Financial Fragility Across the Generations
Financial fragility, interpreted here as vulnerability to a financial crisis and having a negative outlook of personal finances, can play a significant role in an individual’s financial planning, priorities, and retirement concerns. The current situation is very mixed for Americans. Wide ranges in assets, income and levels of financial literacy result in some individuals making well-thought-out and longer-term financial decisions, while others do virtually no planning and are vulnerable to financial setbacks.

This report develops a financial fragility index to determine not only how financially fragile Americans are but also to explore distinguishing characteristics of the financially fragile and examine their views and concerns about their current finances and retirement. The financial fragility index is based on responses to a survey conducted by Greenwald & Associates on behalf of the Society of Actuaries (SOA) on individuals’ feelings toward their financial situation, how confident they are in making financial decisions, whether they can cover an unexpected expense, whether they are on track in planning for retirement and whether debt is complicating their finances. A full description of the index is provided in the Methodology section at the end of this report.

This report is the fifth in a series that analyzes financial priorities across generations. Using results from an online survey of 2,001 individuals, including 398 Millennials, 399 Gen Xers, 403 Late Boomers, 401 Early Boomers and 400 members of the younger portion of the Silent Generation, key financial issues around financial goals, concerns and retirement preparedness are examined. A full report with detailed data by generation can be found at https://www.soa.org/research-reports/2018/financial-perspectives-aging-retirement/.

Who Is Fragile?
Before looking at the detail of financial priorities, behaviors and concerns based on the level of financial fragility, it is important to see how different demographic groups compare. As seen in Figure 1, about one in four Millennials and Gen Xers are financially fragile. The proportion of people classified as highly fragile decreases for older generations. Variation based on gender is less distinct—55% of men have low fragility and 19% have high fragility compared to 48% of women with low fragility and 23% with high financial fragility.
By marital status, those married are the least likely to have high financial fragility (15%) and the most likely to have low fragility (58%). Individuals who are living with a partner, who are single, or who are separated or divorced are much more likely to have high financial fragility than those who are widowed or married. Looking at employment status, retired individuals are the least financially fragile followed by those currently working. Those unemployed or disabled are significantly more likely to have high financial fragility, with more than four in 10 falling into this group. As expected, financial fragility decreases with more education, household income and the value of savings and investments.

Financial Priorities and Strategies

There is significant variation in financial planning time frames based on levels of financial fragility. Six in 10 of those with high fragility can only plan paycheck to paycheck, while this is only the case for 20% with moderate fragility and just 5% of those with low fragility (Figure 2). On the other end of the planning spectrum, only 6% with high fragility plan for the rest of their lives compared to 10% of those with moderate fragility and 29% of those with low fragility.
These planning time frames are echoed in the different fragility groups’ financial priorities. Almost all of those with high fragility are prioritizing being able to afford everyday bills compared to 57% with low fragility reporting the same (Figure 3). Additionally, those with moderate and high fragility are significantly more likely to be prioritizing paying off credit card debts and student loans.

Figure 3
FINANCIAL AND SAVINGS PRIORITIES BY FINANCIAL FRAGILITY

Thinking of your current financial situation, how much of a priority is each of the following? (Low Fragility, n = 1,150; Moderate Fragility, n = 484; High Fragility, n = 367)
On the other hand, those with low fragility are prioritizing saving for the future, including for retirement (67%) and vacations (38%). There is little variation across fragility groups among those placing a high priority on building up an emergency fund, with about half of all respondents focusing on this. Saving for medical expenses and long-term care are lesser priorities, with little difference between fragility groups, despite the impact high medical expenses can have on the overall financial welfare of individuals, especially those with high fragility who are particularly vulnerable to a financial crisis. Balancing the priorities of today as well as saving for the future can be difficult for those with high fragility, a group that generally has lower incomes and savings than their more financially secure counterparts.

**Actions Taken to Address Priorities**

To address their financial priorities that mainly focus on affording everyday bills and current debt, those with high financial fragility are more likely to say they are sticking to a budget and learning to use credit cards wisely than those with low fragility (Figure 4). Additionally, they are significantly more likely than both moderate and low fragility individuals to say they will be cutting back on things like vacations and eating out, making efforts to get their debts under control, and cutting back on needed medical costs to address their financial priorities this year.

![Figure 4 METHODS OF ADDRESSING FINANCIAL PRIORITIES THIS YEAR BY FINANCIAL FRAGILITY](chart)

Those with low fragility are more likely to plan for tomorrow’s priorities by sticking to a monthly savings plan, contribute to an employer’s retirement plan, target investing to grow their money and produce income now and in retirement, and work with a financial advisor. Without the vulnerability to a financial crisis, these low fragility individuals are able to plan for their financial future, in contrast to individuals with high financial fragility who need to address more immediate priorities.
Debt and Homeownership

As seen earlier, debt is a substantial issue for many with high financial fragility. Only 8% of those with high fragility and 19% of those with moderate fragility have no debt compared to 34% of those with low fragility (Figure 5). Additionally, 56% with moderate and 64% with high fragility report having credit card debt, significantly higher than the one in four of those with low fragility. Those with high fragility are also more likely than those with low financial fragility to currently have car loans and student loans and owe money to friends or family.

Figure 5
CURRENT DEBT OBLIGATIONS BY FINANCIAL FRAGILITY

Of the various types of debt, only home mortgages debt is more common for those with low fragility, not surprising as almost eight in 10 in this group own a home, significantly more than the 64% with moderate fragility and the 45% with high fragility (Figure 6). About 40% of those with high fragility are renting their home, and another 12% are not currently contributing to the cost of their housing.

Figure 6
LIVING ARRANGEMENTS BY FINANCIAL FRAGILITY
Retirement Concerns

Concerns around retirement are high for all, especially for those who are more financially fragile. As seen in Figure 7, for each possible retirement issue presented, concern increases with financial fragility. On average, those with low financial fragility indicate they are very or somewhat concerned about 4.3 retirement issues; individuals with moderate fragility report 5.9 issues; and those with high fragility say 7.1 out of a possible 10.

Figure 7
CONCERNS FOR RETIREMENT BY FINANCIAL FRAGILITY

Key Takeaways

There are dramatic differences when it comes to planning behavior by levels of financial fragility. Those with high fragility are much more likely to have short planning horizons and are prioritizing affording everyday bills over building up savings for retirement or emergencies. Debt, especially credit card debt, seems to be a major barrier, with 94% of those with high fragility holding some form of debt and 56% reporting credit card debt. Across the board, concerns for retirement are higher than those with low financial fragility.

Reducing financial fragility is an important step in helping individuals manage the priorities of today and those of the future, especially funding a secure retirement. Financial wellness and education programs looking to address these issues should understand the range of differences among financial fragility levels. These programs need to be designed so individuals of different fragility levels can connect to what is useful and important to their situation. Some examples of these strategies include:
• Debt can be a huge barrier to financial security. Avoiding high-cost debt and understanding intelligent use of debt are important issues for those with high financial fragility.
• Maintaining an emergency fund is an important tool that is currently underutilized.
• Increasing planning efforts and extending planning horizons appear to be the biggest hurdles for those with high financial fragility. Moving to longer planning horizons and moving beyond cash flow to longer-term planning, including retirement, likely need to be addressed in small steps.
• Employing effective strategies that integrate affording everyday bills and saving for the future—including for retirement, education and emergencies—are important.
• Recognizing that, as savings accumulate, the focus will need to shift from how to save to how to invest.

Reducing levels of financial fragility is an important step to helping individuals succeed in retirement planning and building retirement security.
Methodology

The report presents the results of research conducted by Greenwald & Associates, on behalf of the Society of Actuaries. Using Research Now’s panel, Greenwald conducted an online survey of 2,001 individuals: 398 Millennials, 399 Gen Xers, 403 Late Boomers, 401 Early Boomers and 400 Silent Generation. The survey was conducted from July 17 through July 27, 2018.

The financial fragility index is based on the following questions:

- “What are your feelings when you are reviewing your financial situation and looking ahead for planning purposes?” Zero to 20 points were allotted based on the respondent’s net score of 10 possible answer choices with five positive and five negative answer choices.
- “Please check the box that best describes where you stand in the continuum between each of the following pairs of opposing words: Confident in making financial decisions; not confident in making financial decisions.” Zero to 10 points were allotted based on the respondent’s confidence level in making financial decisions with those with the most confidence receiving zero points and those with the least 20 points.
- “If you had an unexpected expense of $10,000 that had to be paid immediately, how would you cover it?” Five points were allotted if the respondent was not able to cover a $10,000 unexpected expense with only emergency savings, general savings and—for those retired—retirement savings.
- “If you had an unexpected expense of $1,000 that had to be paid immediately, how would you cover it?” For those that could not afford an expense of $10,000, five points were allotted if the respondent was not able to cover a $1,000 unexpected expense with only emergency savings, general savings and—for those retired—retirement savings.
- “Please indicate the extent to which you agree or disagree with the following statements: You are on track in planning for a financially secure retirement; your level of debt is complicating your ability to manage your finances.” Zero to 10 points were allotted for each statement based on the respondent’s level of agreement or disagreement. The most on track received zero points, and the least received 10 points. Those with no debt complications received zero points, and the most received 10 points.

In total, the index ranges from zero, indicating the least financially fragile, to 60, the most financially fragile. The final index has the following distribution: Very low, index score of 0–11, n = 472; Low, index score of 12–23, n = 678; Moderate, index score of 24–35, n = 484; High, index score of 36–47, n = 277; Very high, index score of 48–60, n = 90.

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The SOA supports actuaries and advances knowledge through research and education. As part of its work, the SOA seeks to inform public policy development and public understanding through research. The SOA aspires to be a trusted source of objective, data-driven research and analysis with an actuarial perspective for its members, industry, policymakers and the public. This distinct perspective comes from the SOA as an association of actuaries, who have a rigorous formal education and direct experience as practitioners as they perform applied research. The SOA also welcomes the opportunity to partner with other organizations in our work where appropriate.

The SOA has a history of working with public policymakers and regulators in developing historical experience studies and projection techniques as well as individual reports on health care, retirement and other topics. The SOA’s research is intended to aid the work of policymakers and regulators and follow certain core principles:

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