

The lost ones: the opportunities and outcomes of white, non-college-educated Americans born in the 1960s

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Motivation

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- We should be thinking more about changes in lifetime opportunities across cohorts and large groups within these cohorts

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- **Women**: 22-33% higher for same cohorts

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- **Life expectancy later in life**

Case, Deaton (2017): **Mortality of white, non-college-educated age 55-59**

↑ 22% from 1999 to 2015

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- Document new facts on how these two groups compare in terms of
 - Wages
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- Calibrate a structural model with married and single men and women for the 1960s cohort
- Give this cohort the wage schedule, medical expenses, and life expectancy of the 1940s cohort
- Evaluate effects on labor supply, savings, and welfare of the 1960 birth cohort

Model key features

- Single and married people and marital transitions
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- Endogenous human capital (measured as average past earnings) affecting wages
- Risks during working and retirement periods
- Self-insurance: saving and labor supply
- Government taxes and transfers

Key features

- Lifecycle model, period length: one year

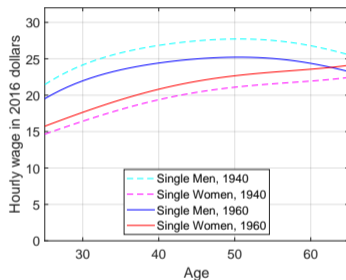
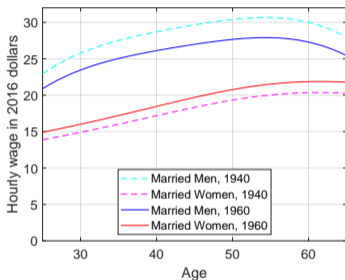
Key features

- Lifecycle model, period length: one year
- Working stage (t_0 to t_r), people
 - Alive for sure
 - Face wage shocks
 - Might get married if they are single
 - Risk divorce if they are married
 - Both spouses can work

Key features

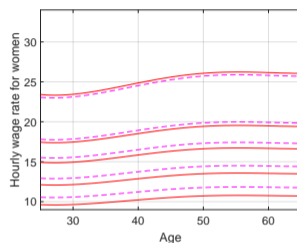
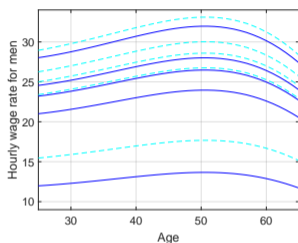
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- Working stage (t_0 to t_r), people
 - Alive for sure
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- Retirement stage (t_r to T), people
 - Face health shocks
 - Medical expense shocks
 - Exogenous probability of death

Wages



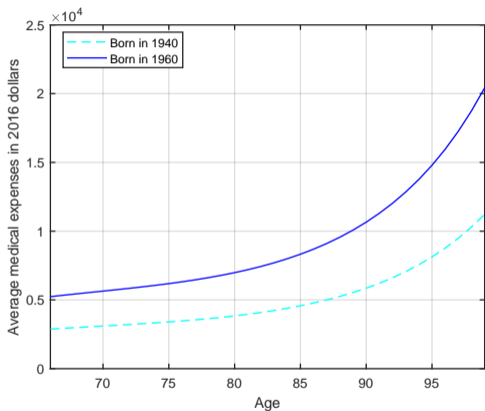
- Large decreases in the wages of men (\downarrow 9%) and increases in the wages of women (\uparrow 7%). PSID data

Wages conditional on human capital



- Wages as a function of human capital (0^{th} , 25^{th} , 50^{th} , 75^{th} and 99^{th} percentiles of the distributions of men and women)
- Large drops in wages conditional on human capital, with largest drops for lower human capital levels, especially for men

Out-of-pocket medical expenses (OOP)



- An 80% increase in OOP medical expenses (from \$2,878 to \$5,236 at age 66).

HRS data

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Life expectancy

	Men, 1940	Men, 1960	Women, 1940	Women, 1960
Age 50	77.6	76.1	79.8	78.7
Age 66	82.5	80.9	85.7	84.0

- Large drops in life expectancy (1.1 to 1.7 years). HRS data

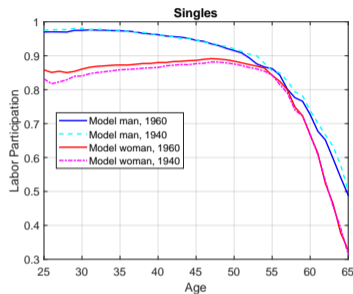
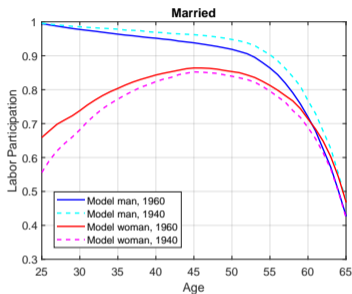
How do we do the counterfactuals?

Give the 1960s calibrated cohort, the 1940s

- Wage function
- Medical expenses
- Life expectancies
- Wage function, medical expenses, and life expectancies

We then look at outcomes and welfare

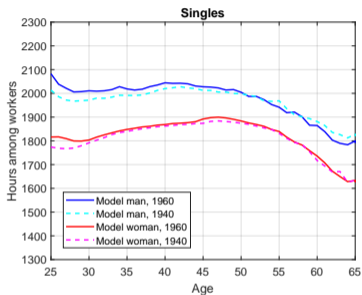
1940s vs. 1960s wages: participation



Under the 1960s wage schedule

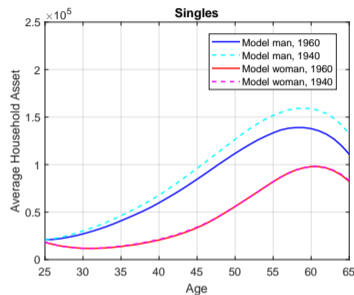
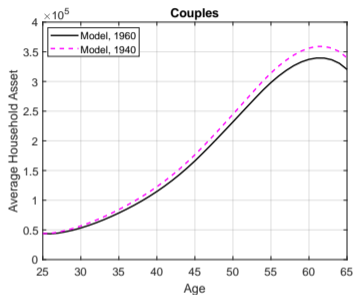
- Participation of married women 8 percentage points higher at age 25
- Participation of married men 4 percentage points lower at age 55

1940s vs. 1960s wages: hours



- Hours worked by young married women 100 hours a year higher under the 1960s wage schedule

1940s vs. 1960s wages: savings



- Assets at age 66 are lower under the 1960s wage schedule: 21% for single men, 1.1% for single women, and 6.1% for couples

1940s vs. 1960s wages: welfare

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- Everyone loses welfare under the 1960s wage schedule
- One-time asset compensations
 - Single men: 7.3% of present discounted value of their lifetime income
 - Couples: 4.5% of the present discounted value of their lifetime income
 - Single women: 3.4% of present discounted value of their lifetime income

1940s vs. 1960s medical expenses

- Savings go up
- Smaller changes in participation and hours
- ⇒ **Everyone loses welfare under the 1960s medical expenses**
- One-time asset compensations
 - Single men: 1.4% of present discounted value of their lifetime income
 - Single women: 1.0% of present discounted value of their lifetime income
 - Couples: 0.9% of the present discounted value of their lifetime income

1940s vs. 1960s life expectancy

- Savings go down
- Almost no changes in participation and hours
- ⇒ **Everyone loses welfare under the 1960s life expectancy**
- One-time asset compensations
 - Single men: 3.2% of present discounted value of their lifetime income
 - Single women: 2.4% of present discounted value of their lifetime income
 - Couples: 2.2% of the present discounted value of their lifetime income

1940s vs. 1960s life expectancy, medical expenses, and wages

- Changes in participation and hours driven by changes in wages
- Savings go up slightly because increased medical expenses dominate
- ⇒ **Everyone loses welfare** in the 1960s cohort due to these changes
- Asset compensations for welfare losses:
 - Single men: 12.5% of present discounted value of their lifetime income
 - Couples: 8.1% of present discounted value of their lifetime income
 - Single women: 7.2% of present discounted value of their lifetime income

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 - Experienced much lower wages over all of their life cycle
 - Expect much higher medical expenses during retirement
 - Expect lower life expectancy at retirement time
 - Experienced large welfare losses as a result
- Thinking about the changes experienced by various cohorts and education levels over time is worth studying more.

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 - Experienced much lower wages over all of their life cycle
 - Expect much higher medical expenses during retirement
 - Expect lower life expectancy at retirement time
 - Experienced large welfare losses as a result
- Thinking about the changes experienced by various cohorts and education levels over time is worth studying more.
 - To what extent did government policies attenuate these changes?
 - Should the government have done something different?
 - What and at what stages of their life cycle?