



**Promoting research on retirement and Social Security policy**

**MRRC Newsletter** | *Early Winter 2015* | (15)4

**Director’s corner**

*John Laitner*

The Michigan Retirement Research Center (MRRC) begins its 2016 funding cycle with 18 new research projects. Three themes of the research agenda are as follows. (See the individual project descriptions in the body of this newsletter.)

In an era with aging workforces throughout the OECD, policies that might encourage longer careers are of potentially great interest. In UM16-01, Laitner/Silverman will study the possible effect of targeted payroll-tax cuts on incentives to delay retirement. In UM16-04, Newmark will continue his work on the relation of State age-discrimination protections and labor-force participation at older ages. In UM16-05, Mitchell/Maurer will use data from an experimental HRS module to evaluate workers’ stated preferences among policy inducements to delay Social Security claiming and retirement.

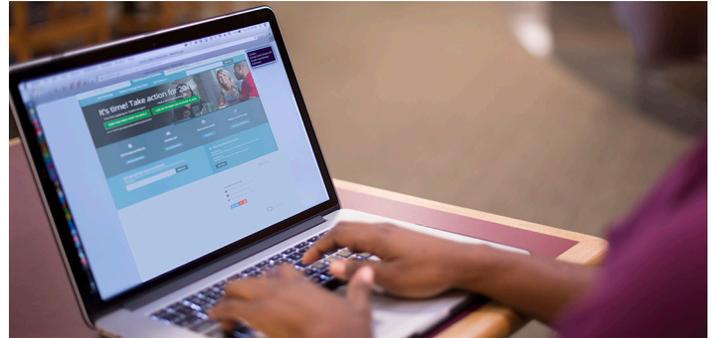
The ACA has recently increased options for obtaining health insurance. In UM16-02, Gustman/Steinmeier/Tabatabai will use the HRS to study the possible impact of the ACA on the well-being and retirement incentives of older workers. In UM16-15, Levy/Buchmueller/Nikpay will examine evidence of the specific effects of the ACA on early retirees.

Data availability for analyzing retirement-related issues is always a primary topic of interest to the MRRC. In this vein, UM16-11 Fang/Brown/Weir will study generational changes in Social Security benefits and private pension wealth making use of the new (2010) HRS “Mid Boomers” cohort (born 1954-59). In UM16-17, Wenger/Mullen/Maestas will use recently available, harmonized international data to study the relation of work conditions and retirement choices. And, UM16-08, Mullen/Maestas/Wenger will study job demands/working conditions and worker choices at different ages in the US.

**Table of Contents**

Director’s corner .....	1
2016 funded projects.....	1
Researchers in the media...6	

In times of change and fiscal challenge, we look forward to a stimulating and productive year of research.



Credit: Healthcare.gov

*Two 2016 projects will examine the effects the Affordable Care Act has had on retirement.*

**MRRC’s 2016 funding cycle begins with 18 projects**

The Social Security Administration has chosen 18 of MRRC’s research proposals for 2016 funding. Projects will examine aspects of working longer, program interactions, and pension reform, as well as other topics. The list of 2016 projects follows.

**Adjusting the Payroll Tax to Promote Longer Careers** UM16-01 *John P. Laitner and Daniel Silverman*

This project will attempt to assess qualitatively and quantitatively a reform that has been suggested to encourage longer careers. The reform is a payroll tax cut targeted at older, near-retirement households. We are interested in the likely effect on labor force participation and household well-being, and the reform’s likely impact on government budgets. Although the reform would reduce payroll tax revenues for the Social Security System, it would tend to increase federal income tax revenues. The project

*Continued on Page 2*

*Continued from Page 1*

would seek to assess the overall balance of revenue changes.

**The Affordable Care Act as Retiree Health Insurance: Implications for Retirement and Social Security Claiming** UM16-02 *Alan L. Gustman, Thomas L. Steinmeier, and Nahid Tabatabai*

Using four HRS cohorts, we will apply descriptive and multivariate techniques to document the relationships among retirement, Social Security benefit claiming, retiree health insurance, and relevant covariates. All will be placed into historical context. Once the background is established for all HRS cohorts, we will turn our focus to three waves from the HRS Mid Boomer cohort, 2010, 2012, and 2014. These three waves will provide the basis for isolating the population affected by the Affordable Care Act (ACA) among the near retirement population. Following the descriptive analysis, we will use a structural retirement model of retirement to analyze the likely effects of changes fostered by ACA, holding constant retiree health benefits and DB pension incentives that continue to be relevant for a minority of the population. The model will be used to simulate the effects of the increased availability of health insurance through ACA.

**Occupational Transitions Among Older Workers** UM16-03 *Amanda Sonnega, Brooke Helppie McFall, and Robert J. Willis*

Understanding how and why people exit the labor force at older ages bears importantly on our ability to develop salutary retirement policy. Little is known, however, about the relationship between occupational transitions, job skills and demands, and work decisions. We propose to build on our current work on occupations and work characteristics in the Health and Retirement Study, linked to detailed information in the Occupational Information Network database. The proposed project would extend this work by considering detailed employment history and actual retirement and employment flows. What realistic options for continued work are available to people at traditional retirement ages given their particular set

of skills and experience? This descriptive work will provide clues about useful areas to investigate. This program of research will add to our understanding of the trend toward working longer and the alternate routes now being taken to retirement.

**Do State Age Discrimination Protections Reduce Hiring Discrimination Against Older Workers?** UM16-04 *David Neumark*

State age discrimination protections stronger than the federal Age Discrimination in Employment Act may help older workers extend their work lives. This project builds on a large-scale resume correspondence study that is already designed and in the field, which provides direct measures of discrimination in hiring. The project will significantly expand the study's scope from 12 cities to all or most states, and then study the relationships between direct measures of age discrimination in hiring across states and state age discrimination protections, focusing on discrimination against job applicants at or above the age of eligibility for early Social Security benefits (age 62). The hypothesis is that in states with stronger protection there will be less discrimination in hiring, which would imply that federal adoption of the stronger age discrimination protections used in some states could boost employment of workers who might otherwise claim Social Security benefits early and stop working.

**Older Peoples' Willingness to Delay Social Security Claiming** UM16-05 *Olivia S. Mitchell and Raimond Maurer*

The authors have designed and fielded an experimental module in the 2014 HRS which seeks to measure older persons' willingness to voluntarily defer claiming of Social Security benefits. In addition we will evaluate the stated willingness of older individuals to work longer, depending on the Social Security incentives to delay claiming their benefits. Our project extends previous work by analyzing the results from our HRS module and comparing findings from other data sources which included very much smaller samples of older persons.

*Continued on Page 3*

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**The Interaction Between Consumption and Health in Retirement** UM16-06 *John Karl Scholz and Ananth Seshadri*

This project has two primary objectives. The first goal is to better understand the effect that income has on health, health has on income, and to capture latent productivity in health capital production. There are three important building blocks to our analysis—health shocks, health investments, and health affecting utility. Our second goal is to use data from the HRS, as well as CAMS to estimate consumption-health Euler equations. We then plan to use our behavioral model to address two important areas. We plan to analyze the impact of poor health on the decision to retire. And we also plan to analyze how consumption changes as people move into retirement and through older ages. If consumption and health are complementary inputs in utility, health declines in older ages will lead to perfectly anticipated declines in consumption. These considerations have important implications for analyzing the adequacy of retirement savings.

**Examining the Relationship between Caregiving and Work** UM16-07 *Sean Fahle and Kathleen McGarry*

There has been much concern over the provision of long-term care and the stresses it imposes on the family members who provide that care. In this study, we draw on 20 years of data from the Health and Retirement Study to investigate the effect of caregiving on the labor market behavior of women, focusing not just on labor-force participation and earnings, but on the potential loss of job-related benefits such as health insurance and pension coverage. We take a dynamic approach to the analysis, following women over time from before their spouse/parent needs care, to examine the evolution of caregiving and the contemporaneous labor-market behavior. We continue our examination beyond the onset of caregiving to assess whether behavior evolves over time and how labor supply changes once the need to provide care has ended.

**Job Demands and Job Sustainability Over the Life Course** UM16-08 *Kathleen Mullen, Nicole Maestas, and Jeffrey B. Wenger*

The first step to understanding the link between job demands and job sustainability for older workers is understanding if older workers face different physical and mental job demands and have different abilities and preferences for work than their younger selves. This project asks, How do individuals' job demands change over the course of their working lives? Do older workers prefer different kinds of jobs than younger workers; for example, are they willing to accept earnings losses to transition to jobs that are less physically demanding or stressful? And to what extent are older workers less able than younger workers to perform certain kinds of jobs? To help answer these questions, we will build on MRRC project UM15-03, "Working Conditions over the Life Course," which contributed to new data on working conditions and job preferences of a nationally representative panel of U.S. workers and nonworkers ages 20-70.

**The Effect of Social Security Information on the Labor Supply of Older Americans** UM16-09 *Philip Armour and Michael Lovenheim*

Starting in the 1990s, SSA began automatic mailings of a statement with personalized projections and estimates as to Social Security benefit eligibility and amount. Although previous research has examined the impact of being sent this statement on retirement benefit claiming (no discernible effect) and Disability Insurance application (a large increase), there has been little research on the intensive-margin labor supply responses of older Americans. Preliminary research on this margin points to strong heterogeneity: Older workers and/or spouses working more than 40 hours a week tend to reduce hours worked, with an opposite pattern for those working less than 20 hours a week. There is also evidence that workers misunderstood the statement's projections as accrued benefits that cannot fall, instead of projected benefits based on constant future earnings. Additional work with the HRS-SSA matched data will explore the dynamics of these labor market decisions, as well as low-earning spousal labor supply.

*Continued on Page 4*

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**Issue Brief: Occupational Differences in Rates of Cognitive Decline** UM16-10 *Brooke Helppie McFall and Amanda Sonnega*

This research brief will use rich longitudinal data on occupations and cognitive functioning to describe differences in rates of age-related cognitive decline across broad occupational categories. This is a useful first step in elucidating the potential role that cognitive decline may play in untimely workforce departure.

**Cohort Changes in Social Security Benefits and Pension Wealth** UM16-11 *Chichun Fang, Charles Brown, and David Weir*

The Health and Retirement Study creates the potential to follow changes in retirement preparation through the introduction of new cohorts every six years. The most recent addition in 2010 also included an expansion of the minority sample. This new 2010 cohort coincides with the recent availability of pension plan descriptions, improving the linkage over what was available in previous cohorts. Linked Social Security data have also recently become available for the 2010 new cohort. We intend to use these new data sources to measure Social Security and pension wealth, and to conduct sensitivity analyses of cohort changes to key assumptions used in their construction. This new improved dataset can help shed light on Social Security and pension wealth across different demographic groups, and on how well Americans from the middle of the baby boom are financially prepared for retirement.

**How Home Equity Extraction and Reverse Mortgages Affect the Financial Well-Being of Senior Households** UM16-12 *Stephanie Moulton, Donald Haurin, and Maximilian D. Schmeiser*

This analysis examines how home equity extraction, including but not limited to equity extracted through reverse mortgages, affected the financial well-being of seniors both during and after the Great Recession. Using a panel dataset of credit records, as well as survey data on household wealth and consumption, we will compare the financial well-being of seniors who extracted home equity using reverse mortgages to those who extracted home equity using other mortgage products and those who did not extract any home

equity. This research combines data from several different and novel sources including the Federal Reserve Bank of New York/Equifax Consumer Credit Panel (CCP), the restricted access version of the Survey of Consumer Finances with geographic identifiers, the restricted access version of the Health and Retirement Survey (HRS) with geographic identifiers and the authors' unique credit panel dataset of HECM borrowers.

**The Impact of Unemployment and Re-Employment on Household Consumption Measured at High Frequency over a Six-Year Period** UM16-13 *Michael Hurd and Susann Rohwedder*

This research will extend previous work into the effects of economic shocks and unemployment on household consumption (and thus welfare). The new work will use greater sample sizes, additional years of data, and a more complete measure of spending to reveal the long-term effects of unemployment and re-employment. Using monthly data on spending levels and changes, the research will compare the spending and income trajectories of households with recently unemployed respondents with those of households where respondents continue to be employed, showing how spending changes by the duration of unemployment. It will find trajectories of income and spending following re-employment. The impact of unemployment on wealth will be estimated directly by annual wealth change and indirectly from the month-to-month difference between spending and income. These estimates will be interacted with measures of economic resources and personal characteristics to show heterogeneity in response.

**Time Discounting and Economic Decision Making Among the Elderly** UM16-14 *Olivia S. Mitchell, David Huffman, and Raimond H. Maurer*

The authors have designed and fielded an experimental module in the 2014 HRS, which seeks to measure time-discounting among the elderly. This research project will explore the extent of heterogeneity in time discounting among the elderly and its role in explaining differences in important decisions. Key outcome variables will include decisions about timing of retirement, investments in health, and purchases of insurance. The research will

*Continued on Page 5*

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also compare the time discounting of the elderly to time discounting among younger populations.

**Health Reform and Health Insurance Coverage among Early Retirees** UM16-15 *Helen Levy, Thomas C. Buchmueller, and Sayeh Nikpay*

Financial security is a significant and well-documented benefit of health insurance. Beginning in 2014, the Affordable Care Act (ACA) made new health insurance options available to individuals without access to affordable, employer-sponsored coverage. This coverage may be particularly important for early retirees, who are both more likely to have a nest egg to protect and more likely to experience health shocks than are younger individuals. We propose to use Census Bureau data that will become available in fall 2015 to calculate the first estimates of how the ACA has changed the profile of health insurance coverage among early retirees.

**The Effects of Health on the Labor Supply of Older Workers** UM16-16 *Richard Blundell, Eric French, Jack Britton, and Monica Costa Dias*

This project aims to estimate the long-lasting effects of health on labor supply and whether the duration of poor health episodes matters. Prolonged poor health may reinforce labor supply responses by keeping individuals out of work for longer, affecting productivity and labor market attachment. To measure the effects of health and how they build over time, we develop a rich joint model of health and employment allowing for a flexible characterization of the dynamic health process, delayed effects of health on employment, and feedback effects of employment on health. Since the impact of health may depend on the institutional setting, we study how work incentives affect immediate and long-run labor supply responses to health. We also contrast the U.K. and U.S. to discuss the role of the different institutions in driving results in each country. The model is estimated on ELSA and HRS data for the U.K. and U.S., respectively.

**Working Conditions and Sustainable Work at Older Ages: An International Perspective**

UM16-17 *Jeffrey B. Wenger, Kathleen Mullen, and Nicole Maestas*

This project will compare U.S. and eurozone

working conditions associated with workers' ability to remain employed, commonly referred to as work sustainability. Building on prior MRRC funded research, we use harmonized data on working conditions and subjective probabilities of work at older ages in the U.S. and Europe. Focusing specifically on work time arrangements, physical demands of work, and meeting tight deadlines for workers in mid to late career, we analyze how working conditions influence the subjective probability of being able to do the same type of work 10 years from now. We differentiate between the physical ability to remain in the same job and the mental ability to do the same. We also examine the link between mental and physical work sustainability and retirement prospects for U.S. workers. We hypothesize that physical difficulties will have direct impacts on retirement, while the pace of work will mediate mental difficulties effects on retirement.

**The Effects of Means-Tested Minimum Old-Age Benefits in Poverty Rates and Well-Being: Studying the 2008 Chilean Pension Reforms** UM16-18 *Italo Lopez-Garcia and Andres Otero Correa*

Chile initiated in 1981 a privately managed, individual-account pension system that inspired similar reforms in many Latin American countries and that has been considered as a possible model for Social Security in the United States. After 30 years in place, the Chilean pension system has been criticized for replicating existing inequalities in labor markets and increasing the risk of old-age poverty; for achieving lower levels of coverage; and for providing low pension benefits. Aiming at guaranteeing a minimum level of consumption upon retirement, preventing old-age poverty and reducing gender inequalities, in 2008 Chile reformed the Pension System, widening the welfare tier and improving the contributory tier through a means-testing scheme. This proposal examines the impact of the 2008 Chilean pension on economic security, poverty rates, and well-being, using a version of the difference-in-difference estimator that assesses the effects of the reform through exogenous changes in pension wealth. §

## Researchers in the media

In October, **Rueters** columnist Mark Miller [interviewed Helen Levy](#) on her MRRC project “The Effect of Health Reform on Retirement,” which she co-authored with Thomas Buchmueller and Sayeh Nikpay. The study looked for higher rates of retirement after Affordable Care Act implementation—something other researchers had predicted might happen as older workers left full-time work to start businesses or “encore” careers. “‘We looked for it. In fact we really looked hard for it,’ said Helen Levy, a research associate professor at the University of Michigan’s Institute for Social Research. ‘This just hasn’t been the labor supply Armageddon some were predicting.’”

**Business Insider Australia** [wrote](#) about the Alan L. Gustman, Thomas L. Steinmeier, and Nahid Tabatabai paper “Declining Wealth and Work among Male Veterans in the Health and Retirement Study.” The researchers “broke down the economic and health outcomes for veterans age 51 to 56 in 1992, 1998, 2004, and 2010, measuring how the government’s services have helped over time. ‘Among those 51 to 56 in 1992, veterans were better educated, healthier, wealthier, and more likely to be working than nonveterans,’ said a new study. ‘By the 2010 cohort, 51- to 56-year-old veterans had lost their educational advantage over nonveterans, were less healthy, less wealthy and less likely to be working.’” §



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