

# ***Retirement Transitions of the Self-Employed in the United States and England***

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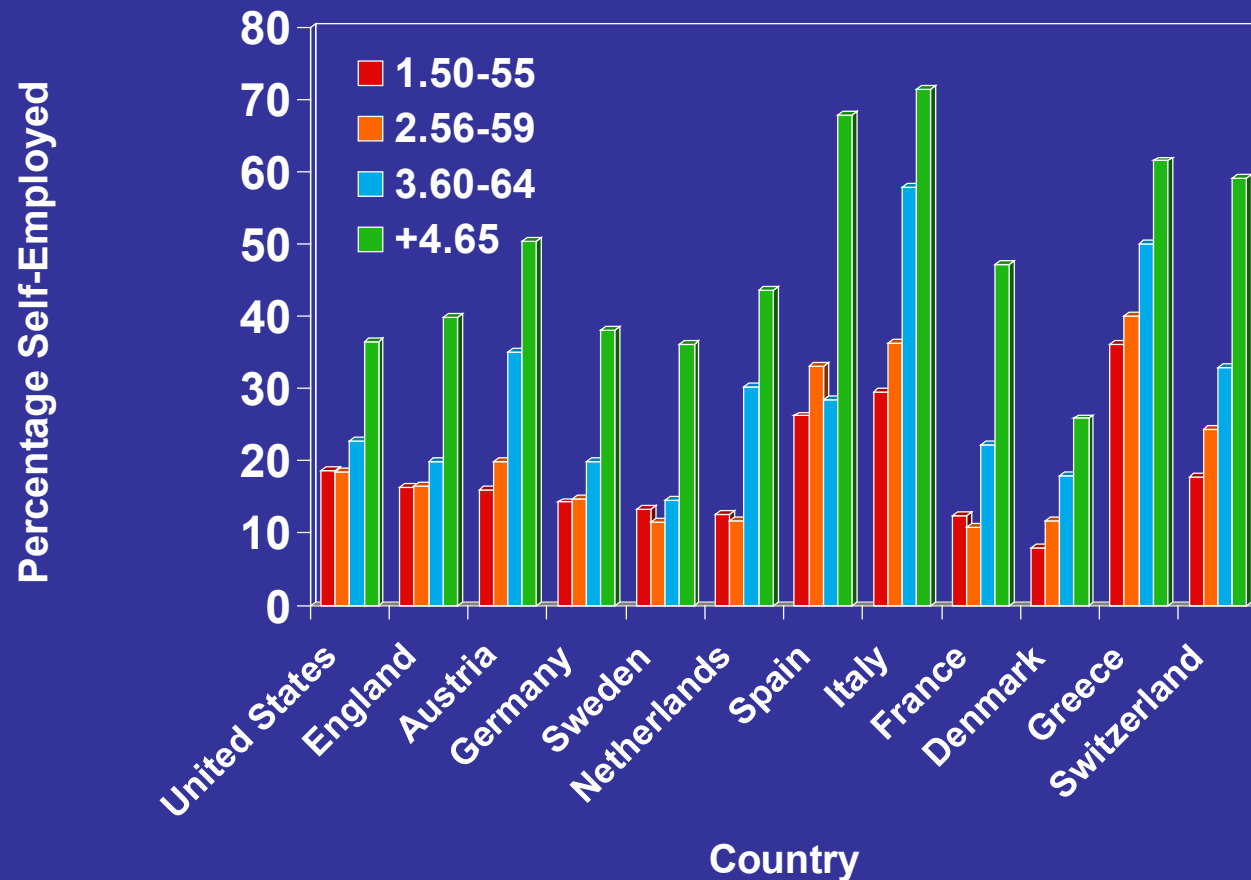
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# *Self-Employment is an Important Phenomenon at Older Ages*



Source: HRS 2002, ELSA 2002, SHARE 2004

# ***Objectives and Approach***

- Analyze why older self-employed workers exit the labor force at lower rates than wage and salary workers:
  - How do institutions (public/private pensions, health insurance) affect retirement behavior of workers?
  - Assist policy makers in effectively influencing retirement age
- Model probability of not working in time  $t+2$  among workers at time  $t$  by class of worker and country
  - Use the variation in age-eligibility structure of private and public benefits across countries and class of worker to understand exit rates by age
- Employ longitudinal data from the Health and Retirement Study (HRS) and English Longitudinal Study of Ageing (ELSA) 2002 and 2004

# ***Background***

- Substantial literature on determinants of retirement
  - Correlation between labor force participation and generosity of retirement benefits found in cross-national studies (Gruber and Wise, 1999)
- The few retirement studies that include self-employed workers find lower retirement rates among self-employed compared to wage workers
  - Fuchs (1982)
  - Quinn (1999)
  - Hochguertel (2005)

# ***Pensions and Health Insurance in England***

- Pension system in England is a mix of public and private provisions with no earnings test;
  - 1st Tier: flat, contributory benefit available to all workers;
    - Key age(s): 60 (women) and 65 (men)
  - 2nd Tier for Wage & Salary Workers: participate in SERPS (SSP) or 'opt out' and join a private plan (DB or DC)
    - Key ages: 60 and 65 (SERPS) and otherwise variable
  - Self-employed are not eligible for 2nd Tier: instead they contribute to a Personal Pension
    - No key age(s): annuitize wealth ages 50-75
- Many public benefits available at age 60: early retirement age
- Health Insurance is universal

# *Pensions and Health Insurance in the United States*

- Public pension system in U.S. is a single program (Social Security) and no 'opting out' of public system to private
  - Benefit amount varies by work history, claiming age and is available to almost all workers (including self-employed)
    - Key age(s): 62 (early) and 65 (standard)
  - Employer pensions: over half of wage and salary workers have employer provided pensions (DB or DC) while few self-employed workers have private or employer pensions
    - Key ages: variable
- Means tested income support available at age 65 (SSI)
- Health Insurance before age 65 provided primarily through employers and at age 65 through Medicare.

# ***Outline of Presentation***

- Data
- Labor Force Exit Rates by Age, Country, Class
- Description of Older Self-Employed Workers
- Empirical Model
- Regression Analysis
- Concluding Comments

# **Data Sources**

Two longitudinal surveys designed to examine labor force participation, income, wealth and health of individuals over age 50

- Health and Retirement Study (biennial 1992-2006)
- English Longitudinal Survey of Ageing (biennial 2002-2006)

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## **Our Sample**

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	<b>Birth cohorts</b>	<b>Age</b>	<b>Waves</b>
<b>HRS</b>	<b>1947 and earlier</b>	<b>55 and older</b>	<b>2002, 2004</b>
<b>ELSA</b>	<b>1952 and earlier</b>	<b>55 and older</b>	<b>2002, 2004</b>

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# ***Data Details***

- Class of worker and labor force status:
  - Self-employment defined for main job
  - Labor force exits defined by ‘working for pay’ at time  $t$  and not working for pay at time  $t+2$
- Sample:
  - Model is based on workers at time  $t$  who are observed at  $t+2$  ( $N=8989$ )

# Percent Not Working in 2004 Conditional on Class of Workers and Country in 2002



Source: HRS 2002 & 2004, ELSA 2002 & 2004

# ***Characteristics of Self-Employed and Wage and Salary Workers in the U.S. and England***

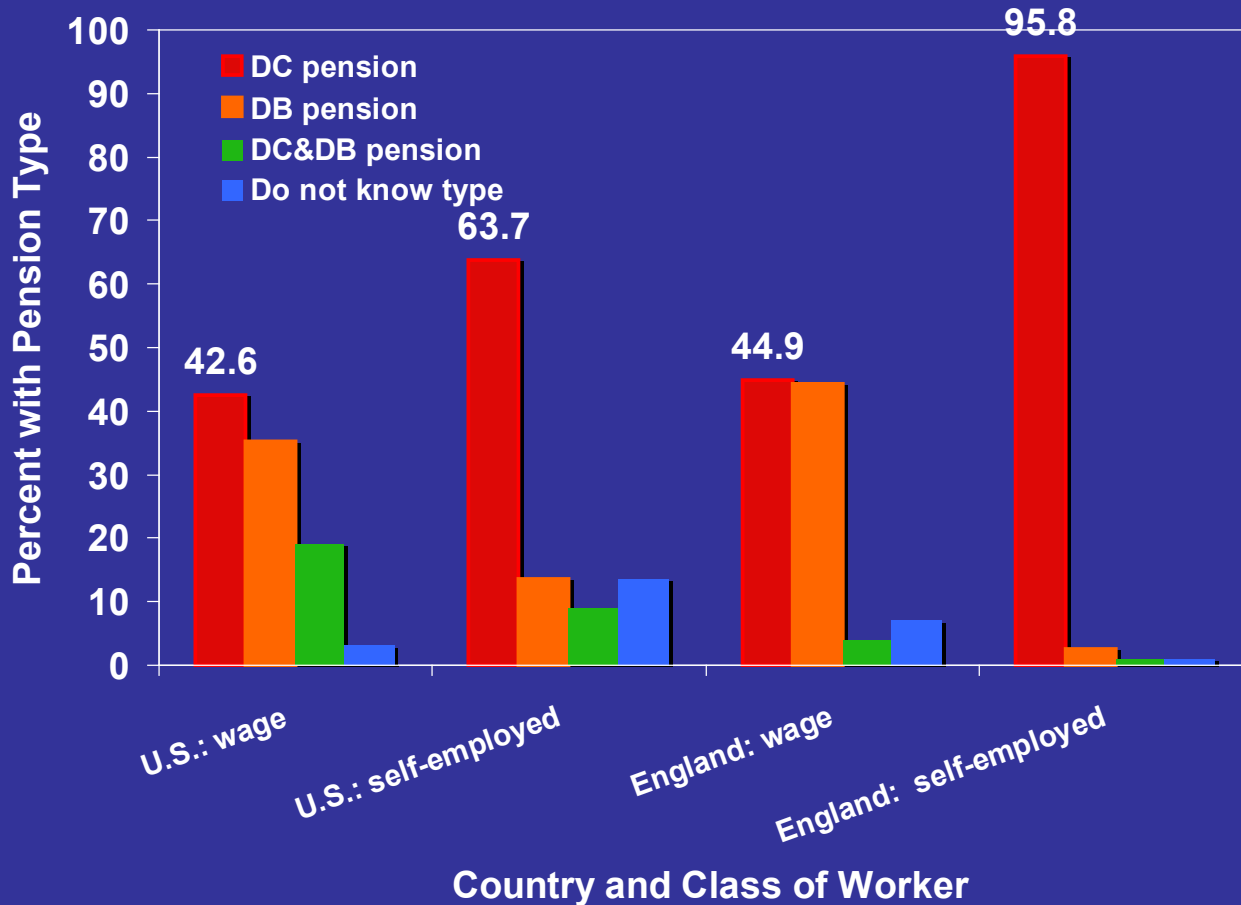
- Self-employed workers in both countries are different than wage and salary workers:
  - Self-employed workers are more likely to be male, better health, and less likely to have health insurance before age 65 (U.S.), more wealth
- Self-employed workers in the U.S. and England are remarkably similar in many observable characteristics
  - Exception: self-employed in England have private pensions

# *Private and Employer Pensions in the U.S. and England*



Source: *HRS 2002, ELSA 2002*

# Private and Employer Pensions in the U.S. and England



Source: HRS 2002, ELSA 2002

# *Pension Plan NRA for Wage Workers in the U.S. and England*



Source: HRS 2002, ELSA 2002

# Retirement Incentives Differ by Country and Class

Typical Worker	Description
Wage & Salary in England	In a DB scheme through state or employer, NRA of private pensions reinforces public benefit ages: <b>key ages (60, 65)</b>
Self-employed in England	In 1st tier state DB scheme with low replacement rate and otherwise enrolled in DC scheme: <b>no key age(s)</b>
Wage & Salary in U.S.	In a DB public scheme, DB pension through employer reinforce public benefit ages, employer provided health insurance (retiree benefits): <b>key ages (62, 65) and others</b>
Self-employed in U.S.	In a DB public scheme, no employer pension, has purchased health insurance or has it through a spouse no retiree benefits: <b>some incentive at ages (62,65*)</b>

## ***Methodology: Empirical Model***

- Estimate one linear model of transitions from ‘working for pay’ in year 2002 to work state in year 2004 *by class and country for person i*:
  - Self-employed in the United States
  - Wage and Salary in the United States
  - Self-employed in England
  - Wage and Salary in England



# ***Methodology: Key Covariates in Empirical Model***

<b>Covariate type [excluded]</b>	<b>Specification details</b>
<b>Age</b>	<b>Quadratic</b>
<b>Public Benefit Age</b>	<b>Indicator for attaining early (PEA) and normal (PNA) benefit age in 2004, interacted with age</b>
<b>Private Pensions [none]</b>	<b>Indicator for DC plan</b>
	<b>Indicators for DB plan type: defined by whether ERA &amp; NRA coincide with PEA &amp; PNA, interacted with attaining PEA/PNA in 2004</b>
<b>Health Insurance [none] (U.S. only)</b>	<b>Indicators for type: employer, employer w/ retiree, other e.g. spouse, government for ages less than 65 in 2004</b>
	<b>Health insurance type*indicator for Medicare eligible in 2004</b>
<b>Demographics, SES</b>	<b>Sex, marital status, health, wealth, income</b>

# Eligibility Age Affects Exits for Wage and Salary Workers but not Self-employed Workers



Source: HRS 2002 & 2004, ELSA 2002 & 2004

# Access to Health Insurance Before Age 65 Increases Exit Rates of Self-Employed in U.S.



Source: HRS 2002 & 2004, ELSA 2002 & 2004

# Workers with Employer DC Pension Benefits From Both Classes Exit as Similar Rates



Source: HRS 2002 & 2004, ELSA 2002 & 2004

# ***Employer DB Pension Benefit with NRA Coincident with Age of Eligibility for Public Benefits Has Big Effects on Exit Rates***



Source: HRS 2002 & 2004, ELSA 2002 & 2004

# *Summary of Results*

- Higher rates of transitions from working to not working in England compared to United States due to strong incentives to retire at key ages
- Absence of universal health insurance coverage before age 65 is an explanation for the differences in the rates of exit from the labor force before age 65 for both classes of workers in the U.S. and between countries
- Higher rates of exit for wage and salary workers reflect their access to private DB pension incentives tied to key public benefit ages
- Persistent exits at age 65 for self-employed workers in England primarily for workers who transitioned into SE after age 50

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