RETIREMENT MANAGEMENT JOURNAL

A reprinted article from Volume 9, Number 1, 2020

THE VISIONARIES SERIES

Olivia S. Mitchell, PhD: Calibrating Retirement Planning with Current Conditions

INVESTMENTS & WEALTH INSTITUTE®

VOLUME 9
NUMBER 1
2020

OLIVIA S. MITCHELL, PHD

Calibrating Retirement Planning with Current Conditions

Olivia S. Mitchell, PhD, holds multiple appointments at the University of Pennsylvania's Wharton School, which she joined in 1993. She is the International Foundation of Employee Benefit Plans Professor, Professor of Insurance/Risk Management and Business Economics/Policy, executive director of the Pension Research Council, and director of the Boettner Center on Pensions and Retirement Research. Concurrently, Mitchell serves as a research associate at the National Bureau of Economic Research, an independent director on the Wells Fargo Fund Boards, a co-investigator for the Health and Retirement Study at the University of Michigan, a member of the executive board of the Michigan Retirement Research Center, and a senior research scholar at the Singapore Management University. She also advises the Centre for Pensions and Superannuation at The University of South Wales and is faculty affiliate of the Wharton Public Policy Initiative. She earned MA and PhD degrees in economics from the University of Wisconsin-Madison and a BA in economics from Harvard University.

Mitchell's professional interests focus on public and private pensions, insurance and risk management, financial literacy, and public finance. Her research explores how systematic longevity risk and financial crises can shape household portfolios and work patterns, the economics of defined contribution pensions, financial literacy and wealth accumulation, and claiming Social Security benefits.

Previously, Mitchell chaired Wharton's Department of Insurance and Risk Management, and she taught for sixteen years at Cornell University. She served as a commissioner on the 2001 President's Commission to Strengthen Social Security, as a member of the U.S. Department of Labor's ERISA Advisory Council, and on the board of directors of Alexander and Alexander Services, Inc., the board of the American Economic Association and its Standing Committee on the Status of Women in the Economics Profession, the advisory board for the Central Provident Fund of Singapore, and the Government Accountability Office Advisory Board. She also co-chaired the Social Security Advisory Council's Technical Panel on Trends in Retirement Income and Saving.

Photo courtesy Corey Hancock, International Monetary Fund

Olivia S. Mitchell, PhD

In September 2020, Robert Powell, editor-in-chief of the Retirement Management Journal, *Jason Fichtner, PhD, senior lecturer at the Johns Hopkins University; and Anna Rappaport, FSA, MAAA, chair of the Society of Actuaries Committee on Post-Retirement Needs and Risks, spoke with Mitchell about how longer lifespans and prolonged retirement periods are requiring adjustments to Social Security benefits, employee pension plans, and individual retirement savings.*

Robert Powell: What major factors helped shape your career and bring you where you are today?

Olivia Mitchell: Both my father and mother were economists, and I was the child of an international diplomat. When I was two years old, we left the United States, and my dad was posted in Asia, Central America, and South America. So I grew up outside the United States seeing the privation that exists in many poor countries. When we came back to the States every two years for home leave, I would be awestruck by the plentiful supermarkets and the amazing shopping malls. I grew up with that contrast very much in mind.

When I moved back to the United States to go to college, I began paying more attention to the economy. I started reading the *Wall Street Journal*, which was the best advice I ever got from an economics professor. Then, as I launched a research career, I was asked to teach in the area of employee benefits, pensions, and Social Security. It was during my first teaching experience at Cornell University when I thought, wow, I could do research in this area and really contribute (because the textbooks were so boring). First, I began to work on corporate pensions. Then over time I got involved with the ERISA Advisory Council and the Social Security Administration. Since then, I've branched out a bit into medical care, especially some contemporary issues around long-term care and retiree health insurance. This past summer, while everything was shut down, I decided to think about what the pandemic will mean for retirement systems around the world. To that end, I wrote a paper titled "Building Better Retirement Systems in the Wake of the Global Pandemic" and presented it at a conference sponsored by the Swedish House of Finance.[1] I've been working on all these topics for forty years, but in this era of global aging, now is clearly a critical time to fix our retirement systems.

Robert Powell: In your years of studying and publishing research on these subjects, what's the greatest lesson you've learned and what do you regard as your major achievement?

Olivia Mitchell: I'm most proud of the fact that I wake up every day enthusiastic and excited to do more research, and I feel privileged that I've been able to follow this career. Some years ago, I served on the President's Commission to Strengthen Social Security under President George W. Bush. That gave me experience grinding through the models, deriving results from an econometric and empirical point of view, talking to policy-makers, and trying to figure out how we could reform Social Security. Unfortunately, our recommendations were not implemented, partly because of 9/11. The President promised to push Social Security reform during his second term, which he did, to his credit. Still, many other issues took precedence, and now here we are with the Social Security system confronting near-term insolvency. It's beyond high time for us to take reforming that key pillar of the U.S. retirement system much more seriously.

Anna Rappaport: What, if any, lasting effects do you think the COVID-19 epidemic will have on retirement in the United States and beyond?

Olivia Mitchell: As I point out in the paper I just mentioned, the world had not been particularly kind to retirement systems prior to COVID. Social security programs around the world were underfunded, and many defined benefit plan sponsors had not contributed as much as they should have. A large number of these pensions also invested in very risky assets—we saw what happened during the 2008–2009 global financial crisis—and some had not fully recovered by the time the pandemic began. Defined contribution plans were doing better, but in the United States, half of the workforce still had no retirement pension outside Social Security.

In much of the rest of the world, things are far worse—especially if you consider emerging economies, as in Latin America, where half or more of the workforce is informal and not covered by any kind of retirement system. Much the same is true in China. So in some of the most populous countries in the world, there was almost no retirement safety net even before the pandemic. COVID certainly sharpened our focus on the funded retirement schemes, because many of them were holding a risky asset mix and lost a great deal of money. The fact that the stock market has picked up recently has helped, but still, many pensions, especially state and local plans, continue to be underfunded.

Another thing we're now realizing is that, despite the fact that the U.S. healthcare system had been considered one of the strongest in the world, it's clearly fallen down badly in the wake of the pandemic. Millions of people have not received the medical care or the treatments they need, and the fatality rate in nursing homes has been horrifyingly high. Something else we now know is that the social safety net has been frayed globally, particularly in developing countries where there wasn't a strong safety net to begin with. In the United States, the unemployment insurance system did help millions of unemployment insurance applicants, but fixing pensions has been low on the list of programs that countries are addressing. That is, they are helping with unemployment benefits, food insecurity, and health care, but very few countries have done much to support struggling pension systems.

Anna Rappaport: Do you think that's because of all the emergencies this year but that retirement programs are likely to be addressed in the next couple of years, or do you think they're likely to stay low on the list?

Olivia Mitchell: At the time of this issue's publication, the U.S. Congress has not yet passed another stimulus bill, and the lack of financial assistance will become more problematic as 2021 dawns. The International Monetary Fund, the World Bank, and other lending organizations can help institute programs that will help restore the poorer economies. Nevertheless, conditions are not good in India and the Philippines or in much of Latin America and Africa. It will take years for the emerging countries to return to the level of development they enjoyed previously.

Anna Rappaport: In the United States, we've had a system that combines Social Security, employer plans, and individual savings. That's been shifting with the decline in defined benefit plans and the growth in defined contribution plans, but lots of people are not covered. Do you think the role of these different components is likely to change in the future, and do you have any ideas about what might be coming down the road?

Olivia Mitchell: The biggest need is to reform Social Security, because this is the first pillar of support for U.S. retirees. Social Security's chief actuary has already worried that the exhaustion date of the trust funds will likely move two to three years earlier because of COVID, and others have suggested that the Social Security trust fund could be exhausted by 2029. We don't know exactly which way the numbers are going to go, but we do know that more people are retiring early and claiming benefits and that declining payrolls decrease the revenue going into the system. These circumstances are worsening Social Security's near insolvency.

Moreover, we have not seen new thinking about this issue in a long time. Delaying the employer payroll tax certainly would not increase solvency, and neither will a boost in benefits. A combination of benefit changes, retirement age increases, and probably contribution increases will likely be needed.

With regard to employer-provided defined benefit pensions, I'm afraid the mistakes made in their design and regulation will not permit a resurgence of those plans in this country or in many other countries. The persistent underfunding levels combined with rising benefit formulas make defined benefit plans nonviable in the corporate sector, complicated by the poor state of the U.S. Pension Benefit Guaranty Corporation.

Defined contribution plans still have potential, though the pandemic has made it clear that tying retirement and health insurance to a single employer is risky. Moreover, we must find new ways to integrate income payout options into defined contribution plans, so that when people reach retirement, they aren't handed their nest egg and told, "Good luck; don't spend it too soon." Instead, some sort of default deferred annuity could be integrated to help them live out their lives comfortably.

Jason Fichtner: Since you mentioned annuities, Olivia, I'd like to ask a question related to the fact that the Federal Reserve has signaled its intention to keep interest rates very low to near zero over the next few years. Given that we're probably facing a period of several years of low interest rates, what challenges does this pose to stable retirement and to the decumulation phase of spending down assets in retirement? I'm also thinking about annuities.

Olivia Mitchell: I held a conference a couple of years ago on the persistent effects of low returns on retirement saving and decumulation. Readers may download that volume for free from our website.[2]

First, low returns are going to make it much more difficult for people to build a retirement nest egg at the rates they've been accustomed to and to retire on the date they planned. If your money doesn't earn much in the capital market, you're either going to have to save a lot more or work much longer. Both of these prospects are in the cards for Americans, as well as others. To some extent, we still have slightly positive nominal savings returns, but that is not the case in many European countries where returns are negative. Second, low returns will make people less likely to save in tax-qualified accounts such as 401(k) and 403(b) plans. Why? Because the advantage of a tax-qualified account is that it allows you to defer some taxes until later when you're in a lower tax bracket. If people aren't going to earn much in these accounts, they are likely to save more outside their tax-qualified accounts because of fewer restrictions and more flexible liquidity.

Third, at least some people will need to delay claiming their Social Security benefits because every year they delay, their benefits increase by 7–8 percent for the remainder of their lives. Of course, in this period of low returns, one cannot easily earn 7–8 percent on savings. Moreover, with the capital market providing such low returns, annuitization becomes relatively more attractive. Pooling money with others in an insurance risk pool provides the benefit of a survival credit on the order of 7 percent or so per year (as long as you survive). In any event, the relative appeal of annuities is enhanced now compared to the past.

Anna Rappaport: Olivia, you mentioned that some countries are much worse off than the United States. I'm wondering if you've seen any lessons that the United States could learn from specific things that have happened in other countries. Can you point to things that you think another country has done well and that you'd suggest we consider emulating?

Olivia Mitchell: Having grown up in Latin America, I was always a big fan of Chile's mandatory defined contribution plan, in which people were required to contribute 10 percent of their pay. The money was invested by large, low-cost money management companies, and the population had accumulated a healthy retirement nest egg. Unfortunately, during COVID, the Chilean Congress was pressured into allowing people to withdraw 10 percent of their retirement accounts—and that was just in the first round. Now there's a movement to let people cash out a second tranche of their retirement accounts. This is, however, a dangerous threat to retirement security. I am convinced that there are better ways to manage the COVID pandemic than giving people access to their pensions.

A similar problem showed up in Australia, which has a national mandatory defined contribution plan. There, people were allowed to withdraw up to $12,000, and no one knows if this will be all. Of course, in the United States we also had the CARES Act,[3] which allowed people to take up to a certain amount of money from their accounts. This provision hasn't yet been widely used, but it's too early to be sure, because stimulus money and higher unemployment benefits have only recently wound down. Ultimately, retirement accounts might be raided in the United States as well.

Jason Fichtner: In the context of low interest rates and low yields, are you concerned that the managers of some public pension plans or defined benefit pension plans will chase yield without understanding that this also means taking on additional risk? What does this mean for potential underfunding, and what are we doing about it?

Olivia Mitchell: Public pensions have been chasing yield for decades, and with the forecasted low returns, many plans are doing so with even greater enthusiasm. Sponsors are definitely moving into nontraditional asset classes in the hope of making more money that they would earn from a simple 60/40 stock-bond split. Yet if things go poorly, they will again lose a lot of money, as occurred during the 2008–2009 global financial crisis. Of course, public plans are not governed by the Employee Retirement Income Security Act that governs corporate pension plans. So public plan managers don't have the same fiduciary obligations as private sector plan fiduciaries, meaning there are fewer ways to control or restrict risky behavior in these plans. Nevertheless, this led to problems in the past, and I'm certain it will lead to problems in the future.

Anna Rappaport: Olivia, I'm thinking about your statement that defined benefit plans are not viable. There's been talk about a variety of retirement plan designs that allow for risk pooling but without transferring the level of risk that a defined benefit plan transfers to the plan sponsor. There are numerous variations in how much risk is transferred. Do you expect people will be more willing to think about different structures that offer some risk pooling with less risk transfer?

Olivia Mitchell: A number of interesting plan designs have been proposed and tried. You might say that cash balance plans are an example; these are defined benefit plans or so they're characterized in the United States. In such plans, the employer provides a guaranteed rate of return, and it's up to the employer to manage the money so as to hit that target. Nevertheless, such plans have also been underfunded in a number of cases, so there's no free lunch there. For some time the Dutch have lauded what they call their "defined ambition" plan, which is sort of a defined benefit plan as long as funding permits. Yet if funding falls short, contributions must be raised or benefits cut.

During this COVID period, it appears that benefits will have to be cut; I've seen reports on the order of 15–20 percent. Whether such cuts can actually be implemented depends on the plan. As an example, Japan instituted an adjustment mechanism they called a "macroeconomic slide," which meant any time payroll tax revenue fell below expectations, benefits were supposed to be reduced. In practice, however, benefit cuts did not happen as planned. In other words, seemingly smart adjustment mechanisms have not actually been implemented in times of shortfalls.

Anna Rappaport: It sounds like you don't expect these proposed solutions to be widely adopted.

Olivia Mitchell: There has been some hope that multiple employer plans, a new model permitted under the SECURE Act,[4] might broaden the base so that more companies could pool their risks. But in the COVID era, the impetus has pretty much slowed. After we get through this terrible economic downturn and people return to work, then maybe we'll see more creativity again regarding plan design.

Anna Rappaport: Over the past few decades, people have been living longer and longer, and retirement periods are being extended. I haven't heard any speculation that COVID is going to have a material effect on life expectancies for the population as a whole, but you've mentioned the likelihood that people will need to postpone claiming Social Security benefits. What as a society should we be doing to address prolonged retirement periods?

Olivia Mitchell: The question of how much mortality will change as a result of COVID is still seeking an answer. Professor Moshe Milevsky from York University claims there's been a ten-year rise in mortality for people over age sixty-five. That is, if you used to think you were sixty-five years old, now you're seventy-five given the mortality tables we face. Nonetheless, there are better and better treatments for COVID, and we anticipate that a vaccine will be available soon. So it seems unlikely that COVID will dramatically curtail longevity over the long term, at least not in developed countries.

So how do we handle extended longevity? We absolutely must start with our children, teaching them that they cannot plan to retire at fifty-five or sixty-five years of age. Perhaps if they save early and often, they'll be able to afford retirement at seventy-five or eighty. Especially in a world with low investment returns, one cannot expect to quit working young and live on that tiny nest egg over the next fifty or sixty years.

A related point is to issue a wake-up call to the group calling themselves the FIRE (Financial Independence, Retire Early) cohort.[5] Some say they will stop working at age forty-five, but it's unlikely they will be able to do so without depending on Medicaid, Supplemental Security Income, or some other government program. Not only will we need to work longer; we'll also need to re-imagine how we invest in our human capital. For example, our new freshmen at The Wharton School are told: "The jobs you're going to hold in the future don't exist today. So your purpose here is to learn the tools and skills that will enable you to reconfigure what you do as you go through your adult lives." The same applies to how we think about the skill sets we build. We must keep learning and investing in ourselves, and if we do, there will be a market for our skills as we age.

For many, working longer is not only feasible but also desirable, in the sense that mental, social, and other connections are maintained by keeping a foot in the labor market. People who continue to work even part-time or in a volunteer job tend to remain mentally nimble at older ages, whereas sitting in a rocker on the front porch is not conducive to good health.

Jason Fichtner: Anna brought up the issue of longevity in relation to COVID, and I think we would be remiss if we fail to mention that gains in longevity are not happening equally across society. COVID is hitting some racial groups harder than others, and longevity is being affected differently according to income and race. We need to think about these conditions and what they mean for society in terms of savings,

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investments, and changes to Social Security. Acknowledging that we're generally living longer and have to support longer working lives and retirement periods, we need to think about racial inequality and gender inequality.

Olivia Mitchell: For a long time, people argued that Social Security was redistributive toward low-earners. But an influential study by Dartmouth Professor Alan Gustman and Professor Tom Steinmeier at Texas Tech University recalculated the redistributiveness of Social Security, incorporating not only Social Security benefits but also spousal, disability, and survivor benefits (Gustman and Steinmeier 2001). The authors concluded that there is very little redistribution from families with high to low earnings capacity under the Social Security system.

It is true that some population subgroups including Blacks have shorter life expectancies, which might lead some to conclude that Social Security is unfair to them. Nevertheless, the variance around longevity for people with shorter life expectancies tends to exceed that of those with longer expected lifetimes, meaning there's more uncertainty about how long they're going to live. Therefore, even people with shorter lifetimes still need protection through Social Security benefits, because they face greater longevity risk.

Anna Rappaport: I'd like to raise another issue I've been concerned about. It seems to me that within retirement planning, the role families play frequently goes unrecognized. This is particularly true in countries where some people are completely outside any formal retirement system. I think the role of families is probably huge, and research from the Society of Actuaries shows that although people don't often plan for it, there's a large familial role in the United States. I'm interested in your views about the role of the family, how extensive it is, how we recognize it in planning, and how it might evolve.

Olivia Mitchell: This is a critical topic, and Anna, your writings have alerted me to some of the key considerations. Moreover, the role of the family has changed and will continue to change over the life cycle. Early on, parents are trying their best to care for, feed, and educate their kids and keep them healthy. A little later, the kids move out (we hope they do, anyhow). Today, during the pandemic, over half of young Americans age eighteen to twenty-five are living with their parents; clearly the family becomes a shock absorber in times such as these. Later in life, we end up taking care of our parents, directly or indirectly, with time and/or money.

When our parents cannot live alone any longer, this is where long-term care comes in. Even those who can afford to pay for nursing home care still need somebody who's watching, paying attention to what the doctors are saying, and monitoring the care the parent is receiving. Of course, COVID has meant that no one wants to send their relatives to a nursing home because it has been so dangerous. I believe that the caregiving role of the family will therefore become more crucial in the future, which of course poses a huge challenge, especially for working women. As we've seen during the COVID pandemic, many women already took on a huge additional role by helping homeschool their children. On top of that, having parents move in—parents who may be demented, who may need 24/7 care—is a substantial problem. With the rise of dementia and the increase in longevity, this issue becomes even more critical.

Acknowledging that we're generally living longer and have to support longer working lives and retirement periods, we need to think about racial inequality and gender inequality.

Anna Rappaport: Olivia, do you have any comments about what we as a society might think about for people who don't have any family members available to help them?

Olivia Mitchell: We have Medicaid for the indigent who need to go into nursing homes. We have Supplemental Security Income and other government programs. But our government faces a huge deficit and growing national debt, so it's going to be increasingly difficult for the government to do more for the poor. Last spring, we hosted a fascinating conference on how public-private partnerships could be structured to better manage longevity risk.[6] Several presenters described state or city programs that, in conjunction with the private sector, established eldercare settings, feeding arrangements, and daycare settings for elderly parents, so that their adult children could go work. We need much more creativity in this area.

Jason Fichtner: When I think about health care, I think about what that means for families, for long-term care support, and the government's financial burden. The 2020 report of the Social Security trustees did not include COVID-related losses, income, or business expenditures, which could take five or six years off the trust fund's predicted solvency. The report didn't forecast depletion of the trust funds during the next decade, but at some point in the next fifteen years, we'll have to deal with this issue, and Congress seems more than willing to wait until the last minute. I have two questions. One, are you concerned that we might see reductions in Social Security benefits, in which case people will need to start saving more now to make up for that loss in retirement income? Two, will we see more intergovernmental transfers and deficit financing, which will put more strain on other government programs aimed at the solutions you and Anna have been talking about?

Olivia Mitchell: There have been several efforts to engage states in cooperative ventures to help people who need financial assistance, especially residential assistance, later in life. One of the presentations at my recent conference dealt with states giving older homeowners credit for paying their property taxes.[7] Those property taxes would eventually be paid back to the government, when the elderly person passed away and the house was sold. Massachusetts and several other states have worked hard to institute this program. Other states including Pennsylvania have state partnership programs specifying that if I purchase long-term care insurance for myself and the time comes that I need to be in a nursing home, Medicaid will not force me to draw down my own assets. These are some creative ways to induce people to start saving more, in particular for their long-term care needs.

If low interest rates continue, this helps retirees, yet on the flip side, many retirees were hoping to live on the interest earned on their bonds. This is not feasible for most people today.

With regard to Social Security, I wish I had a crystal ball. If nothing happens, we know benefits will be cut probably by 23–25 percent; that is the estimated revenue shortfall that will occur if nothing is done to fix the program's insolvency. Alternatively, Social Security payroll taxes could rise 50–80 percent. My best bet is that we'll see a combination of reforms as occurred in 1983 with the Greenspan Commission. That is, there will likely be both reductions in the growth rate of benefits, as well as payroll tax increases and gradual delays in the official retirement age. Such a package might be able to garner enough support to get through Congress.[8]

Jason Fichtner: I don't have a crystal ball either, but I'm becoming more and more concerned that Congress will do the easiest thing—and that's nothing. This means they won't let benefits be cut; they'll just authorize intergovernmental transfers, which will add to the depth of debt going forward.

Olivia Mitchell: Absolutely. And the $64-trillion question is why isn't that making interest rates go up? But that discussion is for another day.

Anna Rappaport: Olivia, you've conducted research on many different topics and sponsored interesting conferences through the Pension Research Council. If you look back at the past three to five years, are there things that surprised you or that made you say, wow, here are some big issues that people should be thinking about but they're not?

Olivia Mitchell: I always try to structure my conferences and persuade people to write papers addressing questions I have, so I can educate myself. The volume we put together on the impact of fintech on retirement planning and retirement saving surprised me (Agnew and Mitchell 2019), because we realized that the multitude of fintech apps available to date focus mainly on getting people to save more for retirement. Few apps focus on the decumulation side—how to manage money in retirement. People need help on so many questions: When should I claim my Social Security benefits? Should I keep working part-time? Should I delay claiming Social Security benefits and take some 401(k) money or vice versa? Should I sell my house? Key tax and benefit consequences also must be built into these apps, even if that is a challenging problem. Bill Sharpe,[9] Nobel Prize-winning economist, once noted that decumulation was the most difficult problem he had ever confronted. So fintech needs some new firepower to help older persons make these critically important decisions.

Robert Powell: Well, Olivia, you have painted a dreary, albeit realistic, picture, and I have several questions. You have a new book coming out that Anna will probably review for the *Retirement Management Journal*. Can you talk a little bit about that book? And is there any information from your most recent symposium that would benefit financial advisors? When I was scouring the internet, I found at least five papers that you co-authored or wrote individually. Do you consider any of those papers worth highlighting here?

Olivia Mitchell: Our new book, edited by Annamaria Lusardi and me, is titled *Remaking Retirement: Debt in an Aging Economy*. I became interested in this issue because I have been involved in the Health and Retirement Study, a nationally representative survey of Americans over the age of fifty. This survey has been conducted every two years since 1992, and we have followed these people until they go into a nursing home or pass on.[10] By now we've gathered decades of research on many of these folks. At one point, I started to compare different cohorts of people over their life cycles, and I was struck by noting that, back in 1992, people tended to pay off their debt before they retired. Typically, the biggest debt they would take care of was their mortgage, and then retirement was relatively easy.

Nowadays, baby boomers and even the next generation nearing retirement have rising amounts of debt because of bigger mortgages, credit card debt, and student loans. As a result, older people today are far more susceptible to economic fluctuations. If low interest rates continue, this helps retirees, yet on the flip side, many retirees were hoping to live on the interest earned on their bonds. This is not feasible for most people today.

I've also been working on a number of other projects. One involves trying to think of a way to encourage people to delay claiming Social Security benefits, because they get a benefit increase when they eventually file. If I were to defer claiming benefits until age seventy instead of claiming them at age sixty-two, my benefit would go up by 76 percent. From the system's point of view, that's roughly actuarially neutral, but it would mean an awfully big hike in my annual income.

The conundrum is that most Americans do not defer their Social Security benefits very much, so we've been thinking of ways to make deferring benefits more interesting. Specifically, my research has proposed that if instead of getting a benefit increase of 7 percent for every year people defer claiming, they could get the extra benefit as a lump sum when they finally do claim their benefit. This turns out to be a lot of money: For instance, if someone claimed her benefits at age seventy, she would get her age sixty-two benefit at age seventy, plus about $120,000 as a lump sum (Mitchell 2016).

We then conducted a survey to explore whether older Americans would be willing to delay claiming Social Security benefits and possibly to work longer. We learned that many people would delay claiming benefits and also work longer, which would help the system in terms of insolvency. By pairing economic models and survey evidence, we have new lessons that policy-makers can use to motivate people to claim later without forcing them to do so.

Robert Powell: Our readers are largely investment advisors. Do you have any advice for them with respect to how they can help their clients plan for and live in retirement—the key things they need to know and do?

Olivia Mitchell: I always say that when you're doing retirement calculations, it would be prudent to take a haircut on the Social Security benefits that your clients might receive. I suspect a cut of about 25 percent would be a lower bound on what would likely be payable from Social Security, given its financial problems. If this proves to be a worst-case scenario, your clients will be likely to make better informed decisions as a result. In addition, we need to be using much lower rates of return in our retirement-income projections. One study that examined stock market behavior after the 1918 Influenza Pandemic suggested the stock markets were depressed for the following forty years (Jordà et al. 2020). So this is not a short-term, low-return phenomenon; rather, we need to plan for longer work lives, longer lifetimes, and tighten the belt a bit.

Jason Fichtner: In thinking about the prospect of longer lives and longer retirement periods, I'm wondering about your husband, who is in his seventies and is a world-class marathon runner. I always find it interesting to talk with him about his training regime and his dedication to this pursuit. Can you share any lessons for a happy retirement based on your husband's experience with marathon running? He's the only person I know who's doing something like this, and I find it unique.

Olivia Mitchell: The other day a journalist listed the twenty fittest people over age fifty, and my spouse was ranked number three: fitter than Sylvester Stallone and Arnold Schwarzenegger.[11] We both found that to be incredible news. Of course, any sport requires an enormous amount of work and dedication. My husband actually prefers ultramarathons, which are races longer than 26.2 miles. I believe he has two 200-mile races scheduled for next year, as well as a 300 and maybe a 400. Honestly, I don't have that dedication, but more power to him; it gives meaning to his retirement. I should add that he also cooks gourmet dinners. He's managed to combine cooking and running, so I can't complain.

Robert Powell: Speaking of retirement, any thoughts about your own retirement when it comes?

Olivia Mitchell: Well, I as long as I'm having fun, my papers get published, and my grants get funded, I don't see why I should retire. Unlike my husband, I don't have an overarching hobby, though I like to travel. But no one's going anywhere right away, so I'm not thinking about retirement in the near term.

Robert Powell: Olivia, thank you for sharing your thoughts with our readers.

ENDNOTES

1. See Olivia Mitchell, "Consumer Behavior in Financial Markets," Swedish House of Finance Annual Conferences (August 24, 2020), https://www.youtube.com/watch?v=v5yk2Za6ZEM&feature=youtu.be.
2. See https://pensionresearchcouncil.wharton.upenn.edu/coming-soon-persistent-low-returns-will-shape-saving-retirement/.
3. The Coronavirus Aid, Relief, and Economic Security (CARES Act) was signed into law on March 27, 2020, https://home.treasury.gov/policy-issues/cares.
4. The Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019 was signed into law on December 20, 2019, https://www.forbes.com/sites/davidkudla/2020/01/10/four-major-highlights-of-the-secure-act/#8e8778f76b1e.
5. Financial Independence, Retire Early (FIRE) is a movement dedicated to a program of extreme savings and investment that allows proponents to retire far earlier than traditional budgets and retirement plans would allow. By dedicating up to 70 percent of their income to savings, followers of the FIRE movement eventually may be able to quit their jobs and live solely off small withdrawals from their portfolios decades before the conventional retirement age of sixty-five (https://www.investopedia.com/terms/f/financial-independence-retire- Congress early-fire.asp#citation-1).
6. 2020 Pension Research Council/Boettner Center Online Symposium on Managing Longevity Risk: New Roles for Public/Private Engagement discussed what rising longevity means for our future, how people perceive longevity risk, and the economics and psychology

of working longer (May 7, 2020), https://pensionresearchcouncil.wharton.upenn.edu/2020-symposium-managing-longevity-risk-new-roles-for-public-private-engagement-may-7-2020/.

7. Alicia Munnell, "Property Tax Deferral: Can a Public-Private Partnership Help Provide Lifetime Income?" 2020 Pension Research Council Symposium (May 7, 2020), https://www.youtube.com/watch?v=_YpbRT7W8Jo.
8. The National Commission on Social Security Reform (informally known as the Greenspan Commission after its chairman, Alan Greenspan) was appointed by President Ronald Reagan in 1981 to study and make recommendations regarding the short-term financing crisis that Social Security faced at that time (https://www.ssa.gov/history/reports/gspan.html).
9. William F. Sharpe is the STANCO 25 Professor of Finance, Emeritus, at Stanford University's Graduate School of Business. One of the originators of the capital asset pricing model, he also developed the Sharpe ratio for investment performance analysis. He received the 1990 Nobel Memorial Prize in Economic Sciences.
10. The Health and Retirement Study is a longitudinal survey of a representative sample of Americans older than age fifty conducted by the Survey Research Center at the Institute for Social Research at the University of Michigan in Ann Arbor and supported by the National Institute on Aging. The study interviews approximately 20,000 respondents every two years on subjects such as health care, housing, assets, pensions, employment, and disability (https://en.wikipedia.org/wiki/Health_and_Retirement_Study). Learn more at https://hrsparticipants.isr.umich.edu/.
11. "The Fittest 50 Over 50" (2020), https://www.the50over50.fit/?fbclid=IwAR3xYoYWbVfnFKh-Uki2XRyMZuoiKadn_B9RXMMbUKfdCqdhWyHst5mruGY.

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