



Michigan Retirement Research Center

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Promoting research on retirement and Social Security Policy

Director's Corner

John P. Laitner

The 2013 Retirement Research Consortium (RRC) annual meeting at the National Press Club on August 1–2, 2013, featured talks summarizing 21 individual research projects, each followed by discussion. Opening remarks by Katherine Thornton, Deputy Chief of Staff of SSA, highlighted past RRC contributions and important challenges ahead.

Lunchtime speakers Alice Rivlin, a senior fellow at Brookings, and Stephen Goss, the chief actuary of SSA spoke about issues facing Social Security. Almost 400 individuals attended and showed a lively interest in the meeting. [C-SPAN](#) covered Stephen Goss's talk.

The RRC draws scholars into the study of Social Security and retirement-related topics. Individual RRC research projects run for one year and generally fund several months of a scholar's time. The RRC seeks original, innovative projects that use state-of-the-art methodology and data sources. The objective is to investigate public-policy relevant topics in-depth. The RRC annual meeting fosters direct communication between researchers and the policymaking community.

This year we specifically sought discussants from Washington to reinforce an exchange of information, to provide feedback to the scholars, and to help identify additional subjects of interest for future research.

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RRC Researchers Present Papers at Annual Meeting

MRRRC Director John Laitner opened the annual Retirement Research Consortium (RRC) meeting in early August titled *Retirement Security in Changing Times*. He welcomed attendees who included researchers, policy makers, journalists, and the general public. He noted that each of the Consortium Centers – at the University of Michigan, Boston College and NBER – were represented by speakers presenting papers from work funded by the



Katherine Thornton

Social Security Administration (SSA). Laitner thanked SSA for the opportunity to organize the meeting this year. He introduced Katherine Thornton, Deputy Chief of Staff of the Social Security Administration.

Thornton thanked the Center directors for their leadership of the RRC centers, and for participation in the meetings. She noted that

the meeting agenda included a broad research scope, and a diverse group of discussants, including SSA employees and former members of the Social Security Advisory Board.

The RRC began 15 years ago, explained Thornton, when Commissioner Ken Apfel, Steven Sandell, and others in the Office of Research, Evaluation, and Statistics developed the RRC model to bring together the academic and

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policy communities to conduct objective, policy-relevant research and inform the public and policymakers about alternative policies and their consequences. In addition, the centers were charged with training new scholars and disseminating their findings.

According to Thornton, RRC researchers have shed light on how the Social Security programs operate in today’s world, how individuals respond to changes in Social Security program rules, and the risks and trade-offs individuals must navigate as they save for retirement and as they live through retirement.

During Thursday’s lunch, Alice Rivlin senior fellow at the Brookings Institution gave a talk titled *Prospects for Social Security Reform: When and What Kind?*

She stated that the recent budget plans developed by Simpson-Bowles and Domenici-Rivlin both promoted entitlement reform paired with tax reform to raise revenues: Both commissions put Social Security into their proposals in similar ways with distinctions. Domenici-Rivlin proposed taxing employer paid health benefits, which would have taken care of a significant portion of the Social Security shortfall, according to Rivlin. She noted that domestic spending is currently a lower percentage of GDP than it was before 1962. One positive development has been the slowing of the growth of health care costs, however it is uncertain how long this will last, she said.

During Friday’s lunch, Stephen C. Goss, SSA Chief Actuary gave a talk titled *How Uncertain Are Projections of Social Security and Retirement Income Costs?* He discussed the challenges inherent in projecting future conditions based on historical patterns. He noted the importance of understanding the conditions and drivers of past events when making assumptions about future trends. Goss emphasized that he and his colleagues do not make forecasts or predictions, instead, they make projections based on explicitly stated and shared assumptions. They field ideas from the White House, Capitol Hill, think tanks, researchers, and public policy institutions. Based on current law, SSA’s actuaries and trustees try to develop the most reasonable estimates of costs and revenues, and determine what their implications are in the future. He noted that demographic projections made in 1983 by SSA were pretty much realized. However, the 1983 Trustees Report assumed real wage growth of 1.5 percent per year, but actual wage growth has averaged only about 1.0 percent since then.

Goss went on to explain that the increasing dispersion of earnings — with the highest earners earning more and the lowest earners earning less — has important implications for Social Security. This trend is caus-



Stephen C. Goss

ing a smaller share of taxable earnings to fall under the taxable maximum. In 1983, 90 percent of covered earnings were subject to the taxable maximum, whereas only 83 percent of earnings are taxed now, he noted.

Under current law, the Social Security Trust Funds are not permitted to borrow. If Social Security does reach the point where benefits cannot be paid, there is no transfer mechanism to add money to the trust funds, Goss explained. However, he noted that Congress has historically been forced to act when the trust funds were about to be depleted, pointing to Social Security amendments passed into law in 1977, 1983, and 1994.

Goss concluded by stating that RRC research allows the actuarial office to get the unbiased, objective, and valuable information that Congress and other policy makers can have to try to make the best possible decisions for the future.

MRRC Researchers Present Findings

On Thursday and Friday, August 1–2, 2013, RRC researchers presented 21 papers about current research projects funded by the Social Security Administration. The papers were slated to be completed at the end of September and many remarks during the meeting were still preliminary.

Lauren Nicholas spoke about the paper *Social Security Benefit Claiming and Medicare Utilization*, coauthored with John Bound and Helen Levy. Their analysis of Medicare utilization indicates that Social Security beneficiaries who claim prior to their Full Eligibility Age are modestly less healthy than those who delay, but are significantly healthier than either SSDI recipients or rejected applicants. Rejected SSDI applicants appear more similar to SSDI recipients than to Medicare beneficiaries who never apply for

SSDI benefits, though this difference diminishes with additional time in Medicare. Their results suggest that there could be a modest increase in SSDI application and receipt in response to increases in the Early Eligibility Age and Full Retirement Age, though many early claimers would be too healthy for SSDI.

David Neumark discussed *Did Age Discrimination Protections Help Older Workers Weather the Great Recession?* The paper was coauthored with Patrick Button. They examine whether stronger age discrimination laws at the state level lessened the impact of the Great Recession on older workers. They compared older workers in states with stronger and weaker laws to their prime-age counterparts, both before, during, and after the Great Recession. Neumark and Button find that the evidence sometimes points in the opposite direction, with stronger state age discrimination protections associated with more adverse effects of the Great Recession on older workers. This may be because stronger age discrimination laws protect older workers in normal times, but severe labor market disruptions in the Great Recession make it difficult to discern discrimination, weakening the effects of stronger state age discrimination protections.

Annamaria Lusardi presented the paper *Debt and Debt Management among Older Adults* coauthored with Olivia S. Mitchell. The paper assesses how wealth and debt among older persons has evolved over time, along with the potential consequences for retirement security. More recent cohorts have taken on more debt and face more financial insecurity, mostly due to having purchased more expensive homes with smaller down payments. Factors reducing exposure to debt include having higher income, more education, and greater financial literacy. Factors associated with financial fragility include having had more children and unexpected large income declines. While economic shocks play a role in the accumulation of debt close to retirement, they argue that it is not enough to have resources: people also need the capacity to manage those resources to avoid debt as they near retirement.

John Karl Scholz discussed *Health and Wealth in a Lifecycle Model*, coauthored with Ananth Seshadri. The authors develop a model of health investments and consumption over the life cycle, taking into account data showing that consumption and health capital are complements, i.e., healthier people consume more. Their model matches Health and Retirement Study data on household out-of-pocket medical expenses, self-reported health status, and wealth. The model also matches the evolution of health status in old age and changes in wealth over a ten-year period. They find that compared to individuals who are better educated, those who are less educated experience

Did You Know?

- ▶ Among people ages 65 to 74, almost half had mortgages or other loans on their primary residences, and more than a third held credit card debt according to the forthcoming paper, *Debt and Debt Management among Older Adults*, by Olivia S. Mitchell and Annamaria Lusardi.
- ▶ Individuals with higher levels of conscientiousness are more likely to be economically prepared for retirement, because of greater earnings and high saving, according to *Personality Traits and Economic Preparation for Retirement*, by Michael Hurd, Angela Lee Duckworth, Susann Rohwedder, and David Weir
- ▶ Persons with mental illness who have been denied DI or SSI benefits are worse off than those rejected applicants not reporting any mental illness on nearly every measure of well-being, according to *Estimates of the Potential Insurance Value of Disability Insurance for Individuals with Mental Health Impairments*, by John Bound, Kyle J. Caswell, and Timothy A. Waidmann.

a steeper decline in consumption after age 50 that corresponds with a decline in health. They find that Medicare has meaningful effects on mortality, particularly at the bottom of the income distribution.

Fatih Guvenen talked about questions he and coauthors Fatih Karahan, Serdar Ozkan, and Jae Song address in the paper *What Do Data on Millions of U.S. Workers Say about Labor Income Risk?* They analyze a 2 percent sample of the Social Security Master Earnings File of U.S. males during a 24-year period from 1978 to 2011 to study the dynamics of income changes over the life cycle. They ask, how are earnings shocks distributed and how large and how persistent are they? How does the persistence of shocks vary over the lifetime? Are positive shocks more persistent than negative shocks? How are shocks distributed in the population?

Jinkook Lee presented *Does Retirement Induced through Social Security Pension Eligibility Influence Subjective Well-being? A Cross-Country Comparison*, a paper coauthored with Arie Kapteyn and Gema Zamarro. As subjective well-being is known to influence health, if retirement has positive effects on subjective well-being, it is plausible that the fiscal savings created by delaying retirement may be offset by increased health expenditures driven by worsened subjective

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well-being. For both the U.S. and Europe, they find that retirement is associated with higher levels of depression when using Ordinary Least Squares specifications. However, with instrumental variables they find the opposite result. Retirement is found to have a positive effect, reducing depression symptoms, but is only marginally significant for the U.S. Marriage has a protective effect against depression and increases life satisfaction measures. Unemployment, disability, and health conditions increase the number of depression symptoms and decrease life satisfaction.



RRC Researchers in the Media

Forbes carried Richard Eisenberg's NextAvenue blog about work presented at the RRC meeting August 1–2, 2013. He quotes RRC researchers Suzanne Shu, Matthew S. Rutledge, John Beshears, and Richard Johnson in *The Irrational Retirement Choices We Make* (8/23/13).

Robert Powell of **MarketWatch** spoke with Olivia S. Mitchell and Annamaria Lusardi about the pros and cons of retiring with a mortgage (8/14/13).

The Wall Street Journal blogged about a paper on lump sum retirement benefits by Olivia S. Mitchell, Jingjing Chai, Raimond Maurer, and Ralph Rogalla in *Should U.S. Pay Workers to Delay Social Security?* (5/21/13).

Bloomberg Businessweek's article *Don't Weep for Boomers Close to Retirement*, cites the study by Gustman, Steinmeier, and Tabatabai about the impact of the Great Recession on older Americans (2/24/13).

MRRC Researchers in Publication

Alan Gustman, Thomas Steinmeier, and Nahid Tabatabai (2011). Redistribution Under the Social Security Benefit Formula at the Individual and Household Levels, 1992 and 2004, **Journal of Pension Economics and Finance** 12(1), January, 2013: 1–27.

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