

TRIGGER EVENTS AND FINANCIAL OUTCOMES AMONG OLDER HOUSEHOLDS

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This study follows a sample of social security beneficiaries drawn from the Health and Retirement Study from their first year of retirement (or social security receipt) for up to 15 years into retirement. The rates at which retirees are subject to family structure change, cognitive decline, health decline, and other events are estimated, as well as the effects of each event on a wealth. The findings highlight the importance of cognitive and health declines as events with the potential to shape the evolution of wealth post-retirement, as well as populations that are particularly vulnerable to these events.

The level of resources accrued at the time of retirement is subject to erosion from adverse shocks including widowhood, divorce, a decline in health status, a decline in cognition, and high out of pocket medical expenses. Hence, the trajectory of wealth and retiree living standards during retirement years depends heavily on the success of strategies undertaken to cope with such shocks. Poterba, Venti, and Wise (2010) found that adverse shocks during retirement were associated with decreases in net wealth for both couples and individuals. Haveman et al. (2007) documented a larger decrease in annuitized net wealth (the lifetime annual annuity payment based on a respondent's total wealth) over the first 10 years for those with a high number of health events or a spouse in poor health. However, no studies have examined the effects of shocks on the overall wealth trajectory during the retirement years.

Data and Measures

The data used in the study were drawn from the initial cohort of the Health and Retirement Study (HRS), which consists of individuals born between 1931 and 1941 and their spouses. Respondents are included in the sample once they are observed as 'retired' (defined as receiving social security benefits or social security disability

insurance [SSDI] benefits at age 62 or older). Annuitized net wealth (ANW) is defined as the amount of income, which if received as an annuity over a respondent's expected lifetime, has a present value equal to their current wealth. There are large differences in wealth and ANW by race, retirement age group, and education level.

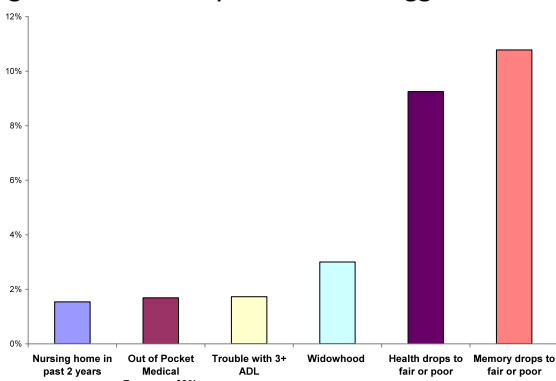
Fifteen trigger events in four categories are analyzed. Family structure changes include marriage, divorce, and widowhood. Cognitive declines include dropping below a score of eight in the Telephone Interview for Cognitive Status (TICS), dropping below four on a 10-item noun recall test, self-report of memory declining to Poor, and self-report of memory declining to Fair or Poor. Health declines include self-report of health declining to Poor, self-report of health declining to Fair or Poor, trouble with three or more gross motor skills (GMS), and trouble with three or more activities of daily living (ADL), experiencing a nursing home stay, and currently being in a nursing home. Insurance and medical expense events include loss of health insurance and having out-of-pocket medical expenses greater than \$20,000.

Rates of Trigger Events

Widowhood was the only family structure change that occurred at a high rate.

Many of the cognitive and health events happened with a relatively high frequency, although transitions to nursing home care were fairly uncommon. Women with higher education levels were more likely to marry. Respondents with more education were less likely to experience widowhood. Cognitive and health declines were more likely for singles, non-white respondents, and those with less education. Cognitive decline was also more likely for men than women. White respondents face a greater risk of nursing home utilization and large out of pocket medical expenses.

Figure 1: Probability of Selected Trigger Events



Source: Author's calculations of the Health and Retirement Survey

Impact of Trigger Events on ANW

The effects of trigger events on ANW were estimated via fixed effects models. Family status changes had mixed effects. For men, marriage was associated with a large drop in ANW, but divorce and widowhood were associated with an increase in ANW. For women, divorce had a large negative effect, but neither marriage nor widowhood had a significant influence. In contrast, the influence of cognitive declines was almost universally negative (though not all effects were statistically significant).

A majority of the health decline indicators had statistically significant effects, nearly all in the anticipated directions. Interestingly, for respondents in

couple households, there is a large gender difference in the impact of the health decline indicators on ANW; the impact, though usually negative for both groups, is nearly twice as large for women as for men. All health decline measures had a statistically significant and negative effect on ANW among single women, but only trouble with three or more ADLs was statistically significant among single men (however, this may be the result of small cell size). The effects of losing insurance and incurring large medical expenses were modest and not statistically significant.

Impact of Trigger Events on Retirement Resource Adequacy

Next, we analyzed the ways in which trigger events influenced the likelihood of having inadequate retirement resources (defined as an ANW below 1.5 times the federal poverty threshold). The analysis was restricted to cognitive and health declines, which have a large negative impact on ANW. The most striking result is that trigger events have a large impact on the likelihood of falling below the adequacy standard, but only for individuals who would, in the absence of the event, have ANW levels very near the standard. Therefore, the overall vulnerability in a population depends on the extent to which the population's ANWs cluster around the adequacy standard.

Vulnerable Populations

Certain groups appear to be particularly vulnerable to the negative consequences of specific trigger events. These groups are especially vulnerable because (1) they have characteristics associated with an increased likelihood of experiencing certain trigger events, (2) the trigger event has a modest to large effect on the group's ANW, and (3) a sizable proportion of the group has inadequate or near-inadequate levels of ANW. Among men, those who are non-

white, have a low level of education, or receive SSDI are vulnerable to cognitive declines; single men with these characteristics are also vulnerable to health declines. Among women, the same characteristics are associated with an increased vulnerability to health declines.

Conclusions

Results indicate that widowhood, cognitive decline, and health decline occur frequently relative to marriage and divorce. The risk of exposure to trigger events varies greatly across sub-groups, with non-white respondents, individuals with less education, and those receiving SSDI more likely to

experience cognitive and health declines. In contrast, nursing home utilization and incurring extensive medical expenses occurred more frequently among white respondents. Event risk rates are similar across gender, with the exception of cognitive decline being more prevalent among men. The effects of cognitive and health declines on ANW and inadequate retirement resources ranged from small (2 percent loss) to large (20 percent loss), depending on the particular event and subgroup. In general, cognitive decline indicators had smaller effects than health decline indicators.

References

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