EFFECTS OF INCOME PAYMENT TIMING ON FINANCIAL SHORTFALLS FOR RETIREES AND PEOPLE WITH DISABILITIES

Research conducted by Madelaine L'Esperance, The University of Alabama

July 2022

Social Security beneficiaries' probability of experiencing a financial shortfall, that is when they do not have enough liquidity to cover expenditures, increases over the pay cycle. Shortfalls over the pay cycle are driven by both declines in liquidity and increases in consumption which make it difficult for some beneficiaries to cover expenses.

Effects of Payment Timing on Financial Shortfalls of Social Security Beneficiaries

Social Security Pay Cycle Increases Financial Shortfalls

A key question that this study aims to explore is whether Social Security income payment timing affects financial shortfalls. We would expect that pay cycle would not affect likelihood of financial shortfall. However, this study finds that as beneficiaries progress through the pay cycle, they are more likely to experience a financial shortfall.

Increase in Financial Shortfalls Driven by Increases in Consumption and Declines in Liquidity over Pay Cycle

The effect of income payment timing on financial shortfalls is driven by a general increase in consumption over the pay cycle and decline in liquidity. Beneficiaries appear to have difficulty managing their cash flow particularly at the end of the pay cycle where declines in liquidity and increases in consumption are relatively large.

Implications

- Beneficiaries experience financial shortfalls over the pay cycle.
- Financial shortfalls result as some beneficiaries are not able to match liquidity to consumption needs.
- They face increasing probability of falling financial shortfalls which may result in costly missed payments and potentially forgoing expenditures to avoid a shortfall.

The research reported herein was performed pursuant to a grant from the U.S. Social Security Administration (SSA) funded as part of the Retirement and Disability Consortium.