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Does poor health raise preferences for retirement?

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ABSTRACT

The objective of this study is to examine the associations of health status with retirement attitudes in terms of retirement leisure preference and worry for retirement. Data are from the 2003 Survey of Health and Living Status of the Middle Aged and Elderly in Taiwan. Our results show that older workers with poor health actually do not prefer retirement leisure that much and are more worried about retirement life. The findings suggest that older workers with poor health derive lower relative utility from leisure and higher relative utility from work/consumption. Given that poor health is associated with a relatively lower preference for leisure than for work/consumption, the early retirement behavior of older workers with poor health might be due to factors other than preferences, namely the two other channels: poor health depressing wages and poor health as an indicator of shorter life expectancy.

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1. Introduction

Retirement is a composite lifetime decision for all workers, involving a variety of considerations, such as financial conditions, work capacity, family situation, etc. Numerous studies have long focused on the role of economic variables in retirement behavior and concluded that household wealth, pension wealth, and Social Security wealth affect the age at which one retires (Fields & Mitchell, 1984). Health status, associated with work capacity, is another important factor for the retirement decision (Mutchler, Burr, Massagli, & Pienta, 1999). A large body of evidence shows that poor heath negatively influences labor force participation and leads to earlier expected and actual retirement (Anderson & Burkhauser, 1985; Bazzoli, 1985; Bound, 1991; Datta Gupta & Larsen, 2010; Disney, Emmerson, & Wakefield, 2006; Doshi, Cen, & Polsky, 2008; Dwyer & Mitchell, 1999; McGarry, 2004; Olesen, Butterworth, & Rodgers, 2012).

While the effect of health on actual and anticipated choices of retirement timing has received a considerable amount of attention, little is known about whether and how health could affect an older worker's retirement attitudes prior to actual retirement (Mutran, Reitzes, & Fernandez, 1997). Understanding how older workers' preferences for retirement are formed is very important because their pre-retirement attitudes could lead to actual choices of retirement (De Preter, Van Looy, Mortelmans, & Denaeghel, 2013). As pointed out by Sammartino (1987), in the traditional economic model, one of the channels through which health could affect retirement timing is preference. Poor

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health could raise or reduce relative preferences for retirement leisure, leading to earlier or delayed retirement.

We take advantage of special sets of questionnaires contained in a longitudinal survey of representative elderly people in Taiwan – the Survey of Health and Living Status of the Middle Aged and Elderly (SHLS) – to explore whether one's health condition impacts older Taiwanese workers' attitudes toward retirement life. The dataset contains questionnaires regarding positive and negative attitudes toward retirement life. More specifically, it provides rich information on older workers' assessments of the upsides (availability of leisure time) and downsides (financial inadequacy and deteriorations in physical and social capacities) of retirement and therefore allows us to construct the indices of retirement attitudes and set up an empirical framework to analyze how health status relates to retirement leisure preference and worry among older workers in Taiwan.

2. Background in Taiwan

Taiwan is one of the aging societies in the world with 10.7% of its population aged 65 and over in 2010, but it is lower than most developed countries such as 13.1% in the U.S., 16.3% in the UK, and 22.8% in Japan, but much higher than some developing countries, like 6.7% in Brazil and 5.3% in India (United States Census Bureau, 2010). The percentage of Taiwanese elderly has been going up over these past two decades, from 6.53% in 1991 to 8.81% in 2001 and to 10.89% in 2011. Taiwanese life expectancy has also increased over time from 74.26 years in 1991, to 76.75 in 2001, and to 79.15 in 2011 (Council for Economic Planning and Development, 2012). However, the labor force participation rate of workers aged 65 and over decreased from 9.93% in 1991 to 7.39% in 2001, but slightly rose to 7.93% in 2011 (Directorate-General of Budget, Accounting and Statistics, 2012). The average retirement age of a tenured job exhibited the same pattern, decreasing from 57.2 years old in 1994 to 56.1 in 2001 and reversing to 57.3 in 2011 (Directorate-General of Budget, Accounting and Statistics, 1994, 2001 & 2011).

National Health Insurance (NHI) was implemented in Taiwan in 1995 with comprehensive coverage. Medical services include outpatient care, inpatient care, and emergent care with low copayment. Given generous benefit packages, people in Taiwan face a low financial barrier when seeking medical care. It seems that there is no significant variation in medical care utilization across socioeconomic status. People in Taiwan are compulsorily covered by the universal health insurance system, irrespective of their work status. There is no need for workers to remain at work to keep their insurance when they suffer from poor health. The set-up of Taiwan's NHI could help identify the pure associations between health and retirement without institutional interferences. In spite of a rapid growing body of studies examining the relationship between NHI implementation and health of the elderly (e.g., Tian, Liu, Chen, Liu, & Tien, 2012; Tian, Tien, Chen, & Liu, 2012), little attention has been paid to the linkage between health and retirement of the elderly under the NHI system (Chang & Yen, 2011; Mete & Schultz, 2002).

3. Literature review

3.1. Theoretical basis

From the theoretical viewpoint, the effect of health on retirement is ambiguous, as predicted by the traditional economic model of labor-leisure choices under a life-cycle framework, in which an individual chooses lifetime work and consumption to maximize lifetime utility. Sammartino (1987) points out that poor health could affect retirement timing through three pathways: preference, return from work, and lifespan. Poor health changes the constraint facing an individual by depressing his or her work capacity and return from work and shortening his or her life expectancy. Lower return from work could advance or postpone retirement depending on whether the substitution or income effect dominates, while shorter life expectancy induces an individual to retire at an earlier age.

As for the preference pathway, poor health could alter an individual's preferences for leisure relative to consumption. Poor health could raise and depress an individual's relative preference for leisure at the same time. On one hand, if poor health makes a job more difficult, poor health raises preference for leisure and an individual would be willing to give up some consumption for more leisure in the remaining years of life, leading to earlier retirement. On the other hand, if poor health increases an individual's needs for medical services or makes leisure relatively less enjoyable, poor health raises the relative utility of consumption and an individual would pursue more years of work, resulting in later retirement.

3.2. Empirical evidence for the overall effect of poor health

In spite of the theoretically ambiguous direction of the effect of health on retirement, empirical studies have reached a consensus that poor health is positively associated with earlier retirement of older workers. Poor heath has been found to negatively influence the labor force participation, lead to earlier retirement (e.g., Anderson & Burkhauser, 1985; Bazzoli, 1985; Bound, 1991; Gordon & Blinder, 1980), and induce earlier expected retirement (e.g., Datta Gupta & Larsen, 2010; McGarry, 2004). For example, Dwyer and Mitchell (1999) find that older male workers aged 51–61 with poor overall health or functional limits plan to retire 1–2 years earlier. Evidence of the link is provided by studies in European and Australian countries as well (e.g., Datta Gupta & Larsen, 2010; De Preter et al., 2013; Disney et al., 2006; Pit, Shrestha, Schofield, & Passey, 2010). In addition, psychological health problems such as depressive symptoms are found to induce early retirement (Doshi et al., 2008; Olesen et al., 2012).

3.3. Identifying the preference channel: does poor health raise retirement preferences?

As poor health can alter an individual's preference as well as his or her constraint as predicted by the economic theory, an individual's actual or anticipated retirement behavior intensively studied in the economic empirical literature is an outcome of both preference and constraint,

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