

ECONOMIC RESEARCH











Retirement and Disability Research Consortium 22nd Annual Meeting August 6, 2020

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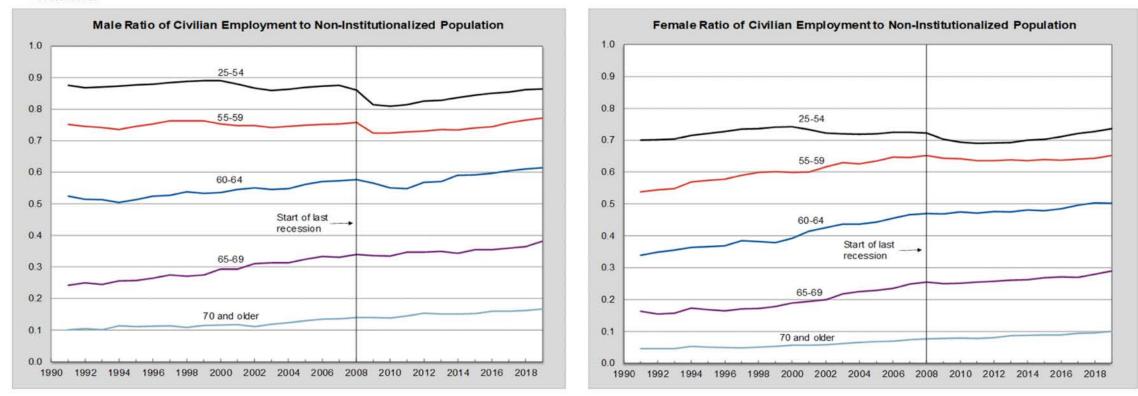
Panel 1: Social Security Benefits and Demographic Trends

Karen Glenn, Deputy Chief Actuary Social Security Administration

2020 Retirement and Disability Research Consortium Annual Meeting August 6, 2020

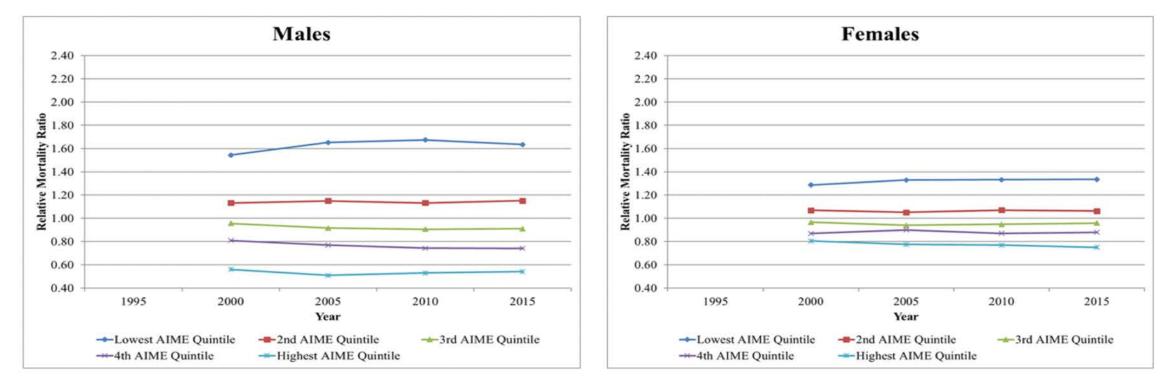
Employment / Labor Force Participation

- Employment has direct effects on the amount of payroll tax revenue coming in to the Social Security program; labor force participation rates (LPFRs) are a closely-related measure
- Trustees' projections of LFPR consider business cycles, disability prevalence, education, marital status, presence
 of young children, benefit replacement rates, the retirement earnings test, and life expectancy
- Damir and his co-authors focus on the relationship between life expectancy and LFPR



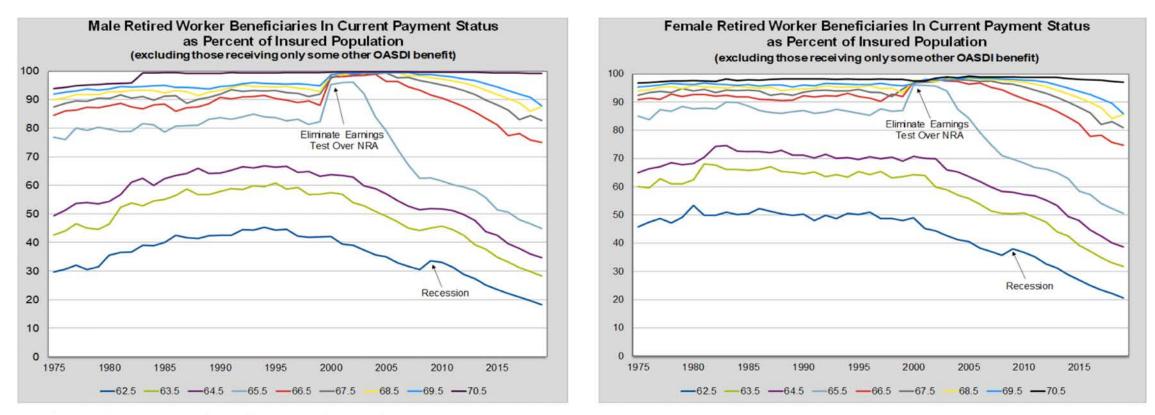
Longevity / Differential Mortality

- Mortality by Career-Average Earnings Level study by Bosley, Morris, and Glenn (2018): https://www.ssa.gov/OACT/NOTES/pdf_studies/study124.pdf
- · Our study looked at mortality for Social Security retired worker beneficiaries in various age groups, through time
- We observed lower death rates for those with higher-than-average career earnings (AIME) levels, and higher death rates for those with lower-than-average AIME levels; spreads for females are smaller than those for males; ages 65-69 are shown below
- Mary's paper focuses on the SSI population, and the relationship between nursing home use and increasing longevity and diversity



Trends in Retirement Benefit Claiming Ages

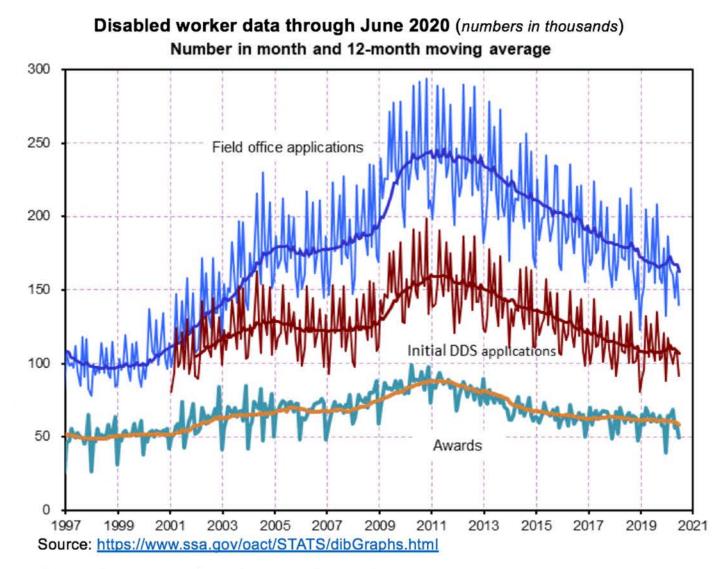
- · Social Security retirement benefit claiming patterns have changed significantly over the years
- Changes in the retirement earnings test and in the full retirement age have had big effects in the past—and
 recently, the trend is clearly toward later claiming
- Damon and his co-authors consider how workers respond to the earnings test—often in irrational ways



Elephant in the Room: COVID Effects

- Employment and LFPRs have declined along with the COVID-induced recession—will they remain low, or rebound soon?
- Will COVID deaths continue to be concentrated at older ages, and among people of color?
- Will there be persistent and even cumulative effects on mortality (and morbidity) in the longer term?
 - Direct virus-related immediate deaths
 - Increased deaths of despair/violence—suicide, homicide?
 - Decreased life expectancy from compromise for COVID survivors; how much?
- So much depends on government and individual responses, along with the timing and efficacy of a vaccine

Elephant in the Room: COVID Effects



- There has been speculation in the press and elsewhere that the COVID-induced recession will cause workers to apply for retirement benefits earlier than they would have otherwise
- We aren't seeing this in the data—yet
- Similarly, we aren't yet seeing evidence of increased DI or SSI applications
- Speculation is that folks are relying on extended unemployment benefits for now, but might start applying earlier if the recession persists



Do People Work Longer When They Live Longer?

Damir Cosic, Aaron R. Williams, and Eugene Steuerle

Motivation

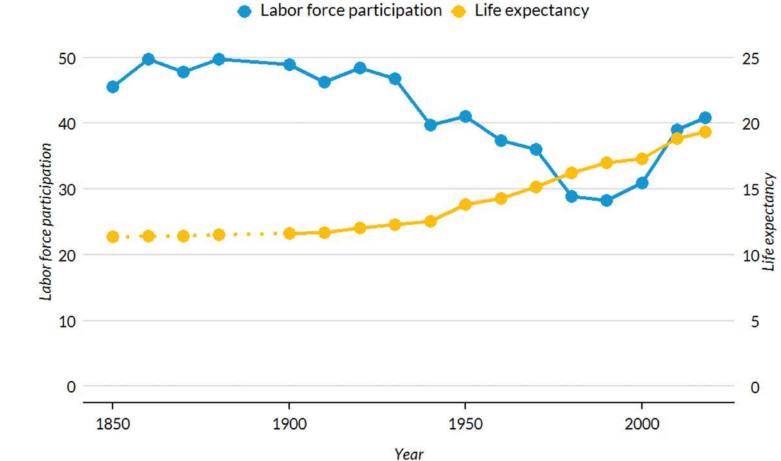
- We "know" that people "should" retire later when they live longer, but how can we show it empirically?
 - Related work: influence of "perception" of life expectancy on retirement planning (Khan, Rutledge, and Wu, 2014)
- The Social Security Board of Trustees adjust their projections of future labor force participation for increase in longevity

Two Mechanisms for the Effect of Longevity on Work

- Health
 - Determines both life expectancy and labor force participation
- Retirement finances
 - Optimization of lifetime utility
 - Optimal response to an increase in the expected longevity:
 - increase saving and
 - postpone retirement

Longevity and Work over 170 Years

Ages 62-69



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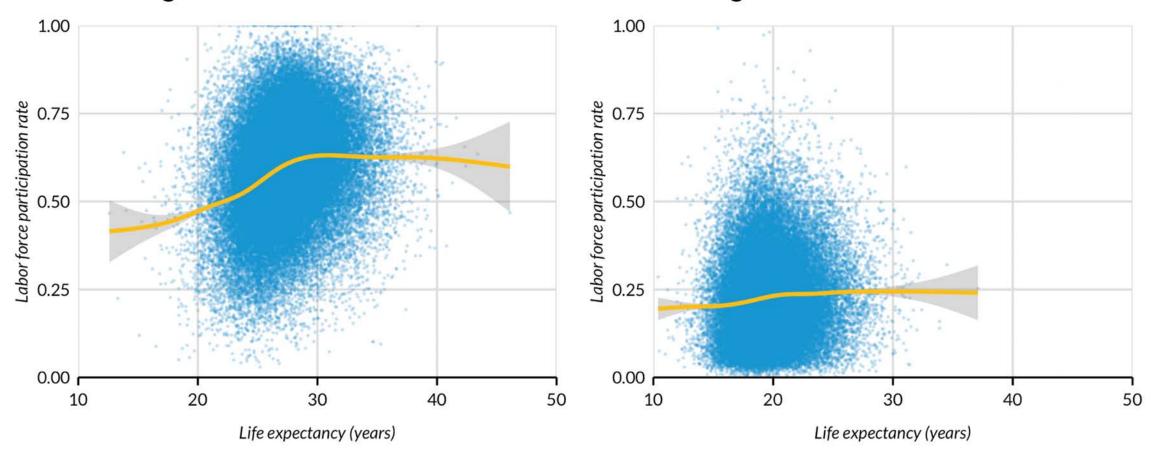
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Data

- USALEEP (U.S. Small-Area Life Expectancy Estimates Project)
 - Census-tract level life expectancy
 - Age groups: 55-64 and 65-74
- ACS 5-year
 - Labor force participation rate
 - Socio-economic conditions: educational attainment, racial and age composition, rate of disability, prime-age employment, household income

Labor Force Participation Increases with Life Expectancy and then Plateaus

Women ages 55 to 64



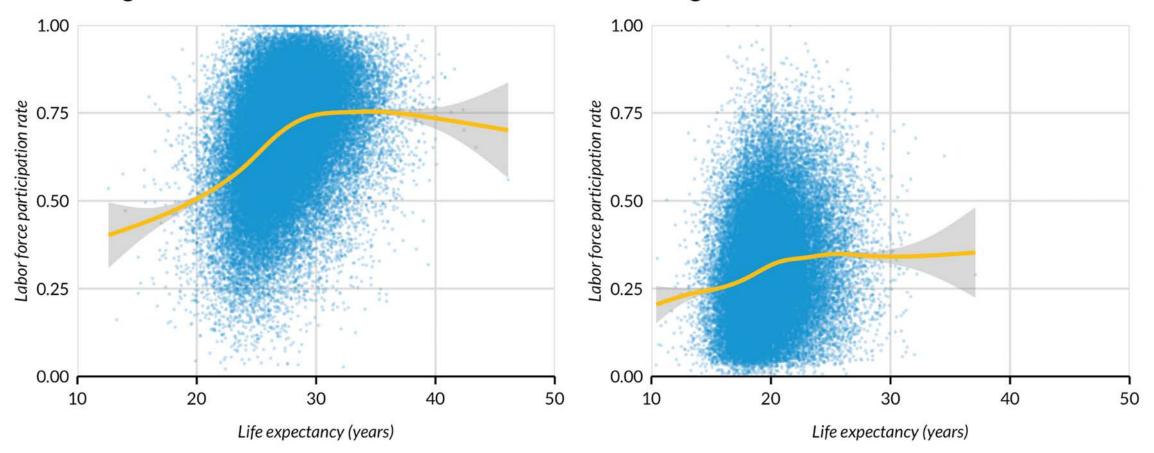
Women ages 65 to 74

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Labor Force Participation Increases with Life Expectancy and then Plateaus (Continued)

Men ages 55 to 64

Men ages 65 to 74

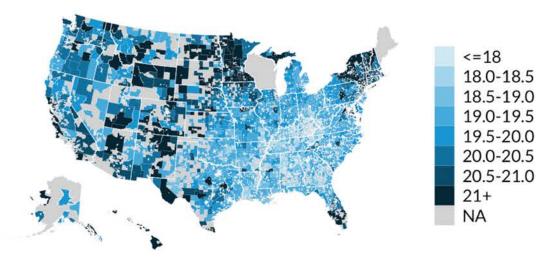


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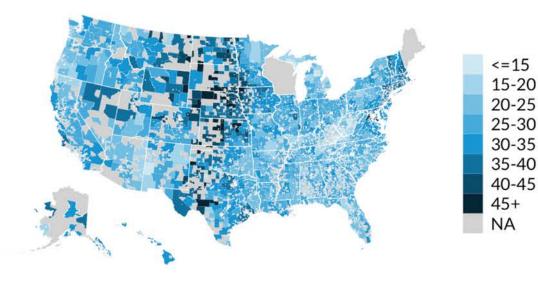
Life Expectancy and Labor Force Participation are Spatially Correlated

Men ages 65 to 74

Life expectancy (years)



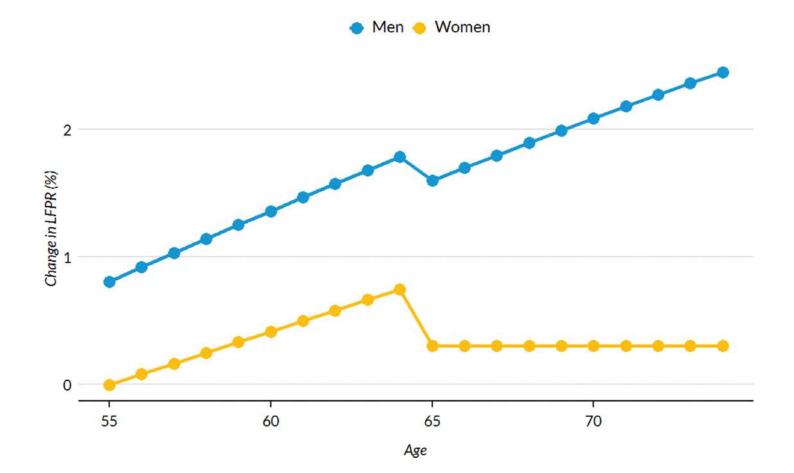
Labor force participation (%)



Methods

- Multivariate regression
- Dependent variable: labor force participation rate
- Main explanatory variable: average life expectancy
- Unit of observation: census tract
- Age-gender groups: women and men ages 55-64 and 65-74
- Fixed state and commuting-zone effects

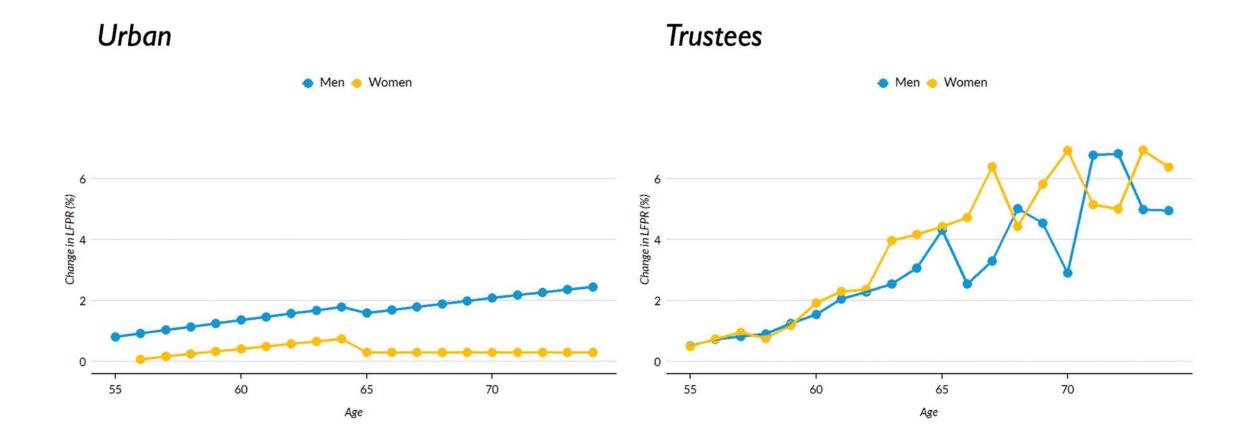
Results: Estimated Effects Are Modest



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Comparison with the Effects Implied in Trustees' Life Expectancy Adjustment



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Conclusion

- We used spatial analysis to understand the relationship between longevity and work at older ages
- We found a relatively modest effect
- Unsure whether our method captures financial mechanism
- Negative coefficient for women ages 65 to 74 in low income areas



We welcome comments and questions:

- Damir Cosic: dcosic@urban.org
- Aaron Williams: awilliams@urban.org
- Eugene Steuerle: esteuerle@urban.org

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The Demographics behind Aging in Place Implications for Supplemental Security Income Eligibility and Receipt

Mary K. Hamman, PhD University of Wisconsin La Crosse

Prepared for the 22nd Annual Meeting of the Retirement and Disability Research Consortium



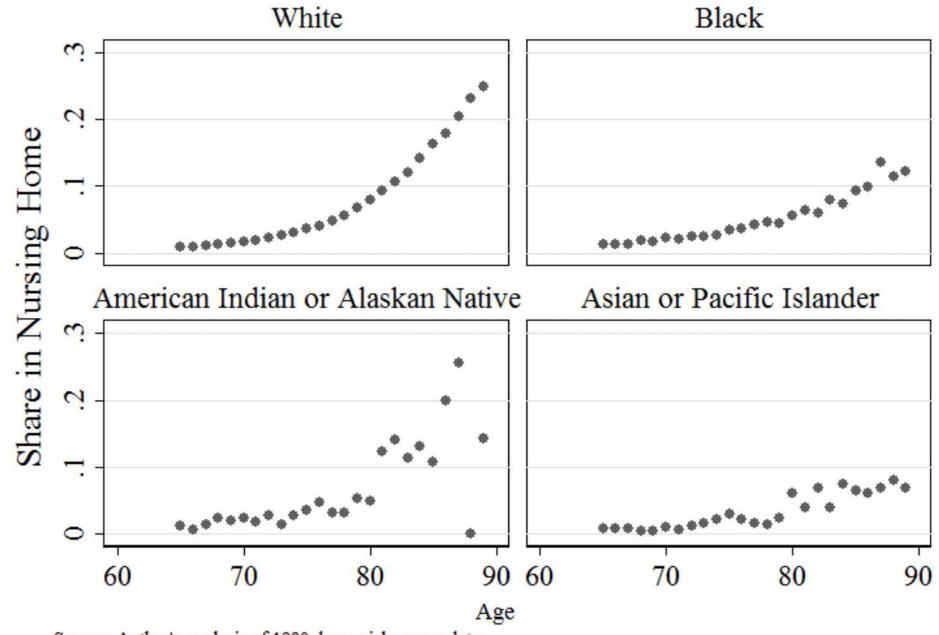
Despite population aging, fewer older adults are living in nursing homes. Bishop (1999)

This project answers the questions:

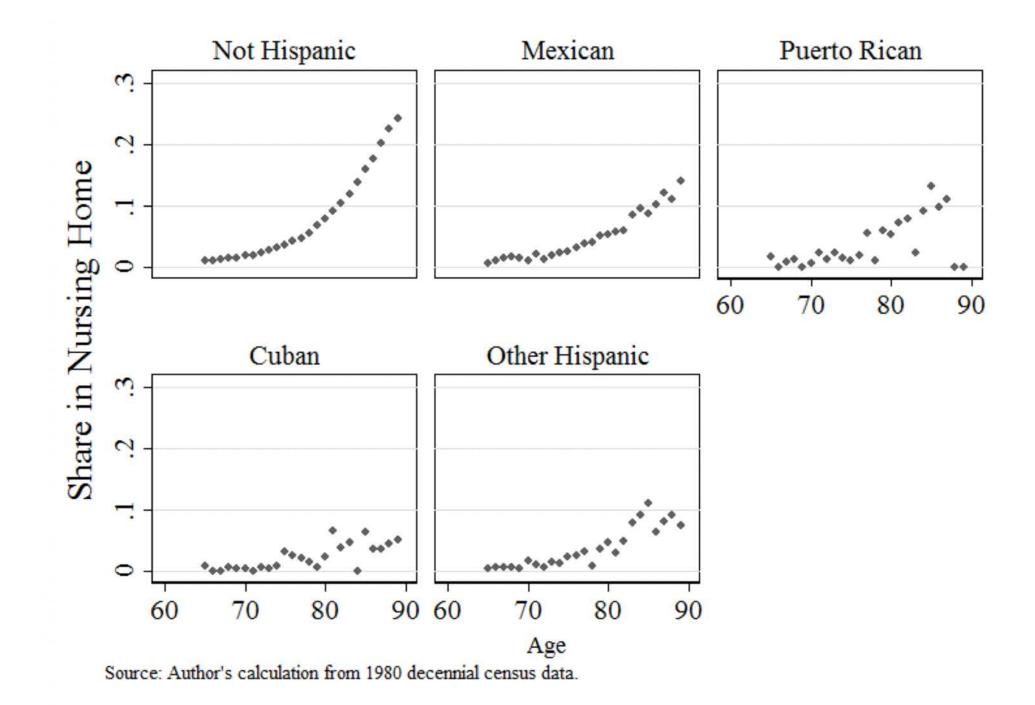
- 1. Do trends in living arrangements differ for very-low income older adults?
- 2. If nursing home residency is falling, which living arrangements are increasing?
- 3. How much of the observed decline is due to:
 - a) Increasing racial and ethnic diversity of the older adult population
 - b) Increases in men's life expectancy?
- 4. What are the implications of the answers to these questions for the SSI program?

Why might a *more diverse* population use less nursing home care?



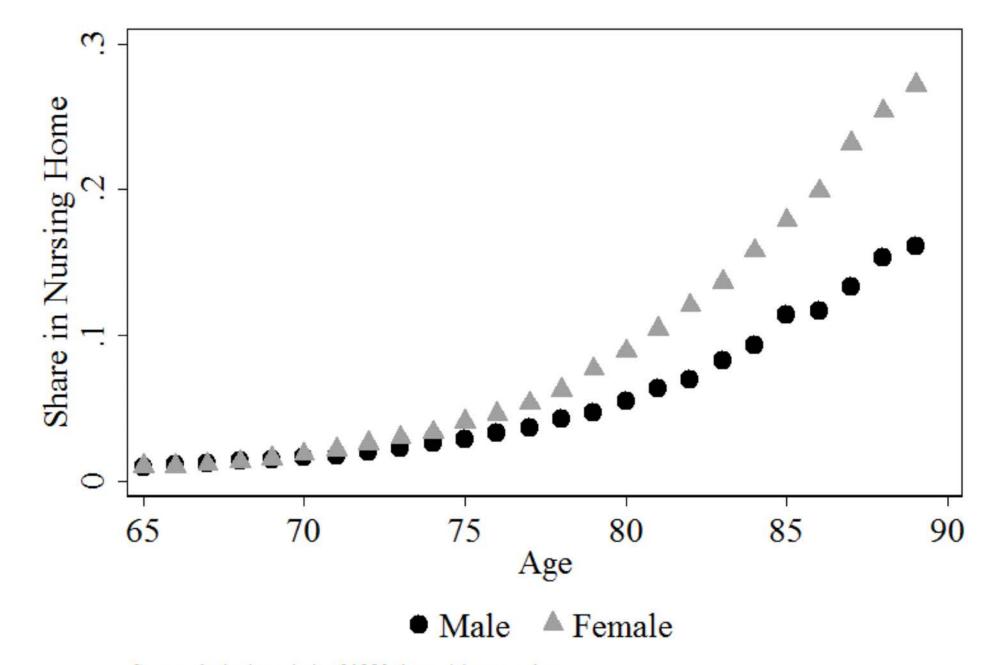


Source: Author's analysis of 1980 decennial census data.



Why might nursing home care fall *as men live longer*?

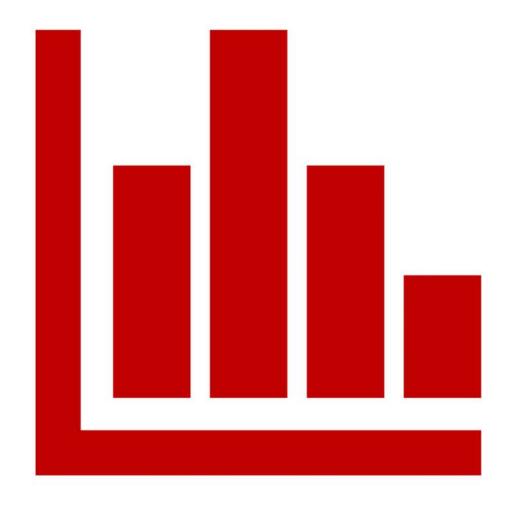




Source: Author's analysis of 1980 decennial census data.

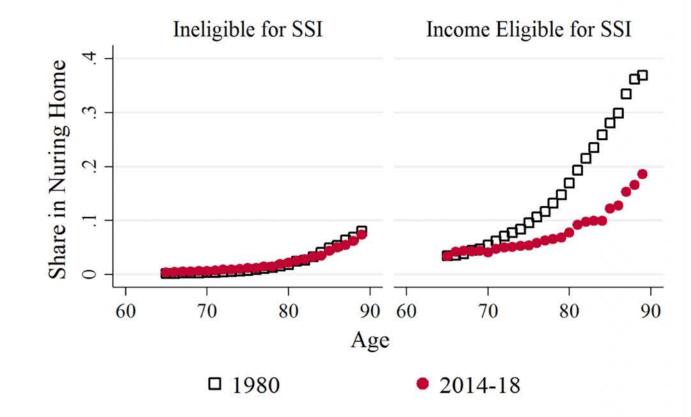
Data Sources: 1980, 1990 and 2000 Decennial Census

2008-10 and 2014-18 American Community Surveys



Results

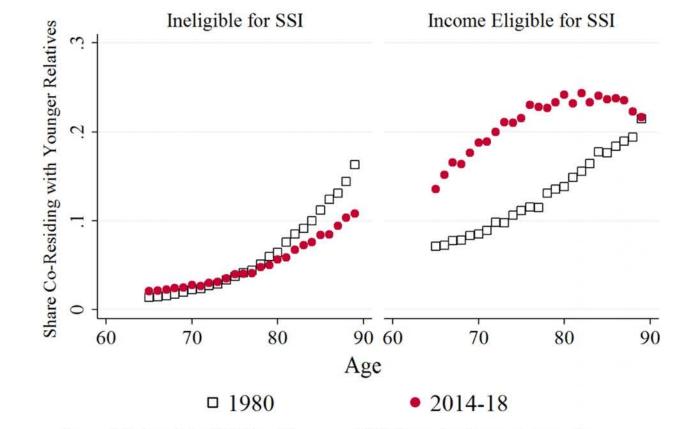
1. Do trends in living arrangements differ for verylow income older adults?



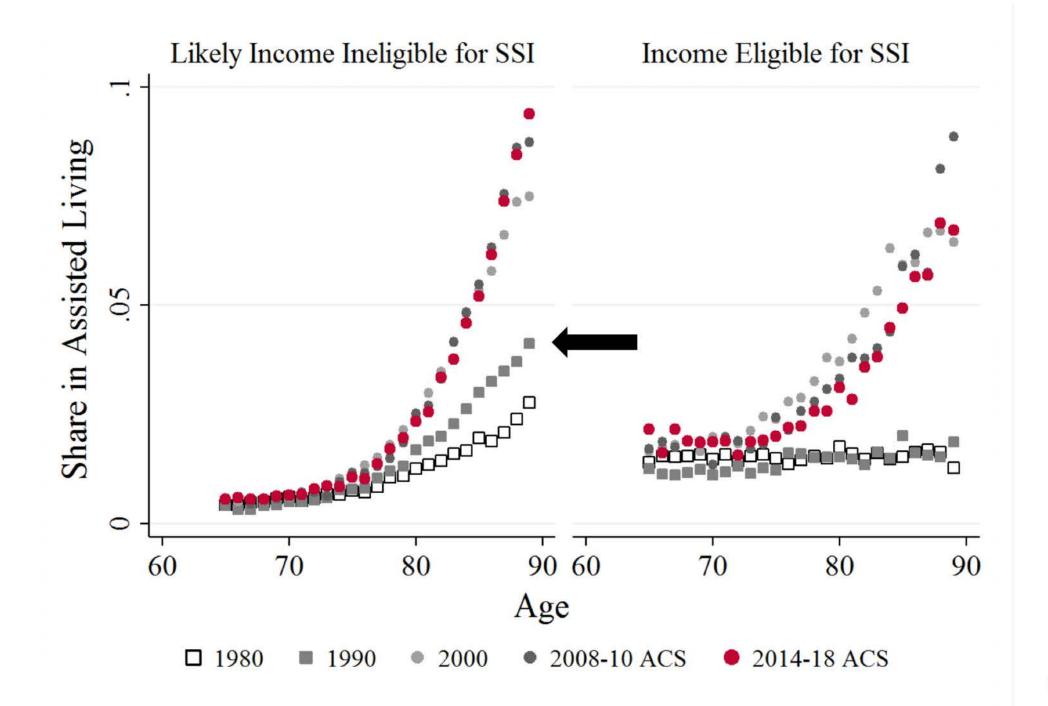
Source: Author's analysis of 1980 decennial census and 2014-18 American Community Survey data

Results

2. If nursing home residency is falling, which living arrangements are increasing?



Source: Author's analysis of 1980 decennial census and 2014-18 American Community Survey data

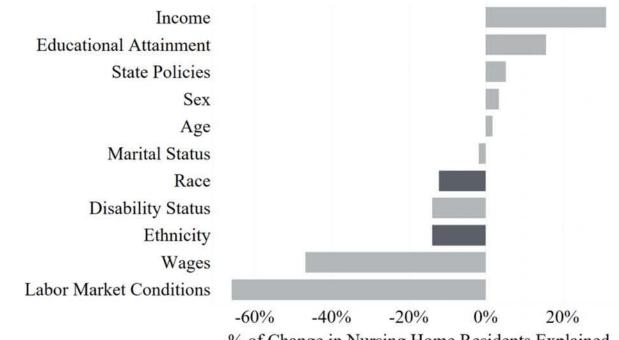


Results

3. How much of the observed decline is due to:

Increasing racial and ethnic diversity of the older adult population

Increases in men's life expectancy?

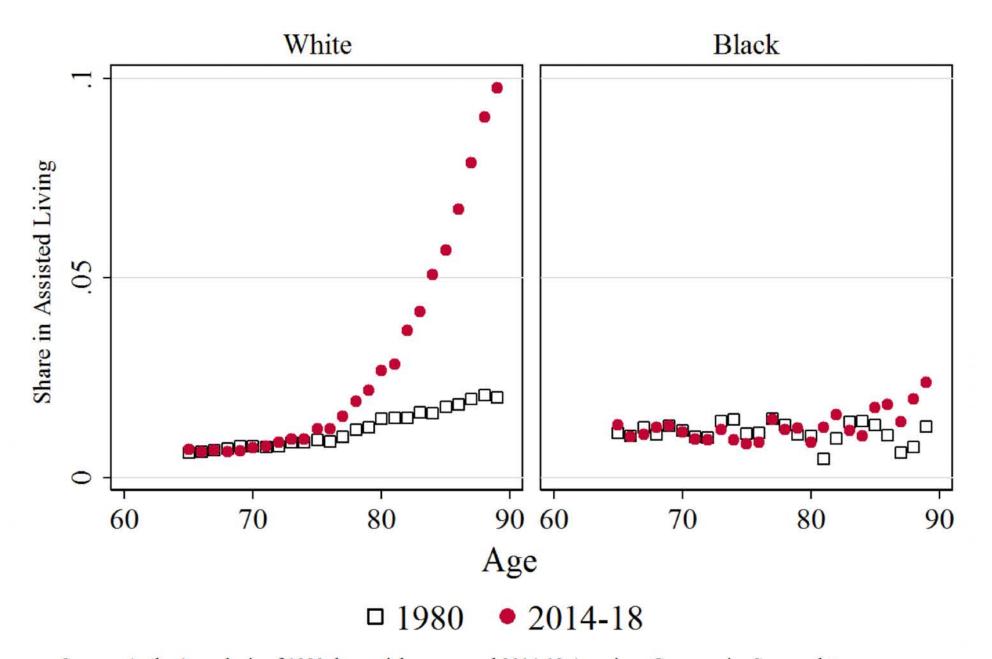


% of Change in Nursing Home Residents Explained



Implications for SSI: More financially vulnerable older adults are living in the community, in more complex households.

- Potential for greater reliance on SSI.
- Determinations may become more complex.
- Signs of disparities in access to community-based care (Bishop 1999; Feng et al. 2011; Mor et al. 2004; Smith et al. 2007, 2008)



Source: Author's analysis of 1980 decennial census and 2014-18 American Community Survey data.

Thank you!

References:

Bishop, C. E. (1999). Where Are The Missing Elders? The Decline In Nursing Home Use, 1985 And 1995. *Health Affairs*, 18(4), 146–155. <u>https://doi.org/10.1377/hlthaff.18.4.146</u>

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Smith, D. B., Feng, Z., Fennell, M. L., Zinn, J. S., & Mor, V. (2007). Separate And Unequal: Racial Segregation And Disparities In Quality Across U.S. Nursing Homes. *Health Affairs*, 26(5), 1448–1458. <u>https://doi.org/10.1377/hlthaff.26.5.1448</u>

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Misperceptions of the Social Security Earnings Test and the Actuarial Adjustment: Implications for Labor Force Participation and Earnings

Alexander Gelber, Damon Jones, Ithai Lurie, and Daniel Sacks

22nd Annual Meeting of the Retirement and Disability Research Consortium

August 6, 2020

Working Longer?



- Average US life-expectancy has risen almost twice as fast as the average retirement age during the last few decades
- Important to consider policies that might have an effect on workers decision to work more or less, or to retire earlier or later
- One policy of interest: the Social Security Annual Earnings Test

Annual Earnings Test (AET)



- For claimants who work, the AET reduces current benefits in proportion to earnings above an exempt amount
- In 2020: \$1 dollar reduction for every \$2 earned above \$18,240
 - Future benefits are increased in an actuarially fair manner
 - This is referred to as a "kink" in incentives
- Applies to workers younger than the NRA
- Estimated to affect about 520,000 claimants in 2019
- The Citizen's Freedom to Work Act (2019) proposed eliminating the AET

Effects of the Annual Earnings Test



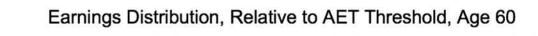
- Prior work has uncovered reductions in earnings in response to the AET (Friedberg, 1998; Friedberg, 2000; Song and Manchester, 2007; Gelber et al. 2020)
- Early work did not detect effects on employment (Gruber and Orzag, 2003; Song, 2004; Song and Manchester, 2007; Haider and Loughran, 2008), but ...
- More recent work has shown convincing evidence of an effect on employment as well (Gelber et al. 2018; Gelber et al. 2020)
- Natural question: why such a response?
 - Actuarial adjustment would imply only a moderate response

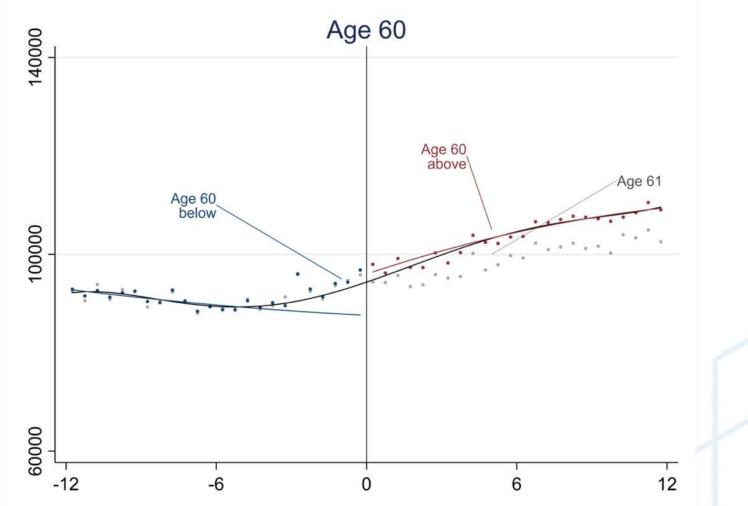


• One explanation for an earnings an employment response to the AET:

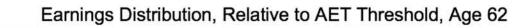
- Discounting or lack of awareness of the actuarial adjustment
- However, response is more pronounced than expected
 - In particular: workers locate just below the AET threshold
 - We refer to this as "left bunching"
- We show this using administrative IRS Data
 - 100% extract of SSNs w/ at least one return between 1999-2018
 - Focus on 1943-1951 birth cohorts
 - 33.7M individuals
 - Plot earnings relative to the AET threshold

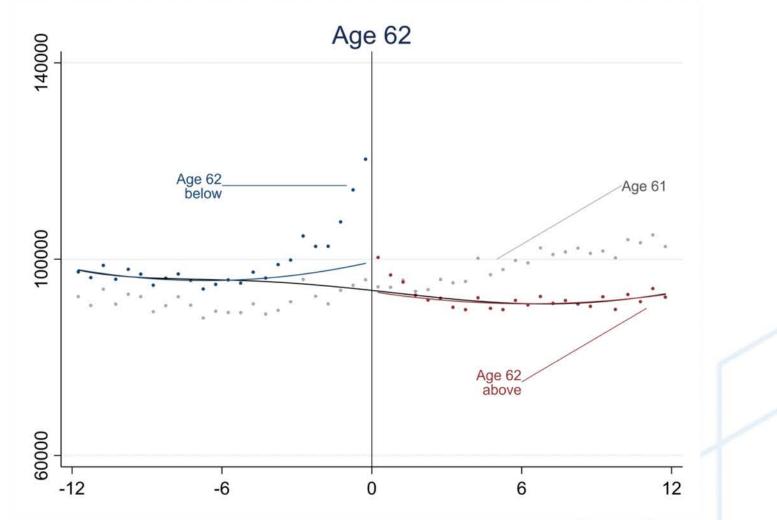




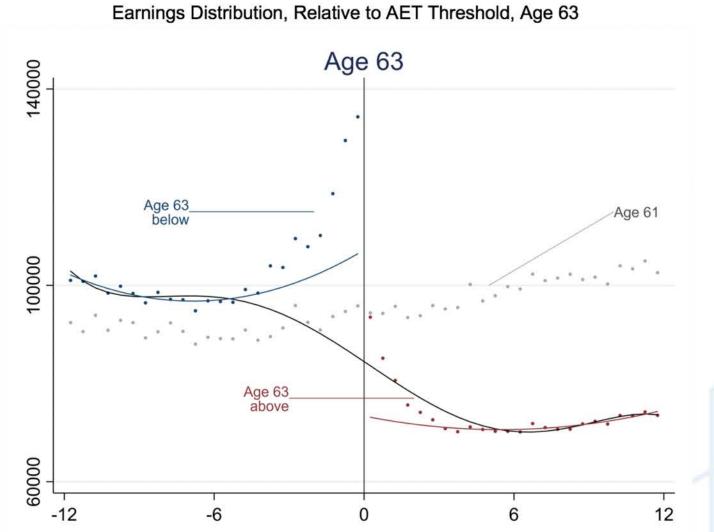




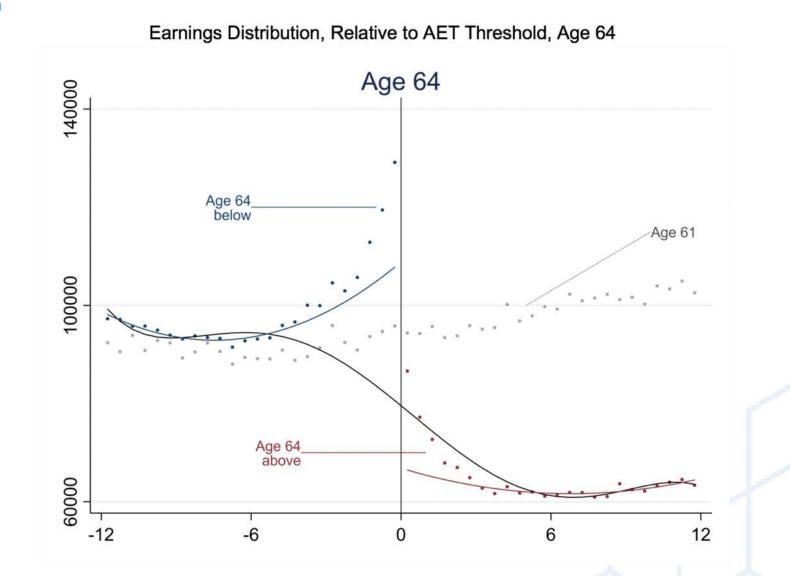












Explaining Left Bunching



- Particularly puzzling, given actuarial adjustment
 Discrete actuarial adjustment incentivizes locating just to the *right* of the AET threshold
- "Standard" explanation:
 - Downward sloping earnings distribution (not in our case)
- Behavioral explanations: •
 - Misperception of "kink" as a "notch," i.e. a discrete loss in benefits
 - This is also referred to as "spotlighting," i.e. confusing a change in marginal tax rates with a change in average tax rates
 - Other behavioral possibilities: loss aversion •
- Behavioral models have different predictions for employment behavior •
 - We find evidence consistent with "spotlighting"

Policy Implications



- The evidence suggests that at least a subset of workers may misunderstand the economic incentives created by the AET
- One possible intervention: provide information to aid in decisionmaking
 - Prior interventions have affected decisions to claim (Leibman and Luttmer, 2015)
- Explore how implementation of the AET affects perceptions
 - AET is implemented by a stop in monthly payments, as opposed to a proportional reduction in monthly benefits