



## MRDRC Newsletter | Fall 2021 | 21(4)

### Director’s corner



*John Laitner*

As we finish fiscal year 2021, this newsletter reports on three interesting MRDRC working papers: John

Sabelhaus and Lice Henriques Voltz, “Social Security Wealth, Inequality, and Life-cycle Saving;” Philip Armour and Rosanna Smart, “The Causes and Consequences of Opioid Use among Older Americans;” and, Leslie Papke, “Underfunded Public Sector Pension Plans, Social Security Participation, and the Retirement Decisions of Public Employees.”

Sabelhaus and Voltz join the growing

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### A look at recently released MRDRC papers

MRDRC has published five new papers since the beginning of the year addressing topics of current general interest: wealth inequality, opioid use, and underfunded public pensions. Here are short summaries for three of them with links to the finished projects.

#### **Inequalities in retirement wealth**

John Sabelhaus and Alice Henriques Voltz explore an alternative measure of household retirement wealth in “Social Security Wealth, Inequality, and Life-cycle Saving: An Update,” one that potentially does a better job of assessing retirement wealth at lower incomes. The standard household wealth measure, “marketable wealth,” answers the question, “If a family were to sell everything they own, then pay off any debts they owe, how much would they have left?” Using the simple marketable wealth measure, researchers have shown that, relative to income, wealthier families save more than poorer ones. But poorer families retire, too. Why don’t they have

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more retirement savings? How do they finance retirement? Marketable wealth doesn't offer much insight into such questions.

To more accurately understand retirement preparedness at all income levels, Sabelhaus and Henriques Volz develop a measure of defined benefit pensions (DB) and Social Security wealth (SSW) that they assert is conceptually equivalent and comparable to marketable wealth. They apply their measure to Survey of Consumer Finances (SCF, 1995 through 2019) respondents. Some findings:

- ◆ SSW for all SCF respondents and their spouses/partners in 2019 was about \$24 trillion. This compares to the \$115 trillion in all other household wealth, including DB pensions.

- ◆ Adding SSW to the marketable measure affects wealth equality levels, but doesn't change overall trends in the wealthiest households. Without the SSW, "the top 10% share of household wealth increased from 53% to 63% between 1995 and 2019, the expanded top 10% wealth share that includes SSW increased from 45% to 55%." Including SSW reduces but does not erase the growing wealth gap.
- ◆ SSW is relatively more important for low-wealth families at any given age. This is unsurprising given that low-wealth individuals have much lower lifetime incomes, and the Social Security tax and benefit formulas are progressive.
- ◆ The authors illustrate how SSW starts out negative at younger ages, steadily increases through the work life, then slowly decreases through retirement. "These patterns

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discussion of inequality. They use Survey of Consumer Finances (SCF) data for 1995 to 2019. The SCF provides cross-sectional information on income, demographics, labor force status, and wealth at 3-year intervals. It is well-known for its special sample of high-wealth households — its so-called "list" sample, developed from tax records. The authors' contribution is to augment the survey measure of household net worth with careful imputations of the capitalized value of DB pensions and OASI benefits (in both cases, computing the expected present value of benefits minus future contributions and payroll taxes, respectively).

The authors present results for mean household net worth by age group, for 1995 and 2019. The graphs reveal a clear life-

cycle pattern: Net worth rises from near 0 at ages younger than 35 to a peak at retirement, drifting downward at still later ages. Near retirement, wealth from Social Security benefits comprises more than half of net worth for households in the bottom 50% of the distribution but a negligible fraction for the top 10%. The differences of overall peak net worth are striking: Mean peak wealth in 2019 is almost 25 times higher for the top 10% than the bottom 50%. What is also striking is the change from 1995 to 2019: Peak net worth for the bottom 50% rose about one-quarter over this time frame (due mainly to increases in capitalized Social Security benefits), but in the top 10% of the distribution net worth doubled, due virtually entirely to changes in nonretirement wealth.



can also be interpreted as much higher effective Social Security ‘saving rates’ for low-wealth families,” the authors say.

The details of how Sabelhaus and Henriques Volz calculate SSW and further findings are [available in the working paper](#).

## Opioids and disability

In “The Causes and Consequences of Opioid Use among Older Americans: A Panel Survey Approach,” Philip Armour and Rosanna Smart use the Health and Retirement Study (HRS), particularly the 2009 Health and Well-Being module administered near the height of the opioid epidemic, to examine whether opioid use increased or decreased work disabilities. The pair tracked mortality, health, labor force status, work disability, and disability insurance receipt for those with and without a 2009 opioid prescription. Compared with otherwise similar respondents, those with a prescription were

- ◆ 15 percentage points more likely to develop a work limiting health problem through 2018;
- ◆ 30 percentage points more likely to apply for or receive Social Security Disability Insurance (SSDI) or Supplemental Security Income (SSI) benefits in 2016 and 2018;
- ◆ nearly four times more likely to participate in SSDI/SSI.

The authors note that the HRS’s 2009 snapshot of legally prescribed opioid use predates the dramatic rise of illicit opioids and their corresponding health and disability effects. [Full details are in the working paper](#).

## Public pensions

How does a public sector employee’s

retirement eligibility and the solvency of their public pension affect retirement decisions? Would their plans change if Social Security were extended to currently uncovered public employees? Leslie Papke examines such questions in “Underfunded Public Sector Pension Plans, Social Security Participation, and the Retirement Decisions of Public Employees.” Papke’s paper quantifies the levers that can encourage or discourage retirement, calculates the ratio of state pension assets to current benefit expenditures as the number of years a state could continue to pay those benefits, and develops an “effective tax rate,” the rate that when applied to the state’s taxable resources would equal its pensions’ unfunded liabilities. She finds:

- ◆ Retirement is most responsive to age and service requirements. “Becoming eligible for early retirement or normal retirement between the ages of 50 and 54 increases the probability of retirement by about 0.05 and 0.06.”
- ◆ Those at key ages who also have Social Security coverage are more likely to retire than those who do not. “The economic magnitude of the effect is on par with the increased probability of retirement due to poor health. Depending on the particular age group, having Social Security coverage approximately doubles these retirement probabilities.”
- ◆ Retirement probability falls as pension underfunding increases.
- ◆ The effective tax rate measure for Connecticut, Mississippi, Hawaii, Alaska, Colorado, New Mexico exceeds 10%. For New Jersey, Illinois and Kentucky, it is closer to 20%.

[Read Papke’s full working paper](#). 


# News from MRDRC researchers

## Book chapter

Italo Lopez Garcia and Michael Pollard have a book chapter in [“The Social Science of Same-Sex Marriage: LGBT People and Their Relationships in the Era of Marriage Equality,”](#) edited by Aaron Hoy and published by Routledge. The chapter is based on the researchers’ 2017 MRDRC project, [“Exploring the Social Security Benefit Implication of Same-Sex Marriage”](#) (WP 2017-377, UM17-07). The book is available for preorder with shipping after December 30, 2021.

## Media mentions

María Prados and Arie Kapteyn’s 2019 project, [“Subjective Expectations, Social Security Benefits, and Saving for Retirement”](#) (MRDRC WP 2019-405, UM19-06) has been mentioned in several news sources in the past few months, including [Next Avenue](#) and industry magazine [Plansponsor](#).

The personal finance news site The Entrepreneur Fund used Helen Levy’s [“The Risk of High Out-of-Pocket Health Spending among Older Americans”](#) (MRDRC 2020-409; UM20-09) as the basis for its article, [“Enrollment Trends in Medicare Options.”](#) 

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



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**Michigan Retirement and Disability Research Center**  
Institute for Social Research  
University of Michigan  
426 Thompson Street, Room 3026  
Ann Arbor, MI 48104-2321

**Director:** John P. Laitner

**Associate Director:** Dmitriy Stolyarov

**External Relations:** Susan Barnes

**Administrative Manager:** Cheri Brooks

**Phone:** (734) 615-0422

**Fax:** (734) 615-2180

## Regents of the University of Michigan

Jordan B. Acker, Huntington Woods; Michael J. Behm, Grand Blanc; Mark J. Bernstein, Ann Arbor; Paul W. Brown, Ann Arbor; Sarah Hubbard, Okemos; Denise Ilitch, Bingham Farms; Ron Weiser, Ann Arbor; Katherine E. White, Ann Arbor; Mark S. Schlissel, *ex officio*