



# MICHIGAN RETIREMENT AND DISABILITY RESEARCH CENTER UNIVERSITY OF MICHIGAN

Promoting research on retirement, disability, and Social Security policy

MRDRC Newsletter | Summer 2020 | 20(2)

## Director's corner



*John Laitner*

At this time of year, the MRDRC Newsletter would normally report on our annual winter researcher workshop.

Unfortunately, COVID-19 forced us to shelve our workshop plans abruptly this last March. We look forward to resuming the meetings in the winter 2021, whether in-person or online.

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## Three new working papers added to MRDRC's website

Since February, MRDRC has released three additional 2019 working papers. See below for key findings and links to the full working papers.

**Setting Expectations for Claimant Ability to Work: Investigating the Occupational Requirements and Functional Capacity of Workers with Early Onset Health Conditions** by Andrew J. Houtenville and Deniz Ozabaci, [MRDRC WP 2019-404](#), UM19-09

- ◆ Evidence suggests that workers with certain health conditions have jobs that accommodate those conditions. For example, we find that the mean within occupation percent of workers with back or spine problems for whom climbing ramps or stairs is required is 20 percentage points. This is 1.5 percentage points less than for workers without back or spine problems, suggesting that claimants with back or spine problems may be able to work in such occupations.
- ◆ We find that fulfilling occupational requirements may lead to later-life health

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conditions. For instance, the mean within-occupation average maximum pounds required to lifted or carried is 20.9 pounds for workers with early onset back or spine problems. This is 5.6 percentage points less than for than for workers with late onset back or spine problems. This suggests that information on health condition onset is important in informing expectations about a claimant's ability to fulfill occupational requirements.

- ◆ Population-based data on workers' occupational requirements and their health conditions and related functional limitations (as found in the Survey of Income and Program Participation) when merged with Occupational Requirements Survey data has the potential to inform SSA's disability determination process. Increasing the specificity of survey questions related to health condition and corresponding functional limitation onsets could potentially further improve the process.

**Subjective Expectations, Social Security Benefits, and the Optimal Path to Retirement** by María J. Prados and Arie Kapteyn, [MRDRC WP 2019-405](#), UM19-06

- ◆ Most retirees find that the amount of Social Security retirement benefits they receive is lower than what they had expected before claiming.
- ◆ Using unique survey data, we find that most individuals face significant uncertainty about the amount of Social Security retirement benefits they will receive after retirement, and that they tend to overestimate these amounts.

- ◆ The past experience of current retirees' forecast errors about benefit amounts is consistent with our estimates of biased expectations from current workers, indicating that the problem of inaccurate expectations about retirement benefits is a persistent one.
- ◆ Not appropriately adjusting for early or delayed claiming could contribute to expectation biases about retirement benefits. In particular, this would be most relevant for those with lower levels of education.
- ◆ Current workers recognize that they do not have a good idea of what their future retirement benefits will be. Forty-nine percent of our survey respondents declare having no knowledge about their benefit amount.
- ◆ The average expectation bias for monthly retirement benefits in our sample is \$307, which equals 27% of the average forecasted benefit for this sample in current dollars.
- ◆ The level of uncertainty about retirement benefits decreases with age. The size of the expectation bias and the probability of overestimating retirement benefits decline as the individual approaches their claiming age. Therefore, expectations about benefits become more precise as individuals approach retirement.
- ◆ Men display lower expectation bias and are less likely to overestimate their retirement benefits.
- ◆ Having more uncertainty about future retirement benefits is positively associated with a higher expectation bias and is

associated with an increased probability of overestimating future benefits

- ◆ Those who claim to have no knowledge of their future benefits show much lower expectation bias. They are more likely to err on the conservative side and underestimate their future benefits.
- ◆ Personal attitudes about finances, such as levels of financial literacy and propensity to plan for retirement, are correlated with retirement benefits expectation bias but not with the probability to overestimate retirement benefits.
- ◆ A life-cycle model calibrated to our survey data indicates welfare losses due to lack of knowledge about future retirement benefits. Moreover, inaccurate expectations about future labor earnings further contribute to the welfare loss.
- ◆ The model indicates that when individuals make consumption and savings choices based on their subjective expectations about future retirement benefits, this results in too much consumption during the working years, too little asset accumulation, and, therefore, too little consumption in retirement on average with respect to what would be optimal for them. These discrepancies between the optimal behaviors and the ones under subjective expectations imply a 1% welfare loss from lack of accurate knowledge about the Social Security retirement benefit amounts to be expected.
- ◆ We consider the implications of behaving according to subjective expectations about labor earnings as well as about retirement benefits. In this case, the discrepancy between the subjective expectations life-

cycle patterns and the rational expectations ones results in lower asset accumulation and a welfare loss of 3.5%

**Recent Trends in Disability and the Implications for Use of Disability Insurance** by Timothy A. Waidmann, HwaJung Choi, Robert F. Schoeni, and John Bound, [MRDRC WP 2019-406](#), UM19-01

- ◆ The health of the working-aged population is a key driver of enrollment in and, thus, spending by Social Security Disability Insurance (DI) and Supplemental Security Income (SSI).
- ◆ Recent studies have found that some dimensions of health of the population approaching retirement age have worsened relative to earlier cohorts during the period when DI and SSI enrollment increased substantially.
- ◆ Using two nationally representative surveys, this study examines the trends in health of adults ages 51 to 61 between the mid-1990s and the mid-2010s, and finds updated evidence confirming prior research of worsening health.
- ◆ Simulating the observed health changes' effects on DI and SSI applications and awards while holding constant other factors likely to affect the use of DI/SSI, we estimate an increase in demand for DI and SSI ranging from 9% to 16% for men depending on the age group and survey. Estimated effects of health trends on DI/SSI for women were not significant. □

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*For further details on these studies, please see the associated working papers. Media inquiries may be directed to Susan Barnes, [barnessu@umich.edu](mailto:barnessu@umich.edu).*

# Three scholars attend summer session, workshops

The MRDRC offers funding awards for either the Health and Retirement Survey (HRS) Summer Workshop or the Panel Study of Income Dynamics (PSID) Data User Workshop and an award for an Inter-university Consortium for Political and Social Research (ICPSR) session. The workshops/sessions are designed for faculty, research professionals, postdoctoral fellows, and graduate students. MRDRC funding is directed at early career investigators, generally graduate to junior-faculty level, whose work aligns with the Social Security Administration's research priorities.

This year's awardees were:


- ◆ Clarence Merckerson, Southern University and A&M College (HRS);
- ◆ Haotian Zheng, Washington University in St. Louis (HRS);
- ◆ Esther Shin, University of Illinois at Urbana-Champaign (ICPSR).

This marked the second year that MRDRC offered these awards via a cooperative agreement with the SSA. Applications for next year's awards will open in February 2021. 

## *Director, continued from Page 1*

In the meantime, this newsletter features three interesting MRDRC working papers. Taking a microeconomic perspective, Houtenville and Ozabaci, MRDRC WP 2019-404, compare occupational requirements, as measured in the Occupational Requirements Survey, with actual performance. In particular, the authors ask to what degree might workers with health impediments find accommodations on the job, in practice? Waidman, Choi, Schoeni and Bound, MRDRC WP2019-406, on the other hand, assume a more macroeconomic viewpoint, studying trends in the health of workers 51 to 61 years old. They find confirmation of recent evidence of health declines and

investigate the possible implications for Social Security Disability Insurance and Supplemental Security Income.

Prados and Kapteyn, MRDRC WP2019-405 study Old Age and Survivors Insurance. Specifically, they are interested in the accuracy of worker expectations about their future Social Security benefits. The authors use data from a module that they designed for the Understanding American Study internet survey. The expectations of workers exhibit rather substantial biases, and the authors examine corresponding welfare losses in households' life-cycle planning. 

# News from MRDRC researchers

This quarter, MRDRC learned of the following researcher accomplishments, media mentions, and journal publications of our funded research.

## Journal publications


Annamaria Lusardi, Olivia S. Mitchell, and Noemi Oggero published “[Debt and Financial Vulnerability on the Verge of Retirement](#)” in the December 2019 issue of *Journal of Money, Credit and Banking*. The article cites support from Michigan Retirement Research Center (MRDRC’s predecessor), which funded WP 2013-291, “[Older Adult Debt and Financial Frailty](#),” UM13-09.

The May 2020 issue of *Journals of Gerontology: Series B* includes two articles based on past MRRC projects. “[Financial Fraud Among Older Americans: Evidence and Implications](#)” by Marguerite DeLiema, Martha Deevy, Annamaria Lusardi, and Olivia S. Mitchell is based in part on UM17-16’s working paper, “[Exploring the Risks and Consequences of Elder Fraud Victimization: Evidence from the Health and Retirement Study](#),” WP 2017-374. *Series B* also includes “[The Relationship between Reverse Mortgage Borrowing, Domain, and Life Satisfaction](#)” by Cäzilia Loibl, Donald R. Haurin, Julia K. Brown, and Stephanie Moulton, which is based on UM16-12’s working paper, “[How Home Equity Extraction and Reverse Mortgages Affect the Credit Outcomes of Senior Households](#),” WP 2016-351.

In March, *The Review of Economics and Statistics* published “[Does Home Production Replace Consumption Spending? Evidence from Shocks in Housing Wealth in the Great Recession](#)” by Jim Been, Susann Rohwedder, and Michael Hurd. The article is based in part on UM14-06’s working paper, “[Responses of Time-use to Shocks in Wealth during the Great Recession](#),” WP 2014-313.

## Media mentions

The [International Monetary Fund publication Finance & Development](#) published a profile on MRDRC researcher and executive board member Olivia S. Mitchell in its March 2020 edition. The article quotes Mitchell as describing pensions as “a microcosm of everything: demographics, human resources, taxes, finance, psychology, economics, and beyond.”


In April, an [American Society of Pension Professionals and Actuaries](#) writer covered María J. Prados and Arie Kapteyn’s MRDRC study UM19-06, “[Subjective Expectations, Social Security Benefits, and the Optimal Path to Retirement](#),” (WP 2019-405). 

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*Researchers are encouraged to share academic publications, media interviews, and conference presentations of their MRRC/MRDRC-funded work. Please send announcements to [mrdrcumich@umich.edu](mailto:mrdrcumich@umich.edu).*

## Annual RDRC meeting goes virtual

Researchers from SSA's four Retirement and Disability Research Centers will present their latest work in a virtual format this year. The free event will take place on Thursday, August 6. As in the past, [registration is required](#), but the boxed lunch is up to you this time. The [agenda is available here](#). The Twitter hashtag is #2020RDRC.

MRDRC will miss seeing everyone in person, but we look forward to sharing our investigators' great work and learning about that of our sister centers. 



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

## Keep in touch

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