

The Changing Causes and Consequences of Not Working before Age 62

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Background

- 1 in 4 men age 50-61 did not work in June 2011 (includes unemployed and those not in the labor force).
- Share of nonworking older men steadily increased since 1990 – exacerbated by the Great Recession.
- Most adults age 50-61 are not eligible for Social Security and most do not qualify for disability benefits.
- Who is in this growing group of older nonworkers and how are they supporting themselves?

Questions

- How do nonworking older adults support themselves before qualifying for Social Security benefits?
- What are their demographic characteristics, income sources, and asset holdings?
- What are the implications for early Social Security claiming?

Data and Methods

- Data: HRS and RAND HRS Data file
- Earnings Groups
 - No earnings: less than a quarter coverage (\$1,120 in 2011)
 - Low, medium, high: terciles for those with earnings greater than or equal to a quarter of coverage
- Marital Status:
 - Singles: no earner, low, medium, and high earner
 - Couples
 - No earners
 - 1 earner: low, medium, and high
 - 2 earners: both low, both medium, both high, mix

Data and Methods

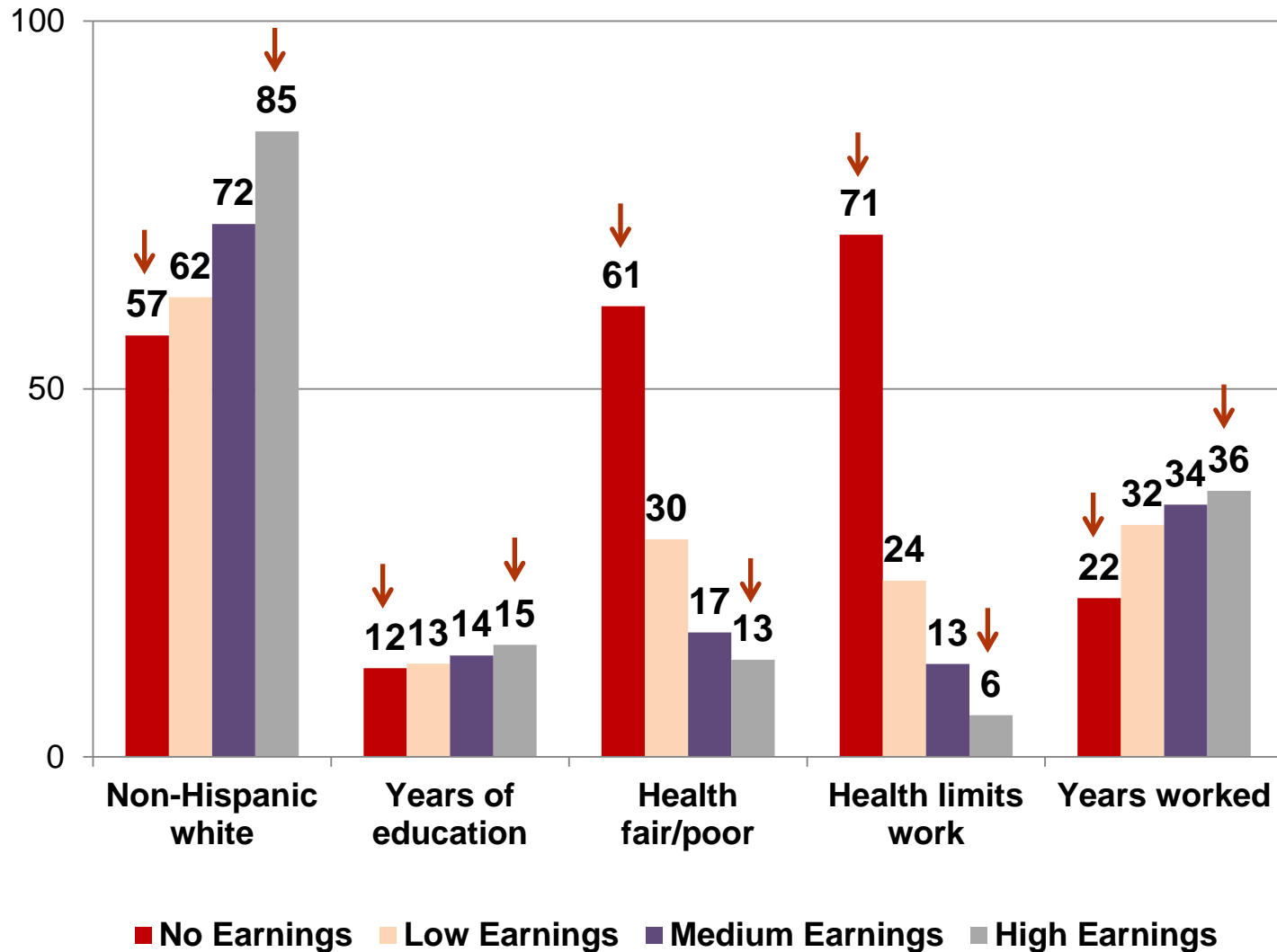
➤ Descriptive Analyses

- 2008 HRS
- Respondents and spouses age 51-61

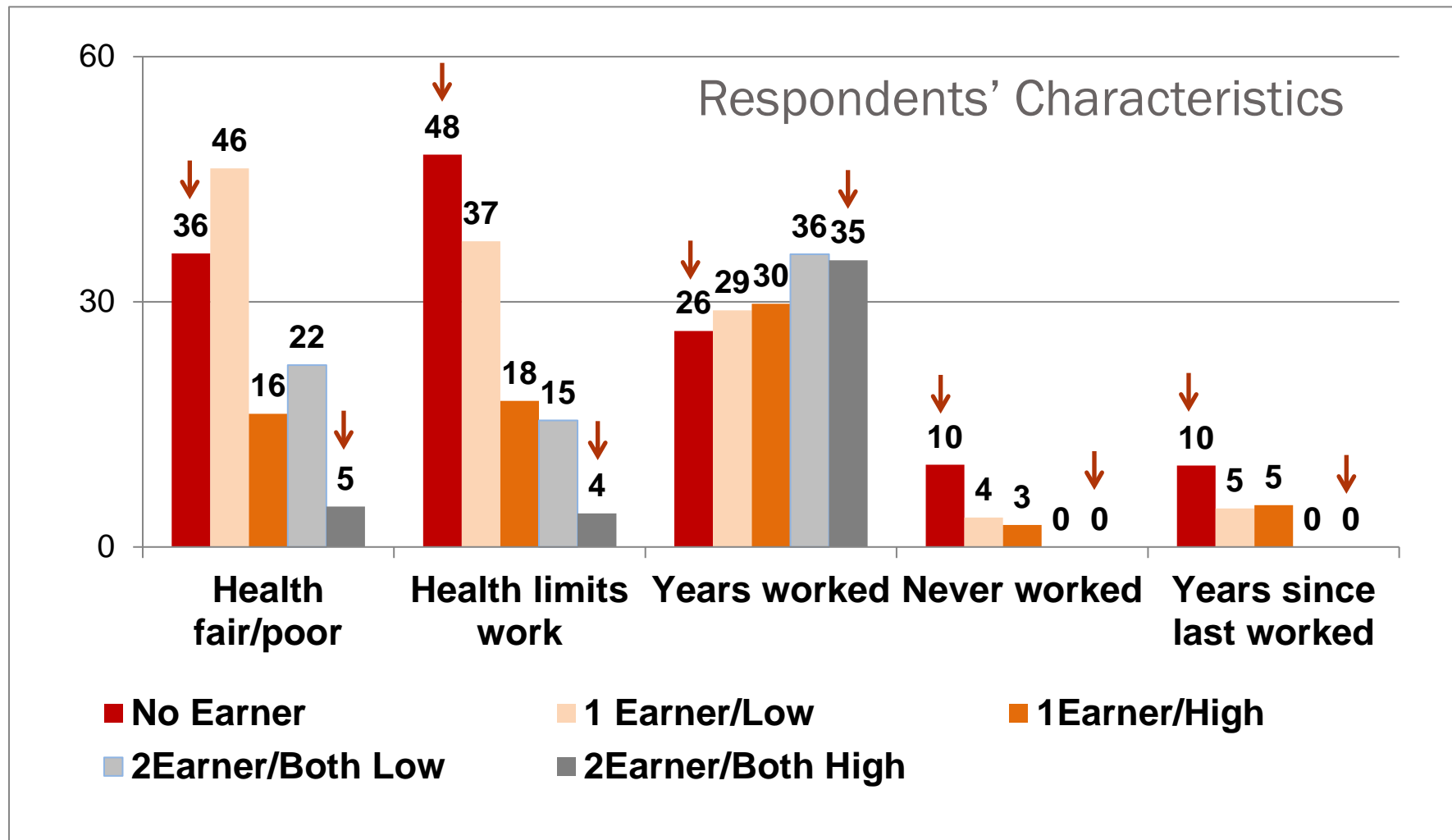
➤ Multivariate Analyses

- 1992-2008 HRS
- Respondent and spouses age 51-61
- Excluding those already getting Social Security or are ineligible
- **Estimated Models:** separately on singles and couples
 - Probit of claiming before NRA
 - Probit of claiming at EEA (62)
 - Duration model of the hazard of initial claiming
- **Main factor of interest is the earnings group**

Single adults without earnings are more disadvantaged than those with earnings.

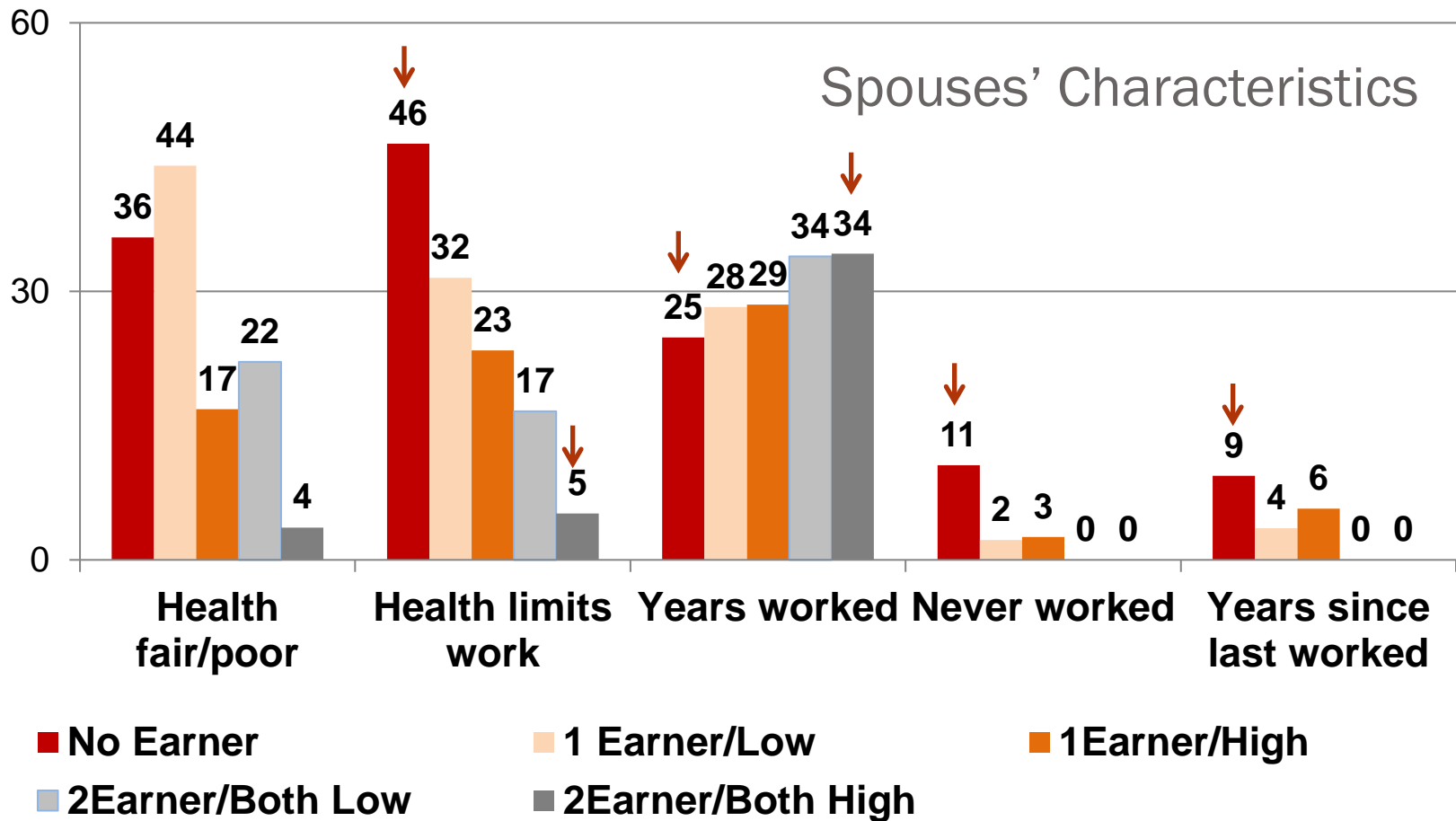


The results are similar for married adults without earnings.

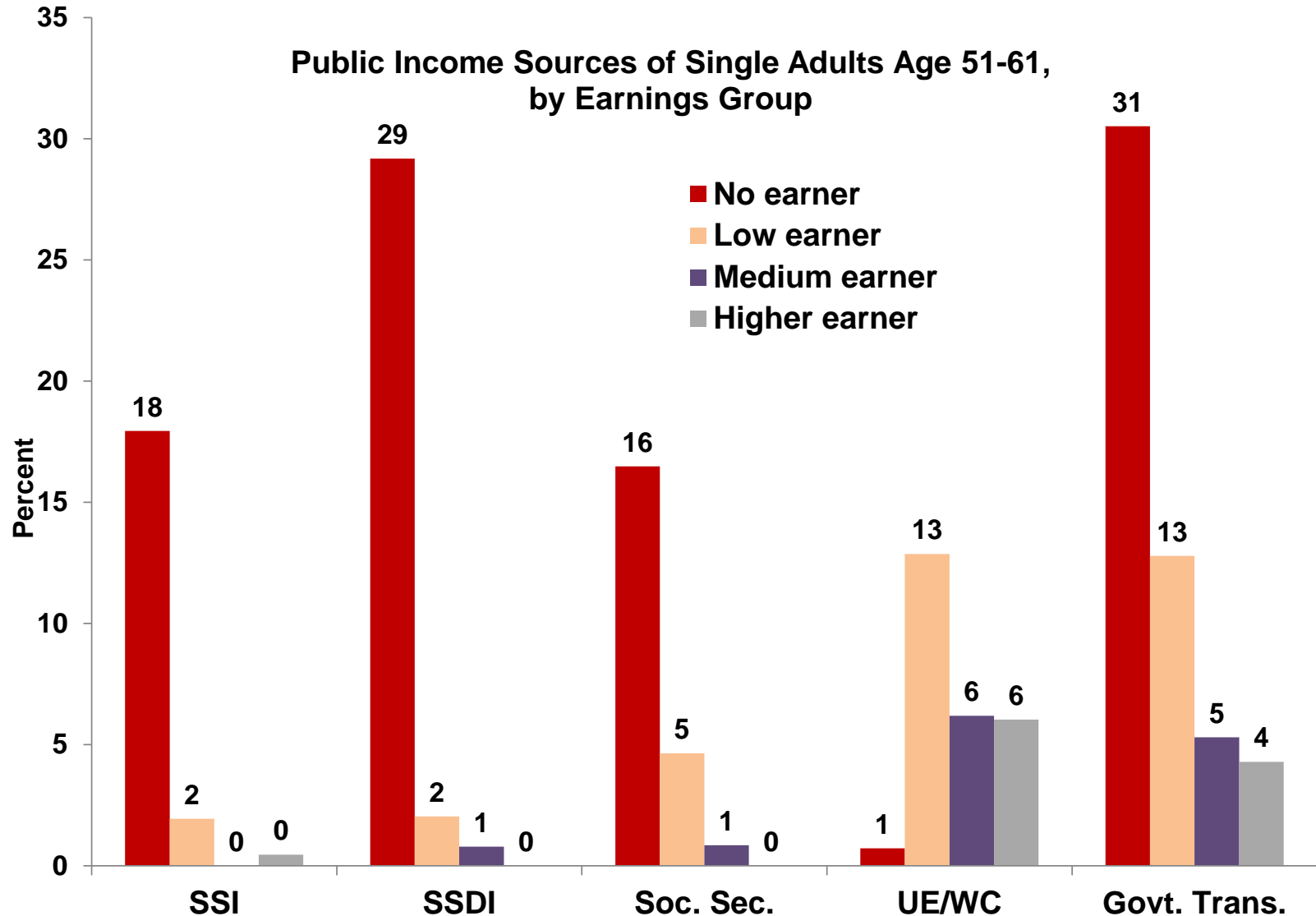


Source: Authors' computations of the Health and Retirement Study and the RAND HRS data file.

And for the spouses of non-earners.

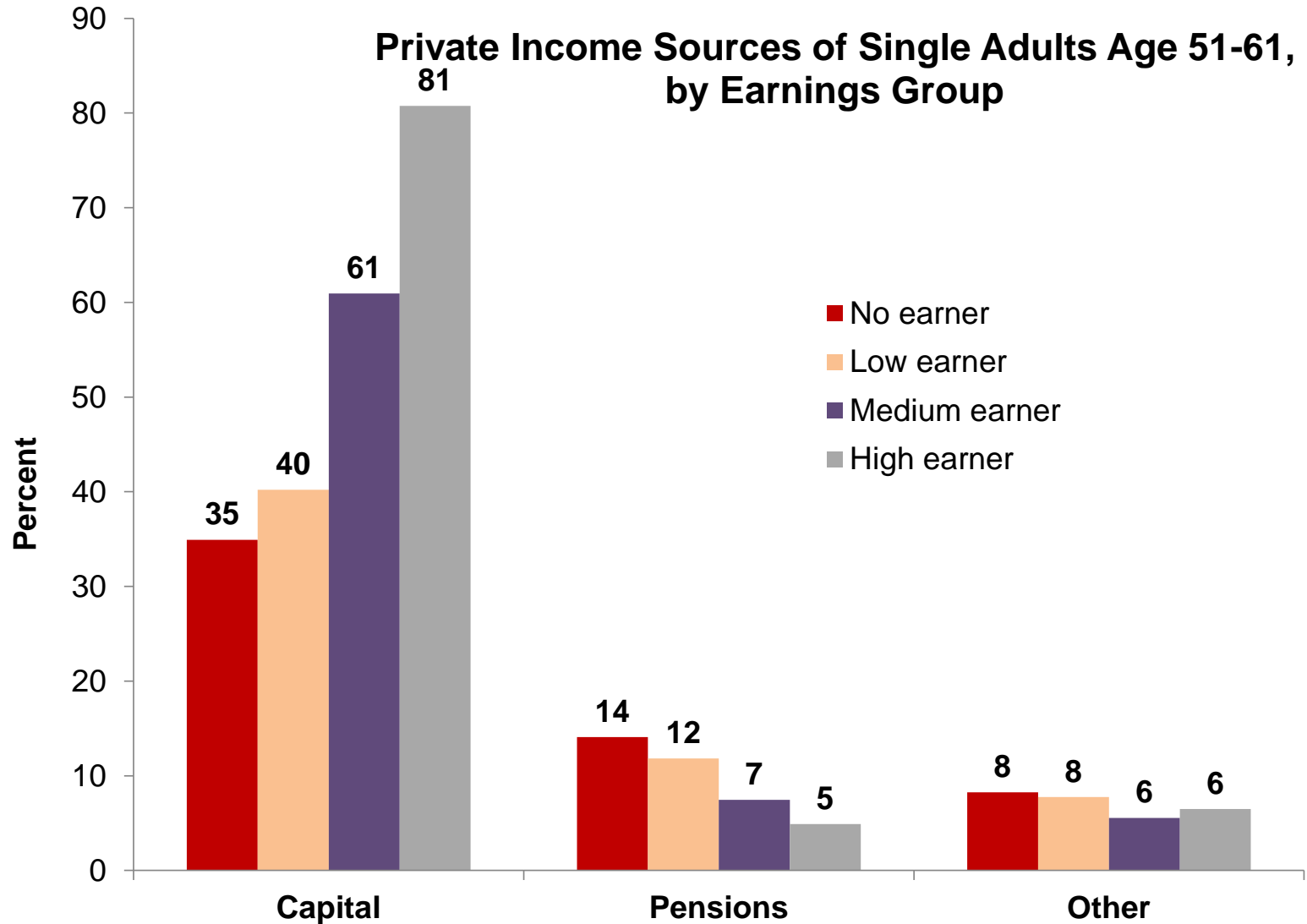


Single non-earners more likely to receive SSI, SSDI, Social Security, and transfers.



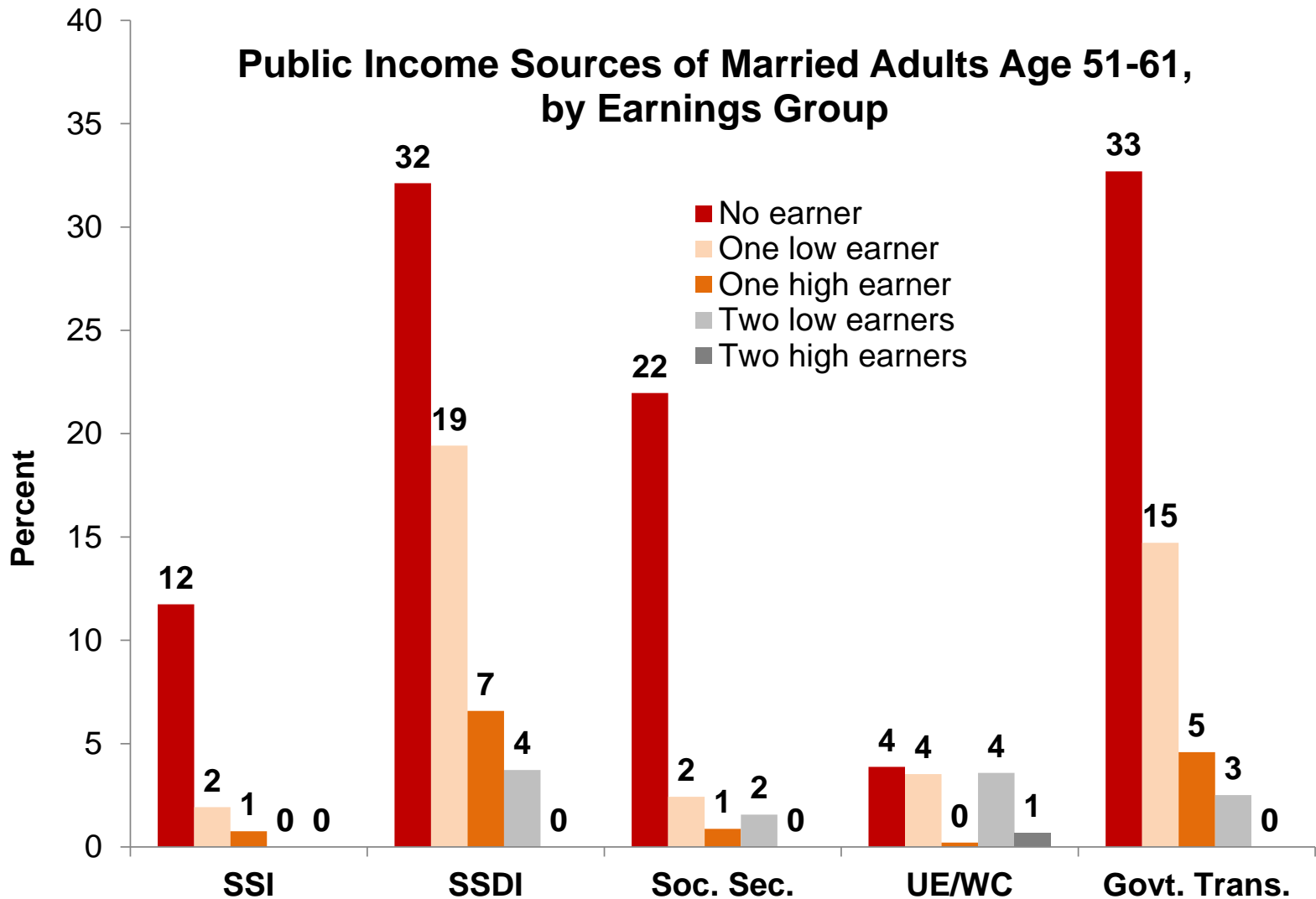
Source: Authors' computations of the Health and Retirement Study and the RAND HRS data file.

But they also get income from capital, pensions, and other private sources



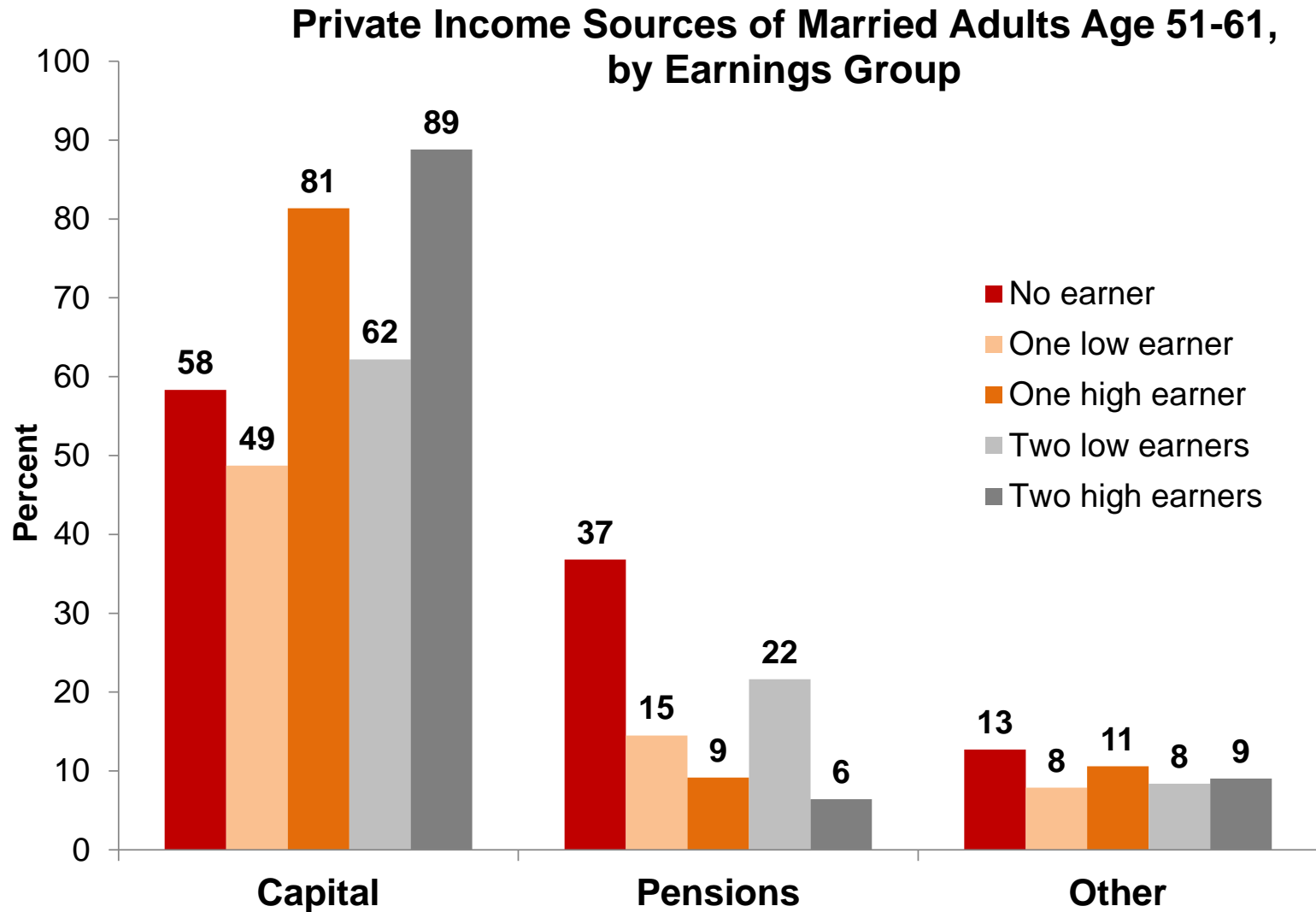
Source: Authors' computations of the Health and Retirement Study and the RAND HRS data file.

Similarly, married non-earners are more likely to receive income from public sources.



Source: Authors' computations of the Health and Retirement Study and the RAND HRS data file.

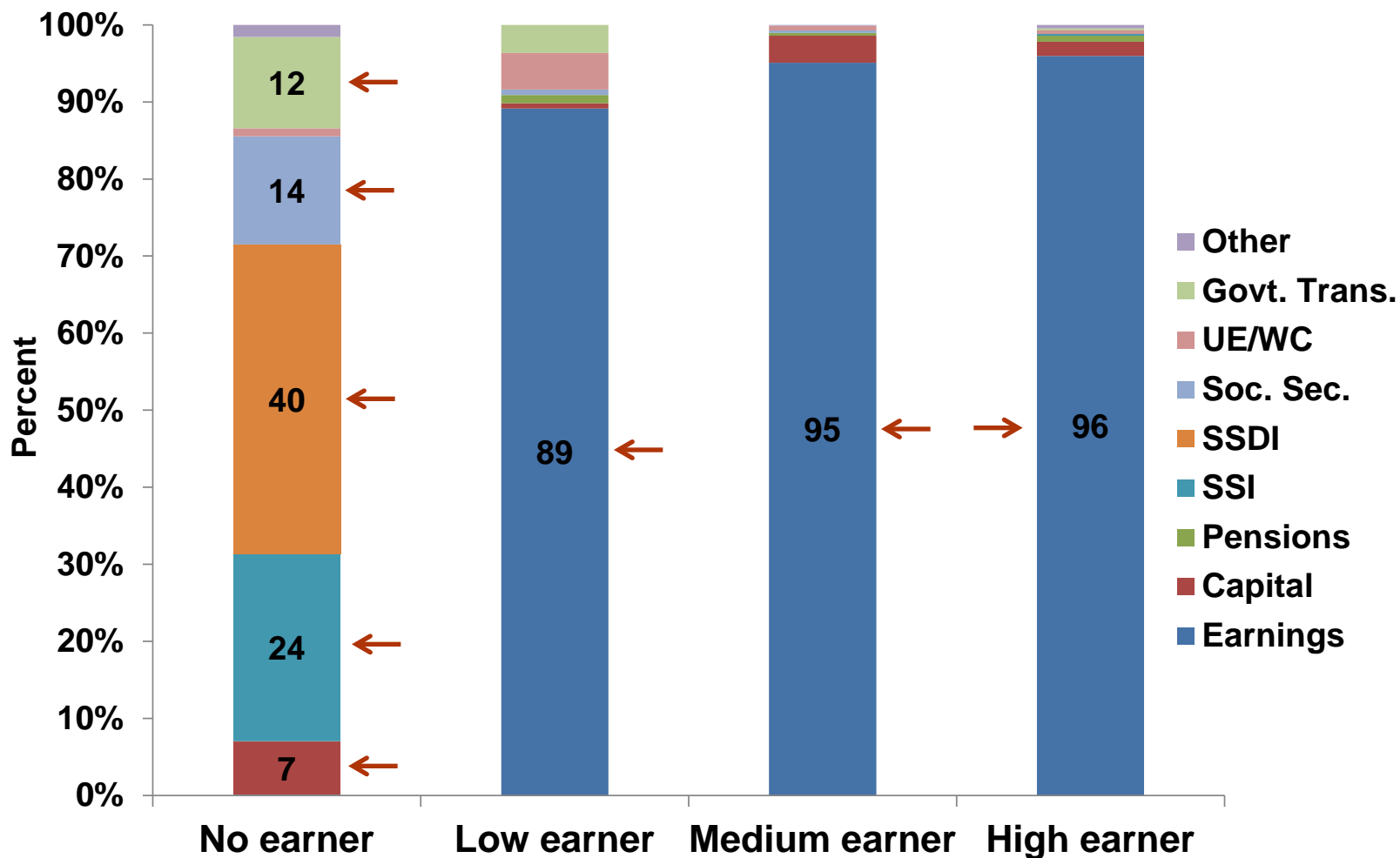
Still more than half get income from capital, and more than a third from private pensions



Source: Authors' computations of the Health and Retirement Study and the RAND HRS data file.

The main sources of income for single non-earners are SSI, SSDI and Social Security.

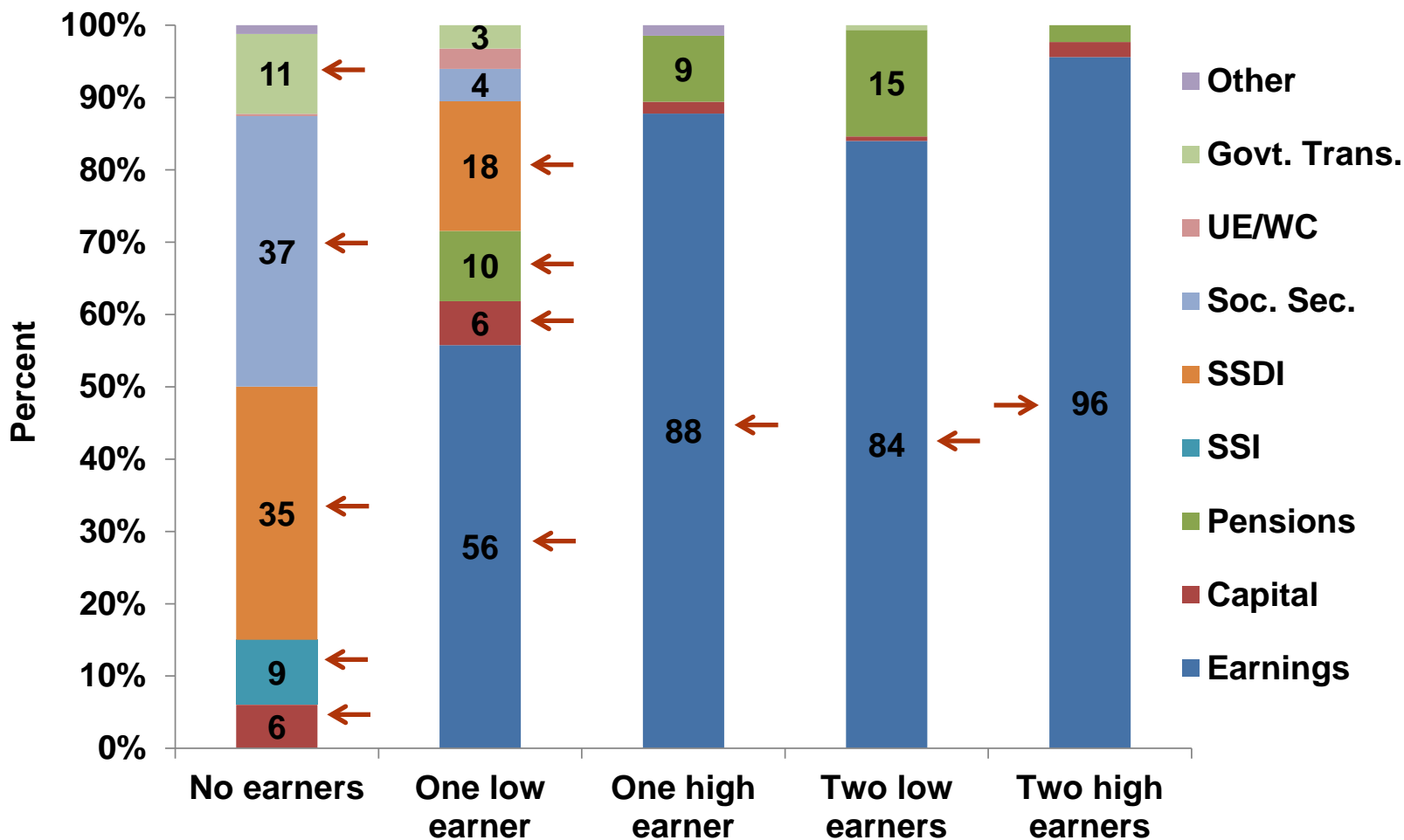
Share of Total Income for Single Adults Age 51-61, in the Middle 20% of Income Holders



Source: Authors' computations of the Health and Retirement Study and the RAND HRS data file.

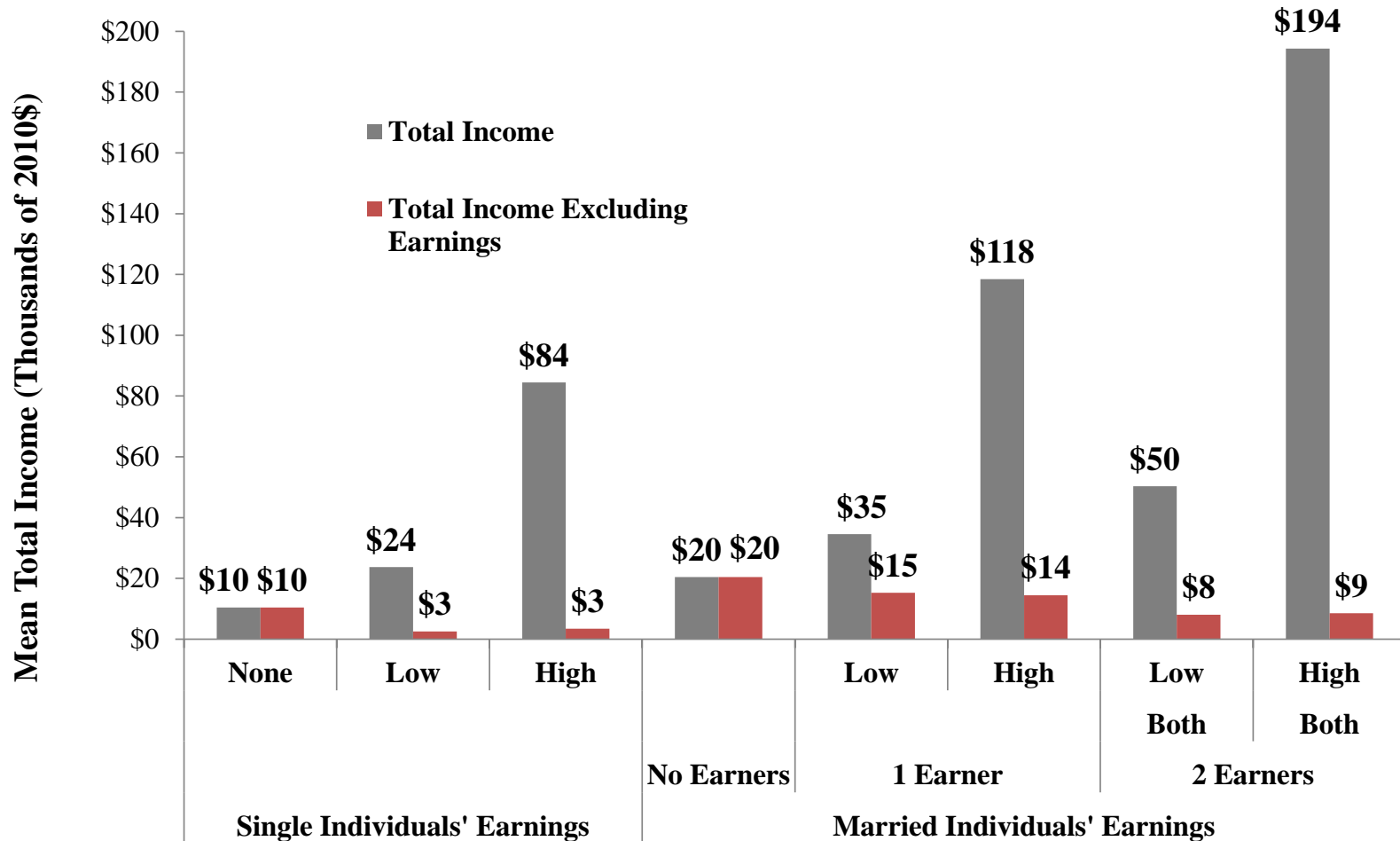
Earnings are the primary source of income for working couples.

Share of Total Income for Married Adults Age 51-61, in the Middle 20% of Income Holders



Income differences by earnings groups disappear when earnings are excluded.

Figure: Mean Income Among Adults Ages 51 to 61 in 2008 in the Middle 20% of Income Holders, by Marital Status and Earnings Groups

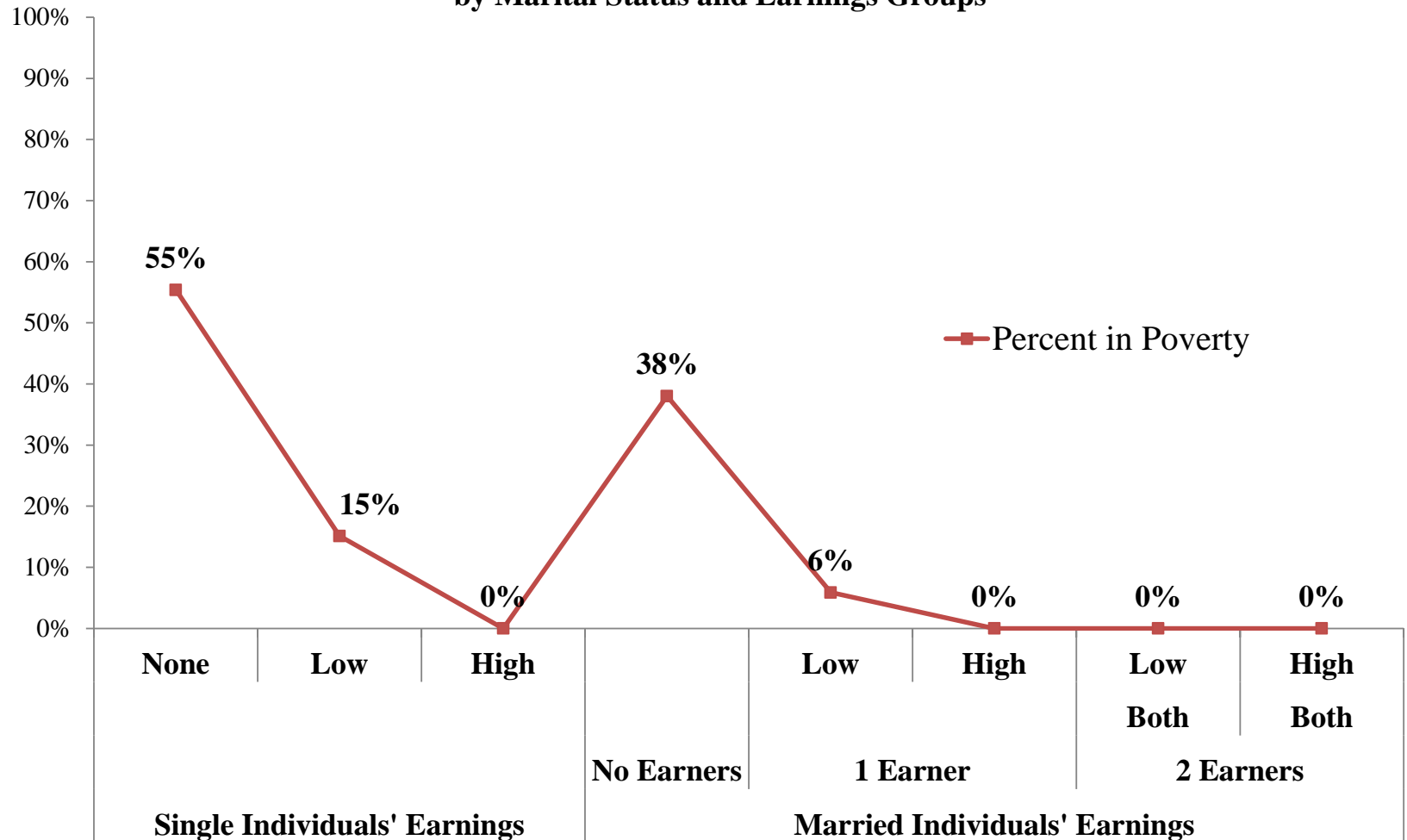


Source: Authors' computations of the Health and Retirement Study and the RAND HRS data file.

Notes: Income percentiles for the middle 20 percent are computed separately by marital status and earnings group.

More than half of single adults and a third of married adults without earnings are poor.

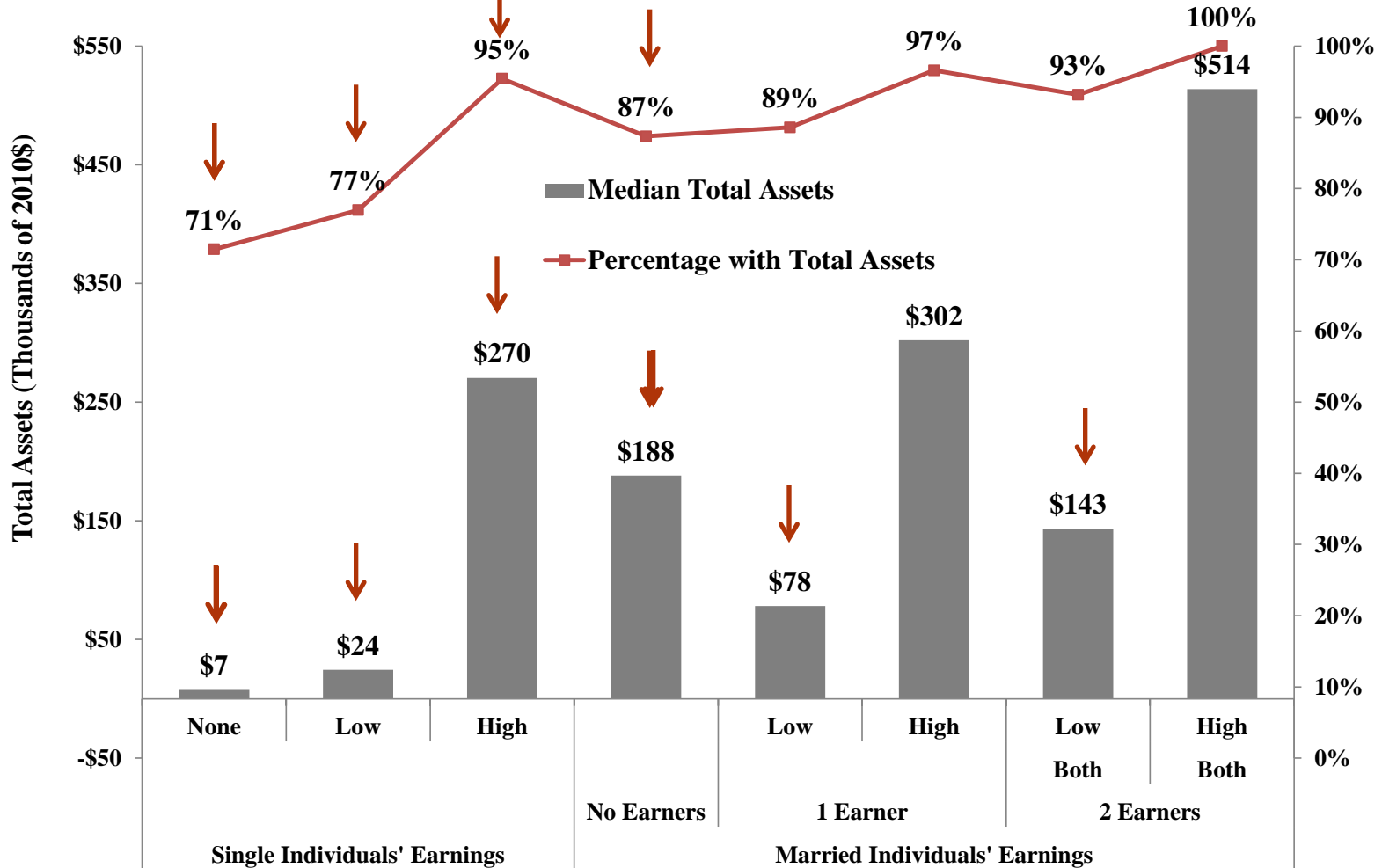
Figure: Share of Adults in Poverty: Ages 51 to 61 in 2008, by Marital Status and Earnings Groups



Source: Authors' computations of the Health and Retirement Study and the RAND HRS data file.

Married non-earners have more assets than single non-earners.

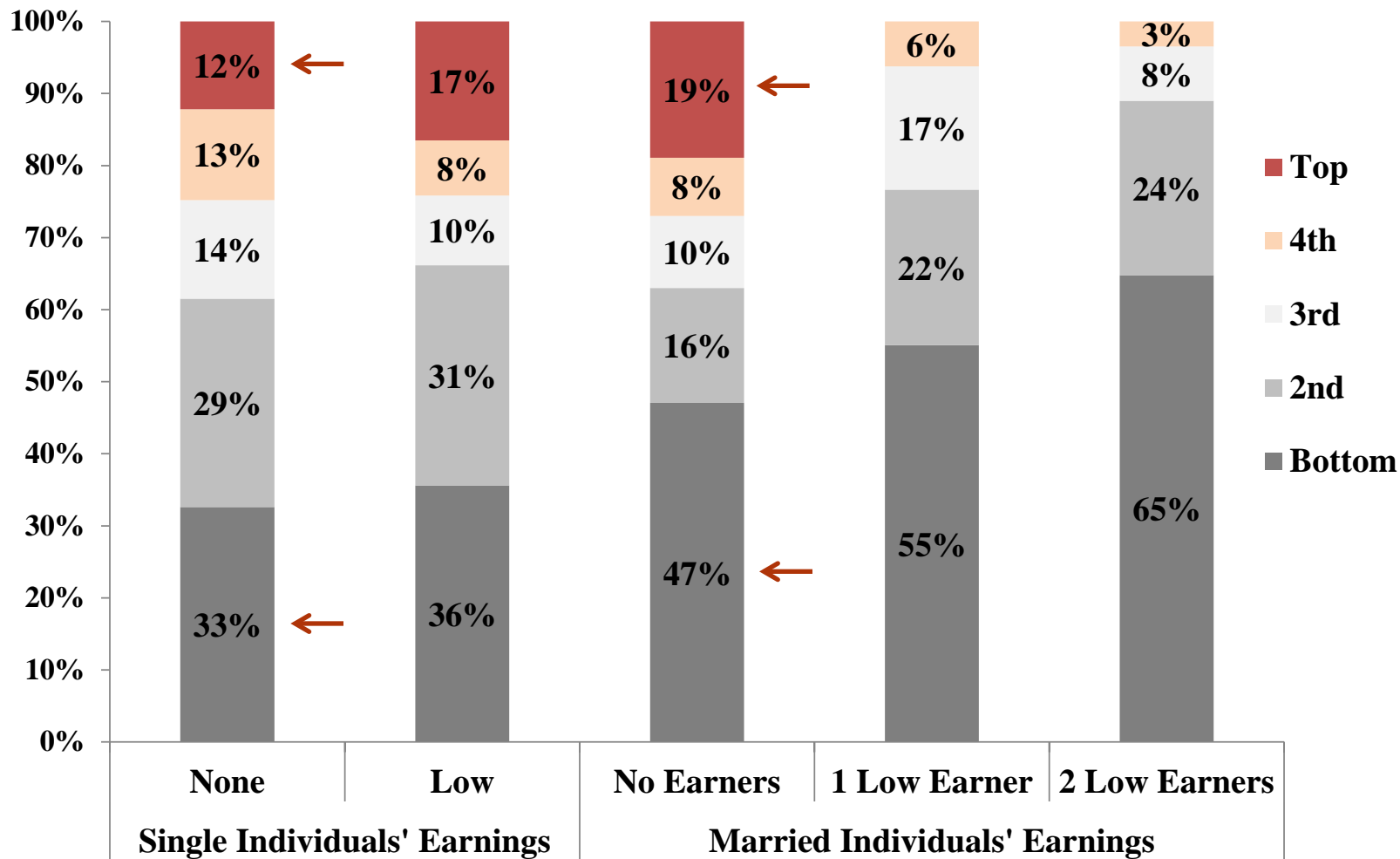
Figure: Total Assets Among Adults Ages 51 to 61 in 2008, by Marital Status and Earnings Groups



Source: Authors' computations of the Health and Retirement Study and the RAND HRS data file.

1 in 8 single & 1 in 5 married non-earners with lowest incomes have highest assets.

Figure: Distribution of Total Assets Among Adults Ages 51 to 61 in 2008 in the Bottom Income Quintile

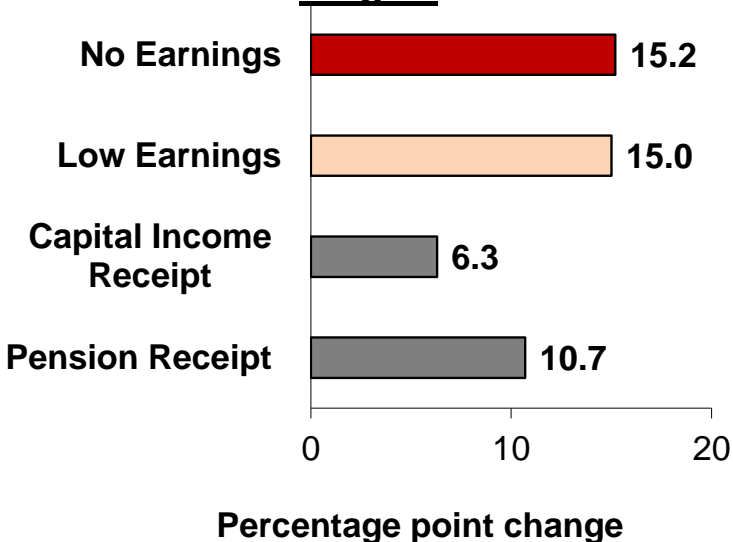


Source: Authors' computations of the Health and Retirement Study and the RAND HRS data file.

Non-earners are more likely to claim Social Security benefits before their FRA.

Probability of Claiming before FRA

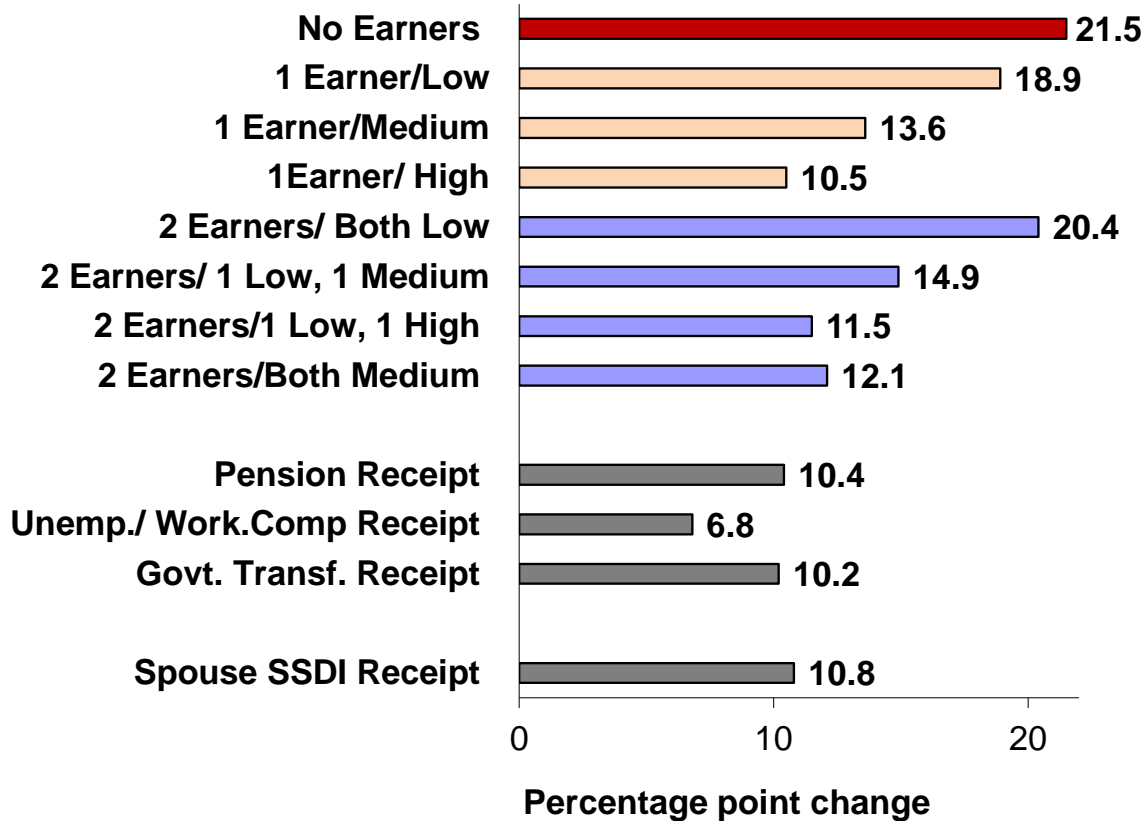
Singles



Reference group: High Earners

Probability of Claiming before FRA

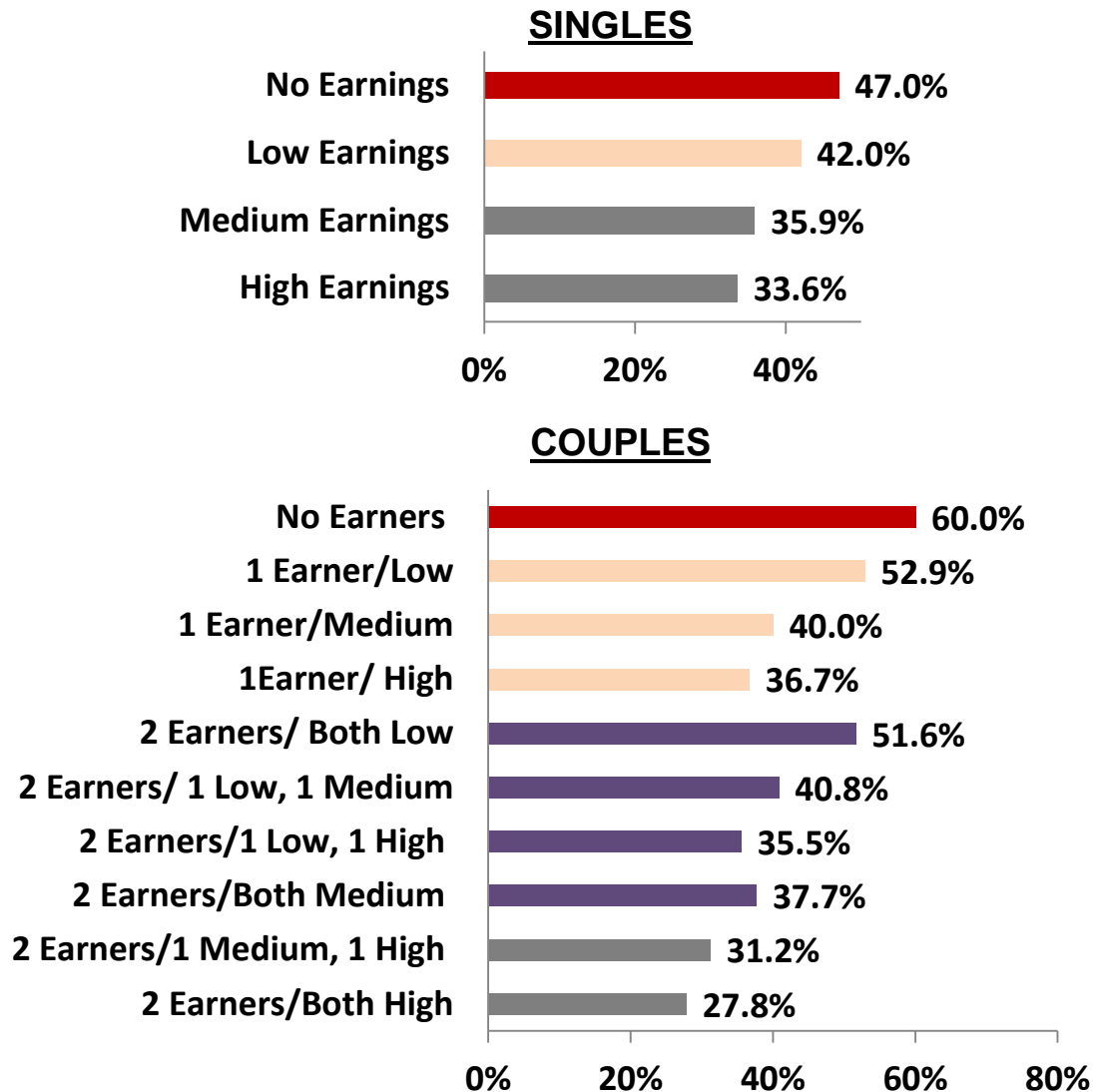
Couples



Reference group: 2Earners, Both High

Compared with high earners, non-earners are also more likely to claim at age 62.

Predicted probabilities of claiming at 62 from a duration model



Source: Authors' computations of the Health and Retirement Study and the RAND HRS data file.

Conclusions

- Nonworking adults ages 51 to 61 are heterogeneous.
- A large share is poor with low income and limited wealth.
- A sizeable share has abundant assets, particularly married.
- Married nonworkers are significantly better off than single nonworkers.
 - They have twice the income and eight times the assets.
 - They are 20 percentage points less likely to be poor.
- Not working before the Social Security EEA increases the probability of claiming benefits before one's FRA and receiving actuarially reduced benefits for life.

Next Steps

- Examine in detail different income sources for nonworkers.
 - Distinguish between DB and DC; various forms of government transfers
- Understand how voluntary nonworkers differ from those who were forced to retire, and how reasons for not working affect the probability of early claiming.
- Use SSA administrative earnings and benefit records to improve our measure of the age of claiming; also use earnings histories and expected Social Security benefits.
- Update analysis using 2010 HRS to compare results pre- and post-recession.