

Health Indexes and Retirement Modeling in International Comparisons

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Abstract

It is widely believed that health plays an important role in retirement decisions. The most important problem in including health in retirement models is the (lack of) availability of a good measure of health at the individual level in existing data sets. This problem is exacerbated when a model spanning multiple countries (to investigate the role of institutions in retirement decisions) is desired, because self-reports on health may not be comparable across countries. Arguably, physical measures are less influenced by cultural and linguistic differences than self-reports on general health or even on health conditions. We develop a cross-country measurement model for health in which the relations between functional limitations, self-reports and physical measures (like grip strength) are used to construct a health index. Comparability across countries is achieved by using the physical measurements to define the measurement scales, and allowing other parameters to vary across countries to account for cultural and linguistic differences in response patterns. The usefulness of the health index is then investigated by including it in some simple retirement models.