Anxiety, depression can diminish retirement savings

By Susan Kelley | September 25, 2017

Psychological distress can take a toll on more than just health. It can also significantly damage nest eggs, according to a new study by a Cornell financial economist and her co-author.

Mental health problems can have a large negative effect on retirement savings, the study found. Three factors make the research even more meaningful, the authors say: People increasingly are living longer, dealing with more psychological distress, and shouldering the burden of saving for retirement without the help of employers.

The study, **published Aug. 29 in Health Economics (http://onlinelibrary.wiley.com/doi/10.1002/hec.3579/abstract)**, found people with anxiety and depression are nearly 25 percent less likely to have a retirement savings account. Their retirement savings as a share of their overall financial assets is up to 67 percent lower than those without psychological distress. And psychologically distressed married couples have retirement account values that are 20 to 28 percent lower. On average, that translates to between $15,000 and $42,000 less held in retirement savings for married couples.

“Mental health problems could potentially exacerbate problems that households are already having managing their retirement portfolios. If that is the case, then we will have widening inequality as households with mental health problems earlier in life have fewer financial resources in retirement,” said lead author **Vicki Bogan (https://dyson.cornell.edu/people/vicki-bogan)**, associate professor in the Charles H. Dyson School of Applied Economics and Management. Her co-author is Angela Fertig of the Medica Research Institute.

The landscape for how people save for retirement has changed over the past several decades, Bogan said. Now far fewer employers offer traditional pensions. Instead more companies have defined-contribution pensions, where both employees and employers contribute; but it's up to the employee to figure out how much she'll need to contribute to have enough money in retirement. "That's a harder problem for an individual to figure out," Bogan said.

And additional factors compound that problem, she said. Other research suggests close to 30 percent of the U.S. population have at least one mental or substance abuse disorder each year. Furthermore, the elderly population is growing and Social Security is in a tenuous state, Bogan said.

"Understanding these defined-contribution plans and how people manage them is very important," Bogan said.

The researchers looked at two data sets – one covering the years 2001-13 and another covering the years 1996-2012 – that interviewed families every two years about their finances, demographics, education and family structure. Included were questions that researchers commonly use as proxies for psychological distress, such as how often they felt sad or depressed in the previous month or year.

Bogan and Fertig found higher psychological distress was linked to a smaller portion of financial assets devoted to retirement accounts. "That poses an additional issue," Bogan said. "There are tax advantages to saving for retirement through these specific types of vehicles. And your probability of doing that is lower if you have depression." This foregone tax saving is another way in which depression is influencing household finances, she added.

The researchers hypothesize two mechanisms could be at play. Psychological distress could affect a person's tolerance for risk. Psychological distress also could cause a person to be less likely to invest in illiquid assets that they can't access immediately. "If your anxiety makes you think you're not going to live long, or makes you discount the future, you might not want to save," Bogan said. "You might think, 'Why should I save for that? I might not be around.'"

The research has implications for employer management and government regulations of defined-contribution pension plans, Investment Retirement Accounts (IRAs) and Keogh retirement accounts, she said.

One possible way to address this issue would be for employers to adopt a 401K opt-in policy, she said. Employees would be automatically enrolled in a 401K plan; they could opt out at any time. “You’re not taking away their free choice,” Bogan said, “but it’s a positive nudge in the right direction.”

STORY CONTACTS

Susan Kelley

sek39@cornell.edu
(mailto:sek39@cornell.edu)
607-255-9737 (tel:607-255-9737)