
(May 1996)

Health and Retirement Study

Report to Respondents

Institute for Social Research

Survey Research Center

The University of Michigan

Thanks to your time and cooperation, the second wave of interviewing for the Health and Retirement Study was a great success. More than 92 percent of you provided the information we needed to study the relationships between health, wealth, and retirement. We are about to begin the third round of data collection, and an interviewer will be calling you within the next several months. Your continued cooperation is extremely important, and we are very grateful for your contribution of time and effort.

As you may recall, the Health and Retirement Study (HRS) is funded by the National Institute on Aging and the National Institutes of Health. The purpose is to provide data needed to understand the aging process and to monitor changes in health and work effort of Americans as they move through the pre-retirement years and into retirement. Since older Americans are becoming a larger and larger fraction of the entire population, understanding their continued economic circumstances and their needs for various types of services is vital for effective policy planning.

There have already been two conferences of medical, social, and economic researchers from around the country devoted to the analysis of the HRS data. The topics have ranged from the relation between cognition and retirement to the economic and health circumstances of those who retire at age 62 as well as to the general relationship between income, wealth, and health. For those of you with access to a personal computer and the World Wide Web, you can find a complete list of these research papers and abstracts, along with a number of other interesting things, on our home page (URL: <http://www.umich.edu/~hrswww>).

WHAT HAVE WE LEARNED?

Although it is impossible to summarize all of the findings of this research in a short report, we can describe a few findings that are particularly important and noteworthy. Some of them are surprising. One of the most important factors people must consider in retirement planning is how much they have saved over the years. Unsurprisingly, we find that those who have a lot of accumulated savings or "wealth" either in financial assets or property and housing are able to retire sooner and more comfortably than others. Another important factor in retirement planning is health those who are less healthy may be unable to continue working and, instead, take early retirement.

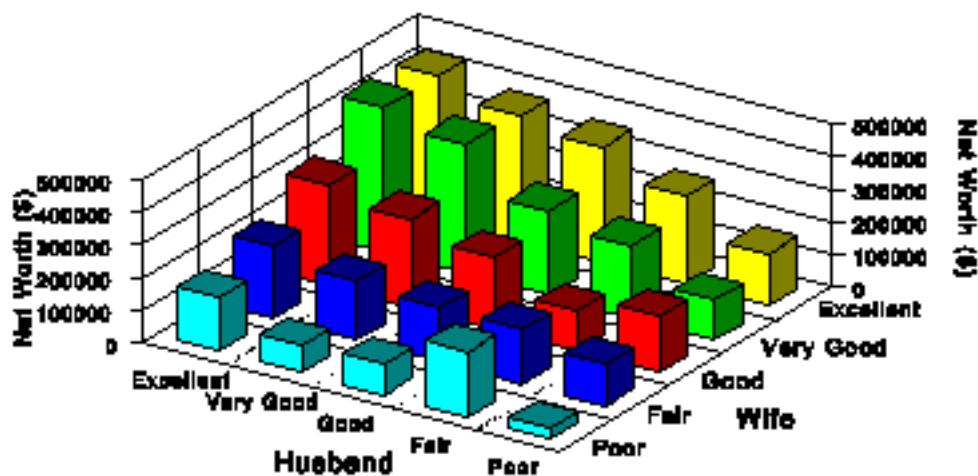
One of the more surprising findings from the data is how strongly health and wealth are related. The graph below shows average wealth by self-reported health status for the respondents who answered the financial questions. Total wealth the value of assets owned minus debts averages almost \$350,000 for those whose health is "excellent." This is more than four times higher than the corresponding wealth of

those who rated their health as "poor." Ironically, those whose health may force them into early retirement are less able to afford it than those in better health.

Health and Wealth



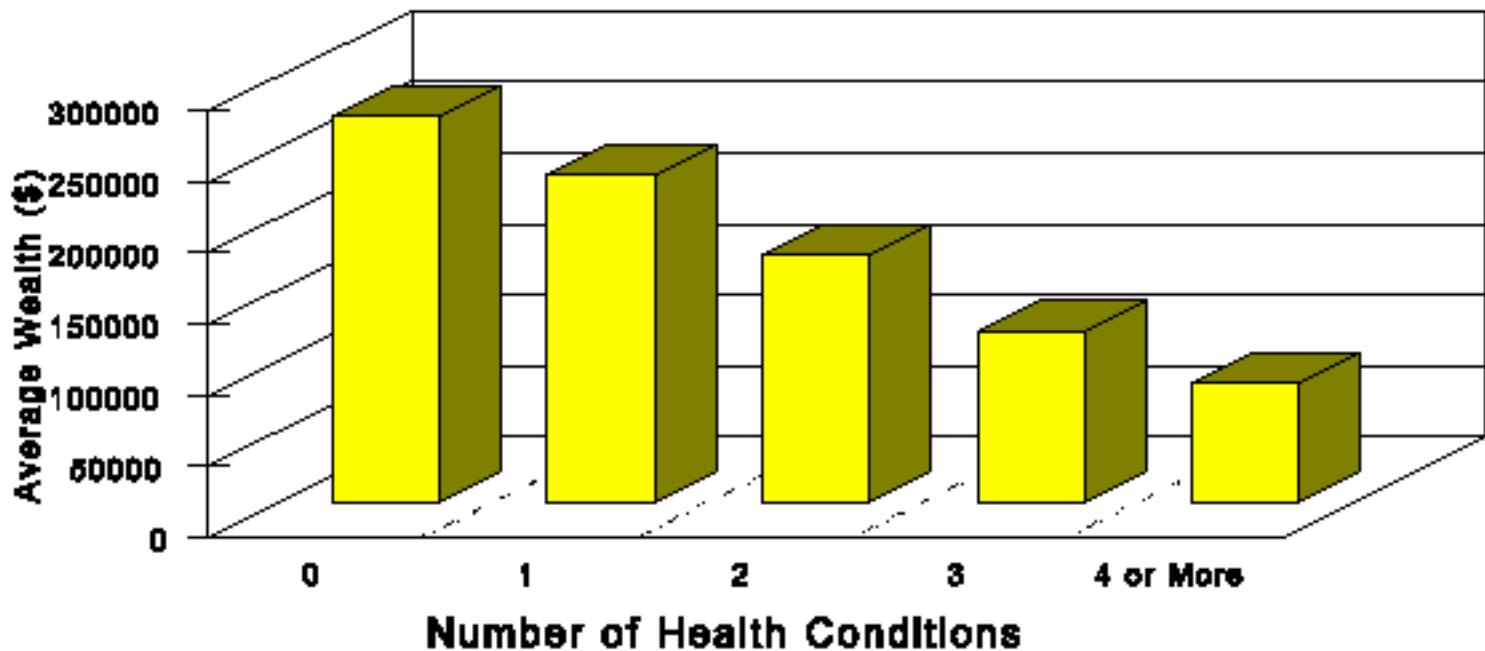
The same pattern of health and wealth is evident when we examine the health of both partners in a married household. As the next graph clearly shows, the wealth of households where both husband and wife are in excellent health (the uppermost bar) is over \$400,000. This compares to only about \$40,000 for households where both spouses are in poor health (the lowermost bar). The effects of husbands' and wives' health on wealth are very symmetric. The average wealth of households in which one spouse is in excellent health and the other is in poor health (the far-left and far-right bars) is between \$150,000 and \$200,000 regardless of which spouse is in poor health.



These health reports are based on answers to the question "How would you rate your own overall

health?" The relationship between good health and high wealth still holds when health is measured in terms of the number of specific chronic or acute health conditions reported, such as diabetes or heart attacks. The following chart presents the average wealth of individuals with no adverse health conditions, one such condition, and so on up to four or more conditions. Wealth is highest for those who are perfectly healthy and lowest for those with four or more adverse health conditions.

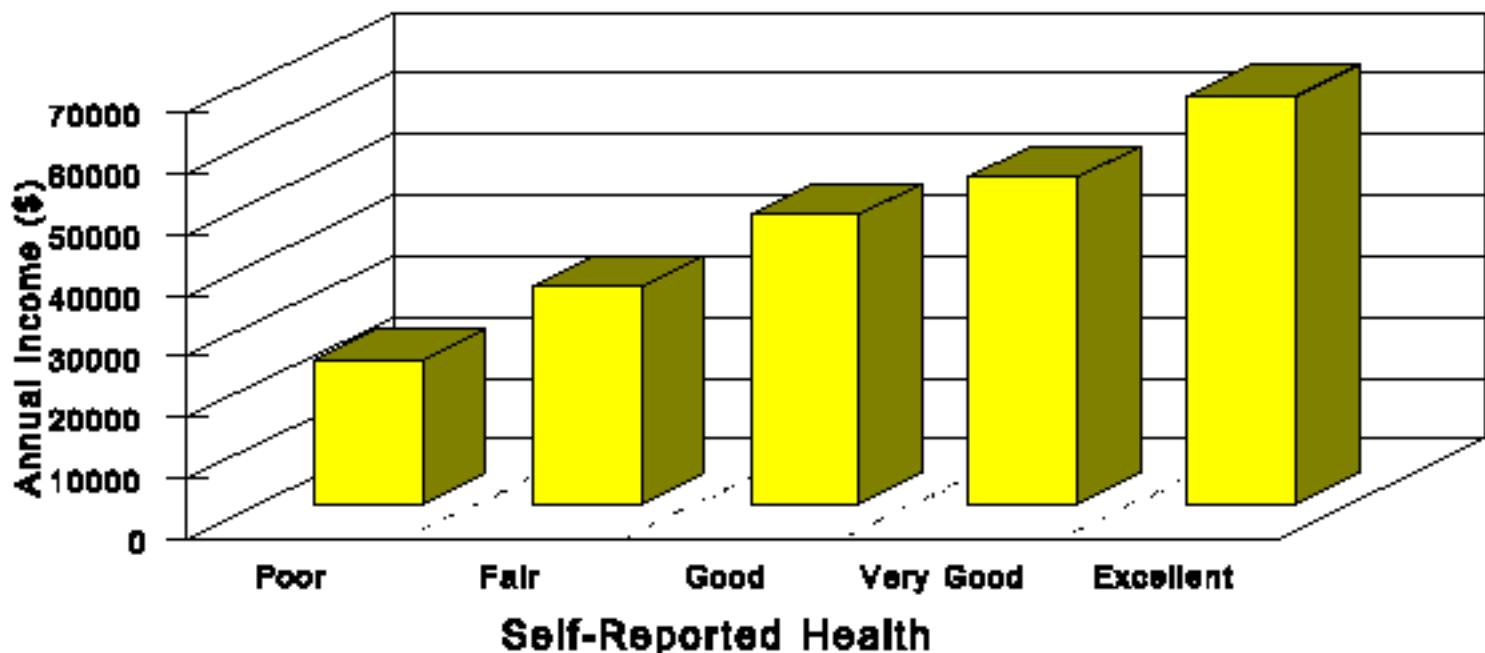
Wealth by Number of Health Conditions



WHY ARE HEALTH AND WEALTH SO STRONGLY RELATED?

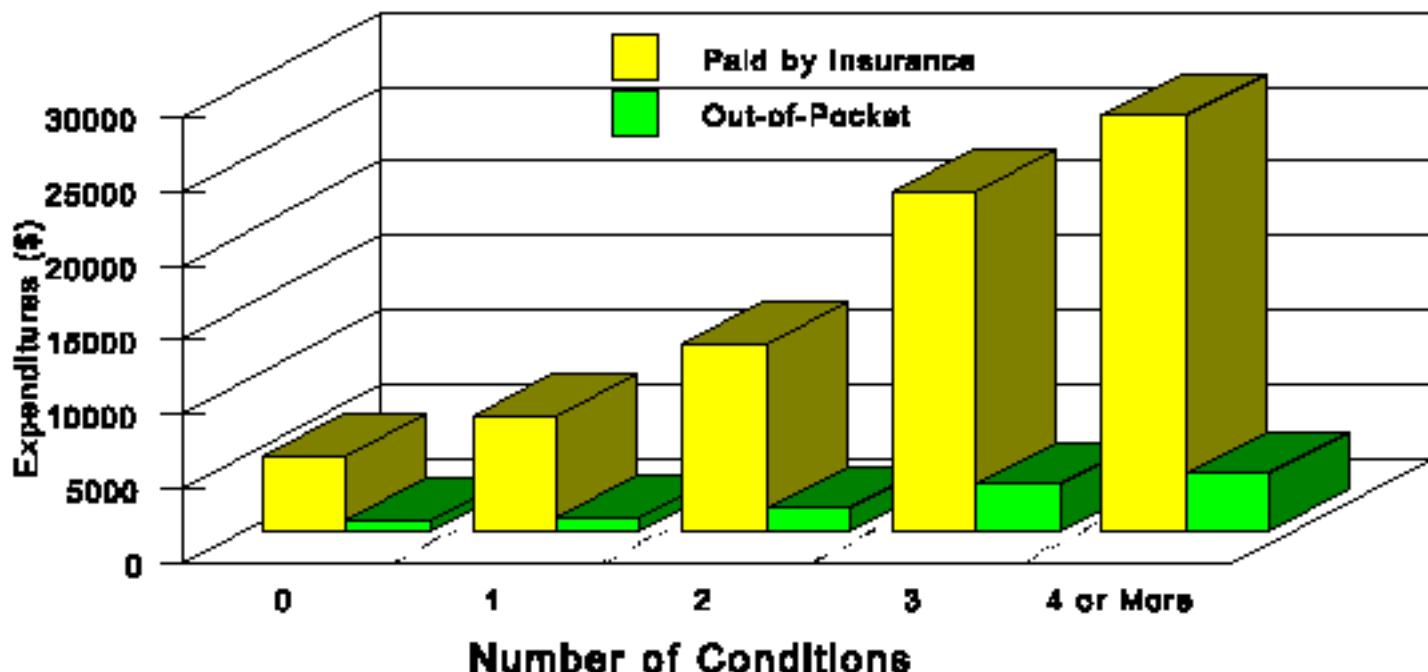
We don't know yet. There are several possible reasons, and it is critically important to find out which is most important. One possibility is that ill health reduces the ability to earn an income more work is missed and productivity on the job may be lower. In this case it would be health which, over time, determines wealth. The graph below shows that there is a strong relationship between annual income (including earnings) and health. The average annual income for those in poor health is \$23,000. This increases with better health to a high of \$67,000 for those in excellent health.

Health and Income



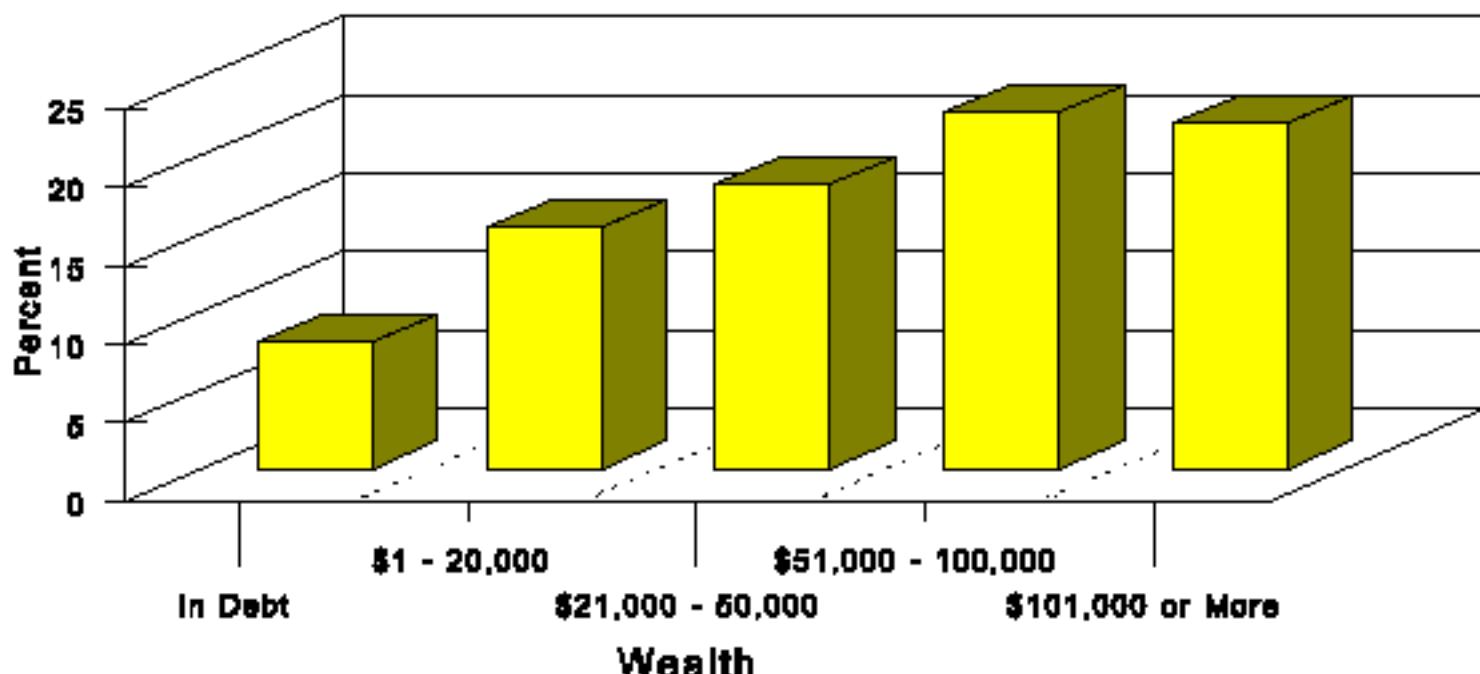
Another possibility for the strong correlation between health and wealth is that sickness is expensive and that people sometimes have to use their assets to cover these expenses. The data do show a strong association between the costs of medical care and the number of chronic health conditions people have. The graph below shows two-year medical expenditures by the total number of medical conditions people have. These expenses increase from \$5,000 for the perfectly healthy to about \$28,000 for those individuals with four or more distinct medical problems. While for many people most of these expenses are covered by health insurance, the out-of-pocket expenses of medical treatment are substantial more than \$3,000 for those with four or more conditions.

Medical Expenditures by Number of Health Conditions



Another reason for the association between health and wealth may be that those with more economic resources at their command are able to purchase better health care. In this case, it would be wealth that is causing health. But this is a difficult question to answer, since wealthier people may spend less than others on medical care simply because they are in better health to begin with. Some insights can be gained by looking at all people with a specific health condition to see whether the type of treatment they get is related to wealth. The graph below shows the percentage of people with congestive heart disease who have undergone corrective heart surgery. Heart surgery is widely considered to be the best treatment for this condition, and it is clear from the graph that the wealthy are far (almost three times) more likely to undergo this procedure than are the least wealthy.

Percent of Heart Patients Receiving Surgery by Wealth



A FEW OTHER FINDINGS OF INTEREST

- Between the first interview in 1992 and the second interview in 1994, about 700 people retired and another roughly 100 people left the labor force because they had become disabled.
- Of the people who reached 62 years of age and thus became eligible for Social Security retirement benefits between 1992 and 1994, about half chose to start collecting benefits. Many of those who began collecting Social Security benefits also were getting some pension income from past employers.
- Over half of you said that your health insurance had changed since 1992, with the most common change being an increase in cost. The second most common change was "fewer services."
- A study which used data from the Health and Retirement Study to compare patterns of financial help from people in their fifties and sixties to their parents and children found some interesting differences between the U.S. and Great Britain. Among people with living parents, British respondents were about three times as likely as American respondents to report giving financial help to their parents. On the other hand, among those with children, American respondents were about twice as likely as British respondents to say that they helped their children financially. The questions asked in the British study were somewhat different from the questions you were asked, so some caution should be used in interpreting these findings. Still, they suggest that there may be real differences between the two countries in the way money moves between generations.

WHY WE NEED TO INTERVIEW YOU AGAIN

Some of our respondents have said to us: "I see why this type of research is important, but why must you keep asking me for additional data? Why can't you ask someone else? I have already done my part." We need repeated observations of the same individuals over time to unravel complicated relationships like

the one we have described between health and wealth. Only by looking at how health and wealth change over time can we tell if wealth is influencing health, or vice versa, or if both are true. Each time we interview you, the data become more and more powerful in their ability to help answer important questions like these. This makes your continued participation increasingly important, and we very much appreciate your willingness to be interviewed.



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