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Leonard D. Schaeffer Center for Health Policy & Economics

Disparities in Quantity and Quality of Life Among Americans Nearing Retirement:

The Forgotten Middle

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International Microsimulation Association 2021 World Congress

December 2, 2021

Introduction

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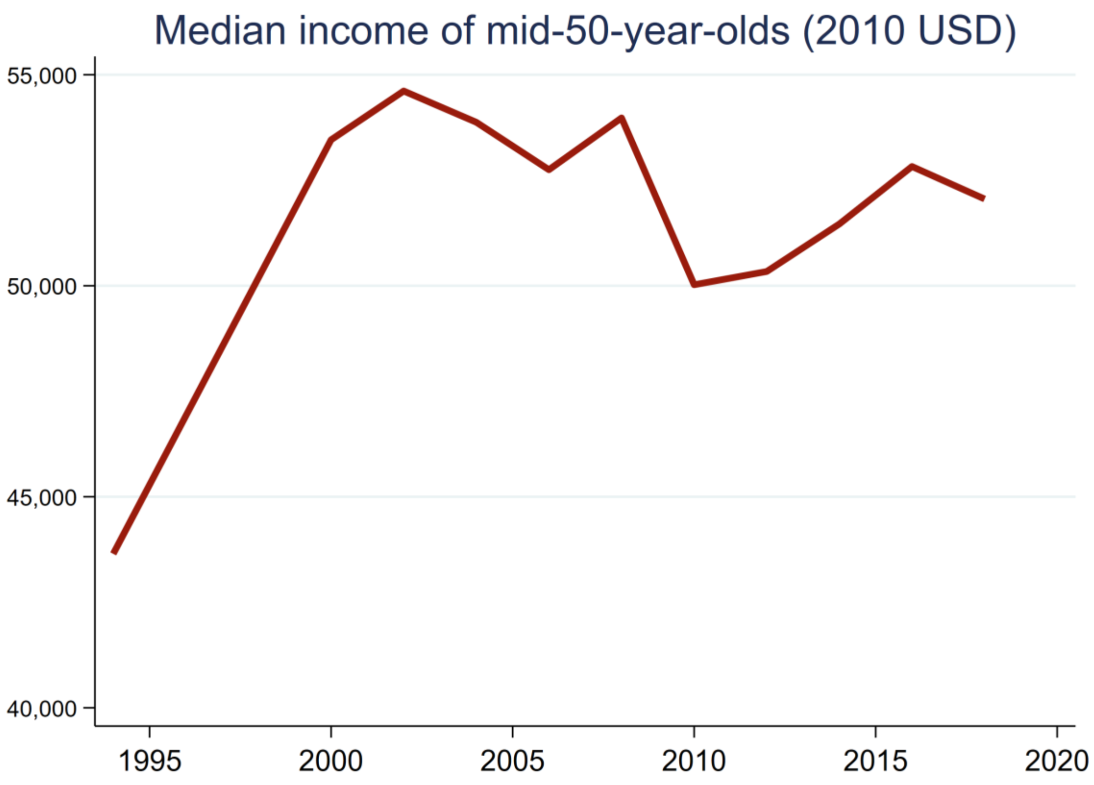
- Renewed attention on the well-being of working-/middle-class Americans
  - Deaths of despair (Case & Deaton 2021, 2020)
  - “Shrinking middle-class” (Pew Research Center 2020, 2016)
  - Growing anti-establishment, populist views (Uscinski et al. 2021)
- Growing sentiment that many of the traditional middle-class are being left behind and forgotten in the modern economy (Rowe et al. 2019)
  - Modest and stagnating incomes in the face of rising costs of living
  - But too much to receive government assistance

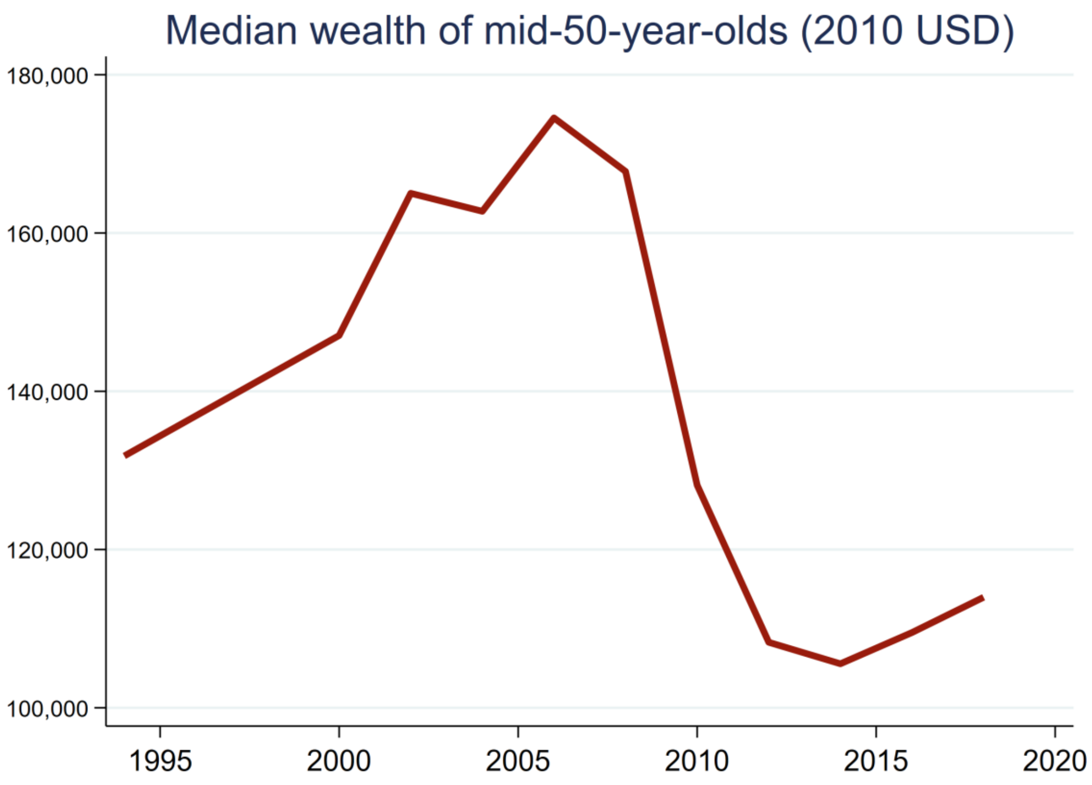
Introduction: Income and Wealth Trends

Median incomes have been stagnant since an early 2000s peak, and median wealth has not recovered from a sharp drop following the Great Recession

Income



Wealth



Notes: 53- to 58-year-olds in the Health and Retirement Study. Household income and wealth adjusted to individual level using household economies of scale factor $\sqrt{\{\#\ household\ adults\}}$

Introduction: Distributional Changes in Income

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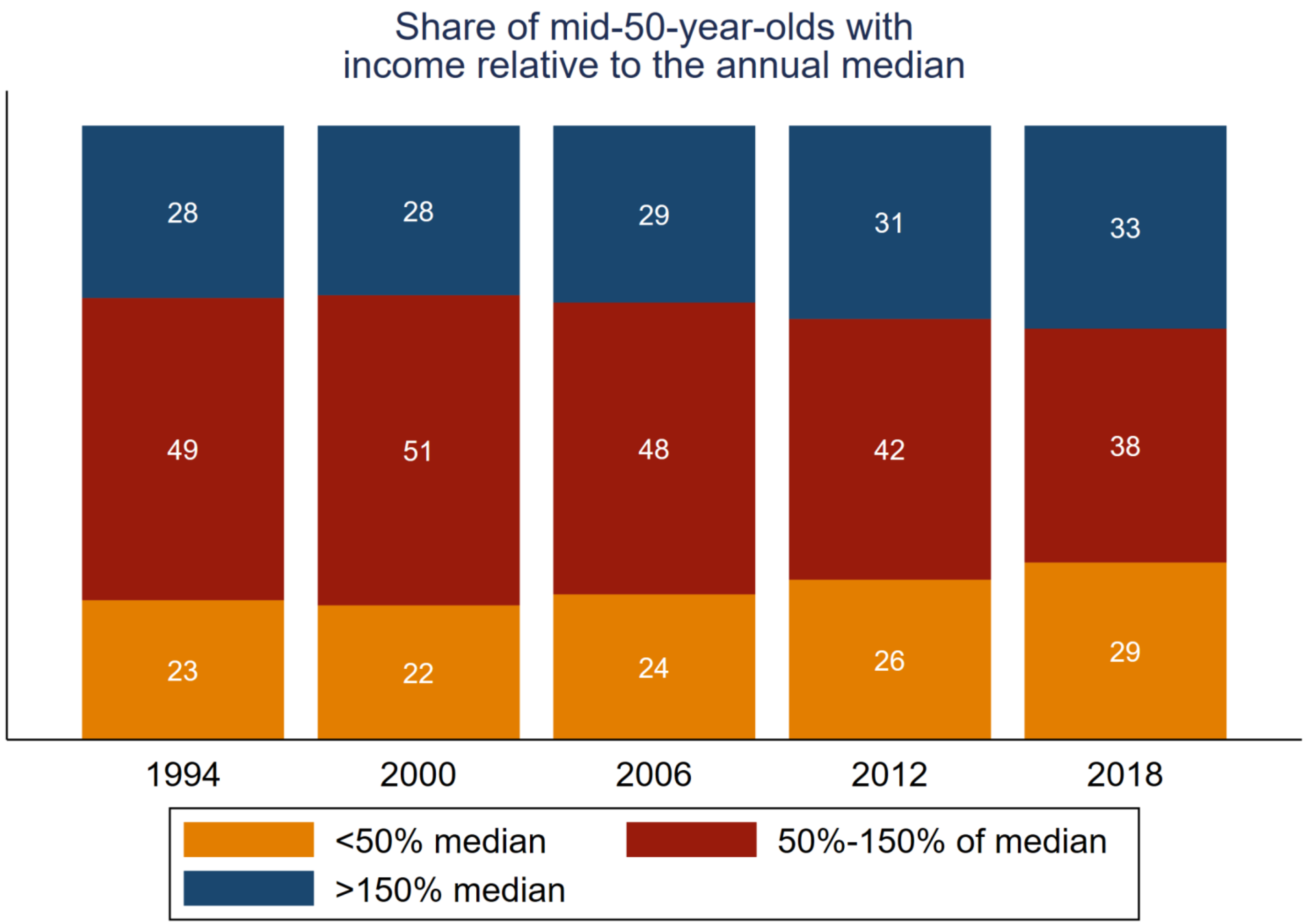
The income distribution has been flattening, resulting in a shrinking of the traditional "middle class" towards a more polarized income distribution



Objectives

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- Describe economic trends for Americans in the middle-class relative to other socioeconomic status groups
  - Home ownership, health insurance, having a stable job with decent pay as pillars of middle-class life
- Examine socioeconomic disparities in health status at mid-life and how they have changed over time
- Project how current health and economic characteristics will translate into future quantity and quality of life
  - Compare socioeconomic disparities in life expectancy over time

Outline

Introduction

Methods: A Brief Overview

Initial Economic Characteristics

Initial Health Characteristics

Projected Remaining Life Course

Overview of Methods

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- Define socioeconomic status groups for **five cohorts** of US adults in their mid-50s in the Health and Retirement Study

Cohort	Birth Years	Observation Year	Age at Observation Year
1994 Cohort	1936 – 1941	1994	53–58
2000 Cohort	1942 – 1947	2000	53–58
2006 Cohort	1948 – 1953	2006	53–58
2012 Cohort	1954 – 1959	2012	53–58
2018 Cohort	1960 – 1965	2018	53–58

- Describe initial characteristics of cohorts in their respective observed study years
- Simulate future outcomes (e.g., mortality, QALYs, medical expenditures, work and income) for each cohort’s remaining life course
- Compare socioeconomic group disparities in projected outcomes within each cohort and between cohorts

Defining Socioeconomic Status: Annual Resources

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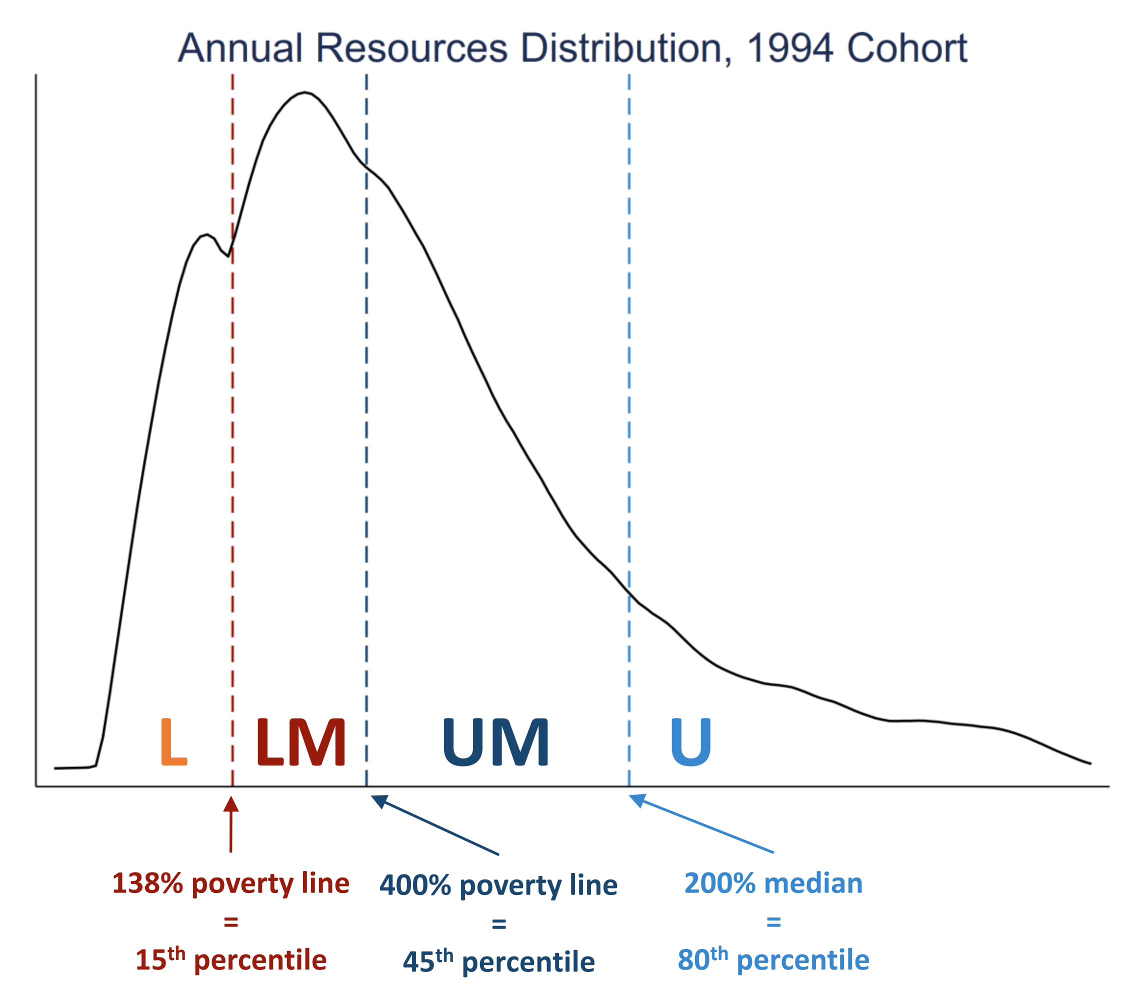
- Cross-sectional income alone is inadequate measure
- **Annual Resources** measure augments income with annuitized wealth
  - Adapted from Poterba, Venti & Wise (2011) and Pearson et al. (2019)

$$annual\ resources_i = income_i + (a_i \cdot wealth_i)$$

- $income_i$ = household <u>pre-tax/-transfer income</u>, adjusted to individual level
  - Scale by household economies of scale factor, $\sqrt{\#\ household\ adults}$
- $wealth_i$ = household <u>net wealth</u>
  - Financial and business capital minus debts
  - Defined contribution pension balance from current job
- a_i = annuity factor
  - function of household member survival probabilities by sex and age according to Social Security actuarial tables, 3% interest rate, and the household economies of scale factor

Defining Socioeconomic Status Groups

Socioeconomic class groups are defined based on percentiles of the annual resources distribution for each cohort



SES Group	Pctile Range	Rationale
Lower	0–15	The 15th percentile aligns with 138% of the federal poverty line for a single adult in the 1994 cohort
Lower-middle	16–45	42nd percentile aligns with 400% of the federal poverty line—which has been the upper limit for eligibility for ACA marketplace premium subsidies—in the 1994 cohort.
Upper-middle	46–80	80th percentile aligns with 200% of the median in the 1994 cohort; 200% of median income has commonly been used as an upper bound for defining middle class (e.g., in Pew survey research).
Upper	81–100	Lump together upper-middle and elite/ultra-rich class (e.g., the 1%) due to limited sample sizes.

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Resources: Lower and Lower-middle groups lost substantial resources after their peak in the 2000 cohort, while the upper groups continued to gain

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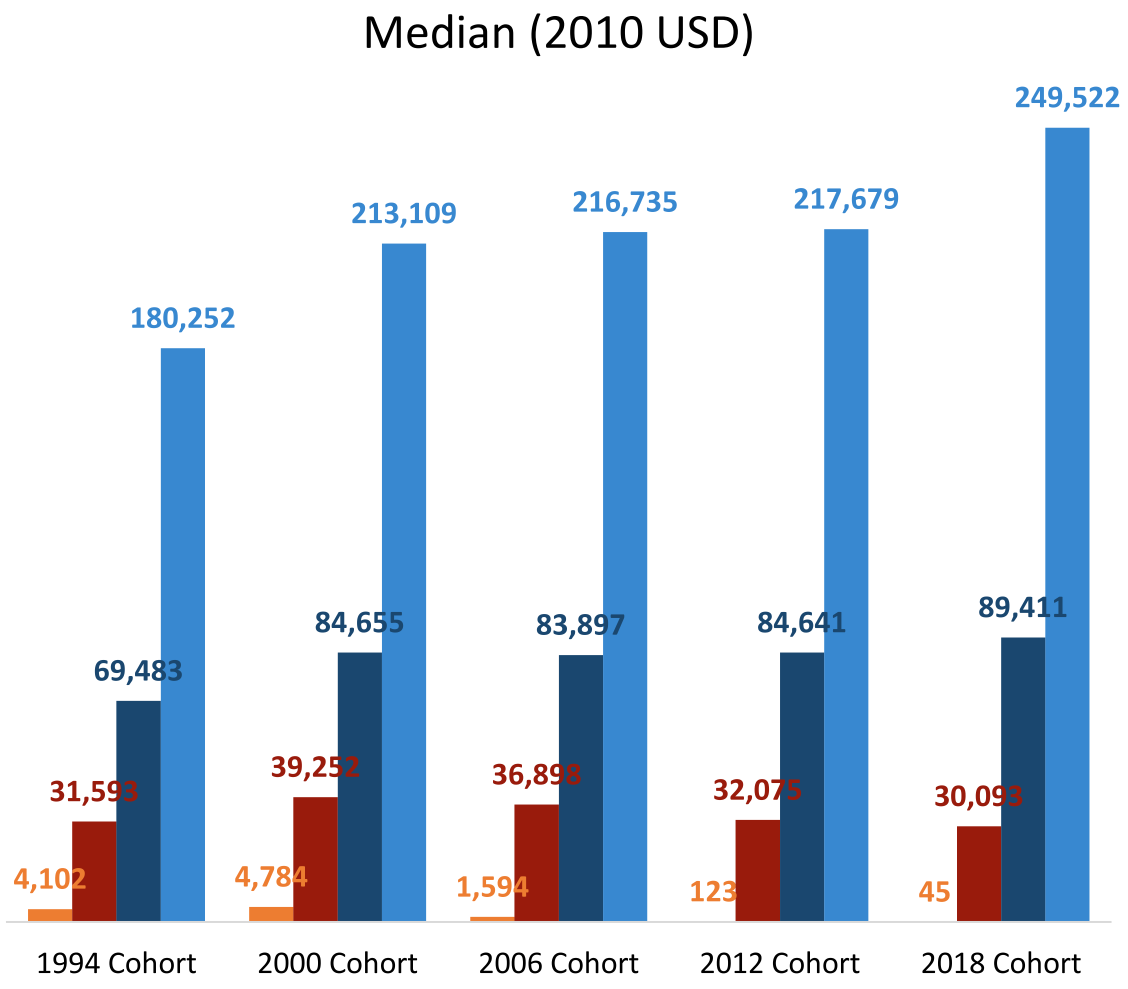
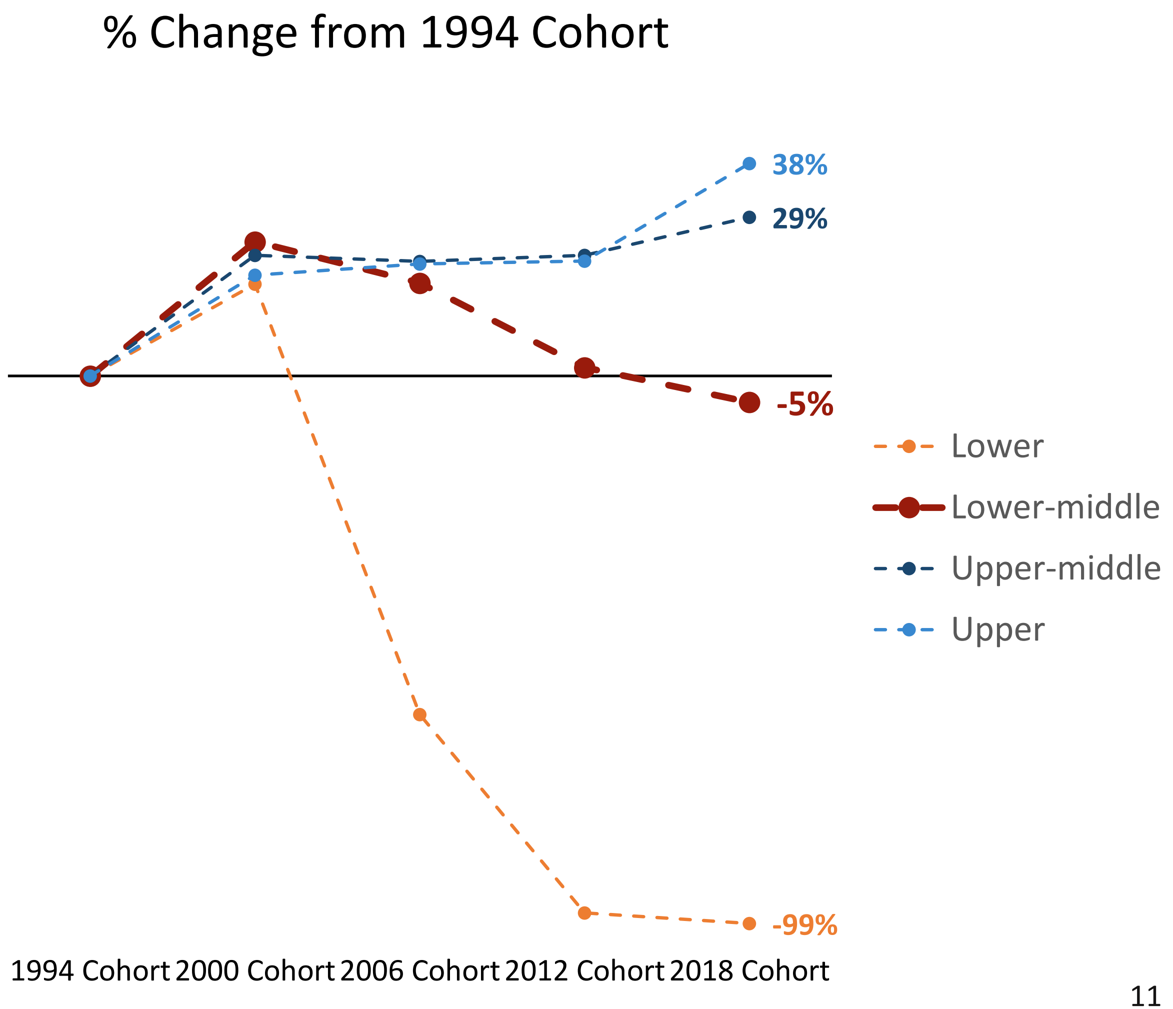
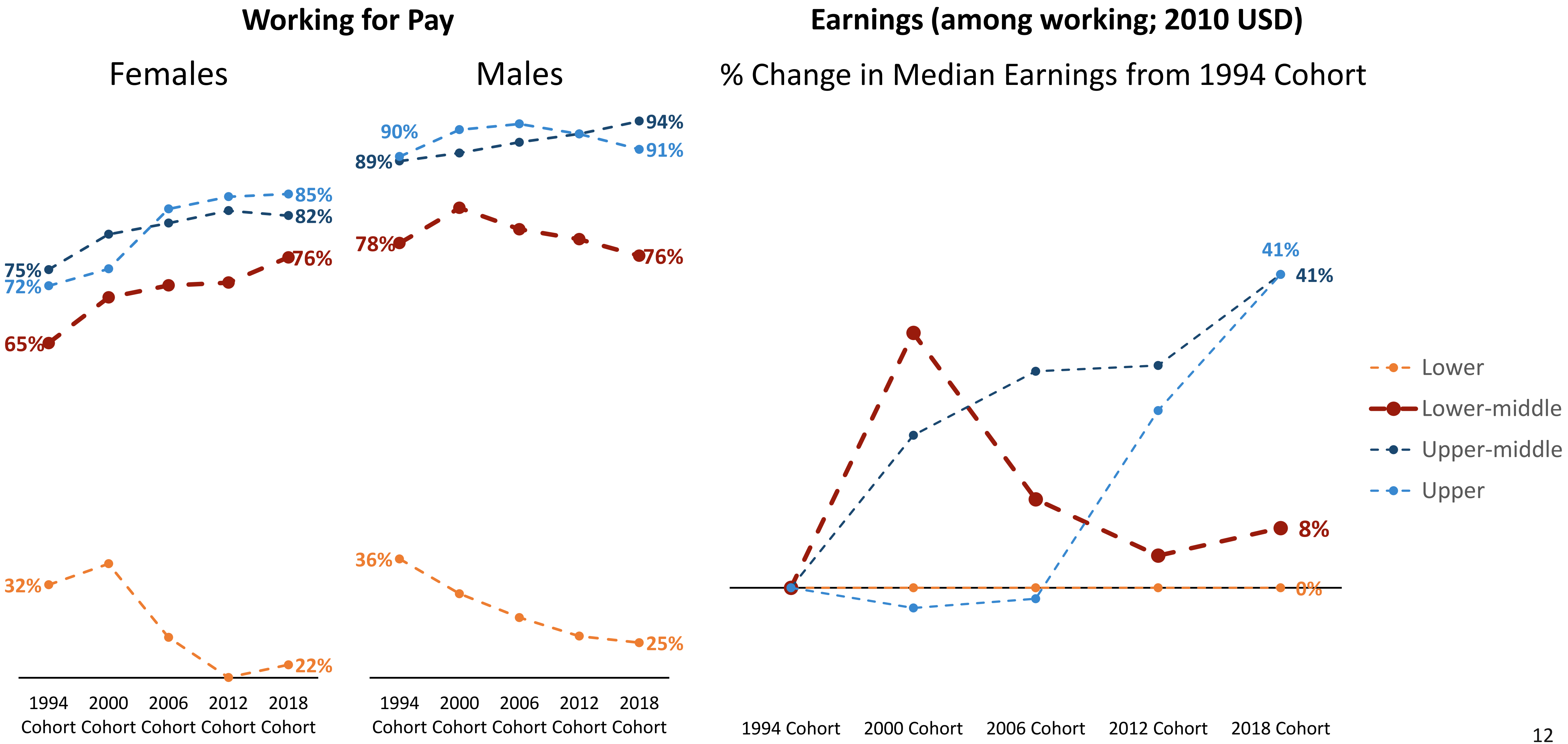
Annual Resources

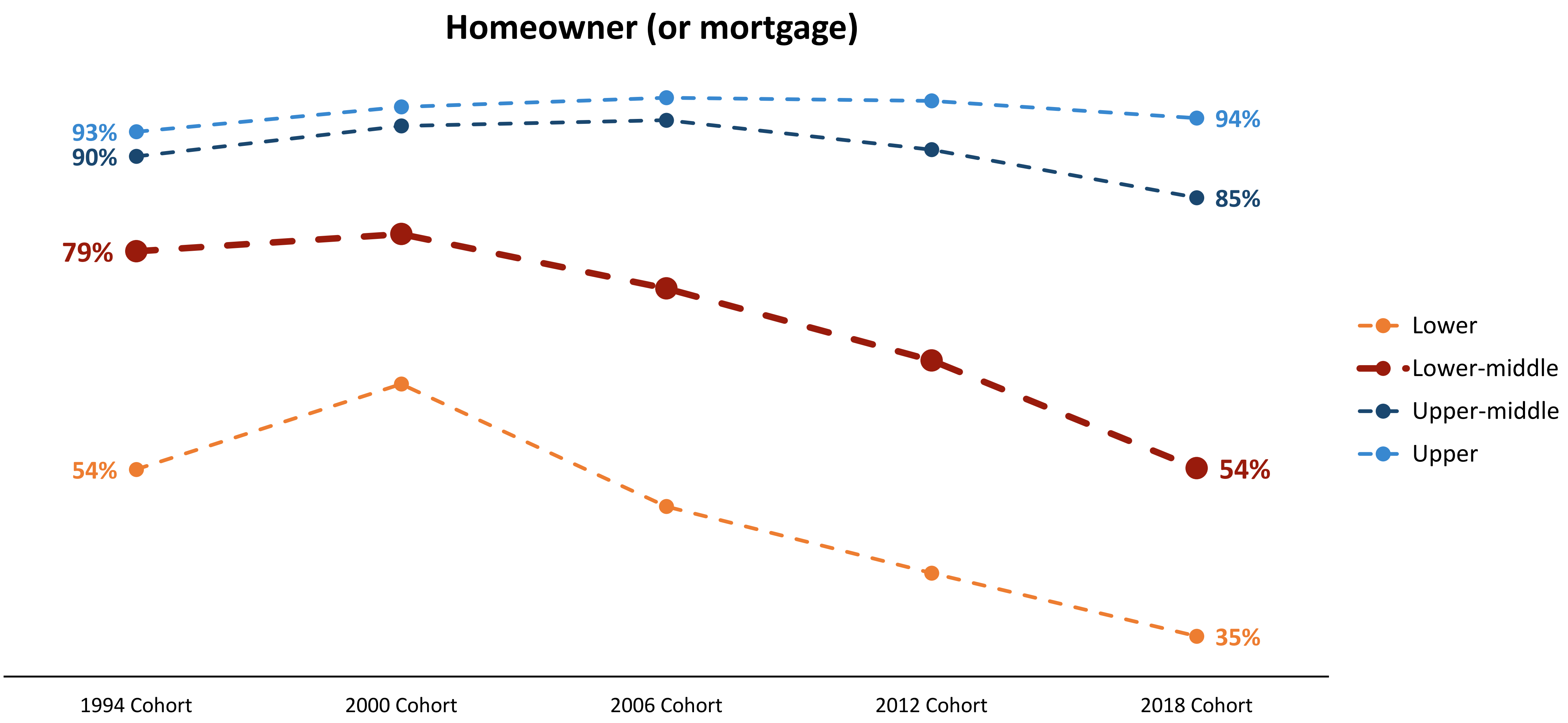




A good job: Females in the Lower-middle are working more, while males are working less



A home: Drastic decline in homeownership—the traditional source of wealth for the middle class—among the Lower-middle, leaving them with homeowner rates initially found among the poorest



Health insurance: The ACA only partially mitigated declines in coverage among the Lower-middle, driven by plummeting employer coverage

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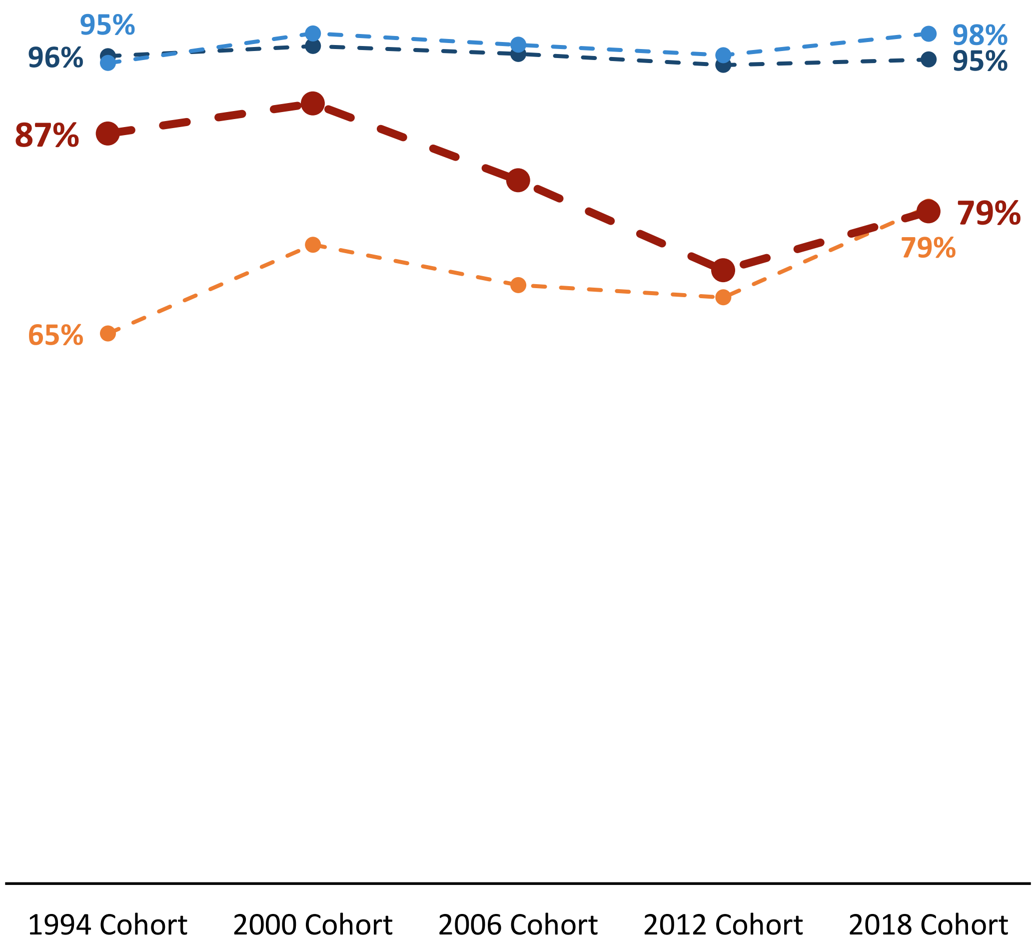
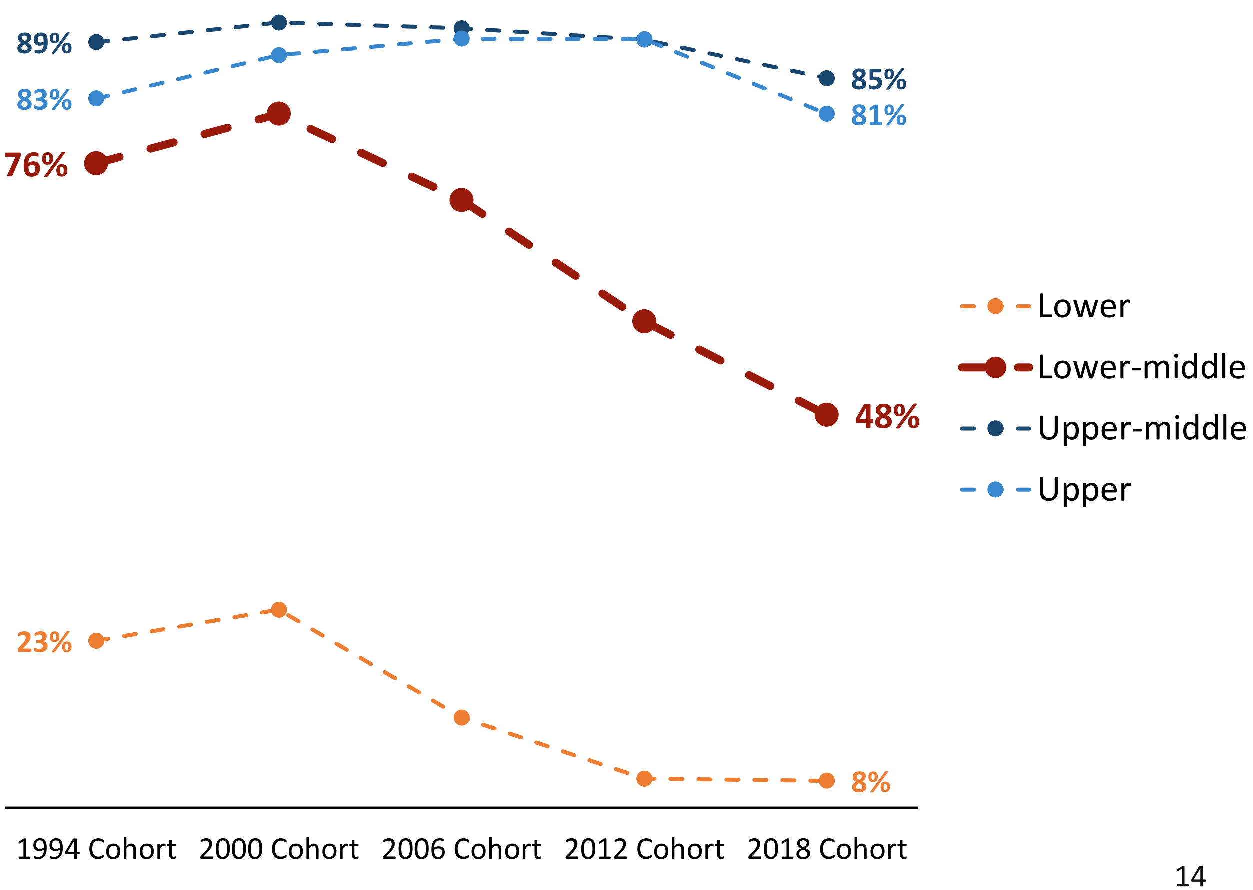
Any Health Insurance



Employer Sponsored Insurance



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Health Behavior: Smoking rates among the lower groups have remained elevated while great strides have been made reducing smoking in the upper groups

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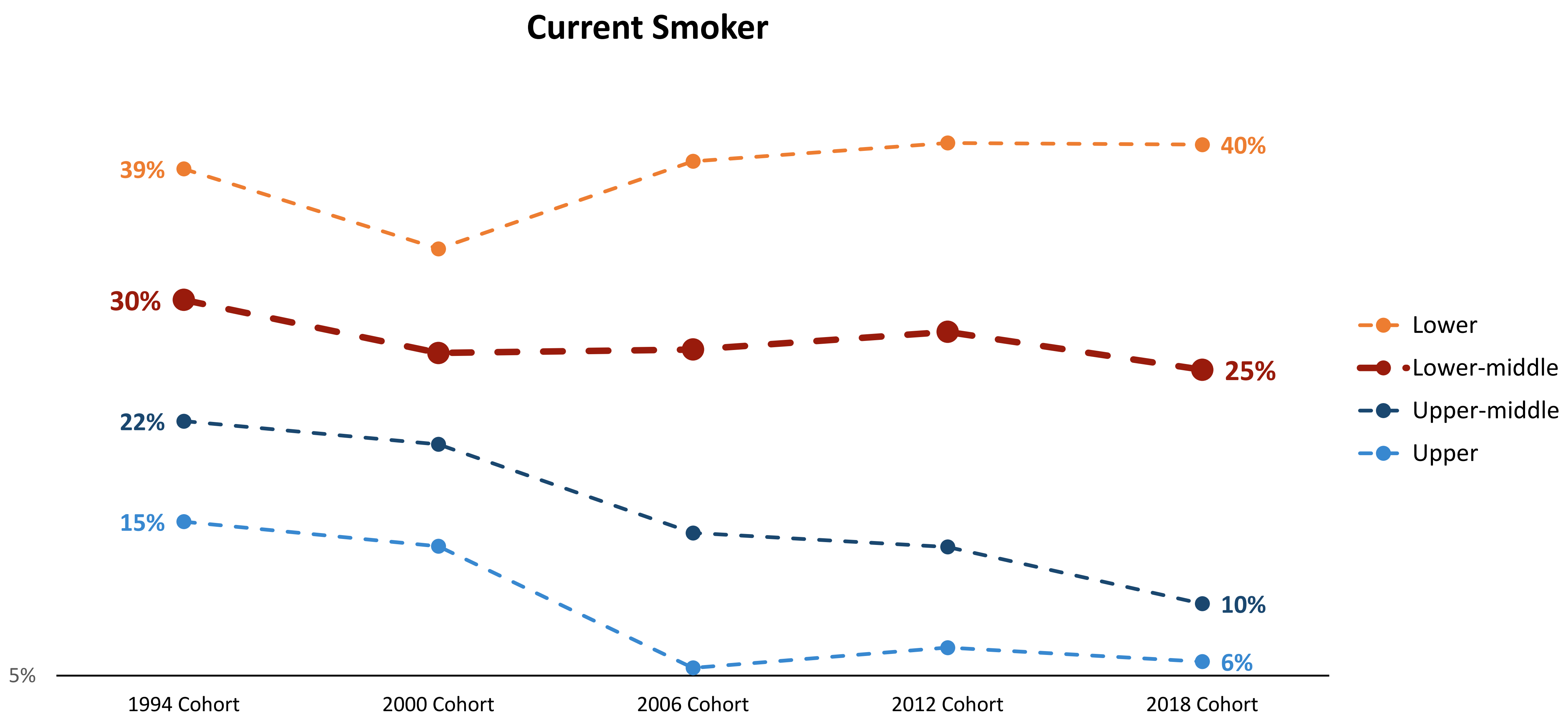

Subjective Health: The lower groups are in worse health as measured subjectively, and pain has risen for all; it increased most for the Lower-middle

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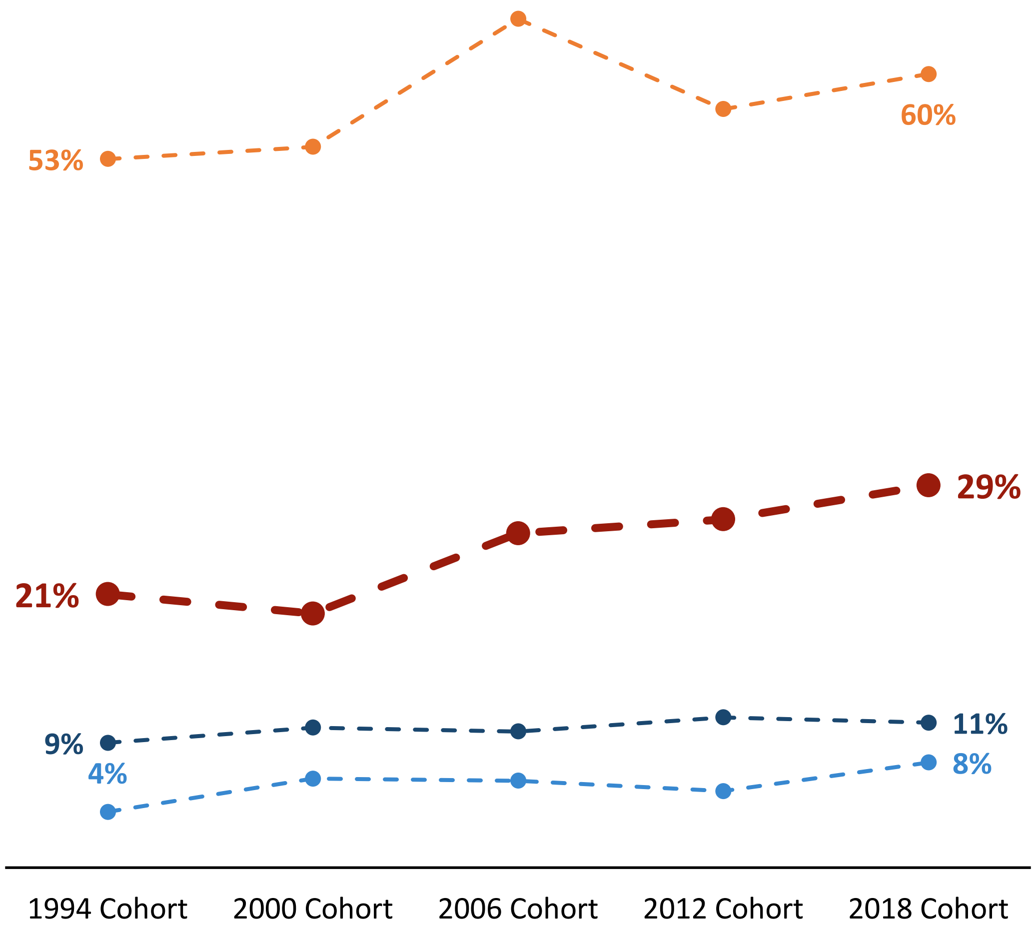
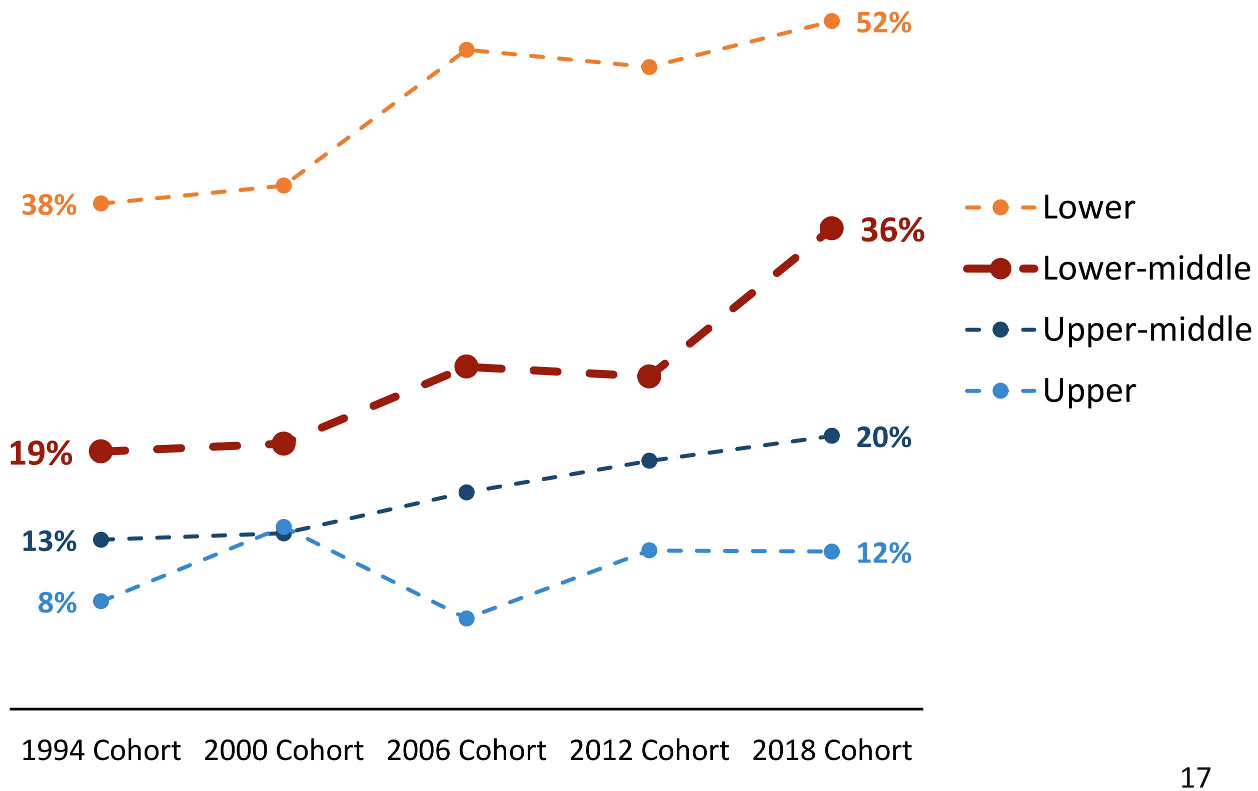
Self-Reported Health Fair/Poor



Moderate to Severe Pain Most of the Time



General Health: Health as measured by diagnosed conditions has gotten worse for all groups, but quality adjusted life decreased most for lower groups

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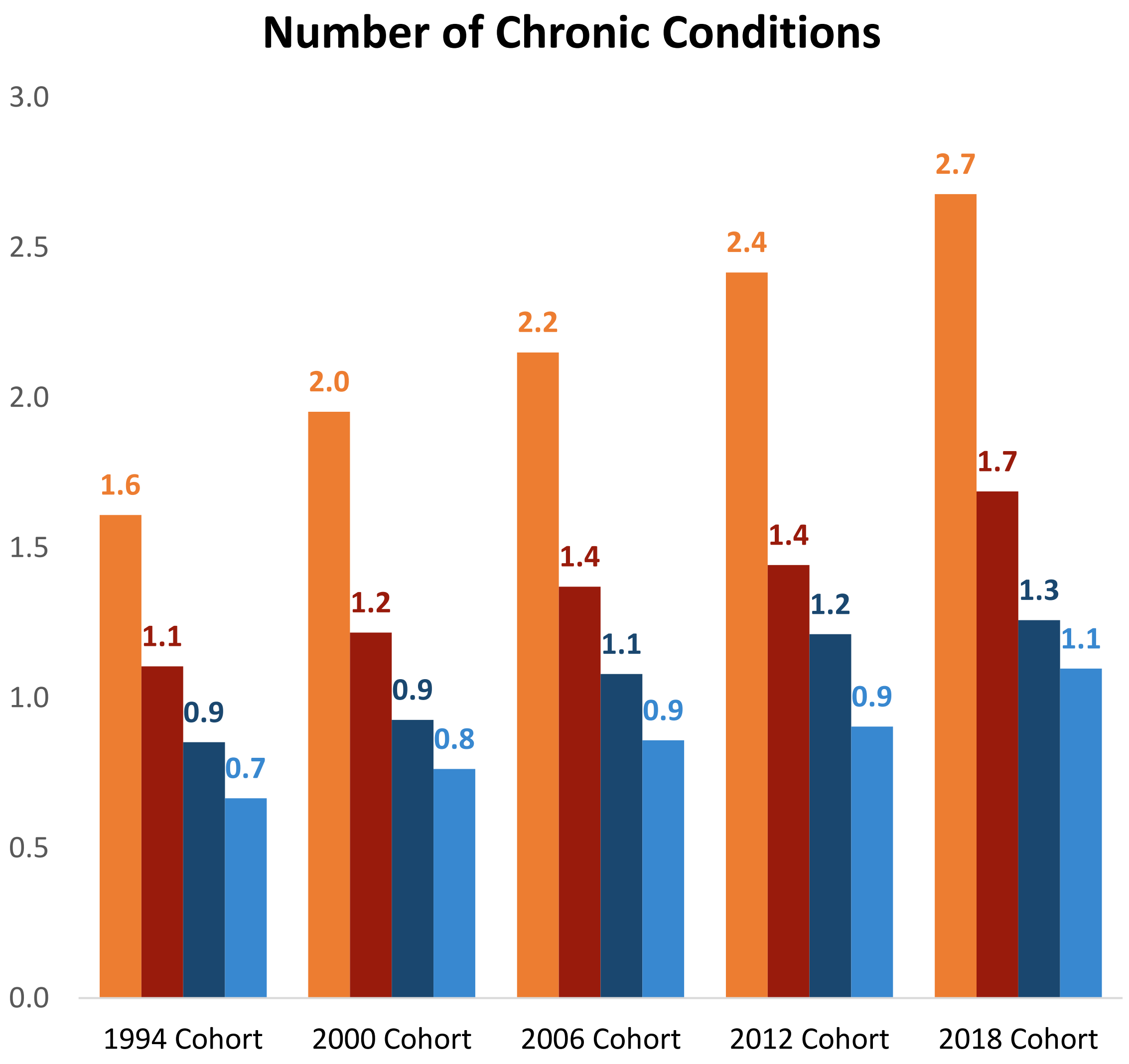

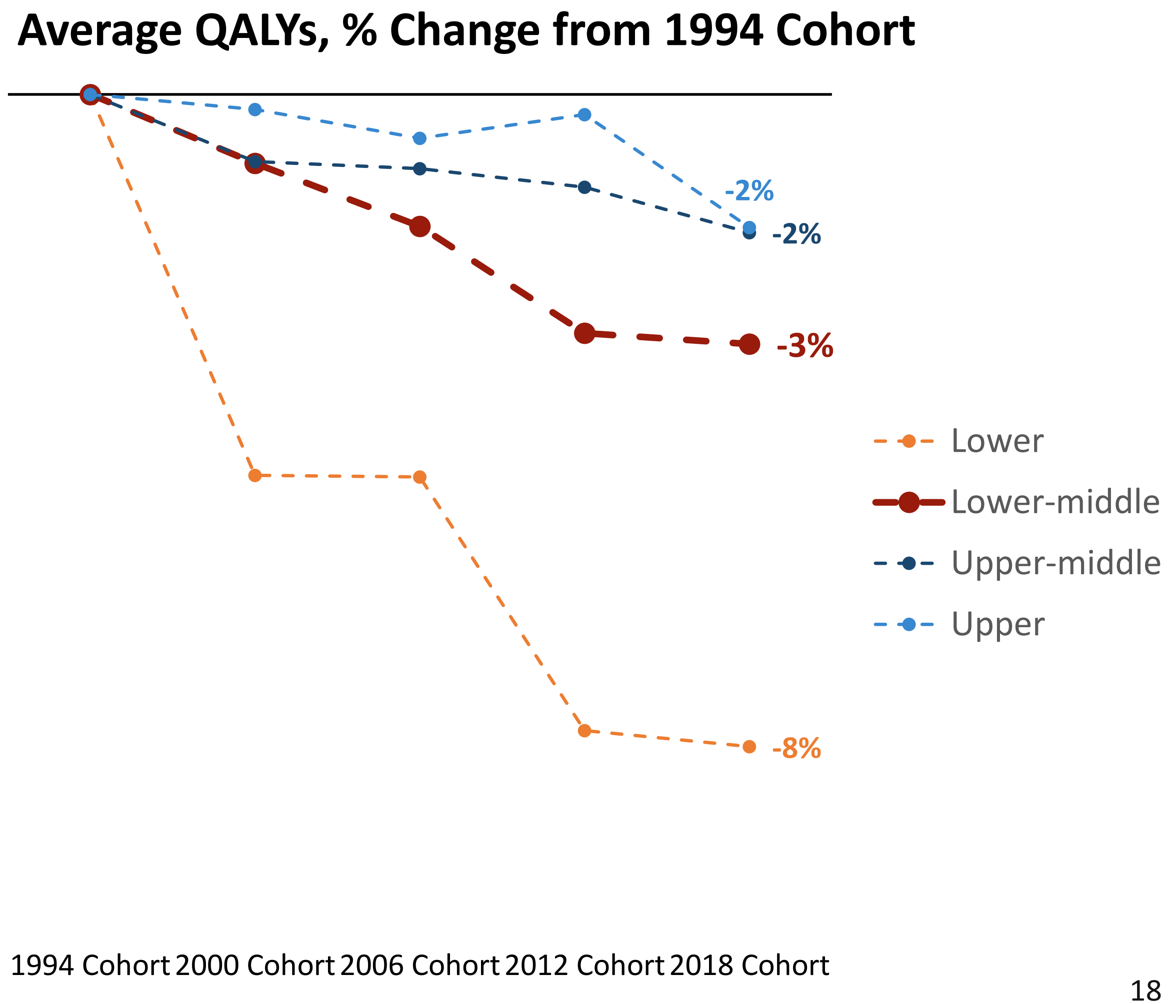

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Future Elderly Model (FEM): a dynamic Markov microsimulation model

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T: Predictors

Demographics

Education

Sex

Relationship status

Sex*Education

Health Status

Chronic conditions

Risk factors

Risk factors at age 50

T: Contemporaneous

T: Subjective Well-being: QALY

T: Medical Cost and Use

- Individual: OOP expenditures, Rx amount and expenditures
- Medicaid expenditures
- Medicare (Part A, B and D) expenditures and enrolled
- Total medical expenditures
- Utilization: doctor visits, hospital encounters and nights

T+1: Transitioned

T+1: Health Status

- Mortality
- Chronic conditions: e.g., diabetes, CHF
- Functional limitations: ADL, IADL, pain level, nursing home residence
- Cognition: cognitive ability
- Risk factors: BMI, smoking status

T+1: Economic Status

- Employment status: working for pay
- Health insurance: private
- Earnings, capital income, wealth
- Private program participation: DB pension
- Public program participation: disability, claiming SS and SSI, other
- Taxes: property tax
- Transfers: help hours, other government

Quality Adjusted Life Expectancy (QALE) at 60: The lower groups face stagnant to declining QALE, while the upper groups have seen continuing gains

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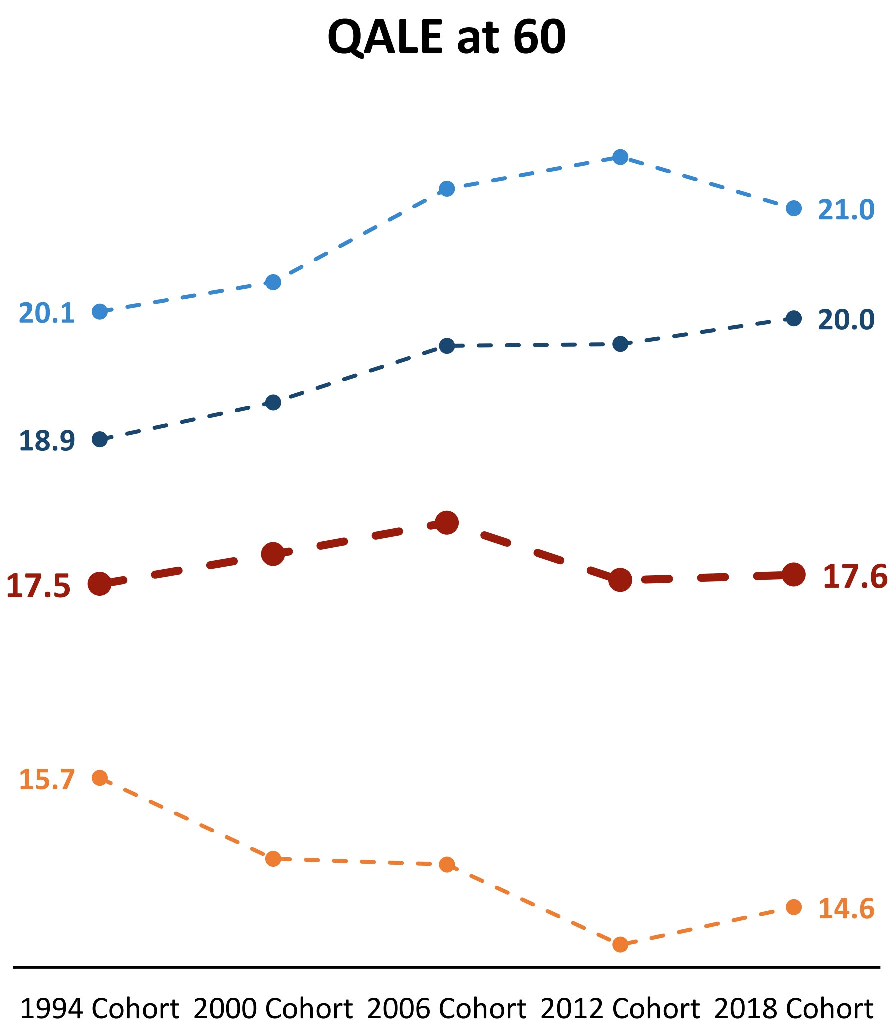
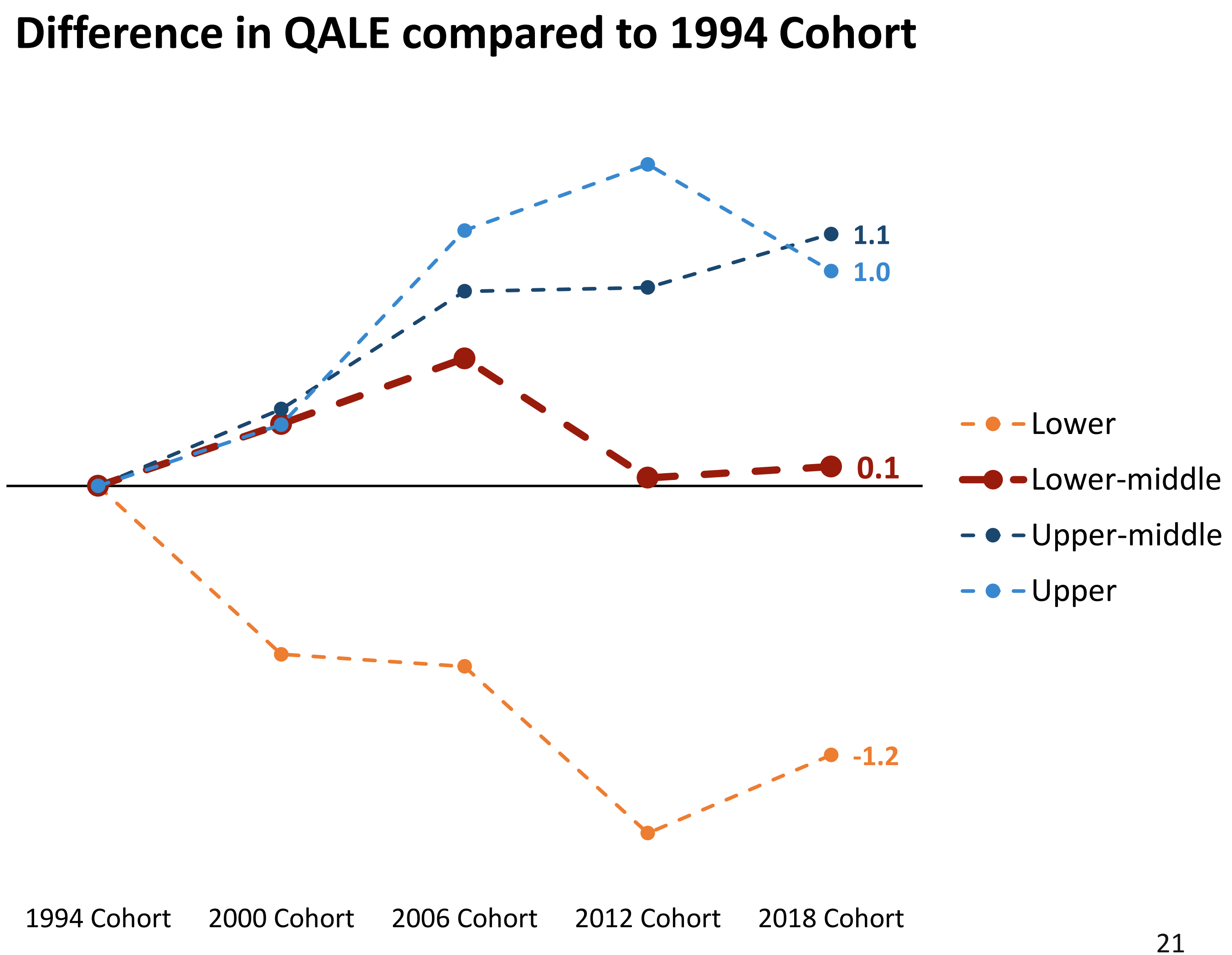
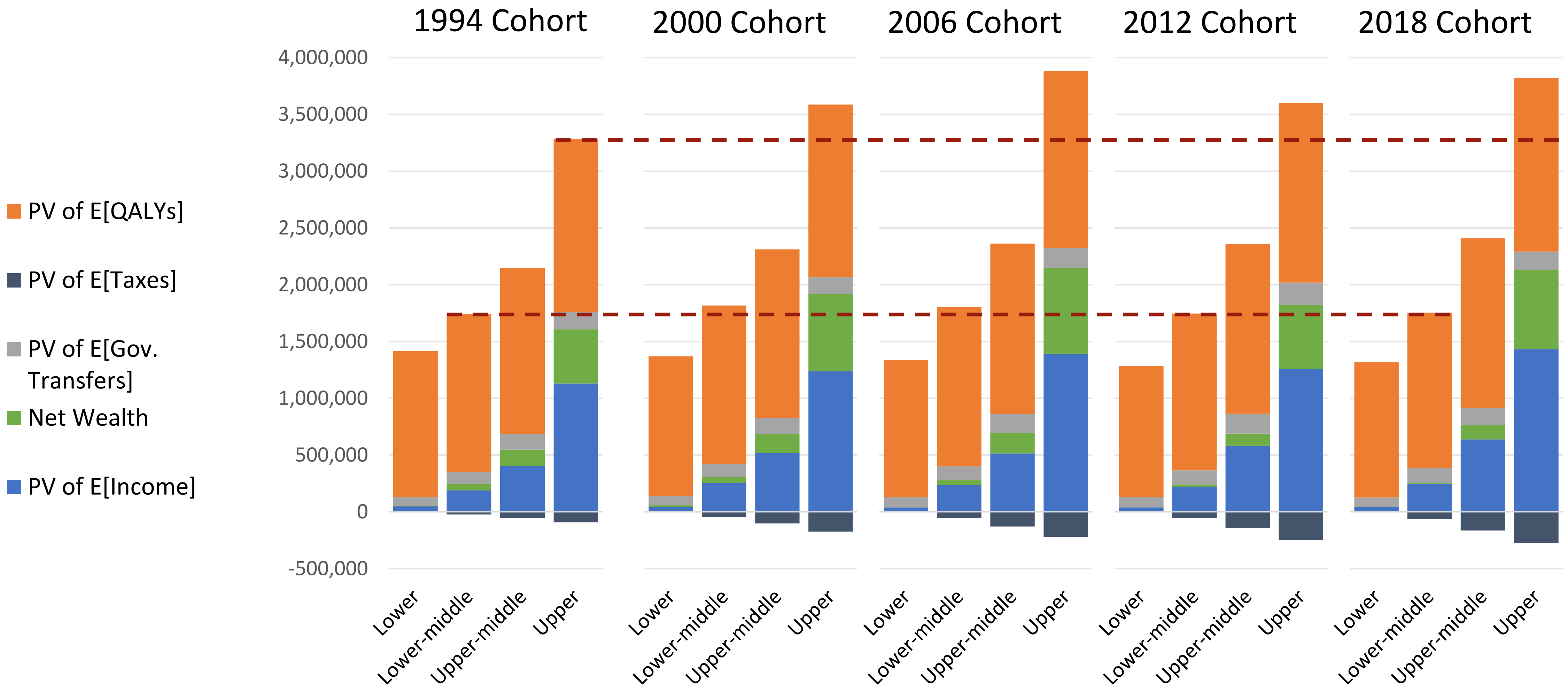


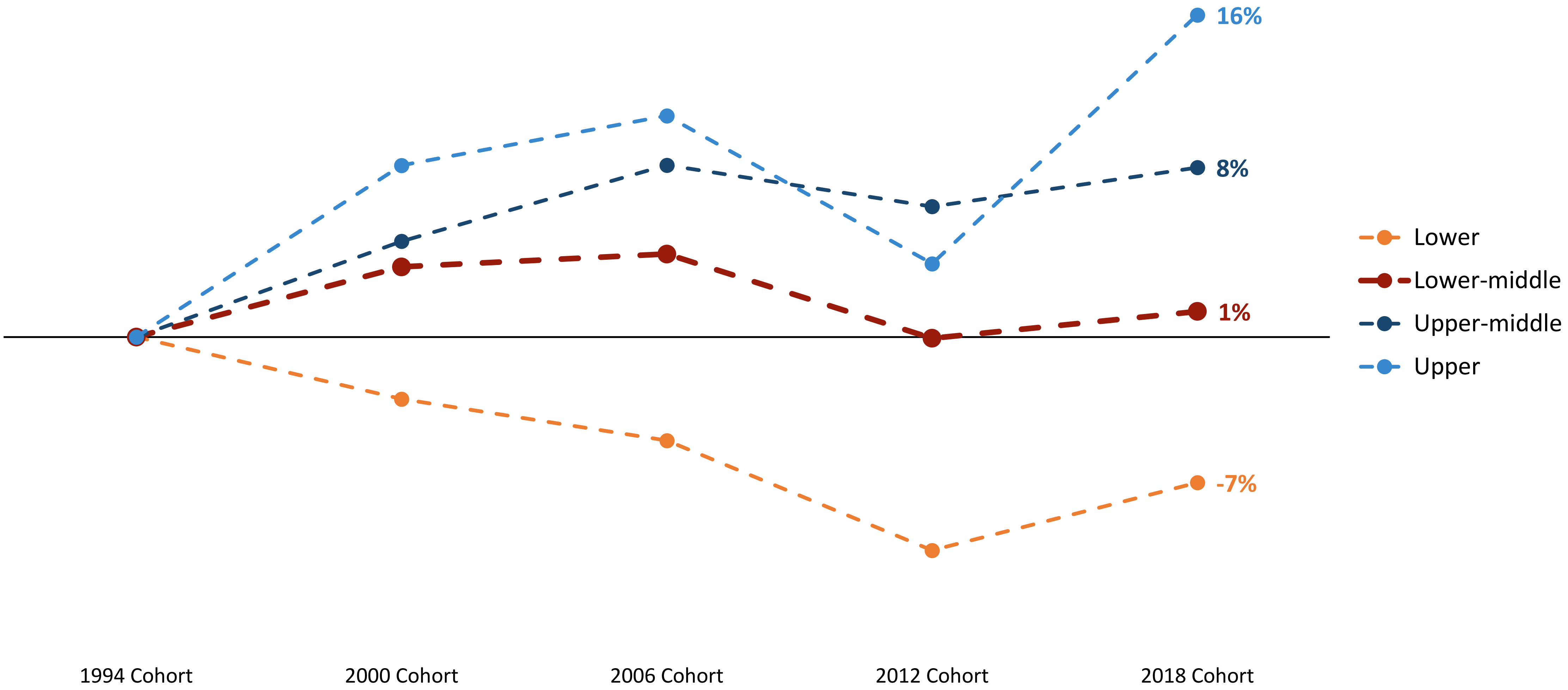


Total value of expected outcomes: Combines the current stock of wealth and the present value of the flow of expected future outcomes



Notes: Income = earnings, capital income; Net Wealth = financial, 401k, business, housing wealth, less debts; Gov. Transfers = Social Security retirement, SSI, Disability, other government programs; Taxes = state, federal taxes; QALY = quality adjusted life year, valued at $100,000

% Change in Total Value of Expected Outcomes Compared to 1994 Cohort



Conclusions and Next Steps

Conclusions

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- The Forgotten Middle, those in the Lower-middle of the annual resources distribution, are separating from the Upper-middle group such that their economic characteristics have become distinct
  - Pillars of middle-class life—employment status and earnings, health insurance coverage, homeownership rates—are now distinctly different between the Forgotten Middle and upper-middle groups
- Trends in health status for mid-50-year-olds have followed a similar pattern. While all groups have generally become less healthy over time, the declines are increasingly concentrated among the Forgotten Middle and Poor
- As a result, for the Forgotten Middle, the quantity and quality of remaining life as they approach retirement is projected to be meaningfully lower than it was for similar middle- and working-class generations before them

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