Title of paper:

What drives the mental health gap in workplace retirement savings participation: Evidence from the United States

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Extended abstract:

A large body of evidence shows that individuals with poor mental health have lower income over the lifespan but a dearth of evidence exists on how poor mental health affects retirement savings behaviour. In particular, if people with poor mental health are less likely to participate in employer-provided retirement savings plans, they will have less savings and consequently less financial security in retirement. Individuals with poor mental health may be less likely to participate in employer-provided plans potentially because they are more likely to work for employers who are less likely to provide access to these plans to begin with. Since individuals with poor mental health have lower educational attainment and on-the-job productivity, they may be more likely to work in occupations or with employers that do not provide many benefits including access to retirement savings plans. Further, it is possible that individuals with poor mental health experience greater cognitive burden and procrastination when facing decisions on contribution rates and investment portfolios that are characteristic of defined contribution plans that are the most commonly offered retirement savings plans by employers in the United States.

In this paper, I provide novel evidence of a mental health gap in employer-provided retirement savings plans in the United States using nationally representative cohort data from the National Longitudinal Survey of Youth 1997. In particular, I provide descriptive evidence that the mental health gap in employer-provided retirement savings plans in the United States is likely due to adverse selection into occupations and employers. I measure mental health using the Mental Health Inventory (MHI-5), which is an established predictor of depression and anxiety disorders, in the year 2000 to denote adolescent psychological distress. By capturing adolescent psychological distress before individuals fully participate in the labour market, I reduce potential effects that labour market participation may have on mental health and retirement savings participation. There is not a single validated cut-off score for the MHI-5. Instead, individuals are classified as having high psychological distress if they score at least 1 standard deviation above the mean. The dependent variables of interest are participation in an employer-provided retirement savings plan and access to an employer-provided retirement savings plan both captured when the respondent is 30 years old. Control variables include year of birth, sex, ethnicity, childhood cognitive ability, educational attainment, marital status, subjective general health, occupation, industry, total wages and salary in the previous year, part time vs. full time employment, risk preferences and personality traits. I use linear probability models and Gelbach decompositions to understand the contribution of the control variables.

In the uncontrolled specification, adolescent psychological distress is associated with a 7.8 percentage points lower likelihood of participating in an employer-provided retirement

savings plan at age 30. 35 percent of this association is explained by occupational characteristics in particular access to a retirement plan which is largely influenced by whether the occupation is part time or full time. Individuals with poor mental health in adolescence are almost 8 percentage points more likely to work in part time employment compared to individuals without poor mental health in adolescence. Another 33 percent of this association is largely explained by educational attainment. Individuals with adolescent psychological distress are less likely to have a 4 year college degree by almost 4 percentage points which likely impacts their ability to secure stable jobs with access to a retirement plan. Individuals with adolescent psychological distress are 5.5 percentage points (p=0.010) less likely to have access to a retirement plan under their current or most recent employer. Job characteristics explain most of this association in particular whether the job is part time or full time. The mental health gap disappears when individuals have access to a retirement plan at their current or most recent employer. Further work will investigate whether individuals with adolescent psychological distress face a greater penalty in terms of access to an employer-provided retirement plan during economic recessions.

This paper contributes a deeper understanding of how mental health issues may affect long-term financial outcomes. I provide novel evidence that there exists a mental health gap in participation in employer-provided retirement savings plans in the United States by using mental health captured in adolescence and retirement savings participation captured at age 30. Further, I show that this mental health gap in retirement savings plans is largely due to adverse selection into occupations and employers. The mental health gap no longer exists when individuals have access to a retirement plan by their employer evidencing the importance of making these plans more widely available to employees potentially through automatic enrolment.