

Reshaping Retirement Security: Lessons from the Global Financial Crisis

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Outline of Response

- Quick Summary of Results Presented
- Why This Research is Important
 - General
 - Household
 - Employer
 - Macroeconomic
 - Public Policy
- Observations: Hurd & Rohwedder
- Observations: Fichtner, Phillips, Smith
- Conclusion

Paper #1: Hurd & Rohwedder (HR)

Overview

Data

- Longitudinal, HRS/CAMS/Internet Study, 55+
- Exogenous: stock & housing values
- Endogenous: debt, spending, work, bequests

Findings

- Very significant effects of shock on retirees & pre-retirees
- Generally, debt rises, spending declines (savings increase), working lives extend, and expected bequests decline
- Important variations on these themes & magnitudes by age and current employment (e.g., spending levels, working lives)

Paper #2: Fichtner, Phillips, Smith (FPS)

Overview

Data

- Continuous Work History Sample
- Survey of Relevant Literature

Findings

- Secular & cyclical trends in claiming age
- Implications for retirement benefits funding and financial security
- Federal efforts to improve SS awareness, understanding, role in retirement through enhanced communications
- Significant cyclical effects on claiming age and beneficial effects of communication on retirement planning ... But More Research & Communication Needed

Why Is This Research Important?

General



Household Financial
Security

Employer
Perspectives

Macro-Economic
Implications

Public Policy
Implications

- Business Cycle Will Always Be With Us
- Recent Financial Crisis As Educational Natural Experiment (although painful)
- Ability to Manage Retirement of Large Age Cohort is at Stake
- Ability to Transition to New Retirement Model is at Stake

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- Retiree Well-Being Increasingly Tied to Macro Cycle and Asset Prices
- Importance of These Effects Will Grow as Retiree Cohorts Shift Away from DB to DC
- Role of Housing & Leverage in Retirement Planning
- Multi-Generational Balance Sheet Erosion Possible
- How Can We Improve Retiree Financial Security?

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- Labor Supply Responses by Age Cohorts
- Demographic Composition of Labor Force
- Need for Extended Working Lives
- Design of Optimal Retirement Financing Benefits: Planning, Advice, Behavioral Levers, Risk Mitigation

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- New Behavioral Feedback Loops are Appearing
- And Their Strength Will Likely Grow Over Time
- Need to Update Response Models Frequently
- Labor Supply Responses
- Importance of Asset Prices and Correlations
- Evolving Power of Macro Policy Levers

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Implications**



- Social Security Funding, Liquidity, Solvency
- Rising Issue of Disability Claiming & Funding
- Medicare/Medicaid Claiming & Funding
- Value of Retirement Planning Communications
- Political Force of Financially Distressed Retirees

Paper #1: Hurd & Rohwedder (HR)

Observations

- Data: very interesting use of 3 complementary sets
- Expectations: useful correlation of survey-based expectations to current behavior
- Longitudinal data: consistent tracking of behavior vs. change in lifecycle over 10 years
- Investment Wealth: equities as sole measure vs. broader measure including fixed income, global equity, commodities, etc.
- Finer Views: partition by income, HH size, geography, employment industry, presence of DB benefits?
- Continued Research: as population ages, more retire, and retirement funding evolves, behavioral effects on economy will likely strengthen

Paper #2: Fichtner, Phillips & Smith (FPS)

Observations

- Data: age 62 claiming behavior over time and by gender is intriguing and significant contribution
- Secular/Cyclical Effects: identifying secular trends and cyclical responses in claiming age informs on retirement behavior, benefits program funding status, and likely improvement areas for educational efforts
- Finer Views: partition age 62 claiming by income level, employment industry, geography, presence of DB; Show evolution of full claiming age distribution over time; Consider regression analysis to identify correlations
- SS Communications: excellent tool for education & retirement planning; funding should be viewed as an investment with return
- Continued Research: as richer data become available, will be very informative to deepen this line of research

Conclusions

- Important Area of Research for Many Constituencies
- Good Start, Given Available Data and Recent Economic Cycle
- Magnitude of Observed Effects Likely to Evolve Over Time as Retirement Structures Change
- Important to Expand and Refine This Line of Inquiry