Comments for:

Trends in Pension Cash-out of Older Workers at Job Separation and the Effects on Long-term Outcomes
by Philip Armour, Michael D. Hurd, and Susann Rohwedder

John Sabelhaus
Federal Reserve Board

These comments were prepared for the SIEPR Conference on Working Longer and Retirement, October 6th and 7th, 2016. The analysis and conclusions set forth are those of the author and do not indicate concurrence by other members of the research staff or the Board of Governors of the Federal Reserve System.
Main Takeaways/Questions

• Cash-out more likely given adverse shock
  • *What fraction of cash-outs are not associated with these sorts of measurable shocks?*

• Cash-out rates rising over time
  • *Because of shift from DB to DC or recession?*

• Long-term outcomes worse given cash-out, but baselines also worse; allowing cash-outs did not impair retirement readiness
  • *How do cash-outs interact with other lifecycle decisions inconsistent with “standard” model?*
Economic Shocks and Early Withdrawals

• Income tax data confirm that economic shocks highly correlated with early withdrawals (<55 group), especially given job change

• But tax data also show high withdrawal rates given no measured shocks, and early withdrawal rates did not surge in Great Recession

• Income (averaged over three years) also not a strong predictor of early withdrawals

• Suggestion: quantify shock-driven cash-outs, focus on differences by lifetime income
Withdrawal Rates Across Job Change and Shock Groups, 2004-2010

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Notes: Income shocks based on per capita AGI less taxable pensions. Population is all tax units with evidence of pension coverage or retirement accounts. Income shock is defined as a decline of ten percent or more relative to the prior year value. Marital shock is defined as a movement from joint to non-joint filing or joint filing with a different co-filer within past two years. Job change based on employer EINs changing in prior or current year.

Source: Follow-up to Argento, Bryant, and Sabelhaus (2015).
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FIGURE 2
Withdrawal Rates and Incidence of Income and Marital Shocks, Age < 55

Source: IRS Statistics of Income

Source: Argento, Bryant, and Sabelhaus (2015)
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Retirement Account Withdrawal Rates by Income, Shocks, and Job Change

Note: Population is taxpayers ages<55 with evidence of current pension coverage and/or retirement accounts. Source: follow-up to Argento, Bryant, and Sabelhaus (2015)

Source: IRS Statistics of Income
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Why Are Cash-out Rates Rising Over Time?

• Changing institutions (DB v DC), changing behavior, or changing economic environment?

• Dispositions (Tables 4/5) “not mutually exclusive” so hard to compare across cohorts
  • Knowledge of cash-out option very suspect (also SCF)
  • DBs have lower cash-out rate, but closing in on DC
  • Change in DC mostly about “other” to “cash-out”
  • Change in DB mostly “benefits” to “rollover”
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• Suggestion: Fit cash-out models for 1992/98 cohorts, apply to 2004 with and without counterfactual shocks
Cash-outs and Lifecycle Outcomes

• Are we surprised that availability of cash-outs did not affect readiness for ‘92 cohort?

• How should we modify the “standard” lifecycle model to incorporate new facts?

• How should we think about retirement savings tax policy in response to emerging trends and whatever model we really think is behind people’s behavior?
Cash-outs and Economic Well-Being

• For availability of cash-outs to have an impact on longer-term outcomes
  • Cash-out must be sizable relative to other retirement resources
    • Cash-out not accompanied by offsetting change in behavior, such as working longer/spending less

• Use SCF to look at retirement resources across income distribution
## Retirement Wealth of Near-Retirees, 2013

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Source: Devlin-Foltz, Henriques, and Sabelhaus (2016) based on Survey of Consumer Finances.

Note: Numbers are for 2013 only, for those households where the respondent was born between 1951 and 1960 and is currently employed.
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• Suggestion: Use HRS to learn more about effects on behavior: did those with cash-outs work longer, spend less, etc. given controls?
My List of Emerging Lifecycle-Inconsistent Facts

• Many people take lump sums from retirement accounts, especially at job separation

• Most people with IRA and 401(k) accounts don’t systematically draw balances down in retirement

• Few people annuitize DC balances, and some even de-annuitize DB streams when possible

• Stable retirement consumption as a percent of pre-retirement income not descriptive for most

• Tax advantages for retirement accounts very unequal and becoming more so in recent years
Retirement plan coverage declining for bottom 50%...

Source: Devlin-Foltz, Henriques, Sabelhaus (2016)

Notes: Each line represents a ten year birth cohort. The circles are SCF observations for that cohort, centered on the middle of their age range in the year when the SCF was conducted. Families are sorted by the SCF “usual” income measure to avoid distortionary effects of transitory income on classification by income.
...along with homeownership rates

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Emerging Facts and the Lifecycle Model

• Need to generate realistic spending changes around retirement age due to household composition and resolution of lifetime income uncertainty

• Need health in utility function shifting MU(c) with time itself a key input into (stochastic) health production

• Need lifetime jobs with option value, so agents uncertain about future potential wage after separation

• Need account balances to emerge as the lifecycle replacement for potential work: insurance against shocks for people who want such insurance
Thanks!

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Cites

