

RIETI-JSTAR Symposium

Japan's Future as a Super Aging Society: International comparison of JSTAR datasets

Handout



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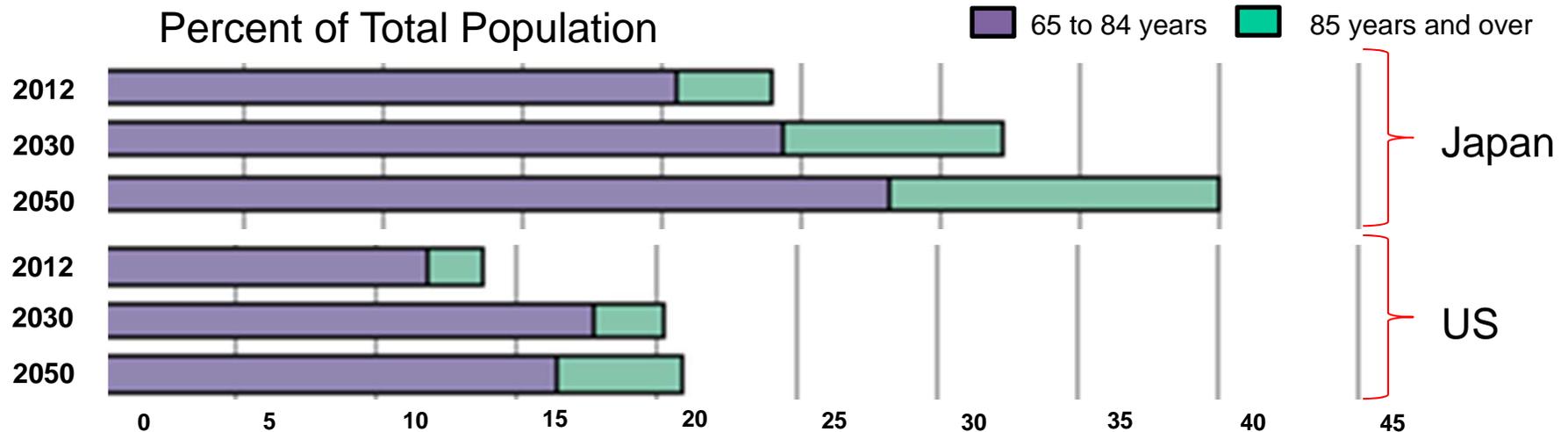
Research Institute of Economy, Trade and Industry (RIETI)
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Policy Effectiveness: The Case of the United States

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Background



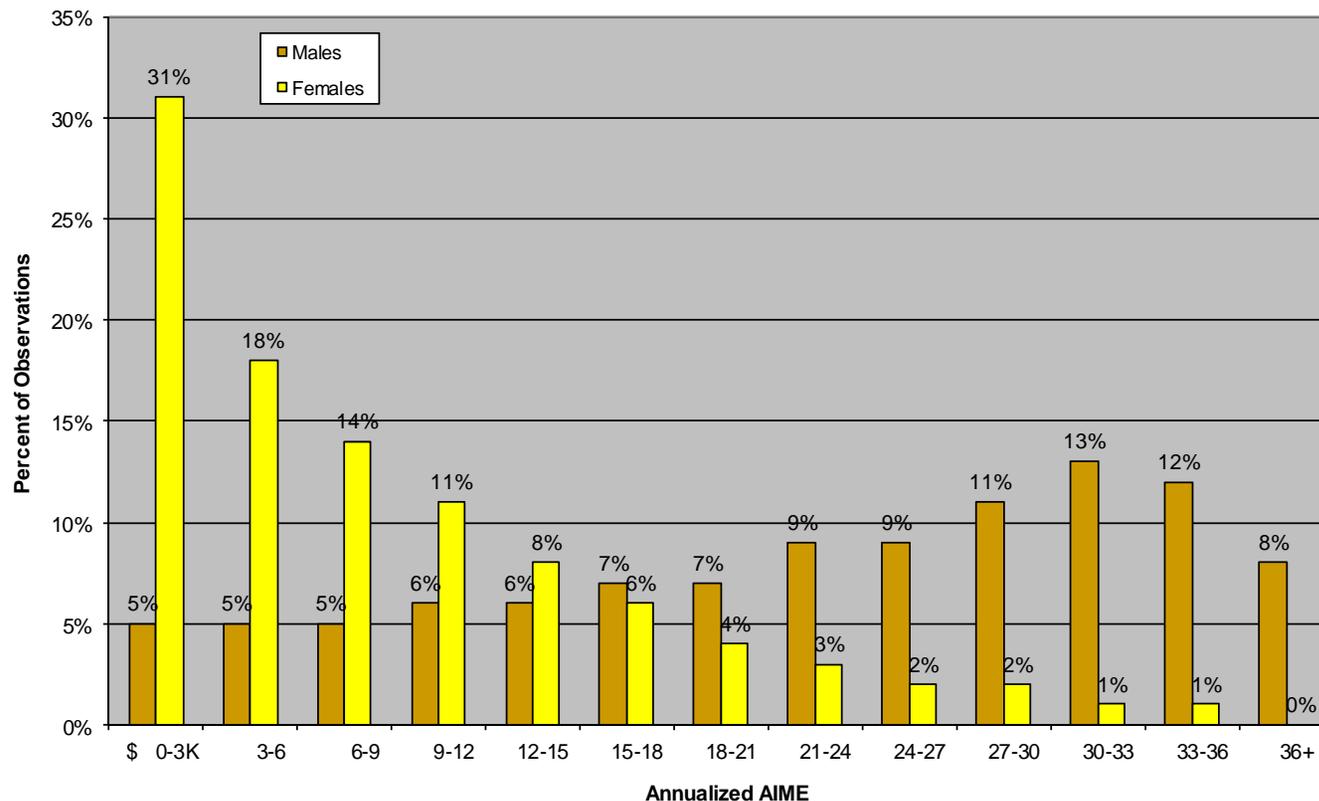
Source: Ortman, Velkoff, and Hogan (2014), *An Aging Nation: The Older Population in the United States*, U.S. Census Bureau publication P25-1140, available at <http://www.census.gov/library/publications/2014/demo/p25-1140.html>, Fig. 10, p. 15 (modified/cropped).

- Budgetary implications of changing demographic profile
 - Importance of ensuring retirement income adequacy/security
 - Difficulty of saving when longevity is uncertain
- Proposals to address the social security solvency problem included:
 - Shift more responsibility for savings onto the individual
 - Raise retirement ages (encourage prolonged worklife)

INFORMING THE SOCIAL SECURITY DEBATE

Distribution of Annual Indexed Earnings in 1992 (Original HRS Cohort)

Percent of Observations for Each Gender by AIME Category



Source/acknowledgment: *I am grateful to Alan Gustman for providing this slide (slightly modified from original), based on his work with Thomas Steinmeier.*

GAO-HEHS-98-42, December 1997

- Evaluate
 - Why women's social security benefits are lower than men's
 - Whether reform proposals might have different effects on women than on men and how to minimize any possible negative effects on women
- Method and finding
 - Used both HRS directly and cited research using HRS to make arguments
 - Women's benefits are lower due to lower wages and fewer years in the workforce
 - Proposals to fund retirement saving via accounts that draw on a proportion of salary could make disparity worse if in addition women have different investment behavior
- Policy recommendations
 - Improve information about investment objectives and financial planning
 - Consider mandatory annuitization to reduce possibility of outliving savings
 - Use unisex lifetables to ensure those with comparable savings at retirement receive comparable monthly benefits

Report: *Social Security Reform: Implications for Women's Retirement Income*, available at <http://www.gao.gov/products/HEHS-98-42>

GAO-07-753, July 2007

- Evaluate
 - The incentive effects in Social Security, Medicare, and pension rules
 - Recent retirement patterns and whether changes in Social Security requirements have resulted in later retirements
- Using HRS, GAO found that Federal policies offer mixed incentives
 - The availability of social security at age 62 provides an incentive to retire early
 - The increase in the full retirement age and elimination of the earnings test encourages continued work
 - Medicare provides an incentive for those without health insurance to stay working until 65
 - Workers' retirement depends strongly on retiree health insurance and pension plan availability
 - Men with defined benefit plans are more likely to retire early (before age 62) than those without and those with defined contribution plans are less likely to do so.
- Recommendation: “Congress may wish to consider changes to law, programs, and policies that support retirement security, including retirement ages, in order to provide a set of signals that work in tandem to encourage work at older ages”.

Source: *Federal Policies Offer Mixed Signals about When to Retire*, available at <http://www.gao.gov/products/GAO-07-753>

GAO-11-125, November 2010

- Questions:
 - What are the characteristics of those nearing retirement?
 - How likely is it that they will be able to continue working if we raise the social security retirement ages?
 - What policy options might help reduce adverse effects for those who are unable to work longer?
- Using HRS directly and citing research using HRS, GAO found that
 - Raising the retirement ages likely would increase the number of workers applying for and receiving benefits through the Disability Insurance (DI) program;
 - This increase would offset some of the savings implied by the increasing the retirement age, as well as increasing the DI caseload and administrative costs;
 - Delayed benefit receipt could create hardship for those unable to continue working but who do not qualify for DI or other government assistance programs
 - Elderly appear to draw down their savings gradually
- Policy analysis

“While policy options exist to mitigate the impact on affected workers, doing so will likely require expanding programs and increase benefit costs. Finding the balance between worker protections and costs will likely be challenging.”

Source: *Social Security Reform: Raising the Retirement Ages Would Have Implications for Older Workers and SSA Disability Rolls*, available at <http://www.gao.gov/products/GAO-11-125>

ASSESSING RETIREMENT INCOME ADEQUACY / IMPROVING RETIREMENT INCOME SECURITY

GAO-03-810, July 2003

- Issue: Individuals face increasing responsibility for ensuring the sufficiency of their retirement savings. Are they equipped?
- Using HRS, GAO found that while plan sponsors provide timely information about payout options (e.g., lump-sum versus annuity), there is little discussion regarding the relative risks of the available options, or the risk of outliving one's savings
- Recommendation: More effort needed to increase public awareness of risks and implications for lifetime income adequacy of different options

Source: *Private Pensions: Participants Need Information on Risks They Face in Managing Pension Assets at and during Retirement*, available at <http://www.gao.gov/products/GAO-03-810>

GAO-11-400, June 2011

- Evaluate the pros and cons of various policy options to enhance retirement income security
- Using HRS, GAO found that
 - Retirees rely primarily on social security and pass up opportunities for increased retirement income;
 - Few retirees choose the annuity option for receipt of their defined benefit pension income;
 - Elderly appear to draw down their savings gradually
- Policy recommendations
 - Encourage annuitization
 - Improve financial literacy so people are aware of investment options and associated risks

Source: *Retirement Income: Ensuring Income throughout Retirement Requires Difficult Choices*, available at <http://www.gao.gov/products/GAO-11-400>

MACROECONOMIC CONDITIONS

GAO-02-85 (Nov. 2001) and GAO-06-80, (Dec. 2005)

- Question: What areas of the labor market are most affected by the aging workforce and what can employers do to recruit and retain older workers?
- Using HRS, GAO found that the aging workforce is likely to affect all areas of the labor market
 - Older workers may be an increasingly important resource for employers
 - Although few employers have begun to prioritize programs to encourage recruitment and retention of older workers (e.g., flexible work arrangements), many expressed a willingness to have such programs
- Recommendation and follow-up
 - GAO recommended designing a public awareness program to improve planning for both employers and employees, particularly focusing on retention/recruitment of older workers and providing assistance in finding opportunities to continue work
 - Department of Labor (DoL) agreed with the recommendations, initiated an outreach campaign, identified initiatives to encourage employment of older workers, and convened an interagency task force focused on addressing future demographic challenges

Sources: *Older Workers: Demographic Trends Pose Challenges for Employers and Workers*, available at <http://www.gao.gov/products/GAO-02-85>, and *Older Workers: Labor Can Help Employers and Employees Plan Better for the Future*, available at <http://www.gao.gov/products/GAO-06-80>

GAO-06-718, July 2006

- Question: Will the retirement of the Baby Boom generation (those born between 1946 and 1964) cause a stock-market “melt-down” as this generation shifts out of equities and into lower-risk assets?
- Using HRS, GAO found that a sharp and sudden decline in financial asset prices was unlikely:
 - Many boomers have few financial assets
 - Increasing life expectancy means boomers will have to work longer and spread asset sales over a longer period of time
 - Retirement income security will likely depend increasingly on personal responsibility
 - Workers’ retirement depends strongly on retiree health insurance and pension plan availability
 - Suggests an important role for financial literacy initiatives

Source: *Baby Boom Generation: Retirement of Baby Boomers is Unlikely to Precipitate Dramatic Decline in Market Returns, but Broader Risks Threaten Retirement Security*, available at <http://www.gao.gov/products/GAO-06-718>

HRS Core Data Can Isolate Effects of Recession from Other Changes Over Time

- Complex retirement variables documenting labor market flows
- Wealth measures, reduced by recession
- Firm induced changes in employment
 - Permanent and temporary layoff
 - Changes in firm policies for older workers
 - Job acceptance or rejection
 - Involuntary reduction in hours
- Firm induced changes in compensation
 - Wage reductions (on current job, next best job, in partial retirement).
 - Pension plan changes or terminations.
- Activities in unemployment
- Spouse labor market activities in response to changing opportunity set, joint retirement decision
- Health and family changes affecting employment

Source/acknowledgment: *I am grateful to Alan Gustman for providing this slide (slightly modified from original)*

HRS panel useful for analyzing *financial* effects of market shocks.

- The HRS was in the field both before and after the Great Recession.
- Those who speculated about the effects of the Great Recession on retirement got the story wrong.
- A major focus was on the effect of the decline in the stock market and housing prices.
- “Experts” predicted that losses on DC plans would lead to large reductions in retirement rates.
- They did not understand the limited importance of DC plans to those on the cusp of retirement.
- Only 14% of the assets held by early boomers were in stocks.
- The decline in wealth due to the Great Recession was greatly cushioned by pensions and Social Security.
 - 29% of wealth was in Social Security, and another 17% of wealth in defined benefits plans.
- Most near retirees not immediately affected by decline in housing prices. Their homes were not extensively mortgaged, and they would use the money many years later.

Source/acknowledgment: *I am grateful to Alan Gustman for providing this slide*

Prospects for International Comparisons of Effects of Recession on Retirement

- Consistency of questions across HRS / ELSA / SHARE / JSTARS /etc. facilitates comparisons
- If recession hit different countries differently, can use timing variation to identify impact
- If recession had similar impact on all countries, can use variation country variation (e.g., differences in social safety net) to identify impact
- If there are differences in how recession affected different countries, and they have very different social insurance system, then each country will have to be analyzed individually.

Source/acknowledgment: *I am grateful to Alan Gustman for providing this slide (slightly modified from original)*

IDENTIFYING FURTHER DATA NEEDS

GAO-03-337, March 2003

- Question: What are some of the critical data needs for studying issues related to the elderly?
- Using HRS, GAO found that more data are needed regarding administrative and employer records, as well as linkages to other datasets.
- Impediments to data collection has led to fragmentation of responsibility, resulting in smaller data collections without linkages.
- Recommendations (both enacted)
 - Develop a plan to collect and coordinate data collection across agencies
 - Obtain copies of summary plan descriptions from employers

Source: *Retirement Income Data: Improvements Could Better Support Analysis of Future Retirees' Prospects*, available at <http://www.gao.gov/products/GAO-03-337>

Recent work by Alan Gustman and Thomas Steinmeier

- HRS linkages with Social Security administrative data enable measurement of degree of misinformation
- Misinformation about pensions and pension values
 - Only half of respondents correctly identify their plan type
 - Fewer than half identify their date or age of eligibility for early or normal retirement within a one-year window
- Misinformation about Social Security: only 50% of respondents venture a guess as to their expected benefits and only half of those come within \$1,500 of their actual benefits
- Around 40% of respondents have not thought about retirement or have no plan
- Policy responses: Increased information, financial literacy initiatives, annuitization, default options

Source/acknowledgment: I am grateful to Alan Gustman for providing much of the information on this slide

Conclusions

- In its 22 year history, the HRS has been invaluable for policy
 - Identifying areas that need a policy response
 - Evaluating the effects of a policy that has been enacted
- Linkages with administrative data enhance the value of both
 - In-depth analysis
 - Identification of public misperception
- Longitudinal aspect is critical, especially as population ages