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**Director’s Corner**

*John Laitner*

On April 12, 2010, researchers from the Michigan Retirement Research Center (MRRC) gave a briefing titled “Social Security and the Well-Being of Older Americans,” for policymakers at the Senate Visitor’s Center on Capitol Hill. The audience of about 40 consisted of staff from congressional committees, the Social Security Administration, the Congressional Budget Office, and the Congressional Research Service.

The purpose of the briefing was to disseminate findings from MRRC research directly to the policymaking community – in the words of John Laitner’s opening statement, to help “create knowledge infrastructure that provides a scientific basis for policy analysis.” The speakers were John Laitner (MRRC director), Dan Silverman (MRRC associate director), Michael Hurd, and Kathleen McGarry. Following the presentations, the speakers answered questions from the audience.

The Michigan Retirement Research Center owes thanks to the Social Security Administration (SSA) for its cooperation and to the staff of Senators Max Baucus (Montana) and Jon Kyl (Arizona) of the Senate Finance Committee for their assistance with the arrangements.

This Newsletter features pictures and agenda items from the MRRC Annual Research Workshop at the University of Michigan in Ann Arbor, April 9-10, 2010. We had 26 talks, 2 roundtable sessions, and dinner remarks from Manuel de la Puente, Deputy Commissioner, Office of Research Evaluation and Statistics at SSA. The workshop provides a forum for MRRC researchers to present their basic findings. It features generous time allocations to comments and discussion from the floor. Each year we invite several new scholars whom MRRC would like to recruit for future projects. The roundtable discussions are less structured than the talks and provide latitude for airing interesting topics. This year’s roundtable subjects were “Social Security Reform” and “New Data Resources.” MRRC was delighted to have seven attendees from SSA. ■

## Research Workshop Participants



Foreground: Shinichi Nishiyama (Georgia State University) and Janice Compton (University of Manitoba)



John Laitner (University of Michigan) and John Sabelhaus (Investment Company Institute)



David H. Pattison (SSA) and Alan Gustman (Dartmouth)



Manuel de la Puente (SSA) and Miles S. Kimball (University of Michigan)



From left: Nicole Maestas (RAND), Susan Chen (Purdue University), and Kathleen Mullen (RAND)



Amanda Sonnega (University of Michigan) and Jody Schimmel (Mathematica)



## 2010 MRRC Annual Research Workshop

On April 9-10, 2010, the Michigan Retirement Center (MRRC) held its Sixth Annual Research Workshop. The meeting offered a fast-paced and collegial exchange of papers and ideas. Scholars presented and discussed papers on the impact of the current recession and mortgage crisis on the elderly, Social Security disability insurance, the health and well-being of the elderly, family line transfers of caregiving and wealth, Social Security benefits and labor market participation, correlates of earnings and wealth, financial planning for retirement, international social insurance programs for the elderly, and new data resources. (See photos from the conference on pages 2-4.)

MRRC director John Laitner opened the workshop with welcoming remarks. Over fifty-three researchers attended the meeting, including seven staff from the Social Security Administration.

Friday's first session dealt with the current recession and housing market and was chaired by John Laitner. Susann Rohwedder led off with her presentation, *The Effect of the Great Recession on American Households*, based on data from RAND's monthly American Life Panel survey. Frank Stafford discussed findings from his paper, *Mortgage Contract Decisions and Mortgage Distress: Family and Financial Life-Cycle Factors* (see page 7 for a Q&A with Stafford). Elena Gouskova concluded the session with her paper, *Mortgage Distress of the Elderly: How Strong Are Family Ties?*

John Phillips chaired the next session on the life-cycle model and private wealth accumulation. Robert Clark discussed his paper, *Lump Sum Distributions for Terminated Workers Prior to Retirement Eligibility*, based on North Carolina state pension data. Angela Lee Duckworth presented data showing a significant correlation between personality traits and earnings and wealth in her talk, *Personality, Lifetime Earnings, and Retirement Wealth*. Robert Willis reported on early results from the paper *Occupational Learning, Financial Knowledge and the Accumulation of Retirement Wealth*. Olivia Mitchell concluded the session by discussing *Borrowing from Yourself*, which dealt with the nature and prevalence of loans taken out on employer 401(k) plans.

John Sabelhaus led a lively lunch discussion round table on Social Security reform. Discussants were Alan Gustman, John Laitner, Olivia Mitchell, John Karl Scholz, and David Weir.

Friday's first afternoon session, chaired by Alan Gustman, started off with papers on disability insurance. Nicole Maestas discussed her paper, *Consistency of the Disability*



Robert J. Willis (University of Michigan) and Arie Kapteyn (RAND)



Alejandra Cox Edwards (California State University) and Estelle James (Estelle James Consulting)



Alexander Strand and Lynn Fisher (SSA)

See "Research Workshop" p. 4

## Research Workshop, continued

*Determination Process.* Next, David Stapleton presented his talk, *The Dynamics of SSDI Beneficiary Employment and Exit for Work.* Jody Schimmel reported on her findings in *The Impact of the 1999 SGA Increase on the Earnings of SSDI Beneficiaries.* Timothy Waidmann wrapped up the disability talks with *Early Retirement as Safety Net.*

John Laitner led the fourth session, which dealt with family line transfers. Janice Compton presented findings from *Family Proximity and Women's Labor Force Participation.* Kathleen McGarry discussed her paper, *Geographic Dispersion and the Well-Being of the Elderly.* Next, Emily Wiemers reported on her work, *Health, Caregiving, and Geographic Proximity to Family Long-Run Effects of Health on Wealth.* The last talk of the day was given by Jennifer Ward-Batts, who discussed *Long-Run Effects of Health on Wealth.*

Michael Hurd headed the first session on Saturday, April 10, which dealt with preferences and health status within the life-cycle model. Daniel Benjamin presented his paper, *Do People Seek to Maximize Happiness? Evidence from New Surveys.* Next, Miles S. Kimball discussed *Fatalism, Locus of Control and Retirement Saving.* John Karl Scholz talked about *Health Investments and Consumption.* Lina Walker from the AARP Public Policy Institute discussed *Using Housing Equity to Finance LTC.*

Dmitriy Stolyarov chaired Saturday's second morning session, which dealt with labor supply decisions. David Blau presented *Framing Social Security Reform: Behavioral Responses to Changes in the Full Retirement Age.* Luigi Pistaferri discussed *Wage Risk and Employment Over the Life Cycle.* Kathleen Mullen talked about her working paper, *Pension Benefits and Retirement Decisions: Income vs. Price Elasticities.* Shinichi Nishiyama presented *The Joint Decision Making of Married Couples and the Social Security Pension System.* Lauren Nicholas ended the session with *Health Care Treatment Intensity and Paid/Unpaid Work Amongst Older Adults.*

Saturday's lunch panel addressed new data resources and was chaired by Manuel de la Puente. University of Michigan researchers Sheldon Danziger, Helen Levy, and Kristin Seefeldt discussed the *Michigan Recession and Recovery Survey.* Michael Hurd provided an update on Health and Retirement Study data products, including the Consumption and Mail Activities Survey. And Frank Stafford presented findings from the Panel Study of Income Dynamics based on time diaries on the elderly.

Olivia Mitchell headed the final session of the workshop, which addressed international topics. Estelle James discussed *Chile's New Reform* and Arie Kapteyn talked about his work, *Anchoring Vignettes and Response Consistency.* ■



Susann Rohwedder (RAND) and Luigi Pistaferri (Stanford University)



Timothy Jun Lu and Olivia S. Mitchell  
(University of Pennsylvania)



Brooke Helppie and Lauren Nicholas  
(University of Michigan)





# How Marriage and Divorce Impact Earnings, Savings, and Wealth

**MRRC researcher Julie Zissimopoulos talks about her 2009 Working Paper “Gain and Loss: Marriage and Wealth Changes Over Time.”**

**MRRC:** Your paper states that individuals who divorce experience a loss of wealth two to four years before the divorce. How large is this loss and when does it occur?

**JZ:** Individuals over age 50 who experience a divorce lose almost 60 percent of their wealth over a short window of time. They lose about 14 percent over the two years prior to the divorce and the remaining 46 percent over the two years in which the divorce occurs. This is more than half their wealth – that is, it is not just a loss of wealth reflecting the division of two persons’ wealth into two parts. More research is needed to better understand why. Is the wealth loss due to costs associated with divorce proceedings, or are there events such as health shocks or job loss that lead to wealth loss and also break-up marriages?

**MRRC:** In your conclusion, you write, “By comparing wealth levels and lifetime earnings at age 55 of married and remarried individuals by whether they go on to divorce over the next 14 years, we found patterns consistent with the role of both selection and wealth loss due to marital dissolution in explaining why married individuals around age 55 have higher wealth than not married individuals.” What do you mean by selection?

**JZ:** Married individuals have more than twice the wealth of single individuals at age 55. It may be that marriage has a direct effect on wealth, that is, marriage makes people well-off. Alternatively, it may be that individuals who save more are more likely to marry and stay married. That is, well-off people marry. I found evidence consistent with both explanations. The average wealth and lifetime earnings at age 55 of married couples that remained married over the next 14 years was higher compared to those married couples that went on to divorce consistent with a story that well-off people are more likely to stay married. Comparing those married couples who remained married to remarried couples who remain married, I found remarried couples had slightly higher lifetime earnings but lower wealth. This suggests that there may be a wealth loss associated with divorce that may be difficult to recoup.

**MRRC:** In earlier work, you found that divorced women have substantially lower wealth levels near retirement age

Julie M. Zissimopoulos is Professor of Economics at the Pardee RAND Graduate School and Director of the RAND Postdoctoral Training Program in the Study of Aging. Her research focuses on lifecycle behavior with regards to earnings, wealth, and marriage, and topics in the economics of aging including health and socio-economic status, labor force behavior, savings behavior, and familial support networks.



than divorced men. Is this because of lower earnings over their lifetime or do they save less?

**JZ:** Previously, we found that divorced women had lower lifetime earnings than divorced men but that did not fully explain why wealth levels near retirement were lower for divorced women. In this paper, I find that over a two-year period, the increase in wealth of divorced women is lower than that of divorced men. That is, after accounting for observable differences between men and women, such as differences in education, lifetime and current earnings, they appear to save less than divorced men. This may be explained by differences in expenses such as those associated with children that vary for men and women.

**MRRC:** Why are these findings relevant to economic or Social Security policy?

**JZ:** Older adults in the United States today are more likely than the past to have experienced at least one divorce. Retirement income security is a focus of increasing attention with population aging and uncertainty about the solvency of Social Security. Moreover, the provisions of Social Security distribute retirement income across groups of individuals by both current marital status and past marital events, and it is important to understand how current rules impact vulnerable groups. ■

*This article is based on MRRC Working Paper 2009-213, which was supported by a grant from the Social Security Administration.*

## **Committee on Aging Delivers Report to Obama's Fiscal Commission**

WASHINGTON, D.C. – On Tuesday, May 18, 2010, U.S. Senator Herb Kohl (D-WI), Chairman of the Senate Special Committee on Aging, released an official Committee report on Social Security. The report outlines the challenges currently facing America's retirement program and highlights options for addressing program solvency, benefit adequacy, and retirement income security for economically-vulnerable groups. Emphasizing that a majority of America's seniors rely on Social Security as their primary source of income, the report calls on Congress to enact modest changes to Social Security in the near future to bring its long-term financing into balance and improve benefits for those who need them most.

"This report shows that, contrary to popular belief, the sky is absolutely not falling for Social Security. By implementing one or more of these modest changes, we can ensure solvency and even strengthen benefits for those who count on their monthly check the most," said Chairman Kohl.

Copies of the report were delivered to all eighteen members of President Obama's National Commission on Fiscal Responsibility and Reform. Many of the Commission's members have publicly mentioned their interest in addressing Social Security as part of their work to reduce the federal deficit.

"Social Security has never been responsible for one penny of the federal deficit, and by law is barred from doing so. In fact, it has been in surplus every year since its inception. If the Commission chooses to take a look at the program, it is my hope that they find our Aging Committee report of use," Kohl said.

The report points out that the nation's demographics have changed significantly since the Social Security program began in 1935. Americans are living longer, women's participation in the labor force has significantly increased, and with a rise in the divorce rate, household composition has changed. The labor force is also growing more slowly and with fewer companies offering pensions, the nature of work and compensation has altered in ways that affect workers' ability to save for retirement. Therefore, in addition to improving solvency, any future reforms to the program should take into account America's evolving demographics in order to ensure that benefits are adequate and equitable for generations to come.

The report includes an important disclaimer that the options laid out represent a range of commonly-considered proposals, and that none of them should be construed as having been endorsed by the Committee or its members. In the foreword, Chairman Kohl asserts: "Many members of the Committee, including myself, do not support and

actively oppose many of the options. However, a full and informed debate begins with the collection of research and information, and it is our hope that this report will serve as a resource to Congress and policymakers as they discuss ways to ensure that Social Security will remain strong for another 75 years."

View the Committee report:  
<http://aging.senate.gov/letters/ssreport2010.pdf>.

Source: United States Senate Committee on Aging Press Release

## **Social Security Benefits to Go Electronic by 2013**

Millions of Social Security recipients who get their monthly checks by mail will instead receive them electronically as of March 1, 2013, the federal government has announced. The change will not affect about 85 percent of Social Security recipients, who already receive their payments electronically.

The switch is expected to save the federal government more than \$300 million in mail and paper fees in the first five years. It will also cover veterans as well as railroad and federal civil service retirees.

The change from paper checks to electronic payments will begin earlier, on March 1, 2011, for new recipients who start collecting Social Security or other benefits as of that date.

Recipients who don't have bank accounts will be able to enroll in the government's Direct Express Debit MasterCard program. Prepaid debit cards will allow them to access their monthly payments.

AARP Executive Vice President Nancy LeaMond said, "AARP appreciates the efforts initiated by the administration to modernize Social Security and other payment systems that millions of Americans rely on each and every day for their financial and retirement security."

LeaMond said in a statement that AARP will work closely with government officials to make sure that current and future recipients, including about 4 million people who don't have bank accounts, are able to make the transition to receive their Social Security and other federal benefits electronically.

Source: Carole Fleck, *AARP Bulletin Today*, April 23, 2010

# Q&A

## Adjustable Rate Mortgages – “Armed and Dangerous”

**MRRC researcher and University of Michigan economist Frank Stafford discusses his current project.**

**MRRC:** At the April MRRC Research Workshop you presented a paper based on your current 2010 MRRC project with Elena Gouskova titled “Mortgage Contract Decisions and Mortgage Distress: Family and Financial Life-Cycle Factors.” You said that a better title might be *Adjustable Rates Mortgages -- “Armed and Dangerous.”* What did you mean by that?

**FS:** What we meant by “armed and dangerous” is that, at the time, the ARMs might not have looked risky because they were given to very credit-worthy people. Yet, ARMs were very prominent in housing markets with speculative run-ups in prices.

Data from the Mortgage Bankers Association shows that the so-called subprime mortgages have not had the highest increase in foreclosure rates. Instead, adjustable rate mortgages have had the greatest increase in foreclosure rates. The big problem with ARMs is that if someone signs a 5 percent ARM and then the mortgage rate resets to 10 percent, then they can't make their payments. ARMs were very prevalent from 2004-2007, during the run-up in the hot real estate markets like California, South Florida, Arizona. Many people who saw their house appreciate were borrowing against it. It was very tempting to take out these ARMs and refinance in the 2004-2007 period to get more cash, using the housing equity based on the bubble price.

**MRRC:** Do you think the bubble prices increased the amount of ARMs?

**FS:** If you look at our data from 2007-2009, the markets where the Case-Shiller home price index fell by more than 35 percent were the ones where many of the mortgage problems arose.

**MRRC:** What percentage of income is safe to spend on housing?

**FS:** The Federal Reserve tracks the debt-service ratio -- it's how much of a family's income goes into servicing debt. The aggregate data from 2003 onward shows that the debt-service ratio went from 13 or 14 percent to 17 percent, which is a huge change. If we look at the PSID data, some families were spending up to 25 or 30 percent of their income on housing. The Federal Reserve is supposed to track that and warn us not to do that.

Frank P. Stafford is Director of the Panel Study of Income Dynamics (PSID), Senior Research Scientist at the Survey Research Center, and Professor in the Department of Economics at the University of Michigan. His current research interests include household saving and human capital formation, and the impact of monetary policy on home ownership, household spending, and portfolio adjustment.



**MRRC:** How is the mortgage crisis affecting the elderly?

**FS:** In prior decades, those who were in their 60s and 70s were much less likely to hold a mortgage or even own a home. Whereas, in the mid 2000-2010 decade, those 65 and older were more likely to own a house, more likely to have a mortgage, and were spending a larger portion of their family's income on housing. The PSID dataset has family data and we'll be looking to see how many adult children needed help from their parents who were having mortgage trouble too.

**MRRC:** How have financial practices impacted the mortgage crisis?

**FS:** Before the Great Depression, there were shorter term contracts that got renegotiated every six years. When the Great Depression hit, they made the 30-year fixed rate mortgages the so-called standard. This put the banks in the position of trying to determine what future interest rates and inflation would be instead of households. These practices have slowly eroded to much more tenuous loaning rules and the emergence of what I think is fairly careless lending by web-based lenders. The lending officers were paid on a commission basis and had incentives to exaggerate the housing prices and expeditiously loan to as many people as possible.

**MRRC:** Were the elderly hit the hardest by the mortgage crisis?

**FS:** Our data show that those having the most problems are younger people and people with less education. The elderly are not at-risk relative to younger people, but they are at risk relative to the elderly of 15-20 years ago. They're supposed to be the backstop for their adult children, who are, in many cases, themselves in a precarious financial position. ■

## Register Now for the 12th Annual RRC Conference: August 5–6, 2010

The Directors of the University of Michigan Retirement Research Center, the Center for Retirement Research at Boston College, and the NBER Retirement Research Center are pleased to announce the 12th annual conference of the Retirement Research Consortium, *Retirement, Planning, and Social Security in Interesting Times*, which will be held in Washington DC on August 5–6, 2010. Please preregister on our website, as space is limited. There is no charge to attend the conference.

## New Book on Pensions in the HRS

### **Pensions in the Health and Retirement Study.**

Alan L. Gustman, Thomas L. Steinmeier, and Nahid Tabatabai (Harvard University Press, 2010).

Harvard University Press writes “This book presents a careful analysis of pension data collected by the Health and Retirement Study, a unique survey of people over the age of fifty conducted by the University of Michigan for the National Institute on Aging. The authors studied pensions as they evolve over individuals’ work lives and into retirement: how pension coverage and plans change over a lifetime, how many pensions workers have by the time they retire and what these pensions are worth, what pensions contribute to individual retirement incomes, and how trends and policy changes affect retirement plans.

The book focuses on the major features of pensions, including plan type and participation, ages of eligibility for retirement, values of different pension types, how pension values are influenced by retirement age, how plans are settled when a worker leaves a firm, how well people understand their pensions, the importance of pensions in retirement saving and as a share of household wealth, and the vulnerability of the retirement age population to the current financial crisis.

This book provides readers with an invaluable look at the crucial but ever-changing role of pensions in supporting retirees.”

*Alan L. Gustman is Professor of Economics at Dartmouth College and holds the Loren M. Berry Chair in Economics. Thomas L. Steinmeier is Professor of Economics at Texas Tech University. Nahid Tabatabai is a Research Associate in Economics at Dartmouth College.*

## MRRC Researchers in the News

The **University Record Update** carried the University of Michigan News Service video interview with MRRC researcher Janice Compton about her 2009 working paper with Robert Pollak, which found that most Americans live within 25 miles of their mother. Also, the online Chicago newspaper, **La Cronica de Hoy**, carried the article “Señala estudio que los estadounidenses también padecen ‘mamitis’”, about Pollak and Compton’s work.



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