



Article from

Pension Section News

February 2016
Issue 88

SOA Partnership Produces New Research on the Finances of Older Americans

By Anna M. Rappaport

The Society of Actuaries is partnering with the Social Security Administration to support research conducted by the Center for Economic and Social Research at the University of Southern California (USC). This article is about the first project that is resulting from this collaboration. There are more in the early stages. The Committee on Post-Retirement Needs and Risks (CPRNR) is very pleased to have this opportunity to provide input to the researchers and to bring our experience in working with employee benefits and financial products to them.

INTRODUCTION

The 2015 new study, “How Americans Manage Their Finances”,¹ provides insights into financial management at all ages and is based on The Older Adult Survey research previously conducted by RAND for the Federal Reserve Board’s Consumer and Community Affairs Division in 2012.

The issues included in this study overlap some of the issues in the Society of Actuaries Post-Retirement Needs and Risk Research. Debt and shocks are important issues in the 2015 Post-Retirement Risk Research and in the “How Americans Manage Their Finances” Study. Both studies provide some insights into how people are planning for the future. This article highlights a few issues from both studies and I hope it will encourage you to look for more results from both reports.

METHODOLOGY

Both studies use online surveys, but they use different panels that have been recruited differently. The “How Americans Manage their Finances” uses the Understanding America Study (UAS) panel and the SOA research uses the Research Now online consumer panel. Neither one is slanted to a particular segment of the population, but small differences in numerical results may be due to differences in the populations surveyed. Where the same issues appear with the same general results, we know that the results are important and add to our knowledge. The Understanding America Study panel data is updated regularly with additional studies. This data is available for further research. For more information, visit uasdata.usc.edu, or contact Tania Gutsche at tgutsche@usc.edu.

FINANCIAL STRESSES, SHOCKS AND UNEXPECTED EXPENSES

The USC study asked respondents whether their household had experienced financial stress in the last three years. Results varied greatly by age. Some highlights are shown in Exhibit I.

Exhibit 1

Financial Stresses Over Last Three Years by Age
Results for Selected Stresses and Ages
Values shown are %

Note: Total group includes ages 18 and up

Type of Stress	All	Ages 40-49	Ages 60-69	Age 70+
Experienced no stress	55%	52%	66%	75%
Lost job or had work hours reduced	22	27	9	0
Had significant health issue	13	16	13	8
Provided help to family members or family member lost job	9	9	6	4
Lost spouse/partner	2	2	1	5
Had unpaid taxes	4	4	2	4
Had mortgage balance higher than property value	3	7	2	0

Note: See working paper for results at other ages.

The USC study also explored how people managed the financial shock and whether or not they got help from others, borrowed, withdrew from savings, cut expenses, or did not pay the amount owed. In the age 70+ group, 34 percent withdrew from savings, 24 percent cut expenses, and 23 percent got help from others. Not many borrowed and none of them reported not paying the expense.

The SOA study had a different set of questions looking at shocks and unexpected expenses and did not have the three year limit for the question. It focused on the period since retirement. For that study, the largest shocks and unexpected expenses included major home repairs and updates (28 percent), dental expenses (24 percent), and significant out of pocket medical and prescription drug expenses (20 percent). 28 percent of the retirees in the SOA survey had not experienced any shocks since retirement. The SOA study showed that retirees are generally very resilient and that many of them deal with quite a few shocks and unexpected expenses very well.

The two shocks that were most difficult for retirees in the total SOA research were major long-term care events and getting divorced after retirement. Note that none of the respondents in the USC survey after age 60 reported getting divorced and long-term care issues were not significant. The SOA research included focus groups with people retired more than 15 years and interviews with caregivers of people experiencing long-term care needs. It also included questions about the experiences of

respondents' parents. The long-term care results show up in the questions about parents and the interviews.

DEBT AND RETIREES

One of the concerns of the CPRNR is understanding debt and what impact it has on retirees. Both research studies focused on debt and its impact on older persons. The USC research provides much more detail on how retirees are using debt and responding to it.

The USC study indicated that many of the homeowner respondents have mortgage debt, including half of those in their 60s and nearly a third of those over age 70. The USC Study reports that ¼ of respondents with mortgages have tried to refinance in the last three years. Both studies indicate little interest in reverse mortgages. The USC study offers more information on mortgages and refinancing decisions.

In the SOA study, 35 percent of retirees have credit card debt and 24 percent have car loans. Among retirees with debt, about half have debt other than their mortgage of less than \$10,000. In the SOA study, many retirees with debt feel that it has had little impact on their lifestyle. 36 percent said it has had no impact on their ability to maintain their desired lifestyle and 28 percent said little impact. In contrast, 15 percent report that it has had a great deal of impact. The retirees in the SOA study are not older than age 80. One of the unanswered questions is whether people will have problems later in life. The CPRNR is considering whether it can do more investigation of people in their 90s.

OTHER FINDINGS OF INTEREST

The USC study explored the use of bank accounts, and other types of credit and a number of planning issues. In some areas there are big differences by age, but not in others.

The USC study also explored what level of unexpected expense individuals could pay without problem. When asked about how hard it would be for them to pay an unexpected expense of \$1,000, less than 1/3 of respondents said they could easily pay this expense. One in six could easily pay for an unexpected expense of \$5,000 and one in ten could easily pay for an unexpected expense of \$10,000.

One of the concerns today is that a number of Americans are unbanked.² However, in the USC study, relatively few people over age 60 were unbanked. While 10 percent were unbanked at all ages, only 5 percent were unbanked at 60-69 and 4 percent at age 70 and over. 87 percent of the unbanked had an income of less than \$30,000. Respondents age 70 and over are also much less likely to get payday loans when compared to younger groups. 96 percent of the 70 and over group report that they have never considered a payday loan compared to 84 percent of the total group.



The age 70+ group is much less likely to use a bank “app” on a mobile phone than the younger population, and they are a little less likely to do online banking. These results may be interesting to financial service companies and benefit administrators in understanding what types of interaction will work with different groups. The age 70+ group is just as likely to use automatic bill payment as are younger individuals.

91 percent of individuals at ages 70 and over use credit cards compared to 76 percent of the respondents at all ages. However the older group is much more likely to pay their balance in full. 68 percent of the 70 and over group reports paying the balance in full compared to 43 percent at all ages. They are also less likely to use credit card debt and/or cash advances.

21 percent of the respondents in the USC study had investments managed professionally. At age 70 and over, this rose to 34 percent.

These are just a few of the items covered by the two studies. The USC study also includes information about fraud and about retirement and long-term care planning.

PERSPECTIVE ON THESE RESULTS

Actuaries are very focused on retirement planning and encouraging people to save early and save more. These results make it clear that for long-term financial success, in addition to having an emergency fund, debt management, and good decisions about mortgages are also critically important for long-term financial success, as well as success in retirement.

Several years ago the CPRNR sponsored a round table on *Running Out of Money*. A comment was made that it was important to get people to enroll in 401(k) plans and save more, and generally this is true. But, it may not be the best strategy in all situations. One of the participants pointed out that people with

credit card debt should pay off the credit card debt first rather than saving more in a 401(k) plan. With the high interest rates that apply to many credit cards, this is very important. It is even important that people do not save in the 401(k) and then use payday loans to live on since the effective interest rate for payday loans is over 100 percent.

As we think about long-term security, we need to focus on the bigger picture. Employee benefit plans traditionally focused on several key risks. Having an emergency fund and debt management are important additions to the traditional list. Emergency funds are especially important to allow people to avoid using payday loans and the alternative financial system.³ The results of these studies provide valuable insights into the financial picture of many Americans and helps broaden our perspective. The more I think about it, the more I realize that financial wellness is really important but that it involves a broad range of issues that must be considered for retirement security. ■

ENDNOTES

- ¹ "How Americans Manage Their Finances," Working Paper Number 2015-020, CESR-Schaeffer Working Paper Series, University of Southern California, authored by Leandro Carvalho, Arie Kapteyn, and Htay-Way Saw. <https://static.usc.edu/sites/default/files/2015-020%20FINAL%20DRAFT.pdf>
- ² People who are "unbanked" have no bank account, either checking or savings and they often end up paying a high price for check cashing, loans and other financial transactions. My view is that getting them into the mainstream financial system is a first step to longer term security.
- ³ The [Alternative Financial System](#) offers financial services outside of insured banks and thrift organizations.



Anna M. Rappaport, FSA, MAAA, is an actuary, consultant, author, and speaker, and is a nationally and internationally recognized expert on the impact of change on retirement systems and workforce issues. She can be reached at anna@annarappaport.com.

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The advertisement features a dark blue map of Iowa on the left with several location pins and the text 'SOA Explorer Tool'. On the right, a light-colored map shows a zoomed-in view of the Upper Mississippi River National Wildlife Refuge area, with two red location pins. Each pin is accompanied by a circular portrait of a person: a woman with long brown hair and a man with short dark hair. The text 'Upper Mississippi River National Wildlife...' and 'Mississippi River' are visible on the right map. The left map also shows labels for 'Mason City', 'Webster', 'Boone', 'Ames', 'Marshalltown', and 'Cedar Rapids'.