Rational Agents in an Irrational World: The Effect of Fraud Shocks on Retirement Portfolio Success Rates

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Abstract

What is the impact of fraud on retirement success? The retirement planning literature contains healthcare and financial shocks on retirement, but to date no paper specifically addresses the impact of fraud shocks on retirement. By using Monte Carlo simulations, this essay introduces fraud shocks within the traditional Trinity Study's four-dimensional retirement model. A single instance of fraud led to an average decline in retirement success (passing away with money still left in the account) by 3%. By contrast, no serial fraud scenarios resulted in retiree success. These findings have important implications for financial planning practitioners, specifically the link between financial literacy, fraud, and retirement planning. Future research should focus on expanding the assumptions found within the Trinity Study framework and comparing those results to the fraud shock benchmarks established here.