

# 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)
$\Delta$ leisure time			0.027*** (0.010)	0.024** (0.010)
$\Delta$ single				-0.456*** (0.174)
<i>(other control variables with insignificant point estimates excluded for illustration purposes)</i>				
R <sup>2</sup>	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

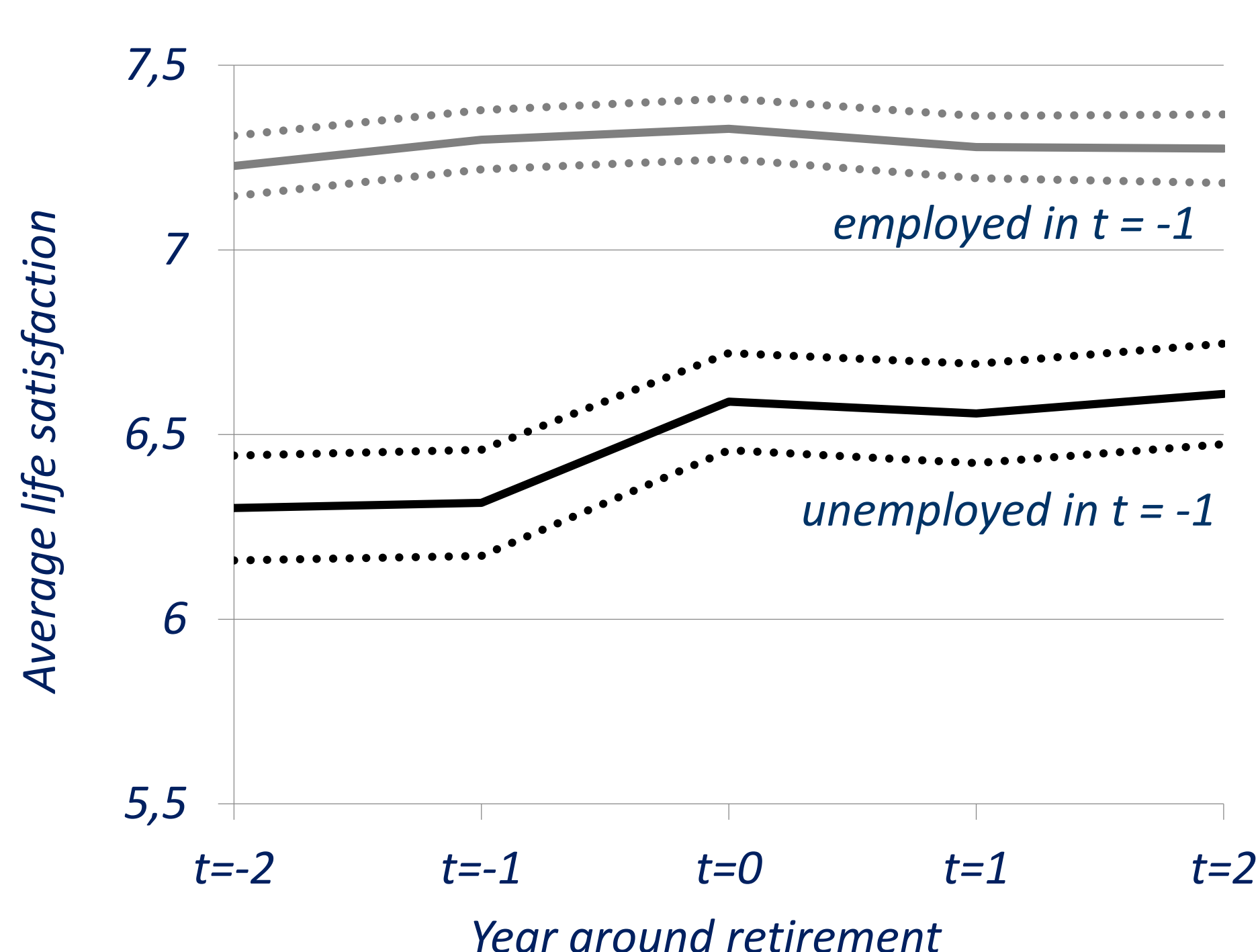
- benefit significantly more from retiring than employed people
- deviate from the social norm to be employed and thus suffer a loss in identity utility before retirement
- restore their norm conformity through retirement, which increases identity utility and improves LS

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).

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