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Promoting research on retirement and Social Security Policy

MRRC *Newsletter* | **October 2014** | (14)*3*

Director's corner

John Laitner

The 2014 Retirement Research Consortium annual meeting at the National Press Club featured 21 talks, each summarizing an individual research project, and each followed by a discussant, together with two lunchtime speakers, Frederick Miller, the founder of a private-sector financial advisory firm, and Annika Sunden, former deputy director-general of the Swedish Pensions Agency. The three RRC Research Centers—the Michigan Retirement Research Center, the Boston College Center, and the National Bureau of Economic Research Center—rotate in handling the organization of the meeting in cooperation with SSA; this year was the Boston Center's turn.

Frederick Miller's talk provided the perspective of a private-sector, financial advisor. Economists' life-cycle model of household behavior has been a foundation of MRRC research throughout the Michigan Center's lifespan. Interestingly, Frederick Miller's talk emphasized the role of the same model in his advisory business. Key elements of the model are the desirability of spreading a household's lifetime resources evenly over periods of both work and retirement, the need to take into account changes in family composition (as when children mature and leave home), and the need to make careful portfolio choices. The research community is long familiar with analysis of these factors. The talk showed the life-cycle framework's usefulness as a structure for deriving practical advice for clients.

Annika Sunden's talk illustrated the commonality of trends throughout the OECD. All public budgets are strained by lengthening life spans and lower birthrates. Many countries are seriously thinking about encouraging later retirement, and are worried about the balance of private-pension resources and public programs. Different countries are trying different policies, creating chances to learn from the ideas and experiences of others.

Victoria Prowse presented at this year's RRC Conference in Washington, D.C.

Policy focus marks 2014 RRC Meeting: 'Social Security and the Retirement Income System'

Five MRRC researchers—**Kathleen McGarry, John Bound, Victoria Prowse, Arie Kapteyn,** and **Olivia S. Mitchell**—presented their latest Social Security Administration-funded work at the 16th Annual Retirement Research Consortium meeting held August 7 & 8, at Washington, D.C.'s National Press Club. SSA Deputy Chief of Staff Katherine Thornton provided opening remarks. (See related article.) A total of 21 projects were presented, with seven panels on "Social Security Provisions,"

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"Social Security and Vulnerable Populations," "Social Security Claiming," "401(k)s: Saving and Investing Decisions," "Retirement Saving: Adequacy and Risks," "Working Longer," and "Lessons from Other Nations." Researchers generally kept presentations focused on policy implications to better serve government-affiliated audience members.

This year's meeting organizer, the Center for Retirement Research of Boston College, arranged for streaming of the proceedings. Sixty-seven remote users watched at least part of Thursday's stream, while 45 streamed portions of Friday's presentations.

"Understanding Participation in SSI"

McGarry presented the preliminary results of her 2014 project cowritten with Robert K. Schoeni. She noted that 2014 marked the 40th anniversary of Supplemental Security Income Program (SSI), the guaranteed income program for the elderly, blind, and disabled.

Only about half of those who are eligible participate in the program, and participation has remained relatively constant since the program's initiation. In their study, McGarry and Schoeni examined SSI participation rate over time and looked to explain why people may not participate in the program or where they may be getting their incomes

The researchers wondered whether family assistance was determining participation. "If there is some sort of stigma from accepting welfare, and your children can provide you with help, maybe you'll avoid signing up for that program and get the assistance elsewhere," said McGarry.

The researchers found that eligible nonparticipants were actually getting more from their children than those who are wealthier and whose children are wealthier. "This income from children does seem to play a role," McGarry said. "Even though it's only about 11 percent who are getting income from their children, for those that do, it's a substantial amount."

"The Implications of Differential Trends in Mortality for Social Security Policy"

Life expectancy in the U.S. has gone up dramatically—by more than 10 years—since Social Security was introduced. There also is evidence that morbidity amongst the elderly has also declined. This suggests that the normal retirement age could be increased. However, some recent studies have found that the increases in life expectancy have not been shared across socioeconomic and racial backgrounds. Bound presented work, completed with Timothy A. Waidmann and Javier Rodriguez, that examined the robustness of one such study, Olshansky et al. 2012. Published in *Health Affairs,* the report found a significant drop in life expectancy among white men and women with less than a high school education.

Could the researchers replicate Olshansky's findings using the same data (U.S. Census, National Vital Statistics System cause of death records)? "The basic answer to that is, we can," said Bound. "Using educational attainment levels, we basically replicate the Olshansky finding."

The data also pose numerous problems, according to Bound, making it difficult to align information on educational levels between census surveys and death certificates, with more misreporting for non-whites. Because of this, Bound and Waidmann also took the alternate approach of looking at survival curves. If Olshansky is correct and a segment of the population is dying at younger ages while others are living longer, two closely related patterns should emerge: "1. There should be a spreading out of the distribution of the age at death, with more dying at young ages at the same time that [others] are dying at older ages; and 2. The probability a person reaches the age of 45 or 65 should drop, while the probability they reach 75 or 85 should rise," the authors state.

"There's little evidence in this data that there are segments of the population that are getting worse, whose mortality prospects are deteriorating over time," said Bound. "…When we stratified by measures of socioeconomic status, like lots of other people have done, we find widening gaps. If you just look at the outcome…we don't replicate Olshansky at all."

"The Insurance Role of Household Labor Supply for Older Workers: Preliminary Results"

Several past studies have documented the "added worker effect," where the labor supply of the secondary earner (usually the wife) increases when the primary worker's supply decreases due to job or income loss. Prowse and Yanan Li's study compared the insur-

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Deputy Chief Thornton gives RRC scholars insight into areas of SSA interest

Katherine Thornton welcomed attendees to the annual RRC meeting.

Social Security Administration Deputy Chief of Staff Katherine Thornton provided opening remarks for the 2014 Retirement Research Center meeting at Washington, D.C.'s National Press Club. She thanked the RRC for its strong leadership, which provides an effective voice in policy.

"The RRC is now in its 16th year, truly a testament to the high quality research that you produce and the valuable role the RRC plays in the development of Social Security policy in particular, and retirement policy in general," Thornton said. She recognized that as pension availability shrinks and more retirees depend on defined contribution retirement accounts such as 401ks for their retirement funds, RRC research becomes increasingly important to policymakers.

Thornton also noted the 40th anniversary of SSI, Acting SSA Commissioner Carolyn Colvin's reinvigoration of diversity initiatives across the agency, and SSA's reactivated membership in the International Social Security Association.

Thornton's address gave some insight into topics of current interest to SSA. She mentioned studies that probe diverse viewpoints and include minority scholars, interdisciplinary studies, and innovations in other countries. Thornton also noted the rise in income inequality and its implications for retirement among lower-income earners.

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ance function of a household's secondary earner for younger versus older workers to see if the added worker effect happened equally across ages. Younger households were defined as those where the man is younger than 40 at the start of his unemployment; older households are those where than man is 40 or older at the start of unemployment. Data was drawn from the 2003, 2005, 2007, 2009, and 2011 waves of the Panel Study of Income Dynamics (PSID).

Some of the researchers' findings were in line with previous studies, e.g., older men face more persistent unemployment. They also found that while there is a substantial added worker effect for younger households, older women do not increase employment. "What we're seeing is that wives are two to five percentage points more likely to be unemployed following their husband's employment shock when we're focusing on these older households," Prowse said. "This suggests that these women want to be in employment, but they're somehow not able to implement that."

"Is Working Longer Good for You? A Simultaneous Equations Approach"

Arie Kapteyn presented a study he did with Raquel Fonseca, Jinkook Lee, and Gema Zamarro. Many countries have used increases in pension entitlement ages as a remedy for insolvency of public pensions. The impact of this on subjective well-being is largely unknown. Using 2004 to 2010 data from the U.S.' Health and Retirement Study (HRS) and Survey of Health, Ageing, and Retirement in Europe (SHARE), which looks at 11 countries, the researchers examined the effect of retirement on life satisfaction and depression. The researchers used comparable questions across the surveys and constructed harmonized variables for retirement, income, depression, and life satisfaction to allow cross-country comparisons. The analysis includes explanatory variables for household wealth, year dummies, age, gender, marital status, education, health, country dummies, and regional dummies for the United States.

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Using their models, the researchers found that retirement reduces the probability of depression. They also saw

- "A significant positive effect of retirement on life satisfaction…
- "A strong effect of unemployment replacement rates on the life satisfaction of the unemployed.
- "Retirement does not respond very strongly to replacement rates, but it does respond to eligibility ages."

Although the raw data showed a strong relationship between income and depression and life satisfaction, the models did not. "The income mechanism…doesn't seem to play much of a role once you account for everything else," Kapteyn said.

"Americans' Willingness to Voluntarily Delay Retirement"

While there are current incentives to delay claiming, most Americans still claim Social Security benefits around 62 to 63 years old. Mitchell, along with fellow researchers Raimond H. Maurer, Tatjana Schimetschek and Ralph Rogalla, wondered whether people would "delay claiming their Social Security if they got the benefit boost as an actuarially fair lump sum instead of a higher monthly payment for the rest of their life?"

To test their theory that workers might delay retirement by one and a half to two years if offered lump sums, the researchers designed a module for the American Life Panel, a survey managed by the RAND Corporation that regularly interviews 6,000 U.S. households over the Internet. Each participant was shown his or her anticipated status quo benefit for claiming between the ages of 62 and 70. He or she was asked to give their expected claiming age.

Participants were then presented with two scenarios in random order. In one, he or she would receive the status quo age-62 benefit no matter what age they claimed, but in addition, this annuity would be paired with an actuarially fair lump sum payable at the actual claiming date. The other scenario adjusted the monthly payment upward for delayed claiming until full retirement age (FRA) per the status quo. For those claiming later than FRA, the monthly benefit would be fixed at FRA level, but upon claiming, the claimant would also receive a lump sum equal to the value of the delayed retirement credit. Respondents were then asked how much longer they would work given the presented scenario.

The researchers found that the lump sum offers were more likely to incentivize women, those who are risk averse, people who are optimistic about their longevity potential, and people who say they are in high debt. "Paying delayed retirement…could raise the median claiming age as much as two years" Mitchell said. "This potentially could be a politically viable way to reform Social Security. We're not reducing benefits, we may be somewhat increasing the tax revenue… longer work lives could enhance system solvency." •

News at SSA

On September 8, the Senate cleared President Obama's three nominees to the **Social Security Advisory Board:** Henry Aaron of the Brookings Institute, Alan Cohen of the Center for American Progress, and Lanhee Chen of the Hoover Institute and Stanford University. Aaron will serve as chair of the independent, bipartisan board, which serves the President, Congress, and the SSA commissioner. This marks the first time since 2008 that the advisory board has had full membership.

In response to the Supreme Court's finding that Section 3 of the Defense of Marriage Act is unconstitutional, SSA has published **new instructions for processing claims by same-sex couples.** For more information, visit www.socialsecurity.gov/same-sexcouples.

Welcome to the **21,075 Sophias and 18,090 Noahs** born in 2013. Based on newborns' Social Security card applications, those were the most popular male and female baby names for the year. Emma (20,788) and Liam (18,002) placed second, Olivia (18,256) and Jacob (17,976) came in third.

MRRC researchers in publication

The **Social Security Bulletin, Vol. 74, No. 3** features MRRC Working Paper 2013-288, ***"The Social Security Windfall Elimination and Government Pension Offset Provisions for Public Employees in the Health and Retirement Study"*** written by Alan L. Gustman, Thomas L. Steinmeier, and Nahid Tabatabai. The bulletin was released in August on the SSA website.

MRRC researchers in the media

Olivia S. Mitchell was quoted in a **Bloomberg ar ticle** noting the trend of baby boomers not paying off their mortgages before retirement. "'There were old-fashioned beliefs probably 30 years ago' that included 'you should pay off your house before you retire,'" the article quotes. "'This is no longer the case.'"

MRRC Director **John Laitner** helped explain to **Des Moines Register** readers why Iowa candidates for the U.S. Senate don't offer clear positions on preventing Social Security insolvency. "'There's no way of doing it without something unpalatable,' he said. 'Whether you say we're going to increase the tax or we're going to trim the benefits or some of each, somebody's going to get something they don't want.'" The article continues: "'These are tough decisions,' Laitner said. 'If the thing is insolvent, you're either going to have to cut benefits back or raise the tax inflow. If you're a politician, neither one is something you want to stand up there and say you favor.'"

A U.S. News & World Report's Personal Finance article also quoted the MRRC director: "**John Laitner**, director of the University of Michigan Retirement Research Center, says many people plan for retirement too late in their career, and they lose the benefit of time. 'Money put into a retirement account early in adulthood…can expand with compound interest year after year,' he says."

U.S. News also cites **MRRC research** in a Personal Finance piece **on increasing retirement savings before year end:** "According to the Michigan Retirement Research Center, married college graduates – people who are otherwise among the most prepared for retirement – often forget to consider just how much of their retirement income will be going to Uncle Sam. Only 3 in 4 people in this group are prepared for retirement after taxes are taken into account; otherwise, 92 percent report being ready. "

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MRRC Newsletter

October 2014 • 14(3)

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The Michigan Retirement Research Center is supported by a cooperative agreement with the Social Security Administration.

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