



Promoting research on retirement and Social Security policy

Key Findings | 2017 Working Papers

I. Social Security and Retirement

SeaTE: Subjective ex ante Treatment Effect of Health on Retirement by Pamela Giustinelli and Matthew D. Shapiro WP 2018-382

- ▶ On average, older workers in the sample report that the chances of being in high health in two years is 83.4% and in four years is 76.5%.
- ▶ The average chance of continued working in two years is 65.9% and in four years is 52.7%.
- ▶ Older workers' health and retirement expectations interact. Being in high health rather than low health increases the chance of working in two years by 28.5 percentage points and in four years by 25.7 percentage points.

Shocks and Transitions from Career Jobs to Bridge Jobs and Retirement: A New Approach by John Ameriks, Joseph Briggs, Andrew Caplin, Minjoon Lee, Matthew D. Shapiro, and Christopher Tonetti WP 2018-380

- ▶ Even though a direct transition from a career job to full retirement is still the most common pattern, many older Americans reveal interest for working beyond the career job.
- ▶ Within this sample of older Americans with positive financial assets, 38% of had a postcareer

bridge job and another 7% looked for a post-career employment.

- ▶ Low health or bad business conditions were the not the main reason for leaving the career job.
- ▶ For the minority of those who did leave career jobs owing to low health or bad economic conditions, had they counterfactually had better health or economic conditions, they likely would have decided to work longer.
- ▶ Those who work longer on their career job or have a post-career bridge job tend to work fewer hours, have a flexible schedule, and receive lower hourly wages.

Exploring the Social Security Benefit Implications of Same-Sex Marriage by Michael S. Pollard and Italo Lopez-Garcia WP 2017-377

- ▶ Same-sex couples tend to have higher household earnings than heterosexual couples, especially same-sex male couples largely due to dual employment.
- ▶ Same-sex married couples are less likely than heterosexual couples to qualify for spousal Social Security benefit payments.
- ▶ Given that they are eligible, male same-sex married couples could generally claim higher

spousal benefit amounts than heterosexual couples (about \$8,400 /year), while female same-sex married couples could claim similar amounts as heterosexual couples in spousal Social Security benefits (about \$7,200 /year).

- In 2017, we estimate there to be 308,000 to 524,000 gay men 66 and older, and 250,000 to 503,000 gay women in 2017. In 2040, we estimate that there will be, respectively, 465,000 to 868,000 and 364,000 to 825,000. Up to half of these populations intend to marry.

The Reintroduction of the Social Security Statement and Its Effect on Social Security Expectations, Retirement Savings, and Labor Supply across the Age Distribution *by Philip Armour* WP 2017-373

- Individuals highly value information about their benefits from SSA. Individuals report the statement and my Social Security accounts (an online account on the Social Security website allowing individuals to check their potential benefits) useful for planning for retirement and deciding when to claim Social Security benefits, especially in years leading up to retirement.
- After being sent a statement, individuals are more likely to report expecting to receive future benefits, especially disability benefits. They are also less pessimistic about the possibility of future cuts to the social insurance programs, specifically about a 10 percent drop in their reported expectations that Congress will make the Social Security system less generous in the next 10 years.
- Among those already expecting benefits, there does not appear to be much change in expectations for either claiming age or the benefit amount upon claiming. There are no measurable changes in retirement savings through IRAs, pensions, or other long-term savings vehicles, although these estimates are preliminary and future analyses

by subpopulations may allow for more precise measurements.

- Those who have a my Social Security account tend to be better informed about program details, even before signing up for their account.
- Among those sent statements, many either did not receive them or forgot having received them. These individuals are much more likely to be younger than 30.
- The effect of being sent a statement recently had a varied impact on work behavior. For those previously working more than 40 hours per week, the statement reduced hours worked. Being recently sent a statement was also associated with re-entry into the labor force among those previously not working.

The Effect of Physical and Cognitive Decline at Older Ages on Work and Retirement: Evidence from Occupational Job Demands and Job Mismatch *by Péter Hudomiet, Michael D. Hurd, Susann Rohwedder, and Robert J. Willis* WP 2017-372

- This work assesses possible mismatches between skills and job demands for older workers. It uses longitudinal data on personal skills from the Health and Retirement Study (HRS) linked to the O*NET database on occupational job demands.
- The authors find that decreases in physical strength lead to mismatch in jobs, particularly for those in physically demanding jobs. Depressive symptoms also increase, while expected and actual work past age 65 decreases. There are similar effects for decline in fine-motor skills, but these are not concentrated among workers needing such skills on the job.
- Decline in cognitive skills has similar effects on all workers. These effects tend to be smaller than those for physical decline. Results suggest workers

in cognitive jobs may rely on general knowledge and experience that is more resistant to aging.

Marriage-related Policies in an Estimated Life-cycle Model of Households' Labor Supply and Savings for Two Cohorts

by *Margherita Borella, Mariacristina De Nardi, and Fang Yang* WP 2017-371

- Using Panel Study of Income Dynamics data, the authors estimate a rich life-cycle model of couples and singles with marriage-related policies (marital income tax and Social Security spousal and survival benefits).
- They find that these marriage-related policies reduce the participation of married women over their life cycle, the participation of married men after age 55, and the savings of couples.
- These effects are large for the 1955 cohort who had much higher labor market participation of married women overall.

Long-Term Effects of Leaving Military Service in a Weak Economy

by *Italo A. Gutierrez and Jennie W. Wenger* WP 2017-369

- This study compares short- and long-run outcomes for veterans from the draft era who entered the civilian labor market during periods of relatively low unemployment with outcomes of similar veterans who entered the civilian market during periods of higher unemployment.
- Higher levels of unemployment are linked to a variety of negative outcomes, and the effects take years to dissipate.
- Veterans who entered the civilian market in periods of high unemployment have lower earnings for more than a decade, have lower levels of prospective Social Security wealth, and appear to delay retirement, perhaps to compensate for the

negative effects experienced early in their careers.

- Veterans who began work during periods of high unemployment have higher levels of family instability in later decades. This could represent another measure of household well-being.
- Results suggest that young workers who entered the labor market during the Great Recession are likely to experience negative effects throughout the first phases of their career. Indeed, some of the effects could influence today's young workers through retirement.

Understanding Earnings, Labor Supply, and Retirement Decisions

by *Xiaodong Fan, Ananth Seshadri, and Christopher Taber* WP 2017-367

- This paper develops and estimates a rich life-cycle model that merges Ben-Porath human capital, neoclassical, endogenous labor supply, and retirement frameworks. Each individual makes decisions on consumption, human capital investment, labor supply and retirement. Investment in human capital generates wage growth over the life-cycle, while depreciation of human capital is the main force generating retirement.
- We use the estimated model to simulate the impacts of various policy changes:
 - The model shows that less generous Social Security benefits result in higher labor supply later in the life cycle, as workers adjust their investment over the life cycle. This results in a higher human capital level as well as higher labor supply earlier in the life cycle.
 - Modeling labor supply and human capital decisions jointly is critical in an analysis of the effect of policy changes.
 - While presumably other factors would be important for explaining other features of labor markets, endogenous labor supply is critical

for understanding life-cycle human capital investment, and retirement choices.

Work-Life Balance and Labor Force Attachment at Older Ages by *Marco Angrisani, Maria Casanova, and Erik Meijer* WP 2017-366

- The authors use data from the Health and Retirement Study (HRS) to investigate the relationship between Work-Life Balance (WLB) and retirement transitions conditional on job attributes such as hours of work, compensation, and benefits. They examine how responses to a spouse's health shock differ by WLB levels before the onset of the shock.
- Results show that WLB is significantly associated with labor force transitions among older workers. On average, higher levels of perceived work-life conflict correlate to a higher likelihood that full- and part-time workers retire within two years.
- We find that WLB moderates labor supply responses to a spouse's health shock, especially for women. Among female workers, the probability of moving from full-time to part-time employment, and from part-time employment to retirement, after a spousal health shock increases significantly with the perceived level of work-life interference.
- A better understanding of the effect of WLB on retirement behavior, and of the specific life circumstances during which WLB becomes valuable to employees, could help to suggest workplace arrangements to facilitate longer labor force attachment.

The Impact of Health on Labor Supply Near Retirement by *Richard Blundell, Jack Britton, Monica Costa Dias, and Eric French* WP 2017-364

- The authors find that objective and subjective health measures deliver similar estimates if a sufficiently large set of objective measures is used.

Controlling for only a limited number of health conditions, however, may significantly reduce the estimated impact of health on employment.

- We find that a single health index, while sometimes rejected from a statistical standpoint, produces estimates of health's effect on employment that are similar to those obtained using multiple health indexes. Using objective measures to instrument for subjective measures also produces similar, although slightly larger estimates.
- We find that properly accounting for heterogeneity in background characteristics by controlling for initial conditions is a more important modeling issue than the choice of health measure.
- Although cognition is significantly related to employment, we find that it has little added explanatory power once we also control for health.

Adjusting the Payroll Tax to Promote Longer Careers by *John P. Laitner and Daniel Silverman* WP 2017-363

- This paper re-estimates the life-cycle model of Laitner and Silverman (2012) using up-to-date data and improvements in methodology to analyze a prospective Social Security reform that a number of authors have suggested, namely a payroll-tax cut targeted on households near retirement.
- Our model is limited to couples and the analysis studies male retirements, taking female labor force participation as given; thus, our simulations concentrate on male retirement.
- If we make revenue-neutral, age-dependent changes by lowering the payroll tax at ages near retirement and raising it earlier, we can encourage longer careers — enhancing efficiency. Our improved parameter estimates can enhance confidence in the overall results.

- The increases in labor force participation that we find are slightly smaller than LS (2012), but we suggest explanations for the difference.
- Our results are generally consistent with earlier work, though they point to slightly more limited policy benefits.

II. Wealth and Retirement Income

Exploring the Risks and Consequences of Elder Fraud Victimization: Evidence from the Health and Retirement Study

by Marguerite DeLiema, Martha Deevy, Annamaria Lusardi, and Olivia S. Mitchell WP 2017-374

- The fraction of older persons reporting they had been the victims of fraud within the five-year retrospective window was 4 percent in 2008, 5 percent in 2010, and 7 percent in 2012. The overall rate for the pooled sample was 5 percent. These figures are less than half the national prevalence rate for all U.S. adults that was estimated for 2011, but they are similar to others' reports that 4 percent of adults 45 and older were victims of a major consumer swindle in the past year.
- Age was negatively associated with people reporting that they had been the victim of a fraud. Men were more likely to report being defrauded than were women.
- Better educated people were less likely to report being victimized, while being wealthier was not systematically associated with greater prevalence of fraud.
- The subgroup most likely to report being defrauded was low-educated, white, married couples, comprising 40 percent of the total victims. Highly-educated, white, married couples made up

about a quarter of the group, with smaller fractions among the remainder of the population.

- Being victimized was not systematically associated with lower levels of health or wealth in the pooled data, controlling for baseline status.

Alternative Measures of Noncognitive Skills and Their Effect on Retirement Preparation and Financial Capability

by Gema Zamorro
WP 2017-365

- Noncognitive skills and personality traits, such as grit, conscientiousness, and neuroticism are found to be significantly associated with levels of financial capability and the retirement preparation of adults in the Understanding America Study.
- The authors find that alternative measures of these noncognitive skills, based on self-reports and performance task measures such as the degree of carelessness in responding to surveys, are significantly associated with important financial outcomes, even after taking into account differences in cognitive ability and relevant sociodemographic information.
- Results highlight the importance of considering psychological factors when designing policies that aim to improve the level of financial capability and retirement preparation in the population.

III. Program Interactions

The Effect of Affordable Care Act Medicaid Expansion on Post-Displacement Labor Supply among the Near-Elderly

by Chichun Fang
WP 2017-370

- During the few months immediately following a state's Medicaid expansion, displaced workers in that state had a lower likelihood of unemployment

exits to employment. That is, some displaced workers who benefited from Medicaid expansion spent a longer time in the job search.

- During the few months immediately following a state's Medicaid expansion, displaced workers in that state also had a higher likelihood of unemployment exits to not-in-labor-force. That is, some displaced workers stopped their job search and quit working.
- Robustness tests suggest that some of the above effects may be attributed to state-level idiosyncrasies. Nevertheless, the results reject a large and persistent effect of ACA Medicaid expansion on labor supply among near-elderly, displaced workers in the sample.
- There is no effect on longer-term re-employment outcomes, including the likelihood of re-employment and re-employment earnings, between expansion and nonexpansion states. However, the sample size used in the analysis of longer-term outcomes was quite small, which limited the statistical inference possible.

IV. Demographic Research

Characteristics of Second-career Occupations: **A Review and Synthesis** by Brooke Helppie-McFall and Amanda Sonnega WP 2017-375

- We define second career employment as employment after leaving a long-term career position after the age of 40 in a different occupation and/or industry than a worker's prior career, with (1) advancement opportunities, (2) significant hours and wage/salary income, and (3) the expectation of working five or more years in the new career. The definition of second careers has some overlap with definitions of bridge jobs, encore careers, and unretirement, but the

phenomenon is not fully covered by any of these related concepts.

- A major finding of this review is that, although there is a substantial research literature on late-life labor supply focused on retirement and transition paths between work and retirement (e.g., bridge employment and unretirement), there is surprisingly little research that directly addresses second careers, or re-careering. This confirms the lack of literature noted by other researchers. Thus, characteristics of second career jobs are difficult to identify.
- Our review of the prevalence of related work transitions, such as bridge employment and unretirement, suggests that second careers may already be relatively common. However, we think that less than half of older workers engage in second careers.
- For older workers, job flexibility and lower stress seem to be particularly prized job characteristics that they seem willing to trade off against earnings, benefits, and prestige. It is premature, however, to conclude that these would be necessary or sufficient characteristics to make a job attractive as a second career.
- Our review of specific occupations underscores the importance of individualized paths and the greater options that may be open to individuals preparing and transitioning into second careers in their 40s and 50s as opposed to their 60s and 70s. This research also suggests that individuals considering a move to a second career should take into account their "soft skills" or other potentially transferable skills acquired in activities outside of their main career (i.e., education, volunteering, or moonlighting).
- To date, the assumption seems to be that the options for encouraging longer working lives include staying longer in career jobs, seeking

part-time work with very low barriers to entry (e.g., Uber), or encore careers that give back but don't necessarily pay the bills. However, this work suggests that individualized career planning, plus re-training and acquisition of additional education in workers' 40s and 50s may be a promising route to better job satisfaction and long-term financial health, as well as later retirement.

**Parents with an Unemployed Adult Child:
Labor Supply, Consumption, and Savings Effects**

by Kathryn Anne Edwards and Jeffrey B. Wenger
WP 2017-368

- ▶ The youngest mothers (younger than 62) who have the most margin to adjust their behavior change on nearly every dimension: They reduce their food consumption, increase their labor supply, and reduce their pension saving.
- ▶ The behavioral changes are larger than the monetary value of transfers — implying that either a) there are other mechanisms for transferring income to unemployed children that are not captured by cash transfers, or b) the behavioral response is in anticipation of changes in expectation about their child's career prospects or changes in the probability of future employment disruptions.
- ▶ The effect of child unemployment on mothers' labor market, consumption, and savings behavior is large and is likely larger than we describe since we exclude adult children cohabiting with parents.
- ▶ Younger mothers transfer money to their children when the child is unemployed, and older mothers transfer assets.



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