Retirement Behavior and the Global Financial Crisis

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Introduction

- Declines in assets as well as high unemployment changed the retirement plans of many Americans
- Shocks to employment and wealth have likely influenced retirement behavior
- Paper provides survey of the current literature on the influence of employment and wealth shocks on retirement
- Use of administrative records on benefit applications to provide a preliminary analysis of changes in claiming patterns resulting from the recent economic downturn
- Given the effects of the financial crisis and the increase of early claiming might have on retirement well-being, discuss how Social Security Administration is helping Americans prepare for retirement through research, education and decision support tools
- Last, areas for further research

Financial Crisis

- Financial crisis beginning 2008 resulted in great and unanticipated loss of wealth for millions of people
  - Hurd & Rohwedder (2010) - Health and Retirement Survey (HRS), about 28 percent of HRS households reported being affected a lot by financial crisis, 46 percent responded affected a little, and only 26 percent reported not having been affected
- Stock market, as measured by the broad S&P 500 index, fell 56.7 percent from a peak on October 10, 2007 to a bottom on March 9, 2009
  - Survey research using Cognitive Economics Study (CogEcon) suggests financial wealth declined by 15 percent for the median household as a result of the 2008 financial crisis (Shapiro 2010)

Literature Review

- What Do We Know About the Effects of Wealth Shocks and Employment on Retirement Behavior?
  - A financial shock, such as steep drops in the value of stock prices, investment portfolios and housing assets might cause a delay in retirement plans, as a sudden loss in wealth causes people to remain in the workforce longer than planned and rebuild retirement savings (Bosworth and Burtless 2010)
  - The loss of a job can also affect retirement behavior. As Bosworth and Burtless (2010) note, 'At ages past 60 and especially past 65. . . the reduced employment levels caused by a weak job market very quickly translate into reduced labor force participation rates.'
  - An employment shock, such as a sudden loss of a job and a tight labor market with high unemployment might hasten the decision on both when to retire and when to begin receiving Social Security benefits (Bosworth and Burtless 2010; Fichtner and Phillips 2011 (forthcoming)

Literature Review

- What Do We Know About the Effects of Wealth Shocks and Employment on Retirement Behavior, continued?
  - Using HRS data for 2008 and 2009, Hurd and Rohwedder, 2010 find many are planning on working longer and retiring later as a result of the financial crisis
  - The net effect of a financial crisis and recession on retirement behavior is ambiguous. While some workers delay retirement, others exit the workforce earlier due to job loss
  - Though the decision to start receiving Social Security benefits is often seen as being contemporaneous with retirement, electing to receive benefits is not necessarily a predictor of retirement or leaving the workforce (Bosworth and Burtless 2010).

Preliminary Trends Based on SSA Data

- Research suggests there is a relatively stable percentage of workers who choose to begin receiving Social Security retirement benefits as soon as they become available (Muldoon and Kopcke 2008).
- Annual data published by the Social Security Administration show that the percentage of those claiming retirement benefits at age 62 has been relatively constant since the last major reforms in 1983 (Chart 1)

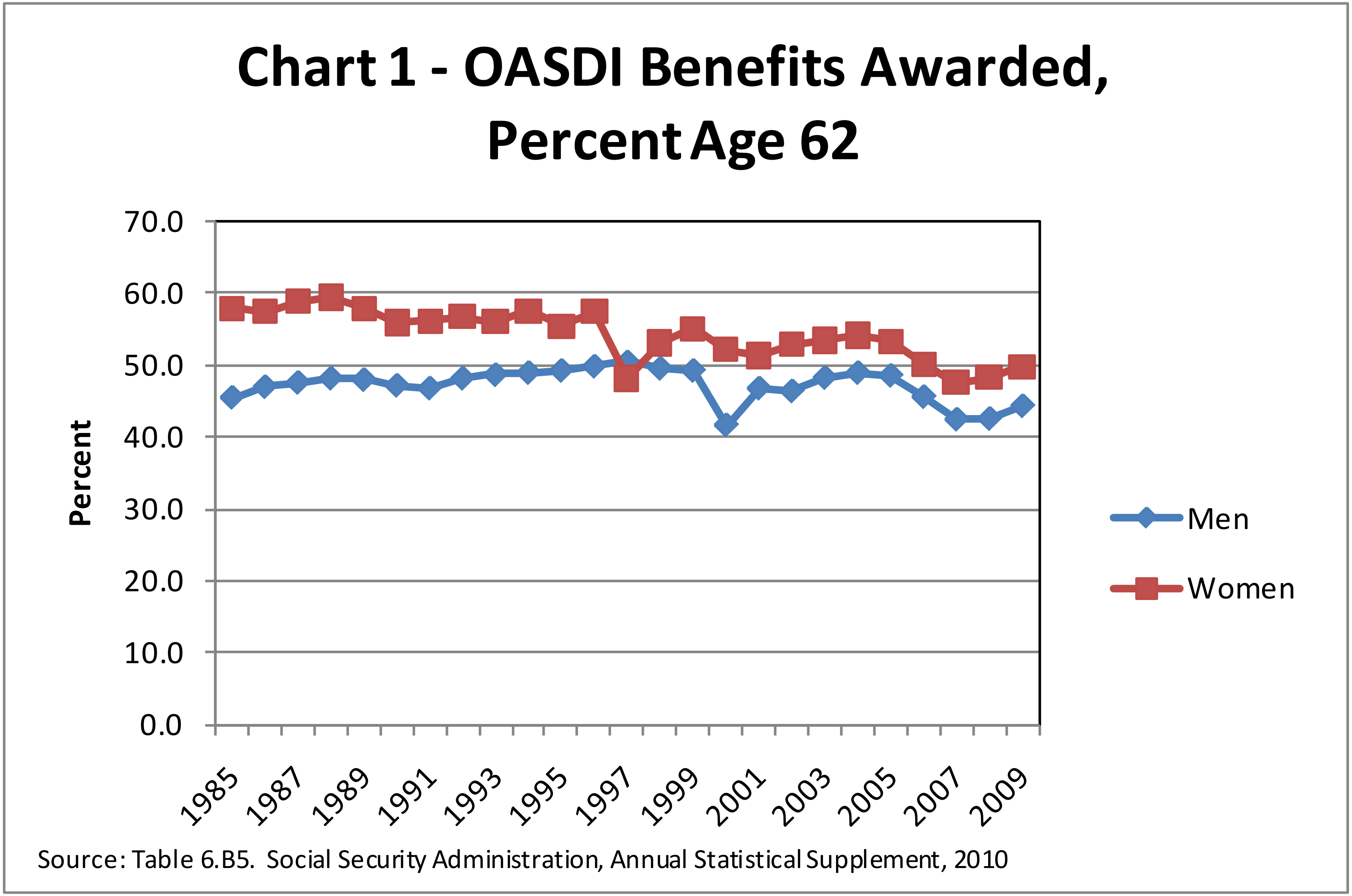
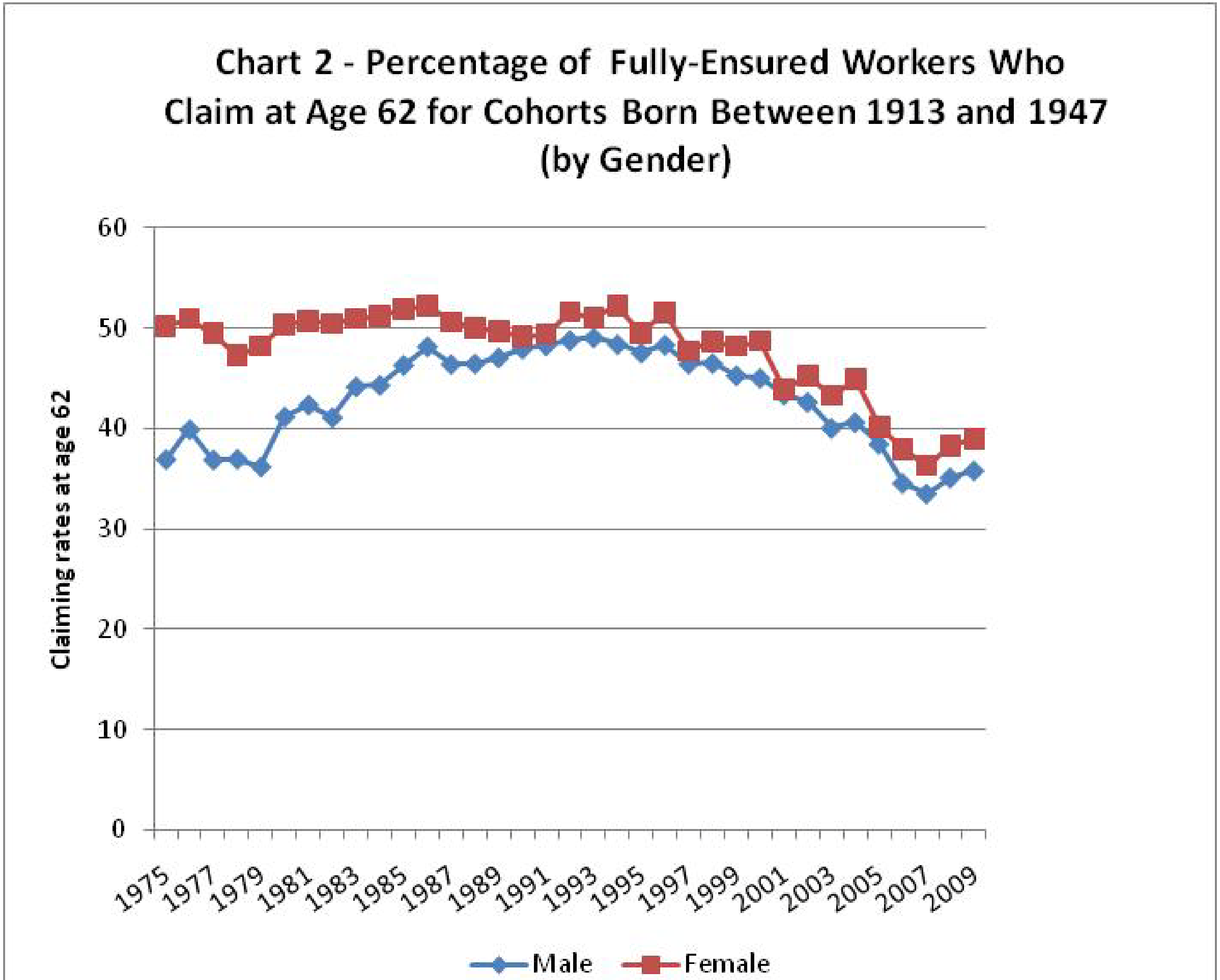


Chart 1 - OASDI Benefits Awarded, Percent Age 62
70.0
60.0
50.0
40.0
30.0
20.0
10.0
0.0
Percent
1985
1987
1989
1991
1993
1995
1997
1999
2001
2003
2005
2007
2009
Men
Women
Source: Table 6.B5. Social Security Administration, Annual Statistical Supplement, 2010

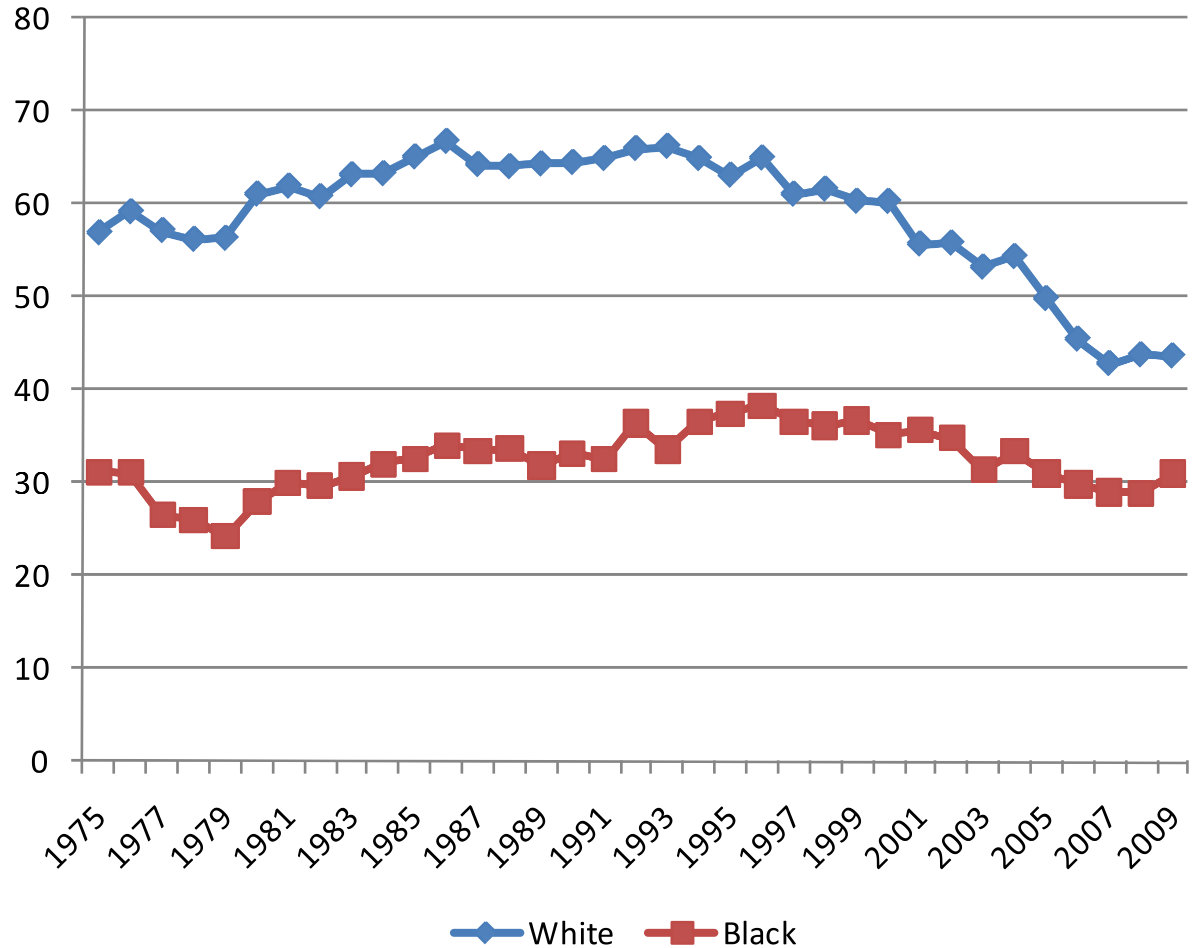
SSA Administrative Data

- However, data reported by SSA do not accurately reflect trends in claiming behavior by age (Muldoon and Kopcke 2008)
- The data published present claiming by calendar year, not by birth year or cohort
- A more accurate way of assessing claiming behavior of 62 year olds is to look at the percentage of each birth cohort that claims at age 62
  - for example, the percent of people born in 1946 that claim benefits at age 62 when first becoming eligible in 2008
- Using cohort data, comparisons can be made across birth years to see if those born in the 1920's have different claiming behaviors than those born in the 1930's and the early 1940's
- In order to gain further insight, analysis of Social Security Administration's administrative records on benefit applications and awards is required
- Using the Continuous Work History Sample, we calculated claiming behavior at age 62 for cohorts born between 1913 and 1947. Note, those born in 1913 first become eligible for reduced Social Security retirement benefits at age 62 in 1975, while those born in 1947 become eligible in 2009 (Charts 2 and 3)



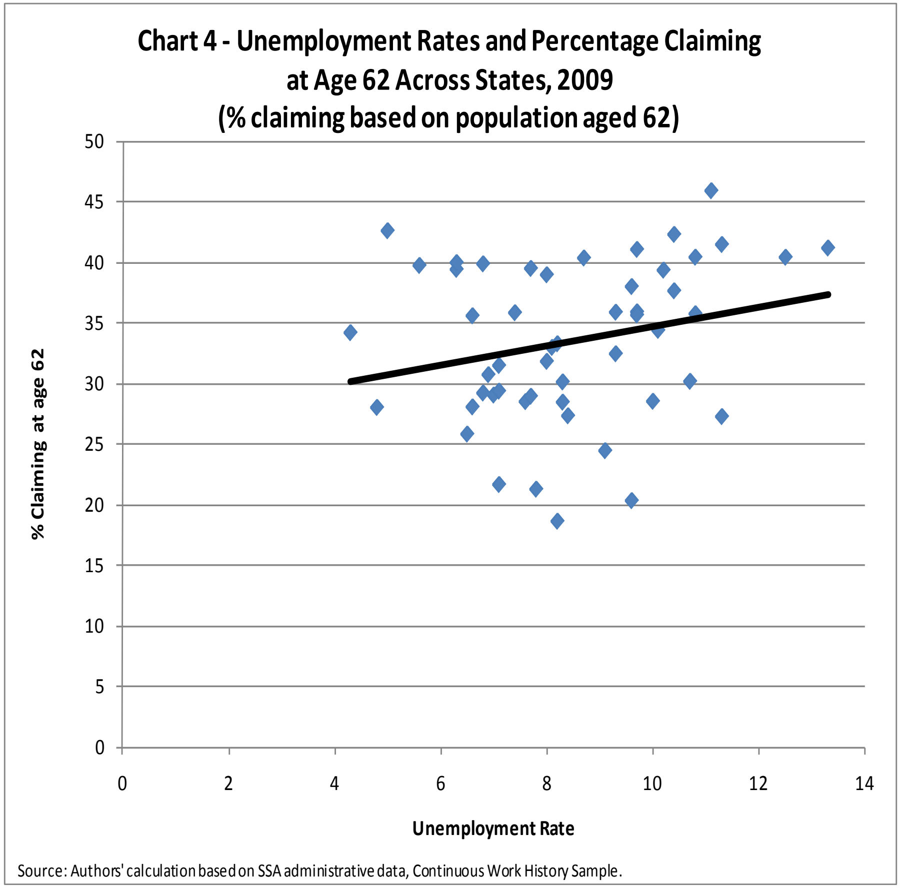
Source: Authors' calculation based on SSA administrative data, Continuous Work History Sample.

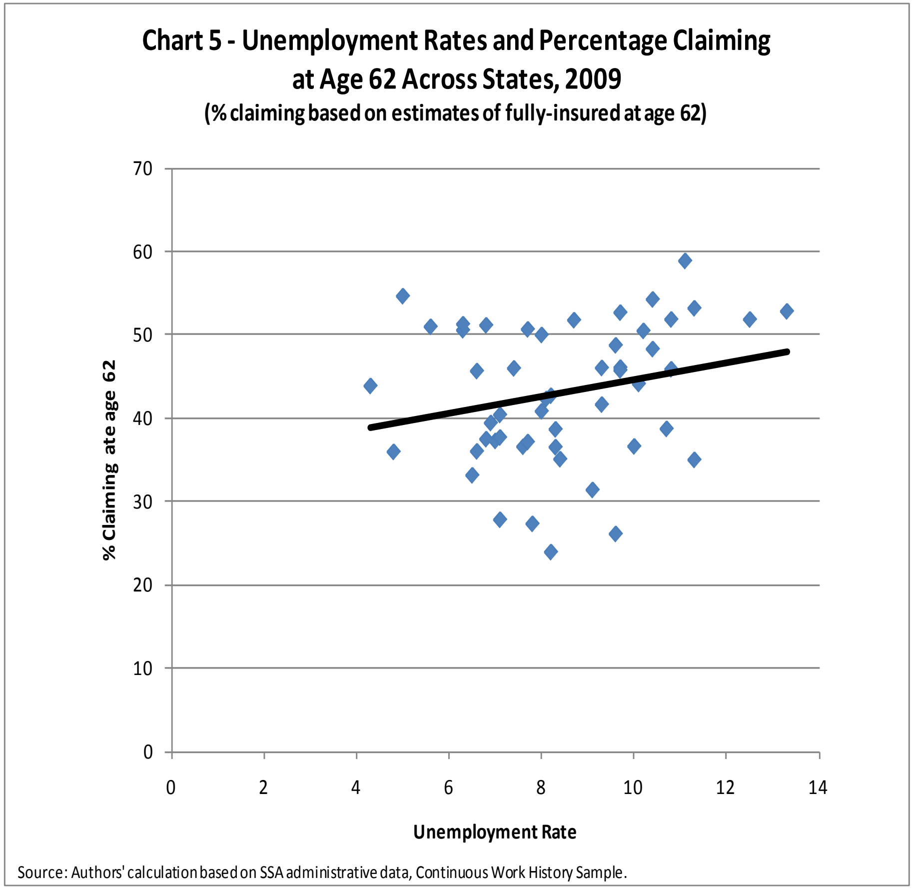
Chart 3 - Percentage of fully ensured workers who claim at age 62 for cohorts born between 1913 and 1947 (by Race)



Source: Authors' calculation based on SSA administrative data, Continuous Work History Sample.

Higher unemployment in a state is correlated with a higher incidence of claiming at age 62 in 2009





More Data Analysis Needed

- Need wealth data:
  - For primary beneficiaries only: claiming age 62 by PIA as proxy for economic status
  - Continuous Work History (CWH) Sample – Any variables of use as proxy for wealth
- Of OASDI benefits awarded at age 62, distribution of award (retired worker, spouse, disability)
- Strengthen Regression Analysis
- Since data to study the retirement and saving effects due to the global financial crisis of 2008 are just beginning to become available, continued and additional research is necessary to fully understand the story of how retirement behavior has changed as a result of the shocks to wealth and employment of the past few years

SSA and Financial Literacy

- A preliminary analysis of the data support the thesis that more people will elect to begin taking Social Security retirement benefits as soon as eligible due to financial shocks and increases in unemployment as a result of the global financial crisis
- Recognizing the unique role the Social Security Administration plays in the financial security of millions of Americans and to better help people prepare for retirement in a post-financial crisis world, the Agency undertook a special research initiative in 2009 to develop and refine print, web and other products to better inform the public about retirement planning options and the importance personal savings contributes to a dignified and financially secure retirement
- Also influencing SSA's decision to move forward with a special initiative to encourage saving was research indicating a link between financial literacy and saving behavior which found that the less financially literate are also least likely to plan for retirement (Lusardi 2011; Lusardi and Mitchell 2006, 2007, 2008, 2009).

SSA and Financial Literacy

- Changes to the Social Security Statement:
  - Content & Language Changes
  - Changed order of estimated benefits by claiming age
  - New Inserts: "Thinking of Retiring?" & "What Young Workers Should Know About Social Security and Saving."
- When to Start Receiving Retirement Benefits" stressed that when to begin benefits is a very personal decision and that no one answer is correct for everyone
  - This document was distributed to all Social Security Administration field offices around the country (approximately 1,300) and is available on the agency's website
- SSA also supports extramural research on retirement, including a significant amount number of interdisciplinary projects on financial literacy, decision making, and behavior change
- Goals of research in this area were to learn most effective ways to help foster retirement and other saving strategies at all stages of the life cycle, help low and moderate income populations successfully plan and save for retirement and other life events, and improve understanding of Social Security's programs.
- Ideally, findings would inform Social Security's efforts (statement, web, program design, etc.) as well as spill-over to other relevant areas such as employer sponsored retirement programs.

Conclusion

- Financial crisis resulted in great and unanticipated job loss and loss of wealth for millions of people
- More Americans are now electing to receive retirement benefits at age 62, reversing a trend before the recession toward filing at later ages
- Social Security Administration undertook a special initiative to encourage saving and promote financial literacy
- Though initial research and products resulting from this initiative were encouraging, budget constraints across the federal government have resulted in SSA reducing support for many of its important financial literacy and education initiatives, including curtailing mailing the Social Security Statement and reducing support for financial literacy research
- For the near-retirees who delayed retirement and continued their labor force participation, there might be some good news; research has shown that savings shortfalls can be substantially reduced by continuing to work an additional two to four years (Mitchell 2010)