



Promoting research on retirement and Social Security policy

Key Findings | 2018 Working Papers

I. Social Security and Retirement

Understanding Job Transitions and Retirement Expectations Using Stated Preferences for Job Characteristics

by *Nicole Maestas, Kathleen J. Mullen, David Powell, Till von Wachter, and Jeffrey Wenger* WP 2019-396

- In general, workers transition to jobs with characteristics more closely aligned with their preferences. Workers who switch away from having certain attributes tend to value those attributes less than those who remain in jobs with the same attributes. Similarly, workers who switch to jobs with certain attributes tend to value those attributes more than those who remain in jobs without the same attributes.
- We are not able to draw strong conclusions about differences between those who exit employment with certain attributes versus those who remain in jobs without certain attributes.
- Narrowing in on older workers, among those ages 50 to 61, we find weak evidence that workers who have lower expectations of working at age 62 tend to value nonwage job characteristics more than those who have higher expectations of working at age 62. However, we do not find any differences between individuals ages 62 and older who are working versus not working.
- Our findings are consistent with previous work showing that older workers tend to value nonwage working conditions more than younger workers.

Feasibility and Reliability of Automated Coding of Occupation in the Health and Retirement

Study by *Brooke Helppie McFall and Amanda Sonnega* WP 2018-392

- The NIOSH Industry and Occupation Computerized Coding System (NIOCCS) works well only with short descriptions, one to three words each, of job title or job description and “what a business does or makes” as inputs.
- NIOCCS does reasonably well compared to coding results from a highly-trained, professional occupation and industry coder, with kappa inter-rater reliability on detailed codes of just under 70 percent and agreement rates on broader codes of around 80 percent.
- The main weakness of NIOCCS appears to be its failure to produce codes in many cases. Code rates for NIOCCS for the datasets tested ranged from 60 percent to 72 percent, as compared to a professional coder’s ability to code those same datasets that ranged from 95 percent to 100 percent.
- NIOCCS may be a useful tool for reducing the human coder hours needed for coding industry and occupation data for the Health and Retirement Study and other studies and datasets. In its current form it would be most useful as
 - a way to reduce the number of cases a human coder must code, or
 - a way to reduce the amount of time a human coder must spend on each case, or
 - as a first cut for coding historical data that don’t crosswalk cleanly to a newer codeframe.

How Well Can Medicare Records Identify Seniors with Cognitive Impairment Needing Assistance with Financial Management? *by David Weir and Kenneth Langa* WP 2018-391

- Cognitive impairment is a large and growing problem in the older population.
- Policies to assist SSA beneficiaries with financial management require a capacity to identify those in need.
- Medicare records offer a relatively low-cost source of information.
- Medicare records miss many persons in need of assistance and identify many who do not as having dementia.

Relative Sizes of Age Cohorts and Labor Force Participation of Older Workers *by David Neumark and Maysen Yen* WP 2018-390

- Population aging implies larger relative sizes of older cohorts in coming years.
- The usual hypothesis is that a large cohort generates “cohort crowding,” increasing the relative supply of workers in that cohort, depressing their wages, and leading to lower employment and lower labor force participation (LFP).
- Lower employment and LFP rates of older workers in the future reduce Social Security’s financial solvency, and make it less palatable for policymakers to institute Social Security reforms that require people to retire later to receive current levels of benefits.
- The evidence is more complex than suggested by the simple cohort crowding hypothesis. When older cohorts are large relative to a young cohort (ages 16 to 24), the evidence fits the relative supply hypothesis. But when older cohorts are large relative to 25 to 49 year olds, there is a relative demand shift toward older workers.

Addressing Social Security’s Solvency While Promoting High Labor Force Participation

by John Laitner WP 2018-386

- Income and payroll taxes may cause households to retire earlier than maximal society-wide efficiency might favor. Hence, Social Security reforms that seek to encourage longer careers might be able to deliver higher tax revenues with less sacrifice of household utility than would otherwise be the case.
- Recent Social Security Trustee reports show that demographics and other changes are jeopardizing the solvency of OASI and other programs. Higher payroll taxes or lower retirement benefits are possible remedies. Incentivizing longer careers is another.
- The Social Security benefit formula, through its indexing of past earnings, tends to leave few incentives to work past the early 60s. Since income and other taxes may encourage early retirement, a case can be made for re-examining the indexing formula.

The Decline in the U.S. Labor Force Participation Rate *by Francisco Perez-Arce, Maria Prados, and Tarra Kohli* WP 2018-385

- The literature assessing the cyclical component of labor force participation rate (LFPR) in light of the Great Recession of 2007 concluded that most of the recent decline in LFPR cannot be explained by a cyclical component.
- The consensus in the literature is that demographic trends such as population aging are important in explaining the persistent decline in LFPR, which has taken place since 2000, but they do not account for the full decline. At least half of the decline in LFPR can be accounted by demographic trends alone.
- A large body of literature has found that social and welfare programs affect LFPR. But these effects are different by subpopulation: The research reviewed concludes that changes in Social Security benefit claiming rules increased the LFPR of

older workers, changes in the rules of the Social Security Disability Insurance program reduced labor supply of program applicants, and changes in welfare programs increased the labor supply of low-income, single mothers while they reduced the labor supply of young, low-skilled men.

- The research has not reached full consensus on the impact of several other factors, either because there is no consensus on the effect, or because the aggregate impact has not been studied. Examples of these factors are technological progress, the opioids crisis, and international trade.
- More research is needed to understand the LFP behavior of two large groups: prime-aged women and young men. There is no consensus in this literature, but several factors have been analyzed including: improved, leisure-enhancing technologies; increased school enrollment; and low wages for the less-skilled.

Social Security Household Benefits: Measuring Program Knowledge by *Katherine Carman and Angela Hung* WP 2018-384

- Overall, we find that while many are aware of spousal and survivor benefits, knowledge about eligibility and benefit amounts is relatively low.
- Respondents are overconfident about how many questions they answer correctly.
- Individuals who have higher financial literacy, primary earners, and those with greater self-assessed knowledge of Social Security in general have greater objective knowledge of spousal and survivor benefits.
- Looking at couples where both spouses responded to our survey, we do not find evidence of specialization, defined as one spouse having significantly more knowledge than the other.

Using Consequence Messaging to Improve Understanding of Social Security by *Anya Samek, Arie Kapteyn, and Andre Gray* WP 2018-383

- The consequence-messaging vignettes statistically, significantly improved subjects' understanding in the form of more correct responses to survey questions.
- The treatment effects are similar for written versus video vignettes.
- Receiving information about annuities and Social Security by regular mail is the most often preferred mode of communication, followed by reading an article online.
- The vignettes did not have a statistically significant effect on how respondents rated the importance of retirement related concerns.

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 percent and in four years is 76.5 percent.
- The average chance of continued working in two years is 65.9 percent and in four years is 52.7 percent.
- 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.

A Meta-Analysis of the Decline in the Labor Force Participation Rate by *Ananth Seshadri* WP 2018-381

- While roughly half of the decline in labor force participation since 2000 can be attributed to demographic shifts, participation within groups has continuously declined as well.
- Young workers in particular have been both less likely to enter the labor force and more likely to leave.
- Across the age spectrum, disability seems to be an increasingly common factor limiting work.

- Between and across demographic groups, we find evidence of covariation between wages and labor force participation consistent with lagging wage growth discouraging workers from seeking employment.
- The association between wages and continued employment has been growing, suggesting increasing incentives to remain employed, but decreasing incentives to return to employment for those out of a job.
- So overall, much of the decline in labor force participation may be related to the wage incentives associated with participation and entry in particular.

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 percent had a postcareer bridge job and another 7 percent looked for post-career employment.
- Low health or bad business conditions were 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.

Intergenerational Altruism and Transfers of Time and Money: A Life-cycle Perspective

by Uta Bolt, Eric French, Jamie Hentall Maccuish, and Cormac O'Dea WP 2018-379

- Preliminary analysis of the unique cohort data suggests that around 40 percent of differences in average lifetime income by paternal education are explained by ability at age 7, around 40 percent by subsequent divergence in ability and different educational outcomes, and around 20 percent by inter-vivos transfers and bequests received so far. These findings are supported by results from a simple version of the model that has been calibrated to match wealth and labour supply moments.
- Using consumption equivalent variation to measure the welfare gains from higher-educated parents, we again find that differences in investments before and after age 7 are of roughly equal importance in determining lifetime utility differences between children of high- versus low-educated parents, with investments in ability and education looking much more important than differences in the level of inter-vivos transfers and bequests.
- Looking in more detail at investments in ability, we find that higher levels of time investments increase ability, and that the ability production function looks to exhibit dynamic complementarity, at least at younger ages.
- We present estimates of many of the investments that households make in their children, including time and money investments. We show that increased investment of time and goods of parents leads to higher ability children (as measured by test scores), and this higher ability leads to higher wages and incomes later in life.
- We show that higher income parents invest more in their children, and that these investments can explain much of the difference in lifetime incomes of children across the parental education distribution.

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.

II. Wealth and Retirement Income

Addition to the RAND HRS Longitudinal Files:

IRA Withdrawals in the HRS, 2000 to 2014 by

Michael D. Hurd, Erik Meijer, Philip Pantoja, and Susann Rohwedder WP 2018-388

- This project derived new variables for inclusion in the RAND HRS that capture IRA withdrawals for HRS waves 2000 through 2014; HRS 2016 variables are in progress.
- About 15 percent of HRS households withdrew money from their IRA accounts since the last interview. Among those who made withdrawals, the average amount is about \$23,000 in the later waves.
- The addition of IRA withdrawal variables to the

RAND HRS will facilitate research on assessing economic resources of the older population and the importance of saving in tax-advantaged retirement accounts.

Assessing Economic Resources in Retirement: The Role of Irregular Withdrawals from Tax-

Advantaged Retirement Accounts by Michael D.

Hurd and Susann Rohwedder WP 2018-387

- Based on HRS 2014, irregular withdrawals from pensions and IRAs amount to \$2,049 for singles and \$6,663 for couples on average among those age 55 and older, but they are zero at the median.
- Among those making withdrawals, the average amount is \$17,000 for pension withdrawals and \$10,400 for IRA withdrawals.
- Compared to total household income, irregular IRA and pension withdrawals amount to about 5 percent of income for singles and 10 percent of income for married households.
- The irregular withdrawals are concentrated among those in the highest wealth quartile and those in the highest education group, reflecting the higher prevalence of pensions in high-paying jobs that are predominantly held by those with high education. Thus, they have little impact on poverty rates.

Quicksand or Bedrock for Behavioral

Economics? Assessing Foundational Empirical

Questions by Victor Stango, Joanne Yoong, and

Jonathan Zinman WP 2018-378

- “Behavioral factors”—psychology-based deviations from classical economic preferences, beliefs, and problem-solving approaches—are quite prevalent in a representative sample of U.S. individuals
- A “B-count” measuring how many B-factors an individual displays is strongly predictive of self-assessed financial well-being, as well as “hard” measures of retirement preparedness, such as wealth and stock market participation

- The findings can help financial service providers and policymakers design products and communicate information in ways that improve decision-making associated with savings and retirement planning.

III. Program Interactions

Is the Affordable Care Act Affecting Retirement Yet? by Helen Levy, Thomas Buchmueller, and Sayeh Nikpay WP 2018-393

- Previous studies suggest that having an alternative to employer-based health insurance makes older workers more likely to retire. Therefore, many analysts expected that the implementation of the coverage provisions of the Affordable Care Act (ACA) in 2014 would reduce labor supply of older workers.
- We find that insurance coverage of Americans ages 50 through 64 increased significantly after the ACA, with the uninsured rate dropping from 16 percent in 2013 to 12 percent in 2014 and 10 percent in 2015 and 2016.
- We find no changes in labor supply of older Americans either in response to subsidized marketplace coverage, which became available nationally in 2014, or in response to the expansion of Medicaid eligibility in some states but not others. We fail to find labor supply effects even for subgroups with less than a high school education or those with fair or poor health, who might have been expected to have a greater labor supply response.
- These results suggest that for Americans approaching retirement the Affordable Care Act achieved its primary goal of increasing coverage without the unintended consequence of reducing labor supply.

A Review of U.S. Federal and State Means-Tested Programs by Robert Moffitt WP 2018-376

- The Supplemental Nutrition Assistance Program (SNAP) has a much broader definition of the family unit than Supplemental Security Income (SSI), as well as having higher income limits for eligibility and much more liberal resource tests, especially for vehicles.
- The Medicaid program is composed of four different programs and, for the program covering nonelderly, nondisabled parents and children, income limits for eligibility for children are much higher than those in SSI. Limits for parents are also higher for states that enacted ACA Medicaid expansion plans, and most households in these groups do not face resources tests.
- The Temporary Assistance for Needy Families (TANF) program has income eligibility levels considerably below those of the SSI program, but resource limits on financial assets and vehicles, although more stringent than those in SSI in a handful of states, are generally more liberal than those in SSI and some states have eliminated asset tests entirely.
- Subsidized housing programs require that income be less than limits which differ from area to area, but are generally above the poverty line income for each family size. The programs do not have asset tests but use a broad definition of income from assets when assessing income eligibility.
- Child care subsidy programs pay a fraction of child care expenses for families with income below state-specific levels that are generally above the poverty income. Asset limits are a state option, but are rarely used.
- Job training and employment programs do not use low-income eligibility criteria for all of their target groups but, for those that do use income criteria, maximum income for eligibility is around the poverty line. Asset limits are not used.

International

Social Security Coverage around the World: The Case of China and Mexico by Francisco Perez-Arce, Maria Prados, Erik Meijer, and Jinkook Lee WP 2018-395

- In recent years, Mexico, China, and India have made significant reforms in social security programs with the aim of extending social security coverage to a larger fraction of their elderly population. This has been done through the introduction and expansion of programs that have a noncontributory component.
- Between 2011 and 2015, China increased the proportion of individuals 70 and older who receive public pensions from 33.5 percent to 68%. In Mexico, the proportion of individuals age 70 and older who are covered by either a contributory or noncontributory programs increased from 33 percent in 2002 to 56 percent in 2012.
- The new programs also caused significant changes in the coverage determinants in ways that share similarities across Mexico and China. Variables associated with high socioeconomic status and a history of formal labor-force attachment are strong predictors of public pension receipt in the early survey waves, but not in the most recent ones. However, a strong relationship remains, and is unchanged across time, between those same characteristics and the average income pension amount. Likewise, we do not find large, significant changes between these variables and receipt of benefits from other social programs.
- We find that even a rapid transformation of the labor market would not radically change the proportion of who is covered by a pension program, but would indeed substantially increase average pension amounts. By the same token, increasing the levels of education of the population would not largely change the coverage patterns in

Mexico or China but would substantially raise the average pension income in both of them.

- Though the introduction of noncontributory programs has brought about dramatic changes resulting in coverage rates that do not depend on growth in labor market opportunities, the latter is still an important factor affecting future elderly populations' level of benefits and economic security.

IV. Demographic Research

Investigating the Difference in Mortality Estimates between the Social Security Administration Trustees' Report and the Human Mortality Database by Magali Barbieri WP 2018-394

- There is a gap in the life expectancy at birth as estimated by the Social Security Administration (SSA) and by the Human Mortality Database (HMD)
- The gap is attributable to differences in mortality risks at ages 65 and above only.
- It is not due to differences in methods but to differences in the data (national statistics for the HMD, Medicare enrollment data for the SSA).
- Further investigation is necessary to determine whether the gap results from mortality risks which are genuinely different in the two datasets or whether it results from reliability issues in the sources of data.

Local Economic Hardship and Its Role in Life Expectancy Trends by John Bound, Arline T. Geronimus, Timothy A. Waidmann, and Javier M. Rodriguez WP 2018-389

- Reversing the trend for much of the last century, death rates of older working aged (45 to 64) non-Hispanic whites have increased in recent years,

especially among low-education women. Much of this increase can be attributed to suicide and the abuse of opioids and other substances, a group of causes often called “deaths of despair.”

- Based on comparisons of mortality trends across local area labor markets with different industrial compositions, increases in all-cause death rates appear to be concentrated in areas facing the worst economic distress.
- This pattern appears to be driven by chronic disease and cancer, which have fallen most

in economically stable areas. This finding is consistent with the “weathering” hypothesis that prolonged exposure to stress increases allostatic load, leading to increased incidence of cancer and cardiovascular disease.

- Increases in “deaths of despair” do not follow this pattern. We find significant effects in the other direction, with larger increases in areas with stronger economies, raising questions about the construct of despair.



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