Panel 6: Household Resources in Old Age

Labor Supply and Social Networks

Gary V. Engelhardt
Syracuse University

SSA-RRC Presentation
August 5, 2016

Work, Retirement, and Social Networks

- Large, long-standing literature in public health and sociology and demography of aging on social support
- Social networks have received substantial recent attention in economics
- Social connections may affect employment, labor supply, and education, especially for younger individuals
- Little work done on older individuals and the reverse channel: how work affects social networks

Work, Retirement, and Social Networks

- Employment may provide opportunities to expand one's social network
- Employment might crowd out time to foster social ties
- Transitions out of the labor force at older ages may induce large changes in social networks
- This paper examines the impact of work and retirement on social networks
  - Joint with Eleonora Patacchini (Cornell University)

NSHAP Overview

- It uses novel data from the National Social Life, Health, and Aging Project (NSHAP)
- Wave 1
  - National stratified random sample
  - Age 57 and older in 2005-6
  - Around 3,000 individuals

NSHAP Overview

- Wave 2 in 2010-11
  - Interviews with surviving respondents and their spouses, cohabitating partners, and romantic partners
  - About 3,400 respondents
- Wave 3 in 2015-16
  - About 2,300 respondents
  - Plus a new cohort

NSHAP Overview

- Standard demographic information
- Extensive health information
- Basic information on work
  - Worked in the last week
  - Hours work in the last week
  - Self-reported labor-force status
    - Retired
    - Working
    - Disabled
    - etc.
- Also gathered social network roster information

Measuring Social Networks in the NSHAP

"Now we are going to ask you some questions about your relationships with other people. We will begin by identifying some of the people you interact with on a regular basis…From time to time, most people discuss things that are important to them with others. For example, these may include good or bad things that happen to you, problems you are having, or important concerns you may have. Looking back over the last 12 months, who are the people with whom you most often discussed things that were important to you?"

Measuring Social Networks in the NSHAP

- For those with spouse, partner, romantic partner, up to 6 names allowed (alters)
- For those without, up to 5 names
- Gender and relationship to respondent were recorded
  - Spouse, partner, romantic partner
  - Kin
  - Friend, neighbor
  - Co-worker
  - Other
- No labor supply or demographic information on roster members

Measuring Social Networks in the NSHAP

- For each potential pair of individuals on roster, NSHAP asked the respondent the frequency with which the individuals talk
  - In person
  - Telephone
  - E-mail
- Allows for the construction of a variety of measures of social connectedness
  - Validated in sociological studies
  - Associated with life-course factors

Analysis Sample

- 1,338 individuals
- Under age 70 in Wave 1
- Survived to Wave 2
- Sample is primarily
  - Married (73%)
  - White (76%)
  - More than a high school education (62%)

Labor Supply Measures at Baseline

- Worked last week (45%)
- Hours worked (16)
- Retired (48%)

Social Network Measures at Baseline

- Network size (4.4 persons)
- Composition
  - Spouse, Cohabitating Partner, Romantic Partner (20%)
  - Parent (3%)
  - Child (28%)
  - Sibling (12%)
  - Other relative (7%)
  - Friend/Neighbor (24%)
  - Co-Worker (3%)
  - Other (2%)
  - Female (61%)
- Alter pairs (8.6); Density (0.85)

Cross-Sectional Correlations in Wave 1

- Higher labor supply correlated with
  - Lower network size
  - More co-workers in network
  - Fewer friends/neighbors in network

Why Correlations Might Not Be Causal

- Many observable differences between those who do and do not work that might be correlated with social connectedness
- Many unobservable differences

Panel Data Estimation

- To address these, move to a regression framework
- NSHAP is longitudinal
  - Account for time-invariant unobserved heterogeneity using fixed effects
- NSHAP has rich data on marital status, health, insurance coverage, income, and assets that might be changing within an individual over time
  - Control for those directly

Why Correlations Might Not Be Causal

- Reverse causality
  - Labor supply affects social networks
  - Social networks affect labor supply
- To address this, need instruments and IV estimation
- Draw from large literature on the impact of Social Security on labor supply and incentives to work at older ages

Panel IV Estimation Strategy

- Instrumental variables based on eligibility to claim Social Security benefits
  - Early claiming at 62
  - Full retirement at 65
  - Higher depending on birth year
- Labor-supply incentives non-linear in age
- We model first-stage (panel) labor supply as function of marital status, health, age (linearly), and indicators for the above age cut-offs for claiming

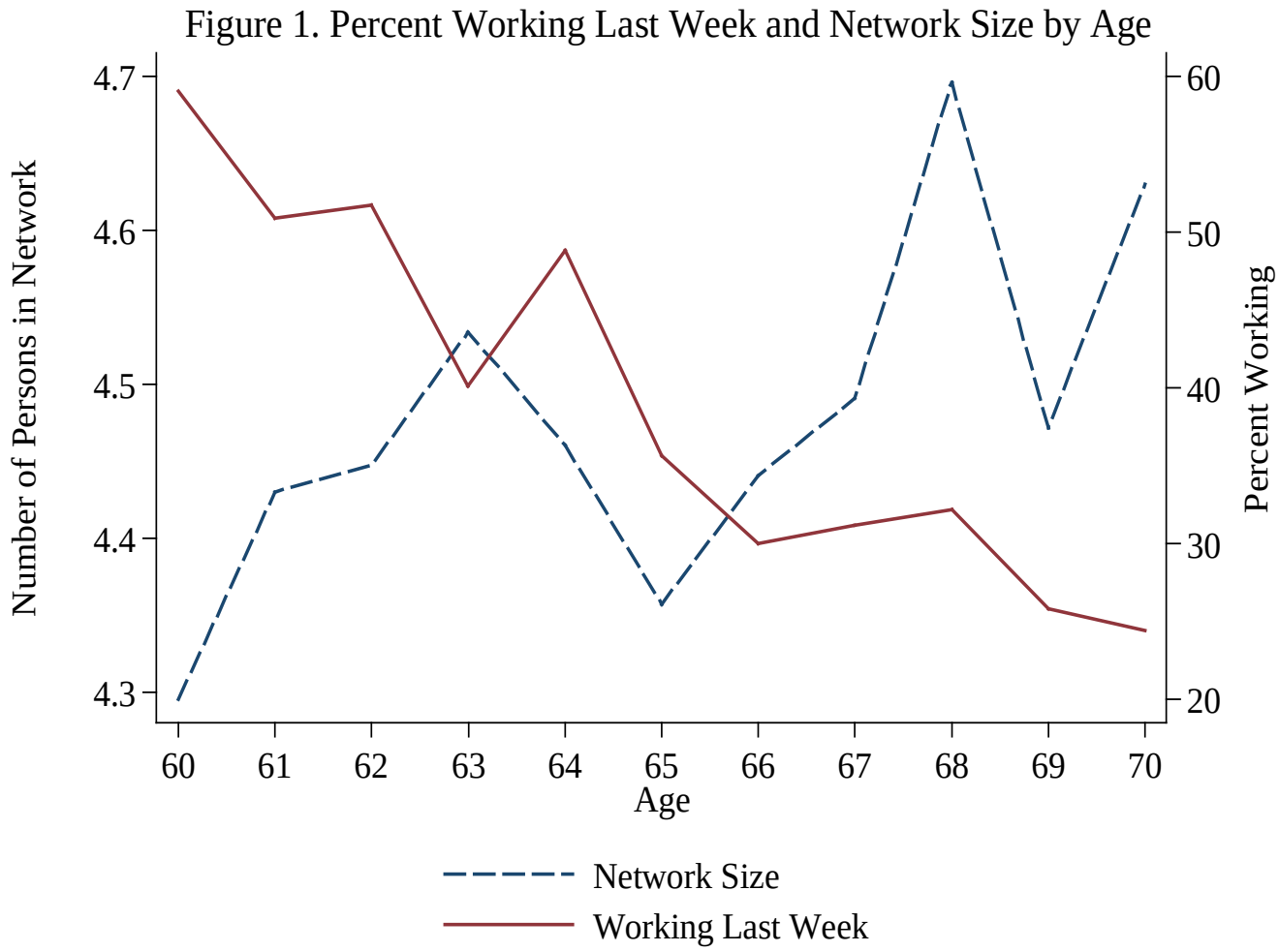
Panel IV Estimation Strategy

- Instrument relevance
  - Strong first-stage impacts on labor supply
- Instrument excludability
  - SS age effects only work through labor supply to affect social networks
  - Control for income, assets, and health insurance coverage
- Instrument exogeneity
  - Conditional on observables changing over time, no other unobservable factors trending over time for an individual that would impact social networks non-linearly in age in a manner similar to SS

Panel IV Estimation Strategy

- Rule out by assumption that strength of social ties has impact on first-stage responsiveness of labor supply to SS age-eligibility for claiming

Work and Network Size by Age



Summary of Findings

- Work raises the size of one's social network
  - Impacts for both labor-force participation and hours
  - Doubling the number of hours worked increases network size by 16%
- Retirement lowers the size of one's social network
  - Retirement is associated with a reduction in the size of the social network by 19%

Summary of Findings

- These effects are concentrated among women
  - Work and retirement have no impact on the size of men's social networks
- These effects are concentrated among those with more than a high school education
  - Work and retirement have no impact on the size of the social network for those with a high school degree or less

Summary of Findings

- Also examined impacts of work and retirement on
  - Network composition
  - Network density
- Estimates were too imprecise to draw firm conclusions

Caveats and Extensions

- Findings are intriguing, but preliminary
- Some results are low powered
- Need to make link from social networks to social support
  - Many measures of social support in the NSHAP
- Get inside black box
  - Nature of the differences by gender and education
  - How work affects social ties
- Wave 3 of NSHAP becomes available soon
  - Better identify and sharpen estimates

18th Annual Meeting of the Retirement Research Consortium

Panel Topic: Household Resources in Old Age

Disscussant on Gary V. Engelhardt: "Labor Supply and Social Networks"

Dr. Jason J. Fichtner
Senior Research Fellow
Mercatus Center

August 5, 2016

MERCATUS CENTER
George Mason University

Framing My Comments

- This paper focuses on retirement and social networks
  - (what non-economists would call “friends, family and coworkers”)
- I only have 10 minutes –
- Asked not to get bogged down in methodological issues – but there are a few we should mention
- Instead focus on broader policy context for discussion –
- Start with a joke:
- George Burns was once encouraged to date women his own age –
  - His reply?
  - **There aren’t any!**

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General Thoughts

- The paper examines the impact of work and retirement on the size, density and composition of social networks for older Americans
- This is important research because we always hear about the negative effects of peer pressure – think back to your days in high school
- But “peers” are very important in older age. Peers are our friends, family and coworkers that we trust and value – many studies link robust social networks to overall health and wellness, especially in older ages
- Positive peer pressure from social networks can be very valuable transmitting / reinforcing good activities (work & financial advice)

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Engelhardt General Research Findings

- Author uses data from National Social Life, Health, and Aging Project (NSHAP) – survey looking into role that social support and relationships play in health and aging
- Author's two primary findings:
  - Labor supply raises (and retirement lowers) as the size and density of one's social network increases
  - Most of these effects occur for women and individuals with a post-secondary education
  - Not much effect for men
- Bottom-line here is that to the extent networks are good for mental and financial well-being, then later retirement is better for people

Methodology

- Author's research question is how does work and retirement affect social networks
- Network composition and size can change at retirement for a variety of reasons:
  - Move to a different environment (Florida, or kids/grandkids new hometown)
  - Substitution of hobbies for work
  - Network mortality should increase with age
  - Change in marital / relationship status , including widow(er)hood
  - Change in partners workforce participation status
- Author therefore does try to control for many variables in the research

Methodology

- But several other factors should be investigated:
  - Spousal Labor Force Participation / Retirement?
  - Any mortgage balance at retirement?
  - Employer sponsored health benefits in retirement?
  - Other health issues or financial assets that could impact work / retirement decision?
  - Findings note that the increase in the Social Security full retirement age (FRA) was correlated with the dot com bust – hence people could be working not to preserve a social network, but due to a negative wealth shock.
- People could also be delaying retirement / working in retirement:
  - Because they have to (income needs, health cost, etc.)
  - Because social networks have shifted from community basis to work basis, or
  - Because conditional on a spouse working or retired

Methodology

- The finding that networks shrink in retirement could be:
  - Short run adjustment shock, following a move, or adjustment to a new social norm (hobby, senior center, part time work, etc.)
  - A function of long run increases in mortality past the retirement age, which have little to do with networks
    - Especially given dual selection into longer work by (i) healthy and sharp workers and (ii) profit/marginal product motivated employers.
- Lastly, as someone who constantly peer-reviews papers & has papers peer-reviewed, I'm cautious of telling an author "Nice paper. But you should have written *this* paper instead."
- But that's what I'm going to do!
- Author's research question is how does work and retirement affect social networks --- instead ask: "How do social networks affect work and retirement decisions

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Public Policy and Further Research

- The instrumental variable fixed-effects estimation strategy is fine – nothing objectionable
- But, the NSHAP data would seem to be a gold mine of opportunities to explore really important questions on how networks affect work and retirement decisions:

➢ Do peers influence when to retire and whether to continue working in retirement (part-time for pay / not for pay volunteering)

➢ Can social networks be an avenue for transmitting important positive education to peers – social security claiming decision, health care decisions, financial literacy issues such as investments, fraud prevention, reverse mortgages, etc.

➢ Do social networks help contribute to a healthier retirement – or does working in retirement help? Or both?

➢ Why so little effect for men?

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Thank You!

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Longitudinal Determinants of End-of-Life Wealth

James Poterba, Steven Venti & David Wise

Retirement Research Consortium Meeting

Washington, DC – August 5 2016

Pathways to Low Wealth Late in Life

- Low Saving Path: Reach retirement with low wealth
- High Spending Path: Reach retirement with wealth, draw down wealth after retirement for health expenses or other needs

HRS & AHEAD Data

- Five entry cohorts
- All survey participants who are known to have died in the survey and were 65 or older at time of death
- All survey participants who were observed at age 65
- Sometimes compare repeated cross-sections, other times track respondents in panel data (small sample of deaths)

Two Measures of “Low Wealth”

- Financial assets including personal retirement accounts
  - Consider < $10K, $25K, and $50K
- Total assets (financial assets + home equity + other real estate + business assets)
  - Consider < $25K, $50K, $100K

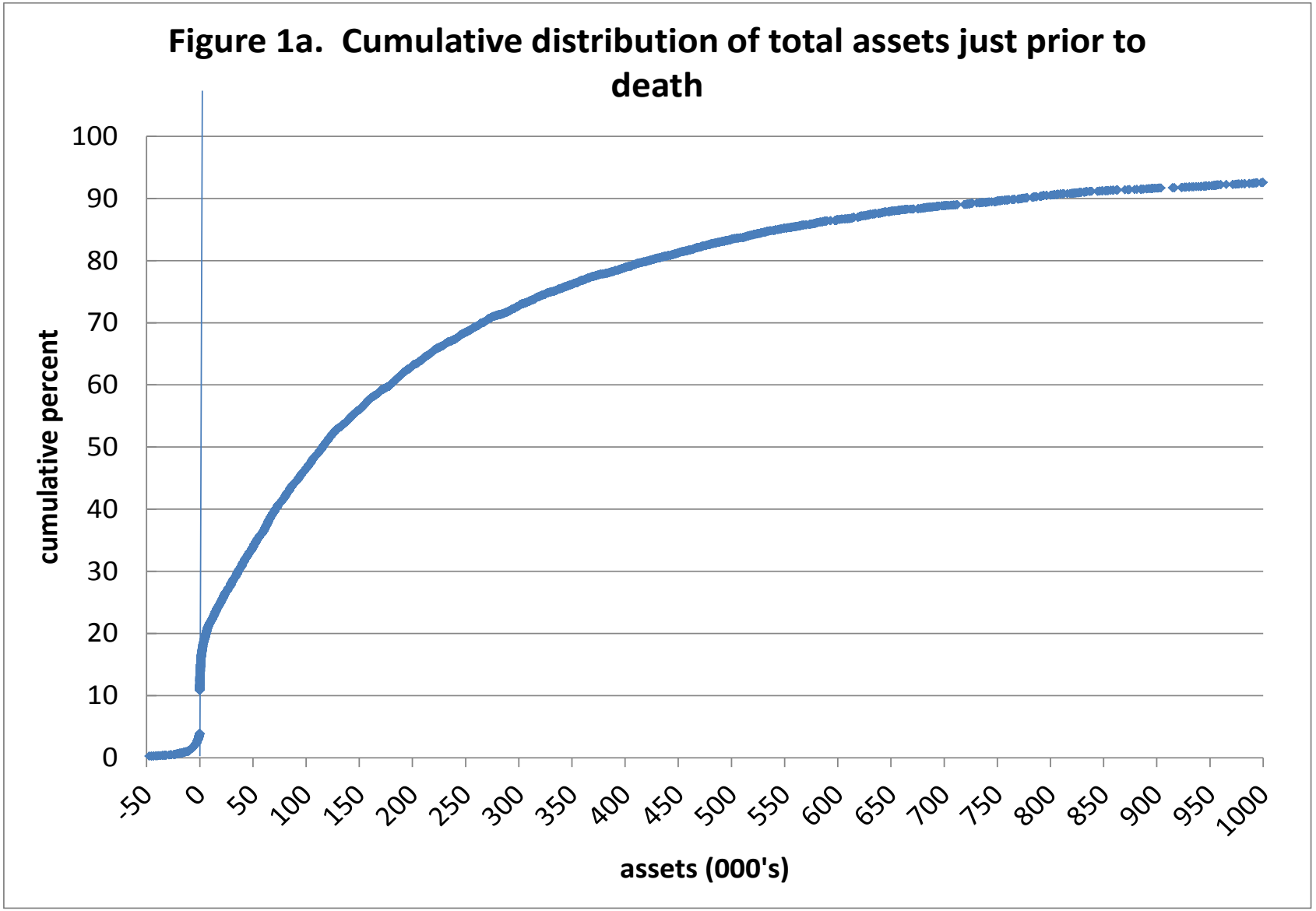
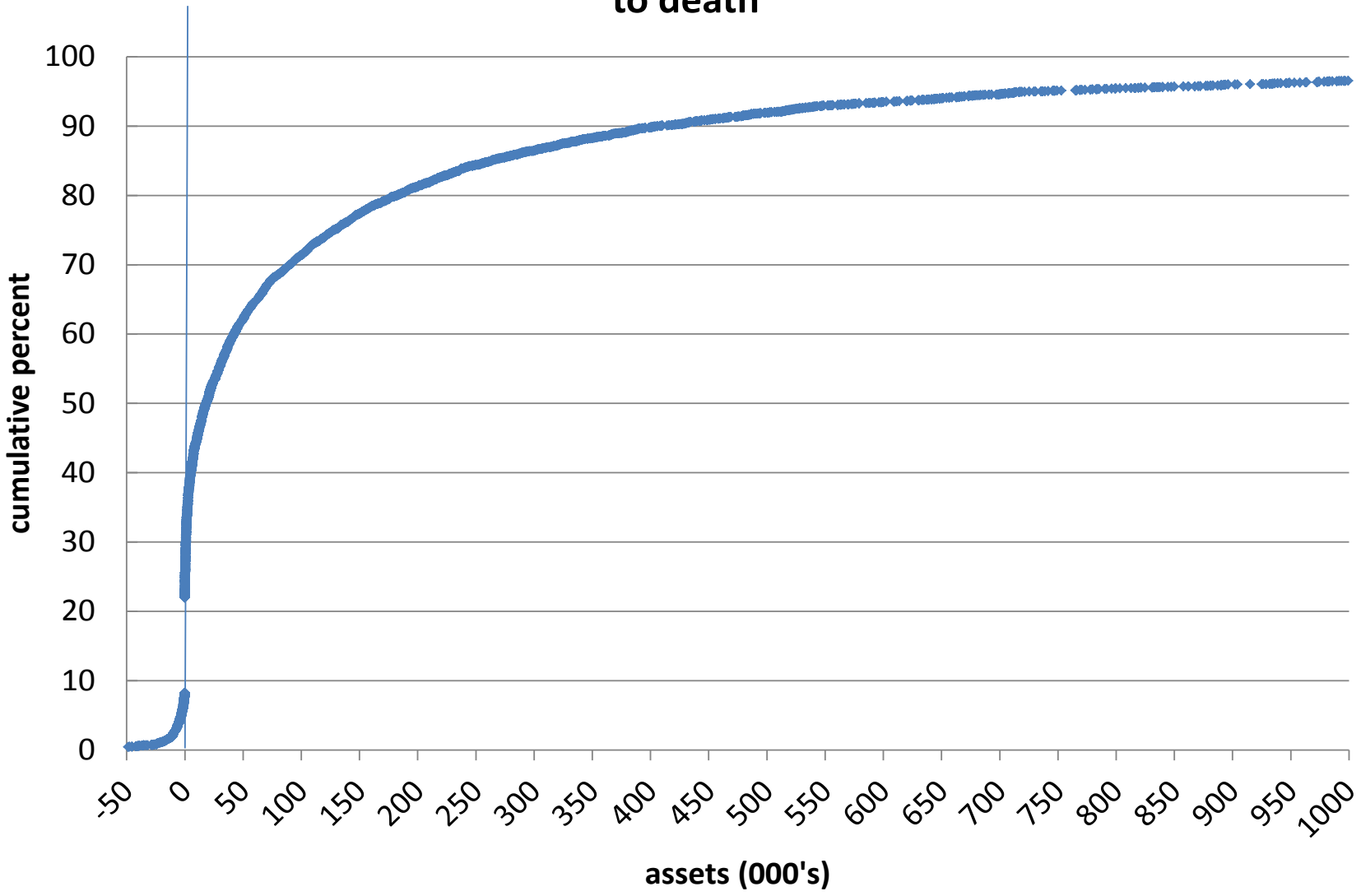


Figure 1a. Cumulative distribution of total assets just prior to death
cumulative percent
100
90
80
70
60
50
40
30
20
10
0
-50
0
50
100
150
200
250
300
350
400
450
500
550
600
650
700
750
800
850
900
950
1000
assets (000's)

Figure 1b. Cumulative distribution of financial assets just prior to death



Total Assets @ 65 by Lifetime Earnings Decile

Decile	Mean Total Assets	% < $50K
Third	$290.5	33.4%
Fourth	487.3	29.6
Fifth	488.7	15.8
Sixth	543.1	12.8
Seventh	552.8	7.3
Eighth	684.7	3.8
Ninth	830.5	3.2
Tenth	1438.6	4.1
ALL (3-10)	665.5	13.8

Total Assets @ 65 < $50K by Earnings Decile & Education

Decile	GED or HS	College or Beyond
Third	21.7%	13.5%
Fourth	30.6	17.0
Fifth	18.1	9.0
Sixth	11.8	3.3
Seventh	10.2	0.0
Eighth	4.4	2.2
Ninth	1.4	0.0
Tenth	6.7	0.0
ALL (3-10)	13.0	4.2

Financial Assets @ 65

Decile	< $10K	< $25K
Third	55.2%	63.6%
Fourth	47.4	52.2
Fifth	29.5	40.4
Sixth	21.6	30.6
Seventh	17.4	26.8
Eighth	10.3	14.8
Ninth	9.2	14.2
Tenth	6.6	8.8
ALL (3-10)	24.7	31.4

(Total Assets/Lifetime Income) @ 65; Means by Education & Decile

Decile	High School	Some College	College +
Third	0.34	0.25	0.73
Fourth	0.23	0.62	0.57
Fifth	0.21	0.26	0.55
Sixth	0.17	0.25	0.66
Seventh	0.17	0.27	0.37
Eighth	0.16	0.22	0.43
Ninth	0.22	0.24	0.40
Tenth	0.22	0.30	0.50
ALL (3-10)	0.20	0.29	0.48

Financial Assets < $25K @ 65 and @ Death: Repeated X-Section

Decile	@65	@Death
Third	63.6%	62.3%
Fourth	52.2	54.5
Fifth	40.4	51.0
Sixth	30.6	39.8
Seventh	26.8	38.6
Eighth	14.8	35.0
Ninth	14.2	28.6
Tenth	8.8	21.0
ALL (3-10)	31.4	41.4

Total Assets < $50K @ 65 & @ Death: Sample Dead by 2012

Decile	@65	@Death
Third	42.1%	41.3%
Fourth	34.1	31.1
Fifth	25.7	28.0
Sixth	19.9	21.6
Seventh	14.3	13.5
Eighth	5.0	13.7
Ninth	6.3	10.5
Tenth	0.0	7.1
ALL (3-10)	19.5	20.9

Total Assets < $50K @ 65 & @ Death: All Deciles Dead by 2012

Education	@65	@Death
< HS	56.1%	63.1%
High School	23.9	28.0
Some College	22.9	32.0
College +	9.7	13.5
ALL	31.8	37.5

Financial Assets < $25K @ 65 & @ Death: All Deciles Dead by 2012

Education	@65	@Death
< HS	78.0%	82.6%
High School	48.7	55.4
Some College	38.7	46.9
College +	21.9	21.8
ALL	52.6	57.9

Figure 2. Percent of persons having experienced at least one major health condition by age

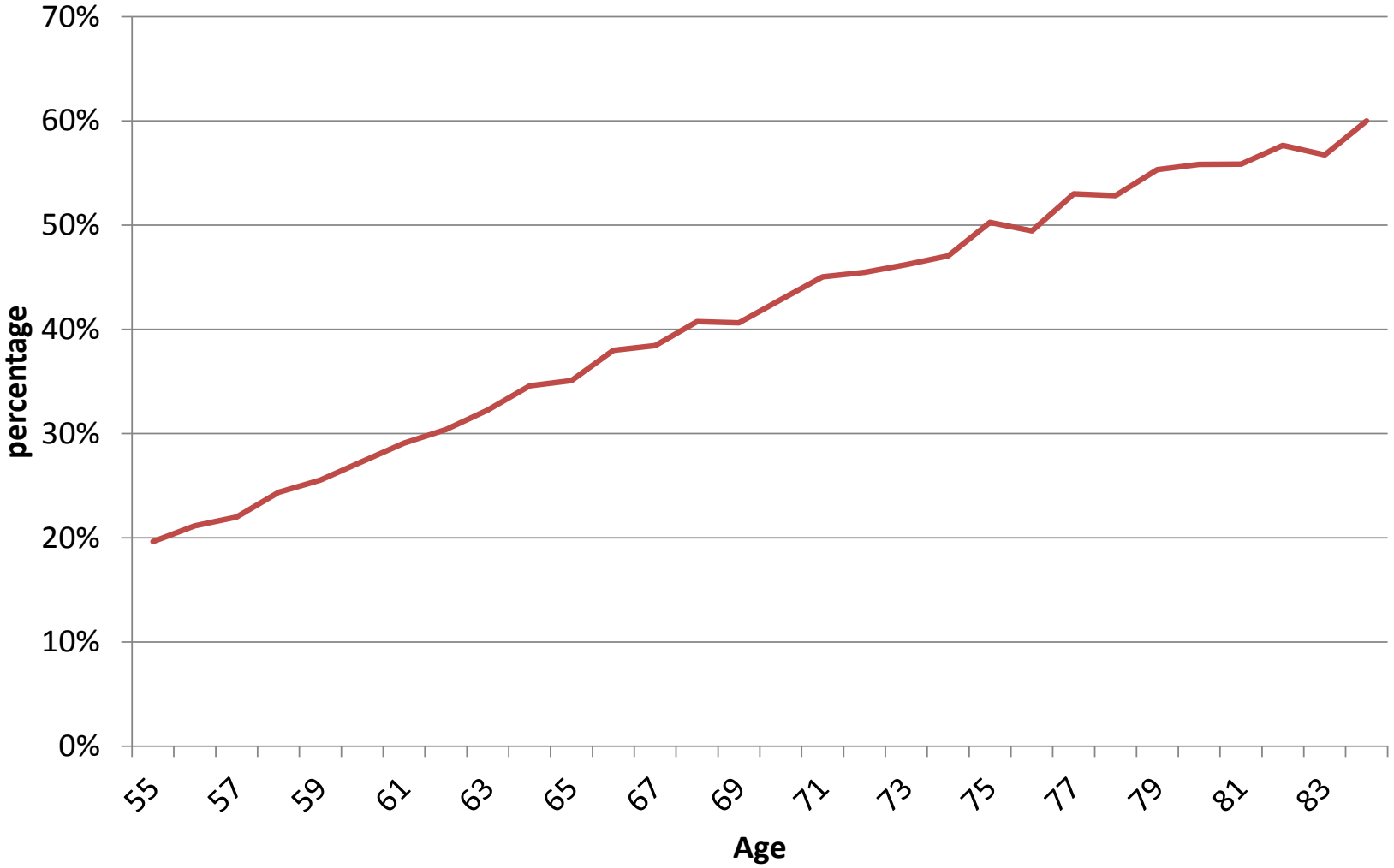
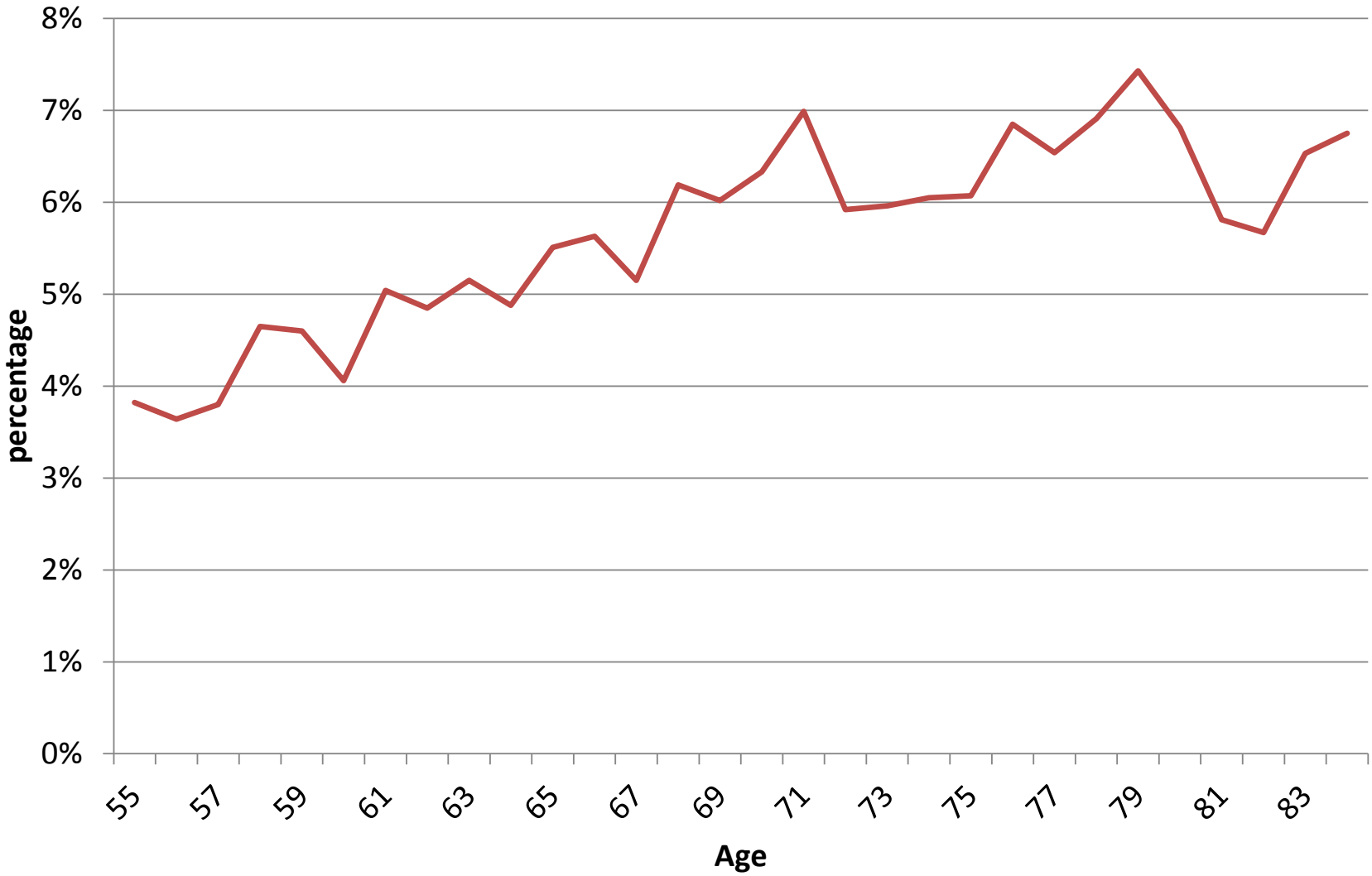


Figure 3. Percent of persons reporting their first major health condition by age



Total Assets < $50K Before and After 65+ Health Condition Onset

	Onset of Condition	No Condition
Wave Before	23.1%	20.3%
Wave After	25.4	21.1
Change	2.3	0.8

Financial Assets < $25K Before and After 65+ Health Condition Onset

	Onset of Condition	No Condition
Wave Before	43.5%	39.1%
Wave After	44.3	39.4
Change	0.8	0.3

Difference is not statistically significantly different from zero

Total Assets < $50K, 65+, Before and After Loss of Spouse

	Lost Spouse	Continuously Married
Wave Before	18.5%	11.3%
Wave After	22.4	12.0
Change	3.9	0.7

Financial Assets < $25K, 65+, Before and After Loss of Spouse

	Lost Spouse	Continuously Married
Wave Before	41.4%	29.9%
Wave After	40.6	30.2
Change	-0.8	0.3

What explains “escape” from low financial assets for survivors? Insurance? Sale of home? Estimates are also imprecise

Conclusions

- Most of those with low wealth in late life had low wealth at 65
- Health shocks and loss of spouse do increase probability of low wealth
- Low education strongly predictive of low late life wealth; low lifetime earnings less so

Discussion of "Longitudinal Determinants of End-of-Life Wealth"

Alice Henriques

Federal Reserve Board of Governors

August 5, 2016

Overview

- Focus on assets at retirement and at death
- How do people arrive at retirement?
- How and why that ‘decumulation’ occurs after retirement?

- Large discrepancy in assets at retirement by education, even conditional on lifetime earnings
- Slow spend-down, generally wealth at retirement and at death do not change drastically (few seem to run out of assets)
  - Although death of a spouse and major health event affect balances significantly

Role of Education

- Financial Literacy
- Selection into ‘better’ or different jobs?
- Differential health shocks before 65 (or after)?
- Bequests or inheritances?

- Role of retirement income
  - Replacement rate will impact potential drawdown rate
  - Different roles of *different* sources of retirement income across distribution

- PVW (2016) focus on education and income groups
  - Across distribution: different reasons for retiring and different goals and needs for saving/spending in retirement

Retirement Balances by Income, 2013
Survey of Consumer Finances, Cohort born 1951-1960

Usual Income Category	Median Usual Income	Median Private (DB + DC) Retirement Wealth
Bottom 50	$38,552	$6,500
Next 45	$103,669	$288,371
Top 5	$487,524	$716,000

Source: Survey of Consumer Finances, 1989-2013. See Devlin-Foltz, Henriques, and Sabelhaus (2016) for details.

Retirement Balances by Income, 2013
Survey of Consumer Finances, Cohort born 1951-1960

Usual Income Category	Median Usual Income	Median Private (DB + DC) Retirement Wealth	Median Social Security Wealth	Median Total Retirement Wealth
Bottom 50	$38,552	$6,500	$171,966	$204,465
Next 45	$103,669	$288,371	$343,373	$636,085
Top 5	$487,524	$716,000	$478,707	$1,123,748

Source: Survey of Consumer Finances, 1989-2013. See Devlin-Foltz, Henriques, and Sabelhaus (2016) for details.

Retirement Balances by Income, 2013
Survey of Consumer Finances, Cohort born 1951-1960

Usual Income Category	Median Usual Income	Median Private (DB + DC) Retirement Wealth	Median Social Security Wealth	Median Total Retirement Wealth	Ratio of Private Retirement Wealth to Usual Income	Ratio of All Retirement Wealth to Usual Income
Bottom 50	$38,552	$6,500	$171,966	$204,465	17%	530%
Next 45	$103,669	$288,371	$343,373	$636,085	278%	614%
Top 5	$487,524	$716,000	$478,707	$1,123,748	147%	231%

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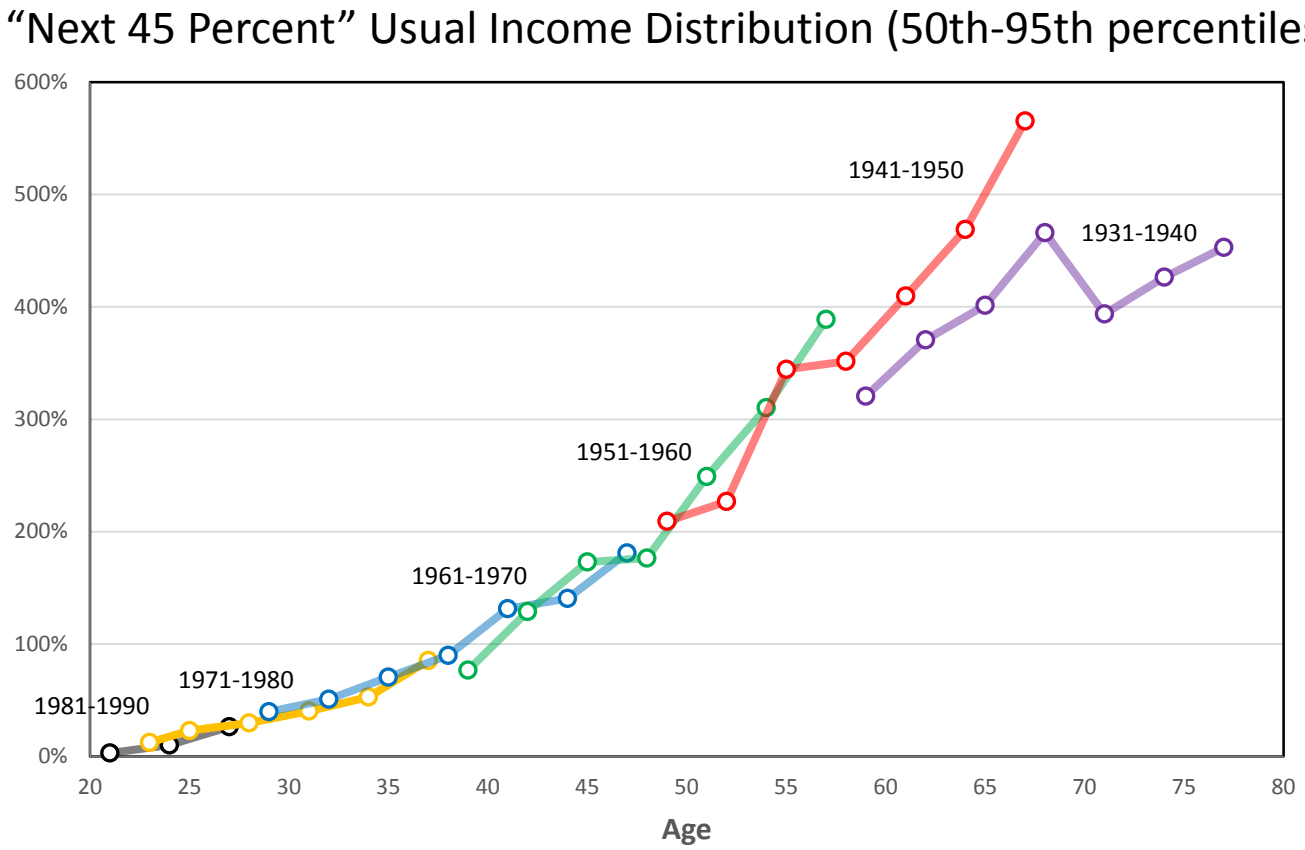
Planning for Retirement

- How do people ‘arrive’ at retirement?
- Analysis suggests that wealth is persistent and how one arrives at retirement is key

- Look at private retirement assets relative to (usual) income across the life-cycle using SCF synthetic cohorts

“Retirement Readiness”
Retirement Assets (DB+DC) to Income



Final Thoughts

- What is it that we care about?
  - Maintaining ‘baseline’ level of assets to protect against shocks?
  - Widows running out of funds?
- For whom is each “retirement” source working well? Both income and assets matter
- Want to look forward as well – cohorts who will retire soon – what is same as groups studied here, what is different?
- How to incorporate the household as joint unit

Thank you!

alice.m.henriques@frb.gov

Ami Ko's slides are not available.

FAMILY FINANCE HEALTH CARE

Money

Why Long-term Care Insurance Is Becoming a Tougher Call

Barbara Feder Ostrov / Kaiser Health News | March 8, 2016

KHN
KAISER HEALTH NEWS

Long-Term Care Insurance: Less Bang, More Buck

By Barbara Feder Ostrov | March 17, 2016

The Washington Post

Feds feel the burn over huge long-term-care price hike

By Joe Davidson | Columnist July 29

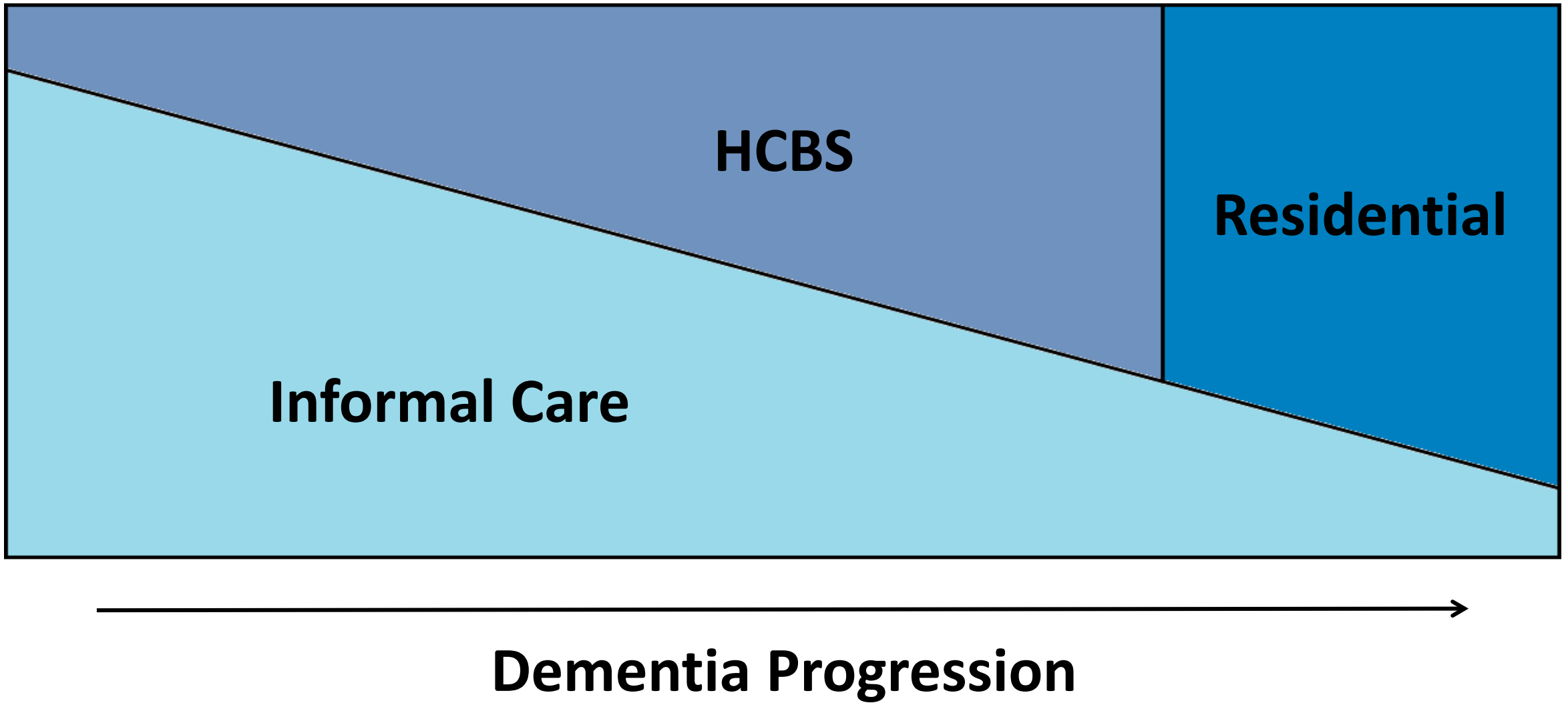
Selection in the Long-term Care Insurance Market

- “The actuaries got it wrong”
- Unravelling occurred for the attempt at social insurance, at the same time as the private market
- Empirical estimates are sorely needed; we can’t experiment much more

If We Tried to Design an Unsellable Insurance Product, It Would Look Like This…

- Long period paying premiums, no claims at all
- Adverse retention as well as selection
- Confusion about what Medicare and Medicaid paid for
- Need is hard to visualize
- Quality of care is hard to measure
- Providers lack a benign public image

Decisions and Settings of Care Are Not Sequential



Need Attention to Disparities and Distributional Consequences

- Mor et al. work on increasing quality differentials in residential care
- Like home ownership and 401Ks, LTC insurance may not be for everyone