
The Importance of Framing in Ensuring a Secure Retirement for Seniors and Why it Matters

George Washington Business School & Federal Reserve Board

Financial Literacy Seminar Series

Panel Topic: Social Security and Retirement Decisions: The Impact of Knowledge and Framing

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October 4, 2012



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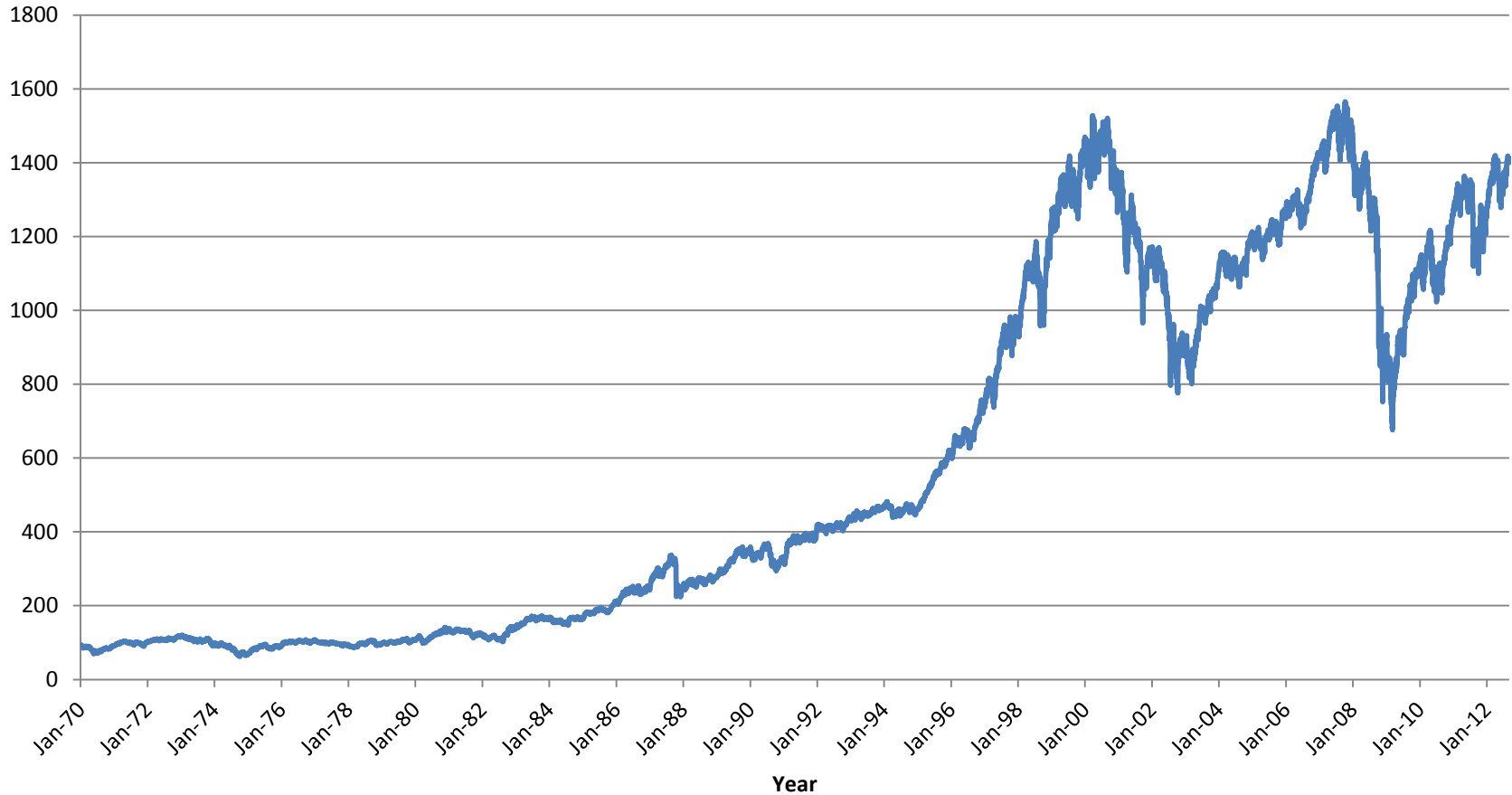
Setting the Stage

- Recent economic conditions have vastly changed the retirement landscape
- Declines in assets as well as high unemployment changed the retirement plans of many Americans
- Shocks to employment and wealth have likely influenced retirement behavior
- Why Framing matters now more than ever for a secure retirement -
 - Stock Market
 - Interest Rates
 - Borrowing Costs
 - Labor Market
 - Retirement Plans
 - Annuities
 - Social Security
 - Framing - Why the time is now!



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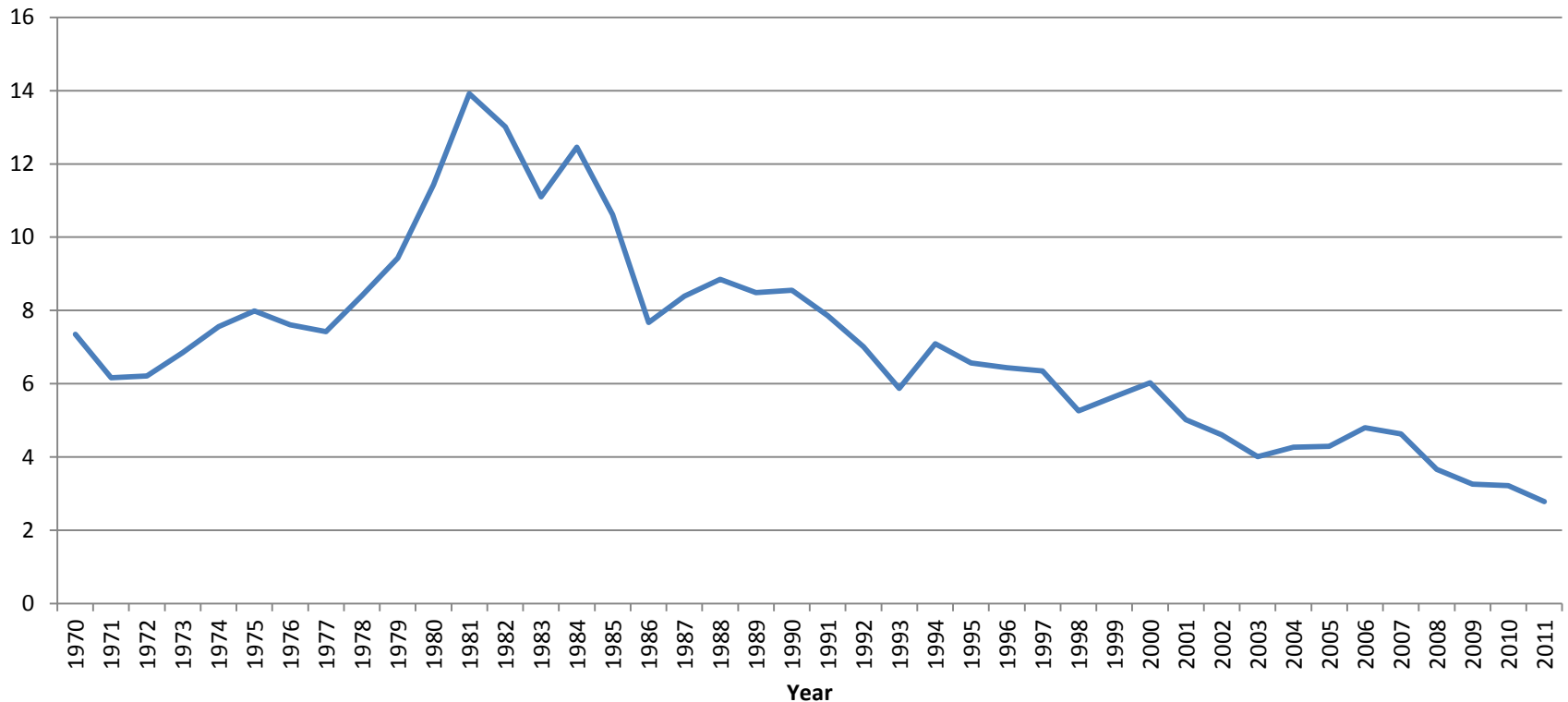
S&P 500 Historical Data, 1970-2012



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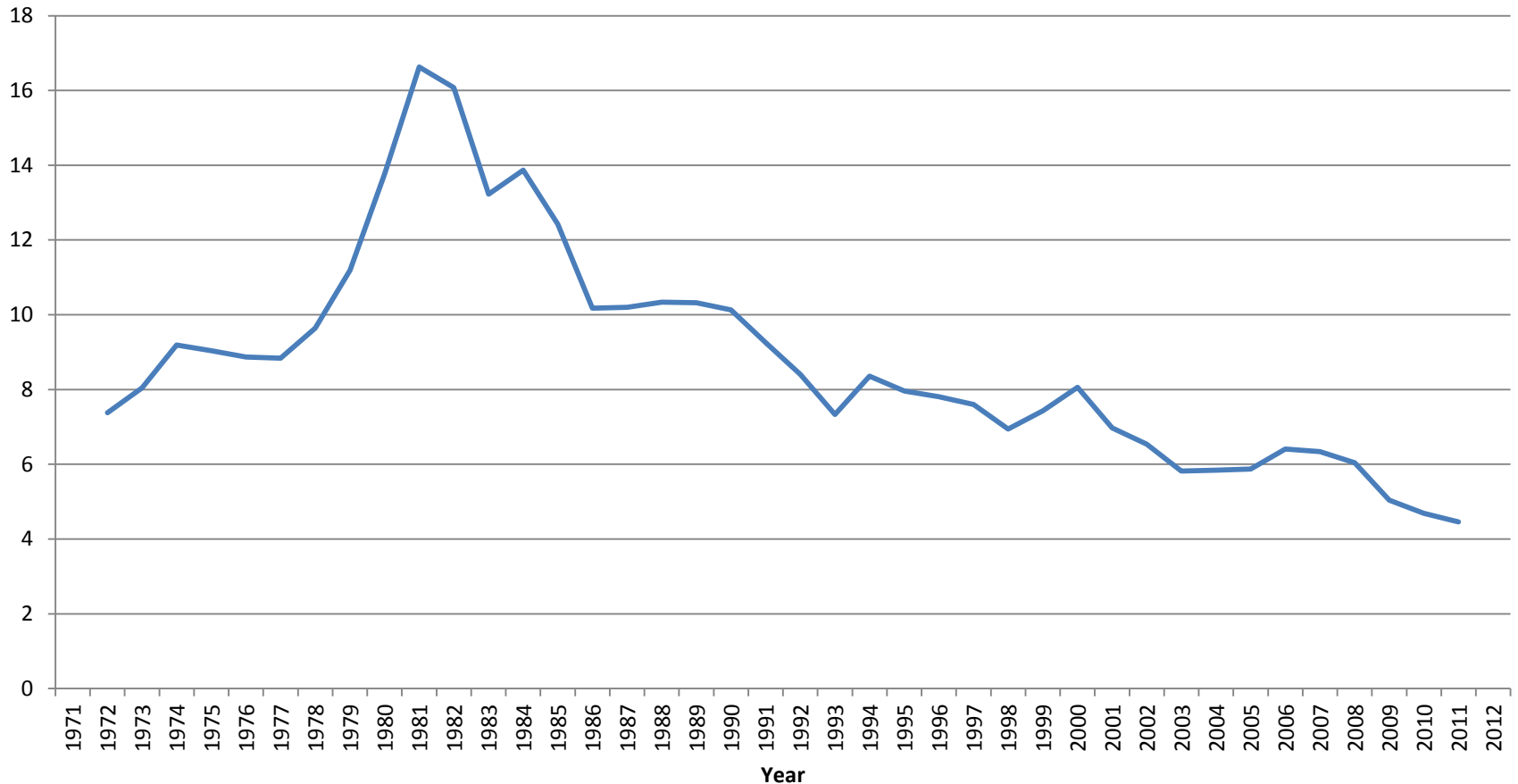
Yield on 10-Year Treasury Bills

Market yield on U.S. Treasury securities at 10-year constant maturity, quoted on investment basis



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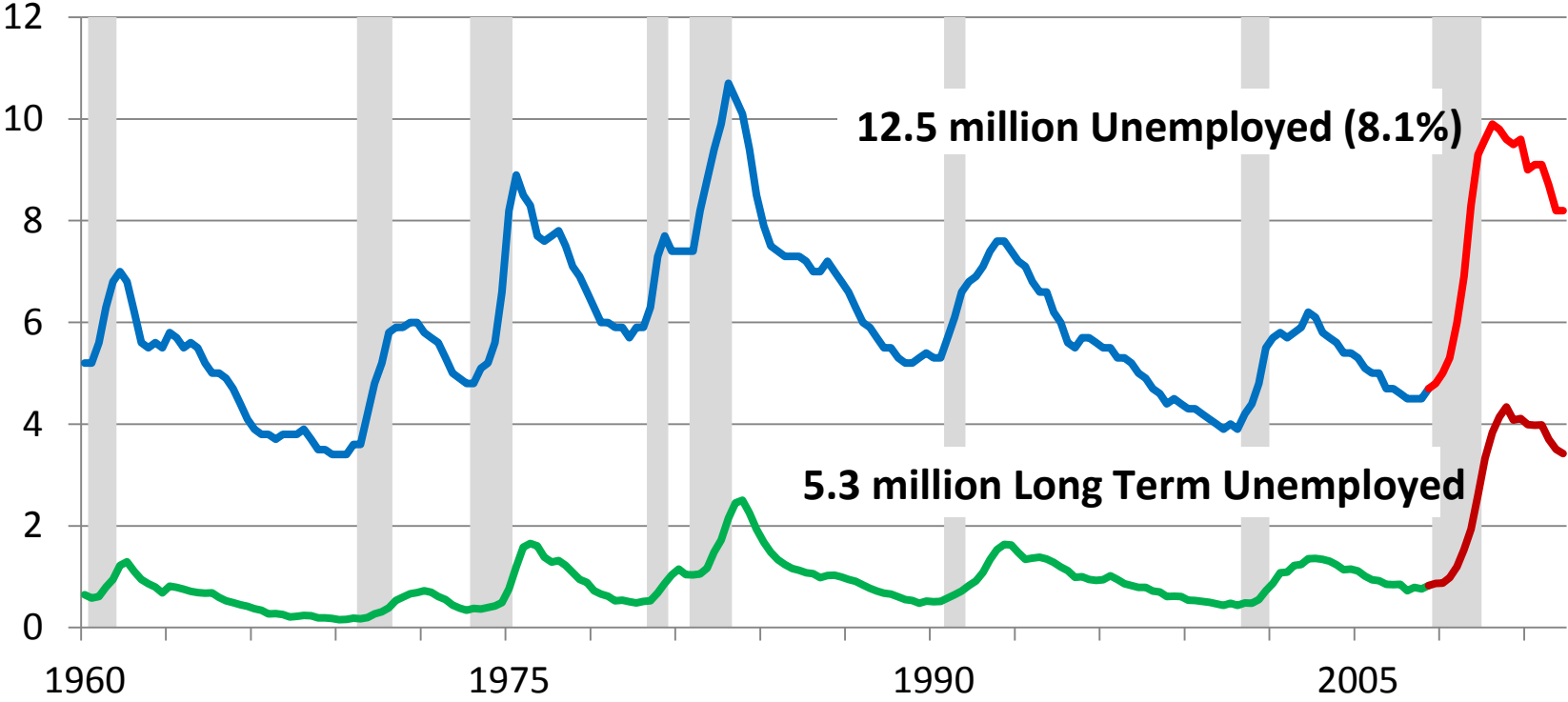
Annual Average 30-Year Mortgage Rate



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Labor Market – Official Rate

Unemployment Rates (percent of labor force)

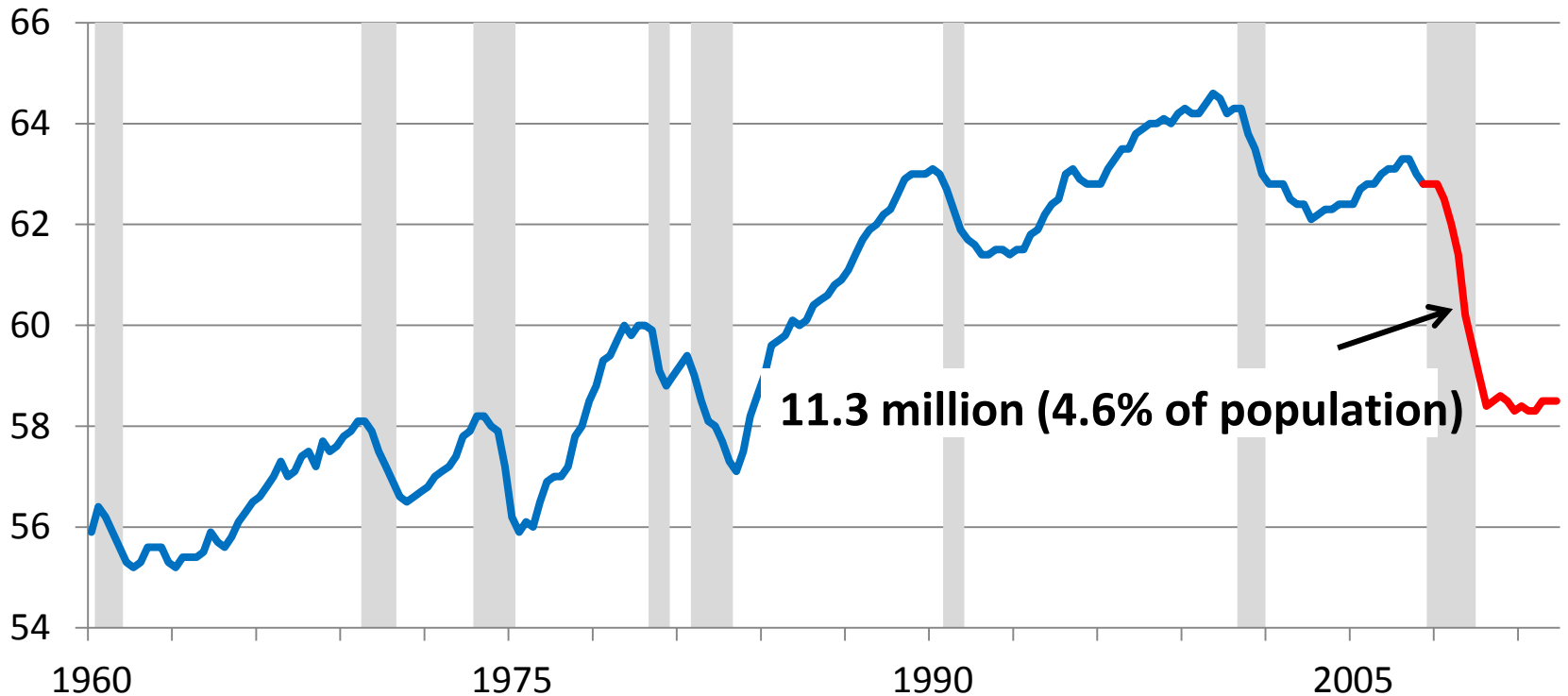


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Labor Market – What it's Really Like

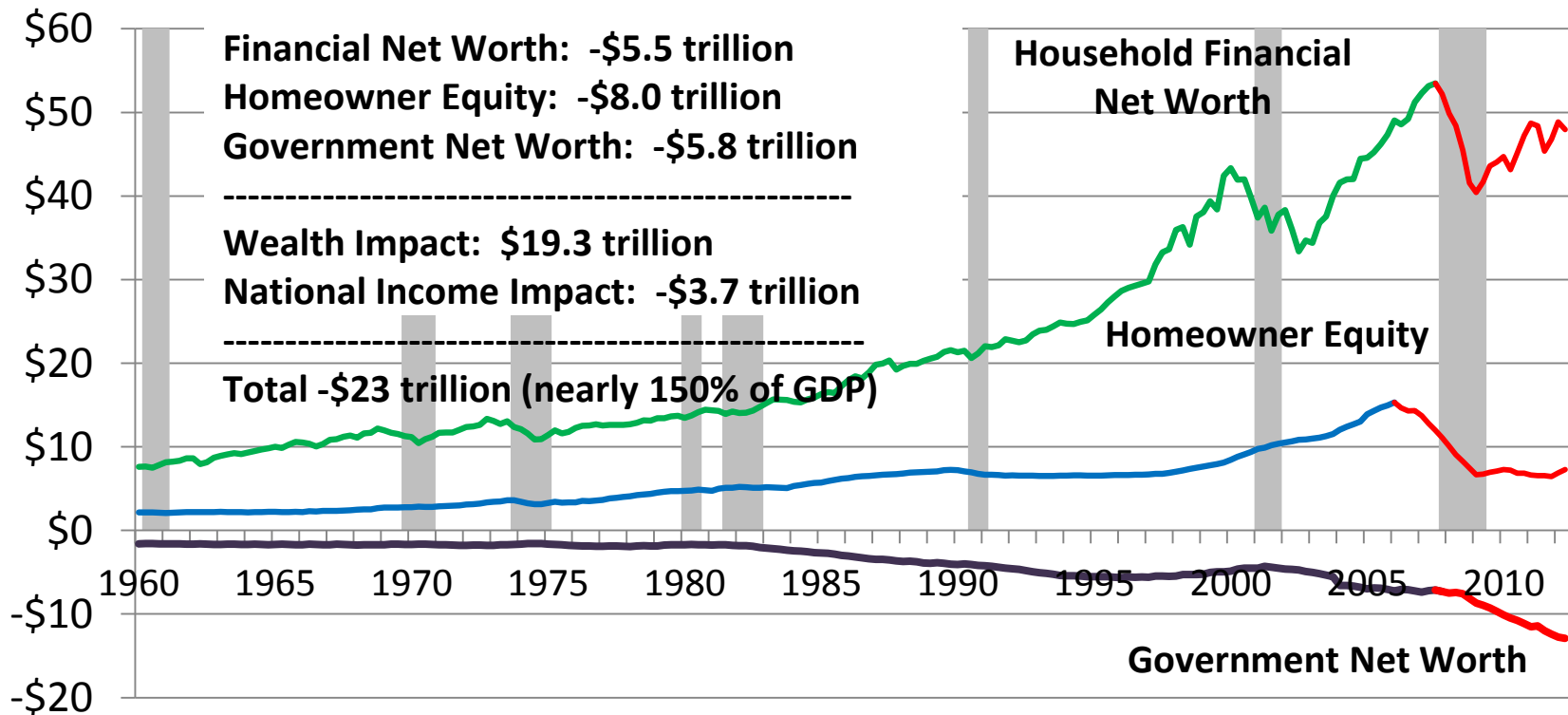
Employment Ratio (percent of population)



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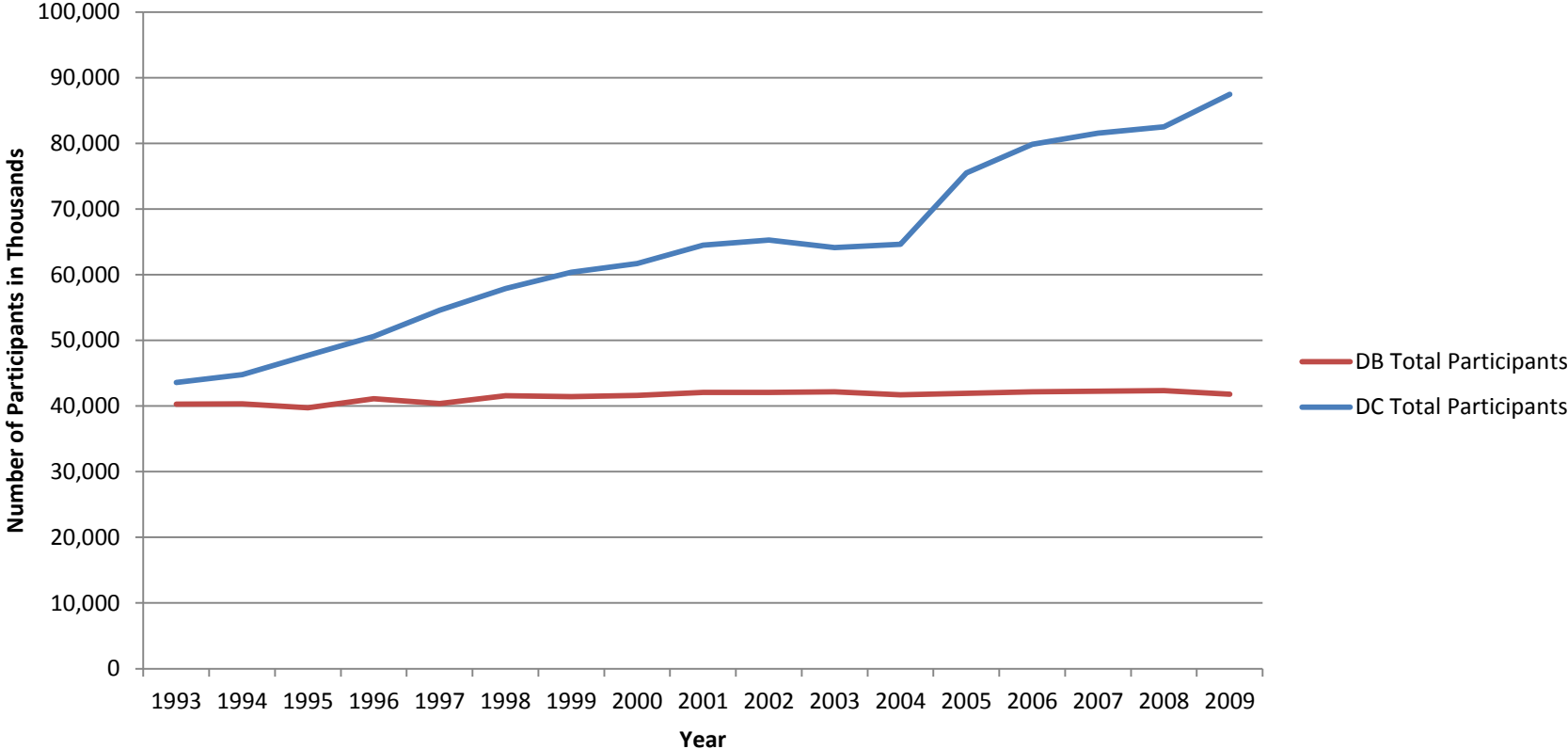
The Bottom Line

Recession Impact on Wealth (trillions of 2012 dollars)

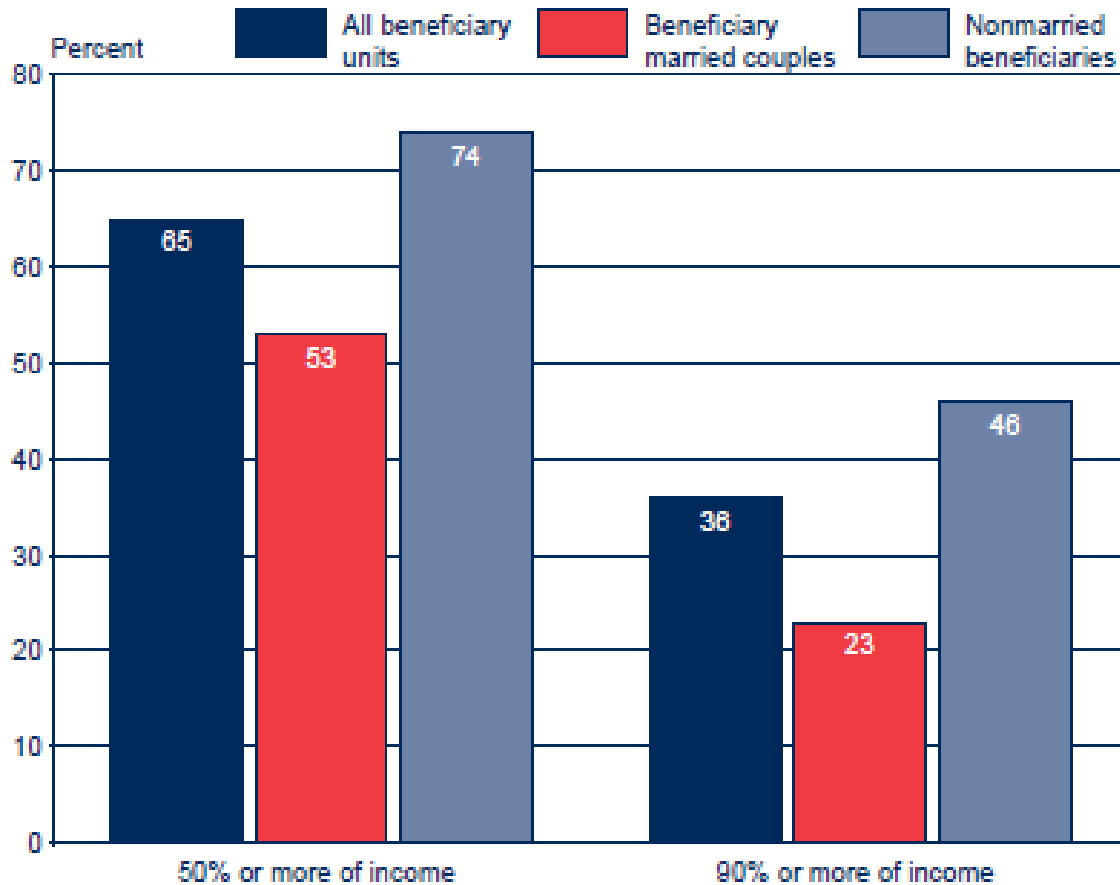


Goodbye DB - Hello DC

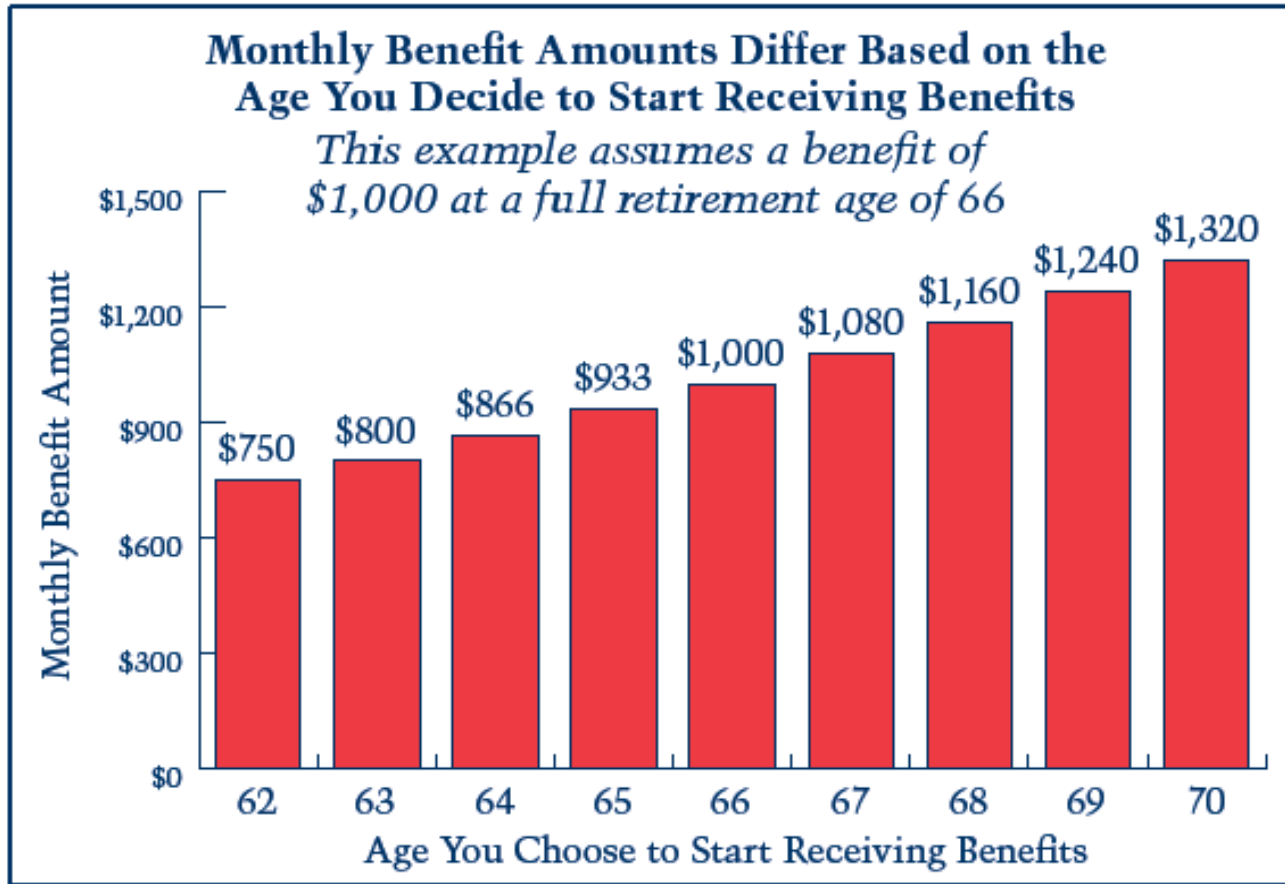
Total Number of Participants by Type of Private Retirement Plan 1993-2009



Reliance on Social Security

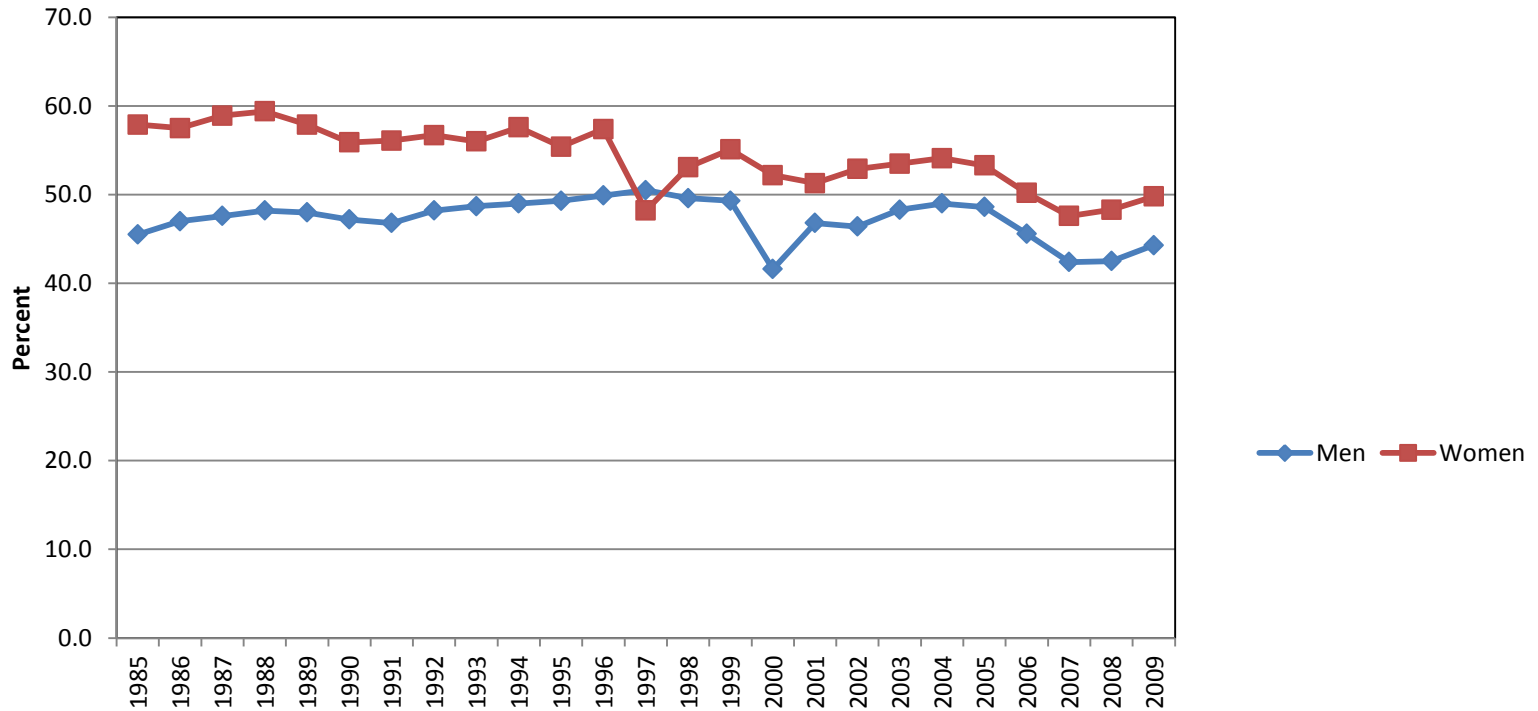


Monthly Benefit Amount Based on When Claiming Starts



More Claiming Benefits Early

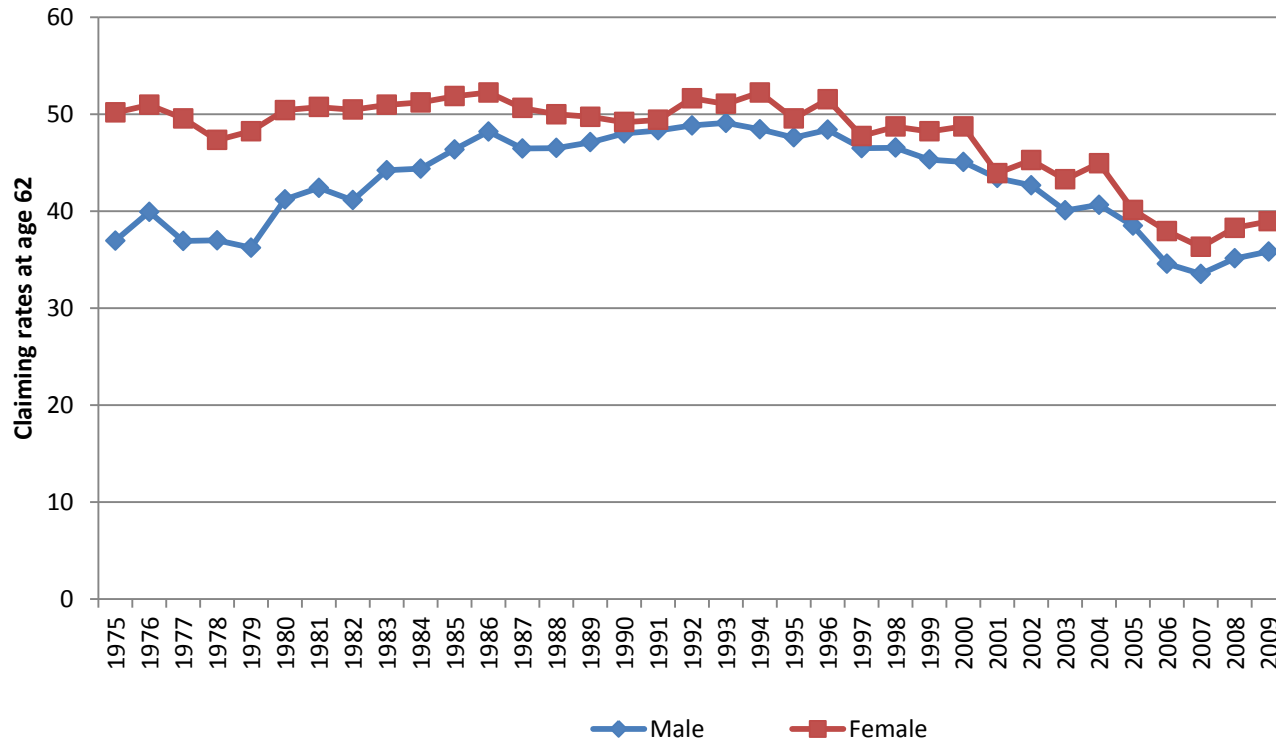
OASDI Benefits Awarded, Percent Age 62



Source: Table 6.B5. Social Security Administration, Annual Statistical Supplement, 2010

More Claiming Benefits Early

Percentage of Fully-Ensured Workers Who Claim at Age 62 for Cohorts Born Between 1913 and 1947 (by Gender)



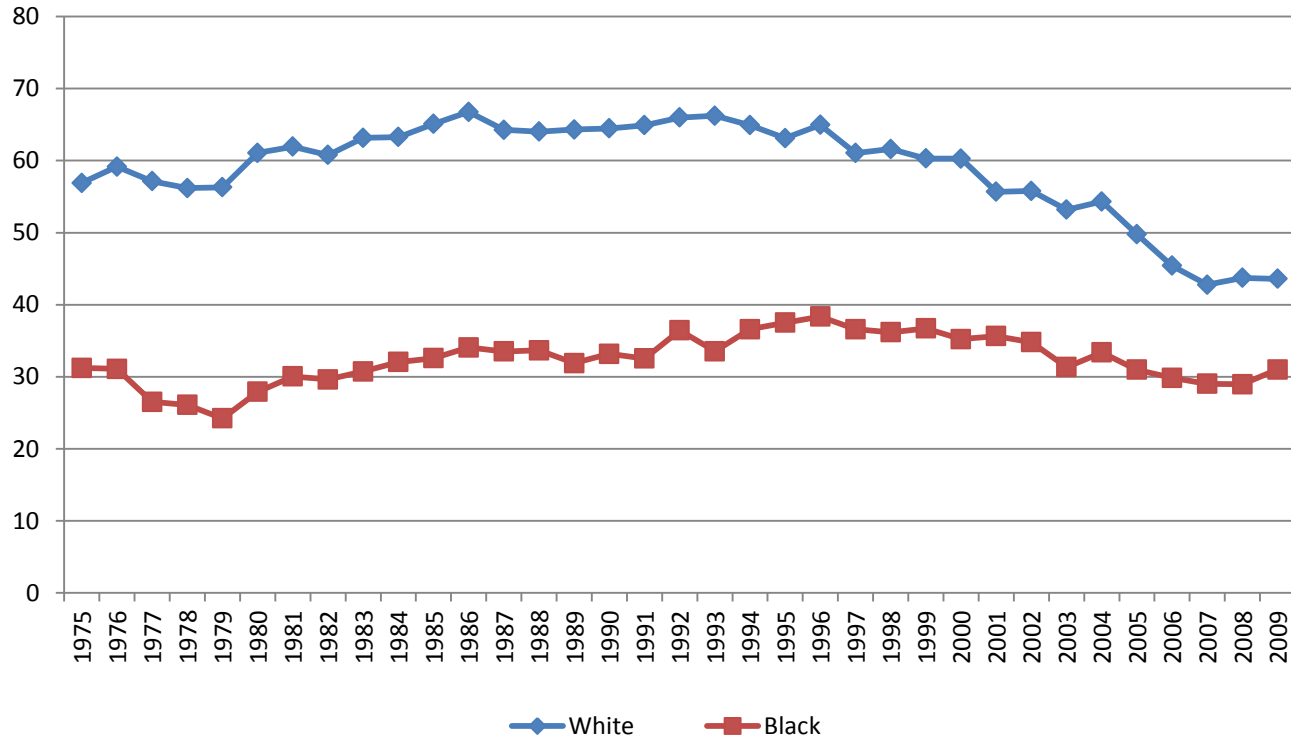
Source: Authors' (Fichtner, Phillips & Smith) Calculation based on SSA administrative data, Continuous Work History Sample.



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More Claiming Benefits Early

Percentage of fully ensured workers who claim at age 62 for cohorts born between 1913 and 1947 (by Race)



Source: Authors' (Fichtner, Phillips & Smith) Calculation based on SSA administrative data, Continuous Work History Sample.



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Annuity Puzzle

- Why Don't More People Buy Annuities?
- Survey by Cogent Research
 - Guaranteed Income is an important consideration
 - Annuities are critical part of retirement strategy (73% of annuity owners / 17% of non-annuity owners)
 - 29% said public media had a negative impact on impression of annuities
 - Of non-annuity owners, only 5% felt Very or Extremely Knowledgeable about annuities

Need for Education and Information

- Education -
 - 44% of Baby Boomers and Gen X won't have adequate retirement income (EBRI)
 - 70% of people over age 65 have health issues that could necessitate long-term care (CFA Institute)
 - One of every Four 65-year olds will live past 90 / 1 of 10 will live past 95 (SSA)
 - FINRA study asked: "True or False: Buying a single company's stock usually provides a safer return than a stock mutual fund." Only 53% got it correct. 40% said DK.
 - Other studies by O. Mitchell and A. Lusardi show lack of basic financial literacy.

Why Framing Matters

- How you present information matters / half full versus half empty
- Ex. When to claim Social Security retirement benefits / “break-even” analysis (SSA; Brown, Kapteyn & Mitchell 2011)
- Ex. Annuities (Investment vs. Consumption)
- Research shows when consumers view annuities as consumption to smooth and guarantee spending they view annuities as insurance / when viewed as investment they evaluate based on risk & return (Brown, et al)
- When viewed as consumption, 72% choose annuity versus 21% under investment.
- Role of online planning software (Turner)



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Any Questions???