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The impact of health on employment, wages, and hours worked over the life cycle

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Abstract

This paper examines the effect of health problems on employment, annual hours worked and hourly wages. The Health and Retirement Study data are used to compile employment and health experience profiles over the lifetimes of respondents. These profiles are used to estimate the impact of temporary and permanent illnesses. Permanent health conditions have negative effects on labor market outcomes. Females are found to have larger reductions in wages, but males have bigger decreases in hours worked. The onset of health problems in the 40s produces the largest negative consequences for males, while for females negative effects peak in the 30s.

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1. Introduction

Previous research has shown that health has a substantial effect on a variety of labor market decisions and outcomes including wages received and hours worked by individuals. However, there is no consensus on the magnitude of the effect of health on these outcomes. Few studies have used a longitudinal approach to look at how health influences labor market outcomes

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¹ Mark C. Berger passed away April 30, 2003. While all research and previous drafts are the shared work of both authors, any remaining errors in this final version are her responsibility.

across different stages of the working life. Typically, the focus has been on older white males, while the extent to which health affects women and younger males in the workforce has been largely ignored.

Often previous research has concentrated on a question posed to individuals such as "Does health limit work," or "... in the last 12 months, did health limit the amount or type of work ..." when determining the impact of health on the labor activities of respondents. One limitation of using data from this type of question from a cross-section data source without detailed information of the health history of the respondents is the lack of information regarding whether the illness is brief or episodic or whether the illness is chronic or long-term. If policymakers are concerned with the long-term consequences of illness, failing to discriminate between temporary or episodic and permanent or long-term illness is likely to lead researchers to biased estimates of the impact of chronic health problems in the labor market. Here, we distinguish between temporary and permanent health problems using life-cycle health histories of individuals. This important distinction is often overlooked or omitted due to data limitations. This is especially important given that a large percentage of health-related costs may be attributable to the relatively few individuals with chronic permanent health conditions.

Health is likely to have different impacts on individuals in the labor market depending on the age of the individual at the onset of illness. Individuals who are in the early stages of their work life may make very different adjustments to random health shocks than individuals approaching retirement age. The stock of health capital and the ability to cope with health problems may also vary according to the age at which a health ailment is encountered, leading to differences in the magnitude of the impact of health. Finally, expectations of health and health complications in the workplace may differ according to the age of the worker, so the consequences of health may differ as the health status relative to their peers or same age colleagues differs.

Relatively few studies have investigated the extent to which health affects labor market outcomes of both men and women using the same framework.² The lack of comparable empirical work across the sexes makes it difficult to make generalizations about gender differences and the consequences of health shocks. While it is true that women have more sporadic employment spells than men, over the last two decades a larger percentage of women have participated in the labor market and women have become a substantial portion of the workforce.³ The increase in the labor force participation of women coupled with the growing number of households headed by females points to the importance of a study that examines how both women and men fare in the labor market when faced with health problems.

This study uses histories of employment and health experiences of an individual to get improved estimates of the impact of health on the hourly wages earned and annual hours worked by individuals. Health information over the life cycle is used to distinguish between individuals with a history of being healthy or unhealthy and to distinguish between temporary and permanent health problems. Furthermore, the impact of the timing of health problems on wages received and hours worked by the individual is estimated using current and previous employment data and the reported age of the individual when the health shock first arose. Until now, this retrospective aspect of the Health and Retirement Study has been unexploited as a way to measure the long-term consequences of health in the labor market. Additionally, these data permit an analysis with separate estimates of the impact of health for males and females to allow for comparisons across gender.

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