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
Overview

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)

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?

- 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
Why Is This Research Important?

General

Household Financial Security
- 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?

Employer Perspectives

Macro-Economic Implications

Public Policy Implications
Why Is This Research Important?

- 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
Why Is This Research Important?

- General
- Household Financial Security
- Employer Perspectives
- Macro-Economic Implications
- Public Policy Implications

- 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
Why Is This Research Important?

General

Household Financial Security

Employer Perspectives

Macro-Economic Implications

Public Policy 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