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Bruce Edwards:

But with people living longer and pension systems running short, it may be time for a more realistic slogan.

Olivia Mitchell:

Work longer, save more, and expect less, and I think that's unfortunately where we stand.

Bruce Edwards:

Planning for retirement has also become more complicated as people increasingly have to figure it out by themselves.

Olivia Mitchell:

It used to be there were institutions like your employer who would manage your retirement account for you, but since people can now go directly through their apps to borrow money or invest or what have you, it's becoming much easier to be bamboozled and even defrauded.

I'm Olivia Mitchell. I'm a professor of risk management and insurance, as well as economics and public policy at the Wharton School of the University of Pennsylvania.

Bruce Edwards:

Olivia Mitchell wrote the book on retirement. Well, books, actually, and has spent her career helping people make better financial decisions. She sat down with journalist Rhoda Metcalfe to talk about the challenges of today's economy for Americans planning their so-called golden years.

Rhoda Metcalfe:

For people heading into retirement today, what's their situation like compared to past generations?

Olivia Mitchell:

30, 40 years ago, at least in the US, my parents' generation, for example, faced a pretty positive economy. They had what they believed to be a very strong retiree medical program under Medicare, a very strong social security system, and many of them were fortunate to experience a big run-up in housing prices. So when they reached retirement, they were doing relatively well. Today's retirees are not necessarily in such great shape.

They face a longer lifespan. Many of them can work longer. There are a lot of silver linings, shall we say. On the other hand, we know that not only the US but many countries around the world are facing falling fertility and rising longevity. What that means is that we're going to be much more rapidly aging population. We know that social security, which is the first pillar, the first tier of retirement security in the US, is going to run short within 10 years by 2034, at which point benefits will have to be cut by 30% for everyone, or taxes, payroll taxes will have to go up by about 60%. But unfortunately, our politicians seem amazingly unable to fix that problem.

Rhoda Metcalfe:

You're saying the situation right now isn't too bad, but in 10 years, 10, 15 years from now, we're going to hit a real crunch?

Olivia Mitchell:

Well, that's absolutely right. The reality is that longevity comes with it this silver dividend. We get to live longer, many of us will live healthier, but families and society will have to care for a larger number of frail elderly. It's been opined that economic growth around the world will slow as older folks start to draw down their assets and there will be a global balance of power shift away from what has traditionally been thought of as the rich developed old economies and more toward the emerging world. And all these are really revolutionary changes that we've not experienced before.

Rhoda Metcalfe:

Playing into this as well, I guess, is the fact that the world of work, the way we work now, has really changed. I mean, how does that play into retirement?

Olivia Mitchell:

There have been a huge number of changes in the workplace, not just because of COVID and the advent of working from home. It used to be that the government took a much bigger role in your retirement system design. Employers would get much more involved in terms of offering defined benefit plans. That trend, not only in the US but around the world, has changed. As the workforce has changed and people move between one employer and another, the idea of having a pension where you have to remain for life with a given job or with a given company just doesn't meet the needs anymore.

Rhoda Metcalfe:

Right. So people are much more on their own when it comes to planning their retirement. I know that a big part of your research has been a study that you did that really looked at how well people are doing in retirement. Can you tell us about that?

Olivia Mitchell:

I have been working with a very eminent group of researchers doing a project that has become known as the Health and Retirement Study. We began in 1992. We started surveying people aged 50 and over, and then we followed them every two years until they pass away. With their permission, we've merged in Social Security earnings records, benefit records, also medical records, so it's this incredibly rich database that allows us to follow people as they move into their 50s and beyond. What we found was that a goodly number of older

individuals had never planned for retirement, had never saved for retirement, were not very well versed as to how long they might live, not only their life expectancy, but the longevity risk they faced, which has to do with the chances of living to 100 or 110 or 120 years old.

If you don't understand the tail risk of potentially living a very long time, then you're probably unlikely to save enough. You might be likely to retire too soon. And so, one of the things I've been working on lately is trying to inform people, to better educate them on that tail risk and then see if that induces them to start taking better precautions.

Rhoda Metcalfe:

I know that in that study you also found that people generally are not very financially literate. I mean, they don't understand their own personal finances very well, and women in particular are very vulnerable to becoming poor in retirement. Why is that?

Olivia Mitchell:

Well, we know around the world in most countries, unfortunately, that women earn less than men. They have breaks in their labor market careers for child raising or increasingly for taking care of elderly family members. They spend more time in unpaid and part-time work. As a result of all those factors, they accumulate less retirement wealth. They also tend to traditionally marry men older than they, and they tend to retire when their older husbands retire, on top of which they live about six years longer on average. So the chances are very good that women, even if they've been partnered along the way, will have to live maybe 15, 20 years alone, and they may not have prepared sufficiently to cover all those possibilities.

So the pension gaps are big, and women are not only less financially knowledgeable, but they're more likely to say, "I don't know." In other words, the men that we survey tend to give a wrong answer, but they're very confident about it, whereas the women understand they don't know and so potentially there's more room for teaching them more about their finances. But the shortfalls in social security and potentially Medicare will be very painful for women in particular.

Rhoda Metcalfe:

Also, I think I've read women sometimes leave the whole financial planning to their husbands, right? They're not even involved in that.

Olivia Mitchell:

Yes, I teach a course to my undergraduate students called Consumer Financial Decision Making, and I say to them right up front, "Don't give up all the purse strings because this is something you will regret later." We do observe, interestingly, that in married couples, the male typically takes charge of the family's finances. But since we follow people through to the end, we can see that women's financial literacy increases the closer it is to the husband's demise. So it's not that they can't learn or they won't learn, they have to learn, but in many cases it would be better if they started earlier.

Rhoda Metcalfe:

Because then they can choose to make perhaps different decisions earlier on.

Olivia Mitchell:

Absolutely. Right.

Rhoda Metcalfe:

I understand that your research actually has influenced the way the Social Security Department in the US lays out the options for people for taking their benefits. Is that true?

Olivia Mitchell:

I've done a lot of work on Social Security over my career. In fact, I was on the Bush Social Security Commission back in 2001. We've also done some work on trying to understand how people think about Social Security. The reality is if you claim at age 62 in the US, there's a benefit cut because you're going to be taking the money longer. If you wait until you're 70 to take your benefit, then your benefits increase by 75%.

Rhoda Metcalfe:

Wow.

Olivia Mitchell:

It's a huge bump up in benefits. But nonetheless, financial advisors tend to say things like, "Well, if you don't take the benefits at 62, you might die and then you might not break even in terms of the benefit to you of waiting." It turns out that presentation urges and encourages everybody to take the benefit early.

Rhoda Metcalfe:

Have you been able to break into that at all? I mean, and change that approach?

Olivia Mitchell:

A few years ago, the Social Security system, the administration, said they were going to move away from this break even approach, which I think is to the good because many people can and should work longer. There was a bit of a revolt amongst the field agents because the field agents, it turned out, were getting work points, in other words compensated, if an individual came in and claimed the benefits right away instead of delaying.

Rhoda Metcalfe:

I see.

Olivia Mitchell:

But I think it is getting through. Now, of course, we face the reality that with benefits having to be cut potentially 30%, my view is it's much better to if you have to have a cut, to have a cut from a higher base rather than from a lower base. So I think that message is getting through as well.

Rhoda Metcalfe:

It's interesting. The theme of women comes up a lot in your work. I'm interested to know what it was like for you back when you first started to study economics in the '70s as a woman at a time when women were a pretty small minority. I mean, what was it like?

Olivia Mitchell:

Well, out of full disclosure, I should reveal that both of my parents were trained as economists, so I was probably doomed from the start. But I remember when I was about five years old, we lived in Karachi, Pakistan, and I was struck by the construction techniques where people would pass a bowl of cement from one person to another up the side of the building, then they dumped the bowl of cement and take it down. I said to my dad, "Why are they doing that? Why don't they have tractors or heavy machinery?" and he said, "Labor is cheaper than capital." So from the very beginning, I was already focused on economics and markets.

Rhoda Metcalfe:

You were being trained up at a young age.

Olivia Mitchell:

Exactly. But I do remember when I started college, I was thinking about different majors, but really the only one I liked was economics. When I went to my very first conference, I came in a bit late and I was at the back of the room and it was a long, narrow, skinny room. The gentleman presenting was up front, and during the question and answer period, I had a question. I'm not the tallest of people so I stood up at the back of the room and raised my hand, and I had 99 male faces turn around and stare at me. I took a deep breath and then I proceeded asking my question, and that was just kind of a moment of realization that, "Oh yeah, that's the way it is. Okay, fine."

Now it's much better. It's more evenly divided. Of course, it still depends on subfields, but we also in the American Economic Association have an ombudsperson that's very helpful, especially for junior women that need advice and counseling sometimes around sexual harassment topics. So things are much better than they used to be.

Rhoda Metcalfe:

What brought you to the focus on pensions and retirement? Because I think you started in that direction fairly early in your career, right?

Olivia Mitchell:

Well, indeed. I finished my PhD and started teaching at the time at Cornell University, and my department chair told me I had to teach a course on pensions. I was 25 years old. I couldn't tell a pension from a panda. So I started reading the textbook, which was an arcane, actuarial tome about mortality predictions and so on, and I was falling asleep reading it, and I thought, "Gee, I think there's some more interesting questions here." So bit by bit, I began doing research on the topic and the rest is history.

Rhoda Metcalfe:

But I had read that your mother had some influence on your direction as well. Is that not so?

Olivia Mitchell:

That's absolutely right. When I finished my PhD dissertation, that was primarily an econometric study. I looked around for a new topic and ask all my colleagues, and my mother, who was also trained in economics said "Aging. That's the new field", and by golly, she was right. Absolutely right. It's because everything about

pensions and aging and financial economics, it's a microcosm of everything. So there's finance and there's behavioral and there's psychology, and there's obviously tax policy and so forth.

Rhoda Metcalfe:

It's a very rich-

Olivia Mitchell:

It's a rich field, and I would highly encourage others to look into it if they're looking around for a topic.

Rhoda Metcalfe:

Do you think that it's a lot easier for women in economics now in terms of that whole work-life balance? Because I know that when you first started, you very quickly found yourself in that situation of having children and also having the career to deal with. Was it difficult at that time?

Olivia Mitchell:

I was the only woman in my department, and I was the only woman that had ever given birth, and there was no policy manual. So after that, I had to help write the policy manual, of course, what maternity leave looks like and so on. Fortunately at Cornell, they had a child care center, which of course I had to then become the president of and raise a million dollars to build a building and so on. But I do think it's easier. I think now there are policies which both moms and dads can take advantage of to be able to plan their teaching and their research and take a year off and so on. It's still not easy, and kids still get sick all the time, which was a big shock to me. But all in all, I think that there are more institutional supports than there were 20, 30 years ago.

Rhoda Metcalfe:

On this issue of financial literacy, which I know has been a big focus in your work, are we seeing more options for people to become more financially literate? Is this improving, do you think, in our society?

Olivia Mitchell:

Increasingly now in the US, 21 states now mandate financial literacy in high school, and you can show that the young adults that grow up exposed to that financial literacy are much better later at planning ahead, budgeting, saving for retirement, and so forth, so it can have a lifelong impact. Right now, the topic of great interest, at least here in the US, is student loans. Kids get into these loans and their parents as well without knowing what they're doing, and something like 6% of elderly folks are having their Social Security checks cut in order to pay back the student loans that they took out for themselves or their children or grandchildren.

Rhoda Metcalfe:

Wow. The thing is it's quite predatory. I mean, there's so many companies that are trying to draw you into the prospect of taking more credit, and if you don't have the defenses of understanding the finances, you're so much more vulnerable to being drawn into that.

Olivia Mitchell:

I worry about it quite a bit, especially for the younger generation now that is increasingly focused on apps on their phones. It's so easy to get involved in investments and cryptocurrency and all kinds of things that people

are hugely under-informed on, and can end up losing a lot of money. It used to be there were individuals or institutions like your employer who would manage your retirement account for you or your broker who would help you invest in the stock market, but since people can now go directly through their apps to borrow money or invest or what have you, it's becoming much easier to be bamboozled and even defrauded. This is something that we worry a lot about with the older population where fraud is mounting.

Rhoda Metcalfe:

So what steps do you think people should take to make sure they don't run out of money in their retirement and are sort of anxiety-free for the possibly many decades of their retirement?

Olivia Mitchell:

Well, I like to quote a woman, Lady Barbara Judge, who is a Penn alum who was running the British pension insurance system, and she had a mantra, which I've adopted as my own. It's work longer, save more and expect less. I think that's unfortunately where we stand. If you are healthy enough to keep working, I'd say keep working as long as you can. Try to find maybe a part-time job. One of the most dangerous situations with the elderly is loneliness and so it doesn't even necessarily have to be a financially highly compensated job, but just one where you're doing something worthwhile.

Rhoda Metcalfe:

You stay engaged.

Olivia Mitchell:

You stay engaged, and you have something to contribute.

Rhoda Metcalfe:

Will you be taking your own advice when it comes to retirement? Are you planning to hold off as long as possible?

Olivia Mitchell:

Yes. I don't know how long that will be. My husband retired 10 years ago to become an ultra marathon runner.

Rhoda Metcalfe:

Oh my God.

Olivia Mitchell:

He runs 300 miles, 200 miles all around the world. And I figure as long as he's running, I'm working.

Rhoda Metcalfe:

That's amazing. To become a marathon runner-

Olivia Mitchell:



In his 60s.

Rhoda Metcalfe:

In his 60s? That's crazy. Does he ever try and get you out running?

Olivia Mitchell:

I did before I had kids. We tend to do things like scuba dive instead.

Rhoda Metcalfe:

Yeah, it's lower impact.

Olivia Mitchell:

Definitely.

Rhoda Metcalfe:

Well, Olivia Mitchell, what a fascinating interview we've had today, and I thank you for taking the time to speak with us on the program.

Olivia Mitchell:

My pleasure. Absolutely.

Bruce Edwards:

Olivia Mitchell is a professor of economics and public policy at the Wharton School of the University of Pennsylvania. She was speaking with Rhoda Metcalfe.

Mitchell is also the author of several books on the topic, including *Reimagining Pensions: The Next 40 Years*. Check it out wherever you get your books.

And look for the other podcasts in our Women in Economic series wherever you get your podcasts. You can also follow us on X, what used to Be Twitter, at [IMF_podcast](#).

I'm Bruce Edwards.

Rhoda Metcalfe:

And I'm Rhoda Metcalfe. Thanks for listening.