YMCA Retirement Fund's
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SAVE MORE OR WORK MORE?

People concerned about retirement income can be persuaded that saving more is a better approach than simply planning to work longer.

When the stock market crashed in the wake of the credit crisis of 2008, people whose retirement account earnings depended on investment returns found themselves facing the possibility that they would not have as much retirement income as they had been expecting.

The rational response would have been to spread the pain by saving more, planning to work longer, and spending less, Steven Sass, Courtney Monk, and Kelly Haverstock suggest in their article "Worker's Response to the Market Crash: Save More, Work More?" They argue that the extent to which these rational choices were in fact the employees' actual responses is critical for evaluating how these people are likely to fare when they do actually retire. That is, *did people facing reduced retirement income actually start to save more and make plans to postpone retirement?*

As part of their research, Sass and his colleagues were also interested in the effect of "enhanced financial literacy" on a subset of the survey group that had experienced major losses in their retirement accounts. This group was surveyed before and after receiving the advice of a person described to them as a finance professor. The type of advice each participant received was based on the proportion of retirement income they expected from their financial assets and how close they were to retirement.

Let's look first at the overall results.

STRESS-PRODUCING LOSSES

The survey results showed 66% of workers between the ages of 45 and 59 had less in their retirement savings accounts after the market meltdown than they had before. In response, 40% planned to work an additional four years or more, presumably long enough to reach Social Security's full retirement age.

About 33% said they were saving more. Finally, about 43% said they had made no changes in their saving or plans for retirement.

Younger employees tended to make the fewest changes in their plans or behavior. Those within five years of their planned retirement date were most likely to say they planned to work longer, while more of those five to ten years from retirement said they were both saving more and planning to work longer. (Working longer may, in fact, be the only real option for the oldest group of the pre-retired, since, given the time available to them, saving enough to provide adequate income is probably unrealistic).

The problem with planning to work longer, of course, is that many people who intend to do so, end up not following through. There are a number of reasons for this gap between intention and action, including the availability of appropriate jobs and limitations due to health issues.

➔ A QUICK LOOK

- 40% plan to work four years longer (or more)
- 43% said they were neither saving more nor planning to work longer
- 60% of those receiving advice switched from making no changes to saving more, retiring later, or both
- Targeted financial advice resulted in greater emphasis on saving

THE EFFECT OF ADVICE

What's perhaps the most interesting finding in this analysis is that targeted financial advice can make a measurable difference in the way people respond to the combined effect of economic uncertainty and major investment losses.

Among those selected to receive financial advice, 36% indicated before receiving advice that they intended to work longer and another 30% said they planned to couple more saving with working longer. About 10% said they were simply saving more, while 41% said they had made no changes. But there was a dramatic shift in these percentages as a result of receiving advice.

The most notable changes occurred among the 41% who had taken no action. About 60% changed their minds, with almost half saving more, whether by saving only or combining increased saving with a plan to work longer. Sass and his colleagues point out that in behavioral terms, the tendency to choose working longer over saving more makes sense, because it is a way to defer some of the pain of expecting less retirement income. But when saving is clearly presented by an expert as a preferable alternative, that advice seems to resonate. In the words of the authors: "This outcome suggests that credible information can substantially change both retirement and savings behavior."

OTHER FINDINGS

In evaluating the factors that help explain people's response to the financial downturn, the survey identified emotional stress as well as economic status, the extent of losses, and age. It's interesting that the 25% who reported the most distress were also the most likely to change their behavior or their plans. The authors suggest that more attention should be paid to this correlation, which they note is missing from most analyses.

"Workers' Response to the Market Crash: Save More, Work More?" was written by Steven A. Sass, Courtney Monk, and Kelly Haverstick, and published by the Center for Retirement Research at Boston College in February 2010, IB # 10-3.

An interesting side note is that this research showed that neither race nor gender was correlated with how the respondents reacted to the market downturn.