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New research strengthens link between mental health and retirement savings

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The question of how mental health status affects decisions regarding retirement savings is becoming a pressing issue in the United States. Key factors contributing to this issue include the tenuous state of the Social Security system, greater use of defined-contribution pension plans by employers, longer lifespans, and the rise of depression and other mental health issues in older Americans.

In the latest edition of the journal *Health Economics*, researchers Vicki Bogan of Cornell University and Angela Fertig, research investigator at Medica Research Institute, find that mental health problems have a large and significant negative effect on retirement savings.

"A growing number of households are dealing with mental health issues like depression and anxiety," says Fertig. "Our project studies the effect that mental health issues have on retirement savings because we need to understand how health problems may affect the economic security of this growing population."

The researchers found that psychological distress is associated with:

- up to a 62 percent lower probability of holding retirement accounts
- $15,000 less held in retirement savings accounts by single households and $42,000 less held by married couples
- up to a 47 percent higher probability that married couples withdraw from their retirement accounts

The results are generally consistent across single and married households. However, the study found some evidence to indicate that singles with psychological distress may divert funds away from retirement accounts, while married individuals with psychological distress may withdraw more from their retirement accounts. The study did not find evidence indicating that psychological distress affects retirement savings behavior through financial literacy or cognitive limitations.

The effect sizes found are large, suggesting that more employer management and government regulation of defined-contribution pension plans, IRAs, and Keogh retirement accounts may be warranted.

"The magnitude of these effects underscores the importance of employer management policy and government regulation of these accounts to help ensure households have adequate retirement savings," says Fertig. "Better understanding the link between mental health and retirement savings decisions could inform policy interventions that may encourage households to save sufficient funds for retirement through defined contribution plans and shape national changes to the defined contribution plan withdrawal penalties."

More information: Mental health and retirement savings: Confounding issues with compounding interest. *Health Economics* (2017). DOI: 10.1002/hec.3579

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