University of Michigan Retirement Research Center

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QUARTERLY *Newsletter*

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DIRECTOR'S CORNER

John Laitner

This Newsletter features two separate write-ups of recent MRRC-sponsored events. The first write-up highlights the April 2009 MRRC Researcher Workshop in Ann Arbor. This annual event provides an opportunity for MRRC researchers with current, past, or prospective future projects to present the main idea of their work and receive comments. We had about 55 attendees, including Manuel de la Puente, Irena Dushi, Jason Fichtner, and Lynn Fisher from SSA. The Workshop included a lunch panel on housing price declines, and a second on future issues and data needs for research on SSDI. An important goal of the Retirement Research Consortium is to encourage academic and other researchers to study issues and topics of special interest to Social Security, and this Workshop has proven to be a good recruiting tool in this regard – as well as a useful chance to exchange ideas and think about new projects.

A second write-up describes a conference in late March on financial literacy that MRRC co-sponsored at Brookings Institution in Washington. The personal and social costs of financial illiteracy have become a topic of ever greater policy interest. This conference not only discussed these costs but also provided illustrations of possible remedial strategies and of the roles of different agencies and departments in the federal government in promoting improvement. Finding efficient ways to enhance financial literacy is a topic with both theoretical and practical dimensions. It seems likely that more and better data will be needed to guide policy efforts in the future and that laying the foundations for obtaining such data should begin as soon as possible.

FOR YOUR INFORMATION:

Myths and Misinformation About Social Security

Myths and misstatements of fact frequently circulate on the Internet, in email and on websites, and are repeated in endless loops of misinformation. One common set of such misinformation involves the history of the Social Security system.

One common form of the myth suggests a series of statements about the rules as originaly set forth by Franklin Roosevelt. As an example, one of the myths states that President Roosevelt promised that the program would be completely voluntary. As noted on the Social Security website, persons working in employment covered by Social Security are subject to the FICA payroll tax. Like all taxes, this has never been voluntary. From the first days of the program to the present, anyone working on a job covered by Social Security has been obligated to pay their payroll taxes.

In the early years of the program, however, only about half the jobs in the economy were covered by Social Security. Thus one could work in non-covered employment and not have to pay FICA taxes (and of course, one would not be eligible to collect a future Social Security benefit). In that indirect sense, participation in Social Security was voluntary. However, if a job was covered, or became covered by subsequent law, then if a person worked at that job, participation in Social Security was mandatory.

There have only been a handful of exceptions to this rule, generally involving persons working for state/local governments. Under certain conditions, employees of state/local governments have been able to voluntarily choose to have their employment covered or not covered.

Visit the Social Security website for more myths and their corrections: http://www.ssa.gov/history/InternetMyths.html.

2009 MRRC RESEARCHER WORKSHOP

Charlie Brown and Richard Burkhauser

For the fifth consecutive year, MRRC hosted a researcher workshop in Ann Arbor. MRRC Director John Laitner was pleased to welcome over fifty MRRC researchers and several colleagues from the Social Security Administration (SSA). Participating from the SSA were Jason Fichtner, Acting Deputy Commissioner and Associate Commissioner, Office of Retirement Policy, Manuel de la Puente, Associate Commissioner, Office of Research, Evaluation, and Statistics, Irena Dushi, Economist, and Lynn Fisher, Economist.

The workshop began with a session on the Current Financial Crisis and Retirement chaired by John Laitner. Susann Rohwedder got things started with her work on the American Life Survey: Evidence on How the Financial Crisis Has Affected American Households. Alan Gustman presented his paper Pension Changes and Retirement Preparedness: the Trend to Defined Contribution Plans and the Vulnerability of the Retirement Age Population to the Stock Market Decline. John Sabelhaus presented on Pensions After the Stock Market Crash.

Dan Silverman next chaired a session on Life-cycle Saving. Julie Zissimopoulos discussed her work on Marriage Shocks and Wealth Changes over the Lifecycle. Steve Haider presented his paper How Well are Individuals Financially Prepared for Retirement? The Long View. Ananth Seshadri reported on the

Impact of Social Security on Fertility. Dan Benjamin ended the panel with Genetic Influences on Economic Behavior.

Michael Hurd served as chair for the next session on the topic of Financial Investment. Olivia Mitchell and Ning Tang presented the latest findings form their joint work on the Efficiency of 401(k) Investment Menus and Individual Portfolio Choice. Raimond Maurer discussed the Impact of Social Security Benefits and Flexible Labor Supply on Household Life-cycle Asset Allocation and Location.

Larry Kotlikoff chaired a luncheon panel on Housing Price Declines and Retirement Well-being. Michael Hurd, Annamaria Lusardi, and Frank Stafford served as panelists.

In the afternoon, Alan Gustman chaired a session on Social Security. Larry Kotlikoff led off with his work estimating the True Cost of Social Security. Emma Aguila reported on an Experimental Design of a Social Security System. Shinichi Nishiyama discussed his paper A Dynamic Equilibrium Analysis of Tax-deferred Retirement Savings Accounts.

Dan Silverman chaired a session entitled Life-cycle Saving: Transfers. John Bailey Jones first presented on his work looking at End-of-Life Medical Expenditures: Two-sided Altruism, and Inter-vivos Transfers. Janice Compton then discussed her paper Proximity of Adult Children and Their Parents.

David Weir served as chair of a session on Health and Retirement. Pierre-Carl Michaud discussed Understanding the Economic Consequences of Shifting Trends in Population Health. Max Schmeiser reported on the Impact of Fatness on Early Receipt of Social Security Old-Age Benefits. Kara Zivin discussed her work on Depression and Retirement in Older Adults. To finish the session, Gemma Zamarro presented her paper Retirement Effects on Health in Europe.

On the second day of the workshop, Jason Fichtner served as chair of a session on Financial Literacy. Annamaria Lusardi discussed her work on the topic

Helen Levy

Olivia Mitchell

in a paper entitled Financial Literacy over the Life-cycle. Hugo Benitez-Silva presented his paper Social Security Literacy and Retirement Well-being.

Olivia Mitchell next chaired a the first of two sessions on the center's disability research. Richard Burkhauser led the session with his paper entitled The Importance of Anti-Discrimination and Workers' Compensation Laws on the Provision of Workplace Accommodations Following the Onset of a Disability. Nicole Maestas reported on her recent findings on the Labor Supply Effects of Disability Insurance Work Disincentives. David Stapleton discussed The Impact of Disability Onset on the Household Incomes of Older Workers.

Olivia Mitchell also chaired the second session on disability with Susan Chen presenting on her work on Disability Insurance and Spousal Labor Supply. Arie Kapteyn reported on Work Disability and Labor Force Status in Europe and the US. and Jody Schimmel discussed recent results of her study with David Stapleton, How Common is Parking Among SSDI Beneficiaries?

Manuel de la Puente chaired a luncheon panel entitled Disability Research: Issues and Data. Panelists were Richard Burkhauser, John Bound, and David Stapleton.

The day ended with a session on Program Efficiency, chaired by John Laitner. Helen Levy presented her paper Economic Hardship and the Elderly: How Important is Failure to Take-up Public Programs? Frank Heiland discussed Early Retirement, Labor Supply, and Benefit Withholding: The Role of the Social Security Earnings Test.

Michael Hurd and Nicole Maestas

NEW BOOK BY MRRC RESEACHER

Overcoming the Saving Slump: How to Increase the Effectiveness of Financial Education and Saving Programs

Edited by Annamaria Lusardi

The University of Chicago Press, 2009

The great majority of working Americans are unprepared to face the difficult task of planning for retirement. In fact, the personal savings rate has been holding steady at zero for several years, down from 8 percent in the mid-1980s. Overcoming the Saving Slump explores the many challenges facing workers in the transition from a traditional defined benefit pension system to one that requires more individual responsibility, analyzing the considerable impediments to saving and evaluating financial literacy programs devised by employers and the government.

Mapping the changing landscape of pensions and the rise of defined contribution plans, Annamaria Lusardi and others investigate new methods for stimulating saving and promoting financial education drawing on the experience of the United States as well as countries that have privatized their welfare systems, including Sweden and Chile. This timely volume pinpoints where human resources departments, the financial industry, and government officials have succeeded—or failed—in bridging the way to a new retirement system. As the workforce ages and more pensions disappear each second, Lusardi's findings will be invaluable for economists and anyone facing retirement.

Annamaria Lusardi is professor of economics at Dartmouth College. Together with Olivia S. Mitchell, she is the recipient of the Fideltiy Pyramid Prize, awarded to authors of published applied research that best helps addrress the goal of improving lifelong financial well-being for Americans.

Will There be a Social Security COLA in 2010?

In the midst of a slowing economy, Social Security recipients may not get a Cost-of-Living Adjustment (COLA) in 2010.

As mandated by law, the Social Security Administration uses a formula based on the Consumer Price Index (CPI) to determine if there will be a COLA and what its size will be. The CPI is used as a measure of price changes of goods and services related to the cost of living. In times of high inflation, the CPI rises dramatically. In times of little or no inflation, the CPI remains steady or goes down.

The COLA increase for 2009 was the largest since 1982 at 5.8%. If we look back at what happened to prices from the 3rd quarter of 2007 to the 3rd quarter of 2008 (the time period used to determine the 2009 COLA), the CPI went up because gas and energy costs along with other consumer goods spiked dramatically. For 2010, Social Security will look at any changes to the CPI-W from the 3rd quarter of 2008 to the 3rd quarter of 2009.

The Congressional Budget Office is estimating that, given the weak economy and price deflation recently, there will be no COLA increase for the next three years. Remember, these are just projections. We have to wait to find out what actually happens to the economy in the coming months to see what happens with the 2010 COLA. Your benefit may not go up, but it won't go down. While the economy is weak, Social Security still provides the same strong financial base for retirees is has for the past 74 years. Visit the AARP website for resources and community programs that can help you prepare for the possibility of no Social Security COLA in 2010. www.aarp.org/realrelief.

For more information about the COLA, visit the SSA website at http://www.socialsecurity.gov/OACT/COLA/colasummary.html.

HRS DATA WORKSHOP

Researchers working with, or thinking of working with, Health and Retirement Study (HRS) data may be interested in attending the HRS Data Users' Workshop. June 8-12, 2009 at the Institute for Social Research in Ann Arbor.

The 2009 workshop will include a special session on HRS retirement wealth data products, which will be of particular interest to MRRC researchers. This session will focus on the imputations of private pension wealth and the newly-available measures of Social Security wealth. A flyer is available at www.mrrc.isr.umich.edu/transmit/HRS2009.pdf

If you are an experienced HRS data user and cannot attend, please consider sending your research assistants or graduate students. Working knowledge of a statistical sofware package (SAS, Stata or SPSS) is required.

For more information and registration, go to http://www.isr.umich.edu/src/si/intro.html (registration fee is $550).

FINANCIAL LITERACY IN TIMES OF TURMOIL AND RETIREMENT INSECURITY

On March 20, the MRRC co-hosted the conference Financial Literacy in Times of Turmoil and Retirement Insecurity along with the Brookings Institution, Wharton's Pension Research Council and Boettner Center, and The Retirement Security Project. The Social Security Administration provided support for the conference. Held at the Brookings Institution, the conference focused on how workers and retirees can better manage saving for retirement, and how they can stay secure during retirement. Participants identified research and policy directions for the future. Over 300 people from the public and private sectors attended the conference. Panel sessions were followed by lively questions and answers from the audience. Jason Fichtner, Acting Deputy Commissioner, Social Security Administration offered welcoming remarks. Mark Iwry chaired the first panel on Financial Literacy, Planning, and Retirement Saving. Annamaria Lusardi began with her joint paper with Olivia Mitchell on financial literacy, retirement planning, and retirement well-being. Lusardi reviewed their research documenting the extent of financial illiteracy and critical items on the research and policy agenda to address this problem. Julie Agnew discussed her work on framing and financial literacy. Framing is how information is presented. Agnew finds large affects of information framing on financial behavior. Robert Willis proposed thinking of financial literacy in terms of cognitive ability as a part of human capital, in which individuals can invest. He noted that those with high levels of cognitive ability tend to have much higher wealth; however, they also lost more during the recent stock market crash. Discussant David Certner commented that information may not be enough to change behavior and that it is critically important that we learn how to simplify complex financial information and communicate effectively.

The second panel, Financial Illiteracy and Retirement Expectations: Prospects for Longevity, Decumulation, and Health, was chaired by Olivia Mitchell. Michael Hurd discussed his work with Susann Rohwedder documenting life-cycle wealth trajectories. Although they find that, in general, Americans are well prepared for retirement in the sense that they are not likely to outlive their ability to spend down their resources, they do find that about 20 percent are not prepared and could run out of assets before they die. He called attention to the problem of underannuitization. Ezro Luttmer presented on his research examining how well individuals understand Social Security benefits. Mailing of Social Security statements has improved Americans' knowledge of their expected benefit. Knowledge about SSA rules and incentives is generally good, as well. There is poor information concerning the earnings test, however. To wrap up the panel, Nick Maynard of the D2D Fund, reported on the production and value of financial entertainment.

IT IS CRITICALLY IMPORTANT THAT WE LEARN HOW TO SIMPLIFY COMPLEX FINANCIAL INFORMATION AND TO COMMUNICATE IT EFFECTIVELY

He demonstrated a video game, called Celebrity Calamity, which allows players to help a celebrity manage personal finances. Early evaluation shows success in increasing confidence and knowledge. Discussant Andrew Biggs underscored Hurd's call for policy action to address low rates of annuitization. He called for increasing tax incentives for annuitization and educating Americans as to the insurance value of annutization. Noting that, although many people have a good understanding of Social Security benefits, Biggs suggested that information is far from perfect and that simplification of Social Security benefits could help those who do not have good understanding. Finally, Biggs endorsed the value of video games that could even help with very basic knowledge improvements.

Social Security Commissioner Michael Astrue next delivered the keynote address. He began by explaining that a large part of his job has been the day-to-day operations of the agency especially focused on addressing the disability case back-log. Nonetheless, the Commissioner noted that it had been suggested to him that he was in a good position to advocate for personal saving in the US. He noted that we are now in what is undeniably a "teachable moment." Astrue indicated that he was challenging personnel within the agency to think creatively of ways to communicate with the public. He cited the example that was implemented two years ago to add a paragragh to the Social Security statement about the consortium of government agencies that have a financial literacy website, www.mymoney.gov. The SSA on-line estimator that links to actual earnings records is another innovation that can help people plan for retirement. There has also been a significant push to increase the numbers of Americans applying on-line for Social Security retirement benefits. Use of the on-line application is strongly correlated with use of the estimator, which is good news.

The luncheon panel gave government experts and government employees who are running financial education initiatives in the government and individual agencies a chance to describe inititiatives underway. Panelists included: Dubis Correal spoke from the U.S. Department of Treasury's Office of Financial Education; Debra Golding, with the U.S. Department of Labor; Jeanne Hogarth from the Federal Reserve Board; Kristi Kaepplein from the Securities and Exchange Commission; John Gannon with FINRA (Financial Industry Regulatory Authority); and Ted Beck, who is on the President's Advisory Council on Financial Literacy and also the National Endowment for Financial Education.

Robert Clark chaired a panel addressing Alternative approaches to Financial Literacy. Shawn Cole posited that rigorous evaluation of financial education programs is critical to the cost effective allocation of scarce resources. Cole's research has shown a positive effect of just general education on financial market participation. He underscored the value of independent financial advice and better decision support. Brigitte Madrian discussed lessons learned from the default enrollment savings programs and implications for savings policy. Defaults show large effects on savings rates. Financial decision making is difficult and easy to put off. Defaults are implicitly endorsed by those offering them, a judgment which is perceived in general as trusthworthy. An important question is whether or not the increased savings in the default plans is actually new savings or just displacing other parts of the household balance sheet, either reducing savings in other accounts, or offset by higher credit card and mortgage debt. Much work needs to be done regarding setting optimal defaults. Madrian recommended simplification of savings options. Mark Iwry and David John described their work on a specific proposal called the automatic IRA. The proposal includes payroll deposits through the workplace, default enrollment in the plan, and IRAs. Contributions would be three percent of pay, and enrollees could opt out at any time. John Phillips served as discussant. He noted that defaults seem very promising, particularly in the near term, as researchers try to find the best ways to improve financial literacy. One of the reasons they are successful is they overcome many obstacles to savings, espcially the need to make complex decisions. He underscored the importance of having good data sources as we examine these questions and noted the value of the Health and Retirement Study (HRS) in this regard.

Annamaria Lusardi chaired the last panel, which addressed Marching Orders for Research and Policy. Sheryl Garrett argued for improved quality standards for financial advisors and for moving to a fee-for-service model in the field. She reviewed a number of options for providing accessible financial advice that better serves the interests of those seeking the advice. Michael Staten described the problem of growing numbers of Americans filing for bankruptcy, but also noted that it presents an opportunity for investigating the impact of financial education as part of mandatory credit couselling. Angela Hung called for validation and standardization of measures of financial literacy and described data on financial literacy in the RAND American Life Panel. Discussant William Gale urged caution, reminding us that it is not always clear what is the optimal course in financial matters. He suggested marching orders that include massive increases in funding for research to evaluate a range of issues related to financial literacy and personal saving, a need to examine whether we care about financial literacy as an end in itself, and whether to target changing people, outcomes, or both and determining best ways to do that.

PSID CALL FOR PROPOSALS

Call for Proposals: Small Grants for Research Using PSID Data Panel Study of Income Dynamics
Survey Research Center, Institute for Social Research, University of Michigan

DEADLINE: July 1, 2009

Purpose

The Panel Study of Income Dynamics (PSID), with support from the National Institute on Aging, announces a small grant competition to provide funding to between five and ten scholars in the range of $5,000-$20,000 each to use PSID data to conduct research on the connection between health and socioeconomic status (SES) within and across generations. Funded projects will generate papers that will be presented at a two-day conference in the fall of 2010.

Background

The PSID has followed the same families and their descendents since 1968, for 36 waves as of 2009, making it one of the premier datasets for generational analysis. When study participants leave a family to start their own household, such as when adult children move out, the new family unit is added to the Core Panel and interviewed. Anytime a household has a new member, such as a birth, they automatically become part of the study. This practical sample design supports both intra-generational and intergenerational life course models. For example, as of 2007, there are nearly 40,000 unique sibling pairs in the PSID and 925 in the Child Development Supplement (CDS). In 2007, about 4,300 'Heads/Wives' had a sibling who was also a 'Head/Wife' in 2007. Moreover, there are currently ample data on up to three generations of the same family, allowing the analysis of child-parent models, parent-grandparent models, and child-grandparent models.

The information collected on socioeconomic status and health is substantial. Extensive information on income, education, and employment has been collected in most waves since the survey began in 1968. A supplement in 1986 included information on health which was expanded and included in every wave starting in 1999. A summary of the health data in the PSID is available at the PSID website: http://psidonline.isr.umich.edu/data/.

Goals of Competition

The goals of this competition are to bring together scholars in the area of health and SES to generate additional scientific and policy-relevant findings, facilitate future collaborations including NIH proposal submissions, and provide feedback to PSID about possible needs for content changes and/or future data collections. Listed below are some examples of topics, intended for illustrative purposes. This is not a comprehensive list of fundable topics. For example, researchers might propose to:

- Establish the differences in the relationships between the health and socioeconomic status among adult siblings – and parents with adult children – across the life course and elucidate the various mechanisms accounting for these relationships;
- Estimate models of transmission in education, economic status, and health status across two and three generations, including an examination of endogenous family structure;
- Examine generational differences in factors affecting the retirement decision, including socioeconomic and health factors;
- Examine the transitions and/or spells in health insurance coverage and their relationship to other transitions;
- Examine the effects of events early in the life course on later-life outcomes;
- Investigate the role of neighborhood factors on health.

Terms of Funding

1. Applicants for the PSID small grant competition must hold a Ph.D. from an accredited institution and have an appointment as faculty, research scientist, professor, investigator, or postdoctoral fellow.
2. Grants will start October 1, 2009 and end September 30, 2010. No-cost time extensions will not be allowed.
3. These awards will only be made as personal services contracts to one or more individual researchers; the PSID will not contract with the grantees' employers or any other organization.
4. The PSID will fund reasonable research expenses, including salary for each investigator, data or software purchases, research assistance, and relevant supplies, to a maximum of $20,000. Conference travel expenses will be provided to all grantees separate from the amount of their award.

5. The PSID will fund direct costs only; we will not provide indirect cost recovery (overhead).
6. Award recipients will be expected to present papers at a two-day conference in Ann Arbor, MI in September, 2010.

Selection Criteria

Applications will be evaluated by senior scholars affiliated with the PSID based upon:

- The thematic relevance of the proposed project;
- The quality of study design, including the choice of appropriate research methodology and data;
- The feasibility of the proposed study to be completed during the grant period;
- The significance of the proposed analyses in terms of extending knowledge;
- The likelihood of the study to generate an externally funded proposal submission (e.g., NIH R01, R03, R21).

Application Instructions

Applicants should provide the following:

1. A coversheet with: title of the proposed research; investigators' name and institutional affiliation with mailing address, email address, phone and fax numbers; if the proposed research involves more than one investigator, a principal investigator (PI) must be identified. All correspondence will be with the PI.
2. A one-page abstract describing the specific aims and data and methods of the proposed study.
3. Description of the proposed project in five to ten double-spaced pages (excluding figures and references). The description should (1) clearly describe specific aims and research significance; (2) very briefly summarize the relevant literature; (3) present major hypotheses; (4) fully describe the research design, proposed methodology, and data sources; and (5) clearly indicate the scientific contributions of the proposed study. Long literature reviews should not be submitted. Particular emphasis should be given to items (3), (4), and (5).
4. An itemized proposed budget and a budget narrative that describes and explains each line item. Please note that these awards will only be made as personal service contracts to one or more individual researchers (we will not contract with universities, colleges, or other research organizations). Please detail each funding item requested.
Appropriate research expenses include: research assistance; salary for each investigator; purchase of data or software; pertinent supplies.
5. A project timeline listing specific milestones for study completion. The timeline must be within the period from October 1, 2009 through September 30, 2010.
6. Curriculum vitae for all investigators.
7. Human subjects review approval (often a waiver in the case of secondary data analysis) is required for all projects before funding can be dispersed.

Timeline and important dates:

a. Application deadline	July 1, 2009
b. Notification of award	August 2009
c. Award start date	October 1, 2009
d. Draft paper due	Two weeks prior to two-day conference in September 2010
e. Present paper at two-day workshop in Ann Arbor	September 2010

Contact information:

Please send applications to Patty Hall (pathall@umich.edu). For further information, please contact Bob Schoeni (bschoeni@umich.edu) or Patty Hall (pathall@umich.edu). For more information on the PSID, please visit the website: www.psidonline.org

Funds for this competition are provided by the National Institute on Aging.

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Michigan Retirement Research Center
Institute for Social Research
University of Michigan
426 Thompson Street, Room 3026
Ann Arbor, MI 48104-2321

Phone: (734) 615-0422
Fax: (734) 615-2180
E-mail: mrrc@isr.umich.edu
Web: http://www.mrrc.isr.umich.edu

University of Michigan Retirement Research Center