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Family Structure, Roles and Dynamics Linked to Retirement Security

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How Family Dynamics Influence Retirement Security

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The 2018 Retirement Confidence Survey conducted by the Employee Benefit Research Institute (EBRI) found that nearly two-thirds (64%) of American workers feel confident in their ability to retire comfortably, continuing an upward trend that began in 2011.[1] This increase may reflect the value of efforts to improve retirement security through enhancements to retirement plan design, but plan design alone may not be enough to help the other 36% of the population realize a secure retirement.

Many factors, including family structure and dynamics, contribute to one's ability to save and prepare for a comfortable retirement. In their 2018 Life Events Research report, Financial Finesse found that married employees exhibited higher levels of retirement preparedness, but those with minor children exhibited lower levels of retirement preparedness.[2] Similarly, their 2017 special report on financial wellness programs for a diverse workforce found that retirement preparedness was lower for certain racial and ethnic employees based in part on the relationship between family members.[3] By understanding the influence of family dynamics on retirement preparedness, employers can help improve the retirement security of working Americans writ large.

The Influence of Marriage on Retirement Preparedness

The 2018 report found that married employees were 39% more likely to indicate being on track for retirement (31% vs. 22%). This difference may be the result of better cash flow and debt management. Married employees were 12% more likely to have a handle on cash flow (76% vs. 68%), and 17% more likely to be comfortable with debt (61% vs. 52%). See Table 1.

Table 1 The Financial Behavior of Married Employees

Question	Married	Not Married
I am on track for retirement	31%	22%
I have a handle on cash flow	76%	68%
I am comfortable with my debt	61%	52%

Source: Financial Finesse. 2018 Life Events Research: How Planning for Life's Milestones Improves Employee Financial Wellness. February 2018. *https://ffinesse.box.com/v/2018LifeEventsFullReport.*

There may be several reasons why financial wellness, and specifically retirement preparedness, is higher among married employees. For starters, marriage can provide an economy of scale whereby expenses are shared in a dual-income household, allowing for more funds to be dedicated to saving for retirement. Also, happily married couples who figure out how to successfully manage their finances and capitalize on the benefits that come with splitting fixed expenses like housing, food and utilities also tend to garner higher wages, and change jobs less frequently than their single counterparts.[4] This reduces the likelihood of plan leakage and increases the amounts available to earmark for retirement.

One potential disadvantage to marriage is the risk of divorce. Aside from the emotional toll, it can have a

1 Employee Benefit Research Institute (EBRI). 2018 Retirement Confidence Survey. April 24, 2018. *https://www.ebri.org/docs/default-source/rcs/1_2018rcs_report_v5mgachecked.pdf?sfvrsn=e2e9302f_2.*

2 Financial Finesse. 2018 Life Events Research: How Planning for Life's Milestones Improves Employee Financial Wellness. February 2018. *https://ffinesse.box.com/v/2018LifeEventsFullReport.* Certain unpublished data has been included in this essay.

3 Financial Finesse. 2017. Special Report: Optimizing Financial Wellness Programs for a Diverse Workforce. May. *https://ffinesse.box.com/v/2017-Diverse-Workforce-Report.*

4 Ahituv, Avner, and Robert Lerman. 2007. How do Marital Status, Work Effort, and Wage Rates Interact? *Demography* 44, no. 3:623–47.

financial one as well. By most estimates, the cost of a divorce is $15,000 or more per person, depending on whether it is amicable or contested.[5] This can have a ripple effect, draining current financial resources, splitting retirement assets, and putting financial strain on single-income households, especially when kids are involved.

The cost can be felt by employers as well. According to one study, the projected cost of an average employee making $20/hour getting divorced is over $8,000.[6] Since financial stress is often cited as a leading cause of divorce, it makes sense for employers to look for ways to reduce the financial stress of their workforce. Not only will this reduce the likelihood of divorce, but it will also increase the retirement preparedness of the workforce.

The Influence of Minor Children on Retirement Preparedness

The presence of minor children reduced the likelihood of an employee being on track for retirement, although not by much. According to the 2018 Life Events Research report,[7] 26% of employees with minor children said they were on track for retirement, compared to 29% of those without minor children. However, this number dropped to 18% when employees with kids were unmarried. See Table 2 for a breakdown of the numbers.

Table 2 Percentage of Respondents Who Reported Being on Track for Retirement

	No Kids	Kids	Magnitude of Decline in Retirement Preparedness
Overall	29%	26%	–11%
Married	34%	29%	–16%
Unmarried	24%	18%	–25%

Source: Financial Finesse. 2018 Life Events Research: How Planning for Life's Milestones Improves Employee Financial Wellness. February 2018. *https://ffinesse.box.com/v/2018LifeEventsFullReport.*

For some, just having children can be costly. The average cost of a standard delivery is around $10,000, but that number can increase to $30,000 when you include pre- and post-natal care.[8] For couples that experience infertility, the costs are even greater.

In her work on the subject, researcher Alexandra Stanczyk notes a decline in financial well-being following childbirth. She attributes the decline to several factors, including increased demands on financial resources, changes in income and potentially heightened risk of economic insecurity.[9]

According to the latest figures from the U.S. Department of Agriculture, the cost of raising a child is pegged at over $230,000.[10] That's a hefty price tag, especially when

5 Thumbtack. How Much Does a Divorce Cost? Sept. 19, 2018. *https://www.thumbtack.com/p/divorce-cost* (accessed March 30, 2019).

6 Turvey, Matthew D., and David H. Olson. 2006. Marriage & Family Wellness: Corporate America's Business? Marriage CoMission Research Report. *https://www.prepare-enrich.com/pe/pdf/research/corporate_america_business.pdf.*

7 Financial Finesse. 2018 Life Events Research.

8 Hoffower, Hillary. How Much it Costs to Have a Baby in Every State, Whether you Have Health Insurance or Don't, Business Insider, July 9, 2018. *https://www.businessinsider.com/how-much-does-it-cost-to-have-a-baby-2018-4.*

9 Stanczyk, Alexandra B. The Dynamics of Household Economic Circumstances Around a Birth. *Washington Center for Equitable Growth,* Oct. 4, 2016, *https://equitablegrowth.org/working-papers/income-volatility-around-birth/.*

10 Lino, Mark, Kevin Kuczynski, Nestor Rodriguez and TusaRebessa Schap. 2017. Expenditures on Children by Families, 2015. Center for Nutrition Policy and Promotion. Miscellaneous Report No. 1528-2015. *https://fns-prod.azureedge.net/sites/default/files/crc2015_March2017.pdf.*

Table 3 How Minor Children Influence Retirement Preparedness

Question		No Kids	Kids
I have a handle on cash flow	Overall	78%	66%
	Married	82%	72%
	Unmarried	74%	54%
I have an emergency fund	Overall	56%	43%
	Married	64%	50%
	Unmarried	50%	25%
I pay my bills on time	Overall	92%	85%
	Married	94%	89%
	Unmarried	90%	74%
I am comfortable with my debt	Overall	62%	51%
	Married	68%	56%
	Unmarried	58%	38%

Source: Financial Finesse. 2018 Life Events Research: How Planning for Life's Milestones Improves Employee Financial Wellness. February 2018. *https://ffinesse.box.com/v/2018LifeEventsFullReport.*

employees with minor children are less likely to have a handle on cash flow, have an emergency fund, pay their bills on time or be comfortable with their debt. See Table 3. These financial challenges tend to be exacerbated for unmarried employees with children.

Last, there is the cost of education. The College Board estimates the net price for tuition, fees, and room and board at a four-year public university at just under $15,000 a year.[11] Although many financial planners recommend securing your own retirement before saving for college, many parents end up tapping their retirement savings to offset this cost due to a lack of college planning.

As noted, the financial challenges associated with raising children appear greatest for single parents. This is likely due to the high cost of child care. According to Child Care Aware of America, a single parent may spend up to 37% of their income each year on care for a child under 5.[12] To combat this, single parents should take advantage of any employer-provided benefits, such as on-site child care or dependent care flexible spending accounts, that help offset the cost. If none are available, they may need to reduce or suspend nonessential spending, which may include saving for retirement, until the cost of child care is more affordable.

The retirement security of employees with minor children will remain in jeopardy if they fail to prepare adequately for the costs of being parents. Employers can help by offering health and financial wellness benefits that can offset these costs, enabling saving through payroll deduction, and educating current and future parents on the issues and concerns they will likely face.

The Influence of the Family on Retirement Preparedness

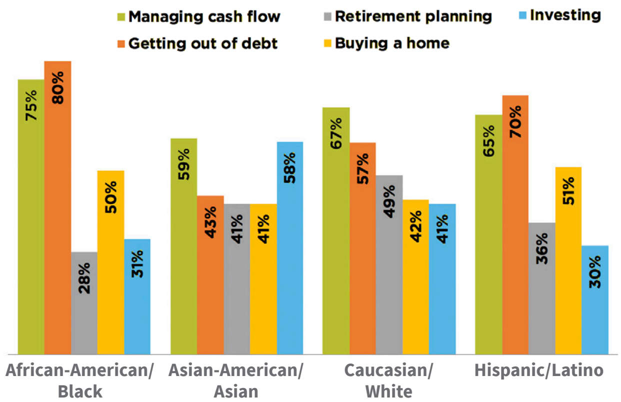
According to the 2017 special report,[13] African-American and Hispanic employees were less likely than Asian-American or Caucasian employees to report being on track for retirement. The study explored factors that may be contributing to the lack of retirement preparedness among these groups and found that the

11 College Board. Average Net Price Over Time for Full-Time Students, by Sector. Accessed March 19, 2019. *https://trends.collegeboard.org/college-pricing/figures-tables/average-net-price-over-time-full-time-students-sector.*

12 Child Care Aware of America. The US and the High Cost of Child Care: A Review of Prices and Proposed Solutions for a Broken System. Accessed March 19, 2019. *http://usa.childcareaware.org/advocacy-public-policy/resources/research/costofcare/.*

13 Financial Finesse. Special Report: Optimizing Financial Wellness Programs.

Figure 1 Financial Priorities of Employees Under 30



Source: Financial Finesse. 2017. Special Report: Optimizing Financial Wellness Programs for a Diverse Workforce. May. *https://ffinesse.box.com/v/2017-Diverse-Workforce-Report.*

relationship between family members may be partially to blame for what it calls a "cycle of low financial wellness." This cycle is believed to be part of the reason there is a disparity in 401(k) savings across racial and ethnic groups.[14]

As noted in the Financial Finesse 2017 report, African-American and Hispanic employees under the age of 30 cited getting out of debt as their highest financial priority. See Figure 1. This debt, which likely includes student loans and credit card debt, often creates a financial burden that is carried throughout their career. From their perspective, African-American and Hispanic youth feel that they can't depend on family to help with financial needs.[15] For this reason, they may end up servicing this debt on their own, hampering their ability to save for retirement at a young age.

By the time they start having children, a lack of cash flow and a prevalence of debt make saving for college difficult. Only 16 percent of Hispanic employees and 15 percent of African-American employees age 30 to 44 indicate saving enough to meet future educational goals. The lack of educational funding may result in higher amounts of student loan debt incurred by children of these underfunded households, thus perpetuating the inability to build a retirement nest egg, or to transfer wealth to the next generation.

The inability to save more for retirement at a younger age makes retirement security less likely at an older age. Among employees age 45 to 54 that completed a financial wellness assessment in 2016, African-American and Hispanic employees were more likely to report having taken a retirement plan loan or hardship withdrawal, and less likely to be on track to achieve income replacement goals. See Table 4. This is creating more dependency on family for financial support in retirement.[16]

When it comes to caring for loved ones, the prevalence of caregiving is highest among minority groups.[17] Cultural differences often play a factor in how, when, and to whom, support and care is given. Research suggests that African-American and Hispanic parents

Table 4 Need for a Hardship Loan by Race

Age 45-54	African-American/ Black	Asian-American/ Asian	Caucasian/ white	Hispanic/ Latino
I know I am on target to replace at least 80% of my income	18%	31%	31%	21%
I have taken a retirement plan loan	58%	21%	34%	50%

Source: Financial Finesse. 2017. Special Report: Optimizing Financial Wellness Programs for a Diverse Workforce. May. *https://ffinesse.box.com/v/2017-Diverse-Workforce-Report.*

14 Ariel Education Initiative and Hewitt. 2012. 401(k) Plans in Living Color: A Study of 401(k) Savings Disparities Across Racial and Ethnic Groups. An Ariel/Hewitt Study. *http://www.aon.com/attachments/thought-leadership/arielhewitt_401k_study_results.pdf.*

15 Cohen, Cathy, J., Matthew D. Luttig, and Jon C. Rogowski. 2016. Young People Speak Out About the 2016 Campaign and Their Economic Futures. *GenForward: A Survey of the Black Youth Project With the AP-NORC Center for Public Affairs Research. http://genforwardsurvey.com/assets/uploads/2016/11/Genforward-Report-Final-3.pdf.*

16 Fingerman, Karen L., Laura E. VanderDrift, Aryn M. Dotterer, Kira S. Birditt, and Steven H. Zarit. 2011. Support to Aging Parents and Grown Children in Black and White Families. *The Gerontologist* 51, no. 4:441–52. *https://www.ncbi.nlm.nih.gov/pmc/articles/PMC3202703/.*

17 National Alliance for Caregiving and AARP Public Policy Institute. 2015. 2015 Report: Caregiving in the U.S. *http://www.aarp.org/content/dam/aarp/ppi/2015/caregiving-in-the-united-states-2015-report-revised.pdf.*

are more likely than Caucasian parents to provide financial support to adult children based on their familial relationship rather than their financial need.[18] Although this may seem compassionate, it could have an unintended consequence. Parents that provide financial support to adult children may themselves require financial support later in life due to inadequate retirement savings. Conversely, parents that place more emphasis on securing their own retirement may do more to help their children enjoy a comfortable retirement by not becoming a financial burden.

Over time, lower retirement plan contributions and greater responsibility for caregiving has contributed to lower net worth for the average African-American and Hispanic household. The Pew Research Center, citing data from the Federal Reserve's 2013 Survey of Consumer Finance, found that the median net worth of Hispanic and African-American households was $13,700 and $11,000, respectively.[19] All of this could mean that African-American and Hispanic families, more than other ethnic groups, might inherit funeral expenses as opposed to wealth, giving no economic boost to the next generation. Without a change in financial behavior, the cycle of low financial wellness may continue, thus perpetuating a lack of retirement security, especially among African-American and Hispanic households.

Employers Offer the Best Chance at Improving Retirement Security

Employers are uniquely positioned to help employees enjoy a comfortable retirement by understanding the influence of family dynamics on retirement preparedness. Employers should offer a financial wellness benefit using best practices to reduce employee financial stress. This will increase the likelihood that employees remain happily married, which has a positive relationship to retirement preparedness. Employers should also offer health and financial wellness benefits that help current and future parents prepare for costs associated with having and raising children. Last, employers must understand the cultural differences that influence family dynamics and develop a financial wellness benefit reflecting that understanding. In so doing, not only will employers improve the retirement security of the current workforce, but also of the workforce to come.

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18 Berry, Brent M. 2001. All the ties that bind: Race, ethnicity and why families support adult children. Population Studies Center Research Report No. 01-487. *https://www.psc.isr.umich.edu/pubs/abs/1308.*

19 Kochhar, Rakesh, and Richard Fry. Wealth Inequality has Widened Along Racial, Ethnic Lines Since End of Great Recession. *Pew Research Center*, Dec. 12, 2014, *http://www.pewresearch.org/fact-tank/2014/12/12/racial-wealth-gaps-great-recession/.*