

# Ill health and retirement in Britain: A panel data-based analysis

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## Abstract

We examine the effect of ill health on retirement decisions in Britain, using the British Household Panel Survey (1991–1998). As self-reported health status is likely to be endogenous to the retirement decision, we instrument self-reported health by a constructed ‘health stock’ measure using a set of health indicator variables and personal characteristics, as suggested by Bound et al. (Bound, J., Schoenbaum, M., Stinebrickner, T.M., Waidmann, M., 1999. The dynamic effects of health on the labor force transitions of older workers. *Labour Economics* 6, 179–202). Using a range of econometric techniques, we show that adverse shocks to individual health stocks predict individual retirement behaviour among workers aged from 50 until state pension age. We compare responses of economic activity to constructed health measures with that arising using direct indicators of functional limitations and specific health problems. We also examine the dynamics of health shocks and whether adverse and positive health shocks have symmetric effects on transitions in and out of economic activity.

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## 1. Introduction

The number of people on disability benefits more than doubled between the late 1970s and the end of the 1990s in the UK, although thereafter the number stabilised. Throughout this period

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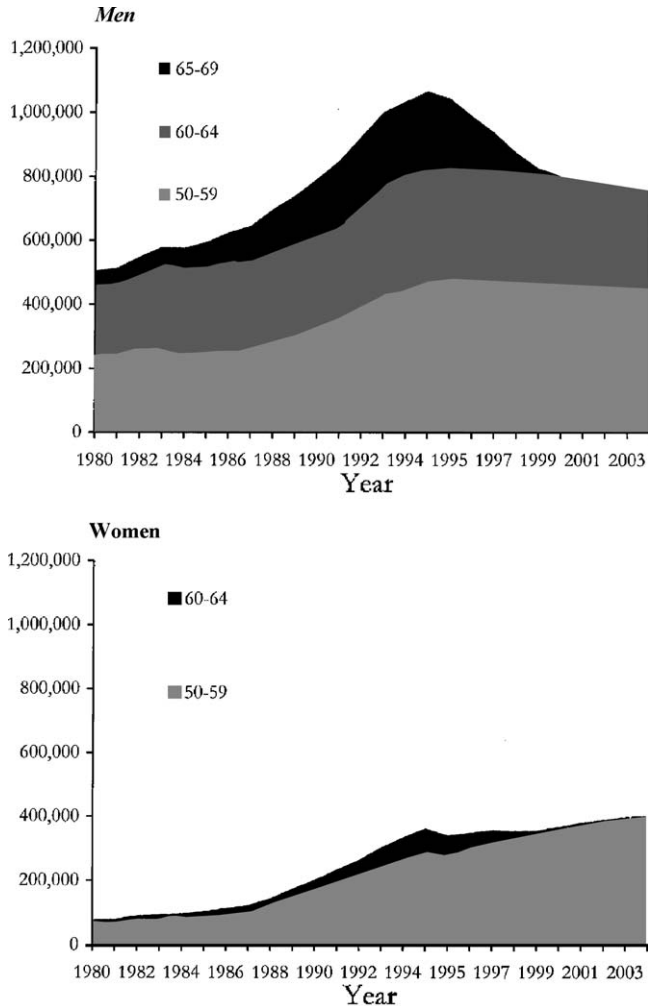


Fig. 1. Numbers of claimants of invalidity and incapacity benefit in the UK aged 50 or over, 1980–2004. Source: Banks et al. (2002).

around half of claimants were aged between 50 and the state pension age. The substantial growth in claimants aged 50 and over after 1980 is shown in Fig. 1. ‘Ill health’ is a major reason for retirement among British men, especially for men without access to an occupational pension (Tanner, 1998, Table 7) – indeed ‘own ill health’ is the most commonly cited reason for retirement among both men and women in the early 1990s (Disney et al., 1997, Table 2.19). Similar trends have been observed in other countries such as The Netherlands and the US (Bound and Burkhauser, 1999).

At any point in time there is a strong correlation between observing a person not working and their self-reported overall poor health status, but this may give a misleading impression of the impact of health state on *retirement*. First, individuals who are inactive often have an incentive, for self-esteem if nothing else, to report worse-than-actual health. Second, differences in reported self-assessed health are large, even for individuals in identical labour market states – individual

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