

Whither Retirement Strategies?

Discussion of Byrne & Reilly and Fitchner & Seligman papers

PENSION RESEARCH COUNCIL 2017 CONFERENCE

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How do you prepare for retirement in a low interest rate environment?

- Don't have the power of compounding: have to take a lot of risk to get a little return
- Fitchner & Seligman show how households fared post-2008 Financial Crisis
- Byrne & Riley test sensible solutions, including
 - Save longer/save more/retire later
 - Link Social Security claiming to years of work
 - Allow partial payments/later claiming ages for Social Security



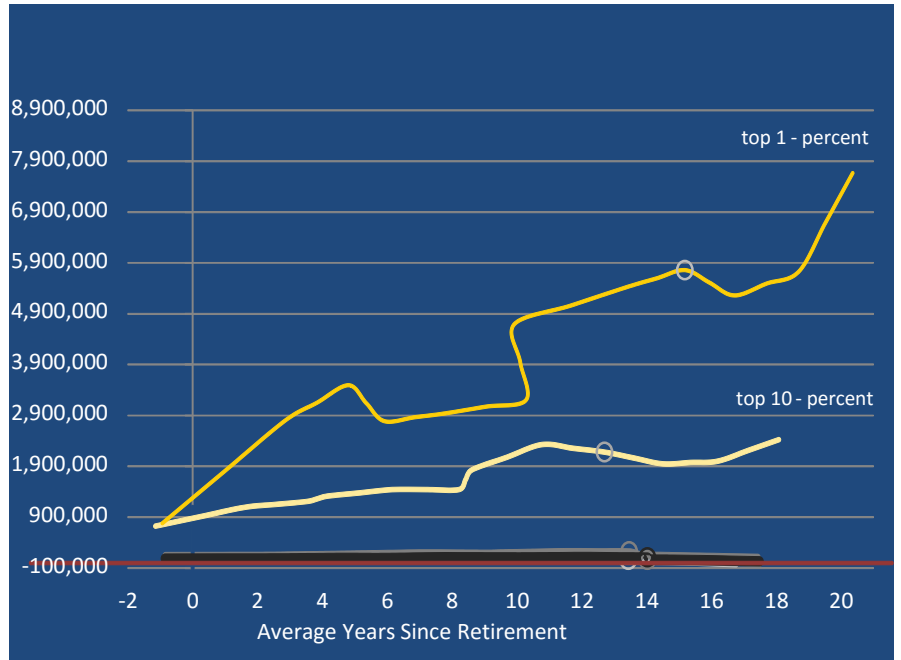
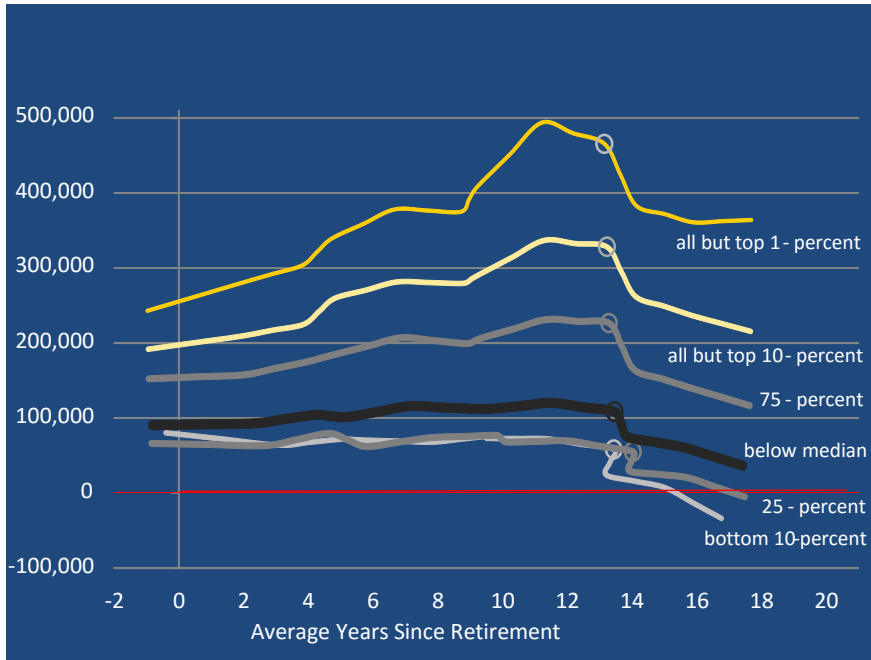
Will these solutions work?

- Solutions assume few market shocks
 - Structural flaw in the DC system: no cushioning against market shocks
 - If the new normal is working longer, retiring later, saving more, what happens when there's a market shock?
- Long-term trends of increasing disparity
 - Some accelerated by great recession/market downturn of 2008
- Have to think of solutions that will work GIVEN widening disparities



Wealth Evolution Among the Retired

For HRS households with a retired person; 2015 dollars (○ = 2008 wave)

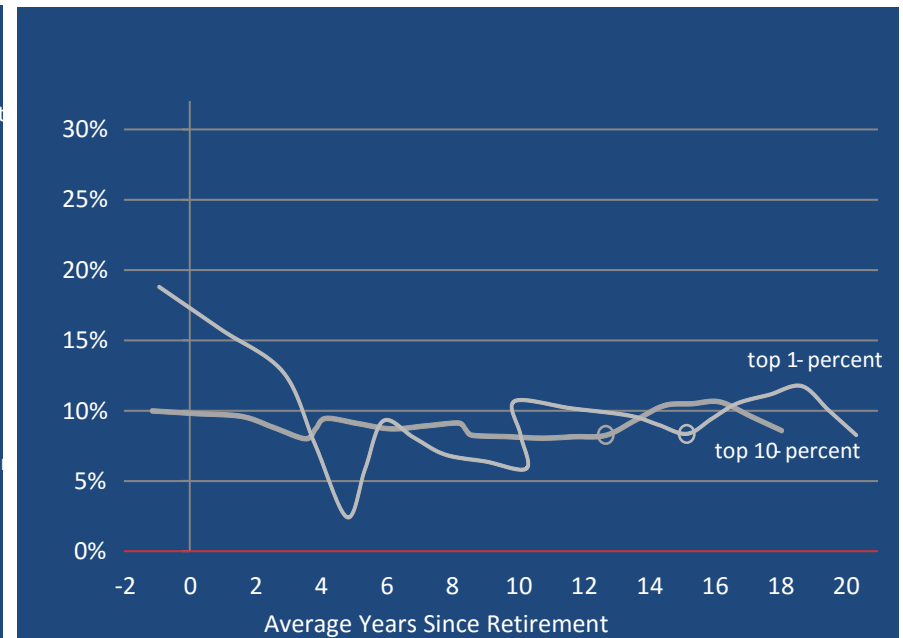
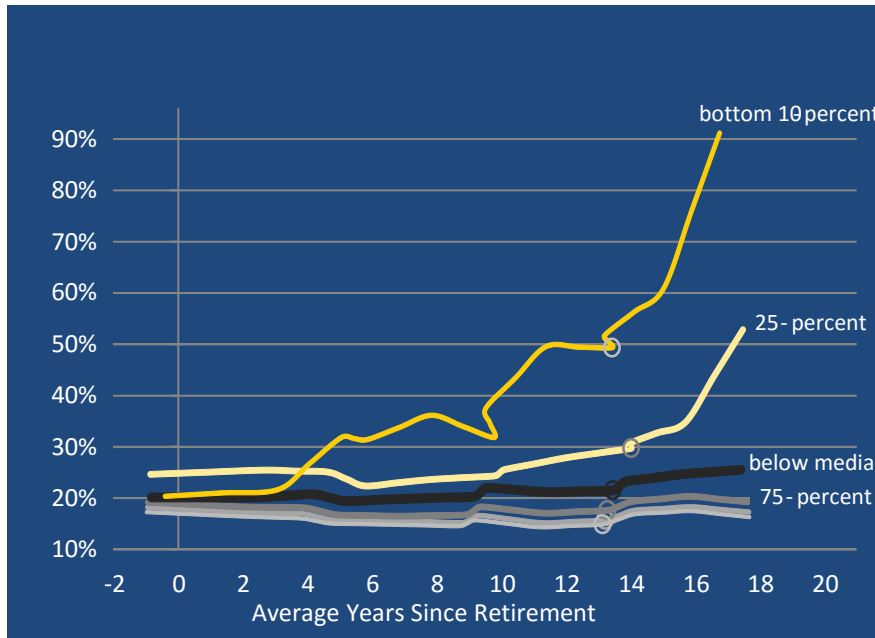


Source: Fitchner & Seligman presentation to Pension Research Council on 4 May 2017; 1 May 2017 draft provided by authors



Loan to Value

For HRS households with a retired person; percentage of home's worth (○ = 2008 wave)

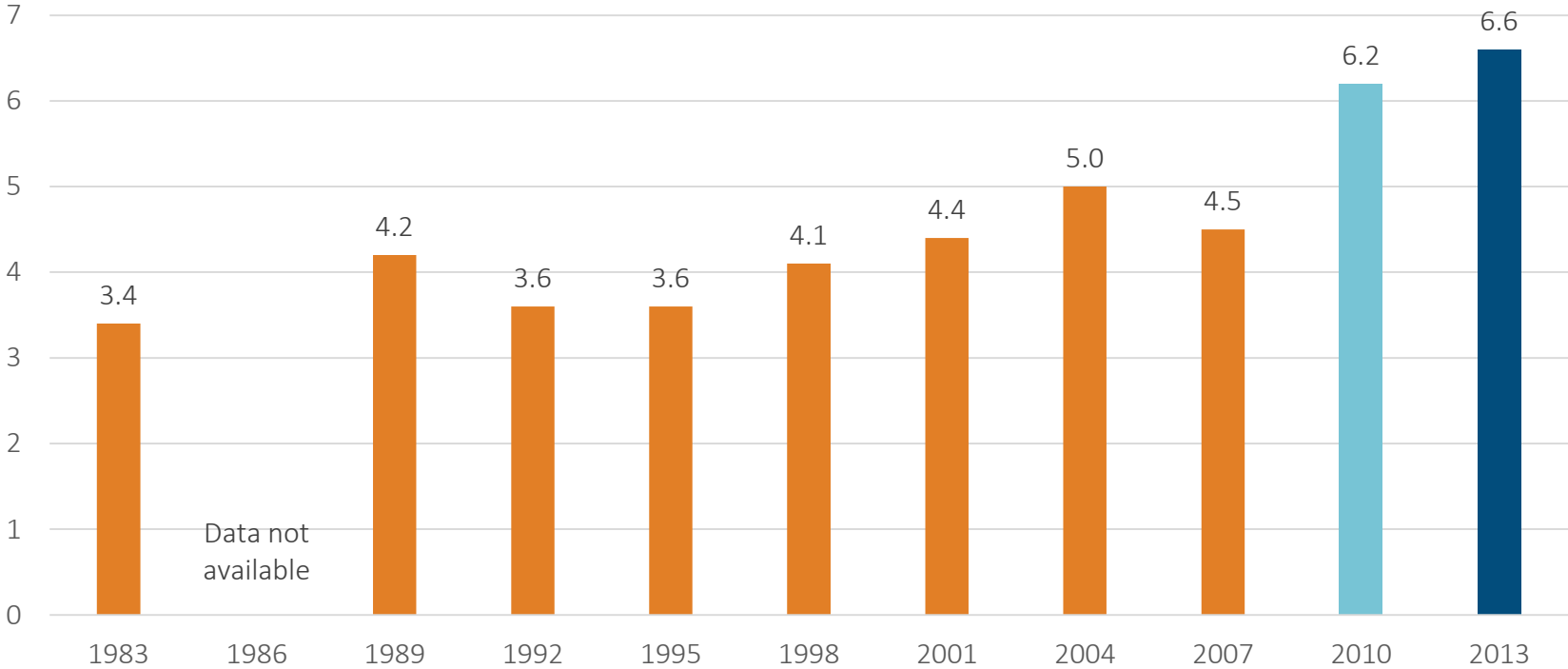


Source: Fitchner & Seligman presentation to Pension Research Council on 4 May 2017; 1 May 2017 draft provided by authors



Widening wealth gap

Ratio of wealth of upper income households to middle income households

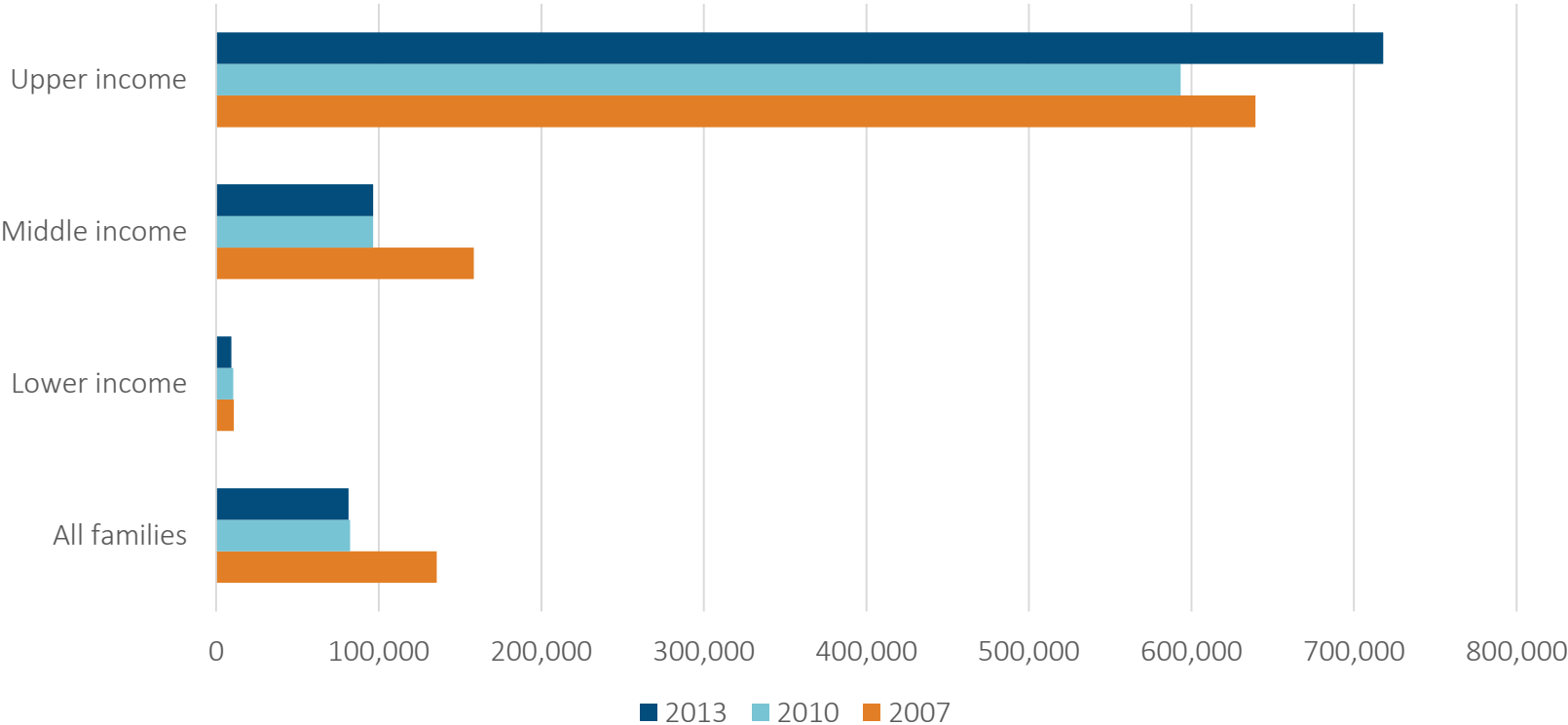


Source: <http://www.pewresearch.org/fact-tank/2014/12/17/wealth-gap-upper-middle-income/> accessed 19 April 2017. Pew Research Center tabulations of Survey of Consumer Finances public-use data



Widening wealth gap

Only upper income households gained wealth post-2007



Widening income gap (Example: PA)

- Study of total employment in Pennsylvania, 2008-14
- Over 190,000 jobs were lost, 2008 - 2009.
- 2010-2014: Job growth in private sector (2010-14).
- Total employment changed (0.3) percent (declined) during 2008-14.
- “Bottom line: Minimal change in total employment during 2008-14 suggests a static, no growth Pennsylvania economy - Great Recession to recovery.”

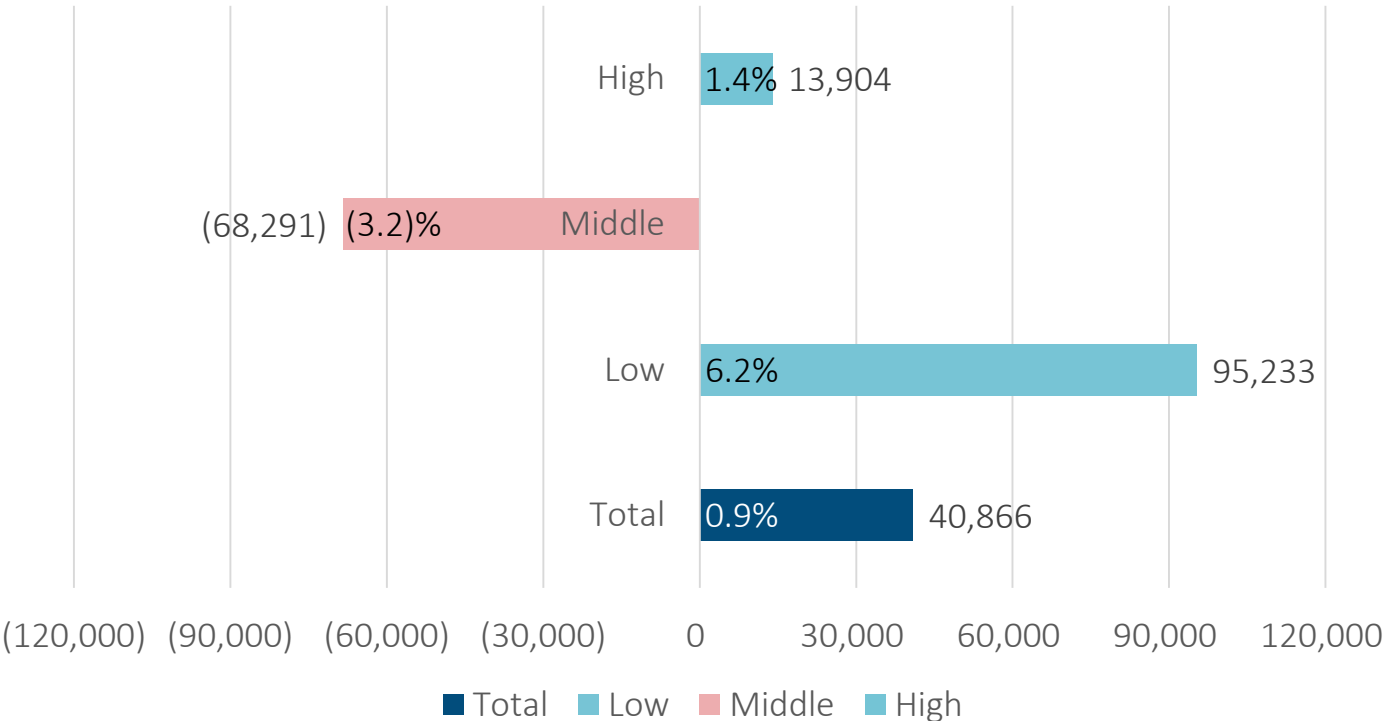
Source: <http://aese.psu.edu/research/centers/cecd/publications/market-trends/pennsylvania-great-recession-to-recovery>, accessed 19 Apr 2017, page 3



Widening income gap (Example: PA)

Pennsylvania Private Sector Employment Change (Net):
By Industry Wage Groups 2008-2014

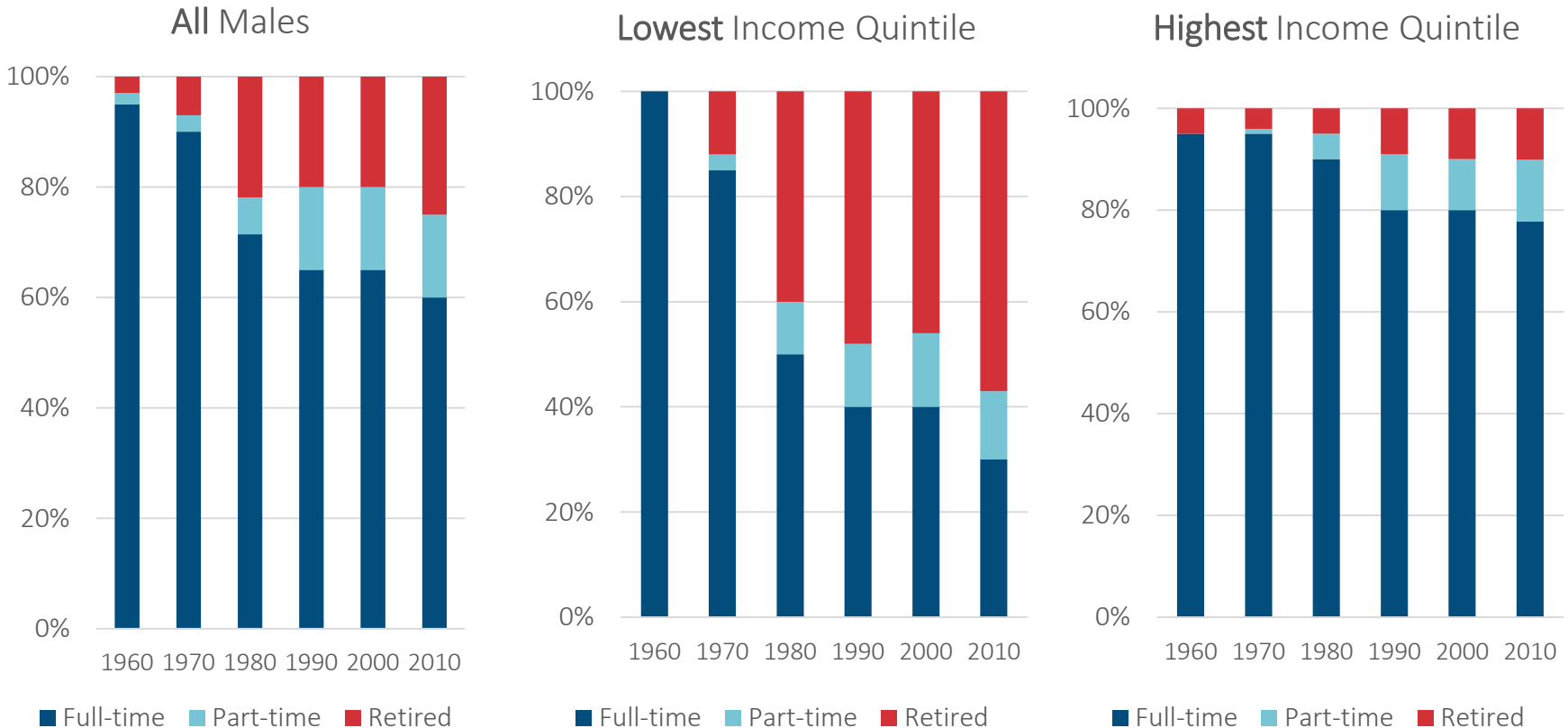
2014 Average Annual Weekly Wage	
High	\$1,293 and over
Medium	\$651 – \$1,292
Low	\$0 – \$650



Source: <http://aese.psu.edu/research/centers/cecd/publications/market-trends/pennsylvania-great-recession-to-recovery>, accessed 19 Apr 2017, Table 1 & Figure 9



Widening work experiences near retirement: Employment Status Age 60 – U.S. White Males

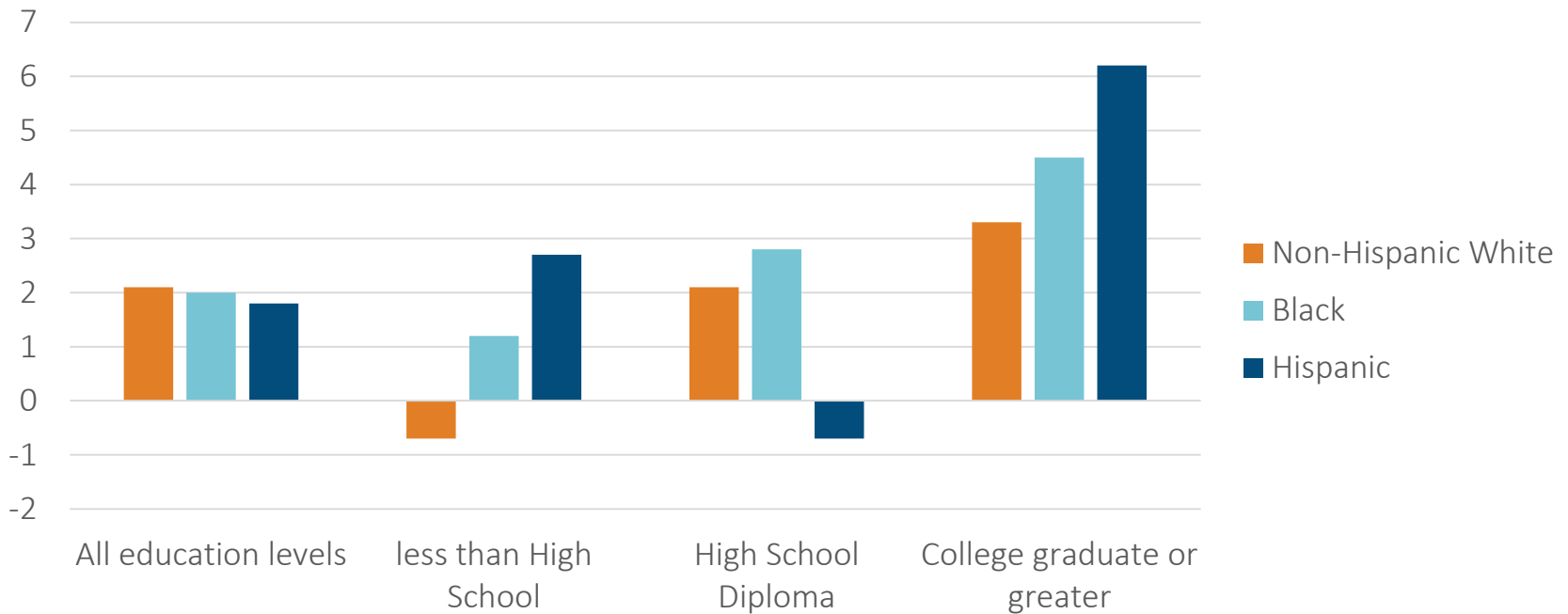


Source: Gordodnichenko, Y. et al “Macroeconomic Determinants of Retirement Timing,” 2013, Institute for the Study of Labor (IZA), Bonn, Germany. Data estimated from Figure 2 graphs.



Widening life expectancy

Change in Male Age 65 Life Expectancy – 1990 to 2008

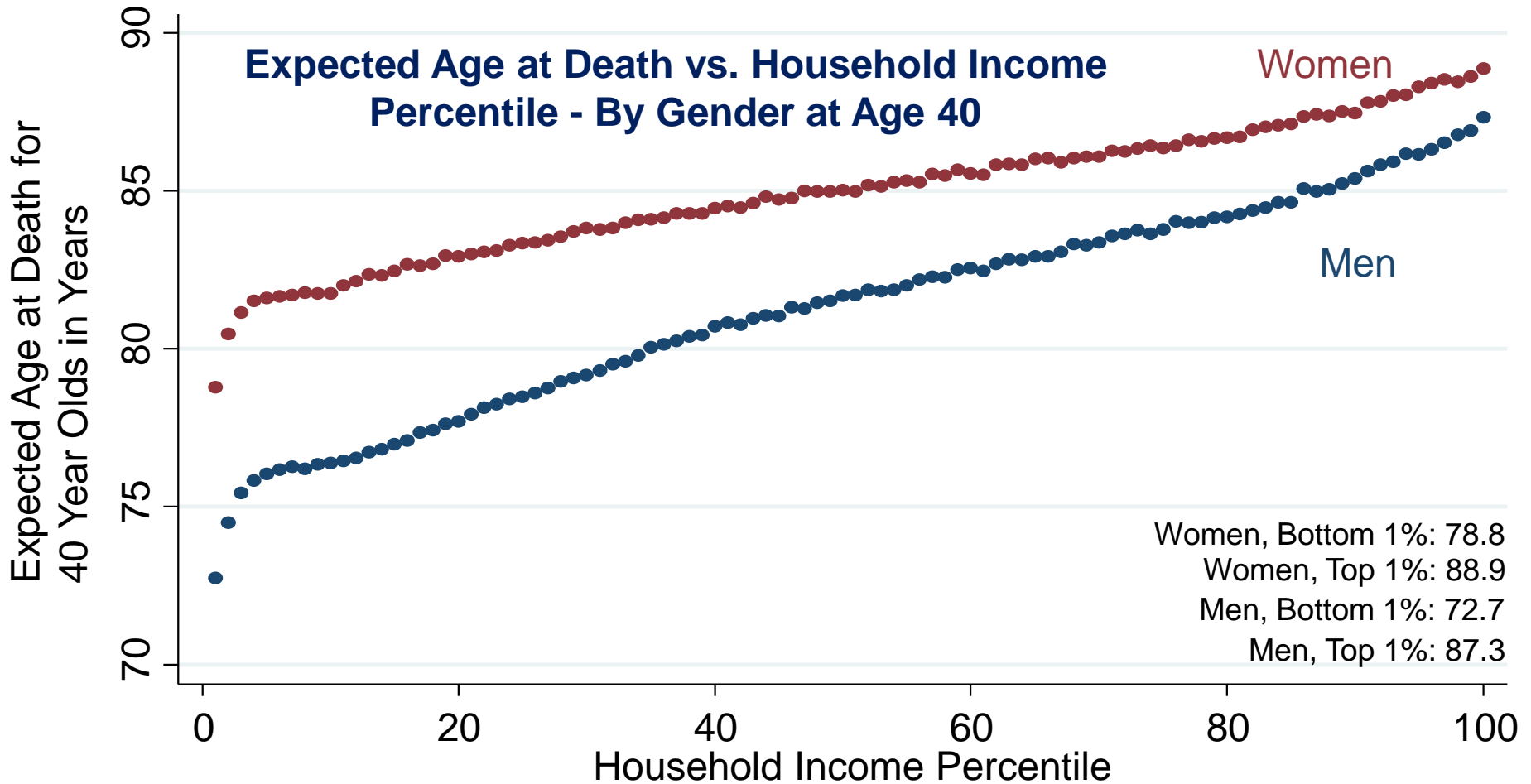


CAVEAT: Proportion of population with high school diploma or greater has significantly increased over this period.

Source: Olshansky, J et al, "Differences In Life Expectancy Due To Race And Educational Differences Are Widening, And Many May Not Catch Up" *Health Affairs*, August 2012 vol. 31,no. 8 1803-1813, accessed 20 April 2017 at <http://content.healthaffairs.org/content/31/8/1803.full>; Exhibit A10 data

Life expectancy income gap

“The Health Inequality Project”

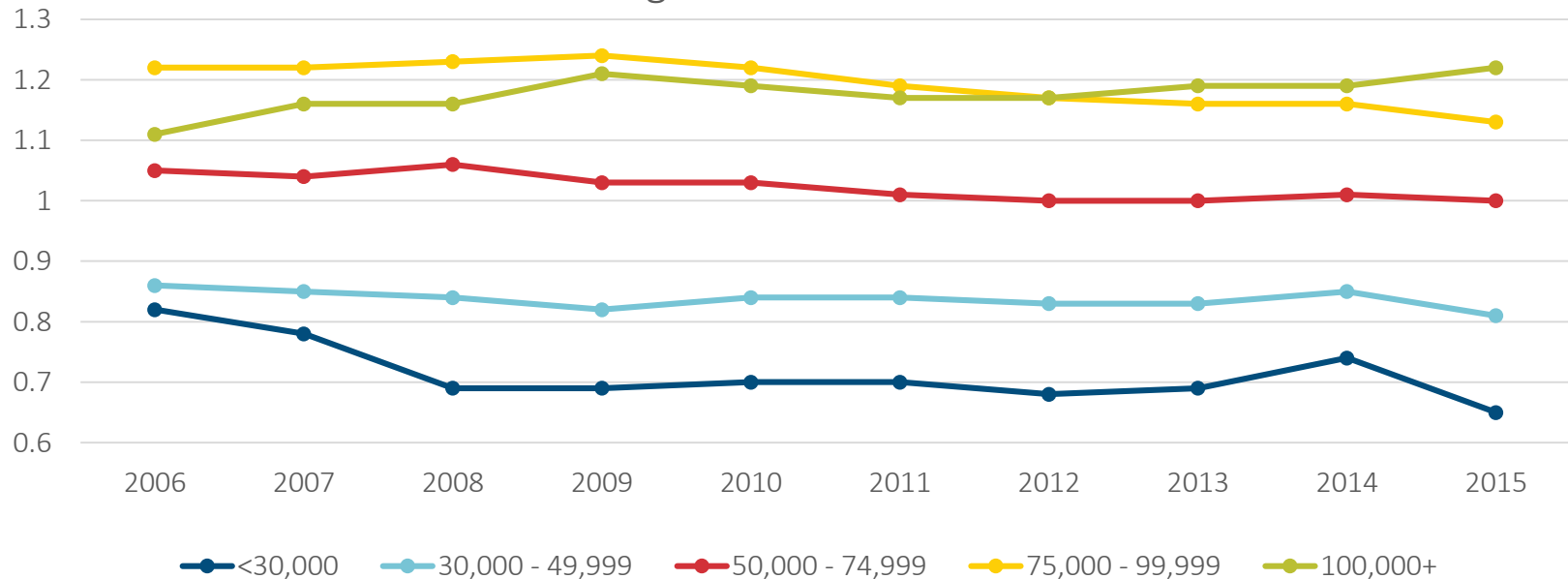


Source: The Health Inequality Project, <https://healthinequality.org/>



(Maybe) Widening savings behavior

Ratio of average employee-effective deferral rate by income to average overall deferral rate



	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Average deferral rate	7.3	7.3	7.0	6.8	6.9	6.9	6.9	7.0	6.8	6.8

Source: https://pressroom.vanguard.com/nonindexed/HAS2016_Final.pdf accessed 19 April 2017, Figure 33



So what does this have to do with low interest rates?

- Solutions to work longer/save more/delay claiming Social Security don't work for well for populations who
 - Are losing access to well paying jobs
 - Are starting from a lower level of employment (have already lost access to jobs)
 - Have not seen life expectancy gains of more well-educated peers
 - Have not recovered lost wealth from great recession



Get more creative

- Better leverage Social Security
 - Allow partial claiming
 - Increase progressivity
 - Widen early retirement reductions to account for widening life expectancy
 - By benefit size or average lifetime income
- Leverage annuitization (preferably group)
 - Cut annuitization costs by accounting for substandard mortality, writing simple life annuities

Caveat: Acknowledging difficulty of realization of some of these ideas



Thank you

