Briefly Noted

Retirement Doesn't Negatively Impact Health

Separate studies of Australian and Danish retirees looked at the impact that retirement has on health outcomes. Neither study found a negative impact.

The Australian study analyzed how retirement impacted unexpected health outcomes ("health shocks") through a questionnaire included in Australia's Household, Income and Labour Dynamics (HILDA) survey. Authors Bénédicte Apouey et. al found being retired and retiring both "increases the likelihood of positive health shocks and decreases the probability of negative shocks for men." The data on women was less clear.

Retired men were more likely to expect their health to worsen than for it to improve. The opposite occurred, with retired men more frequently experiencing a self-declared improvement. The authors say these positive health shocks are being driven by two groups. The first is men who expect their health to worsen but experience no change. The second is men who don't acknowledge any expectations but yet experience an improvement.

Women's expectations of their health did not change when they went from working to being retired. As a group, they did not experience notable health shocks, though the data suggests that women are less likely to experience positive health shocks than men are.

The Danish study looked at what happened to retirees following a change in the minimum age for the Danish Old Age Pension (OAP), which was lowered by two years to age 65. It also looked at the Danish Early Retirement Pension (ERP), which prompted a large jump in retirement take-up at age 60.

For the OAP group, all measures of health or health care utilization showed no difference between those who weren't eligible to retire until age 67 (before the OAP change occurred) and those who could retire at age 65. Gender and other socioeconomic indicators did not alter this finding.

For the ERP group, early retirement had no effect on mortality. Retirement was found to be associated with an approximate 10% drop in hospitalization rates. Retirees also visited their general practitioners 0.34 fewer times per year. The results were not significantly different for either gender.

Sources: "Retirement and Unexpected Health Shocks," Bénédicte H. Apouey, Cahit Guven and Claudia Senik; IZA Discussion Paper 11226, December 2017; and "Sick of Retirement?," Nick Fabrin Nielsen; SSRN, January 4, 2018.

Prioritizing HSA Contributions and 401(k) Contributions

Under certain circumstances, it may make sense to prioritize contributions to a health savings account (HSA) over contributions to a workplace retirement plan such as a 401(k) plan or a 403(b) plan. An employed person able to realize similar rates of return may come out ahead by first maximizing contributions to the HSA account before funding the retirement plan account.

The rationale for the strategy is based on the tax rules. Contributions to HSAs not made by your employer are tax deductible. Withdrawals from HSAs are tax-free if they are used to pay for qualified medical expenses. Contributions to 401(k) plans are tax-free, but withdrawals are taxed at ordinary income rates.

In discussing the strategy, W. Scott Simon, a principal at Prudent Investor Advisors, treated the 7.65% FICA tax (which includes both Social Security and Medicare) as applying to 401(k) contributions, but not HSA contributions. He also assumed a worker would continue making annual contributions of $5,000 to each account for a period of 30 years. Future withdrawals from the retirement plan account were assumed to be taxed at a 25% rate. Given these conditions, the HSA was found to be worth $611,729 while the 401(k) was found to be worth $423,669 on an aftertax basis.

There are various caveats to consider. Depending on the investment options available, the expense-adjusted returns for an HSA may not be as high as they are for a 401(k) or 403(b) plan account. Simon's analysis assumes no withdrawals will be made from the health savings account prior to retirement. Employer matches to either type of account were excluded. Simon discussed a 50% employer match on the first 6% of contributions made to the workplace retirement plan, but then suggested discounting them by a 35% tax rate. In reality, withdrawals of employer contributions will be taxed at the then-prevailing ordinary income tax rate.

Once in retirement, HSA withdrawals can be used to pay for qualified medical expenses. Because such withdrawals are tax-free, they can be used to reduce the amount that would otherwise be withdrawn from a workplace retirement account or a traditional IRA. This may help prevent a retiree from being bumped into a higher tax bracket.

Source: "When an HSA-First Strategy Makes Sense," W. Scott Simon, Morningstar Advisor Insights, January 4, 2018.

Corporations With Female CEOs Have Greater Board Oversight

Corporations whose chief executive officers (CEOs) are women tend to have boards with different characteristics than corporations with CEOs who are men. Corporations run by female CEOs tend to have smaller boards of directors. Boards of such companies tend to engage in greater oversight of the CEO. They also have more independent directors, a lower ratio of inside to outside directors, more gender diversity, a broader director network, less interlocked directors and better attendance. The directors comprising the board also tend to be younger.

Smaller boards are believed to have directors that are more engaged since there are fewer members to share the work among. Independent directors have been found to monitor the CEO more effectively. Previous studies have found both younger and female directors to be more likely to monitor CEOs. A broader network can provide access to more information to help monitor the CEO. Interlocked directors serve on multiple boards and may not be as independent as and may be more distracted than non-interlocked directors.

Analysis of the data does not suggest that female CEOs seek out such board structures. Rather, the opposite seems to hold true (even though the proportion of female CEOs remains relatively small). Firms of a similar size and in the same industry have greater board oversight if their CEO is female instead of male.

There isn't any strong evidence showing certain board structures purposely seek out women to be their CEOs. Rather, women who replace male CEOs see "significant increases … in board independence, board gender diversity, board network and aggregate monitoring intensity post-transition compared to new male CEOs."

A few characteristics are associated with a greater chance of a woman being hired as CEO. Corporations hiring female CEOs tend to have less debt, more volatile stocks and greater board diversity. They also tend to be headquartered in states with higher gender equality rankings.

The findings are based on analysis of publicly traded corporations. A minimum tenure of three years was required for each CEO. The proportion of female CEOs never exceeded 4.5% during any of the years studied (1996 through 2016).

Source: "CEO Gender and Corporate Board Structures," Melissa Frye and Duong Pham; The Quarterly Review of Economics and Finance, forthcoming.

Volume Surges Have a Fading Impact on Returns

A study of Australian stocks found that stocks experiencing a positive volume shock—a spike in the number of shares traded—tend to outperform. The outperformance is short term, with returns drifting back toward more average levels within a period of approximately 12 months. The outperformance is more prominent among smaller, less-followed stocks.

The study's authors defined a volume shock as an increase or decrease in monthly trading volume relative to a stock's 12-month average. Changes in volume were measured at the individual company level. Stocks with unusually large increases or decreases in volume relative to both their average volume and the typical variation around those averages were categorized as experiencing a shock. Monthly volume was used to smooth out the day-to-day fluctuations in trading activity.

Equal-weighted portfolios of stocks experiencing the largest positive shocks experienced the largest one-month returns. Performance declined as the volume shocks decreased in magnitude. The "High" portfolio, which consisted of stocks whose volume shocks ranked in the top 10% (most positive), experienced one-month returns of 2.87%. The "Low" portfolio, which consisted of stocks whose volume shocks ranked in the bottom 10% (most negative), experienced one-month returns of –0.05%. Twelve months after the shock, the monthly returns were closer: 0.93% for the High portfolio and 0.79% for the Low portfolio.

Trading activity—defined as relative turnover (trading volume relative to the number of shares outstanding)—increased following a positive volume shock. Stocks with low prices, small market capitalizations, low levels of institutional ownership and low turnover experienced significant increases in their relative turnover following a volume shock. (The authors categorized high prices as being in excess of $1.00 in Australian dollars, median prices being between AU$0.50 and AU$1.00 and low prices as being below AU$0.50.)

The increase in relative turnover is attributed to increased visibility. The spike in volume draws attention to the stock and results in more trading activity. Shares of large companies experience less of a benefit from a volume shock because they were previously better known prior to the surge in volume.

"Volume Shocks and Stock Returns: An Alternative Test," Angel Zhong, Daniel Chai, Bob Li and Mardy Chiah; Pacific-Basin Finance Journal accepted manuscript.