



Promoting research on retirement and Social Security policy

Key Findings | 2014 Working Papers

I. Social Security and Retirement

The Implications of Differential Trends in Mortality for Social Security Policy by John Bound, Arline Geronimus, Javier Rodriguez, and Timothy A. Waidmann WP 2014-314, October 2014 (UM14-11)

- ▶ While increased life expectancy in the U.S. has been used as justification for raising the Social Security retirement ages, independent researchers have reported that life expectancy declined in recent decades for white women with less than a high school education. However, there has been a dramatic rise in educational attainment in the U.S. over the 20th century suggesting a more adversely selected population with low levels of education.
- ▶ Using data from the National Vital Statistics System and the U.S. Census from 1990-2010, we examine the robustness of earlier findings to several modifications in the assumptions and methodology employed. We categorize education in terms of relative rank in the overall distribution, rather than by credentials or years of education, and estimate trends in mortality for the bottom quartile. We also consider race and gender specific changes in the distribution of life expectancy.
- ▶ We found no evidence that survival probabilities declined for the bottom quartile of educational attainment. Nor did distributional analyses find any subgroup experienced absolute declines in survival probabilities.
- ▶ We conclude that recent dramatic and highly

publicized estimates of worsening mortality rates among non-Hispanic whites who did not graduate from high school are highly sensitive to alternative approaches to asking the fundamental questions implied.

- ▶ However, it does appear that low SES groups are not sharing equally in improving mortality conditions, which raises concerns about the differential impacts of policies that would raise retirement ages uniformly in response to average increases in life expectancy.

Labor Market Shocks and Early Social Security Benefit Claiming by David Card, Nicole Maestas, and Patrick Purcell WP 2014-317, December 2014 (UM11-14)

- ▶ In this paper, we use administrative data from the Social Security Administration's Continuous Work History Sample to study the effects of recent and lagged labor-market shocks on the rate of initiation of Social Security retirement benefit claims. We also examine the patterns of earnings changes associated with early claiming, and provide estimates of the impacts of early claiming on earnings after age 62.
- ▶ There is strong evidence that people who experience negative labor-market shocks in their late 50s and early 60s are likely to begin claiming Social Security retirement benefits as soon as they can.
- ▶ This is evident both from the downward trend in their earnings prior to age 62, and from the strong

correlation between early claiming and local labor-market shocks experienced between ages 57 and 62.

- ▶ Once they begin receiving benefits, early claimers have very low earnings (typically less than \$2,500 per year), regardless of how much they were earning in the years prior to claiming.
- ▶ Interestingly, the post-initiation earnings of people who begin claiming benefits at age 62 are not very different from those who begin claiming at ages 63 or 64, while early claimants as a group are substantially different from those who initiate benefits on or after their FRA.

Does Retirement Make you Happy? A Simultaneous Equations Approach by *Raquel Fonseca, Arie Kapteyn, Jinkook Lee, and Gema Zamarro* WP 2014-310, September 2014 (UM14-09)

- ▶ Depressive symptoms are negatively related to retirement. In other words retirement reduces the probability of depression.
- ▶ Life satisfaction is positively related to retirement.
- ▶ Household wealth, being married, educational attainment, are all positively related to life satisfaction and reduce the probability of depression.
- ▶ Major health conditions increase the probability of depression and reduce life satisfaction.
- ▶ Remarkably, income does not seem to have a significant effect on depression or life satisfaction. This is in contrast with the correlations in the raw data that show significant relations between income and depression and life satisfaction. This suggests that accounting for the endogeneity of income in equations explaining depression or life satisfaction is important.

Will They Take the Money and Work? An Empirical Analysis of People's Willingness to Delay Claiming Social Security Benefits for a Lump Sum by *Raimond H. Maurer, Olivia S. Mitchell, Ralph Rogalla, and Tatjana Schimetschek* WP 2014-308, September 2014 (UM14-02)

- ▶ Our research asks whether replacing Social Security's annuitized delayed retirement credit with a lump-sum payment would potentially induce people to claim benefits later and work longer.
- ▶ Using an experimental module in the American Life Panel, we show that:
 - people would voluntarily work longer if they were offered an actuarially fair lump sum instead of the delayed retirement credit under the current system, and
 - people would voluntarily work between one-quarter and half of the additional time until claiming.
- ▶ The claiming delay would average half a year if the lump sum were paid for claiming later than age 62, and about two-thirds of a year if the lump sum were paid only for claiming after the Full Retirement Age.
- ▶ Individuals who respond most to the lump sum incentives are those who would have claimed earliest, under the current rules.

II. Macroeconomic Analyses of Social Security

Have We Finally Achieved Actuarial Fairness of Social Security Retirement Benefits and Will It Last? by *Frank Heiland and Na Yin* WP 2014-307, April 2014 (UM13-02)

- ▶ We show that Social Security old age pension benefit adjustments have become significantly

closer to actuarially fair across beneficiaries born between 1917 and 1943.

- ▶ For discount rates consistent with long-term average (real) interest rates, we estimate that the current adjustment schedule for workers deviates from its fair form by less than 1 percent for average-mortality beneficiaries, compared to 5.1 percent and 4.0 percent for male and female beneficiaries in 1980.
- ▶ The improvement is largely due to the increases in the Delayed Retirement Credit. For men, gains in life expectancy in conjunction with increases in the Full Retirement Age (FRA) also contributed to the better fit.
- ▶ We predict that the designated increase in the FRA to age 67 will have little effect on the actuarial fit.

Distributional Effects of Means Testing Social Security: An Exploratory Analysis by Alan L.

Gustman, Thomas L. Steinmeier, and Nahid Tabatabai
WP 2014-306, September 2014 (UM14-01)

- ▶ In a sample from the Health and Retirement Study, means tests of Social Security reducing the benefits of those falling in the top quarter of all households based on means, defined as Average Indexed Monthly Earnings (AIME), or total wealth, or pension wealth, would reduce total household benefits by 7 to 9 percentage points, amounting to 15.4 to 16.4 percent of the benefits of affected workers at baseline. The means test would reduce the replacement rate up to the first bracket in the Primary Insurance Amount (PIA) formula from 90 percent to 40 percent.
- ▶ As the basis for the means test is changed, different households are affected. It will make a great deal of difference, at least to some households, which definition of means is chosen.
- ▶ Which measure of means is chosen will make a great deal of difference to policymakers holding specific views as to how best to define means. For example, if a policymaker believes that wealth

is the appropriate basis for a means test, but another basis for means testing is in fact selected, households that are held by the policymaker to have low means will nevertheless suffer a reduction of benefits.

- ▶ Many households labeled as having high means when ranked by a particular criterion, whether it is lifetime covered earnings, wealth, or pension wealth, will not have their benefits reduced by the same amount.

III. Wealth and Retirement Income

Responses of Time-use to Shocks in Wealth

during the Great Recession by Jim Been, Michael Hurd, and Susann Rohwedder WP 2014-313, October 2014 (UM14-06)

- ▶ We expand on research investigating whether additional time available enables households to substitute home production for purchased goods and services.
- ▶ We use data on time-use with data on categories of spending, which has the potential to be much more informative than data on time-use alone: the combination can show substitutions or complements of time for spending. We use wealth shocks in house values induced by the Great Recession to show the extent to which households adjusted home production in response to those wealth shocks.
- ▶ We found some adjustment in the population age 65 or older, but none in the population age 51-64. Older households were able to compensate modestly.
- ▶ This implies that younger households experiencing a wealth shock only find very little opportunity, if any, to buffer the welfare losses resulting from reductions in spending on market-purchased goods by increases in home production.

Long-Run Determinants of Intergenerational Transfers by John Karl Scholz, Ananth Seshadri and Kamil Sicsinski WP 2014-312, September 2014 (UM14-03)

- ▶ We use the Wisconsin Longitudinal Study to analyze the impact of transfer patterns on wealth accumulation.
- ▶ We look at transfers over a long time period, informed by different theories of transfer behavior, as well as how cognitive skills and other attributes earlier in the life-cycle influence transfer and saving behavior later on in life.
- ▶ Long-term transfers are less equally distributed across siblings than short-term transfers and the sum of transfers and inheritances is less equally distributed than transfers and inheritances alone.
- ▶ Transfers from parents-in-law are positive but statistically insignificantly correlated with the amount of transfers received from one's own parents.
- ▶ Inter-vivos transfers from parents are not affected by transfers from parents-in-law.
- ▶ We find a strong positive association between the incidence of giving to own children and having received a gift from own parents, conditional on income and net worth.

IV. Program Interactions

Does Protecting Older Workers from Discrimination Make It Harder to Get Hired? by David Neumark, Joanne Song, and Patrick Button WP 2014-311, September 2014 (UM12-07)

- ▶ Disability discrimination laws are likely to have a disproportionate impact on older workers, and could encourage or discourage hiring of older workers.
- ▶ State variation in disability discrimination protections allows estimation of the effects of

varying strength of disability discrimination protections on hiring of older (and other) workers.

- ▶ State disability discrimination laws that use a broader definition of disability than the ADA appear to raise rather than reduce hiring of nondisabled older workers.
- ▶ Stronger state disability protections reduce hiring of at least younger disabled workers.
- ▶ There is no evidence of adverse effects of disability discrimination laws on older workers, and our best evidence points to positive effects on hiring of older workers, as does complementary evidence on stronger state protections against age discrimination.

Economic Conditions and SSI Applications by Austin Nichols, Lucie Schmidt, and Purvi Sevak WP 2014-318, December 2014 (UM12-20)

- ▶ This study examines the relationship between economic conditions, state policy variables, and SSI applications between 1996 and 2010.
- ▶ Our results suggest the net benefits of federal aid during downturns may be underestimated.
- ▶ If federal interventions, such as the American Recovery and Reinvestment Act (ARRA) in 2009, result in reduced state unemployment rates, either by averting the laying off of state workers or by stimulating demand, or if they relieve state fiscal distress, the recession-induced increase in SSI and SSDI applications could be dampened.
- ▶ Future research should examine the extent to which federal aid such as ARRA or extended unemployment benefits impact application risk.

The Assets and Liabilities of Cohorts: The Rejection from the Disability Insurance Program and Dependency on Social Support by Susan Chen WP 2014-305, September 2014 (UM12-16)

- ▶ Social support participation rates of rejected DI applicants differ by age cohorts.

- ▶ At the time of filing young rejected applicants are 24% more likely to depend on social support programs than healthy workers. Older workers are 18% more likely to depend on social support programs at the time of filing.
- ▶ Participation rates decrease across time but up to 10 years after filing, young rejected DI applicants are still on average at most 12 percent more likely to depend on social support programs. Older rejected workers are at most 7 percent more likely on average to depend on social support programs.
- ▶ Younger rejected DI applicants are on average 7 percent more likely to participate in social support programs than DI beneficiaries. The spillover effects are smaller for the older cohort at 4 percent.

Is the 2010 Affordable Care Act Minimum Standard to Identify Disability in All National Datasets Good Enough for Policy Purposes?

by *Richard V. Burkhauser, T. Lynn Fisher, Andrew J. Houtenville, and Jennifer R. Tennant* WP 2014-267, January 2014 (UM12-14)

- ▶ This study evaluates the efficacy of national datasets that seek to determine the effect of public policy on individuals with disabilities.
- ▶ The six-question sequence instituted as the national standard for collection of health statistics by the Affordable Care Act of 2010 only identifies 66.3% of individuals in the Current Population Survey that matched Social Security Administration (SSA) records verify are receiving disability-based Social Security benefits.
- ▶ When we add a work-activity question to the sequence, we capture 23.1 more percentage points of this Social Security benefit population, bringing the total to 89.3%.
- ▶ The additional population captured by the work-activity question shares the same health characteristics as the population captured by the six-question sequence.
- ▶ The inability of the current six-question sequence to capture those who have a work limitation and

are judged disabled enough to receive Social Security benefits leads to an overstatement of labor force participation and employment rates and an understatement of poverty rates of the true working age population with disabilities.

The Insurance Role of Household Labor Supply for Older Workers by Yanan Li and Victoria

Prowse WP 2014-309, September 2014 (UM14-07)

- ▶ Following the husband losing his job, the wife's likelihood of employment increases in younger households, but not in older households.
- ▶ In older households, the likelihood of the wife being unemployed increases following the husband's job loss.
- ▶ Our findings are consistent with older women being constrained by the labor market in the extent to which they can adjust their labor supply to mitigate the effects of spousal employment shocks, and suggest that spousal labor supply is not an effective intra-household insurance device for older households. These findings point to the particular importance of social insurance programs, such as Social Security and Disability Insurance, for older households.

V. International

Previous Migration Experience and Legal Immigration Status among Intending Mexican Migrants to the United States by *Peter B. Brownell and Michael S. Rendall* WP 2014-304, December 2013

(UM13-15)

- ▶ We find a steep decline in the flow of immigrants into the U.S. from Mexico during and after the Great Recession.
- ▶ The decline was driven by a decline in immigration of undocumented immigrants, while the number of migrants legally authorized to work in the U.S. increased.

- ▶ Since 2007, migrants crossing the land border to the U.S. from Mexico have become less likely to be first time migrants and more likely to have made 11 or more previous U.S. trips.
- ▶ The absolute number of migrants with 11 or more previous trips actually increased since the onset of the Great Recession in 2007.



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The MRRC promotes high quality research on retirement and Social Security policy; communicates findings to the policy community and the public; enhances access to relevant research data; and helps to train new scholars. MRRC serves the public and policy community as an authoritative source of information on a range of issues related to retirement income security.

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