

## Introduction

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Negative events in peoples' lives can have profound effects on their life-cycle outcomes. Events such as job loss, changes in family structure, and declines in health can reduce individuals' economic and noneconomic well-being, leaving them permanently worse off than they were before the event, unable to regain their prior standing. The impact of these shocks may not be limited to the individuals affected but can spill over to families and even to future generations, when children in affected households have limited access to economic and emotional resources.

Understanding and documenting the impact of these commonly encountered negative events is the focus of this book. Although the literature on these topics is extensive, there have been few comprehensive examinations that bring together complementary interdisciplinary analyses on a range of negative lifecycle shocks. This book begins to fill the gap with a collection of chapters authored by leading researchers in economics, demography, and sociology, all focused on three common lifecycle events: involuntary job loss, changes in family structure, and declines in health or functioning.

A key contribution of the book is the construction of a research framework that facilitates comparisons across various types of shocks. It is built around a set of key questions that are important for evaluating the individual and social costs of any lifecycle event. The questions are:

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1. How likely are individuals to experience the event?
2. What are the short-term economic impacts?
3. What are the long-term economic impacts?
4. What are the noneconomic impacts?

For each of the lifecycle events studied, a chapter in the book examines one or more of these key questions. This structure gives readers the ability to compare these events in terms of the portion of the population affected as well as the short- and long-term impact of these events on economic and noneconomic well-being. By addressing these four basic questions, the chapters in this volume provide a foundation for those interested in pursuing multidisciplinary research on one or all of these topics.

A second contribution of the book is the studies themselves, which provide excellent introductions to researchers and policymakers interested in the consequences of lifecycle events. The collected chapters also showcase the range of analysis being done by top academics and highlight some of the emerging public data sources and statistical techniques available to researchers interested in these issues. For example, several of the papers draw on cross-sectional surveys that allow researchers to document the importance of each type of risk in the population at a point in time. Other chapters rely on data drawn from panel surveys that collect information on the same person over time, allowing researchers to analyze the long-term impact of lifecycle disruptions on well-being. Still others use panel surveys linked to administrative records from government programs that have only recently become available to researchers. The linkage of traditional survey information with administrative records collected by government agencies builds on the strengths of each source of information. The administrative records contain valuable information, such as the annual earnings of individuals, as well as private and public retirement benefits untainted by the measurement error that is common in self-reported data. The surveys contain information on demographics and other life details not available in the administrative records. Using these combined data sources, researchers can accurately track the impact that a variety of events have on people's lives over long periods.

Of course there are many subjects the book does not address that bear noting. A number of negative shocks are not examined by the authors.

As noted earlier, the book focuses on the three highly prevalent events associated with adverse impacts for which various public and private insurance and transfer schemes have been developed. Future research agendas might focus on how other negative events compare to the ones discussed here. Another issue not taken up in this book is the impact of these negative events on children. This subject has received considerable attention of late as researchers attempt to understand the long-term impact of reduced parental income on children. While the findings in this book are suggestive of potential negative effects on children as a result of reduced family income, a rigorous treatment is left for future research. Finally, there is emerging evidence that the negative events discussed here are often interrelated, either because there is a higher risk for all events among particular groups or because one event leads to another. A comprehensive treatment of these interrelationships is, again, beyond the scope of this book, but the authors point out evidence for such interrelationships when relevant.

#### GUIDE TO THE CHAPTERS IN THIS VOLUME

##### *Job Loss: Chapters 2–6*

In Chapter 2, Henry Farber discusses the incidence of job loss in the United States and examines the short-term impact on earnings following reemployment. He finds that the incidence of displacement rises and falls with the economy and that it was especially high during the recent severe recession. In contrast, the penalty for displacement varies less with economic conditions because displaced workers generally experience sharp earnings decreases following job loss. These results point to a substantial short-term cost associated with job loss in the United States.

Chapter 3, by Till von Wachter, Jae Song, and Joyce Manchester, considers whether short-term losses experienced by displaced workers persist over time. They find that workers released in mass layoffs experience significant reductions in work activity in later life. Such reductions will result in sizeable decreases in available resources both in working age and in preparedness for retirement. The authors conclude that “displacement appears to be an extraordinary event shaping workers’ long-term cumulated earnings” (p. 52).

The impact of job loss on the period of retirement is considered in more detail in Chapter 4 by Ann Stevens and Jeremy Moulton. They compare retirement wealth for individuals who experience a job loss with those who do not and find sizeable differences, especially when the job loss occurs at young ages. They find little evidence that displaced workers can make up these differences by shifting retirement to a later date. The inability to recover appears related to both the difficulty in becoming reemployed and, if a new job is found, working sufficiently long before retirement to offset the initial declines in assets.

Lasting reductions in earnings and wealth due to job loss may have consequences on well-being beyond financial concerns. Chapter 5 by Ariel Kalil and Thomas DeLeire examines the impact of job loss on two different measures of self-reported psychological well-being, one meant to capture life satisfaction and another that gauges sense of purpose in life. They find that job loss, independent of a variety of background factors, reduces satisfaction by roughly 25 to 50 percent and that self-assessment of purpose in life decreases by roughly 15 percent. This work suggests that job loss takes a toll on the nonfinancial as well as the financial well-being of individuals.

In Chapter 6 Michael Hurd discusses these studies on job loss and suggests interesting extensions to them.

#### *Family Change: Chapters 7–11*

In Chapter 7, Amalia Miller examines the impact of changing demographic trends in the timing of marriage and motherhood over the past several decades on the earnings and assets of women and their spouses. Delaying a first birth appears to have a large and durable impact on women's earnings. Moreover, delay of marriage and childbirth alters household income. While these effects have only a modest impact on asset accumulation, they cumulate over time; thus, delay can have a lasting impact on the economic well-being of women and their families over the lifecycle.

The authors of Chapter 8, Kenneth Couch, Christopher Tamborini, Gayle Reznik, and John Phillips, examine the impact of divorce and remarriage on labor supply and Social Security retirement benefits among women. They find that women who divorce and never remarry significantly increase their labor supply, and thus earnings, and retire later than

women who are continuously married or remarry after divorce. Taking spouses into account reveals that total Social Security retirement benefits flowing to the households of women who experienced a divorce and never remarried are much lower compared to those who either remarried or were continuously married.

Julie Zissimopoulos examines the impact on net worth and savings of changes in family structure at older ages in Chapter 9. Married couples have more wealth than unmarried individuals. While it is tempting to conclude that family structure is the primary determinant of wealth levels near retirement, Zissimopoulos finds that higher lifetime earnings, lower mortality risk, and other factors also explain why married couples have higher wealth at older ages compared to unmarried individuals. She finds that changes in family structure at older ages do have an impact on wealth: divorce both splits and consumes wealth while remarriage rebuilds assets and divorce at all ages has negative and long-lasting consequences on wealth accumulation.

In Chapter 10, Juycon Kim and Linda Waite examine the influence of changes in family size and complexity of living relationships on a family's economic well-being during the Great Recession. The authors find that the average size of households did not change markedly following the Great Recession. However, the stable average conceals considerable churning: about one-third of households added or lost members. The authors find that decreases in household size and complexity, on average, are associated with higher standards of living in the household for white families, no change for African American families, and a lower standard of living for Hispanic families. While families play an important role in providing income support in difficult economic times, changes in living arrangements that increase family size typically result in decreases in economic welfare.

Chapter 11 by Robert Willis reviews the chapters that consider the consequences of changes in household structure, placing each in the broader context of the field of family economics.

#### *Declines in Health: Chapters 12–16*

Richard Burkhauser, Andrew Houtenville, and Jennifer Tennant discuss, in Chapter 12, the conceptual and practical challenges of measuring the prevalence of debilitating declines in health in the population. The

authors show that decisions about measurement can have a significant impact on estimates of the size and composition of the population affected. Using two nationally representative data sources, Burkhauser et al. show that no single question or measure captures everyone currently targeted by public policies for those with disabilities. Therefore, the authors conclude that a combination of questions historically and currently being used in U.S. surveys is optimal and represents best practice for researchers interested in studying how declines in health affect employment, income, and public benefit receipt.

The authors of Chapter 13, Bruce Meyer and Wallace Mok, assess the incidence of disability among working-age men and the impact it has on income and benefit receipt. The authors estimate that about 30 percent of men experience some form of disability and that the economic consequences are similar to those experienced by displaced workers—substantially lower earnings and income. For those who report chronic, severe disabilities, the costs are especially large and are not offset by increased income from other sources. Thus, disability comes with economic costs for the individual that are not offset by either government or family support.

In Chapter 14, Geoffrey Wallace, Robert Haveman, Karen Holden, and Barbara Wolfe consider how the onset of a physical or mental problem in functioning affects economic well-being during retirement. They examine how reductions in physical and mental functioning relate to annuitized net wealth. The authors find that difficulties with both mental and physical functioning are associated with declines in wealth and that the impact is larger for single adults. This pattern is driven by individuals spending down resources to pay for health care and assistive services.

Mary Daly and Colin Gardiner examine the relationship between disability, its onset, and subjective well-being in Chapter 15. The authors find that having a work-limiting disability is associated with lower levels of self-reported life satisfaction. Consistent with previous studies, the authors find a negative relationship between disability status and subjective well-being. Although the effect of disability is somewhat mitigated by employment, income and wealth, it emerges as a salient determinant of subjective well-being throughout the analysis.

Chapter 16 by Robert Haveman reviews the chapters in the section and highlights areas of research where further analysis is needed.

## IDEAS FOR FUTURE RESEARCH

The chapters in this volume show that negative lifecycle events can have large and lasting effects on both the economic circumstances and health of individuals and their families. Future research can take advantage of expanding data resources that allow researchers to trace individuals throughout their lifetimes and follow their children as they age into adulthood. Similar data for other countries also will be useful for improving our understanding of how public programs and private institutions amplify or attenuate losses associated with negative lifecycle shocks. Given the size of the consequences documented in this volume, continued research in this area is an important goal.