time of death. This suggests that a large fraction of all assets held in retirement are used to insure oneself against the risk of high medical and death expenses.

Narrow Framing and Long-Term Care Insurance *by Daniel Gottlieb and Olivia S. Mitchell* WP 2015-321

- We evaluate how key elements from prospect theory shape insurance decisions and delayed retirement. Theory suggests that narrow framing plays a particularly important role in decision-making under uncertainty.
- We show that narrow framers have a substantially lower demand for long-term care insurance, and the result is robust to controlling on a host of factors including health, cautiousness, risk aversion, probability of needing LTC, and sociodemographics.
- Narrow framing is a more important deterrent to people's LTC insurance purchases than factors previously suggested, such as risk aversion and private information.
- Narrow framing, therefore, is an important contributor for people's unwillingness to buy long-term care coverage, thus exposing them to old-age poverty.

Liquidity Constraints, the Extended Family, and Consumption *by HwaJung Choi, Kathleen McGarry, and Robert F. Schoeni* WP 2015-320

- Despite widespread anecdotal evidence of beneficence, empirical tests have rejected altruism as a motivation for behavior. However, economic models also suggest that individuals save in order to smooth consumption and cope with declines in income. A negative shock need not necessitate assistance from family if individuals have their own wealth holdings or have access to credit.
- A rigorous test would be based on changes in consumption. Our estimates using comprehensive information on consumption from 1999-2011 imply similar qualitative conclusions about altruism; we reject the predictions of the strict altruism model.
- However, the estimates from the static and dynamic models taken together imply suggestive evidence in favor of effects of dynastic income on own consumption.
- We go on to test whether the response of own consumption to changes in transitory income is dependent on not only one's own wealth, but the wealth of the extended family. We find some evidence indicating that the effect of transitory income on consumption is influenced by the level of wealth held by extended family members.

III. Program Interactions

Lifetime Consequences of Early and Midlife Access to Health Insurance: A Review *by Etienne Gaudette, Gwyn Pauley and Julie Zissimopoulos* WP 2016-341

- The effects of health insurance on economic outcomes is well studied, but not conclusive. It appears that some measures of economic outcomes such as education, household wellbeing, and delayed care due to cost are affected by health insurance. The effect on other outcomes such as labor supply, wages, and welfare participation are unclear.
- Evidence on the relationship between health and health insurance has strengthened over the past decade, but uncertainty remains about its overall impact. Mortality of children and at risk adults may improve due to insurance, as do health limitations in adulthood and some risk factors. However findings on subjective and mental health are not decisive.
- When comparing results across studies, it is important to consider the study sample.

The Retirement and Social Security Benefit Claiming of U.S. Military Retirees *by David Knapp, Beth Asch, Jim Hosek, and Michael Mattock* WP 2015-336

- Theoretically, under alternative exploratory assumptions, the income effect will tend to dominate at higher levels of the military pension, implying that the military retirement benefit increases retirement.
- Empirically, the income effect is also the dominant effect; a higher military retirement benefit increases the likelihood of retiring from the labor force among Medicare-eligible military retirees, conditional on still working full time at age 64.
- The difference-in-difference estimate is statistically significant and large, implying a 1 percent increase in the monthly benefit would result in a 5.9 percent greater likelihood of retirement at ages 65 and older.
- Expansion of the military pension is also associated with delayed claiming of Social Security benefits, though our estimates are not statistically significant.
- Additional research is needed, preferably using administrative military personnel data merged with Social Security data, permitting larger sample sizes for analysis.
- The preliminary policy implications of the findings are:
  - Military retirees are a distinct population in terms of their retirement and claiming behavior.
  - Consequently, their welfare during retirement as well as the cost of Social Security benefits are likely to differ from that of the general population.

Racial Difference in the Use of VA Health Services *by Chichun Fang, Kenneth Langa, Helen Levy, and David Weir* WP 2015-334

- Veterans who are more than 65 years old or who have health insurance coverage through employment are less likely to use VA services.
- The perception regarding quality of services delivered in VA versus non-VA facilities also strongly affects VA usage.
- Black veterans tend to have more favorable views about VA, and a sizable portion of racial difference in usage can be attributed to the racial difference in perception.
- We show that the health care services delivered in VA are at least partially substituted by services obtained in other channels, and attitudinal factors play important roles in usage.
- Our findings provide insights to estimate the future demand for VA services and to improve the racial disparity in utilization.

Medicare Expenditures, Social Security Reform, and the Labor Force Participation of Older Americans *by Yuanyuan Deng and Hugo A. Benítez-Silva* WP 2015-330

- This paper provides an empirical analysis of the effects on Medicare costs of the changes in the OA system, resulting from the 1983 amendments.
- Using data from the Medicare Current Beneficiary Survey (MCBS), we empirically analyze the Medicare expenditures of individuals around retirement age as a function of their health insurance coverage and labor market attachment.
- Our results show a significant effect of employment measures, as well as insurance coverage types, suggesting a sizable effect of employment and insurance on Medicare expenditures, as well as on total health expenditures and on out-of-pocket health expenditures.
- Our findings allow us to compute the total savings to the Medicare system resulting from individuals working while receiving health insurance coverage at older ages. We estimate savings of $2.89 billion a year, as well as another $333.67 million per year resulting from delayed enrollment into the Medicare system, given that some individuals do not enroll in Medicare when first available, and this is more common among those who work and have insurance coverage.
- These results suggest that any future reform to the social insurance system will have to account for the effect on Medicare costs of policies that likely lead to increases in employment and employer provided health insurance coverage among populations eligible for Medicare.

The Effect of Health Reform on Retirement *by Helen Levy, Thomas C. Buchmueller, and Sayeh Nikpay* WP 2015-329

- We find no evidence of an increase in retirement or a shift to part-time work among older workers during the first 18 months in which the Affordable Care Act's new alternatives to employer-sponsored coverage were widely available.
- It may still be the case that, over time, retirement patterns will shift in response to the significant new incentives embodied in these programs.

- Several factors may have led prospective retirees to exercise caution in relying on ACA coverage in 2014. First, there were well-publicized obstacles to enrollment in health insurance exchanges in the first open enrollment period in late 2013 and early 2014. Second, prospective retirees may have been prudently waiting to see whether the ACA reforms survived significant legal challenges that were not resolved until a U.S. Supreme Court ruling (King versus Burwell) in June 2015.

- As the ACA's reforms become more firmly established and more familiar, the availability of subsidized coverage that is not tied to employment may still lead to increases in early retirement or shifts to part-time work among older workers in the near future.

Understanding Participation in SSI *by Kathleen McGarry and Robert F. Schoeni* WP 2015-319

- Discussions of potential changes frequently include increases in the normal retirement age and changes to the Consumer Price Index—both of which will reduce benefits. These benefit reductions are likely to have significant implications for the well-being of low-income elderly who depend heavily on Social Security.

- There remains a subset of elderly with incomes below the poverty line, and many of these individuals are not enrolled in the SSI program. Here we begin to examine the relationship between family and public assistance.

- While we find some evidence of substitution between sources of assistance, it is small.

- We are currently augmenting our study with additional years of data and a more complete accounting of state benefits.

Does Protecting Older Workers from Discrimination Make It Harder to Get Hired? Revised with Additional Analysis of SIPP Data and Appendix of Disability Laws *by David Neumark, Joanne Song, and Patrick Button* WP 2015-315

- Disability discrimination laws are likely to have a disproportionate impact on older workers, and could encourage or discourage hiring of older workers.

- State variation in disability discrimination protections allows estimation of the effects of varying strength of disability discrimination protections on hiring of older (and other) workers.

- State disability discrimination laws that use a broader definition of disability than the ADA appear to raise, rather than reduce, hiring of nondisabled older workers.

- Stronger state disability protections reduce hiring of at least younger disabled workers.

- There is no evidence of adverse effects of disability discrimination laws on older workers, and our best evidence points to positive effects on hiring of older workers, as does complementary evidence on stronger state protections against age discrimination.

IV. International

Means Testing Social Security: Modeling and Policy Analysis *by Rafal Chomik, John Piggott, Alan D. Woodland, George Kudrna and Cagri Kumru* WP 2016-337

- Contrary to conventional wisdom, our analysis has found that means testing delivers fewer overall distortions and increased welfare compared to a universal pension offering the same maximum benefit level.

- Compared to an OECD average of 9.5% of GDP allocated to pension spending, Australia's annual spend is 2.9% of GDP. Hence, the comparison with many OECD countries reveals that Australian pension arrangements are cheaper both at present and based on future projections. The lower cost is largely due to the flat rate benefit and means testing.

- Means testing also increases incentives for self-provision. Reduced or zero public benefits payable to the richest groups of retirees can improve labour force participation for that group. Lower public spending on pensions can lead to higher aggregate labour supply – modelled to be 1.4% higher with means testing than with a universal pension.

Comparing Retirement Wealth Trajectories on Both Sides of the Pond *by Richard Blundell, Rowena Crawford, Eric French, and Gemma Tetlow* WP 2015-333

- We find that American retirees decumulated wealth over the 2002-2012 period much more rapidly than English households of the same age.

- This difference is partly, but not entirely, due to more rapid house price appreciation in England over the sample period.

- Our results suggest the illiquid nature of housing is likely to be an important factor in explaining wealth drawdown at older ages.

Social Security Contributions and Return Migration among Older Male Mexican Immigrants *by Emma Aguila and Alma Vega*
WP 2015-324

- In 2012, 32 percent of middle-aged and older Mexican return migrants living in Mexico reported having contributed to the U.S. Social Security system while in the U.S. and only 5 percent received or expected to receive U.S. Social Security benefits.
- Compared to those who did not contribute to the U.S. Social Security system, those who contributed were more likely to be U.S. citizens or legal permanent residents, reported higher levels of education (college education or more), and spent more years in the U.S.
- Mexican return migrants living in Mexico who spent one to nine years in the U.S. had a lower probability of transitioning to retirement between 2003 and 2012 than those had never been to the U.S. In contrast, those who spent 20 or more years in the U.S. had a higher probability of transitioning to retirement.

V. Working Longer

Occupations and Work Characteristics: Effects on Retirement Expectations and Timing *by Brooke Helppie McFall, Amanda Sonnega, Robert J. Willis, and Peter Hudomiet* WP 2015-331

- While the traditional blue collar-retire earlier and white collar-work longer associations emerge, we find interesting exceptions that suggest fruitful directions for future research.
- Findings from this study suggest that both HRS and O*NET variables are useful and probably complementary levers for understanding retirement outcomes.
- Many more occupations are associated with earlier workforce departure than longer work, suggesting that increased attention be paid to identifying characteristics of occupations that encourage earlier retirement rather than just longer work.
- Case studies would be an important step to delve into the black box of what it means to work in a particular job and how that affects retirement outcomes.

Nonmonetary Job Characteristics and Employment Transitions at Older Ages
by Marco Angrisani, Arie Kapteyn, and Erik Meijer
WP 2015-326

- We provide a comprehensive examination of the various nonmonetary, work-related factors that affect the dynamics of labor-force withdrawal at older ages and of whether the effects are driven by individuals' perceptions and/or by objective job demands and characteristics.
- We find that objective physical job demands are more powerful determinants of retirement, while perceived ones are more important drivers of the decision to move from full-time to part-time. Objective level of social interactions on the job decreases the likelihood of retirement, while perceived task difficulty and job-related stress make individuals more likely to withdraw from the labor force.
- Objective and perceived nonmonetary job characteristics also affect retirement plans. Specifically, physical demands decrease distance from planned retirement and the subjective probability of working full-time after age 62 and 65. Social skills requirements are associated with greater distance from planned retirement age, as well as with higher likelihood of working past age 65.

2016 Funded Projects

Adjusting the Payroll Tax to Promote Longer Careers
John P. Laitner and Daniel Silverman [UM16-01]

The Affordable Care Act as Retiree Health Insurance: Implications for Retirement and Social Security Claiming *Alan L. Gustman, Thomas L. Steinmeier and Nahid Tabatabai* [UM16-02]

Occupational Transitions Among Older Workers
Amanda Sonnega, Brooke Helppie McFall and Robert J. Willis [UM16-03]

Do State Age Discrimination Protections Reduce Hiring Discrimination Against Older Workers? *David Neumark* [UM16-04]

Older Peoples' Willingness to Delay Social Security Claiming *Olivia S. Mitchell and Raimond Maurer* [UM16-05]

The Interaction Between Consumption and Health in Retirement *John Karl Scholz and Ananth Seshadri* [UM16-06]

Examining the Relationship between Caregiving and Work *Sean Fahle and Kathleen McGarry* [UM16-07]

Job Demands and Job Sustainability Over the Life Course *Kathleen Mullen, Nicole Maestas and Jeffrey B. Wenger* [UM16-08]

The Effect of Social Security Information on the Labor Supply of Older Americans *Philip Armour and Michael Lovenheim* [UM16-09]

Issue Brief: Occupational Differences in Rates of Cognitive Decline *Brooke Helppie McFall and Amanda Sonnega* [UM16-10]

Cohort Changes in Social Security Benefits and Pension Wealth *Chichun Fang, Charles Brown, and David Weir* [UM16-11]

How Home Equity Extraction and Reverse Mortgages Affect the Financial Well-Being of Senior Households *Stephanie Moulton, Donald Haurin and Maximilian D. Schmeiser* [UM16-12]

The Impact of Unemployment and Re-Employment on Household Consumption Measured at High Frequency over a Six-Year Period *Michael Hurd and Susann Rohwedder* [UM16-13]

Time Discounting and Economic Decisionmaking Among the Elderly *Olivia S. Mitchell, David Huffman and Raimond H. Maurer* [UM16-14]

Health Reform and Health Insurance Coverage among Early Retirees *Helen Levy, Thomas C. Buchmueller and Sayeh Nikpay* [UM16-15]

The Effects of Health on the Labor Supply of Older Workers *Richard Blundell, Eric French, Jack Britton and Monica Costa Dias* [UM16-16]

Working Conditions and Sustainable Work at Older Ages: An International Perspective *Jeffrey B. Wenger, Kathleen Mullen and Nicole Maestas* [UM16-17]

The Effects of Means-Tested Minimum Old-Age Benefits in Poverty Rates and Well-Being: Studying the 2008 Chilean Pension Reforms *Italo Lopez-Garcia and Andres Otero Correa* [UM16-18]

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www.mrrc.isr.umich.edu

Michigan Retirement Research Center
Institute for Social Research
University of Michigan
426 Thompson Street, Room 3026
Ann Arbor, MI 48104-2321

Director: John P. Laitner
Associate Director: Dmitriy Stolyarov
External Relations: Susan Barnes
Administrative Manager: Cheri Brooks

Phone: (734) 615-0422
Fax: (734) 615-2180
E-mail: mrrcumich@umich.edu
Web: www.mrrc.isr.umich.edu

The Michigan Retirement Research Center is supported by a cooperative agreement with the Social Security Administration.

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