

# Key Findings

## 2011 Working Papers

### I. Social Security Disability Insurance

**Does Delay Cause Decay? The Effect of Administrative Decision Time on the Labor Force Participation and Earnings of Disability Applicants** by David Autor, Nicole Maestas, Kathleen Mullen and Alexander Strand  
WP 2011-258

- ▶ We find that longer processing times of disability applications reduce the employment and earnings of SSDI applicants in the years after their initial decision.
- ▶ We estimate that the SSDI determination process directly reduces the post-application employment of denied applicants by approximately 7 percent and allowed applicants by approximately 33 percent.
- ▶ The mean determination time for allowed applicants significantly exceeds that of denied applicants (14.1 versus 9.7 months) because half of beneficiaries are allowed only after a lengthy appeal.

**Health Insurance, Health Care and Labor Supply by Older Adults** by Lauren Nicholas WP 2011-256

- ▶ Comparing the health and economic outcomes of those who receive elective surgery after the onset of chronic conditions with those who do not, this study finds that angioplasty and joint replacement surgery reduce the probability of applying for Social Security Disability Insurance by up to 22 percentage points.
- ▶ Elective angioplasty and joint replacement surgery also delay the age at which a respondent first claims Social Security benefits by 1.3–3.5 years.
- ▶ Periods of uninsurance after condition onset are associated with lower probability of receiving surgery for patients with heart disease, but not arthritis.
- ▶ Increasing access to medical care amongst chronically ill workers may help to reduce new SSDI applications.
- ▶ Temporary benefit programs to provide income support to workers taking medical leave to receive surgery, for example, could help to reduce permanent transitions to SSDI.

- ▶ Reduction of elective procedure utilization in Medicare could adversely impact the health and economic outcomes of those who have chronic illnesses such as heart disease and arthritis. Cost-effective analysis should factor in savings from elective procedures that prevent or delay health impairment or disability.

**The Importance of State Anti-Discrimination Laws on Employer Accommodation and the Movement of their Employees onto Social Security Disability Insurance** by Richard V. Burkhauser, Lauren Nicholas and Maximilian D. Schmeiser WP 2011-251

- ▶ Using Health and Retirement Study data with linked Social Security Administration records, we find that 28 percent of individuals who experienced a work limitation while employed received an accommodation.
- ▶ The probability of receiving an accommodation increased in the post-1992 period following the implementation of the Americans with Disabilities Act (ADA).
- ▶ Our estimates confirm that accommodation effectively reduces the probability of application for SSDI following the onset of a work limitation.
- ▶ Providing an employee with an accommodation following the onset of a work limitation would reduce applications to the SSDI program by 27 percent within one year of onset and 30 percent within five years of onset.
- ▶ These findings suggest that the provision of workplace accommodations would be an effective strategy for reducing application for SSDI benefits, and potentially the number of people receiving SSDI.

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## II. Social Security Old Age Survivor Insurance

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### **First-Round Impacts of the 2008 Chilean Pension System Reform** by *Jere Behrman, Maria Cecilia Calderon, Olivia S. Mitchell, Javiera Vasquez and David Bravo* WP 2011-245

- ▶ We evaluate the impacts of the 2008 Chilean Pension reform by comparing household survey data from before (2006) and after (2009) the system changed.
- ▶ While the poor in 2009 seemed less well-informed about the reform compared to non-poor respondents, those who lived in a poor household with a member age 65 and over were more likely to have heard of the new “basic pension.”
- ▶ Targeted poor households with elderly members received about 2.4 percent more household annual income, with little evidence of crowding-out of private transfers.
- ▶ Recipient household welfare probably increased due to slightly higher expenditures on basic consumption needs, including healthcare and leisure. They also reported better self-rated health.

### **The Effects of Changes in Women’s Labor Market Attachment on Redistribution Under the Social Security Benefit Formula** by *Alan L. Gustman, Thomas L. Steinmeier and Nahid Tabatabai* WP 2011-248

- ▶ Despite the highly progressive Social Security benefit formula and the rapid growth of women’s earnings over the preceding decade, as of 2004 there is less redistribution of benefits from high to low earning households than from high to low earning individuals.
- ▶ Among the reasons for this finding:
  - Women in high income households continue to earn less than their husbands, thereby enjoying redistribution from the benefit formula as low earners.
  - Spouse and survivor benefits accrue disproportionately to households with one high earner.
- ▶ With the closing of the gap in earnings between men and women, in 2004 there was greater redistribution of Social Security benefits from high- to low-earning households than there was in 1992.

### **Effects of Legal and Unauthorized Immigration on the U.S. Social Security System** by *Hugo A. Benítez-Silva, Eva Carceles-Poveda and Selcuk Eren* WP 2011-250

- ▶ We analyze the differential effects on the economy of legal and unauthorized immigration on the social insurance system in the United States.
- ▶ We present a General Equilibrium model of the key decisions of immigrants to calculate the contribution to economic growth of legal and undocumented immigrants (through savings and labor productivity) versus the costs they subject the system to through the usage of social insurance programs.
- ▶ We find significant positive effects of legalization on capital stock, output, consumption levels, labor productivity, and the overall welfare of individuals. While the overall effects are small, given the size of our economy, the level effects are considerable.

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## III. Current Economic Crisis

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### **Personality and Response to the Financial Crisis** by *Angela Lee Duckworth and David Weir* WP 2011-260

- ▶ The study found no notable associations between personality and response to the financial crisis; however, the sample size was insufficient to reach definitive conclusions.
- ▶ More conscientious adults save more of their income.
- ▶ Adults who are impulsive in the domain of finance save less of their income.

### **How Did the Recession of 2007–2009 Affect the Wealth and Retirement of the Near Retirement Age Population in the Health and Retirement Study?** by *Alan L. Gustman, Thomas L. Steinmeier and Nahid Tabatabai* WP 2011-253

- ▶ Over the period spanning the “Great Recession,” 2006–2010, the total wealth of the near-retirement population fell by about 2.8 percentage points.
- ▶ Members of older cohorts had increased their wealth by about 5 percentage points at comparable ages, so in total, the wealth of the near-retirement population was about 8 percentage points lower than it would have been had they experienced the same wealth increase as members of older cohorts.
- ▶ Retirement is similar to that observed for members of older cohorts at comparable ages.
- ▶ The major wealth losses were in housing, but Social Security and pensions modulated the negative shocks.
- ▶ Retirement wealth of poorer households was least affected by the recession.

**Lifecycle Impacts of the Financial and Economic Crisis on Household Optimal Consumption, Portfolio Choice, and Labor Supply** by *Jing Jing Chai, Raimond H. Maurer, Olivia S. Mitchell and Ralph Rogalla*  
WP 2011-246

- ▶ We develop a lifecycle model to explore how people might react to a dual financial and economic crisis in the short- and long-run.
- ▶ When young households are hit badly by the financial/economic crisis, they must reduce their work effort during the crisis by up to 10 percent. Later, they must boost work hours — over 20 percent at age 60, and defer retirement by one year on average. Consumption is lower in their early 20s and after age 70. They must save more later in life to build up financial wealth and will have lower stock investment.
- ▶ When older households are badly hit by unemployment and stock market shocks, they must boost their work effort by over 20 percent in their early 60s and postpone retirement by about one year. They face consumption losses in the short- and long-term. Withdrawal of assets during the crisis results in substantial cuts in withdrawals later in life.

**Consumption and Differential Mortality**  
by *Michael Hurd and Susann Rohwedder* WP 2011-254

- ▶ We find that those who are wealthier tend to live longer.
- ▶ Analysis of HRS data for 2000–2004 showed that among single persons, average wealth two years prior to death was 81 percent of that of survivors. The median wealth of single people who died was only 45 percent that of survivors.
- ▶ The mean wealth of couples where one member became deceased was 66 percent that of couples where both survived. The disparity in median wealth was 65 percent.
- ▶ While those who consume more tend to be wealthier and live longer, the dying spend a greater proportion of their wealth than do those who survive. This proportion of wealth spent is greater for singles than for married persons.
- ▶ We find that cross-sectional data on consumption does not accurately reflect life-cycle spending trajectories: the cross-sectional profiles decline much more slowly with age than the panel profiles. The results of cross-sectional profiles overestimate the needs of individuals and households for economic resources in retirement.
- ▶ Synthetic panels provide a fairly close approximation to true panels, which means that studies based on the CEX are likely to approximate studies based on panel data.

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## IV. Life-Cycle Model

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**The Influence of Public Policy on Health, Wealth and Mortality** by *John Karl Scholz and Ananth Seshadri*  
WP 2011-252

- ▶ We develop a dynamic model of household behavior that blends a model of health capital and production to better understand the links between health, wealth, and aging.
- ▶ The model we develop matches quite closely the joint distribution of medical expenditures and wealth over time observed in data. When Medicare is eliminated in our simulation, poor households experience a drop in income by more than their richer counterparts, which leads to a cutback in medical spending, resulting in higher mortality at both age 60 and at age 75.
- ▶ While most models assume that households will respond to an absence of social insurance in old age by engaging in precautionary saving, our model shows that poor households largely run down their health capital in response to an absent or withdrawn safety net.
- ▶ Short-run changes in survival probabilities, even to very large policies affecting the elderly, appear to be small because health capital is largely determined by the time an individual reaches retirement. Long-run changes can be substantial, however. With fewer lifetime resources households will both consume less and die earlier.

**Macroeconomic Conditions and Updating of Expectations by Older Americans** by *Purvi Sevak and Lucie Schmidt* WP 2011-259

- ▶ We find that individuals' expectations about future macroeconomic outcomes fluctuate from year to year.
- ▶ Individuals report higher expectations about a major depression when their state's unemployment rate is higher and when the S&P 500 declines.
- ▶ Declines in the S&P 500 are associated with higher expectations that the S&P 500 will rise over the next year.
- ▶ College graduates' expectations about the future macroeconomy are more responsive to the current economic climate than are expectations of less educated individuals.
- ▶ Individuals in poor and declining physical and mental health have significantly less optimistic expectations about the macroeconomic future.

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- ▶ Individuals from more vulnerable socioeconomic groups have lower expected probabilities of leaving bequests and higher expected probabilities of having medical expenses use up their savings. They are also significantly less likely to expect to be working past age 62 or 65, which could have important implications for their economic well-being.
- ▶ We find that individuals' expectations about their future labor supply, bequests, and medical expenses also fluctuate from year to year.
- ▶ The subjective probability of working at age 65 is significantly higher when the state unemployment rate is higher, and the subjective probability of working at ages 62 and 65 is significantly lower when local house prices rise.
- ▶ The unemployment rate effect on working longer is larger for less-educated individuals, while the house price effect is larger for more-educated individuals. This is consistent with the fact that college graduates are less likely to be affected by business cycle fluctuations, and more likely to be homeowners.

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## V. Retirement Behavior

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### **Do Stronger Age Discrimination Laws Make Social Security Reforms More Effective?** *by David Neumark and Joanne Song* WP 2011-249

- ▶ In states with stronger protections against age discrimination in the labor market, older individuals were more responsive to increases in the Social Security Full Retirement Age (FRA).
- ▶ Where state laws applied to small firms not covered by the ADEA, employment increased more at ages that were initially beyond but subsequently lower than the FRA — i.e., for those older individuals “caught” by increases in the FRA.
- ▶ Where the state laws provided stronger remedies (harsher penalties), the response to the increase in the FRA was stronger for both employment and claiming Social Security benefits.
- ▶ We also found some evidence that these impacts of state age discrimination laws were stronger when, under state law, attorneys' fees are recoverable.

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