



Promoting research on retirement and Social Security policy

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Director’s corner

John Laitner



The Retirement Research Consortium Annual Meeting, August 2-3, 2018, at the National Press Club in Washington, featured opening remarks by Natalie Lu, Acting Associate Commissioner Social Security Administration Office of

Research, Evaluation, and Statistics; lunchtime speakers both days; and, presentations by 21 scholars (including two Sandell research fellows) on a selection of research projects funded by SSA through research centers at Boston College, the University of Michigan, and the National Bureau of Economic Research. Each 15-minute research presentation was followed by 10 minutes from a discussant tasked with reviewing the findings from the perspective of the Washington policymaking community.

The lunchtime speaker on Thursday was Brigitte Madrian, a public policy and corporate management professor at Harvard’s Kennedy School. Her talk summarized recent contributions from behavioral economics. Behavioral economics stresses practical shortfalls in household decision making from human biases, difficulties in

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Elder fraud, cognitive decline close out the annual RRC meeting

“It’s good to see those of you who have stayed to the bitter end,” said Olivia S. Mitchell (Wharton), the second to last presenter at the 2018 Retirement Research Consortium Meeting. “And I guess with a topic around fraud, the bitter end is what we’re talking about.”

The last panel of this year’s meeting looked at declining cognition, financial fraud among the elderly, and using Medicare records to identify seniors who might need financial management assistance. These interrelated topics are becoming increasingly important in the age of declining defined benefit pensions and increasing reliance on defined contribution plans. In past decades, when pensions were annuitized, elder fraud might have meant the loss of a monthly check. Now, it can mean the theft of a 401(k) account — a retiree’s entire nest egg.

Understanding the interactions between dementia and elder fraud and its frequency has important implications for personal retirement security, as well as public policy arenas such as consumer protection, financial industry regulation, and SSA’s representative payee program. These three studies, all funded by the

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Lauren Hersch Nicholas

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MRRC, are among the first to look seriously at these questions.

Adverse Financial Events Before and After Dementia Diagnoses (UM18-02)

“One of the earliest warning signs of cognitive impairment is impaired financial capacity...managing money and paying bills, remembering to do things in a timely fashion, as well as making more erratic and uncharacteristically risky financial decisions,” said Lauren Hersch Nicholas (Johns Hopkins University), detailing her cutting-edge project with Joanne Hsu

(Federal Reserve Board). Poor financial decisions might leave retirees vulnerable to credit shocks, home foreclosure, and fraud.

The researchers’ idea is to see whether there are early financial indicators of cognitive decline, such as large fluctuations in balances, past due notices, and falling credit scores, that might indicate early onset dementia. To look at this, Nicholas and Hsu are bringing together Medicare data, specifically diagnostic codes related to dementia diagnoses, with credit information, and probabilistically matching on age and geography.

The researchers have just begun to combine credit report and Medicare data so detailed results are pending. In the aggregate, however, data indicate that account balances, number of credit cards, and adverse events decline with age, possibly because of family intervention.

“Thinking about implications for retirement security, these credit data may present a possible source of information about beneficiaries’ needs for [assistance] managing money,” Nicholas said. If questionable financial transactions are apparent in the data used by financial institutions, it may be possible for them to facilitate asset protection and allow families to get involved early enough to prevent fraudulent events. Nicholas mentioned the recently enacted [“Senior Safe Act”](#) as an example of such a policy.

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dealing with complexity, and impulses toward procrastination. The work of Madrian and others shows the great importance of pension plan defaults as well as other program design attributes.

The lunch speaker on Friday was Katherine Abraham, an economics and survey methodology professor at the University of Maryland. Her talk examined the recent literature on declines in the employment-to-population ratio for the U.S. in the 21st century. The discussion included increasing imports from China, robots, disability insurance,

minimum wage laws, and incarceration.

Both behavioral economics and labor-force participation shifts have been prominent themes at recent RRC meetings, and this year’s speakers provided timely updates.

This was the 20th RRC Annual Meeting and the last in its present form. Beginning next year, the series will be modified to include a combination of retirement and disability papers, emphasizing the interactions and overlaps of these important topics. The RRC will evolve into the Retirement and Disability Research Consortium. Broadening the scope of the research should raise the value and interest of these meetings even further. ❖

Financial Fraud Among Older Americans: Evidence and Implications ([MRRC WP 2017-374](#))

According to a 2013 FINRA study, the ersatz princes of the world are quite enterprising: More than 80 percent of adults of all ages report having been solicited for potentially fraudulent offers. To assess the



Olivia S. Mitchell

prevalence of and vulnerability to elder fraud, Mitchell and co-researchers Annamaria Lusardi (George Washington School of Business), Martha Deevy, and Marguerite DeLiema (both Stanford Center on Longevity) developed and fielded a module for the 2016 Health and Retirement Study (HRS). A random selection of 1,268 HRS respondents took part in the module. The questions asked were carefully framed to avoid shaming people into nondisclosure, and covered specific types of investment, prize/lottery, and account misuse fraud within the past five years.

Although any one type of fraud is rare, “If you add it all up, over a third of the population 50-plus had either been the subjects of successful or attempted fraud in the past five years. This is a pretty healthy number, and it suggests that it’s definitely worth looking at more deeply,” Mitchell said.

The researchers also looked at whether various factors (age, gender, ethnicity, marital status, etc.), as well as financial literacy and self-confidence, might be correlated to fraud victimization. Their analysis showed that, overall, having nonhousing wealth made it more likely that respondents experienced any successful or attempted fraud and/or account misuse. Financial literacy, age, and health had little to no effect. Greater levels of depression are associated with “free meal” investments and prize/lottery fraud.

“There are few very systematic, clear-cut, salient,

observables correlated with being vulnerable to financial scams,” Mitchell said. “It’s, at the moment, not totally clear that financial literacy would be super protective.”

Mitchell suggested further research would benefit from account linking and developing more discerning questions about fraud and victimization. “We need to test the efficacy of consumer education campaigns,” she said.

How Well Can Medicare Records Identify Seniors with Cognitive Impairment Needing Assistance with Financial Management? (UM18-03)

David Weir (University of Michigan Health and Retirement Study) began his presentation of his research with Kenneth Langa (University of Michigan) with an explanation of the difficulties inherent in research surrounding cognitive decline and the import of persevering despite the challenges. The definitions of dementia vary, as do the prevalence estimates, but approximately 5 million Americans 65 and older have severe cognitive impairment. Because of population aging, that number is likely to triple in the next 30 years unless there is significant medical progress.

Because it has direct measures of impairment and resulting functional limitations, the HRS can help pin down the scope of cognitive impairment at older ages. HRS also has linked Medicare records for approximately 90 percent of its respondents 70 and older. The researchers thought that the established data exchange (for eligibility and premium payments, for example) between SSA and CMS might allow them to evaluate whether Medicare records offered impairment indicators, and whether cognitive impairment corresponds with the need for financial management assistance.

Medicare Part A and B claims provide diagnostic codes, however, one of the challenges of Medicare data is that Part C (Medicare Advantage/HMO

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Slides and summaries available for MRRC research projects presented at annual meeting

The Retirement Research Consortium celebrated its 20th annual meeting with two days of presentations on defined contribution pensions, benefit claim timing, labor supply, cognitive decline/fraud (see related story), and more. Held at the National Press Club in Washington, D.C., the event offers academics, policymakers, government officials, and financial planners the opportunity to learn about recent research on retirement security and ask questions of experts.

MRRC researchers who presented at this year's meeting are listed below with names in bold. Links to the presenters' and discussants' summaries and/or slides are provided if available.

- ▶ “Social Security Household Benefits: Measuring Program Knowledge,” **Katherine G. Carman** and Angela A. Hung, RAND; [Carman's slides](#); [Carman's summary](#). **Discussant:** Andrew Biggs, American Enterprise Institute.
- ▶ “Using Consequence Messaging to Improve Understanding of Social Security,” Anya Samek and **Arie Kapteyn**, Center for Economic and Social Research, University of Southern California; [Kapteyn's slides](#); [Kapteyn's summary](#). **Discussant:** Laith Alattar, Social Security Administration.
- ▶ “Addressing Social Security's Solvency While Sustaining High Labor Force Participation,” **John Laitner**, University of Michigan; [Laitner's slides](#); [Laitner's summary](#). **Discussant:** Stephen C. Goss, Social Security Administration; [Goss' slides](#).
- ▶ “Adverse Financial Events Before and After Dementia Diagnoses,” **Lauren Hersch Nicholas**, Johns Hopkins University, and Joanne Hsu, Federal Reserve Board **Discussant:** Richard W. Johnson, Urban Institute.
- ▶ “Financial Fraud Among Older Americans,” Marguerite DeLiema and Martha Deevy, Stanford Center on Longevity; Annamaria Lusardi, George Washington University and NBER, and **Olivia S. Mitchell**, Wharton School of the University of Pennsylvania and NBER; [Mitchell's summary](#). **Discussant:** Geoffrey T. Sanzenbacher, Boston College.
- ▶ “How Well Can Medicare Records Identify Seniors with Cognitive Impairment Needing Assistance with Financial Management?” **David Weir** and Kenneth Langa, University of Michigan [Weir's slides](#); [Weir's summary](#). **Discussant:** Irena Dushi, Social Security Administration; [Dushi's slides](#).

The entire 2018 RRC program and summaries for the remaining presentations are available at [NBER's website](#). ❖

plans) is not required to provide them. Researchers usually drop beneficiaries who have spent significant time in a Part C plan for this reason. That translates to eliminating about 40 percent of Medicare patients. “You can’t run a policy by dropping 40 percent of Social Security beneficiaries from your coverage — you have to find some way to include them,” Weir said.

There are currently four drugs unique to dementia patients. Could looking at prescription drugs (Part D) help since most Part C plans report prescriptions to Centers for Medicare and Medicaid Services (CMS)? “The problem is that the drugs available for dementia, basically, are not effective, so a lot of people don’t see the point in taking them,” Weir explained. “Roughly only half of the people with dementia take them.”

In the end, the researchers found that, at the individual level, the CMS diagnosis number and the drug information did poor jobs of identifying people who needed financial management assistance, while a number of noncognitively impaired people were identified as needing help. Since nearly 70 percent of severely impaired people 65 and older have a child co-resident or within 10 miles according to HRS data, families are probably best at determining whether their elder members need help. Weir said, “We need to think broadly about policies that will support families in helping care for people, and provide some outlets for people who don’t have family support.”

As Mitchell pointed out in her presentation, financial reasoning declines at about 3 percent per year after age 60 (“Old Age and the Decline in Financial Literacy,” Finke et al. 2016). Along with the growth of lump-sum retirement benefits, this makes for a growing number of financially vulnerable retirees. The main takeaway from this session: Financial fraud can happen to anyone. Families would be well served by discussing and planning in advance how to keep loved ones safe. ❖

News from MRRC researchers

Journal publication

The MRRC working paper “Occupational Transitions at Older Ages: What Moves are People Making?” ([WP 2016-352](#); UM16-03) found a place in the academic journal *Work, Aging and Retirement*. The article, [“A Comparison of Subjective and Objective Job Demands and Fit With Personal Resources as Predictors of Retirement Timing in a National U.S. Sample.”](#) is in the publication’s January 2018 edition.

Conference presentations

Eric French took two MRRC projects on the conference road this year: UM15-11, “The Effect of the Affordable Care Act on the Labor Supply, Savings, and Social Security of Older Americans” ([MRRC WP 2016-354](#) with Hans-Martin von Gaudecker and John Bailey Jones), and UM14-05, “Couples’ and Singles’ Savings after Retirement,” ([MRRC WP 2015-322](#) with Mariacristina De Nardi and John Bailey Jones).

French presented UM15-11 as a plenary speaker at the *Second Conference on Structural Dynamic Models: Methodology and Applications of Structural Dynamic Models and Machine Learning* (Copenhagen, Denmark; May 31 & June 1) and at the *American Economics Association* (Philadelphia, PA; January 5-7).

UM14-05 was French’s focus at the *IFS-STICERD Public Economics Seminar* (London, England; February 28). He

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also presented the project at *III MadMac Annual Conference: Demographics and Macroeconomics* (Madrid, Spain; June 7 & 8), and as a key note address at *INPARR International Research Seminar: Consistency Amid Complexity: Navigating the Future of Pensions* (Paris, France; June 6). In 2017, the project was his keynote presentation at the *Annual Health Econometrics Workshop* (Baltimore, MD; September 27-29).

In the media

MRRC Director John Laitner's RRC presentation, "Addressing Social Security's Solvency While Sustaining High Labor Force Participation (UM18-10)," was covered by Kerry Pechter in an August 9th *Retirement Income Journal* article, "[The Science \(Not Sci-Fi\) of Social Security.](#)"

Olivia S. Mitchell's RRC meeting presentation on elder fraud ([MRRC WP 2017-374](#), UM17-16, see accompanying story) was mentioned on Minnesota Public Radio's nationally syndicated

show, *Marketplace*, on August 14. Reporter Chris Farrell talked to host David Brancaccio about the scenario Mitchell painted: "What she raised is, with the aging of the population and people ... more and more reliant on 401(k)s and 403(b)s, these retirement savings plans, and most people, they take them as a lump sum. But the con artists, the scamsters, the fraudsters, what if they can get at your whole 401(k)? She said this is a growing problem and this is one of the things we need to be focusing on, and I'm sitting there and I was chilled."

[Listen to the broadcast and read the unedited transcript here.](#)

CNBC featured Brooke Helppie-McFall and Amanda Sonnega's 2017 literature review, "Characteristics of Second-career Occupations: A Review and Synthesis" ([MRRC WP 2017-375](#)), in a July article titled "[How to Land a Great Job when You Are over 50.](#)" The writer, Julie Halpert, noted that "the Michigan Retirement Research Center found that between 40 percent and 50 percent of those over 50 change occupations after 50." ❖



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