

Changing Identity: Retiring from Unemployment

Can the loss of identity utility explain the well-being loss of unemployment?

Motivation

Previous research

- becoming unemployed dramatically reduces the overall life satisfaction (LS)
 - even if the unemployed received a full income compensation, they would still be less happy than employed persons
- unemployment causes a “non-pecuniary” loss of utility

Theoretical expectations

- when unemployed, a worker deviates from the social norm to work and thus suffers a loss in identity
- this loss of identity may explain why the unemployed suffer so much

Idea

- retired people do not need to fulfil the norm to work
- retiring may restore the identity of unemployed people and thus positively influence their LS

Identification strategy

Retiring from unemployment

When an unemployed person retires, she may return to norm conformity, whereas other circumstances and characteristics hardly change on average. If this raises her LS (*ceteris paribus*), the loss of identity may explain the non-pecuniary “costs” of unemployment (at least to some extent).

Retiring from unemployment potentially affects utility through two identity effects:

„**Norm conformity effect**“: identity effect when switching between norm deviance and norm conformity (i.e. identity loss of unemployment). This is the focus of this paper.

„**Pure retirement effect**“: identity effect when switching between the social categories „working age“ and „retirement age“.

Difference-in-differences approach:

- the employed fulfil „their“ norms before and after retirement → they do not experience a norm-conformity effect by the transition
- we compare the change in LS of unemployed persons with the change in LS of employed persons during the transition to retirement
- this enables us to disentangle the two identity effects retiring might have on the unemployed
- as retirement might affect the employed in several ways, we control for changes in income, leisure time and other characteristics

Data

Data

- German Socio-Economic Panel (SOEP) 1984-2010
- 2,314 people in transition to retirement:
 - 711 people retired from unemployment
 - 1,603 people retired from employment

Regression results

Change in life satisfaction upon retirement (OLS estimations)

	Specification			
$\Delta LS_i = LS_{i,t=0} - LS_{i,t=-1}$	(1)	(2)	(3)	(4)
Unemployed in $t = -1$	0.227*** (0.080)	0.176** (0.081)	0.351*** (0.103)	0.329*** (0.106)
Relative change in net equivalence income		0.299*** (0.084)	0.317*** (0.084)	0.317*** (0.083)
Δ leisure time			0.027*** (0.010)	0.024** (0.010)
Δ single				-0.456*** (0.174)
<i>(other control variables with insignificant point estimates excluded for illustration purposes)</i>				
R ²	0.012	0.018	0.021	0.026
Observations	2,314	2,314	2,314	2,314

Source: SOEP 1984-2010.

Note: robust standard errors in parentheses. Significance levels are *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

All four model specifications suggest that unemployed people

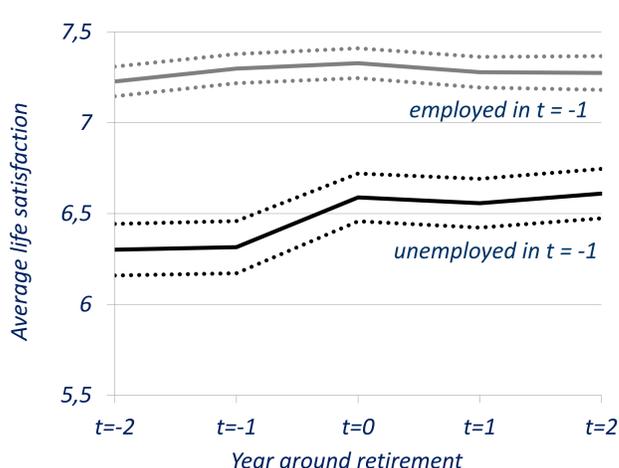
- benefit significantly more from retiring than employed people
- deviate from the social norm to be employed and thus suffer a loss in identity utility before retirement
- restore their norm conformity through retirement, which increases identity utility and improves LS

Robustness analyses show that the increase in life satisfaction the unemployed experience upon retirement

- is even larger for those who experience retirement as an exogenous event → suggests causal effect
- increases slightly when we exclude retirees from self-employment or part-time employment;
- is higher (and significant) for men than for women → supports “norm-conformity” interpretation

Mean analyses

Life satisfaction around the transition to retirement



Source: SOEP (1984-2010).

Note: dotted lines = 95% confidence intervals; retirement takes place between $t = -1$ and $t = 0$.

- average LS of the unemployed increases significantly upon retirement
- average LS of the employed hardly changes
- the unemployed do not reach the well-being level of formerly employed retirees

Conclusion

The loss of identity explains the non-pecuniary well-being loss of unemployment (at least to some extent).

C. Hetschko*, A. Knabe** and R. Schöb***

* Freie Universität Berlin
** Otto von Guericke University Magdeburg, CESifo
*** Freie Universität Berlin, ifo Dresden, CESifo

This paper was published 2014 in *The Economic Journal*, Volume 124, Issue 575, pages 149-166.