Comments on “Pathways to Retirement and the Self-Employed”
Shanthi Ramnath, John B. Shoven, Sita Nataraj Slavov

Bob Willis
University of Michigan
Working Longer Conference
SIEPR, October 6, 2016
Findings

• Paper uses tax data supplemented by HRS to investigate role of self-employment as pathway to retirement
• Finds evidence that self-employment does serve as a “bridge job” for older workers
• But this pathway is “less common than one might expect given the flexibility of self-employment”
• Also, self-employment is still less important if one is interested in FTEs rather than number of workers
Identification

• Do members of the cohort of 1965 and 1995 have the same response to macro conditions?
  – This is assumed so that interactions between cohort and year identify age effects in 1965 cohort decisions about self-employment.
  – Self-employment may have significant investment component and two cohorts have quite different time horizons and differ in response to shocks
  – I would like to more discussion of the economic model underlying this assumption
More General Comments

• Significance of Question

• Methodology
  – Big data from IRS
  – Smaller data from HRS
  – Potential for greater synergy between Tax Data and HRS and potentially also CPS
Significance

• Seek policies to induce people to work longer
  – Public intergenerational transfers through Social Security and Medicare create a wedge between private and social benefit of work on average
  – Policies that lead individuals to self select to work longer are likely to create welfare improvement
  – In addition to financial benefit, continued work, especially among less skilled, may benefit other aspects of life such as cognition
Additional Evidence from HRS increases plausibility of idea that hours flexibility extends working life

• In HRS about 2/3 of workers say they can’t reduce hours. Of these, about 20% would like to
• Job in which worker may reduce hours is associated with 16% increase in subjective probability of working past 65 (McFall, Sonnega, Willis and Hudomiet, MRRC Working Paper, 2015)
• Would be interesting to include this variable in HRS regressions in this paper—are workers who can’t reduce hours the ones who choose self-employment?
What policies would increase hours and other aspects of job flexibility?

• It would be useful to add some consideration of this question to the paper
  – Are there legal, informational or tax barriers to self-employment?

• As a substitute for self-employment, what policies would lead firms to make work more flexible for older workers?
  – Shoven’s “Paid Up at 65” idea for Social Security and Medicare is one possibility
Incorporated vs Unincorporated Self Employed

Chart 3. Self-employment rates, by educational attainment, 2009 annual averages

Source: Hipple (2010)
Paper Shows Value of Combining Big Data and Survey Data to Study Self Employment

• Tax data allow study of small groups
  – Self-employed relatively rare—about 10% of employment in 2009
  – Follow cohorts for extended period of time
  – Accurate data on reported taxable income.

• HRS data offers ability to understand more details about underlying causes and consequences of self-employment
  – Much more HRS data could be used.
Potential of HRS Restricted Data

• HRS Survey Data
  – Geographic Detail (geocode of address vs region)
    • Link to unemployment rate at state or county rather than region, as in this paper
  – Occupation (190 occupations vs 15)
    • Link to O*NET
    • What skills do the self-employed bring from previous employment? Do self-employed change occupation?

• Linkage to Administrative Data
  – Social Security Earning Data from W-2 form
Plans for HRS to increase value of restricted data for researchers

• Currently arduous for researchers to obtain data
  – Need grant, work in enclave or locked room with no internet

• HRS developing “Virtual Enclave” that will allow access to restricted data from anywhere while protecting confidentiality

• With larger user base, HRS will invest in creating easier to use linkages
  – e.g., geocoded unemployment rates, O*NET measures by detailed occupation