Briefly Noted

Retirees' Timing Rationale for Claiming Social Security Benefits

A survey conducted by the National Bureau of Economic Research sought to identify the reasons people claim Social Security benefits when they do. Health, employment, monetary requirements and what felt natural all were influencing factors.

Those who claimed before reaching full retirement age (FRA)—the age at which a person qualifies for full benefits—primarily did so because they stopped working. A need for the income stream provided by the benefits was second, followed by concerns about benefits being cut and concerns about longevity. Many of these respondents listed reasons not listed on the survey, such as no longer working (due to a layoff, disability or being tired of working), not fully understanding the gains from delaying and mistakenly believing age 65 to be the full retirement age.

Individuals who claimed between their FRA and six months after their FRA were most likely to select the response of "It seemed natural to start my benefit at my full retirement age" as the reason why. Describing the decision as being tied to when they stopped working ranked a distant second followed by wanting to avoid a reduced benefit. Respondents in this group were more likely to describe their decision as being influenced by a financial adviser, friends or family or a Social Security Administration employee than those who claimed early. At the same time, some of these individuals did not want to postpone taking benefits longer so they could invest the money and/or they feared cuts to future benefits.

Continued employment was the top reason to delay taking Social Security benefits for those who postponed claiming until at least six months after their FRA. It was also the top reason given by survey respondents who were age 62 or older but had yet to claim benefits. Secondarily, many individuals in both of these groups postponed/are postponing to take advantage of larger benefits. More than a third of those who had not claimed said they had yet to reach full retirement age. Not needing the money was a very common response for those who claimed more than six months after reaching full retirement age, whereas good health and an expectation for a long life was common among those who have yet to claim.

Source: "Social Security Claiming Decisions: Survey Evidence," John Shoven, Sita Nataraj Slavov and David Wise, National Bureau of Economic Research working paper, August 2017.

Raising Children Increases Risk of a Retirement Shortfall

Children are a blessing, but they have a negative effect on retirement preparedness. An analysis conducted by the Center for Retirement Research (CRR) at Boston College found that each child increases the share of households with parents in their 50s who are at risk of not being able to fund retirement by two percentage points. Two children, therefore, increase the risk by four percentage points.

The assessment was done using the National Retirement Risk Index (NRRI). The NRRI compares a household's projected retirement income as a percentage of pre-retirement income with a target replacement rate. The target replacement rate is the level of income a couple would need to maintain the same standard of living. A household is considered to be at risk if their projected retirement income is more than 10 percentage points below target.

The increased risk is due to income and consumption patterns. Women with children have lower labor force participation rates and, when they do work, earn lower wages. At the same time, consumption is higher: The cost for a family of four is 40% greater than the cost for two adults. An ideal consumption pattern would compensate for this by either saving at a constant rate relative to income or by having the parents reduce consumption spending once the children leave the house. In reality, many households do not cut back on consumption. These same households also tend not to increase their contributions to 401(k) plans, which is the primary way Americans save for retirement.

Saving for education likely also has an impact, though the data is less clear. Educational savings reduce the risk of retirement shortfall by 14 percentage points because it is included in the determination of a household's wealth. To the extent that such savings are earmarked for college, retirement readiness is weaker than it would first appear.

Children are not the only factor influencing retirement, nor the biggest. The CRR estimates that having a workplace retirement plan, particularly a pension, reduces the chance of being at risk of not funding retirement by approximately 40 percentage points. Being a two-earner couple also has a significant impact, though the CRR acknowledges that the actual impact needs further analysis.

Source: "The Impact of Raising Children on Retirement Security;" By Alicia Munnell, Wenliang Hou and Geoffrey Sanzenbacher; Center for Retirement Research at Boston College, September 2017.

Key Questions About When to Retire

One of the biggest financial and lifestyle decisions that individuals and couples face is deciding when to retire. Though some people are forced into retirement either because of employment changes or health problems, the choice for many others is made at their own discretion.

The Society of Actuaries published a list of key questions to ask when considering when to retire. These questions include:

- **Do I have enough money?** Salaries will be replaced by Social Security benefits, annuity and/or pension benefits and savings withdrawals. While some expenses and outlays will go away (Social Security contributions, work-related costs, retirement savings contributions, etc.), new costs could appear (e.g., travel, hobbies, etc.).
- **What's the impact of working one or two more years?** Postponing retirement allows a person to delay claiming Social Security, thereby increasing the size of the annual benefit. It also gives retirement savings more time to grow. Pension benefits usually also increase up to age 65, though some plans may boost benefits until age 70.
- **When should I claim Social Security?** Postponing claiming Social Security benefits from age 62 until age 70 increases the size of the benefit by about 75%. Delaying impacts not only the benefit at the time of claiming, but also the survivor benefit for married couples. The Society of Actuaries says nearly half of widows have no other income than Social Security.
- **When is my spouse planning to retire?** A spouse with a shorter work history (e.g., 20 or 25 years) can realize a bigger increase in Social Security benefits by working three extra years than a spouse with a 40-year work history. Spouses also need to determine where they will live and what type of activities they will engage in once retired. They will also need to assess the feasibility of their goals.
- **Where will I get health insurance?** Medicare is available at age 65. Those eligible for Medicare can opt for Medicare Advantage plans or a supplemental insurance (Medigap). Those considering retirement before the age of 65 may be able to obtain insurance through their employers or through health insurance exchanges.

Source: "Big Question: When Should I Retire?," Society of Actuaries, May 2017.

Personality Traits Influence Investing Style Preferences

The preference for a value, growth, large or small stock is related to an investor's personality. Researchers found a link between common personality traits and the types of stocks held in individual investors' portfolios. This, the researchers conclude, strengthens the argument that the outperformance of value and small-company-size premiums is caused by investor behavior as opposed to being compensation for risk.

These findings are based on an analysis of 710 individual investors. Researchers combined data from the Northern Finland Birth Cohort 1966 (NFBC) and the Finnish Central Securities Depository. The NFBC survey includes questions regarding personality traits. The national depository has detailed information on individual investors' portfolios. The stockholdings data is from 2010 and the personality trait data is from 2012.

Personality characteristics were grouped to form four main traits. Exploratory excitability and extravagance measure a person's desire to seek new things and spend instead of save. Impulsiveness and disorderliness characterize a willingness to make decisions based on hunches and to do things without regard for routines. High attachment and dependence indicate a tendency to be warm and open with others and a desire to fit into a social group. Sentimentality is associated with being affected by emotional stimuli.

Investors who scored higher on impulsiveness and disorderliness were more likely to hold growth-oriented and small-company stocks. Investors who scored high on sentimentality attachment and dependence traits were more likely to favor value-oriented small-company stocks. The exploratory excitability and extravagance traits were linked to portfolios composed of large-capitalization stocks. Investors with these traits also favored growth over value.

For all of these traits, the higher the score, the greater the magnitude of the relationship. For example, a one standard deviation of increase in impulsiveness and disorderliness was found to be associated with an approximate 7% increased exposure to the small minus big factor. This is indicative of a stronger preference for small-company stocks instead of large-company stocks.

Source: "Personality Traits and Portfolio Tilts Towards Value and Size," Andrew Conlin and Jouko Miettunen, SSRN, August 15, 2017.