

RESEARCH ABSTRACT

Dissertation Title: *Essays on Retirement*

The U.S. population will age rapidly over the next two decades. This graying of the population will adversely affect the fiscal condition of Social Security and Medicare, as the number of workers paying into these programs will decrease relative to the number of beneficiaries. Increasing labor supply at older ages is one way to improve the viability of these programs, so it is important to understand the key influences on the timing of retirement. This thesis is composed of two self-contained essays that examine the retirement behavior of older men in the United States.

In the first essay, I examine the effect of wealth on the labor force participation (LFP) of older men. I use an Instrumental Variables (IV) estimation approach that corrects for measurement error in wealth and unobservable taste variation across individuals. Previous studies that do not control for these factors have found that wealth has very little effect on retirement. My IV results reveal a larger wealth effect than in most previous studies; a \$20k increase in wealth reduces the probability of LFP by about 1 percentage point. The instruments are local housing price growth and unanticipated inheritances. I cannot reject the hypothesis that the effects of housing and non-housing wealth on LFP are equal, although the power of my test is low. Thus, my analysis suggests that older men are equally willing to “spend” an increase in housing and non-housing wealth on earlier retirement.

In the second essay, my co-author (David Blau) and I examine trends in the Labor Force Participation Rate (LFPR) of older men in the U.S. After nearly a full century of decline, the LFPR of older men in the United States leveled off in the 1980s, and began to increase in the late 1990s. We use a time series of cross sections from 1962 to 2005 to model the LFPR of men aged 55-69, with the aim of explaining these trends. We investigate the effects of changes in Social Security rules, lifetime earnings, pension coverage, wages, health, health insurance, and the educational composition of the labor force. Our results indicate that the decline in the LFPR from the 1960s through the 1980s cannot be explained by any of these factors. The recent increase in the LFPR of older men can be explained by changes in the composition of the older male population away from high school dropouts and toward college attendees and graduates. Changes in Social Security may have contributed to the recent increase as well, but the results for Social Security are sensitive to specification.