

Seven in ten take early pension payout

May 12 2015



A study co-authored by Zoran Ivkovich, Michigan State University finance professor, looked at people's propensity to take early pension payouts. Credit: Michigan State University

As governments and corporations around the world face pension shortfalls, a groundbreaking study in Croatia by a team of U.S. researchers explores the likelihood and circumstances under which people will accept partial payouts.

Zoran Ivkovich, co-author and Michigan State University finance professor, said 71 percent of Croatian retirees chose smaller, earlier [pension](#)-shortfall payments when given the option. Retirees were more likely to make this choice when they were poor, distrusted the [government](#) or were concerned with currency devaluation.

The study, which appears online in the *Journal of Financial Economics*, is the first real world, nationally representative investigation into such an important financial tradeoff - that is, how much money pensioners are willing to forego for a more immediate payout.

The findings are relevant to other countries, states and corporations facing deficits in old-age retirement programs, including the United States where state-level public pensions are underfunded by an estimated \$3.2 trillion and companies such as General Motors have offered pension buyouts.

"The implications of the study are huge for federal, state and corporate pension plans, both domestically and internationally," said Ivkovich, a faculty member in MSU's Broad College of Business. "Given the low levels of confidence in the Social Security system routinely voiced by the general public, for example, it appears that a nontrivial fraction of the U.S. population might consider accepting a partial payout."

Ivkovich said it's important to note that he and fellow authors Jeffrey Brown and Scott Weisbenner, both from the University of Illinois, are

not advocating a solution to the problem. Instead, the study offers crucial insight into individuals' preferences and reasoning when early payouts may be offered.

Croatia's pension shortfall occurred in the 1990s when the cash-strapped government altered pension amounts in a manner that ultimately was found unconstitutional. The Constitutional Court of Croatia ruled the government must compensate eligible retirees who had lost money with the change.

The researchers surveyed more than 2,600 Croatian retirees who, as a result of the court ruling, were offered two options by the government - more immediate payments that totaled 50 percent of their pension shortfall value or deferred payments for the full shortfall amount. All told, the choice was offered to some 430,000 Croatian retirees in 2005.

Retirees who reported higher income, less debt and better health - and those with kids (who could inherit the account) - were more likely to take the deferred payments for the full amount.

However, more than seven out of 10 [retirees](#) said they chose the early payout. Presumably, many of them needed the money regardless of their political or economic views.

About 20 percent of Croatians live in poverty, compared to about 15 percent of the U.S. population.

"For many people at retirement age in Croatia, it's a struggle to keep the electricity and the phone turned on," Ivkovich said.

Provided by Michigan State University

Citation: Seven in ten take early pension payout (2015, May 12) retrieved 5 May 2024 from <https://phys.org/news/2015-05-ten-early-pension-payout.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.