Health Status and the Retirement Decision Among the Early-Retirement-Age Population

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The life expectancy of people in the Unites States is increasing and the proportion of elderly people is growing as well. According to a projection by the U.S. Census Bureau, 20.2 percent of the U.S. population will be 65 years or older by 2050, compared with 12.4 percent in 2000 (US Census Bureau, 2008). The growth of the elderly population has been accompanied by the growth of the labor force participation rate of the elderly people. As projected by the Bureau of Labor Statistics, the labor force participation rate of elderly people, aged 65 years and over, which stood at 12 percent in 2004, will reach 20 percent by 2014 (Bureau of Labor Statistics, 2005). According to an estimate by the Urban Institute (2006), about 15 percent of people aged 65 years and over, a traditional retirement-age, were still active in the labor force in 2006.

While some people keep working beyond the traditional retirement age of 65, others retire as they reach this pinnacle age; and there are others who do not even wait until they reach the age of 65 – opting for retirement early.

Reasons people retire

A decision to retire from the labor force at any age depends on the financial need, physical and mental ability, and personal preference to work. While some people need to work for financial security, others do so because they are in a good health to enjoy working. Sometimes, people's occupations play roles in their decision to work because not all occupations require excellent or good health. So, a decision to retire at any age is unique to a person's health, wealth, occupation, and other personal characteristics. Using

this notion, an early retiree is most likely to be the one with enough financial security, in poor health, or have a more physically demanding occupation.

Some retirees go back to work. As of 2004, 20.1 percent of the people aged 50 to 64 had retired from a job – that makes 9.6 million early retirees (Bhandari, 2007). Of those early retirees, 35 percent were back in labor force, either working or looking for a job, and the other 65 percent were not in the labor force any more (Bhandari, 2007). In other words, there were 6.2 million working-age people not in labor force.

Research questions

Why some people work beyond the traditional retirement-age of 65 and why others retire before that age has attracted many researchers (Bhandari, 2008; Quinn, 1999; Purcell, 2006; Haider & Loughram, 2001; and Quinn, 1999). These studies focused on the trends of the labor force participation rates, characteristics of elderly workers, and the causes and consequences of early or late retirement decisions. The main purpose of this paper is to investigate the role played by health status in an early retirement decision. In this regard, this paper addresses two research questions.

- What are the alternative ways of measuring health status?
- How do the different measures of health status explain the odds of early retirement?

Data

This paper will use the 2004 Panel of the Survey of Income and Program Participation (SIPP) to study the roles played by a person's health status, occupation, and other personal characteristics in his or her decision to retire early from the job market. For this purpose, this paper will combine the SIPP Wave 1 – 6 data to analyze the early

retirement decisions among people aged 50 to 64, the early-retirement age population. While the labor market data come from the core SIPP data, health status information comes from the medical expenses topical module.

The health status information in SIPP is self-reported information. Since self-reported health-status information is subject to inconsistency across respondents depending on how they rate their health status, it is important to account for the personal biases inherent in the self-reporting of such data. In order to control the person specific effects of the self-reported health-status variable, this paper looks at alternative measures of health-status information. Unique to the SIPP data is its ability to look at the changes in health-status conditions of the respondents between Wave 3 and Wave 6 to create a health-status dummy variable. Those reporting worsening health in Wave 6 are set to "yes" and others to "no".

<div style="text-align:center">Methods</div>

This paper uses logistic regressions to analyze the odds of early retirement decisions by controlling for health status, demographic characteristics, and job-related characteristics. So, independent variables in the regression include variables representing age, sex, race, origin, marital status, education, region of residence, class of work, occupation, and health status.

While most of the information is measured pretty accurately, measuring health status is not easy. Although the SIPP collects self-reported health-status information in one of its topical modules, it is subject to personal bias because there is no uniformity in how people self-report their health status. While 36 percent of people reported excellent health in the 2001 SIPP Wave 3 data, only 30 percent of people reported excellent health in the

2001 Medical Expenditure Panel Survey (MEPS) (Bhandari, 2001). So, using a self-reported health-status variable as an independent variable may bias the results in unknown direction.

This paper will examine alternative measures of health status including the self-reported health-status information. Other proxies for health status include number of hospital nights as a patient, doctor-visit frequency during a year, and the use of prescription medication. Additionally, in order to control the person-specific effects in the self-reported health-status information, a differencing method will be used in which the respondents' Wave 3 answers are subtracted from Wave 6 answers to determine how a respondent's health status changed.

<div align="center">Results</div>

Preliminary results show that the self-reported health status variable does explain the early retirement decision but seems to over estimate it. The doctor-visit frequency measure, as well as the hospital night frequency measure, does not explain much of the early retirement decision. When a dummy variable representing 10 or more visits to the doctor was used, the coefficient was over estimated. When a regression was run with a dummy representing whether or not the respondent was taking prescription drugs, the results appeared plausible. The final regression used the differences of self-reported health-status information as an explanatory dummy variable, and the results were more robust than the other model specifications.

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