Director’s Corner  

John P. Laitner

This issue is devoted to the annual MRRC Research Workshop, which took place April 13-14 at the University of Michigan. The workshop included about 30 research presentations, as well as a panel on possible future changes to the Consumer Expenditure Survey. The format of the workshop is designed to encourage discussion among participants. Talks are limited to 10 minutes to allow the opportunity for in-depth scholarly discussion from participants. As always, prominent topics included work on the lifecycle model of household behavior and on new data sources. We offer a summary of a sample of the talks.

We were delighted to have Andrew Biggs give a lunchtime talk on “Social Security: What’s Happening in Washington?” Biggs is a resident scholar at the American Enterprise Institute. He formerly served as deputy commissioner at the Social Security Administration. He talked about possibilities for reform of OASI and SSDI, including the possible scope of changes that might gather current support.

The annual workshop provides MRRC researchers the opportunity to exchange ideas and gather comments on their work. This year we had a nice mixture of familiar participants along with many new faces. The MRRC appreciates the Social Security Administration’s longstanding support for this event.

Spring Workshop Fosters Exchange of Ideas

For the eighth year, the MRRC held a spring research workshop in Ann Arbor to promote the exchange of ideas among researchers and policy makers. Over fifty MRRC researchers, invited guests, and staff participated in the meeting April 13–14, 2012. The Social Security Administration was represented by economist and MRRC project officer Lynn Fisher.

John Laitner kicked off the workshop by welcoming everyone. Altogether, twenty-seven papers were presented and discussed. Topics focused on Retirement, Earnings, and Employment Conditions at Later Ages; Behavior and Well-Being During Retirement; Preparing For Retirement — Life-Cycle Savings and Pensions; Health Insurance Changes and Health; and New Data Sources.

John Laitner, Michael Hurd, Dmitriy Stolyarov, Olivia Mitchell, Alan Gustman, and John Karl Scholz chaired the panel sessions.

Andrew Biggs, resident scholar at the American Enterprise Institute, gave a lunchtime talk entitled, Social Security: What’s Happening in Washington?

Panelists John Sabelhaus and Mel Stephens discussed ongoing efforts to streamline and improve data collection and accuracy in the Consumer Expenditure Survey.

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Exchange of Ideas, continued

Question and answer sessions were convivial and fostered enthusiastic discussions throughout both days of the workshop. Many of the presentations are summarized below.

Offering preliminary results from his research with co-author Sudipto Banerjee, MRRC researcher David Blau posed the question, Are Older Workers Different from Everyone Else? Reviewing labor force participation trends since 1991, Blau noted that employment of younger males has continued a long slow decline that was accelerated during the Great Recession. In contrast, employment among older males has been rising since the early 1990s.

While female employment at younger ages showed a sustained increase during this period, more recently it has begun to decline. And, as with older men, older females saw their decline in employment numbers come to an end, and they too are now experiencing an increase employment.

Blau reported that characteristics associated with low wages tend to predict early labor force exit among both younger and older workers: being in poor health, having low education, being black, and being unmarried (men only). Overall, he noted, the labor force participation patterns of women and men are converging.

In “Wage and Earning Profiles at Older Ages,” Maria Casanova investigates the earning profiles and labor force participation of older workers. She noted that there is a significant decline in wages for workers aged 58-69. Many individuals go into partial retirement before fully withdrawing from the labor force. This transitional period often involves part-time, bridge jobs, a change of industry and/or occupation, low attachment to the labor force, and self-employment.

Dmitriy Stolyarov presented preliminary findings from the paper, “Technological Progress and Productivity of Older Workers,” coauthored by John Laitner, Yuriy Gorodnichenko, and Jae Song. The researchers seek to determine how earnings of workers at all ages respond to technological change. They ask, is there a difference in the earnings response to technological change for older workers relative to younger workers? Preliminary results suggest the answer may be: Yes. But the effects may be small.

In his talk titled, “Should Policy Be Used to Encourage Self-Employment Among Older Workers?” Martin Farnham noted that self-employment rates increase over the life cycle. He cited a recent study that found that 39 percent of working men aged 66 in the US are self-employed. While women have lower rates of self-employment than men, they too experience higher self-employment rates with age. If self-employment were shown to increase labor force continuation rates, then perhaps policies could be developed to encourage it.

David Powell discussed research on the impact of income taxes on the labor supply behavior of older individuals. In “Taxes and the Labor Supply Decisions of Older Workers,” the authors ask, are there opportunities to delay retirement and increase labor supply through the tax code? When an individual’s spouse turns 65, a tax deduction is activated, potentially lowering that individual’s tax rate and liability. The authors seek to predict who will experience a tax rate decrease and who will not. They will then assess the impacts of changing the payroll tax for older individuals.

In “Investment Decisions in Retirement: The Role of Stock Market Return Expectations,” Marco Angrisani noted that given historical stock market returns, the observed rate of stock holding is much below what the life-cycle economic model suggests it should be. This project, conducted in conjunction with Michael Hurd and Erik Meijer, aims to quantify the importance of knowledge about stock market rates of return in reducing stock market participation and risky asset holding. Having a better understanding about individuals’ portfolio choices could offer more realistic predictions of the effects of potential Social Security policy changes.

In his talk, “Medicaid Insurance in Old Age,” Eric French noted that since Medicare does not insure long nursing home stays, individuals must turn to Medicaid. He presented preliminary findings from a working paper being coauthored by Mariacristina De Nardi and John Bailey Jones. They aim to determine the following: How does Medicaid affect medical expenditures and savings? How redistributive is it? What are its welfare benefits? The authors calculate the costs and benefits of Medicaid for men and women with different levels of income and wealth. They then estimate the costs and benefits of different policy decisions.

In her presentation, “The Impact of the Affordable Care Act on Retirement,” Helen Levy asked, how will the Affordable Care Act change labor supply incentives for older workers?

Currently, there are not a lot of alternatives to employer-sponsored health insurance for older adults under age 65. Citing data from the 2010 HRS, Levy noted that 17% of workers ages 57 to 64 are uninsured, and while 33% of are covered by their employer’s insurance, they have no retiree health insurance option.

According to Levy, the Congressional Budget Office has estimated that the ACA would reduce employment by 0.5%, because some workers may choose not to work since they could obtain insurance through other means. Beginning in 2014, there will be new public and private options. Levy asked, how will the new health insurance options under the Affordable Care Act affect labor supply? How will they affect Social Security claiming behavior?

Amy Pienta discussed “Retirement in the 1950s: The Cornell Retirement Study,” a study that was recently recovered from archival obscurity, but whose data was never
Questions. According to Sabelhaus, researchers have wrestled with ways to correct for underreporting and inaccuracies by supplementing with administrative data and new ways of collecting data, such as using the Internet.

BLS has asked that the National Academies Committee on National Statistics (CNSTAT) to convene an expert panel to aid in the redesign process. The panel is to be comprised of economists, survey methodologists, statisticians, and former CE staffers. A report from the CNSTAT panel is slated to be released in June 2012.

David Neumark presented preliminary findings from a paper coauthored with Joanne Song titled “The Effects of Increases in the Full Retirement Age When Age Discrimination Protections are Stronger: Evidence from the Hiring Side.” In a 2011 paper, the authors found that the increase in the Full Retirement Age (FRA) reduces benefit claiming for those “caught” by the increase in the FRA (62-65 and 65-FRA), and likely increases employment among the older group. They found that stronger state age discrimination laws enhanced these effects substantially.

In their 2012 paper, they ask what kinds of labor market transitions do older workers who are caught by increases in the FRA experience? Do stronger age discrimination protections induce hiring of workers affected by a higher FRA? Also, do stronger age discrimination laws enhance the kinds of transitions made by workers facing physical demands or physical limitations? (Continued on page 4)

John Sabelhaus and Mel Stephens discussed ongoing efforts to redesign the Consumer Expenditure Survey, a national household survey that provides information on consumer expenditures and income. The survey data are collected for the Bureau of Labor Statistics (BLS) by the U.S. Census Bureau. A falloff in survey participation rates has sparked discussion of how to reduce the reporting burden of households that were asked to respond to more than 300 questions. According to Sabelhaus, researchers have wrestled with the potential to help researchers gain a better understanding of the retirement process in the 1950s and how aging impacted older individuals half a century ago. For further information on the study, go to http://www.icpsr.umich.edu/icpsrweb/ICPSR/studies/29223/detail.

Andrew Biggs

In his lunchtime address at the annual MRRC Research Workshop, “Social Security: What’s Happening in Washington?” Resident Scholar at the American Enterprise Institute, Andrew Biggs touched on recent history and dynamics of efforts by legislators and policy makers to shore up Social Security’s financial future.

He noted that a number of proposals involving funding retirement through personal accounts emerged during the administration of George W. Bush. Olivia Mitchell and others at the MRRC played a role in the discussions of these proposals. However, these plans often would have carried very substantial transition costs. Recent discussions of Social Security reform have focused less on personal accounts and more on the tax increases or benefit reductions necessary to balance the program’s finances.

Biggs touched on recent policy discussions of encouraging people to work longer -- including proposals to reduce payroll taxes for older workers. The burdens of financing entitlements with an aging population could be moderated if people extended their work lives.

Biggs observed that Social Security Disability Insurance (SSDI) reforms have received attention and might be easier to enact in the current climate, because the SSDI system is under such great pressure. The Disability Trust Fund has only about 5 years of solvency remaining.

He noted that some SSDI reform proposals have similar components, suggesting potential grounds for compromise. Pointing to one example of a possible approach to SSDI reform, Biggs mentioned the recent book, “The Declining Work and Welfare of People with Disabilities,” by longtime MRRC scholar Richard Burkhauser and his coauthor Mary Daly. There is currently an incentive for employers to move disabled individuals onto SSDI to save money noted Biggs. The book proposes instituting an experience-rated employer payroll tax. Biggs also mentioned a recent proposal by David Autor and Mark Duggan that requires employers to bear part of the cost of moving their employees onto the SSDI system.

While there are differences between these proposals, said Biggs, they both offer employers incentives to keep employees working and keep them off the disability rolls.
Max Schmieser presented preliminary remarks from a joint project with Richard Burkhauser and Lauren Nicholas titled, “Does Employer Accommodation Delay Application for the Social Security Disability Insurance Program? Evidence from State and Federal Anti-Discrimination and Accommodation Laws.” He noted that motivation for the study comes from the increasing number of Social Security Disability Insurance (SSDI) applications, recipients, and program costs. Moreover, he stated, the Social Security Trustees project that the Disability Insurance Trust Funds will be exhausted before the end of the decade.

The authors seek to answer the following questions: Does the provision of workplace accommodation delay application for SSDI benefits? If accommodation delays SSDI application, by how much is application delayed within a given time period?

David Stapleton outlined joint research with Yonatan Ben-Shalom titled, “The Post-Award Work Experiences of New Supplemental Security Income Beneficiaries: A Longitudinal Perspective.” Using administrative data on young Social Security Disability awardees -- Social Security Disability Insurance workers and Disabled Adult Children -- they plan to produce and analyze statistics on beneficiary characteristics, employment, time in non-payment status following suspension or termination for work, earnings, and mortality. Further, they plan to discuss the implications for policies targeted towards youth and young adults with disabilities.

Ananth Seshadri discussed his joint work with John Karl Scholz in his presentation, “Health and Wealth in a Life Cycle Model.” The authors propose that households possess a stock of health, and that investments in health prolong life. In this paper, they continue to develop a life-cycle model that explains the relation between lifetime earnings and 10 year survival probabilities.

Seshadri noted that health and consumption decisions are intertwined. Health affects wealth and income, and wealth affects health. Economists have demonstrated that there is a strong link between income and longevity. The authors seek to learn more about the links between health, consumption, and wealth. They hope to be able to explain the joint distribution of health and wealth across households, to understand differences in longevity across households, and to analyze the effect of policy on health, wealth and longevity.

MRRC Researchers in Publication

Consumption and the Great Recession by David Benson, Mariacristina De Nardi, and Eric French was published in the Spring 2012 issue of the Journal Economic Perspectives.
