The Role of Market Returns in Retirement Decision-Making

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This study utilizes nine interview waves of the Health and Retirement Study and a multilevel discrete-time survival analysis to investigate the effect of market returns on individual elective retirement decisions. Individuals who retire at a market peak have an increased risk of shortening the longevity of their retirement income. Unfortunately, they were found to be more likely to retire when market returns are high, indicating the influence of a projection bias on the timing of elective retirement. Having experienced the recent market crash and the housing slump and facing the uncertain future of Social Security, baby boomers are starting to exit the workforce. Acting on projection bias would expose their retirement portfolio to a higher probability of experiencing an early negative hit and outliving their retirement resources. Researchers, employers, financial educators and financial practitioners should help pre-retirees overcome the stock market's influence on their decision-making to avoid the negative effect of market sequencing on their retirement wealth.

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