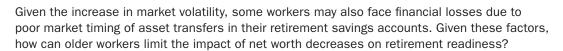
## Voices of Expertise and Experience: Insights to Inform COVID-19 Responses

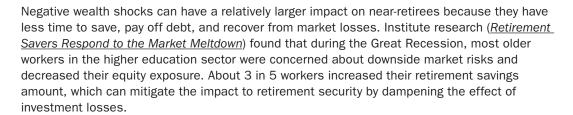




## Can near-retirees limit the impact of COVID-19 on their financial well-being?

Many households are experiencing negative wealth and income shocks due to the COVID-19 crisis. This financial stress can lead to increased short-term borrowing, or necessitate taking loans or withdrawals from retirement savings accounts.





In the current crisis, many households need cash liquidity to finance current consumption needs. Taking advantage of low interest rates and avoiding overleveraging debt can limit potential negative impacts to retirement readiness. Institute research (*Debt Close to Retirement and Its Implications for Retirement Well-being*) found that individuals with low financial literacy are more likely to engage in high-cost borrowing, such as using payday loans, pawn shops, or credit cards (see also an <u>earlier study</u> focused on older working women). Improving financial literacy can improve understanding of the pitfalls of easy but expensive debt, helping near-retirees access needed liquidity while minimizing the impact on retirement readiness.

Behavioral biases can also affect debt decision making. Individuals may be present-biased, favoring consumption today while excessively discounting future well-being,¹ or underestimate how debt burdens compound over time (exponential growth bias).² Forming and operating on a sound financial plan can reduce the impact of behavioral biases on older workers' financial well-being.



BRENT DAVIS
TIAA Institute

Understanding the pitfalls of expensive debt can lessen impacts to retirement readiness.

<sup>&</sup>lt;sup>1</sup> Meier, S., and Sprenger, C. (2010). Present-Biased Preferences and Credit Card Borrowing. American Economic Journal: Applied Economics, 2(1): 193–210.

<sup>&</sup>lt;sup>2</sup> Stango, V., and Zinman, J. (2009). Exponential Growth Bias and Household Finance. *Journal of Finance*, 64(6), 2807–2849.

## Can near-retirees limit the impact of COVID-19 on their financial well-being?

Working longer can help older workers maintain their retirement well-being. Earlier research found many older workers delayed their retirement during the Great Recession.<sup>3</sup> Working longer can also provide a boost to retirement well-being through the increase in annual guaranteed income generated by delaying Social Security claiming. Taken together, these strategies can help maintain near-retirees' retirement readiness and dampen the adverse effects of short-term negative wealth shocks.

**Read more:** 

Yakoboski, Paul (2009). <u>Retirement Savers Respond to the Market Meltdown: Avoiding the "Hail Mary" Pass in Higher Education</u>

Lusardi, Annamaria, Mitchell, Olivia S., & Oggero, Noemi (2019) <u>Debt Close to Retirement</u> and Its Implications for Retirement Well-being

Lusardi, Annamaria & Mitchell, Olivia S. (2017). <u>Older Women's Labor Market Attachment,</u> Retirement Planning, and Household Debt Working longer or delaying Social Security benefits can counteract net worth reductions.

## **About the TIAA Institute**

The TIAA Institute helps advance the ways individuals and institutions plan for financial security and organizational effectiveness. The Institute conducts in-depth research, provides access to a network of thought leaders, and enables those it serves to anticipate trends, plan future strategies, and maximize opportunities for success. To learn more, visit www.tiaainstitute.org.

Join the conversation online:





TIAA Institute is a division of Teachers Insurance and Annuity Association of America (TIAA), New York, NY.

©2020 Teachers Insurance and Annuity Association of America-College Retirement Equities Fund, 730 Third Avenue, New York, NY 10017

<sup>&</sup>lt;sup>3</sup> Goda, G., Shoven, J., and Slavov, S. (2011). What explains changes in retirement plans during the Great Recession? *American Economic Review*, 101(3), 29-34.