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Director’s corner

John Laitner

This newsletter has announcements and key findings for a number of recently completed MRRC research projects. The cycle of most MRRC projects ends with government’s fiscal year.

One of the interesting topics is means testing for social programs. The United States uses means testing for Medicaid and SSI benefits, for example, and the monetary savings can be large. At the MRRC researcher workshop in April 2014, John Piggott, a demography and pension expert, presented a talk, via Skype, on details of the Australian national pension system. The Australian system has three pillars, the first of which is means tested. He has since contributed a Policy Brief, summarized in this newsletter. A related project by Alan Gustman, Thomas Steinmeier, and Nahid Tabatabai simulates the possible distributional consequences of adding a means test for U.S. Social Security system benefits. Many complications can arise, and possible implications for work and saving incentives remain interesting issues.

Other work includes a project by John Bound, Arline Geronimus, Javier Rodreguez, and Timothy Waidmann, re-examining recent evidence of a possible worsening of mortality rates for Americans with low education. They question the results of other researchers, finding the results to be quite sensitive to one’s analytic approach. They do, however, find evidence that some SES groups do not seem to be fully sharing in recent mortality improvements.

The written version of work by Richard Burkhauser, Lynn Fisher, Andrew Houtenville, and Jennifer Tennant mentioned in a previous newsletter on survey questions designed to identify disabled individuals is also summarized below, and it now appears on the MRRC website.

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Online accounts help in financial planning

The Social Security Administration encourages workers and retirees eligible for benefits to sign up for a my Social Security account.

With the account, people can access their online Social Security statement, a great financial planning tool that provides workers age 18 and older their complete earnings history and estimates for future retirement, disability, and survivors benefits.

The statement allows workers to verify the accuracy of their earnings each year. This is important since earnings are the basis for determining future retirement benefits. Individuals who currently receive benefits can sign up for a my Social Security account to get an instant benefit verification letter, change their address and phone number, and start or change direct deposit of their benefit payment.

To date, more than 16 million people have established an account. For more information, please go to www.socialsecurity.gov/myaccount.

» 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.

“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 Maurer, Olivia S. Mitchell, Ralph Rogalla, and Tatjana Schimetschek. 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.

“Long-Run Determinants of Intergenerational Transfers” by John Karl Scholz, Ananth Seshadri, and Kamil Sicinski. UM14-03

» The presence of Social Security may affect intergenerational transfers, but the extent to which it “crowds out” transfers from parents to children is controversial.

» The Wisconsin Longitudinal Study (WLS) offers a possibility 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.

### Table 3 Extended Regressions of Transfer Giving and Receiving

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<tbody>
<tr>
<td>Birth order</td>
<td></td>
<td>0.826*** (0.061)</td>
<td>-539.810 (1451.323)</td>
<td>1.079 (0.087)</td>
<td>-9476.858 (8002.242)</td>
</tr>
<tr>
<td>Number of children</td>
<td></td>
<td>1.021 (0.030)</td>
<td>37.888 (640.526)</td>
<td>1.035 (0.034)</td>
<td>4712.760 (3409.066)</td>
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<tr>
<td>Household income</td>
<td></td>
<td>1.000 (0.000)</td>
<td>-8.737* (5.144)</td>
<td>0.999 (0.001)</td>
<td>70.424*** (15.392)</td>
</tr>
<tr>
<td>Net worth ($1000)</td>
<td></td>
<td>1.000 (0.000)</td>
<td>-5.729*** (1.012)</td>
<td>1.001*** (0.000)</td>
<td>23.693*** (2.289)</td>
</tr>
<tr>
<td>IQ</td>
<td></td>
<td>1.037 (0.064)</td>
<td>-99.420 (1500.857)</td>
<td>1.193*** (0.094)</td>
<td>7035.619*** (3507.233)</td>
</tr>
<tr>
<td>IQ conditional on income/wealth</td>
<td></td>
<td>1.028 (0.065)</td>
<td>92.591 (1623.298)</td>
<td>1.166* (0.095)</td>
<td>7912.146** (3494.878)</td>
</tr>
<tr>
<td>Extraversion</td>
<td></td>
<td>1.038 (0.067)</td>
<td>935.596 (1789.640)</td>
<td>1.186** (0.099)</td>
<td>-10731.578 (6844.252)</td>
</tr>
<tr>
<td>Agreeableness</td>
<td></td>
<td>0.946 (0.063)</td>
<td>1343.888 (1891.303)</td>
<td>0.907 (0.071)</td>
<td>-3769.290 (7100.483)</td>
</tr>
<tr>
<td>Conscientiousness</td>
<td></td>
<td>0.873** (0.056)</td>
<td>-2572.155 (1819.353)</td>
<td>1.148* (0.090)</td>
<td>1337.376 (6898.177)</td>
</tr>
<tr>
<td>Neuroticism</td>
<td></td>
<td>0.926 (0.059)</td>
<td>594.011 (1836.657)</td>
<td>0.918 (0.079)</td>
<td>1016.634 (7152.039)</td>
</tr>
<tr>
<td>Openness</td>
<td></td>
<td>0.910 (0.062)</td>
<td>282.863 (1910.985)</td>
<td>1.059 (0.094)</td>
<td>17121.629** (7458.419)</td>
</tr>
</tbody>
</table>

a) Standard errors are in the parentheses.
b) * p<0.1, ** p<0.05, *** p<0.01.
c) Coefficients in columns 1 and 3 are odds ratios from logit regressions.
d) All independent variables in table 1 are also included in the regressions above.

John Karl Scholz, Ananth Seshadri, and Kamil Sicinski used the Wisconsin Longitudinal Study to look at how personal attributes correlated to intergenerational transfers in “Long-Run Determinants of Intergenerational Transfers.”

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“Responses of Time-use to Shocks in Wealth during the Great Recession” by Jim Been, Michael Hurd, and Susann Rohwedder. UM14-06

This paper analyzes the extent to which persons change home production in response to an unexpected wealth shock as a way to smooth consumption. We use data on time-use and the wealth declines in the Great Recession to investigate this question.

The central hypothesis was that such wealth shocks would cause people to attempt to buffer the effect on well-being by decreasing the expenditure of money on market-produced goods and substituting the expenditure of time on more home-produced goods.

This hypothesis was only marginally supported by the analyses reported here. Using sophisticated statistical techniques, we did find associations between increased home production and shocks to homeowners aged 65 to 80, but not to respondents aged 50 to 64.

Overall, these results suggest that there is no extensive substitution of home production for spending implying that households’ ability to buffer the effect of spending reductions in response to wealth losses by increasing home production is limited.

“The Insurance Role of Household Labor Supply for Older Workers” by Yanan Li and Victoria Prowse. 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.


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.

Policy Brief: “Means Testing Pensions: The Case of Australia” by Rafal Chomik and John Piggott. UM14-10

This policy brief revisits how better targeting could help relieve the tension between adequate retirement incomes and sustainable budgets by describing the experience of Australia, where, unlike in most OECD countries, means-tested transfers play a primary role in retirement income provision.

Complemented by mandated private savings, it is a setting that is expected to remain of primary importance and is fiscally sustainable even as the population ages.

Australia has one of the lowest public pension outlays, as a proportion of GDP, among developed countries. With poverty defined using U.S. parameters, Australia also has a low proportion of its elderly in poverty.

The brief also looks at the emerging economic literature on means testing. It suggests that the costs of a means-tested scheme, which may result in some disincentives to work and save, need to be weighed against the benefit of a cheaper, targeted scheme with fewer economy-wide distortions.
Figure 7 from “The Implications of Differential Trends in Mortality for Social Security Policy” displays 10th, 25th, and 75th percentiles of the distributions of expected age at death for non-Hispanic black and white women and men, for persons who have survived to age 25. The authors were not able to replicate findings, published on the front-page of The New York Times, that life expectancy fell by more than five years for white women with less than a high school education. Such estimates of worsening mortality “are highly sensitive to alternative approaches to asking the fundamental questions implied.”


» 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 found no evidence that survival probabilities declined for the bottom quartile of educational attainment.

» Distributional analyses did not find that 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.

“Rejection from the Disability Insurance Program and Dependency on Social Support” by Susan E. Chen. UM12-16

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

» At the time of filing, young rejected applicants are 24 percent more likely to depend on social support

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programs than healthy workers. Older workers are 18 percent 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.

“Does Protecting Older Workers from Discrimination Make It Harder to Get Hired?” by David Neumark, Joanne Song, and Patrick Button. 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.

“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 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 percent 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 percent.

» 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.

Figure 2 from “Does Protecting Older Workers from Discrimination Make It Harder to Get Hired?.” Based on HRS data, the graph focuses “on the distinction between states with or without the broader definition of disability than the ADA.”
MRRC experiences staff transitions

Becky Bahlibi, MRRC’s research process manager for 16 years, retired at the end of December 2014, although she has continued to work with us on a temporary basis while her replacement, Cheri Brooks, gets comfortable in the position.

“Cheri has experience with similar operations, and I feel lucky to have her,” says MRRC Director John Laitner. Previously, Brooks was the contracts and grants specialist for the Institute for Social Research’s Center for Political Studies at the University of Michigan. Brooks has a bachelor of science in management with an emphasis in accounting from Purdue University.

In March, Bahlibi heads to Paraguay to undertake a community economic development project for the Peace Corps. “Becky has done a great job and I will miss her a lot,” Laitner says. “I am sure that you will join with me in wishing her well in her next challenge.”

Laitner says, “We are working hard to make this as smooth a transition as possible.”

RAND Summer Institute exposes scholars to aging issues

The 22nd annual RAND Summer Institute (RSI) takes place in Santa Monica, Calif., July 6-9. The RSI consists of two conferences addressing critical issues facing our aging population: a Mini-Medical School for Social Scientists (July 6-7) and a Workshop on the Demography, Economics, Psychology, and Epidemiology of Aging (July 8-9). The primary aim of the RSI is to expose scholars interested in the study of aging to a wide range of research being conducted in fields beyond their own specialties.

The Mini-Med School focuses on biomedical issues relating to aging and should be of interest to all non-medically trained scholars regardless of background. Topics will be drawn from the diverse fields of biomedicine, including biology, genetics, patient care, psychiatry, and other areas. Expert clinicians and researchers will provide participants with insight into the science of aging and a greater understanding of relevant medical issues.

The Workshop on Aging is targeted to pre- and post-doctoral students and junior faculty, and to more senior researchers new to aging research. Topics will be drawn from research areas in the social sciences, including discussions of savings, retirement, disability, demography, psychology, and quality of life issues.

In each session, leading experts will discuss the state of the literature, integrating results from their own research and supplementing these overviews with more detailed analyses of specific topics.

RAND invites all interested researchers to apply to attend the 2015 RSI. Applicants may apply for fellowship support to pay for travel and accommodations. Both the Mini-Med School and the Workshop on Aging are described more fully at the website: http://www.rand.org/labor/aging/rsi/. The deadline to submit application and supplemental materials is March 16. For additional information, please contact Cary Greif (cgreif@rand.org).
In December, MarketWatch interviewed Arie Kapteyn about the working paper, “Does Retirement Make you Happy? A Simultaneous Equations Approach.” Kapteyn’s answer to the question: “On the one hand, retirement frees up a lot of people’s time that can be devoted to activities that provide higher levels of happiness and life satisfaction. On the other hand, retirement implies a break with routine and friends and colleagues at work that could lead to lower levels of happiness.”


MRRC Associate Director Dmitriy Stolyarov spoke to CTW Features, a wire service for news outlets, about the center’s research on older workers phasing into retirement through part-time jobs and whether this was by choice or because of necessity. “It turns out that, comparatively speaking, the 63 to 67 age group leaves full-time employment in much larger-than-normal numbers during recessions,” he said. So far, the article has appeared in the Omaha World-Herald and the Sioux City Journal.

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