Why People Should Work Longer, but Don't

By Editorial Staff *Tue, Feb 19, 2019*

New research from the Center for Retirement Research at Boston College and the National Bureau of Economic Research looks at the economic and situational factors that affect individual decisions about when to retire.

Financial advisors shouldn't urge older workers to save more during the current low-return period, according to a new paper from the National Bureau of Research. Such under-savers would be wise to work longer and claim Social Security later.

Also new this week: an Issue Brief from the Center for Retirement Research (CRR) at Boston College says that factors like poor health, a spouse's retirement, unemployment, a financial shock (good or bad), and the need to care for an elderly parent can all compel someone to retire early, but they don't fully explain why so many Americans do.

Adapting to stagnation

The first **paper**, "Retirement Implications of a Low Wage Growth, Low Real Interest Rate Economy," grapples with a practical issue: If you reach mid-life and find out that your savings isn't likely to grow as much as it used to, what action should you take?

The authors, Jason Scott, John B. Shoven, Sita Slavov and John G. Watson, who have written extensively on this topic, assert that when interest rates are low the best thing to do is to claim Social Security later, because the step-up in benefits for each year of delay (until age 70) is larger than the safe interest.

Delaying Social Security in a low interest rate environment offers the greatest benefits to married primary earners, they write. Single men, people in poor health with shortened life expectancies, and married secondary earners benefit less from delay. In a zero real interest environment, however, virtually everyone can improve his or her financial positions in retirement by delaying Social Security.

With respect to adapting to a low wage growth environment, their recommendations vary. If the individual faces low wage growth but economy-wide wage growth is high, Social Security benefits will rise and, in a sense, bail out the low-wage worker. If only the individual faces high wage growth, he or she should keep working because wage-indexed Social Security benefits won't climb much.

Explaining early retirement

The second **paper**, "Retiring Earlier Than Planned: What Matters Most?" represents an effort to explain a conundrum. The percent of Americans who say they intend to work past age 65 tripled (to 48%) between 1991 and 2018. Yet many people report that they didn't keep that promise and retired earlier than planned.

The authors surveyed reviewed years of household survey data containing responses from 58-year-olds to questions about their planned age of retirement. Within the sample studied by the CRR team, 21% said they planned to retire at 66 or later. But of those, 55% eventually retired earlier than age 66. Overall, 37% of the people in the sample retired earlier than planned. Clearly, delayed retirement is more an aspiration than a practice.

The brief's authors, Alicia Munnell, Matthew S. Rutledge and Gregory T. Sanzenbacher, assembled a line-up of likely suspects to explain this behavior but couldn't identify a culprit.

"Health shocks are most important in driving workers to an earlier retirement, followed by job-related changes and family transitions. However, these factors only partly explain early retirements, which suggests that other factors that are harder to measure also play a role," they write.

"The factors considered here explain only about a quarter of early retirements. Future research should focus on what other factors may lead to early retirement, with "soft" factors not considered here – like the lure of leisure time in retirement – playing potential roles."

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