

Drawing Down Retirement Wealth: Interactions between US Social Security Wealth and Private Retirement Savings

Philip Armour and Angela Hung

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Center for Financial and Economic Decision Making
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Motivating Question(s)

- Do people make retirement wealth decisions as a group or one at a time?
- In particular, are people sequentially or concurrently tapping into their retirement wealth?
- Not just an idle question: governments and firms set ages/incentives for pension systems. If one parameter changes, what's the spillover across all retirement wealth decisions?

Retirement Planning in the 21st Century

- US Old Age Insurance provides more than half of retirement income for
 - 40% of individuals between 65 and 69
 - 65% of individuals between 75 and 79
- Last major Social Security reforms: 1983
- Notable change: Full Retirement Age increased for younger cohorts
 - Could claim a smaller amount earlier or must wait longer to receive same amount
 - Widely publicized; affected individuals also have been receiving Social Security Statements

Retirement Planning in the 21st Century

- Meanwhile, secular shift from Defined Benefit to Defined Contribution plans, and expansions of IRA
- Individuals more likely to bear responsibility for retirement wealth
 - Accumulation
 - Decumulation
 - Management
- Upshot: younger cohorts need to depend on non-SS wealth more, and are increasingly responsible for it

How Will People React to Falling SS Wealth?

- Could draw down other non-SS retirement wealth
- Could slow accumulation of other assets
- Could be accumulating as much or more as lost SS benefits (maybe starting earlier)
 - This is what we find, driven by top half of retirement wealth distribution

Issues with Analysis

- Traditionally Survey-Based Measures
 - Pension entitlements
 - Retirement savings
 - Other savings and wealth
- Administrative Records
 - Future Social Security Wealth
 - Claiming Ages
- Our solution: the Health and Retirement Study matched to SSA records

When to claim SS benefits?

- Tradeoff between less money now versus waiting for larger payments later on (62-70)
- Optimal timing of claiming (from net present value perspective) depends on
 - Expectations over own mortality
 - Income and work capacity
 - Marital status
 - Spousal earnings/mortality
- Survivors' benefits can make claiming later much better

What do People Do?

- Historically, vast majority of claimants claim at age 62 or 65/FRA
- Age 62 claimants: some already retired; earliest one can claim SS benefits
 - For almost any woman or couples, “better” to delay claiming if affordable (Shoven 2014)
- FRA claimants: less clear why a spike
 - Medicare, earnings test, “rules of thumb”

Changes to FRA

- Before 2003, the FRA was 65; gradually increased (2 months per birth cohort) to 66 in 2008
- FRA will start rising again in 2021 until settling at 67 by 2027.
- The Early Eligibility Age has remained fixed at 62
 - Benefits available at age 62 have fallen as the FRA has increased (from 80% of FRA benefit to 75%)
- FRA increase represents general cut in present discounted value of benefits
- Behaghel and Blau (2012) find about 2/3 of otherwise age 65 claimants now claim at new FRA in lockstep with 2 month increases in FRA and delay retirement; however, change is strongest amongst previously higher earners

Health and Retirement Study

- Nationally representative survey of households with at least one member aged 51+
- Began in 1992 and followed respondents every two years since then, with new cohorts added over time
- We focus on 1992, 1998, and 2004 cohorts (restricted to respondents who were 51-56 at baseline)
 - '36-'41 birth cohort, '42-'47 birth cohort, '48-'53 birth cohort
 - Cover cohorts before, during, and after increase in FRA
- HRS data includes detailed self-reported data on household wealth and income, including retirement wealth and income
 - Drawdown of IRA, DB, and DC wealth

Matching HRS with SS records

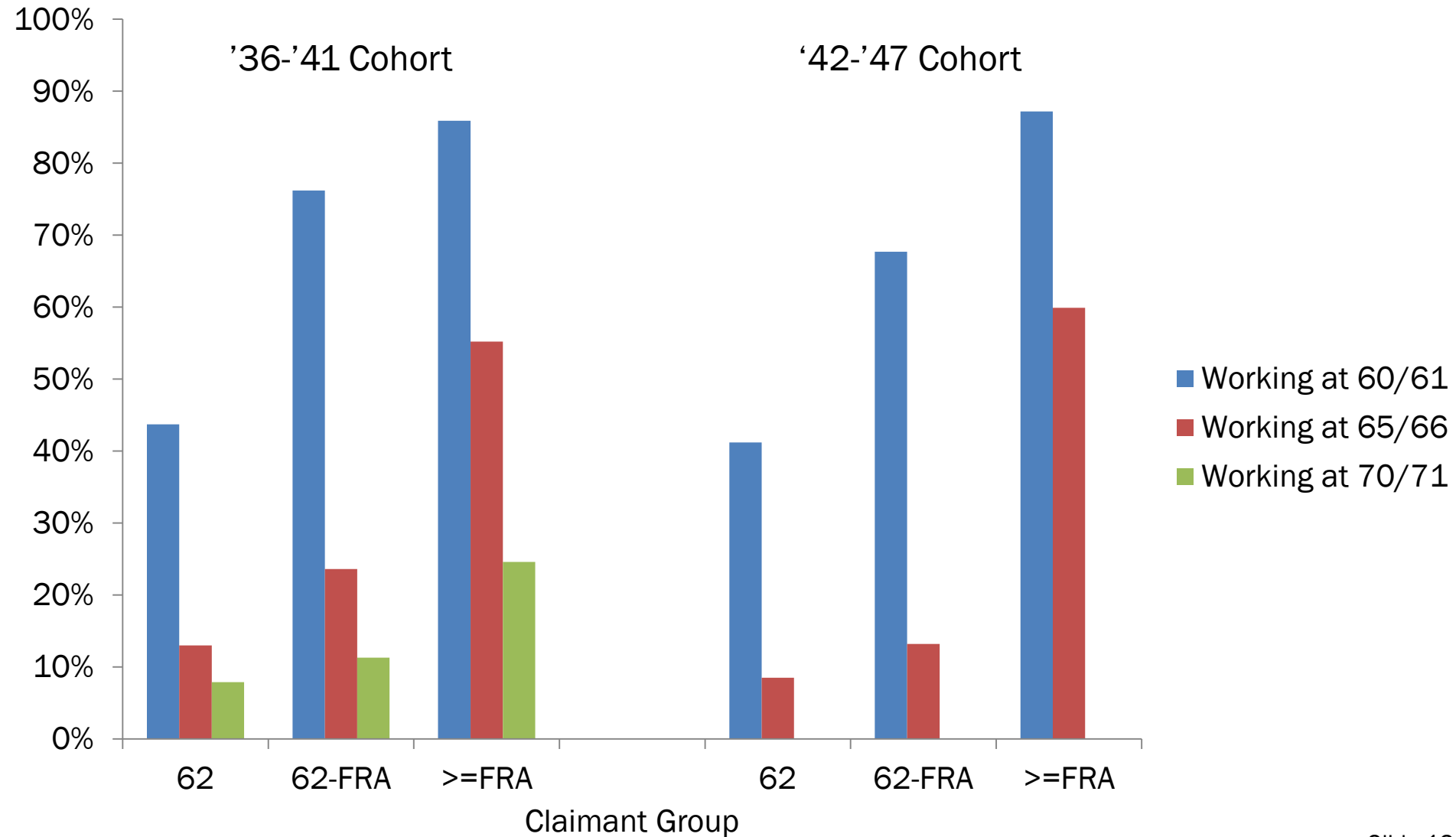
- Every 6 years, HRS respondents are asked if they are willing to allow a match to their SSA earnings and benefit records for research purposes.
 - 75% match rate for our sample (prior work shows matched population doesn't differ on observables)
- SS data includes claiming dates and benefit amounts and lifetime SS-covered earnings

SS Claimant Types

- We use SS administrative data (rather than HRS self-reports) to categorize HRS respondents according to claiming behavior:
 - Earliest claimants (62): those who claim at age 62
 - Early claimants (62-FRA): those who claim after age 62 but before FRA
 - FRA+ claimants (\geq FRA): those who claim at/after FRA

Percent Working by Claimant Type

(source: table 9/10)

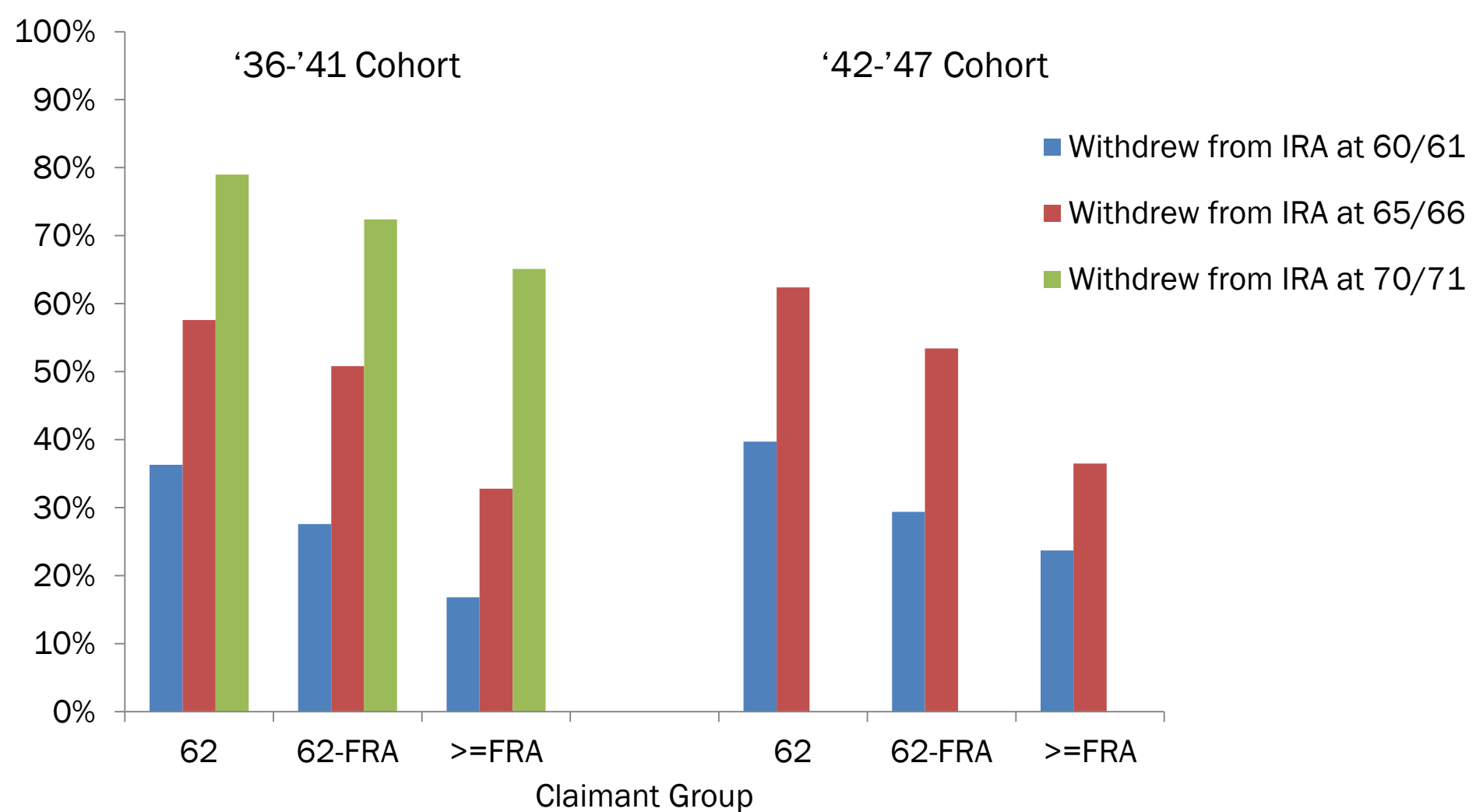


Pension Measures

- Decumulation:
 - Ever withdrawn from an IRA?
 - Ever cashed-out or annuitized pension wealth?
- Holdings:
 - DC balances
 - IRA balances
 - Pro-rated, present discounted DB entitlements (Gustman et al. 2014)
 - Present discounted SS OAI benefits

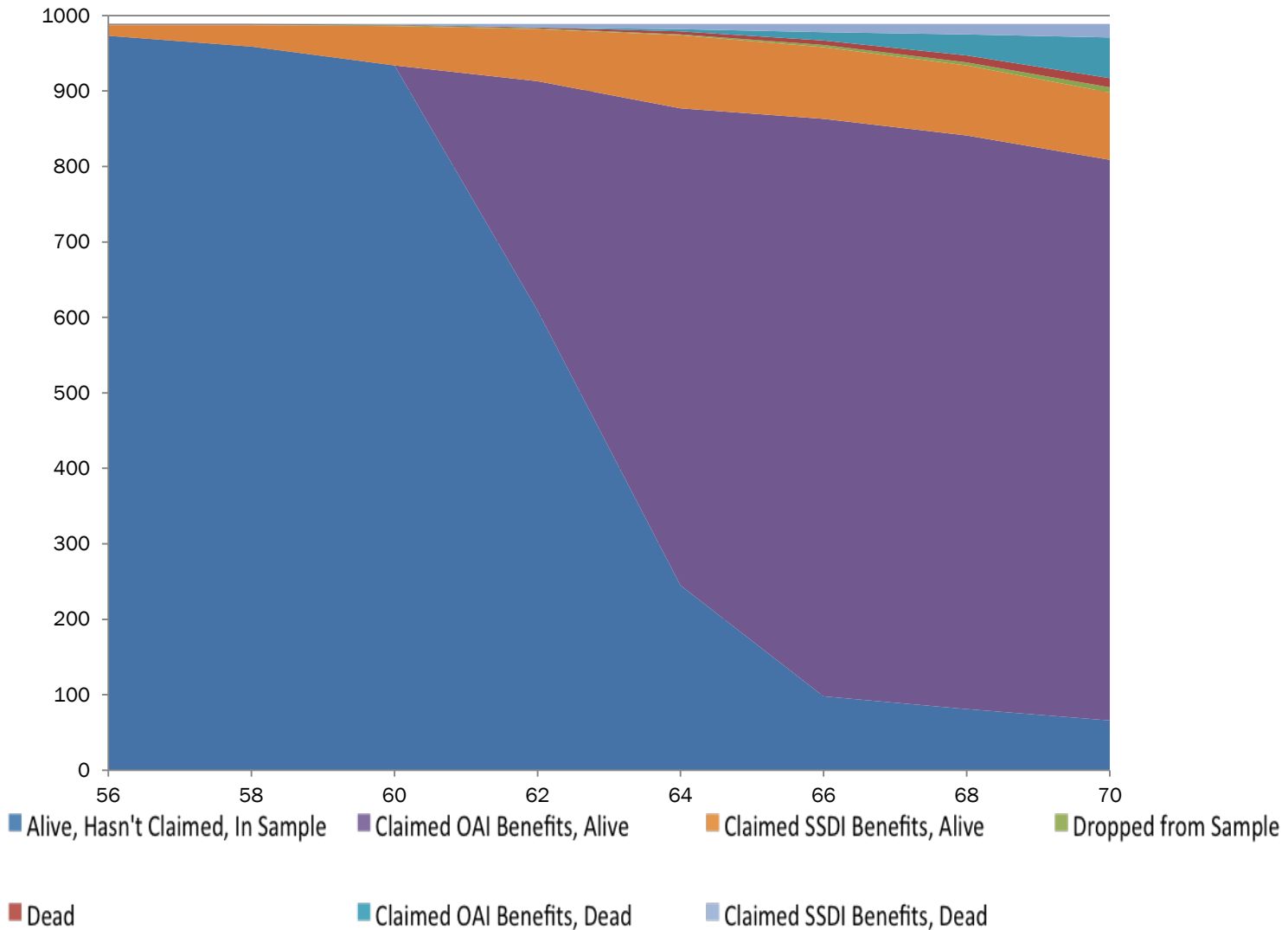
IRA Withdrawals by Claimant Type

(source: Table 9/10)

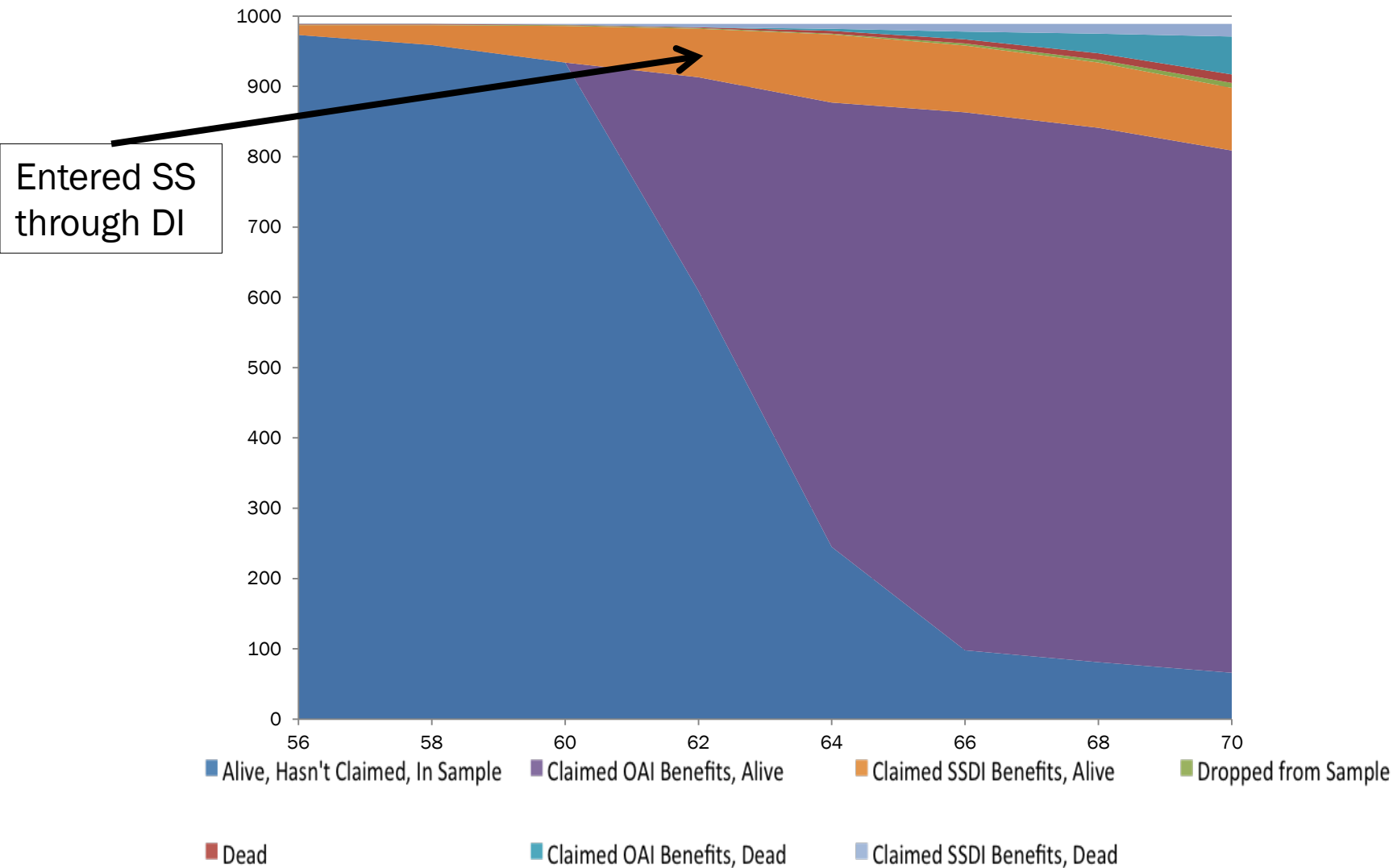


Retirement Assets:	'36-'41 Cohort (2000 survey)	'42-'47 Cohort (2006 survey)	'48-'53 Cohort (2012 survey)
Household IRA Wealth	\$114,002	\$115,143	\$130,772
Has an IRA Account	41.40%	43.60%	46.30%
Household IRA Wealth if holds an IRA Account	\$237,420	\$230,274	\$271,415
Household DB Wealth	\$157,016	\$175,997	\$104,423
Any DB Entitlement	48.40%	50.20%	38.40%
Household DB Wealth if DB Entitled	\$324,639	\$350,869	\$271,890
Household DC Wealth	\$57,554	\$58,444	\$64,048
Any DC Entitlement	29.40%	28.60%	37.40%
Household DC Wealth if DC Entitled	\$195,577	\$204,512	\$171,027
Total Household Non-SS Retirement Wealth	\$328,572	\$349,584	\$299,243
Household SS Wealth	\$242,559	\$238,855	\$283,476

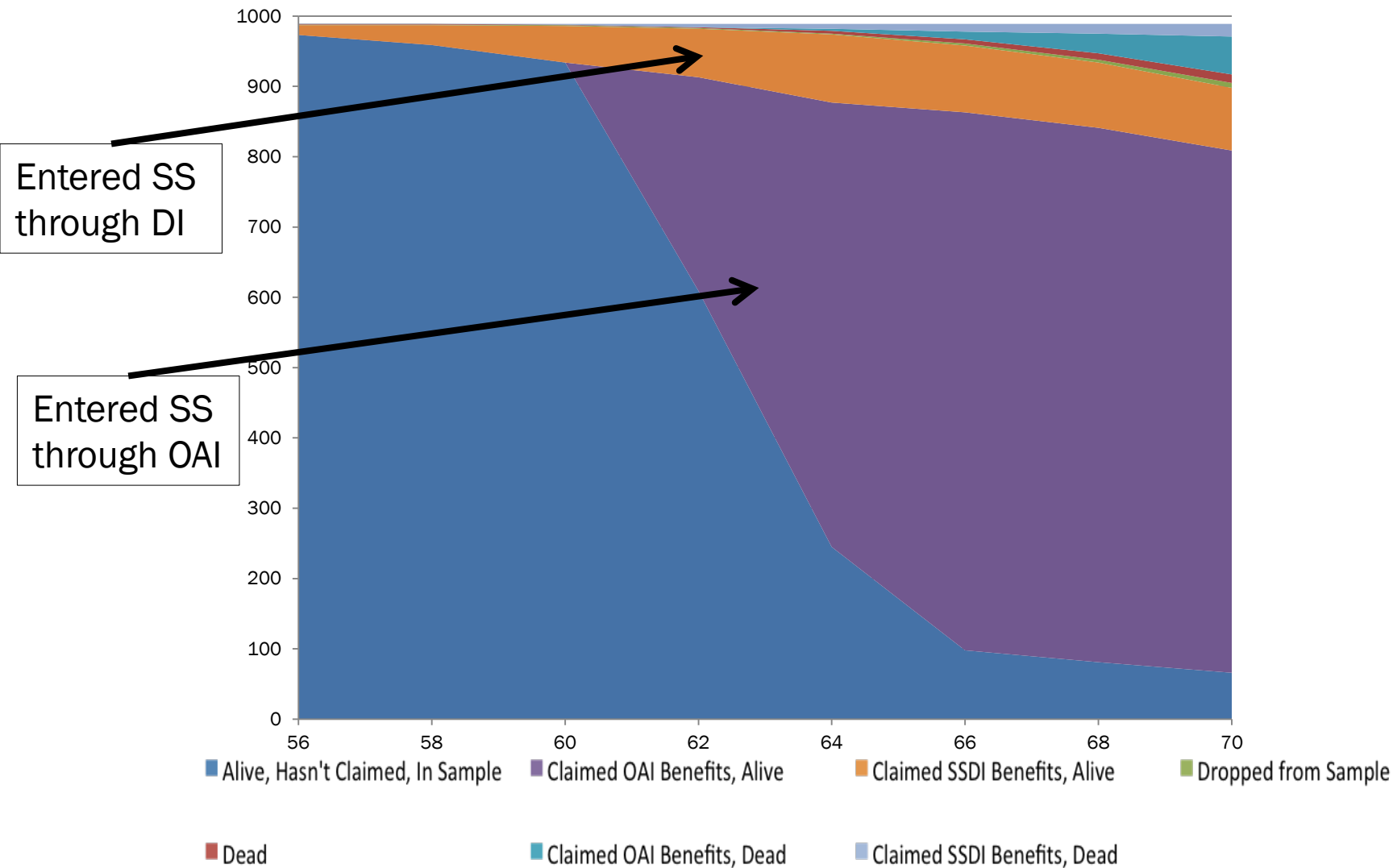
SS Claiming Groups, Top Non-SS Retirement Wealth Quartile



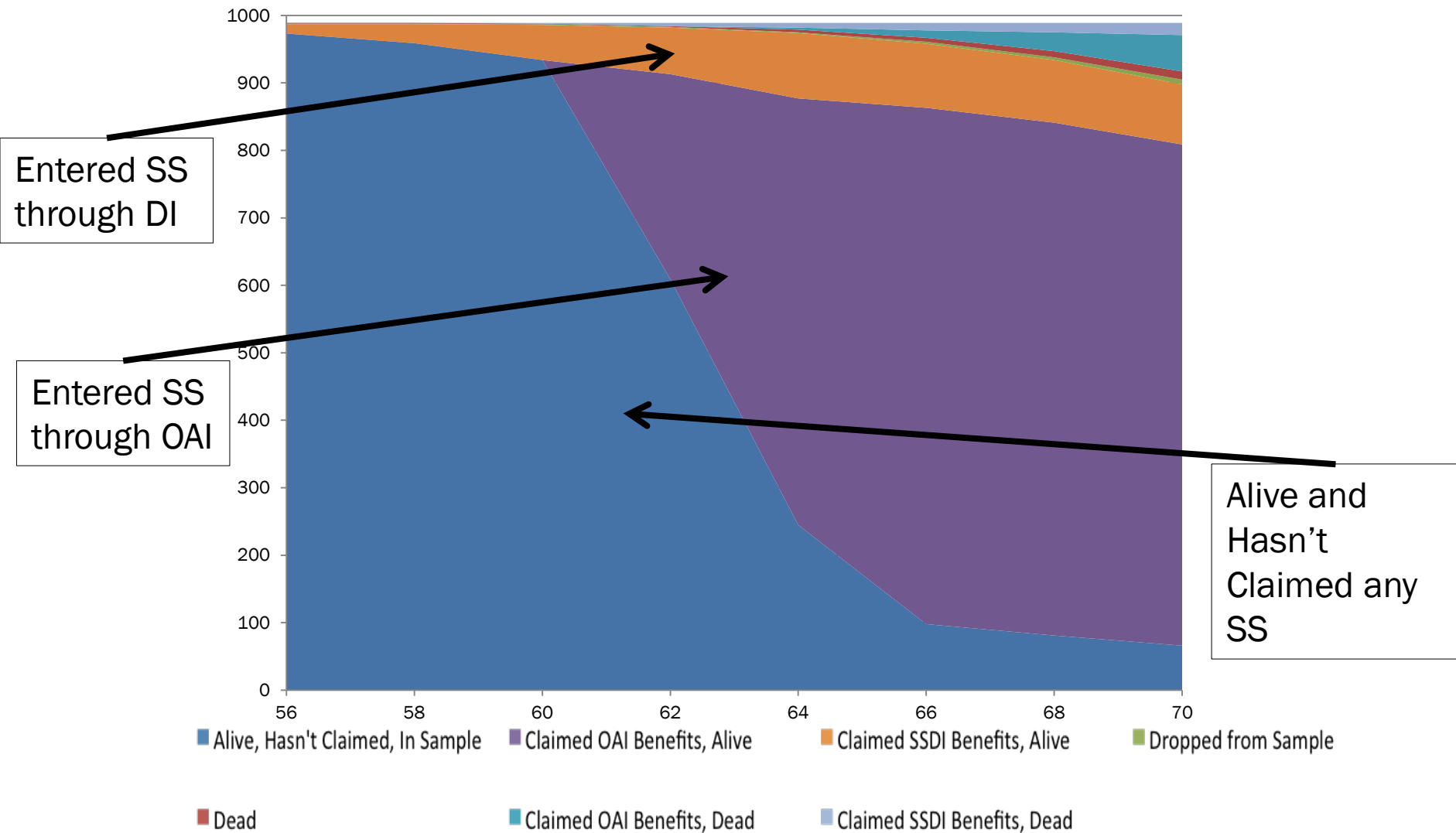
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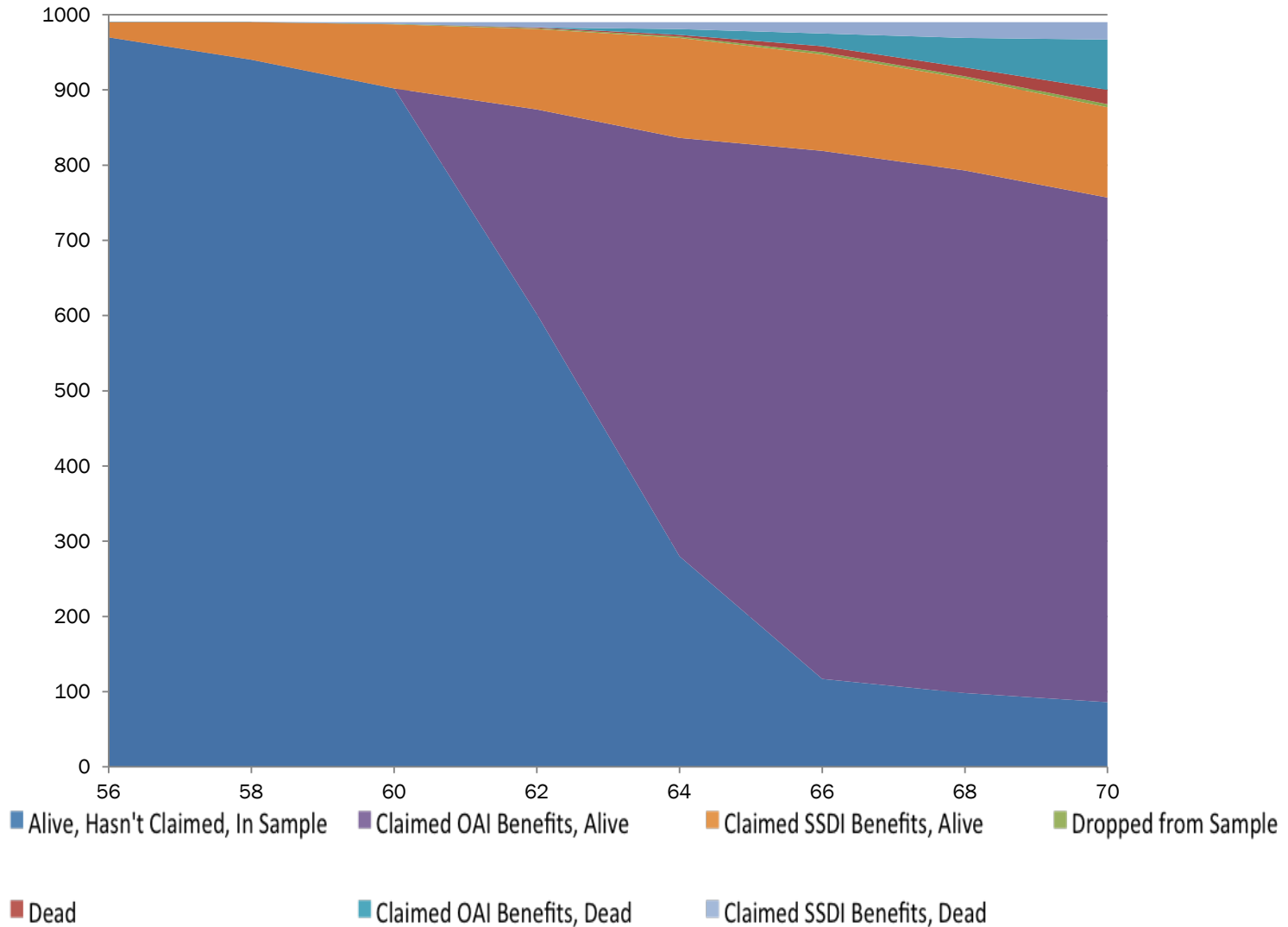
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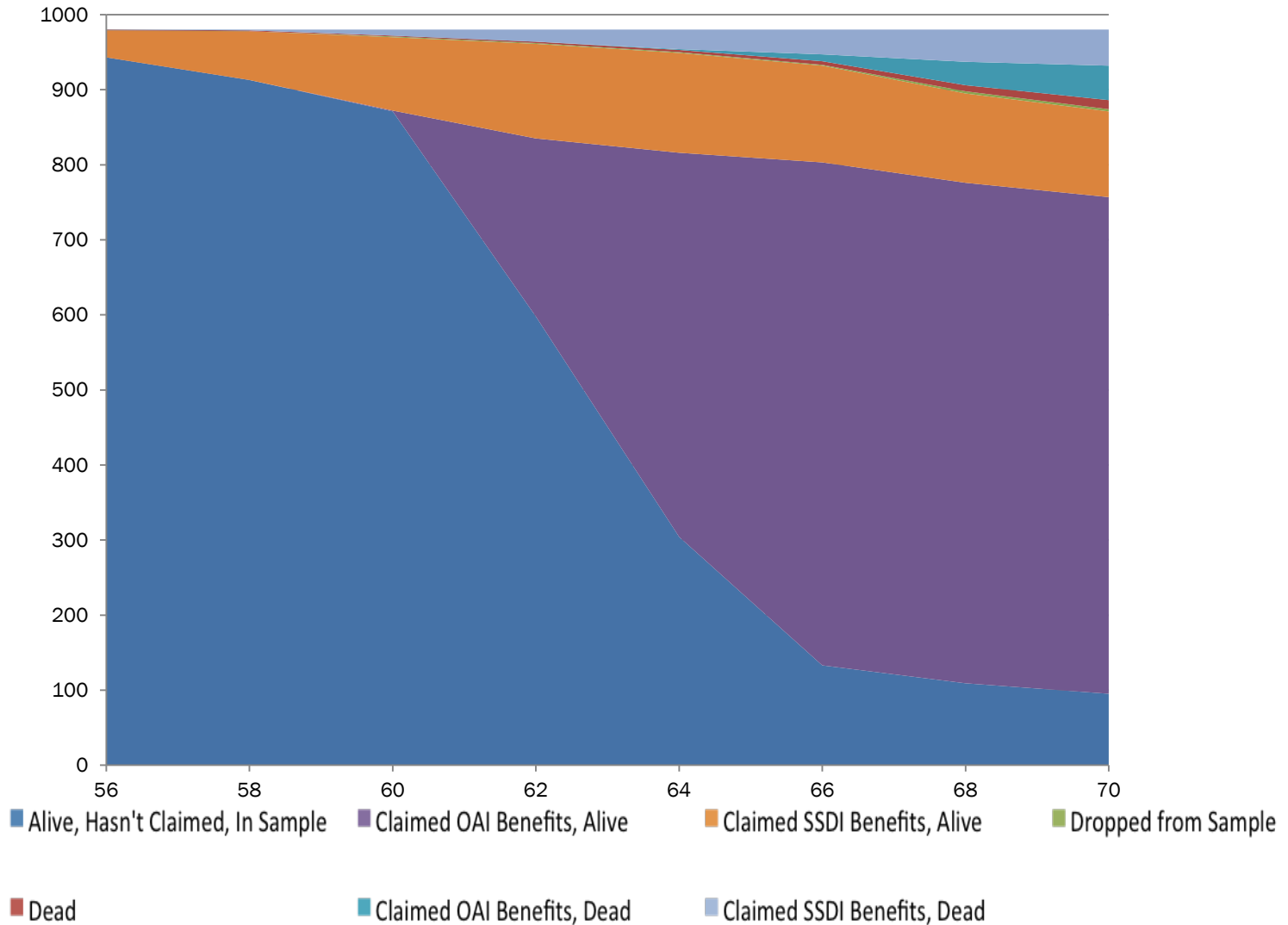
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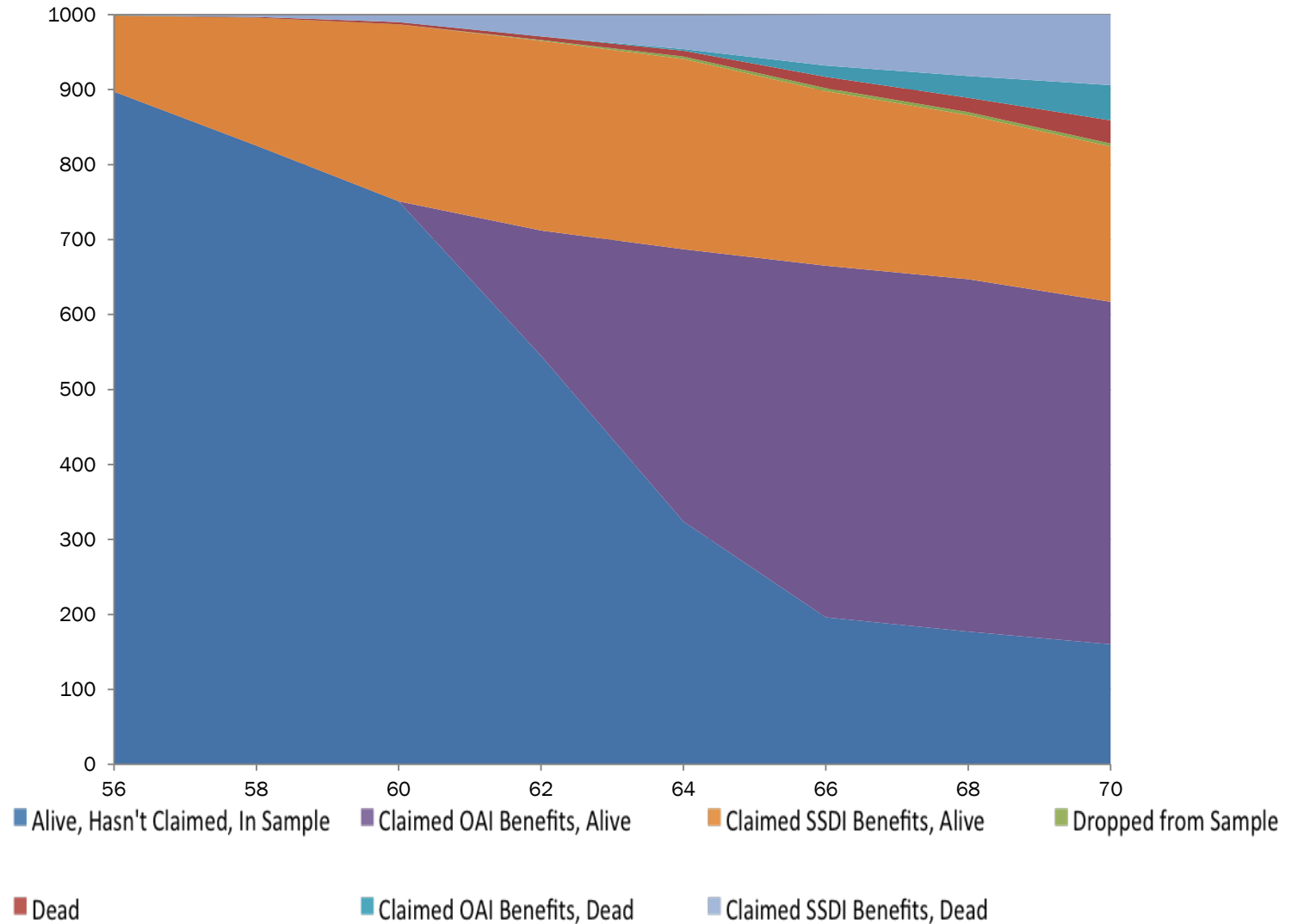
SS Claiming Groups, 3rd Non-SS Retirement Wealth Quartile



SS Claiming Groups, 2nd Non-SS Retirement Wealth Quartile



SS Claiming Groups, Bottom Non-SS Retirement Wealth Quartile



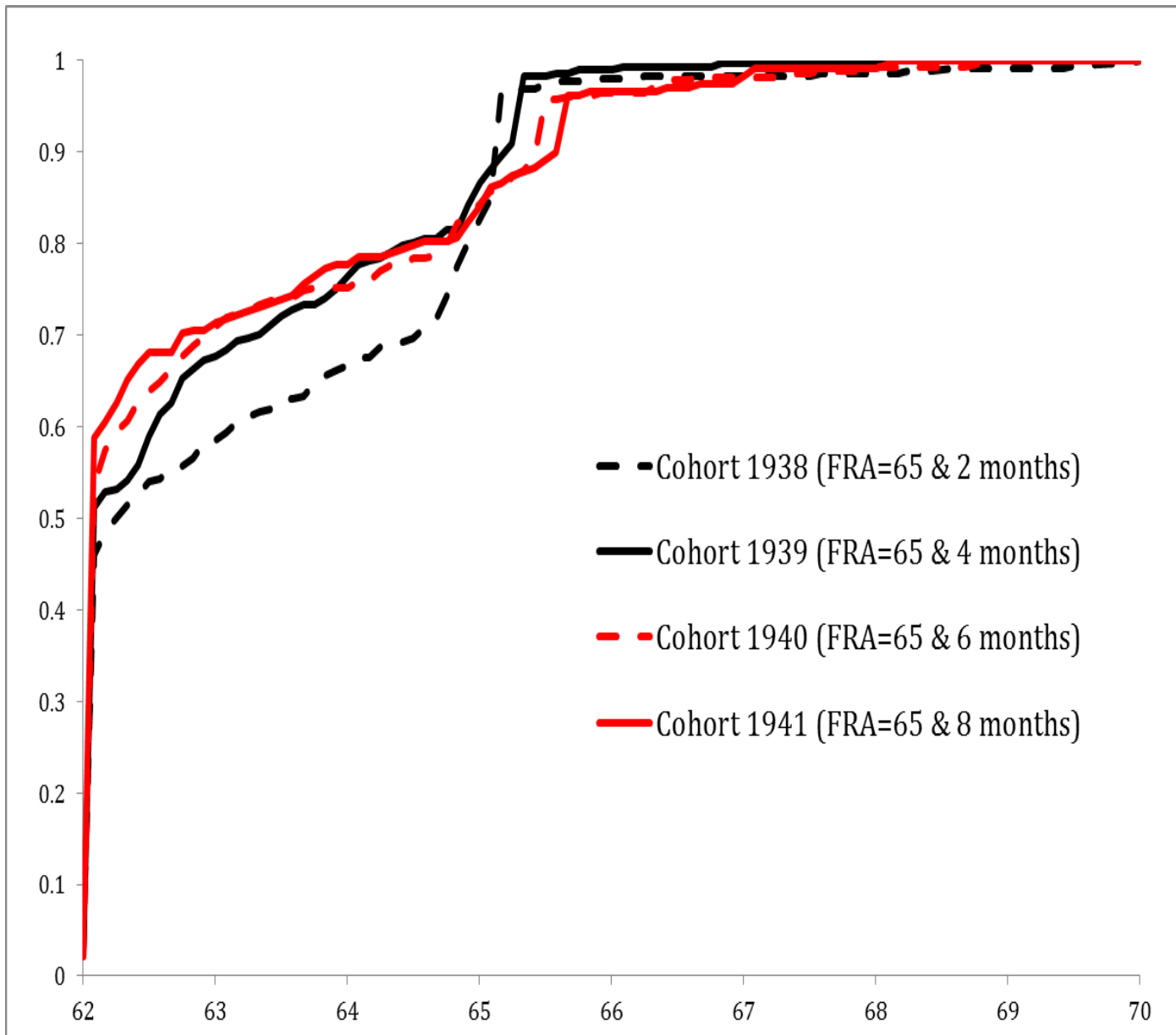
Descriptive Discussion

- Many earliest claimants have already started drawing on non-SS retirement assets at age 60
- 62-FRA claimants have lowest non-SS retirement savings; also, more likely to claim earlier than expected
- Lowest non-SS retirement quartile has high mortality, SSDI participation, and labor force participation

Variation in Retirement Wealth

- Rising FRA induces fall in PDV for adjacent birth cohorts
- How do these cohorts respond in their non-SS retirement wealth decision-making?

CDF of SS Retirement Claimants



Regression Approach

- Estimate likelihood of claiming, having had decumulated, or non-SS retirement asset levels at each age for each cohort among men, with age and year fixed effects and covariates (Mastrobuoni 2009); pointwise regression estimation of CDF
- Use estimates for 1931-1945 birth cohorts to get general trends before change and trends after, controlling for individual, household, and economic environmental characteristics
- The difference in trend across cohorts: the effect of the rising FRA

Findings

- Consistent with prior literature – delay in SS claiming and delay in retirement
- New findings: non-SS retirement wealth accumulation increases and decumulation behavior delays
- However, lowest non-SS retirement quartile does not change behavior
- Overall, for every \$1 lost in SS wealth, households save \$3 in other tax-preferred retirement vehicles
- At most, mechanical effect of working longer on retirement savings explains 47% of this accumulation

Discussion

- Key contribution is ability to measure SS claiming behavior/wealth together with private retirement decision-making/wealth
- Lowest non-SS retirement wealth quartile:
 - Higher mortality
 - More delayers
 - More early takers
- All but the poorest quarter of respondents delay claiming, retirement, and non-SS retirement wealth decumulation with rising FRA
- More than offsets fall in SS wealth, but those most dependent on SS wealth don't (can't?) react

Moving Forward

- More general measures of wealth than just tax-preferred private retirement
- More decumulation measures
 - Look at other retirement preparation behavior
- Test for retirement adequacy



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