TIAA-CREF institute

POLICY BRIEF

FEBRUARY 2010

MISSING THE MARK: EMPLOYMENT RELATED RISKS TO THE RETIREMENT SECURITY OF OLDER WORKERS

Jason S. Seligman
John Glenn School of Public Affairs, The Ohio State University
TIAA-CREF Institute Fellow

EXECUTIVE SUMMARY

In the current recessionary environment, earning, saving, and wealth management have become more of a primary focus for households. Even traditionally stable career earnings paths in academic settings have experienced disruptions lately with pay furlough programs implemented across several university campuses this past fall.

This *Policy Brief* focuses on late career workers, between ages 50 and 67—an age group with direct exposure to risks in the areas just mentioned: earning, saving and wealth management. In particular this brief focuses on a locust of shock impacting all three risks, the event of involuntary retirement.

Involuntary retirement poses a challenge to retirement security as workers must finance longer periods out of the workforce with fewer periods of work. The risks of involuntary retirement are more substantial than one might think. Even before the current recession three in ten retirees surveyed as part of the Health and Retirement Study (HRS) reported their retirement as being "forced." Roughly two-thirds of those reporting forced retirement say it was motivated by health while for the other one-third it was tied to some sort of economic dislocation–usually a lay-off or a business closure event.

Involuntary retirement is associated with reduced income and reduced income replacement rates in retirement, and with dissatisfaction in retirement. Of particular note, while the risk of involuntary retirement warrants preparation for its possible realization, provision and uptake of private disability insurance is lower overall than for other employee benefits, and very little in the way of long term "economic dislocation" insurance exists. Individuals' strategies to manage exposure to risks associated with involuntary retirement are commensurately nuanced, and inherently partial.

TIAA CREF
FINANCIAL SERVICES FOR THE GREATER GOOD®

Strategic remedies rely on incremental adjustments to both portfolio allocations and the overall level of consumption vs. savings over working ages. A review of one's long term disability insurance coverage, and consumption goals in retirement is perhaps most fundamental. Further, considering the relation of labor and financial market performance over the traditional business cycle is useful in making savings and portfolio allocation decisions that are more robust to broad macroeconomic shocks. The overall objective for planning over the late career should be to stabilize wealth accumulation and facilitate any necessary transition to wealth consumption at or ahead of planned retirement.

Public policy makers should ensure that public programs facilitate a more robust market for risk transfer. Policy makers should also encourage the harmonization of insurance and financial planning activities to existing public programs, thereby making these easier to evaluate and engage. Specific reforms should help inform citizens of risks and resources with which to address them. And policy makers must look inward as well. Both in the areas of health insurance and Social Security reform true leadership requires policies that are both or at once useful and fiscally sound. Social Security reforms should prioritize coverage of the fundamental risks inherent in aging: infirmary and the decline of market relevant skills. Government is traditionally burdened with the responsibilities of an insurer of last resort. These actions should reduce that burden and free resources with which to deal with it.

INTRODUCTION

Many individuals plan for retirement, both directly and passively through employer and public programs. Efforts to determine the adequacy of individual plans inherently rely on an estimated ratio of career duration to retirement duration. Indeed recently as defined contribution plans without annuitization options have retired their first cohorts of participants, researchers here in this series and broadly have pointed out the risk of outliving assets as one warranting increased concern. The role of annuities in this context within this series has been described most recently by authors Yakoboski (2009) and Brown (2008) for example.

Whereas those papers emphasize uncertainty in the duration of retirement this brief focuses on issues related to uncertainty over the length of working career. Curtailed careers can and do reduce retirement security. The impact of reduced work impacts both direct and passive planning channels. This is because personal savings, employment-based and public-based retirement wealth mechanisms all rely on labor force participation to generate income by which savings and pension contributions are accrued.

How then should a late career worker best plan for the possibility of a curtailment?

There are two fundamental risk components worth considering in the planning of later career savings, insurance and portfolio allocation decisions: changes in the economy and changes in familial circumstances. Both of these are somewhat external to direct individual control. Remarkably they can be external to planning processes as well. As with other uncertainty problems the systematic tension is between odds, stakes and outcomes. Persons may underestimate the likelihood (odds) of an economic shock or of a decline in their own, or a close family member's health. Or they may underestimate the financial impacts (stakes) of such events. By either channel plans that underprovide protections for these negative contingencies can reduce retirement security (outcomes).

The remainder of this brief will consider the impact of premature, or involuntary retirement from either economic or health risks. It will also offer suggestions on how one might manage savings insurance and portfolio considerations (stakes) in light of current measures of frequencies (odds) and retirement experiences (outcomes).

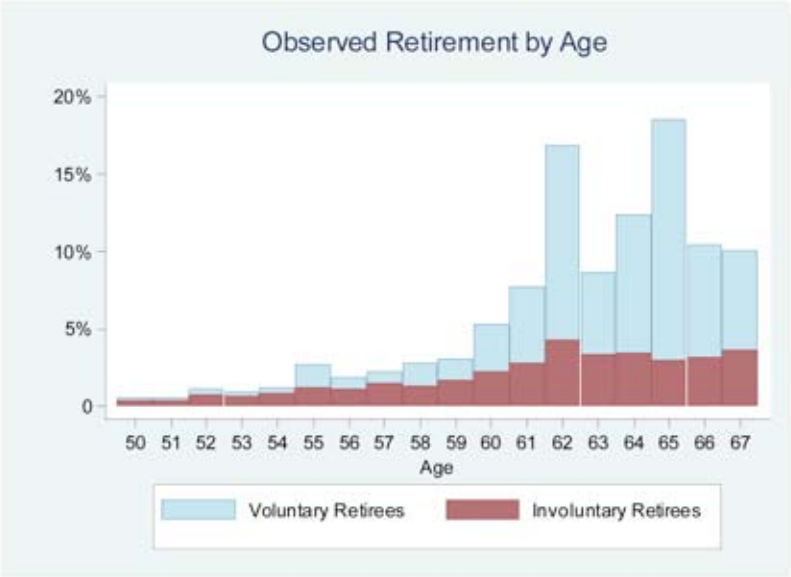
INVOLUNTARY RETIREMENT–THREE THINGS TO APPRECIATE:

1. The prevalence of involuntary retirement:

Even before the current recession three in ten retirees responding to the Health and Retirement Study (HRS) over the period from 1992 to 2006 reported their retirement as being "forced," or involuntary. Additionally, retirement patterns are

very different for the voluntary and involuntary, as Figure 1 demonstrates. The voluntary group shown in the top panel has an observable tendency to retire at ages 55, 62, and 65 as compared to ages just before or after, suggesting that voluntary choices are informed by public and employer based pensions. By contrast involuntary retirement fails to bunch at these 'kinks' in pension incentives. The smooth increase in observed involuntary retirements is more consistent with natural factors than with institutional factors.

FIGURE 1. PATTERNS OF RETIREMENT FOR VOLUNTARY AND INVOLUNTARY RETIREES



2. Causes of involuntary retirement:

Health and job loss are the main causes of involuntary retirement. When considering the three in ten retirees reporting involuntary retirement, roughly two-thirds of those reports were motivated by health while the remaining one-third was tied to some sort of economic dislocation, usually a lay-off or a business closure event.

When queried about retirement motives involuntary retirees are much more likely to report health considerations than are their voluntary counterparts. Indeed while over three quarters (76.3 percent) of voluntary retirees report that health was "not important at all" as a motive, only a third of the involuntary (33.2 percent) do so. By contrast motives more closely associated with preferences are selected by voluntary retirees at much higher rates.

TABLE 1. TRADITIONAL MOTIVES FOR RETIREMENT LISTED AS UNIMPORTANT – PERCENTAGE OF RESPONSES:

	VOLUNTARY RETIREES	INVOLUNTARY RETIREES
Poor health	**76.3%**	33.2%
Wanted to do other things	20.1	**67.6**
Spend more time with family	20.6	**58.3**
Number of observations	~1,983	~707

Calculations based on HRS data, minimum number of responses in each group are {1,979; 705} respectively

When asked directly for the reason they left their last employer, the involuntary are more likely to emphasize a health (43.1 percent versus 4.2 percent) or economic dislocation (10.7 percent and 20.6 percent versus 2.5 percent and 6.0 percent) among their responses. They are less inclined to reason being "retired" (26.3 percent versus 80.5 percent).

TABLE 2. REASONS FOR LEAVING LAST EMPLOYER – PERCENTAGE RESPONDING TO EACH AS A REASON:

	VOLUNTARY RETIREES	INVOLUNTARY RETIREES
Business closed	2.5%	**10.7%**
Laid off / let go	6.0	**20.6**
Poor health / disabled	4.2	**43.1**
Family care	3.2	3.8
Better job	1.8	1.2
Quit	7.8	7.0
Retired	**80.5**	26.3
Other	4.9	3.6
Number of observations	2,571	1,048

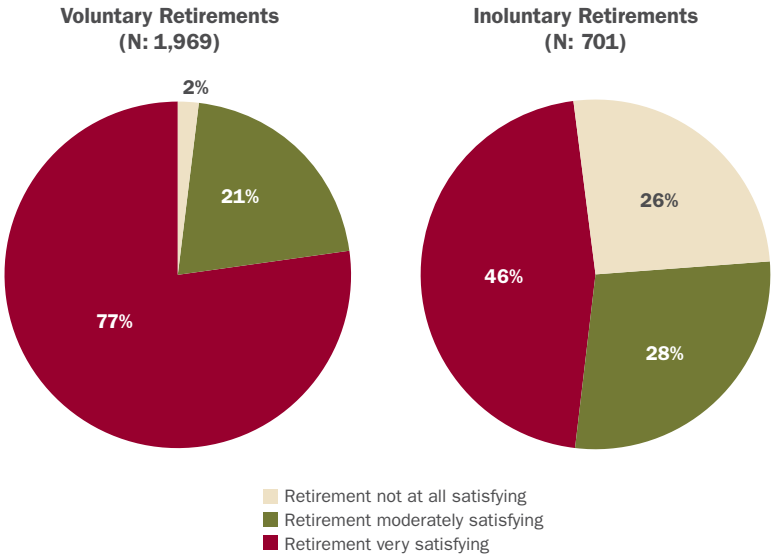
Respondents may report more than one answer to the question, percentages may not add to 100. Calculations based on HRS data

3. Impacts associated with involuntary retirement:

By and large involuntary retirement is less enjoyable. Indeed, dissatisfaction with retirement is almost uniquely found among involuntary retirees.

FIGURE 2. RETIREMENT SATISFACTION

(Calculations based on HRS data)



By Figure 2 the involuntary group is much less inclined to report positively when asked about their satisfaction in retirement. Involuntary retirees are over ten times as likely to report retirement as not at all satisfying (25.7 percent versus 2.0 percent). They are additionally over twice as likely to report moderate satisfaction (46.2 percent versus 20.6 percent). Resultantly they are much less likely to report their retirement as very satisfying (28.1 percent versus 77.4 percent, or 36 percent as likely).

Retirement satisfaction may be benchmarked by expectations, the observed experiences of others, or in direct comparison to the years ahead of retirement. HRS data allows one to address the intra-personal experience directly in order to gain further understanding of Figure 2. When asked to compare their years in retirement to the years just before, 40 percent of involuntary retirees describe their time in retirement as "not as good", versus five percent of voluntary retirees. Finally whereas 65 percent of voluntary retirees describe their retirement as "better" than the years just before, 31 percent of the involuntary do so. While motives underlying the responses in Figure two are likely broader than the direct comparison it is

notable that a direct comparison yields qualitatively similar results. This suggests that any individual's hardship has to do a great deal with an inability to plan properly in order to facilitate a smooth transition across their lifecycle, and that the odds and hardship of involuntary retirement is something they may significantly underestimate.

Some of the hardship is no doubt directly related to health, something that financial planning has a limited ability to directly impact. For example, 42 percent of involuntary retirees are "bothered a lot" by the prospect of illness or disability versus just 4 percent of voluntary retirees. Additionally involuntary retirees are more likely to be in worse health ahead of retirement and to experience more significant declines in health at-and-following retirement.

Some of the discomfort of involuntary retirement is directly related to income shocks however. Analogous to their health related experiences, involuntary retirees experience both lower earnings ahead of retirement and replace a smaller fraction of these earnings in retirement, as seen in the table below.

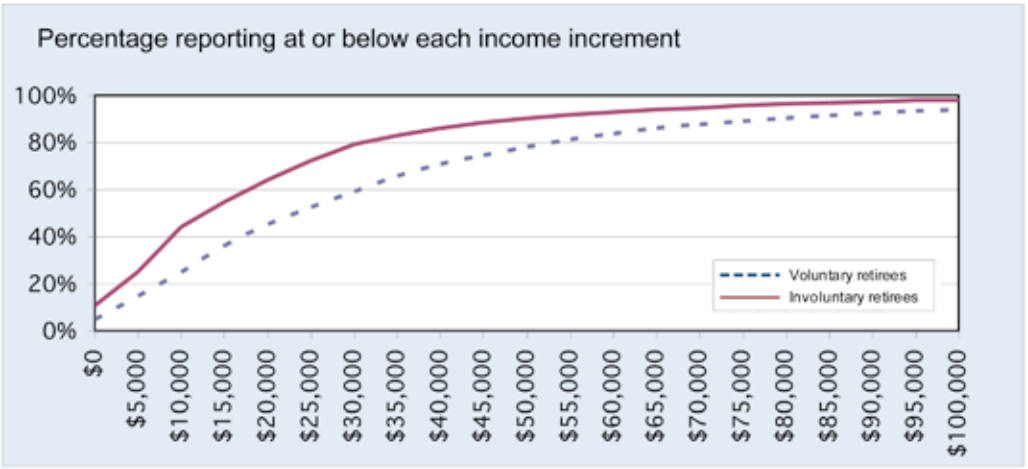
TABLE 3. A SUMMARY OF INCOME, WEALTH AND HEALTH INSURANCE COVERAGE IN RETIREMENT:

	VOLUNTARY RETIREES	INVOLUNTARY RETIREES
Average net total wealth	$268,758	$163,367
Median net total wealth	$149,467	$80,764
Average earnings	$48,093	$35,855
Median earnings	$38,634	$29,463
Percent of sample with DB plan	61%	48%
Average annual DB benefit for those with any benefit	$32,390	$22,439
Percent with health insurance in retirement	72%	60%
Number of observations	3,150	1,207

Calculations based on HRS data

All in all, after including a measure of annuitized wealth the representative involuntary retiree has income that is almost 40 percent less than their voluntary counterpart. This summary comparison is consistent with a broader comparison of income across the distribution of both groups, as shown below.

FIGURE 3. COMPARATIVE INCOME DISTRIBUTIONS IN RETIREMENT



INVOLUNTARY RETIREMENT—RISK ASSESSMENT CONSIDERATIONS

In the previous section I noted that individuals' hardship in retirement might be related to a failure to plan for health and economic contingencies. Before knowing what sort of planning remedy one might engage in, it is useful to consider involuntary retirement in terms of predictive characteristics because a better understanding of the applicable odds informs planning activities.

Educational attainment tends to be lower among the involuntary retirees, who are 50 percent more likely to fail to complete high school, and 24 percent less likely to continue studies past high school than their voluntarily retired counterparts. This should not suggest however that education immunizes one against involuntary retirement. Thirteen percent of involuntary retires hold a bachelor's degree or better. The most predictive single driver of involuntary retirement has to do with health. Figure 4 provides evidence on health by group pre- and post-retirement.

FIGURE 4. COMPARATIVE HEALTH DISTRIBUTIONS

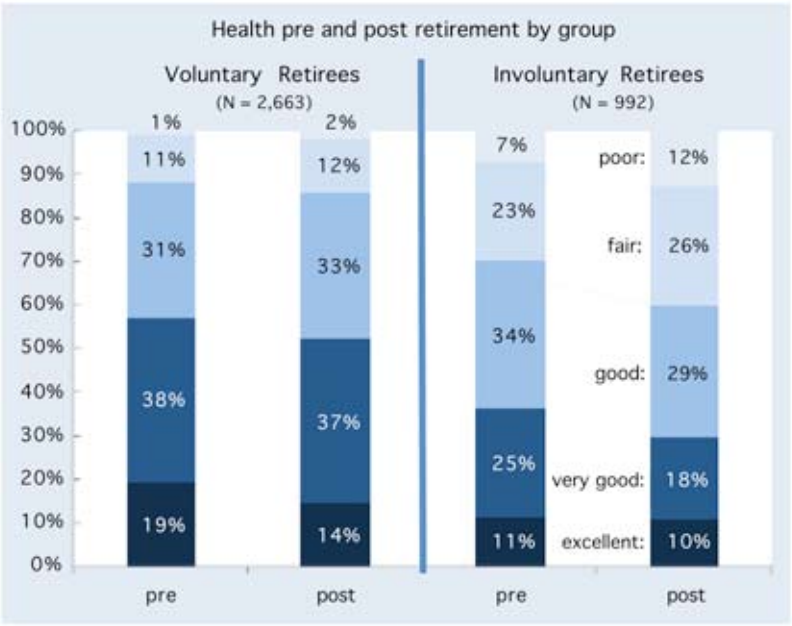


Figure 4 demonstrates that it is entirely possible to reach one's goals for retirement even if in relatively poor health, and it is possible to retire involuntarily in relatively good health. This mutes the precision of any individual effort to assess the value of precaution. Further aggravating assessment, micro-data analysis bears out the general picture one gets from Figure 4 - involuntary retirees experience larger negative changes in health at and following retirement. Thus relying only on self assessment of health at any point in time is not ideal. One should consider their full family health history as they assess possible risks.

In addition to health another reasonable line of questions regarding vulnerability centers on exposure to economic dislocation. Whenever one assesses their industry, profession or place of work as being more or less vulnerable to economic shock, one should carry this forward to their risk of involuntary retirement – in line with evidence presented regarding causes in Table 2. However even in stable professions with little or no evidence of dislocation, the prospect of economic dislocation remains. Indeed, even traditionally stable career earnings paths in academic settings have experienced disruptions lately with pay furlough programs implemented across several university campuses this past fall. This may be seen as evidence that history does not provide a full perspective on risk. Since the beginning of the latest economic downturn there has been a general increase in appreciation for the idea that humans may systematically under-provide for unlikely events that nonetheless have significant negative consequence when they occur (commonly known as low-probability, high-impact events.) Accordingly one's risk assessment should be informed by historical evidence but one may want to increase prudence in line with one's own preferences.

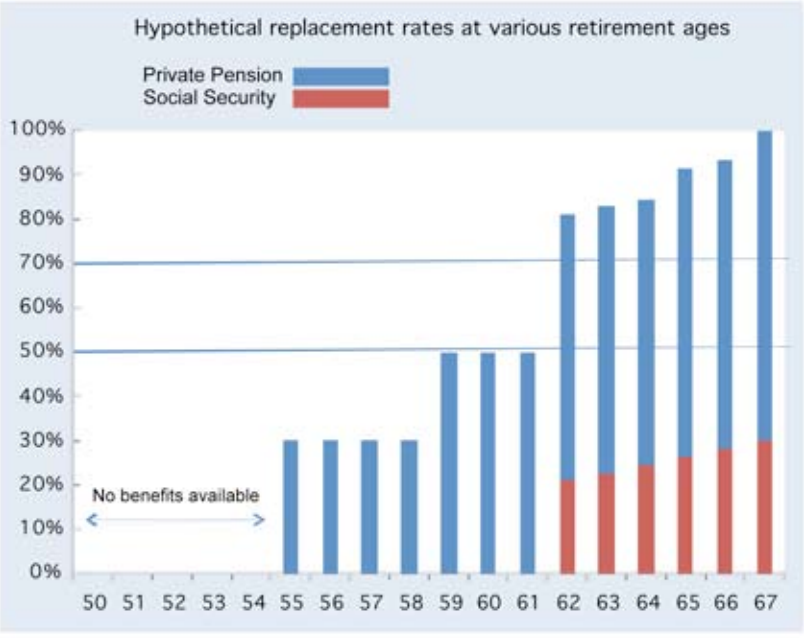
A final point to consider is the connection between labor and financial market risks in our economy. An economic dislocation is particularly severe whenever it impacts both wealth and income. The general principal of portfolio diversification suggests that holding a significant share of one's retirement savings as equity in a firm they work for is inadvisable in the majority of circumstances. Expanding on this point, a broader correlation between equity and labor markets exist—macroeconomic dislocations tend to feed through to both asset values and employment opportunities, with equity markets leading labor markets most of the time. Indeed over the period of 1979 – 2004 equity and labor market conditions were such that periods of temporary unemployment (six or fewer months) are estimated to have reduced equity savings in employer sponsored retirement savings programs from between 2 and 12 percent for low income workers, and between 1 and 9 percent for high income workers over the bulk of the distribution—which is to say between the 10th and 90th percentiles (Seligman and Wenger, 2006). More and less extreme results are possible though less probable. In any case the impact on savings from temporary unemployment tends to be a more manageable problem than involuntary retirement, and yet the impacts are illustrative of the compounded disappointments that can emerge as a result of economic shocks.

INVOLUNTARY RETIREMENT— INSURANCE AND FINANCIAL MARKETS IN CONTEXT

Following an assessment of various risks one should once more consider their strategy for retirement savings. Here one is moving from risk assessment and into contingent resource assessments.

Primary in any assessment is the gathering of estimates of one's claims to fixed income. Usually this amounts to a review of the Social Security Administration's estimate of monthly income in retirement, and a similar review of any expected monthly payments from employer based pension systems. While one may quite reasonably anticipate a retirement age that is greater than the minimum age for benefit receipt, it is important to spend some time focused on the amount and adequacy of benefits available at the earliest eligibility age when focusing on protections for involuntary retirement. For Social Security this occurs at age 62 for most workers. Private pension programs vary but there are often vesting requirements and/or a minimum age requirement. Thus for some pensions benefits may be available after 20, or 30 years of employment regardless of age, while for others service and minimum age eligibility requirements will both be important. After estimating the entire pension benefits one is eligible for at various ages, it is possible to track the amount of wages that would be replaced in the event of involuntary retirement at any age. Figure 5 provides a hypothetical example where retirement resources provide zero income ahead of eligibility for any program and then increased replacement rates that depend on age at retirement.

FIGURE 5. PRIVATE PENSION AND SOCIAL SECURITY REPLACEMENT RATES – AN EXAMPLE



Calculations such as those underlying Figure 5 can help one to appreciate their income replacement risk exposure resulting from a premature retirement. In this example Social Security replaces 30 percent of wages at the full retirement age of 67, and a private pension replaces between 30 and 70 percent of wages depending on the age of retirement. The horizontal lines running across the 50 and 70 percent replacement rates are meant to provoke consideration of what sorts of income replacement needs one might have in retirement. It is likely that replacement rates of 70 percent and above are adequate for retirement, as consumption and tax burdens typically decline in retirement, as does the need to save for retirement, but some expenses may not decline in the face of an involuntary retirement and primary among these are expenses related to healthcare—especially ahead of age 65. Assessing access to health insurance coverage in the event of an involuntary retirement is the next natural exercise.

When assessing access to health care following involuntary retirement it is important to get a sense of the impact of health-driven and economic dislocations separately, since often they affect coverage in different ways. In particular economic dislocations can disrupt employer based coverage, or increase the costs of staying in the employer's health-risk pool dramatically. In the most recent economic downturn, COBRA provisions that allow individuals to continue receiving employment based coverage (albeit while paying both employer and employee portions of premiums) were expanded from the typical 18 months to ten years. Though this policy change is beneficial for those who would otherwise purchase an independent health insurance contract, involuntary retirement induced by economic dislocation nonetheless increases the experienced cost of coverage just as wage income declines. Indeed the impact on a family's health related expenditures can easily exceed $500 a month or $60,000 over a ten year period. Foregone accruals only further denigrate retirement savings. Should the ten-year scenario seem distant for most workers, it is important to emphasize that this is analogous to preserving coverage from an involuntary retirement at age 55 to Medicare eligibility age of 65. Of course the provision is of even more limited usefulness should involuntary retirement occur at earlier ages. Married persons in two worker households should review health insurance policies available through either worker to get a sense of potential impacts should one or the other worker be forced to prematurely retire.

By comparison, in the case of a documented disability health insurance expense related exposure is often limited to the two year window between Social Security Disability determination and accelerated Medicare receipt (for recipients younger than age 63 at initial determination). But while health insurance related expenses may be lower in this scenario, non-covered "out of pocket" expenses may be much higher in the face of an involuntary retirement related to health. Self and family health assessments are helpful in estimating these costs. Impacts of health related workforce exit can be substantially reduced when workers carry private disability insurance coverage. Thus one should engage in a review of one's short- and long-term disability coverage.

Unfortunately, disability insurance is not available for many workers through employment based coverage. There is a relative lack of access to private insurance though employers in the US. In fact while 62 percent of civilian employees have access to life insurance benefits, a much lower portion, 37 percent have access to short-term disability coverage. Remarkably only about a third (33 percent) have access to long-term disability employer benefits (Solis and Hall, 2009). Should one seek coverage and not find that it is not offered by their employer it is possible to purchase coverage on an individual basis. In any case one should review any policy in terms of conditions of determination and both health care and income assistance benefits in the event of a determination of disability.

No one wishes to be disabled, and yet the disabled can be advantaged in terms of insurance. It is remarkably difficult to insure for non-disability related involuntary workforce exit. This is because determinations in this area are fundamentally perceived as subjective. The problem arises because one may be tempted to claim to be involuntarily retired in response to incentives contained within any hypothetical policy–a situation characterized by "moral hazard" risk. Nonetheless one can work to protect themselves from economic dislocations through the financial planning process. The next section of this brief addresses the process steps one may wish to consider to improve their retirement security in the face of either type of involuntary retirement event.

PRECAUTION IN THE FACE OF ASSESSED EXPOSURE TO RISK—WHAT SHOULD BE DONE?

Following the completion of assessments of resources, needs and possible risks , one should have a good sense of their financial exposure in the wake of an involuntary retirement. The objective of planning is now more straightforward—it is to take precaution against this exposure. Most intuitively one may consider an increase in savings. Increasing retirement savings as a proportion of current income is one way to compensate for any possible reduction in the number of years of work.

A review of one's portfolio allocations is another related place to invest some time. Often changes in savings and allocation decisions are most natural to make in tandem. For example an increase in savings and a reduction in exposure to risk can keep expected retirement income equivalent while increasing the certainty of this outcome. Many are sensitive to risk at current, and yet it is reasonable to consider the current recession as a temporary phenomena. Figure 6 below illustrates the impact of involuntary retirement on any equities portion of an individual retirement savings portfolio over the period from 1890 – 2004.

FIGURE 6. INVOLUNTARY RETIREMENT IMPACTS ON EQUITIES SAVINGS PORTFOLIOS: 1890 – 2004.

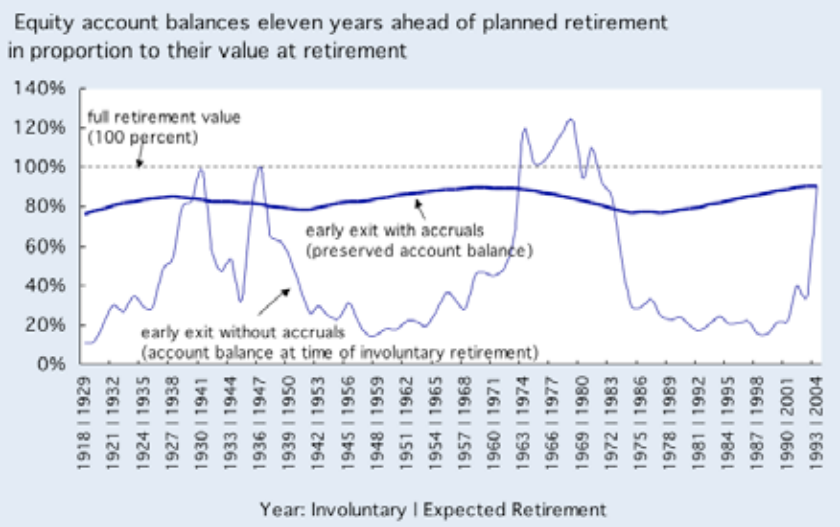


Figure 6 is based on investments in the S&P 500 over a 40 year career that is curtailed eleven years ahead of planned retirement (Seligman, 2005). For example, a worker planning on retiring at age 67 who moves into involuntary retirement at age 56. Starting from the left of the figure a first cohort of workers enters the workforce in 1890 planning to retire in 1929. Instead involuntary retirement occurs in 1918. The jagged series (early exit without accruals) shows that for this first cohort account balances in 1918 represent less than 20 percent of their peak value in 1929. If savings were left intact, even without contributions the account value grows to be nearer to 80 percent of its retirement value by planned retirement date (the smoother thicker line). Savings remain available and balances are larger than otherwise, due to compounding. Across Figure 6 one sees that in some cases the jagged series is closer to or even surpasses the retirement value of assets (the dotted straight line at 100 percent). In any case drawing down these balances early may increase hardship in later years of life. The challenge here is to maintain consumption while minimizing the drawdown of retirement savings ahead of planned retirement. This is where, following the assessments of pension and other insurance coverage, an increase in precautionary savings may be of value.

It is easy to suggest people save more but saving involves sacrifice. Because increases in savings reduce current consumption, itself a potential hardship, one might consider phasing in these changes over a period of time to mitigate any current shock to well-being. Additionally it is important to remember that reducing the level of current consumption reduces the need to save to maintain that level. Increases in saving by and large should not result in future consumption levels which are expected to be higher than current. This again suggests a thoughtful and gradual approach.

Figure 6 also draws attention to the volatility of the equities market. Asset market volatility is a topic that has been addressed recently by Brown (2008) and Yakoboski (2009) either directly or indirectly though consideration of risk of outliving one's assets. Both authors discuss the role of annuities for retirement security. When considering annuities and involuntary retirement one should explicitly consider the idea introduced earlier: that macroeconomic dislocations tend to feed through to both asset values and employment opportunities, with equity markets leading labor markets most of the time. Additionally one should take a moment to consider public policies for alleviating hardship in the wake of these dislocations. Government tends to take action on one or more of three fronts: to ease credit--lowering interest rates; to expand the money supply; and/or to increase public spending. Any of these has implications for annuity and fixed income purchases. To the extent that government lowers nominal interest rates its policies directly increase the cost of purchasing a fixed stream of payments via an annuity. To the extent that government embarks on any of the other two policies there is a risk of increased inflationary pressure within the economy which may reduce the value of any nominal stream of payments.

In the wake of an economically motivated involuntary retirement it is possible to observe the value of savings decline precipitously and for the annuity or fixed income purchasing power of each dollar of these savings to further decline, both at time of purchase, and perhaps as well though reduced purchasing power of the stream of payments over time.

Though the normal advice one reads in this situation is to hold, and not sell, assets and to forestall retirement these options are less available in the wake of a late career involuntary exit. What can one do?

One might consider incremental fixed income and deferred annuity purchases to manage interest rate risks over the lifecycle, and consider inflation protected instruments--especially when purchasing longer duration bonds or annuities in late career. This is perhaps a particularly good idea when one's own version of the calculations underlying Figure 5 documents little or no access to pensions ahead of age 62. As with the initial discussion surrounding this figure the goal is to manage exposure to income gaps manifest though assessed involuntary retirement risks. Once individuals are comfortable they have provided for premature retirement risks as best they can, precautionary savings goals are much more tractable. Any additional savings can more safely be moved into higher risk-and-return type investments, if desired.

Those who value the expertise of a portfolio manager and the simplicity of the lifecycle fund approach to defined contribution investments may also consider a bifocal approach to lifecycle fund purchases, holding some assets in a fund tied to earlier retirement dates, and some in funds tied to their planned retirement date. The earlier retirement dated funds should reduce exposure to equity markets and move into more stable investments ahead of the later; reducing portfolio risks more rapidly ahead of planned retirement.

If one does find themselves interested in the purchase of an annuity when nominal interest rates are low, and especially if the value of a portfolio by which these were planned to be purchased has declined, one might give greater consideration to a variable annuity--future payments in this type of annuity tend to improve as financial markets rebound.

Finally for dual career households the portfolio and retirement planning of an additional worker should be reconsidered in the wake of any involuntary retirement be it for reasons associated with health or economic dislocation.

No one strategy is right for all. While the risks and impacts of involuntary retirement can cause profound hardship, experiences can differ greatly based on the path to and timing of this unfortunate event. Even those who experience the same underlying risk may feel more or less comfortable in their circumstance and thus prefer different savings and portfolio strategies.

Whether one prefers more or less active portfolio management, and independent of current portfolio composition a discussion with a financial planner is valuable in assessing ones preferences and in assessing one's exposure to retirement security risks. Ideally, these services can be bundled with an employment-based retirement plan. For example,

TIAA-CREF participants have access to financial planners as part of their retirement savings plans. Employers can provide additional help to workers interested in purchasing life and disability insurance policies.

Engaging plan managers, employers, and family members to gain a better understanding of family health history is a good idea in any circumstance. Coordinating savings and insurance choices with a spouse is also advisable. All are steps informing and protecting one's retirement security—an important planning exercise in late career.

A ROLE FOR PUBLIC POLICY

Thus far this brief has focused on individual opportunities to manage risk. But as pointed out throughout this brief, individuals are limited in their ability to protect themselves from the full assortment of risks related to involuntary retirement. In such circumstance there are numerous opportunities for public policy to improve societal welfare. Inherently public policy should act to facilitate a more robust market for risk transfer. There are five basic avenues for change here that should be considered:

1. The Demand Side

Regarding the demand side of this market, public policy has an opportunity to educate citizens about both involuntary retirement related risk and current public disability and related health insurance offerings. A better understanding of the limits to each of these programs will improve individuals' capacity for planning. Further it is time to educate citizens on the proper engagement of financial planning professionals. Many individuals who would benefit from working with a professional fail to do. They may not know how to evaluate service providers' long run capacity to help them, or how to evaluate medium-run diligence–a classic principal-agent dilemma. Goals here should facilitate more meaningful relations with financial planning professionals.

2. The Supply Side

Regarding the supply side of this market, policy makers have an opportunity to work with employers and insurers to facilitate a more robust private disability insurance market. The standardization and harmonization of offerings to both defined contribution type retirement savings programs and existing public health, retirement and disability programs would help further assure buyers that any coverage they buy will protect them from the broad panoply of risks. In fact long term private disability policies are already sometimes designed to continue contributions to employer sponsored retirement savings plans and many are already designed to work in tandem with the public disability and health insurance programs. But even here more can be done to standardize joint application procedures. Those who become disabled should make a good faith effort to apply for public benefits at the behest of their private insurers or of their own accord. Public policy can do more to facilitate this goal, and to standardize private insurers' requirements regarding appeals of declined claims on the public system. As regards financial planners, more can be done to encourage the formation of robust standards and practices within the industry.

3. Behavior and Habits

This third point is fundamentally an extension of the first. A substantial and growing body of research shows that people do not always act in their own best interests, even when properly informed. Short of paternalism, public policy can dramatically alter the impact of inertia on outcomes. The Pension Protection Act of 2006 encouraged employers to move from requiring sign-up to defaulting employees into retirement programs and something similar should be considered in this realm as well. Persons might still have the opportunity to opt out of employer sponsored disability insurance offerings without this any longer being the default.

4. Regarding Health Insurance Coverage

While large changes are currently afoot in the realm of health insurance, health insurance pools are likely to still by-and-large be tied to employment for the foreseeable future here in the U.S. Absent universal coverage, policy makers should work to develop a way for individuals who become involuntarily retired to manage both access and cost issues related to health insurance, either through the private system or outside of it.

5. Lead from Experience, Evidence Excellence

Finally, it is widely appreciated that policy makers must work to improve the financial soundness of the public system. The nation's public health, disability and retirement systems all face insolvency within 10-30 years due to persistent underfunding and nothing above directly addresses this fundamental problem. Absent fiscally sound policies in this area, government's opportunity for leadership and partnership are sorely curtailed–after all council is only as credible as its source. As government works to shore up the finances of its current system--likely though a combination of mandated increases to payroll withholding and benefit cuts, policy makers must prioritize the fundamental risks inherent in aging: infirmary and the decline of market relevant skills. It is based on these fundamental risks that the concepts of retirement and disability are historically linked. Indeed they still are for the majority of the involuntarily retired; as such this should be acknowledged and addressed as part of any public program reforms.

Government almost always holds the burden of residual risk, as the insurer of last resort. These five actions should reduce that burden and free resources with which to deal with it. They also contribute to an environment in which all have a better opportunity to enjoy income security across the life cycle.

REFERENCES

Brown, Jeffrey R. "A Paycheck for life: The Role of Annuities in your Retirement Portfolio" *Trends and* Issues, TIAA-CREF Institute, June 2008.

Lachance, Marie Eve and Jason S. Seligman, "Involuntary Retirement: Prevalence, Causes and Impacts." current working paper available from the author upon request.

Seligman, Jason S. "Health, Wealth and Workforce Exit: Disability Insurance and Individual Accounts," Working Paper 05-116, W.E. Upjohn Institute for Employment Research, 2005.

Seligman, Jason S. and Jeffrey Wenger "Asynchronous Risk: Unemployment, Equity Markets, and Retirement Savings," *Journal of Pension Economics and Finance* –5 (3): 237–255, November, 2006.

Solis, Hilda L., and Keith Hall, "National Compensation Survey: Employee Benefits in the United States, March 2009" *Bureau of Labor Statistics Bulletin, 2731,* US Department of Labor, 2009.

Yakoboski, Paul J. "Converting Assets to Income in Retirement: What Near-Retirees are Thinking" *Trends and Issues*, TIAA-CREF Institute, October 2009.

ABOUT THE AUTHOR

Jason S. Seligman is a professor at the John Glenn School of Public Affairs, at The Ohio State University and a TIAA-CREF Institute Fellow.