

**THE SURVEY OF INCOME AND
PROGRAM PARTICIPATION**

**HOW ARE THE ELDERLY HOUSED? NEW
DATA FROM THE 1984 SURVEY OF
INCOME AND PROGRAM PARTICIPATION**

No. 64

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This paper was prepared for presentation at the Annual Meeting of the Population Association of America in New Orleans, Louisiana, on April 23, 1988.

The views expressed in this paper are those of the author and do not necessarily reflect those of the U. S. Bureau of the Census.

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HOW ARE THE ELDERLY HOUSED?
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Introduction

Elderly people, defined for this paper as those aged 65 and over, are a growing segment of the United States population. In assessing their needs, living conditions, and financial status, housing is an important element.

The Census Bureau projects that the older population will grow by about 6 million in just 14 years, from about 29 million in 1986 to about 35 million people in the year 2000. When the postwar baby boom begins turning 65 in 2011, the older population will swell rapidly, reaching perhaps 65 million in 2030, nearly doubling in three decades. The elderly will constitute about one-fifth of the United States population in 2030. In 1984, older people were about 12 percent of the population, but 21 percent of households had an elderly householder in whose name the unit was owned or rented. If this ratio of population to households continues, households with a householder aged 65 and over will constitute about 35 percent of all households in 2030.

Housing is usually the largest, and in many cases, the only substantial investment of younger and older people alike. For older people, however, this nonliquid asset might become a welcome source of spendable cash in a time when wage and salary earnings have ceased, especially when health expenditures (including those for long-term care) may be large.

In a broader sense, if one's personal mobility diminishes, especially among those of advanced age, the dwelling of an older person becomes more and more that person's major environment. As health status changes and space needs diminish, the dwelling may become less suitable than it was at a younger stage of life. For example, stairs to bathrooms and bedrooms on upper floors may be difficult barriers. Yet moving to what would appear to be a more suitable residence may mean an upsetting change from a familiar neighborhood; from a physical setting imbued with years of memories; loss of privacy; a stressful confronting of new neighbors and possibly care givers; unfamiliar surroundings; and a new financial burden.

Certainly the housing needs of people change as they age. People in their eighties differ from those in their sixties, just as a

middle-aged person differs from a teenager. As people age, they often experience income loss, widowhood, and a lessening of physical robustness. A dwelling suitable to people in their late sixties may become burdensome in their seventies or eighties.

It is useful, therefore, to consider the housing of the older population in terms of age groups, rather than as the usual "65 and over" category as if they were a homogeneous "elderly" population. Most studies have not differentiated among age groups within the elderly population.¹

As this paper will show, when the data are analyzed in terms of separate age groups over 65 it becomes clear that the characteristics of housing of those in their late sixties and early seventies are more like those under 65 than different. There is evidence that a transition in housing takes place for many householders once they reach their mid-seventies and beyond. While most elderly households of all age groups live in traditional housing, and most have appliances considered basic parts of the American standard of living, cost burdens rise with age, especially for renters with low incomes.

In reaching these and other conclusions, the paper describes the prevalence of various housing types, household size, length of residence in the present housing unit, and the age of the structure itself. Level of comfort is measured in terms of extent of crowding, number of floors, type of heating fuel and presence of air conditioning, and availability of various appliances. Affordability, an important public policy consideration, is addressed separately for owners and renters. The paper also considers the extent to which low-income older households benefit from rent and mortgage interest subsidies, and whether many of these households are on a waiting list to gain access to public housing.

Data Source

This paper serves the dual purpose of reporting on the housing characteristics of elderly households of various age groups, and of introducing a new Health-Wealth File from the 1984 Survey of Income and Program Participation (SIPP). The data are from a merged file of Waves 3 and 4 of the 1984 SIPP. Wave 4, which included interviews with 18,701 households, conducted May through August 1984, included a Topical Module on Housing Costs, Conditions, and Energy Use, in addition to the questions regularly asked at each wave of interviews. These additional

¹ See, for example, the collection of articles in Judith Ann Hancock, ed., Housing the Elderly (New Brunswick, NJ: Center for Urban Policy Research, Rutgers University, 1987).

questions provide information on financial, structural and quality characteristics. Using the Health-Wealth file, one can examine these housing characteristics in association with the large amount of demographic and economic information contained in the core of the survey and other Topical Modules included in Waves 3 and 4.

The Health-Wealth file makes available in a single data set information on the population living in households over an eleven-month period in 1984. In addition to the topical module on housing, it includes topical modules on assets and liabilities as well as on health characteristics. The combination of these topics makes the Health-Wealth file a rich source of data on older persons who live in households; the institutionalized population is not included in the survey. (The Health-Wealth file is available through Dr. Michael Traugott from the National Archive of Computerized Data on Aging, Survey Research Center, University of Michigan, Ann Arbor, MI 48106-1248. The telephone number is 313-764-2570.) Funding for preparation of the file was provided by the National Institute on Aging.

This paper illustrates the housing data available from the Survey of Income and Program Participation, with particular relevance to housing of the older population. While the American Housing Survey is the Census Bureau's main intercensal housing data collection instrument, the advantage of using the SIPP Health-Wealth File to examine housing questions is the ability it affords to link housing information with data on health, pensions, and assets and liabilities also available on the file. Data presented in this paper on the ratio of home equity to total net worth illustrates these possibilities. I plan to develop these and other relationships in further research.

This paper reports on the housing characteristics of households with "householders" (the reference persons on the questionnaire in whose name the housing unit is owned or rented) aged 65 or older. These "older" households are divided into three age groups, according to the age of the householder (but not other household members): age 65 to 74 (referred to in the paper as "young old"); 75 to 84 (referred to as "middle old"); and 85 and over (referred to as "oldest old"). Those with householders under 65 are referred to as "younger households."

Where appropriate and when the size of the population permits, characteristics are reported for four classes of monthly household income: under \$500 (annualized to \$6,000); \$500 to \$899 (annualized to \$10,800); \$900 to \$1,249 (annualized to \$15,000); \$1,250 to \$1,999 (annualized to \$24,000); and \$2,000 and over. (Note that the annual equivalents of these monthly income amounts are given for reference only; one cannot assume that survey respondents had the same income for 12 consecutive months.)

In most cases, it is necessary to present the statistics in this paper in 90-percent confidence ranges rather as point estimates, since some of the population subgroups are small and subject to appreciable sample variance. The intent is to show relative levels. While the use of confidence intervals may not give as precise information as one might like, they present a truer picture of what the data based on a limited sample can show reliably about characteristics of subgroups of the population. All differences between subgroups mentioned in this paper are statistically significant at the 90-percent confidence level, even in cases in which the confidence ranges for subgroups overlap.

Types of Housing and Tenure

With the rise of nontraditional forms of housing such as congregate and shared housing, and the increasing prominence of the transient and homeless population, one might expect elderly households to differ among themselves as well as from younger households in the type of housing in which they live. In fact, about 90 to 95 percent of both younger and older households live in traditional houses or apartments. The oldest old were found in nontransient hotels and motels with somewhat greater frequency than the other age groups. Up to 5 percent of oldest old households (some 38,000 households) were living in nontransient hotels or motels, compared with 1 percent or less of other age groups. These and other data from this section are summarized in table 1 for age groups. Detailed tables showing income levels will appear in an expanded version of this paper.

Permanent residents of transient hotels and motels are a rarity. Less than 1 percent of householders (of any age) lived in transient quarters. Numbering more than 110,000 households, about 20,000 were aged 65 to 84.

Mobile homes were the residences of less than 10 percent of all age groups. Altogether, over 1 million of the over 5 million householders who resided in mobile homes were elderly.

The elderly were more likely than younger householders to own and less apt to rent. Of every 10 elderly householders, 6 to 7 owned their housing; the proportion declines slightly after age 75. Less than 6 in 10 younger householders were owners. Only 20 to 30 percent of elderly householders were renters, compared with one-third of younger householders. Up to 8 percent of householders 85 and over lived in housing they did not own but for which they made no cash payments. Twenty-two to 32 percent of householders 75 and over were renters, compared with 20 to 23 percent of those aged 65 to 74.

Ownership increased with income for all age groups. Within income groups, elderly householders owned their housing to a

greater degree than younger householders. For example, among households with monthly incomes of less than \$500, 25 to 29 percent of younger householders were owners, as were 46 to 54 percent of elderly householders. (The three elderly age groups were not statistically different from each other.) That most elderly householders no longer have a mortgage to pay is a factor enabling them, especially elderly low-income households, to continue living in their own homes. Less than one-fifth of elderly owners still carry a mortgage, compared with three-fourths of younger owners.

Elderly households were slightly more likely than younger households to live in condominiums or cooperative housing. About 5 to 7 percent of elderly households lived in condominiums or cooperatives as either owners or renters, compared with about 4 percent of younger households.

Young-old householders were more likely than younger householders to be living in a single-family detached home, but middle-old and oldest-old householders were less likely to do so. Sixty-one to 63 percent of younger householders, 64 to 68 percent of young-old householders, and only 51 to 62 percent of those aged 75 and over lived in single, detached homes. (Middle-old householders did not differ statistically from oldest-old householders in this respect.) Fewer than 7 percent of all age groups lived in townhouses, side-by-side duplexes, or other housing sharing a common wall (in census terminology, "single, attached units"). Elderly householders were found more often in large multiunit structures, and the proportion rose with age. About 3 percent of younger householders, 4 percent of young-old householders, and 8 to 11 percent of those aged 75 and over lived in structures with 50 or more units. Again, the middle old and oldest old were not statistically different.

Elderly people tend to live in the oldest housing stock. About 6 of every 10 young-old householders lived in housing built before 1950, a slightly higher proportion than younger householders. This proportion increased with the age of the householder--66 to 71 percent of middle-old householders and 73 to 82 percent of very old households lived in pre-1950 housing stock. While this housing, which is over 30 years old, is not necessarily in poor condition, it is likely to need more maintenance than newer structures. The people most often found in this older housing, the oldest old, may have the most difficulty keeping it in good repair, especially if they are its owners.

Elderly renters have generally remained in their present

dwellings for longer periods than younger households who rent.² (Length of residence for owners was not collected in the SIPP survey.) Between 18 and 24 percent of renters aged 75 and over have lived in their units 10 to 20 years, compared with 11 to 15 percent of the young old, and about 5 percent of younger households. (Middle old and oldest old were not statistically different.) Only about 1 percent of younger renters have lived in the same unit for more than 20 years, compared with 8 to 11 percent of elderly renters. (There were no statistical differences between elderly age groups for this characteristic.)

To summarize, most elderly householders lived in traditional forms of housing, i.e., houses or apartments, although about 20,000 elderly householders were living in hotels or motels for transients. About 60 to 70 percent of elderly householders owned their dwellings, most free and clear of a mortgage. Elderly householders were found more frequently than younger householders in large multiunit structures, and age of housing and length of residence (for renters) tended to increase with age of householder. While differences appeared between younger and young-old householders, and between these and householders aged 75 and over, there were few statistically significant differences between middle-old and oldest-old householders. This seems to indicate either (1) a transition when householders reach their mid-seventies or (2) a long-term cohort difference between those aged 65 to 74 and those aged 75 and older.

Comfort Characteristics of the Housing Unit

Do older people live in comfortable physical surroundings? To measure some aspects of comfort, the SIPP Health-Wealth file includes indicators of the amount of living space, convenience, climate control, and the presence of various appliances. The data are summarized in table 2.

"Number of rooms" is an indicator of amount of living space, and "persons per room" is a measure of available personal living space. Over 60 percent of households of all age groups lived in housing with 4 to 6 rooms. Relatively few households (of any age group) lived in small units (1 or 2 rooms) or in very large dwellings of (8 or more rooms). Middle-old and oldest-old householders, however, were more likely to live in small units than the young old and less likely to live in the larger ones. For example, 6 to 12 percent of oldest-old householders lived in 1 or 2 room units as compared with about 4 to 6 percent of

² The preferences of the elderly for continuing to live in their familiar surroundings are well documented in Paul L. Niebanck and John B. Pope, The Elderly in Older Urban Areas: Problems of Adaptation and the Effects of Relocation (Philadelphia: University of Pennsylvania, 1965), pages 136-144.

middle-old householders. Less than 4 percent of young-old and younger householders lived in units this small. Units of 8 or more rooms were home to 14 to 15 percent of younger householders, 8 to 10 percent of young-old householders, and about 6 percent of householders aged 75 and over.

Relatively few households of any age group experienced crowding, defined here as more than 1 person per room in the housing unit, and the elderly experienced less crowding than younger householders. Less than 1 percent of elderly households and about 4 percent of younger households fit this definition of crowding. Of course, elderly households tend to have fewer people. About 63 to 73 percent of oldest-old households consisted of 1 person, compared with about half of the middle old and 36 to 40 percent of the young old. About half of young-old households had 2 persons, compared with 36 to 41 percent of the middle old and 21 to 31 percent of the oldest old. (Even among younger households, nearly half consisted of 1 or 2 people.)

Income did make a slight difference among younger households in the likelihood of living in crowded conditions, but it made almost no difference among elderly households. Less than 2 percent of elderly households of all age groups and income levels were crowded, as contrasted with about 4 to 9 percent of younger households with incomes of up to \$1250 or less per month and 5 percent or less at higher incomes.

The number of floors in the dwelling can be a very important factor to elderly persons who have difficulty climbing steps. Older householders are in fact somewhat more likely than younger householders to live in 1-floor structures or in mid- or high-rise structures (5 or more floors). They are less likely than younger households to live in structures with 2 to 4 floors where steps are usually found and elevators are less likely. Half or more of elderly householders of each age group lived in 1-floor structures (not including unfinished basements or attics), and about 30 percent lived in 2-floor structures. About 4 to 9 percent of the oldest old lived in structures with 5 to 10 floors and another 4 to 9 percent in structures with more than 10 floors. Some of these, particularly older buildings, may lack elevators, but this cannot be determined from the SIPP data.

To heat their residences, from 45 to 55 percent of households regardless of age used natural gas; 13 to 14 percent of householders under 65, and 16 to 19 percent of the elderly, used fuel oil; and 20 to 21 percent of those under age 65, and 14 to 16 percent of the elderly, used electricity as their main heating fuel. (There were no statistical differences between elderly age groups in the use of these fuels.) That elderly householders made more use of fuel oil and less of electricity than did younger householders may have been due to the greater age of the elderly's residences.

Most lower-income households used gas, fuel oil or electricity. About 1.3 million out of 18 million elderly households used kerosene, coal, or wood as primary heating fuels. About 9 to 11 percent of low-income householders of all age groups used these fuels. There were no significant differences between age groups. We presume most of these housing units were in rural areas or were older structures but cannot tell from this data set. The need to use these older primary fuels may indicate substandard housing conditions, but not necessarily.

Air conditioning is present in about 53 to 65 percent of housing for each age group. About 37 to 42 percent of low-income householders under 65 have air conditioning, less than the 44 to 51 percent of elderly householders at this income level who have air conditioning. The data are not available by region of the country and, of course, many areas do not need air conditioning.

How do older households fare with respect to major appliances that have become commonly accepted as "necessities" or that enhance comfort or reduce labor? SIPP asks about the presence of a range for cooking, an oven, a refrigerator, a clothes washer and dryer in the housing unit, and a dishwasher.

Nearly all households had a cooking range and an oven. For example, only 1 to 2 percent of the oldest old lacked a cooking range, and 4 to 10 percent lacked an oven. All but a few percent of each income group had a cooking range, but 5 to 9 percent of low-income elderly households, about 20,000 to 30,000 in number, lacked an oven.

Refrigerators were found in nearly all households as well. Only among the oldest old did up to 5 percent, or about 40,000 households, lack refrigerators.

While not actually necessities, clothes washers and dryers in the unit are certainly a convenience, especially for the frail elderly. With age, however, availability of these appliances was less likely. Over three-fourths of the young old had washers, and about 60 percent had dryers. These proportions were similar to those for younger households. For householders aged 75 to 84, 61 to 66 percent had washers, and 44 to 49 percent had dryers. Corresponding proportions for the oldest old were 51 to 63 percent with washers and 32 to 43 percent with dryers. Some households without these appliances in the unit may have had access to them in a common laundry room in multiunit structures.

As expected, availability of washers and dryers increased with income for each age group. About half the lowest-income group within each age category had washing machines in their units; about half of younger householders but only 24 to 30 percent of elderly householders with low incomes had dryers.

Dishwashers are another work-saving appliance that contributes to comfort. Dishwashers were present in only about one-third of the units of the young old, one-fifth of the residences of the middle old, and only about one-tenth of the dwellings of the oldest old. Over 40 percent of younger households had dishwashers.

To summarize these comfort-related characteristics, most elderly households regardless of age had medium-sized living quarters (4 to 6 rooms), relatively few experienced crowding, and most used safe and convenient fuels for heating. Most had a cooking range, oven, and refrigerator. These basic appliances were present even in the housing of most low-income elderly households.

Although these conditions were enjoyed by most elderly households, the small proportion that lacked them represented thousands of households. For example, about 270,000 elderly households lived in 1-room units, about 80,000 had more than 1 person per room, about 7.5 million lacked air conditioning, 1.3 million used kerosene, coal, or wood for heating, 275,000 lacked a cooking range, 750,000 had no oven, and 180,000 had no refrigerator.

Financial Characteristics of Housing

This section addresses housing cost burdens, the role of housing subsidies and public housing in relieving cost burdens, and the potential of owners' equity as a source of cash. The data are summarized in table 3.

About half of elderly renters (47 to 54 percent) paid less than \$200 monthly for rent. Relative to average rents paid nationally, many consider this amount to be a reasonably modest level. When income is considered, however, the picture appears less sanguine. Housing experts disagree over the point at which the ratio of rent to income becomes burdensome, but most agree that a rent-income ratio of one-third is a financial constraint for most households. Among those with low incomes, 22 to 37 percent of young-old renters paid more than one-third of income for rent, as did 32 to 48 percent of those aged 75 and over.

Some elderly householders benefited from public rent subsidies and public housing. About 5 to 7 percent of young-old householders, and 8 to 10 percent of householders aged 75 and over participated in these two types of programs. Altogether, about 820,000 elderly households lived in public housing, and about 480,000 benefited from rent subsidies. Middle-old and oldest-old householders were most likely to reside in public housing: 4 to 7 percent did so; 3 to 5 percent of young-old households lived in public housing.

There did not seem to be a great backlog of older applicants who could not be accommodated in public or subsidized housing. Only 1 to 2 percent of elderly households who do not own their housing and who received either Supplementary Social Security income, welfare income, food stamps, or Medicaid were on a waiting list for public or subsidized housing.³ By contrast, 13 to 18 percent of younger households were on such a waiting list. This imbalance reflects the generally greater acceptability of public housing for the elderly over that for younger families in many local areas.⁴

In considering the relation of housing costs to income of elderly owner households, the most striking though well-known fact is that most elderly owners do not have mortgages to pay. About 76 to 80 percent of the young old, 87 to 91 percent of the middle old, and 92 to 98 percent of oldest-old owners owned their residences free and clear of any mortgage or loan. Their housing costs were limited to those for maintenance and repairs, fuels, utilities, and property taxes.

Of elderly owners needing to make mortgage payments, about 20 percent had monthly payments of less than \$200. About 35 percent of elderly owners paid between \$200 and \$400 per month.

Considering ratio of mortgage payment to income, about 35 percent of mortgage-paying older households with incomes of less than \$900 per month, about 140,000 households, made payments that were more than one-third of income. (There were too few households to permit separation by age group within the older population.)

Some owner householders participated in mortgage interest subsidy programs. About 6 to 7 percent of all householders with mortgages benefited from mortgage interest subsidies. These included about 2 million younger householders, 70,000 young-old householders, and 20,000 householders aged 75 or more.

Property taxes, whether included in mortgage payments or not, were less than \$500 per year for 49 to 53 percent of elderly owners. Another 25 to 28 percent paid \$500 to \$1000 in property

³ According to a 1985 U.S. Government Accounting Office study, however, 270,000 elderly persons were waiting to get into the Section 202 elderly rental assistance program. Only 40 percent of elderly renter households below the poverty level lived in subsidized housing. Special Committee on Aging, United States Senate, Developments in Aging: 1986 (Washington, DC: U.S. Government Printing Office, 1987), Volume I, pages 295-296.

⁴ The proportion of public housing units occupied by the elderly rose from 10 percent before 1956 to 46 percent in 1984. Ibid., page 289.

taxes. On an annualized income basis, 15 to 21 percent of elderly owner householders with monthly incomes of less than \$900 used more than 10 percent of income for property taxes. About 24 to 31 percent of younger owner householders with similar incomes did so.

While housing can be a financial drain, owner-occupied housing also offers a potential financial resource in the equity owners have accumulated over the years. Most elderly owners have in fact built up substantial equity in their homes. About 42 to 46 percent of the young old, and 47 to 53 percent of householders 75 and over, had \$20,000 to \$50,000 of equity; over 40 percent of the young old and 32 to 38 percent of householders 75 and over had accumulated more than \$50,000. Even among owner households in each age group with monthly incomes of less than \$500, more than half had accumulated home equities of more than \$20,000. Among the oldest old, for example, 46 to 72 percent of owners with monthly household incomes below \$500 had home equities of \$20,000 to \$50,000, and 14 to 36 percent of them had over \$50,000 locked up in their housing investment.

At older ages, home equity tended to comprise a lower proportion of assets. For owner households, home equity accounted for over half of net worth (assets minus debts) for 71 to 73 percent of younger householders, but only 63 to 67 percent of older householders. Home equity was a larger proportion of net worth for owner householders with lower incomes regardless of age. More affluent owners tended to own more assets of other types such as stocks and mutual fund shares, or interest-bearing accounts at financial institutions. For example, among homeowners aged 65 and over home equity was over half the householders' net worth for 83 to 90 percent of those with low monthly incomes (less than \$500), 64 to 73 percent for those with middle incomes (\$900 to \$1249), and 41 to 48 percent for those with high incomes (\$2000 or more).

Various devices have been tried to enable older people to gain access to this nonliquid asset. For example, reverse equity mortgages enable owners in effect to sell their house to a bank, receiving the cash for the house while retaining title as long as they occupy it. While this and other types of financial arrangements that enable older owners to use their home equity have not been widely used as yet, equity remains a substantial asset that could help many older people to have adequate resources to enjoy the last quarter of their lives.⁵

Conclusions

⁵ See Kenneth Schoen and Yung-Ping Chen, eds., Unlocking Home Equity for the Elderly (Cambridge, MA: Ballinger Publishing Co., 1980)

Older households and younger households are more similar than different in the type of housing they occupy, their form of tenure, and overall conditions in which they live. There are some indications, however, that a transition in housing occurs among many households in their mid-seventies or thereafter. For example, the oldest old were found living in nontransient hotels and in large multiunit structures to a greater extent than those under age 85. Householders over age 75 were more likely to rent than were householders under 75. Young-old households closely resembled younger households in type of housing, tenure, and several other housing characteristics.

Housing conditions of those in their late seventies and above also differed from those of young-old and younger households. The middle-old and oldest-old tended to live in older housing, and the oldest renters tended to have remained in the same residence longer than the young old. Whether those aged 65 to 74 in 1984 stay in their present dwellings or show a greater tendency to move to other housing as they age remains to be seen.

Most elderly households have the appliances that one might consider requisite to the American standard of living--a cooking range, oven, and refrigerator. Small proportions--representing substantial numbers--of elderly households lacked other conveniences such as clothes washers, dryers, and dishwashers.

The cost of housing is probably the most serious housing problem for many elderly households. Significant proportions of low-income renters and owners with mortgages used more than one-third of their incomes for housing payments. Of course, most elderly owners no longer had mortgages to pay. These owners were in the best financial position, as many had also built up equity values of \$50,000 and more against which they could borrow or which they could convert to cash.

Public programs to supplement rent or lower mortgage interest payments, and public housing, have benefited elderly households to some extent. The proportion of elderly households on a waiting list for public housing is much lower than for younger households, probably resulting from both a desire among many elderly households to remain in their present nonpublic housing, and government emphasis on (and local acceptability of) using available resources to meet the need for housing the low-income elderly.⁶

As the number of households with elderly householders increases, planning to meet their housing needs and preferences could avert

⁶ For example, the Section 202 rental assistance program, created in 1959, is specifically targeted toward the elderly.

17.2 percent. Persons receiving unemployment insurance typically have strong ties to the labor force. On the other hand, greater proportions of the non-jobfinders received cash and noncash welfare in their households and this is usually indicative of weak labor force ties. ^{6/} Last, expected differences by years of school completed were evident, that is, job finders were generally better educated than non-jobfinders (except in the instance of those with 16 or more years of school completed).

Table 4 shows averages of reservation and acceptance wages by age and sex for the 483 persons who found jobs at some time during the 12-month period after the winter of 1984-85. As mentioned earlier, the acceptance wage, overall, was about 15 percent above the reservation wage. For men, the acceptance wage was about 18 percent higher than the reservation wage. For women it was only about 12 percent higher. Among all the age-sex groups, the greatest difference between the acceptance wage and reservation wage was for men age 25 to 54--\$7.47 vs. \$6.12.

As research has shown, an individual's reservation wage is likely to change as the length of the job search continues and job offers are received. In our analysis, of course, the reservation wage is fixed at a point in time. Many persons begin the search with overly optimistic wage expectations and quickly learn what the relevant job offer range is and adjust their lowest acceptable wage (Barnes, 1975).

Table 4. Mean Reservation Wages and Acceptance Wages of Unemployed Persons Who Found Jobs by Age and Sex, Winter, 1984-85 ^{1/}

Age and sex	Total persons	Reservation wage	Stand. error	Acceptance wage	Stand. error
Total	483	\$4.95	\$.004	\$5.71	\$.006
Men, age 16 and over	227	5.52	.007	6.53	.009
16 to 19	26	3.84	.007	4.65	.011
20 to 24	63	4.48	.008	5.10	.009
25 to 54	121	6.12	.011	7.47	.014
55 to 64	13	8.02	.046	8.45	.045
65 and over	4	6.47	.060	6.39	.020
Women, age 16 and over	256	4.46	.005	4.98	.008
16 to 19	33	3.46	.003	3.98	.007
20 to 24	49	3.80	.004	4.13	.007
25 to 54	155	4.81	.008	5.46	.013
55 to 64	18	4.85	.019	4.97	.017
65 and over	1	6.50	.000	4.50	.000

^{1/} See footnote 1, Table 2.

NOTE: Data are unweighted.

Regression Analyses

Table 5 presents the results of two regressions, one of which relates to persons who never found jobs and the second to persons who did find jobs. They have been specified for the purpose of evaluating the reservation wage data and not for testing hypotheses relating to the theory of reservation wages. As was shown, the composition of the samples who did and did not find jobs differed significantly in certain characteristics and, therefore, separate regressions were run for these groups.

The dependent variable in each regression is the natural logarithm of the reservation wage. These dependent variables have been regressed on various dummy independent variables. They consisted of age, sex, and race variables, as well as human capital variables, defined here as years of school completed. These variables are commonly found in earnings models. In addition, since the reservation wage is affected by income, the regressions also contain dummy variables reflecting levels of individuals' monthly household income, the receipt of unemployment insurance by the individual, and the receipt of cash or noncash welfare by the household (see footnote 6 for the definitions of the last items). Other nonpecuniary factors which might affect the reservation wage, such as the presence of young children in the household, availability of day care, and school enrollment, were not included.

Since the dependent variables are in logarithmic form, the regression coefficients are interpreted as estimated percentage changes in the reservation wage of a reference group

to a unit change in a particular dummy variable. 7/ The reference group in both regressions was an unemployed white male, age 25 to 54, who had a high school education, a monthly household income of between \$1,000 and \$1,999, and received no unemployment insurance or cash or noncash welfare payments in his household.

As shown in Table 5, the female coefficients were highly significant in both regressions and indicated that the reservation wages of women would be about 18 percent lower than men, holding other variables constant. (All significant tests were at the 5-percent level.) While this obviously reflects differences in tastes for nonmarket work, it also probably reflects market wage expectations. The coefficients for blacks and others were not statistically significant, but each had a negative sign. This result is consistent with what Holzer (1986) found for white and black male youths. He also showed that while black youths have generally the same reservation wages as white youths, the former's acceptance wages are generally lower than the latter's.

Coefficients on the 16 to 19 and 20 to 24 year old variables were negative as would be expected and were significant. This too reflects differences in the value of nonmarket time and wage expectations relative to that of the reference group. For the older age groups, only the coefficient on the 55 to 64 year old variable for non-jobfinders was significant.

Table 5. Regression Results of Regressing the Natural Logarithms of Reservation Wages of Unemployed Persons Who Never Found Jobs and Found Jobs on Various Social, Demographic, and Economic Characteristics of These Persons

Variable	Unemployed persons with reservation wages:	
	Never found job	Found job
Female	-.178 (.039)	-.183 (.040)
Black and other races	-.069 (.046)	-.019 (.050)
Age 16 to 19	-.205 (.071)	-.226 (.064)
Age 20 to 24	-.108 (.049)	-.176 (.050)
Age 55 to 64	.136 (.064)	.088 (.082)
Age 65 and over	.209 (.133)	.211 (.193)
0 to 8 yrs. sch. compl.	-.119 (.064)	-.051 (.078)
9 to 11 yrs. sch. compl.	-.107 (.050)	-.002 (.051)
13 to 15 yrs. sch compl.	.103 (.060)	.109 (.053)
16 or more yrs. sch. compl.	.280 (.072)	.382 (.090)
\$0 to \$999 mthly. hhld. inc.	-.004 (.047)	-.051 (.046)
\$2,000 to 2,999 mthly. hhld. inc.	.065 (.067)	-.053 (.064)
\$3,000 to 3,999 mthly. hhld. inc.	.041 (.081)	-.019 (.086)
\$4,000 or more mthly. hhld. inc.	.108 (.095)	.134 (.083)

Table 5. Continued.

Variable	Unemployed persons with reservation wages:	
	Never found job	Found job
Unemployment insurance	.133 (.052)	.194 (.046)
Cash welfare <u>1/</u>	.080 (.059)	.007 (.066)
Noncash welfare <u>1/</u>	-.178 (.057)	-.117 (.060)
Constant	1.651 (.055)	1.619 (.054)
² R	.305	.285
N	535	483
Mean of dependent variable (natural logarithm of reservation wage)	1.502	1.506

1/ Cash welfare consists of benefits from Supplemental Security Income, Veterans pensions, Aid to Families with Dependent Children, General Assistance, and Indian and Cuban Refugee Assistance. Noncash welfare consists of benefits from the Food Stamp Program, Women, Infants, and Children Nutrition Program, and the Low-Income Energy Assistance Program.

NOTE: Standard errors, which are shown in parentheses, have been adjusted upward by 1.2049 for a sample design effect.

Given the positive relationship between education and income, one would expect that reservation wages would be positively related to years of school completed. As shown in Table 5, the coefficients of 0 to 8 years and 9 to 11 years of school completed do have negative signs as expected (since the reference group's education level is 12 years), but only the non-jobfinders coefficient on the 9 to 11 years variable was significant. For jobfinders with 13 to 15 years of education and with 16 or more, coefficients were positive and significant. The reservation wage for a person who found a job and had 16 or more years of schooling would be about 38 percent higher than the reference group's.

With respect to income, reservation wages would be expected to rise as income rises. This is because as the ability to buy more goods and services increases so would the value of leisure and therefore the reservation wage. As shown in the table, none of the coefficients were statistically significant. The unemployment insurance coefficient, however, had a strong positive effect on reservation wages as would be expected, especially for those who finally found jobs. The reservation wage would have been almost 20 percent higher for those in this latter group. The stronger effect on the jobfinders probably reflects their more serious job search and stronger attachment to the labor force.

A large and significant negative effect was recorded on the noncash welfare coefficient for those who never found a job. This means that the reservation wage would have been

nearly 18 percent lower than the reference group if noncash welfare had been received in the household. This finding is puzzling since theory suggests that nonlabor income would increase the reservation wage. ^{8/} One possible interpretation is that respondents are providing a conditioned response since contained in this variable is the Food Stamps Program, a program that has a work requirement. In the households in which food stamps were received, persons of working age who did not hold jobs may have wanted to demonstrate their interest in the job market by reporting that they were indeed looking for work and would take a relatively low wage if they found a job. Another interpretation is that unemployed persons who receive food stamps in their household are different than unemployed persons from other households, even though we are controlling for many differences. For example, wage expectations may differ greatly for the low income, high school educated, middle-aged man from a rural area and for a similar individual from an urban area who has been on and off various means-tested programs for many years. Even though we have controlled for a number of factors, one's wage expectations may still differ because of background and environmental reasons.

The noncash welfare coefficient for persons who found jobs was also negative but not statistically significant. Cash welfare coefficients all carried positive signs as would be expected, but were not significant.

Table 6 presents the results of a third regression which uses the natural logarithm of the acceptance wage for its

dependent variable. The independent variables are age, sex, race, years of school completed, the receipt of unemployment insurance, and the receipt of cash and noncash welfare in the household, as in the earlier regressions, and a few new variables. Reservation wage levels were introduced as dummy variables, and a time variable was included. The time variable has three categories which represent the three four month periods in which an acceptance wage (or job) could have been received. Monthly household income was divided into three categorical variables.

Except for the time and acceptance wage variables, all other variables relate to the period at which the reservation wage was reported. The reference group for this regression is similar to that for the earlier ones, except now we assume that persons resided in households with monthly incomes of between \$2,000 and \$2,999, had a reservation wage of between \$5.00 and \$5.99, and found a job in Time 1, or in the first four month period after reporting his reservation wage. Again, the coefficients are interpreted as percentage deviations about the average acceptance wage for the reference group, given a unit change in an independent variable.

The female coefficient in Table 6 indicated a 16 percent lower acceptance wage than the reference group's, a difference that continues to reflect sex differences in earnings even though this model controls for many factors. The coefficient on blacks and other races also had a negative sign but was not

Table 6. Regression Results of Regressing the Natural Logarithms of Acceptance Wages of Unemployed Persons Who Found Jobs on Various Social, Demographic, and Economic Characteristics of These Persons

Variable	Unemployed persons with reservation wages who found jobs
Female	-.158 (.045)
Black and other races	-.030 (.055)
Age 16 to 19	-.126 (.073)
Age 20 to 24	-.134 (.056)
Age 55 to 64	-.015 (.090)
Age 65 and over	-.046 (.214)
0 to 8 yrs. sch. compl.	-.109 (.087)
9 to 11 yrs. sch. compl.	-.046 (.056)
13 to 15 yrs. sch. compl.	-.053 (.060)
16 or more yrs. sch. compl.	-.002 (.102)
\$0 to \$1,999 mthly. hhld. inc.	-.065 (.067)
\$3,000 or more mthly. hhld. inc.	-.086 (.085)
Res. wage less than \$3.35	-.146 (.121)
Res. wage, \$3.35	-.104 (.074)
Res. wage, \$3.36 to \$3.99	-.122 (.090)

Table 6. Continued.

Variable	Unemployed persons with reservation wages who found jobs
Res. wage, \$4.00 to \$4.99	-.070 (.082)
Res. wage, \$6.00 to \$6.99	.153 (.099)
Res. wage, \$7.00 or more	.353 (.082)
Time 2 (second four month period)	-.107 (.050)
Time 3 (third four month period)	-.053 (.075)
Unemployment insurance	.142 (.052)
Cash welfare <u>1/</u>	-.049 (.073)
Noncash welfare <u>1/</u>	-.048 (.066)
Constant	1.851 (.096)
2	
R	.340
N	483
Mean of dependent variable (natural logarithm of acceptance wage)	1.619

1/ See footnote 1, Table 5.

NOTE: Standard errors, which are shown in parentheses, have been adjusted upward by 1.2049 for a sample design effect.

significant. According to this model and the previous model, there exists little difference in the acceptance and reservation wages of whites and blacks, although here too we were not explicitly testing these hypotheses. The only significant age coefficient was on the 20 to 24 year old variable which would indicate that acceptance wages would be 13 percent lower than the reference groups.

None of the human capital and monthly household income coefficients were statistically significant at the 5 percent level. One might have anticipated a positive relationship here between education and wages. The unemployment insurance coefficient, however, was highly significant and positive and would have been predicted.

Among the reservation wage coefficients, only the \$7.00 and over coefficient was significant, implying that if the reference group person had a reservation wage at this level his acceptance wage would have been 35 percent higher. Given the reference group's reservation wage of between \$5.00 and \$5.99, the remaining coefficients on these variables had the expected signs but were not significant.

Theory as well as empirical evidence (Barnes, 1975) would indicate that the acceptance wage should decline as a spell of unemployment lengthens. There is some evidence of this in the SIPP data but it is not entirely convincing. It should be remembered that these spells are spells of nonemployment and not spells of unemployment. The Time 2 coefficient was statistically significant and negative indicating that these

longer term job finders received about 11 percent less than the reference group who found their job in the first four months after the reservation wage was reported. The Time 3 variable, however, was less negative and not statistically significant.

Conclusions

In this paper the reservation wages of unemployed persons collected in the fifth interview of SIPP's 1984 panel were evaluated. Because SIPP is a longitudinal survey, it is possible to find out whether or not these individuals eventually found jobs and at what acceptance wages in SIPP's sixth, seventh, and eighth interviews. The relationship between what respondents said were their reservation wages and what eventually happened to them, in light of theoretical expectations and existing empirical research, therefore, was the basis of the evaluation.

In a very broad sense, the reservation wage data appeared reasonable. Slightly less than half of the unemployed found jobs in a year, and for those who did, the acceptance wage, on average, was approximately 15 percent higher than the reported reservation wage. In other words, their reported reservation wage, on average, appeared to be a lower limit for market work as theory suggests. It was also shown that jobfinders and non-jobfinders differed in certain characteristics as would be expected. Job finders were comprised of proportionally more men and recipients of unemployment insurance and proportionally fewer persons from households in which welfare payments had been received.

In a narrower sense, however, the data were less convincing. Regression models were estimated which also tested the reservation wage data. When controlling for a variety of social, demographic, and economic characteristics, a number of the estimated coefficients failed to agree with predicted results. For example, there was no evidence that monthly household income had a significant effect on the reservation wage. Also puzzling was the result obtained with respect to noncash welfare benefits. Theory would predict the receipt of such nonlabor income to have a positive effect on the reservation wage. The opposite was found. It should be remembered, however, that the estimated models have limitations as well, one of them being the omission of variables accounting for the presence of young children in the family, the availability of day care, school enrollment, and other noneconomic variables which may affect the reservation wage and the value of nonmarket time.

Given these findings, users of the SIPP reservation wage data should be mindful of the fact that these data are based on respondents' judgements. No doubt some considered all the various factors, both market and nonmarket, that might influence their reservation wage. Others may have been less comprehensive in their assessment. The result is a data set that must be used judiciously.

FOOTNOTES

- 1/ In May 1976, the CPS contained a special supplement to its regular labor force questions inquiring about the job seeking activities of unemployed persons and their reservation wages. The NLS also contained reservation wage questions in its 1979 and 1980 survey of young men.
- 2/ Other corrected tables from the 1987 ASA paper are available from the author upon request.
- 3/ Additional SIPP panels have been started in 1985, 1986, 1987, and 1988. These panels' sample size averaged approximately 14,000 households. See Nelson, McMillen, and Kasprzyk (1985) for an overview of the SIPP.
- 4/ Reservation wage questions were also asked of those persons outside the labor force who expressed interest in eventually returning to the labor market within 12 months.
- 5/ Although most unemployed wage earners are paid by the hour, some did report their reservation wages and acceptance wages on another basis (e.g., weekly, bi-weekly, monthly, annual). To place these data on a consistent basis, all non-hourly wage data were transformed to an hourly basis. It was assumed all jobseekers were looking for full-time jobs of 40 hours a week so that figure was used in the conversion of non-hourly reservation wages. In addition, 4.3 weeks was used in the conversion of any monthly reservation salaries and 52 weeks was used in the adjustment of annual earnings. Over 75 percent of the reservation wage data responses were on a per hour basis.
- 6/ Contained in the cash welfare variable were Supplemental Security Income, Veterans pensions, Aid to Families with Dependent Children, General Assistance, and Indian and Cuban Refugee Assistance. The noncash welfare variable consisted of Food Stamps, Women, Infants, and Children Nutrition Program, and Low Income Home Energy Assistance.
- 7/ This dummy variable method subsumes in the constant term the average wage of persons with particular characteristics defined by the selection of the independent variables. Consequently, the coefficients represent the multiplicative effects of the associated characteristics and measure deviations relative to these persons, or the "reference" group.
- 8/ Multicollinearity is present between the cash and noncash welfare variables. Running the same model, but excluding the noncash welfare variable, produced very little change in the coefficient of the cash welfare variable, however.

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Section 5 – TOPICAL MODULES (Continued)

Part C – REASONS FOR NOT WORKING/RESERVATION WAGE

CHECK ITEM T16	Is "Worked" marked on the ISS?	8192	1 <input type="checkbox"/> Yes – SKIP to Check Item T18 2 <input type="checkbox"/> No
CHECK ITEM T17	Did ... spend time looking for work or on layoff from a job? (See item 2a, page 2)	8194	1 <input type="checkbox"/> Yes – SKIP to 15a 2 <input type="checkbox"/> No – SKIP to Check Item T20, page 53
CHECK ITEM T18	Did ... work at a job or business either full or part time during EACH of the weeks in this period? (See item 5a, page 2)	8198	1 <input type="checkbox"/> Yes – SKIP to 18a, page 54 2 <input type="checkbox"/> No
14.	ASK OR VERIFY – Did ... work at a job or business (or was ... on paid leave) during the last week of (last month)?	8198	1 <input type="checkbox"/> Yes – SKIP to 18a, page 54 2 <input type="checkbox"/> No
15a.	This next question concerns the last week of (last month). Was ... on layoff from a job during that week?	8200	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No – SKIP to 16a
b.	For how many weeks had ... been on layoff up until that time?	8202	<input type="text"/> <input type="text"/> Weeks x1 <input type="checkbox"/> DK
	ASK OR VERIFY –	8204	
c.	Does ... now have a job or business?	8204	1 <input type="checkbox"/> Yes – SKIP to 15f 2 <input type="checkbox"/> No
d.	Does ... expect to be called back to that job?	8206	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No x1 <input type="checkbox"/> DK } SKIP to 15f
e.	Does ... have a specific date to return to work?	8208	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No
f.	What wage or salary was ... receiving at the time ... was laid off that job?	8210	\$ <input type="text"/> . <input type="text"/> Per hour
	Mark only one.		OR
		8212	\$ <input type="text"/> . <input type="text"/> 00 Per week
			OR
		8214	\$ <input type="text"/> . <input type="text"/> 00 Per month
			OR
		8216	\$ <input type="text"/> . <input type="text"/> 00 Per year
		8218	x1 <input type="checkbox"/> DK
	ASK OR VERIFY –	8220	
16a.	Did ... spend any time looking for work during the month of (last month)?	8220	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No – SKIP to Check Item T20
b.	Was ... looking for a full-time or part-time job?	8222	1 <input type="checkbox"/> Full-time 2 <input type="checkbox"/> Part-time 3 <input type="checkbox"/> Either
c.	Did ... contact any employers, during (last month) in person, by mail, or by telephone?	8224	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No – SKIP to 16e
d.	How many different employers did ... contact?	8226	<input type="text"/> <input type="text"/> Employers } SKIP to Check Item T19 x1 <input type="checkbox"/> DK
e.	What did ... do during (last month) to find work – did ... (Read categories) –		
	(1) Check with the unemployment office?	8228	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No
	(2) Check with a private employment agency? .	8230	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No
	(3) Ask friends or relatives?	8232	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No
	(4) Anything else?	8234	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No
	Specify ↓		
CHECK ITEM T19	Is ... a self-respondent?	8238	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No – SKIP to 18a, page 54

Section 5 – TOPICAL MODULES (Continued)

Part C – REASONS FOR NOT WORKING/RESERVATION WAGE (Continued)

<p>16f. Were you looking for a particular kind of job?</p>	<p>8238 1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No – SKIP to 16k</p>
<p>g. What kind of job were you looking for?</p>	<p>Code <input type="text"/> <input type="text"/> <input type="text"/> Name of job <input type="text"/></p>
<p>h. Had you done this kind of work before?</p>	<p>8242 1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No – SKIP to 16j</p>
<p>i. When did you last do this kind of work?</p>	<p>Month <input type="text"/> <input type="text"/> Year <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/></p> <p>8246 8248 <input type="checkbox"/> 1 <input type="checkbox"/> 9 <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/></p> <p>8260 x1 <input type="checkbox"/> DK</p>
<p>j. What wage or salary did you expect to receive for this kind of work?</p>	<p>8262 \$ <input type="text"/> . <input type="text"/> Per hour OR 8264 \$ <input type="text"/> . 00 Per week OR 8266 \$ <input type="text"/> . 00 Per month OR 8268 \$ <input type="text"/> . 00 Per year 8260 x1 <input type="checkbox"/> DK x2 <input type="checkbox"/> Ref.</p>
<p>k. What is the lowest wage or salary you would have accepted (for this kind of work)?</p>	<p>8262 \$ <input type="text"/> . <input type="text"/> Per hour OR 8264 \$ <input type="text"/> . 00 Per week OR 8266 \$ <input type="text"/> . 00 Per month OR 8268 \$ <input type="text"/> . 00 Per year 8270 x1 <input type="checkbox"/> DK x2 <input type="checkbox"/> Ref.</p>
<p>l. During the time you have been looking for a job did you receive any job offers that you did not take?</p>	<p>8272 1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No – SKIP to 18a, page 54</p>
<p>m. What is the main reason you did not accept the (most recent) job offer?</p>	<p>8274 1 <input type="checkbox"/> Did not want that kind of work 2 <input type="checkbox"/> Pay too low 3 <input type="checkbox"/> Job too far away 4 <input type="checkbox"/> Lack transportation 5 <input type="checkbox"/> Job was only temporary 6 <input type="checkbox"/> Couldn't arrange child care 7 <input type="checkbox"/> Hours were not satisfactory 8 <input type="checkbox"/> Other job conditions were not satisfactory 9 <input type="checkbox"/> Inadequate benefits 10 <input type="checkbox"/> Other – Specify _____</p>
<p>n. What wage or salary was offered?</p>	<p>8276 \$ <input type="text"/> . <input type="text"/> Per hour OR 8278 \$ <input type="text"/> . 00 Per week OR 8280 \$ <input type="text"/> . 00 Per month OR 8282 \$ <input type="text"/> . 00 Per year 8284 x1 <input type="checkbox"/> DK x2 <input type="checkbox"/> Ref.</p>

SKIP to 18a, page 54