



Promoting research on retirement and Social Security policy

Research Brief 323 | September 2015

Declining Wealth and Work among Male Veterans in the Health and Retirement Study

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There is continuing debate on military pensions, retirement, and the adequacy of resources available to the retired veteran. Evidence used in this debate is often limited to administrative data from the Department of Defense. That data typically pertains only to the individual veteran, rather than to the veteran's household. It often ignores many assets beside military pensions, e.g., Social Security, private pensions, and housing. Moreover, data on veterans should be placed in perspective, yet policy studies do not often present comparable data for nonveterans.

To fill this gap in information on the economic status of veteran and nonveteran households nearing retirement, we analyze data for four cohorts from the Health and Retirement Study (HRS). Respondents are ages 51 to 56 in the base year the cohort enters the survey, 1992, 1998, 2004, and 2010. These four cohorts include veterans of Vietnam and the Gulf War, as well as many veterans who did not see combat. The sample is restricted to males because there are very few female veterans in the HRS cohorts to analyze.

WEALTH DIFFERENCES BETWEEN VETERANS AND NONVETERANS BY COHORT

In descriptive data for the original (1992) HRS cohort, the wealth of veterans is 13 percent higher than nonveterans. The wealth advantage of veterans is also higher for the 1998 cohort. By the 2004 cohort, veterans' wealth is lower than that of nonveterans. By the 2010 cohort, the wealth of veterans in their early 50s is 35 percent below that of nonveterans.

When we consider the demographic and related characteristics of veterans and nonveterans from these cohorts, we find that over time, male veterans have become less likely to be married, more racially diverse, less well educated, and less healthy than nonveterans.

Multiple regression analysis suggests that observable demographic variables, health, and disability measures account for most of the difference in wealth between veterans and nonveterans from the three oldest HRS cohorts. That is not the case for the youngest cohort, age 51 to 56 in 2010. For this cohort, even after statistically eliminating the effects of observable covariates, the wealth of veterans remains about 10 to 13 percent below the wealth of nonveterans.

It appears that the wealth differences between veteran and nonveteran households result either from unobservable characteristics associated with lower earning capacity of those choosing to serve in the military, or that there are insufficient opportunities or incentives for veterans from the all-volunteer force to accumulate assets to support themselves in retirement.

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Note that if adverse health, increased likelihood of disability status, and, perhaps, other covariates associated with lower wealth are the result of military service, one should avoid over-standardizing for differences between veterans and nonveterans. When covariates that are affected by military service are standardized for, the analysis is likely to understate the effect of military service on the total wealth of near retirees.

We also consider differences in retirement between veterans and nonveterans. Veterans from older cohorts are more likely to work than nonveterans. Veterans from younger cohorts are less likely to work.

CONCLUSIONS

Our main finding is that the economic status of veterans has deteriorated badly over time. Veterans ages 51 to 56 in 1992 were better educated, healthier, wealthier, and more likely to be working than nonveterans. By 2010 veterans nearing retirement had lost their educational advantage, were less healthy, less wealthy, and less likely to be working at ages 51 to 56 than nonveterans. Our measures of wealth are comprehensive. We include the wealth equivalent of Social Security benefits and private sector pensions.

One reason for the relative increase over time in the retirement wealth held by nonveterans is the major change in the composition of the veterans groups. The younger cohorts of veterans exhibit fewer characteristics typically associated with higher economic status vis-à-vis nonveterans. This in turn is the result of the decline in the share of the population serving in the military, and the changing method for selecting the military. Half the members of older cohorts served in the military. Some of those who did not were rejected by the military. By the 2010 cohort, 16 percent of those 51 to 56 years old were veterans. As the all-volunteer military replaced the draft, the mechanism for selection into the military changed. Over time, male veterans have become less likely to be married, more representative of racial minorities, less well educated, and less healthy than nonveterans. All of these characteristics are associated with lower income and wealth.

For older cohorts, standardizing for observable differences in key covariates between veteran and nonveteran households eliminates the gap in wealth. Not so for those in the youngest HRS cohort, those age 51 to 56 in 2010. Indeed, even including covariates that may reflect disadvantages arising from military service cannot explain away the gap in wealth between members of the all-volunteer force and nonveterans from the same cohort.

These findings suggest that policies aimed at improving the status of veterans who are already retired should treat members of different cohorts differently. In older cohorts, before standardizing for differences in measurable characteristics, veterans have higher wealth than nonveterans. After standardizing, veterans have comparable wealth to nonveterans. In younger cohorts, veterans have much lower wealth than nonveterans, and a substantial gap remains after standardizing differences in observable characteristics between the groups.

The next logical question is whether the remaining gap in wealth between veterans and nonveterans in the youngest HRS cohort is due to unmeasured factors. The alternative is that those in the military, or at least those in the all-volunteer military, do not have the same opportunities to save and accumulate wealth as do nonveterans. If the differences in preretirement wealth are the result of real but unmeasured differences in characteristics of veterans and nonveterans, this would provide only a weak rationale for policy intervention. On the other hand, if the wealth differences between veterans and nonveterans from younger cohorts are due to disadvantages arising from military service, the case for enhancing the pensions of veterans would be stronger.

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Sponsor Information: The research reported herein was performed pursuant to a grant from the U.S. Social Security Administration (SSA) through the Michigan Retirement Research Center (MRRC). The findings and conclusions expressed are solely those of the author(s) and do not represent the views of SSA, any agency of the federal government, or the MRRC.

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