Retiring from Unemployment: The Role of Personal Finances

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Framework

- Introduction
- Data
- Empirical Strategy and Results
- Conclusion

- Introduction

1. Motivation

- The life satisfaction (LS) of the unemployed increases after retirement, as retirement restores social work norm (Hetschko, Knabe, and Schöb 2019).
- A nonmaterial-based explanation why unemployment reduces LS.
- However, material deprivation can be the root cause (McKee-Ryan and Maitoza 2018).
- Luo (2020) finds that unemployment means insufficient income for living, i.e., income < minimum required income (MIQ).

2. What I Do

- DiD.

  Treatment: unemployment -> retire

  Control: employ -> retire

- Entropy balancing (EB) to reweight treatment & control.
- Variable selection for EB:

  1: Manually selection

  2: Automated selection by machine learning algorithm LASSO

3. Results

- Average: LS increases from unemployment to retirement.
- Heterogeneity: LS increases mainly concentrated on those with income > MIQ.
- The role of personal finance is underestimated.

- Data

1. SOEP and Sample Selection

- German SOEP (1984-2018): one of the most utilized datasets in happiness economics.
- 1,456 transitions from unemployment (treatment)
- 3,478 from employment (control).
- 5 years before and after the transition
- Totally 41,920 observations.

2. Variables

- *Life satisfaction (LS)*: dependent variable - How satisfied are you with your life?
- *Household income* is the monthly equivalent net household income.
- *Minimum required income (MRI)*: What would you personally consider the minimum net household monthly income that your household would need in your current living situation?

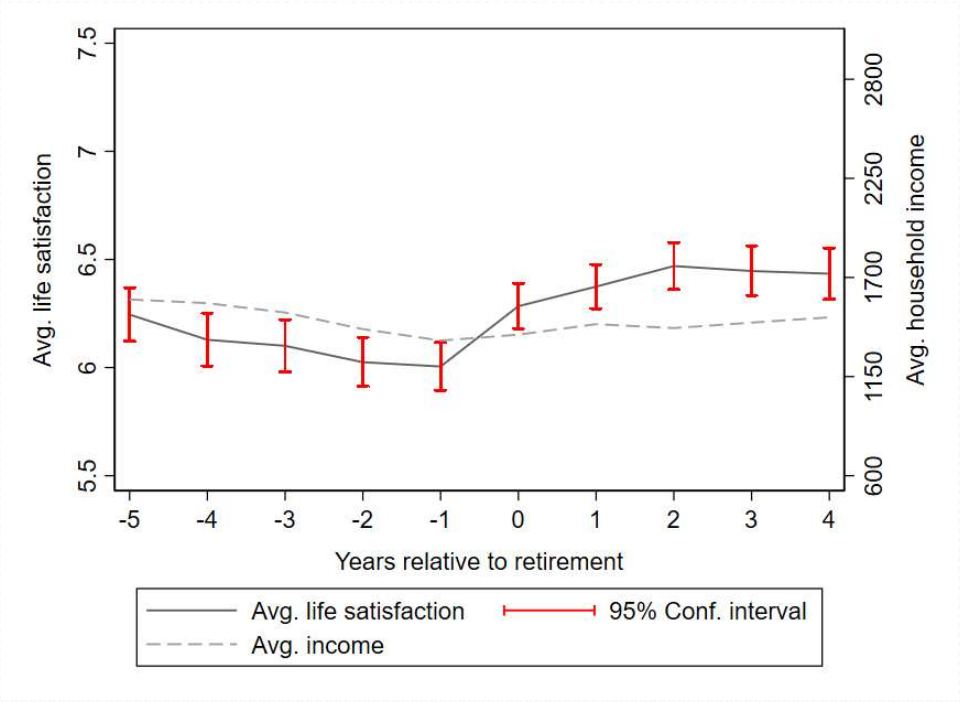
3. Summary Statistics

- Treat: income remains similar, LS increases
- Control: income decreases, LS remains similar

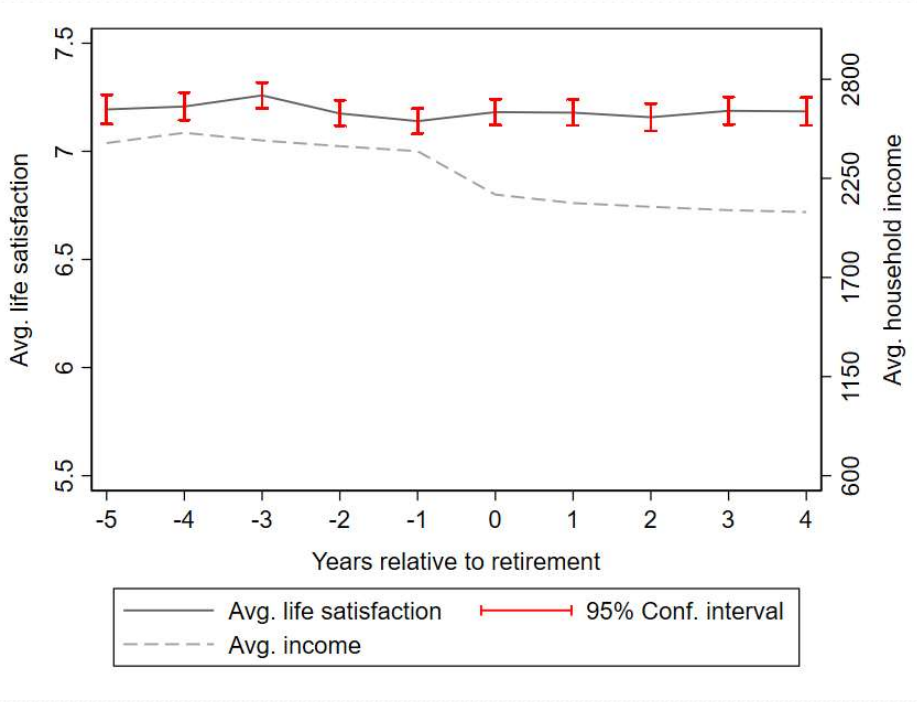
Group	Treat		Control	
Subgroup	Unemploy	Retire	Employ	Retire
	(1)	(2)	(3)	(4)
Life satisfaction (0-10)	6.09	6.39	7.19	7.18
	(2.1)	(1.96)	(1.67)	(1.74)
Household income	1471	1430	2445	2104
	(995)	(825)	(2091)	(1311)
Observations	6181	6194	14381	15164

4. Visualization

- Treat: income remains similar, LS increases
- Control: income decreases, LS remains similar



Treatment



Control

- Empirical Strategy and Results

1. Identification

- DiD: remove the "pure retirement" effect.

$$LS_{it} = \alpha_i + \beta\ RETIRE + \gamma T + \delta\ (RETIRE \times T)\ + \theta\ X_{it} + \varepsilon_{it}$$

- Individual fixed effects (FE): eliminate bias caused by selection of time-invariant unobservables.

- Entropy balancing (EB) matching: eliminate bias caused by selection of observables.

  2 procedures used in control variable selection:

  manual selection

  machine learning algorithm Lasso

2. Replication

- LS increases for unemployment to retire.

Dependent Variable: Life Satisfaction

	(1) No matching	(2) EB manual	(3) EB Lasso
Retire	0.111***	-0.235*	0.0691
	(0.0268)	(0.125)	(0.0467)
Treat × retire	0.207***	0.391***	0.152***
	(0.0397)	(0.134)	(0.0512)
Log income	0.369***		
	(0.0371)		
Observations	38,760	38,413	35,888
R-square	0.019	0.141	0.108

2. Heterogeneity

- Divide $Treat \times retire$ by if income > MIQ
- Increase in LS is mostly concentrated on those income > MIQ

Dependent Variable: Life Satisfaction

	(1) No matching	(2) EB manual	(3) EB Lasso
Retire	0.110***	-0.235*	0.0674
	(0.0268)	(0.125)	(0.0468)
Treat × retire			
(Income ≤ MIQ)	0.0993	0.269*	0.0355
	(0.0752)	(0.146)	(0.0851)
(Income > MIQ)	0.223***	0.460***	0.171**
	(0.0603)	(0.144)	(0.0714)
Log income	0.368***		
	(0.0371)		
Observations	38,760	38,413	35,888
R-square	0.019	0.141	0.108

- Robustness tests.

Conclusion

- LS increases from unemployment to retirement.
- However, LS increases mostly concentrated on those with income > Minimum required income (MIQ).
- The role of personal finance is underestimated in the literature.