University of Michigan Retirement Research Center

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QUARTERLY Newsletter

Inside this issue

DIRECTOR'S CORNER *John Laitner*

In the steepest recession since the 1930s, the Nation's unemployment rate climbed to 9.5% in June. Indebtedness, foreclosures, and steep housing and stock-market price declines add to the misery. Although the circumstances that led to this may be complex, the reality for average Americans is that times are tough. This Newsletter includes an article of common sense financial advice from the AARP. It also includes a discussion with MRRC researcher Annamaria Lusardi about a path forward for Americans to build the financial capacities they will need in the future.

The Annual RRC Conference meets at the National Press Club in Washington, DC, this year on August 10-11. This Newsletter includes a Preliminary Program. The conference gives scholars from all three retirement research centers an opportunity to report on current work. Six MRRC researchers will present papers. **Alan Gustman** will present his recent work on pension trends toward defined contribution plans and the vulnerability of older Americans to stock-market volatility; **Annamaria Lusardi** and **Hugo Benitez-Silva** will present papers on financial literacy and preparedness for retirement; **Michael Hurd** will present on the burdens for the elderly of out-of-pocket health care spending; **Richard Burkhauser** will examine Social Security Disability Insurance payments and the well-being of older citizens; and, **Arie Kapteyn** will compare disability insurance outcomes in Europe and the US. The Conference will feature as luncheon speakers **Lawrence Summers** (August 10), Director of the National Economic Council and Assistant to the President for Economic Policy, and **Sylvester Schieber** (August 11), Chair of the Social Security Advisory Board. We look forward to an exciting meeting on timely subjects.

FOR YOUR INFORMATION:

Get Extra Help with Medicare Prescription Drug Costs

Anyone who has Medicare can get Medicare prescription drug coverage. Some people with limited income and resources also are eligible for **Extra Help** to pay for the costs related to a Medicare prescription drug plan: monthly premiums, annual deductibles, and prescription co-payments.

Extra Help is estimated to be worth an average of $3,900 per year. Many people qualify for these big savings and don't even know it.

If you are not getting **Extra Help** automatically, it is easy to apply. Just complete Social Security's Application for Help with Medicare Prescription Drug Plan Costs (SSA-1020).

There are three ways to apply:
1.) Apply at www.socialsecurity.gov;
2.) Call Social Security at 1-800-772-1213 (TTY 1-800-325-0778) to apply over the phone or to request that an application be mailed to you;
3.) Apply at your local Social Security office.

For more information about getting **Extra Help**, visit the website at http://www.socialsecurity.gov/pubs/10509.htm.

Surviving the Downturn

For American workers nearing retirement age, the economic downturn poses distinct challenges. Here's some common sense advice from AARP for the those who may be facing job loss.

With recent announcements of increases in the unemployment rate to 9.5%, you may be wondering what you would do if you should lose your job. Losing your job is a tumultuous experience. You need to make important financial decisions right away that impact your financial future and make significant adjustments to your day-to-day finances. Here are some immediate steps to take for dealing with your job loss.

Make the Most of Your Employee Benefits

Retirement Savings. Decide what to do with your 401(k) or other workplace savings. You most likely have several options: leave the money in your existing plan; roll it over into your new employer's plan; or transfer it to a rollover IRA. These options are usually far better than cashing out. You'll pay significant taxes with a cash out—regular income taxes and a penalty tax (if you're under 59 ½)—which really can eat into your savings.

Health Insurance Coverage. Decide how you will obtain health insurance. Individual insurance is expensive so check if you are eligible for coverage under a spouse's plan or any other group you belong to, such as a fraternal or professional organization.

COBRA. The Consolidated Omnibus Budget Reconciliation Act (COBRA) is a federal law that helps you keep your group health insurance longer. You will have to pay your premiums plus what your employer paid, but it may be less than private insurance. Get more information about COBRA at www.aarp.org/health/insurance/articles/cobra_health.html.

Check out Medicaid and Medicare Eligibility. If you are over 65, or under 65 and disabled, with low income and few resources, you may be eligible for Medicaid. Of course, if you are over 65, you may be eligible for Medicare.

Severance Pay. Consider investing severance pay so it lasts as long possible while you're unemployed, while still giving you enough access to pay bills and living expenses.

Other Compensation. Collect any unpaid vacation leave, bonuses, commissions, or outstanding expense reimbursements. You may be able to use any accrued vacation time to extend your termination date. This could give you some extra time to become covered by your new employer's health insurance.

Unemployment Benefits. File for unemployment even if you don't expect to be out of work for long. The sooner you apply, the sooner you'll have some extra money to slow the drain on your savings.

Get Your Finances in Order

Spending Plan. Create an income and spending plan. It doesn't need to be fancy. List all sources of income so you know where you stand. Divide your expenses into what you have to spend each month (rent, utilities, food, and gas) and what you can do without.

Debt. Hold off on adding more debt to your credit cards. It's better to cut expenses than to live on your credit cards. Even if you can't pay the entire balance, pay as much as you can over the minimum payment. Get that payment in on time to avoid late charges that add to your debt. Let your credit card, mortgage and car loan companies know of your circumstances. Find out if your creditors offer grace periods that allow you to defer payments until later.

Savings. Tap savings strategically. Pull from the account that earns the lowest interest first. Keep in mind that early withdrawals from certificates of deposit and retirement accounts trigger penalties.

if you lose your job, you can figure out how to reshape your finances at www.aarp.org/realrelief. The site also has other tools and resources to cut costs and stay financially secure in these turbulent times.

Did You Know?

You can order free copies of MRRC working papers online at the MRRC website. Go to www.mrrc.isr.umich.edu/publications/reprint/ and click on the papers you would like sent to you at no cost.

Other MRRC publications are also available.

Visit the MRRC website at www.mrrc.isr.umich.edu and click on Publications to view:

- MRRC Conference papers
- Policy Briefs
- Research Briefs
- Researcher Q & A. MRRC researchers discuss the findings and implications of MRRC-supported research.
- Key Findings by Topic. Summaries of MRRC research within topic areas, including Health and Disability; Public Policy and Labor Supply; and Social Security Reform.
- Archives of MRRC newsletters

ADDRESSING THE RETIREMENT SAVING CRISIS

by Annamaria Lusardi

As millions of American families have witnessed their retirement savings vanish and their prospects for retirement become grimmer and grimmer, it is important to find ways to help people secure a comfortable retirement. My newly published book, *Overcoming the Saving Slump: How to Increase the Effectiveness of Financial Education and Saving Programs*, and much of my research work identify reasons people do not prepare adequately for retirement and offer suggestions to address this saving crisis.

Here is a list of five important points:

1. Workers are in charge but information about pensions is needed.

Retirement accounts such as IRAs and 401(k)s currently constitute a large share of retirement wealth in the economy. Because these are individually managed accounts, individual decisions about these accounts will determine how this wealth grows. But research shows us that individuals know very little about pensions: half of older workers in the United States do not even know which type of pension plan they have, let alone the amount so far accumulated in their retirement accounts. Workers also display a lack of knowledge about another important source of retirement income: Social Security. While the increase in individual responsibility should work as an incentive for individuals to become more knowledgeable and informed about their retirement plans, we must be cautious about relying simply on individual initiative. Lack of understanding of critical components of pensions is widespread even in economies where personal retirement accounts have been in place for much longer than they have in the United States. In Chile, which adopted personal retirement accounts more than 25 years ago, fewer than half of participants know how much they contribute to the system, even though the contribution rate has been set at 10 percent of pay since the system's inception. In Sweden, which implemented comprehensive pension reform during the 1990s, the level of knowledge is also low. Providing information about the characteristics and features of pension plans and Social Security should be a priority. This information will help individuals successfully plan for their retirement and better prepare for their future.

2. Financial literacy is an essential tool for making financial decisions, but the majority of individuals are not financially literacte.

Most individuals lack knowledge of the basic principles underlying saving and investment decisions: concepts such as the power of interest compounding, the effects of inflation, and the workings of risk diversification. Knowledge of more advanced concepts, such as basic asset pricing and the difference between bonds and stocks is even scarcer. When asked to rank their knowledge, many employees rank themselves as simple investors who know little about stocks and mutual funds. This lack of knowledge is problematic in a pension system where workers have to decide not only how much to save, but also how to invest their pension wealth. Given the complexity of current financial instruments and of the financial decisions required in everyday life, individuals need to be financially literate. Just as it is impossible to live well and operate effectively in the modern world without being literate, i.e., knowing how to read and write, so it is becoming increasingly difficult to live well and operate effectively in today's world without financial literacy. We need to find ways to improve financial literacy and schools seem a good place to start.

3. Financial education is important and can be made more effective.

Lack of information and lack of literacy hardly exhaust the list of variables that can affect individual behavior.

The many differences among individuals must be taken into account for successful implementation of financial education programs. Targeted education programs may better serve the needs of specific groups of the population, such as women, younger and older individuals, and those with low income. The workplace seems an ideal venue for the delivery of financial education. However, one-time financial education seminars—typical of the programs offered by many employers—are insufficient to address widespread financial illiteracy and lack of information, so we need to consider better ways to educate people. One way to increase the effectiveness of financial education is to deliver it at "teachable moments." For example, new hires are particularly receptive to information and education since they have to make decisions about their benefit and pension plans at the start of a new job.

4. Saving for retirement means taking care of the family finances.

Automatically enrolling employees in pension plans (which is currently done by many firms) does not mean that we are helping families save for retirement. If families are carrying credit card or other high-cost debt, they should first try to take care of their debt and then put money away for retirement. My recent research shows that many families carry credit card debt and pay not only interest charges but also high fees. In my view, debt management can be an effective way to help people save for retirement. Similarly, helping families save for their children's education is another way in which we can promote saving, including saving for retirement. Some credit card commercials are suggesting that spending is actually a way to save for retirement. In this case, I am pretty sure they have the equation wrong!

5. Keep it simple.

Saving decisions are complex. They require calculations that look pretty nasty (they are) and the ability to make a lot of assumptions about variables in the future (nasty too). They require collecting a lot of information and, in the current economy, making sense of this crisis. Let's simplify this process as much as possible by, for example, providing easy to access information, planning aids, and financial advice. Every spring, we complete complicated tax filings; we do not need our saving to be equally complicated (got Roth IRAs?).

Annamaria Lusardi is professor of economics at Dartmouth College. She has taught at Dartmouth College, Princeton University, the University of Chicago Public Policy School and the University of Chicago Graduate School of Business.

PROTECTING CONFIDENTIALITY IN THE HRS

SSA's Office of Retirement and Disability Policy (ORDP) has released a Research and Statistics Note on Access Restrictions and Confidentiality Protections in the Health and Retirement Study (HRS). Written by Lionel P. Deang and Paul S. Davies, the Research and Statistics Note describes the competing challenges faced by organizations involved in statistical surveys of human subjects: protecting confidentiality while maximizing data accessibility to potential researchers. The challenge is especially great with larger longitundinal microdata sets like the HRS. In addition, the linkage of the survey data with administrative records from SSA increases the value of the data, but also increases the risk to confidentiality. The Note details the procedures and policies that are implemented by HRS that ensure confidentiality of the data. Finally, HRS procedures are compared to those employed by other agencies (e.g., Census Bureau). Access the Note in HTML or PDF.

All of ORDP's policy, research, and statistical publications can be accessed at http://www.socialsecurity.gov/policy.

PRELIMINARY PROGRAM

Annual Retirement Research Conference

Sponsored by the Office of Retirement and Disability Policy, Social Security Administration
and the Retirement Research Consortium

National Press Club – 529 14th Street, NW, 13th Floor
Washington, DC 20045
August 10-11, 2009

Day One - Monday, August 10th

8:00 - 8:30 am	**Coffee and Registration**
8:30 - 8:45 am	**Welcoming Remarks**
	Introduction of Center Directors John Laitner, University of Michigan Retirement Research Center Alicia H. Munnell, Center for Retirement Research at Boston College David A. Wise, NBER Retirement Research Center
8:45 – 10:15 am	**Panel 1: Longevity and Old-Age Consumption**
	Causes of Lagging Life Expectancy at Older Ages in the US Samuel Preston, University of Pennsylvania Discussant: Michael Hurd , RAND Corporation
	How Do Pension Changes Affect Retirement Preparedness? The Trend to Defined Contribution Plans and the Vulnerability of the Retirement Age Population to the Stock Market Decline of 2008-2009 Alan Gustman and Nahid Tabatabai, Dartmouth; Thomas Steinmeier, Texas Tech Discussant: Andrew Samwick, Dartmouth
	Medicare Part D and the Financial Security of the Elderly Gary V. Engelhardt, Syracuse University and Jonathan Gruber, MIT Discussant: Jeffrey Kling, Congressional Budget Office
10:15 -10:30 am	**Break**
10:30-12:00	**Panel 2: Financial Literacy and Social Security**
	How Ordinary Consumers Make Complex Economic Decisions: Financial Literacy and Retirement Readiness Annamaria Lusardi, Dartmouth and Olivia S. Mitchell, University of Pennsylvania Discussant: Scott Weisbenner, University of Illinois, Urbana-Champaign
	Social Security Literacy and Retirement Well-Being Hugo A. Benítez-Silva, Stony Brook; Berna Demiralp, Old Dominion University; and Zhen Liu, University at Buffalo Discussant: Justine Hastings, Yale
	Information and Retirement Behavior: Stepwise Introduction of the Social Security Statement Giovanni Mastrobuoni, Colegio Carlo Alberto and CeRP (Steven H. Sandell Scholar) Discussant: Alan Gustman, Dartmouth

12:00	**Box Lunch**
12:30	**Luncheon Speaker: THE HONORABLE LAWRENCE H. SUMMERS** Assistant to the President for Economic Policy Director, National Economic Council
1:30 - 3:00 pm	**Panel 3: Housing, Other Assets, and Retirement Security**
	How Do Seniors Consume Their Savings in Retirement? Karen Smith and Rudolph Penner, Urban Institute Discussant: John Karl Scholz, University of Wisconsin - Madison
	The Wealth of Older Americans and the Sub-prime Debacle Barry Bosworth, the Brookings Institution Discussant: Todd Sinai, University of Pennsylvania
	Medicaid and the Housing and Asset Decisions of the Elderly: Evidence from Estate Recovery Nadia Greenhalgh-Stanley, Syracuse University (Dissertation Fellow) Discussant: Norma Coe, Center for Retirement Research at Boston College
3:00 - 3:15 pm	**Break**
3:15 - 4:45 pm	**Panel 4: Alternative Approaches to Retirement Security**
	Welfare and Generational Equity in Sustainable Unfunded Pension Systems Alan Auerbach and Ronald Lee, University of California, Berkeley Discussant: Laurence Kotlikoff, Boston University
	Fund Choices in a Private Accounts System: Implications for Disparities in Wealth at Retirement Justine Hastings, Yale Discussant: Brigitte Madrian, Harvard
	Portfolio Choice in Retirement: Health Risk and the Demand for Annuities, Housing and Risky Assets Motohiro Yogo, University of Pennsylvania (Steven H. Sandell Scholar) Discussant: Jeffrey Brown, University of Illinois, Urbana-Champaign
4:45 pm	**RECEPTION**

Day Two - Tuesday, August 11th

8:30 - 8:45 am	**Coffee and Registration**
8:45 - 10:15 am	**Panel 5: Health and Retirement Well-Being**
	The Implications of Declining Retiree Health Insurance Alicia H. Munnell and Courtney Monk, Center for Retirement Research at Boston College Discussant: Kristine Brown, University of Illinois, Urbana-Champaign
	The Level and Risk of Out-of-Pocket Health Care Spending Michael Hurd and Susann Rohwedder, RAND Corporation Discussant: Sita N. Slavov, Occidental College
	Family Status Transitions, Latent Health, and the Post-Retirement Evolution of Assets James Poterba, MIT; Steven Venti, Dartmouth; and David Wise, Harvard Discussant: David Weir, University of Michigan
10:15 - 10:30 am	**Break**
10:30 - 12:00	**Panel 6: Disability**
	Out of Pocket Medical Expenditures and Retirement Security in the United States Kathleen McGarry and Jonathan Skinner, Dartmouth Discussant: Mark Duggan, University of Maryland
	The Role of Disability Transfer Programs on the Economic Well-Being of Working-Age People with Disabilities Richard V. Burkhauser, Cornell; Mary C. Daly; and Philip R. de Jong Discussant: Bruce Meyer, University of Chicago
	Work Disability, Work, and Justification Bias in Europe and the US Arie Kapteyn and James P. Smith, RAND; and Arthur van Soest, Tilburg University, Netspar & RAND Discussant: Richard Johnson, Urban Institute
12:00	**Box Lunch**
	Luncheon Speaker: SYLVESTER SCHIEBER **Chair, Social Security Advisory Board** *Productivity Rewards and Pay Illusions Caused by Health and Retirement Benefit Cost Increases*
12:45 - 2:15 pm	**Panel 7: Labor Mobility and Retirement Well-Being**
	Economic Well-Being of the Elderly Immigrant Population George Borjas, Harvard Discussant: Darren Lubotsky, University of Illinois, Urbana-Champaign
	Impact of Immigration on the Distribution of Well-Being Gary Burtless, the Brookings Institution Discussant: John Laitner, University of Michigan Retirement Research Center
	Determinants and Consequences of Moving Decisions for Older Homeowners Esteban Calvo, Kelly Haverstick, and Natalia A. Zhivan, Boston College Discussant: Gary Engelhardt, Syracuse University
2:15 pm	**CLOSING REMARKS: David Wise**

PSID Call for Papers

Research on the Connections between Health and SES Using PSID Data

The Panel Study of Income Dynamics (PSID), with support from the National Institute on Aging, announces a call for papers using PSID data to report on research on the connection between health and socioeconomic status (SES) within and across generations. Between 10-20 papers will be presented at a conference to be held in Ann Arbor, Michigan, in September 2010. Support for travel and lodging will be provided to one author per paper. The goals of the conference 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. Authors will be expected to present papers at the September 2010 conference.

Papers will be considered for publication in a refereed special issue of the *B. E. Journal of Economic Analysis & Policy.* More information about the journal can be found at: http://www.bepress.com/bejeap/.

Below is a partial list of example paper topics.

- Establish the differences in the relationships between health and socioeconomic status among adult siblings – and between parents and 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.

Applications will be evaluated by senior scholars affiliated with the PSID and will be evaluated based on: (1) The thematic relevance of the research; (2) The quality of study design, including the choice of appropriate research methodology and data; and (3) The significance of the analyses in terms of extending scientific knowledge. Applicants should provide the following:
(a) A coversheet with the title of the proposed paper; the authors' names and institutional affiliation with mailing address, email address, phone and fax numbers; If the research involves more than one investigator, a principal investigator (PI) must be identified. All correspondence will be with the PI; (b) An extended abstract (2-4 pages) which should include a description of the topic, the theoretical focus, and the data and research methods; and (c) Curriculum vitae for all authors.

Timeline and important dates:

a. Application deadline: October 16, 2009
b. Notification of decision: November 20, 2009
c. Draft paper due: Two weeks prior to two-day conference in September 2010
d. Presentation of paper at two-day workshop in Ann Arbor in September 2010

Contact information:
Please send applications and requests for further information to Patty Hall (pathall@umich.edu). For more information on the PSID, please visit the website: www.psidonline.org.

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