Financial Security and Well-being in Retirement:

What Lies Ahead?

Center for Financial Security
UNIVERSITY OF WISCONSIN-MADISON

J. Michael Collins

Life Course Approach

Emerging Adult (16-18)

Young Adult (19-25)

Young Households (26-40)
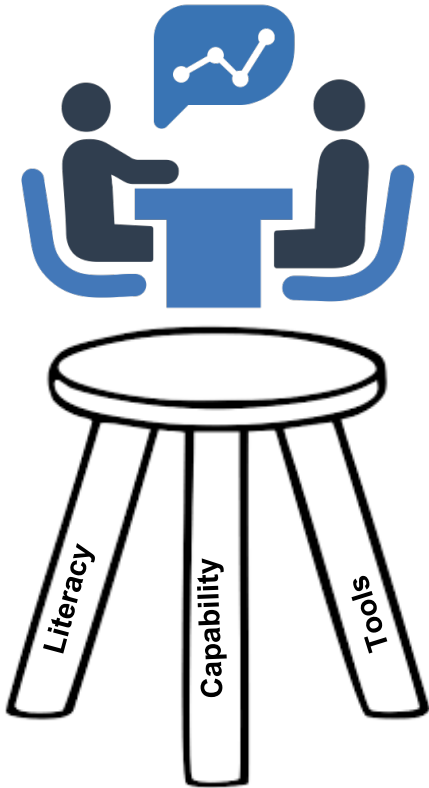
Peak Working Age (41-65) ←

Retirement Transitions (65-72)

De-accumulation (73+)

The "3- Legged Stool" of Financial Security

1. **Financial Literacy**
   - Knowing Information

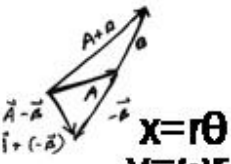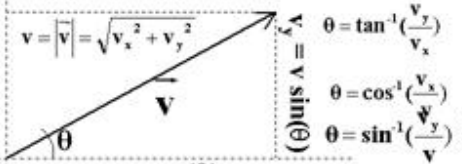2. **Financial Capability & Wellbeing**
   - Skills & Confidence
   - Wellbeing

3. **Financial Access & Tools**
   - Savings
   - Social Insurance

$$\Delta x = x_f - x_i \qquad \Delta v = v_f - v_i$$

$$\vec{v} = \frac{\Delta \vec{r}}{\Delta t} \qquad \vec{a} = \frac{\Delta \vec{v}}{\Delta t}$$

$$v = |\vec{v}| = \sqrt{v_x^2 + v_y^2}$$

$$\theta = \tan^{-1}\left(\frac{v_y}{v_x}\right)$$

$$\theta = \cos^{-1}\left(\frac{v_x}{v}\right)$$

$$\theta = \sin^{-1}\left(\frac{v_y}{v}\right)$$

$$v_y = v\sin(\theta)$$

$$v_x = v\cos(\theta)$$

$$\omega = \frac{\Delta\theta}{\Delta t} \qquad \alpha = \frac{\Delta\omega}{\Delta t}$$

$$x = r\theta \qquad \omega = 2\pi f \qquad f = \frac{1}{T}$$

$$v = \omega r$$
$$a = \alpha r$$

$$\omega = \omega_o + \alpha t$$

$$v = v_o + at$$
$$x = x_o + v_o t + at^2/2$$
$$v^2 - v_o^2 = 2a(x - x_o)$$
$$\bar{v} = \frac{v_f + v_i}{2}$$
$$\Delta x = \bar{v}\,\Delta t$$

$$x \to x, y \qquad x_o \to x_o, y_o$$
$$v \to v_x, v_y \qquad v_o \to v_{ox}, v_{oy}$$
$$a \to a_x, a_y$$

$$I = \sum_i^{all} m_i r_i^2 \qquad \theta = \theta_o + \omega_o t + \frac{1}{2}\alpha t^2$$

$$\omega^2 - \omega_o^2 = 2\alpha(\theta - \theta_o)$$

$$v = \sqrt{\frac{T}{\rho}}$$

$$\vec{F}_{tot} = m\,\vec{a}$$

$$\mu N \qquad a = \frac{v^2}{R} \qquad v = \lambda f$$

$$L = r_\perp p = mvr_\perp \qquad \tau = r_\perp F = rF_\perp$$
$$L = I\omega \qquad \tau = \frac{\Delta L}{\Delta t} \qquad \tau = I\alpha$$

$$\frac{1}{2}I\omega^2$$

$$\sum_i^{all} \vec{F}_i = 0 \qquad \sum_i^{all} \vec{\tau}_i = 0$$

$$E = K + U \qquad \Delta Q = (quant.)\ C_{const.}\ \Delta T \qquad \Delta S \geq 0$$

$$W = F\,d_\parallel = F_\parallel d \qquad E_i = E_f \qquad \Delta Q_{into} = \Delta W_{by} + \Delta E$$

$$W_{tot} = \Delta(KE) \qquad \frac{1}{2}mv^2 \qquad \Delta Q = l\,\Delta(quant.) \qquad PV = nRT$$

$$\Delta U = -W_{if} \qquad \frac{RT}{2}\Big|_{deg.\ freedom} \qquad C_P = C_V + R$$

$$\frac{1}{2}kx^2 \qquad \omega = \sqrt{\frac{k}{m}} \qquad e = \frac{\Delta W}{\Delta Q} \qquad e = 1 - \frac{T_L}{T_H} \qquad P = \frac{F}{A}$$

$$x = A\cos(\omega t) = \{or\}\ A\sin(\omega t)$$
$$v = -A\omega\sin(\omega t) = \{or\}\ A\omega\cos(\omega t)$$
$$a = -A\omega^2\cos(\omega t) = \{or\}\ -A\omega^2\sin(\omega t)$$

$$M = \rho V \qquad P_1 = P_2$$

$$\Delta P = \rho g\,\Delta h$$

$$p = mv$$
$$\vec{P}_{init} = \vec{P}_{final}$$

$$B = \rho_{liq} V_{disp} g$$

$$\left(\sum_j^{all} m_j \vec{v}_j\right)_{init} = \left(\sum_j^{all} m_j \vec{v}_j\right)_{final}$$

$$M_e = 5.97(10)^{24}\ Kg$$
$$R_e = 6.37(10)^6\ m$$
$$G = 6.67(10)^{-11}\ N\ m^2/Kg^2$$

$$\frac{GM_e}{R_e} = gR_e \qquad \frac{GMm}{r^2}$$

$$-\frac{GMm}{r}$$
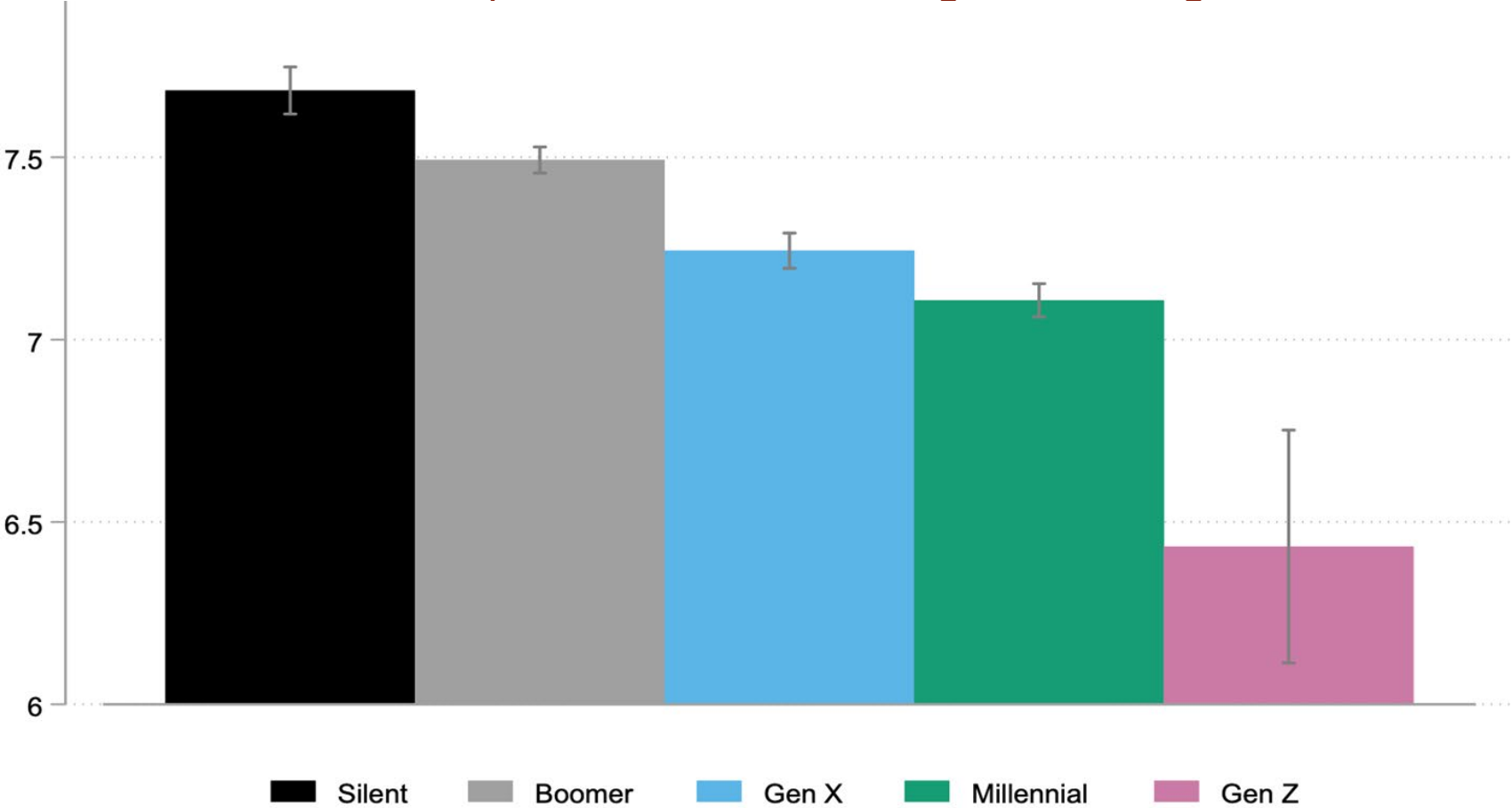
$$A_1 v_1 = A_2 v_2$$

$$P + \frac{1}{2}\rho v^2 = const.$$

FINRA Financial Capability Study Financial Literacy Quiz (5-questions)

Legend: Silent, Boomer, Gen X, Millennial, Gen Z
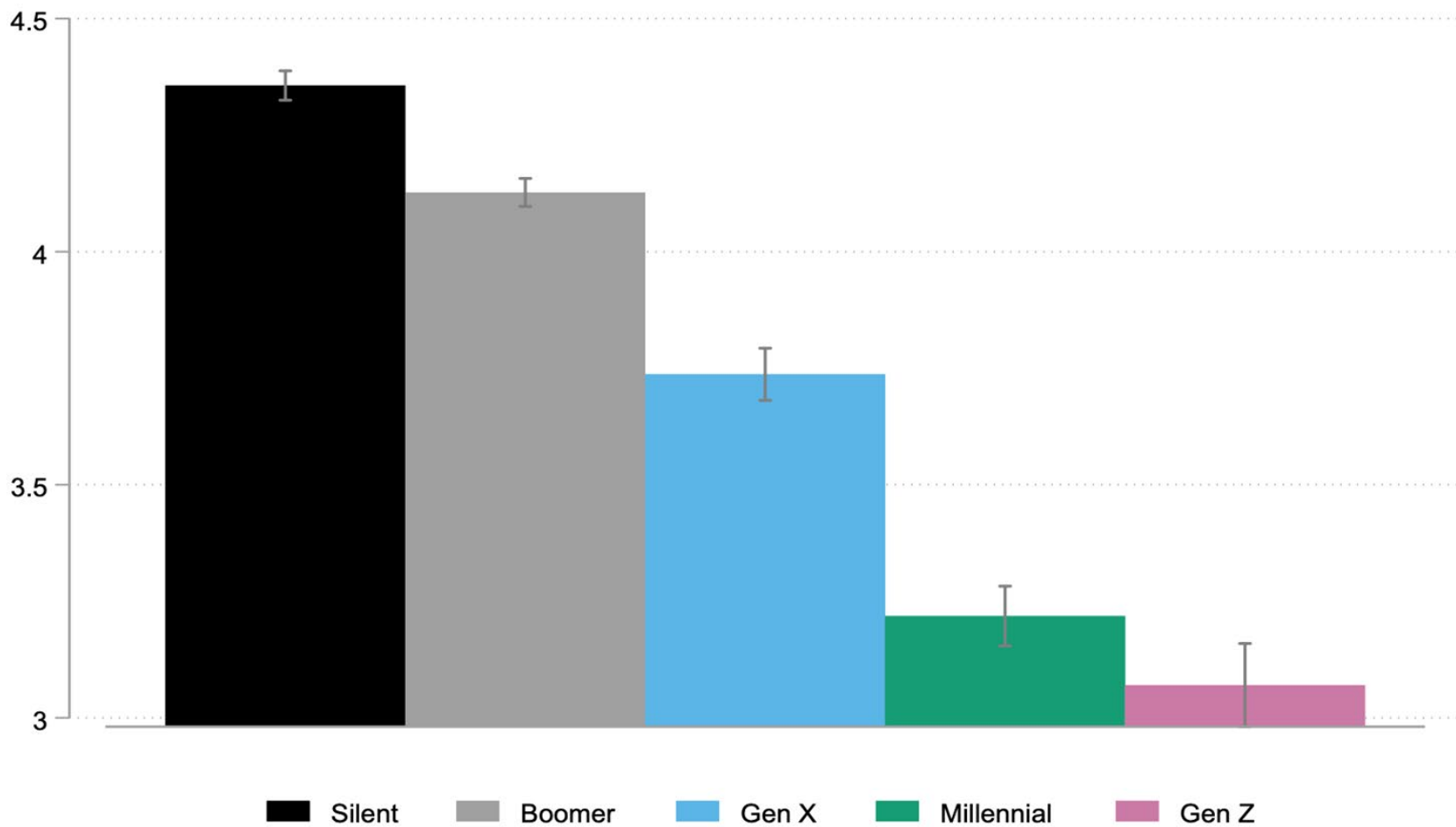
Federal Reserve Survey of Consumer Finances 2016
10-point Financial Knowledge Self Rating

Financial Literacy

1. Terms, Definitions, Applied Numeracy

e.g. compound interest, Rule of 72, bond prices, etc.

2. Economic Concepts – rules of thumb

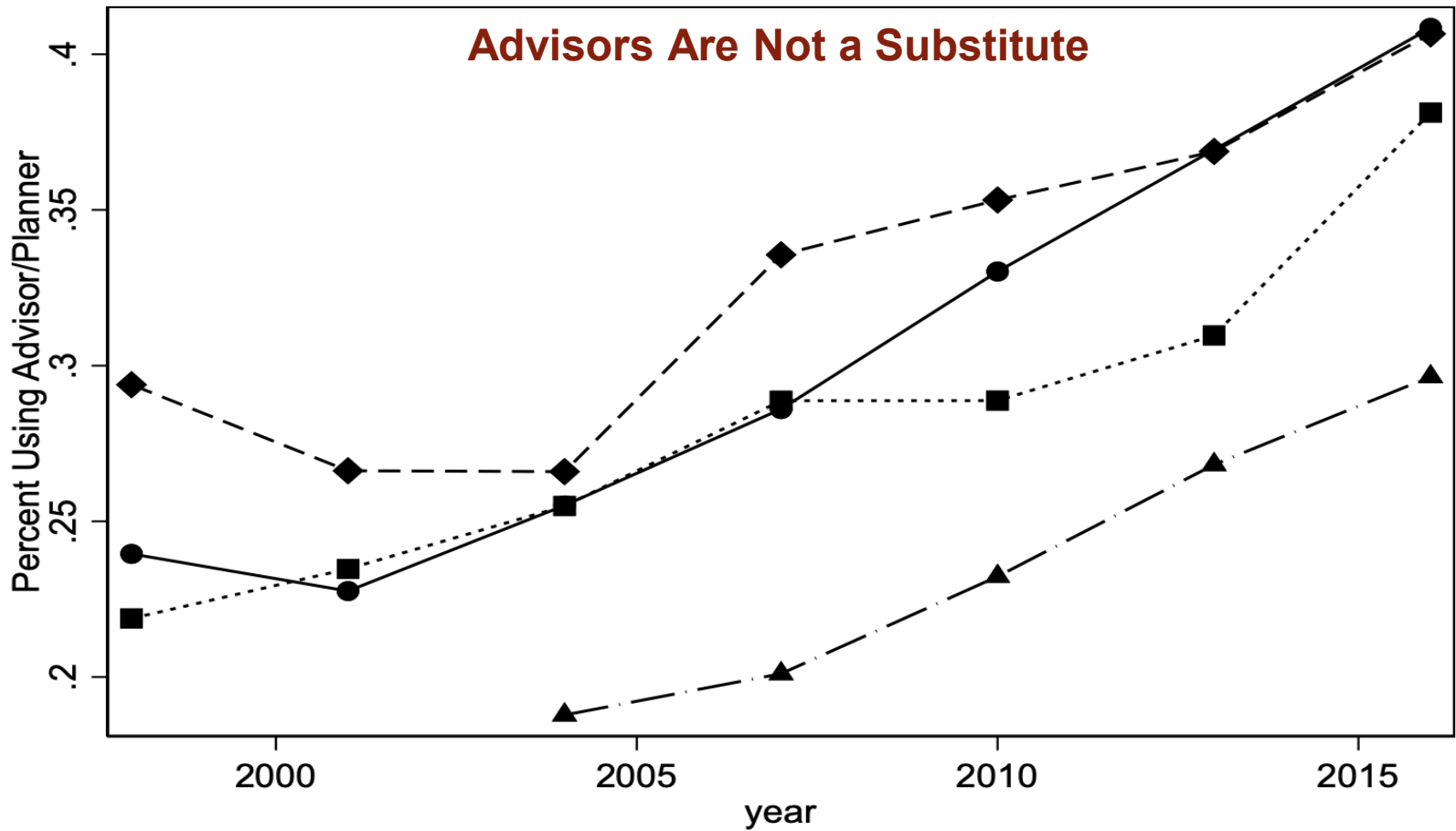e.g. "no free lunch", costs and benefits, marginal costs

3. Knowing to ask questions

e.g. understanding where/how to learn more

Advisors Are Not a Substitute

Federal Reserve Survey of Consumer Finances

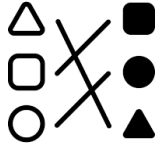# People with More Financial Knowledge Seek Advice

Advice on debt, taxes, investment, insurance in last 5 years
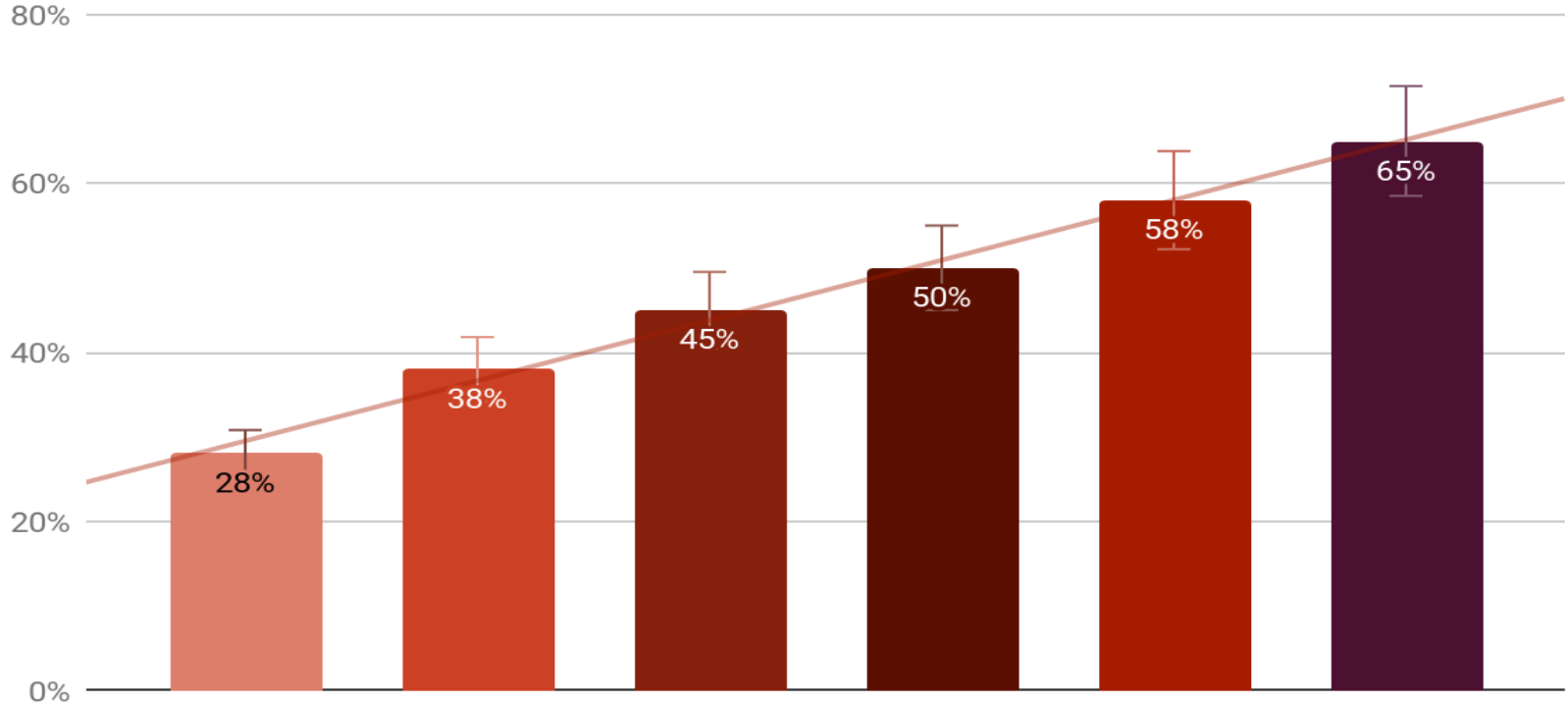
Number correct financial literacy questions

FINRA FInancial Capability Study 2015
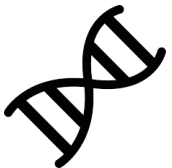
Not One Size Fits All

Match content to decisions

Few, **simple** pieces of information are often all that is needed

Delivered in **flexible** and convenient ways

Assume some **basic** foundational knowledge

Set Goals

Goals are what keeps us motivated. 3 to 4 simple goals are great. For example: "to buy a home" or "send my son to school"

Maintain an Emergency Fund

Having a cushion reduces stress and prevents problems. Set aside enough to cover recurring bills or unexpected expenses.

Automate Bills and Saving

Set up transfers every paycheck or every month. If you wait to save, there never seems to be anything left. You can always tap into your savings during the month if needed.
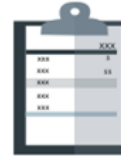
Use a System to Manage Multiple Accounts

Some accounts are for making ends meet, others are more for long-run, like retirement. Online tools might help. Keep fees as low as you can.

Maximize Savings Matches

If your employer has a retirement plan and offers a match, save at least enough to get all the match you can qualify for. It is like a bonus.

Pay Attention to Spending & Due Dates Every Month

It's easy to lose track of what you spend. Check your accounts frequently. Make sure to keep track of due dates. Set up a system so you can pay every bill on time.

Use Insurance

Shop around for a auto, home and life insurance policy. Insurance can protect you from hardships. You may also want to shop around for disability insurance.

Pay Off Credit Cards in Full

Payment cards are convenient, but if the card offers you the ability to revolve or carry the balance month to month, it can become expensive. Pay off the balance every month if you can.

Watch for Fees and Costs

No matter what kind of financial service, subscription, investment or loan, be sure to shop around, read the fine print, and ask questions.

Field Study:
Online Financial Education Increased Retirement Savings

Monthly Deferral $

Legend: Before, After

Education — Before: ~250, After: ~325
No Education — Before: ~300, After: ~295
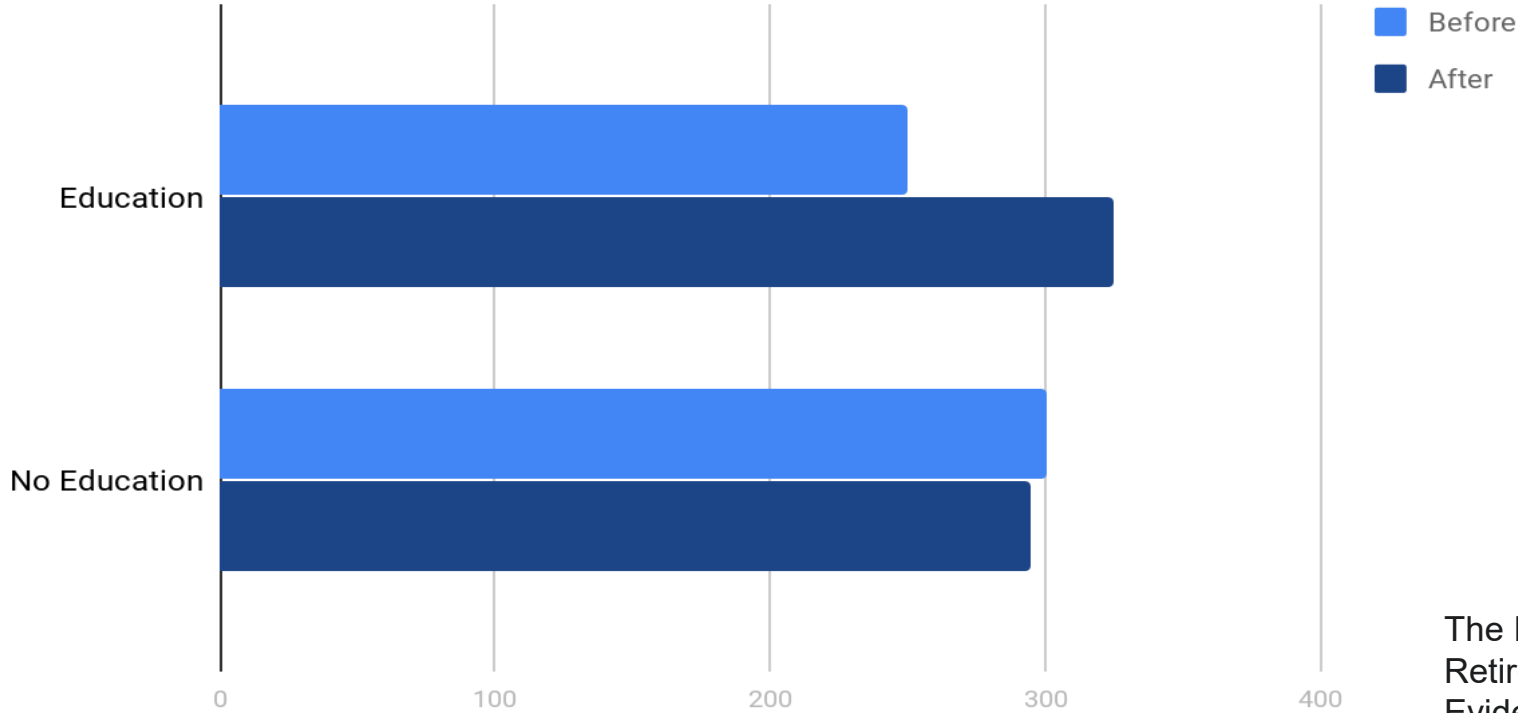
The Role of Information On Retirement Planning: Evidence From A Field Study. J. Michael Collins Carly Urban 2016

Field Study:
Workshops Targeted to Women in Workplace Narrowed Gap in Savings Rate

Contributions in dollars per month to employer defined contribution plan
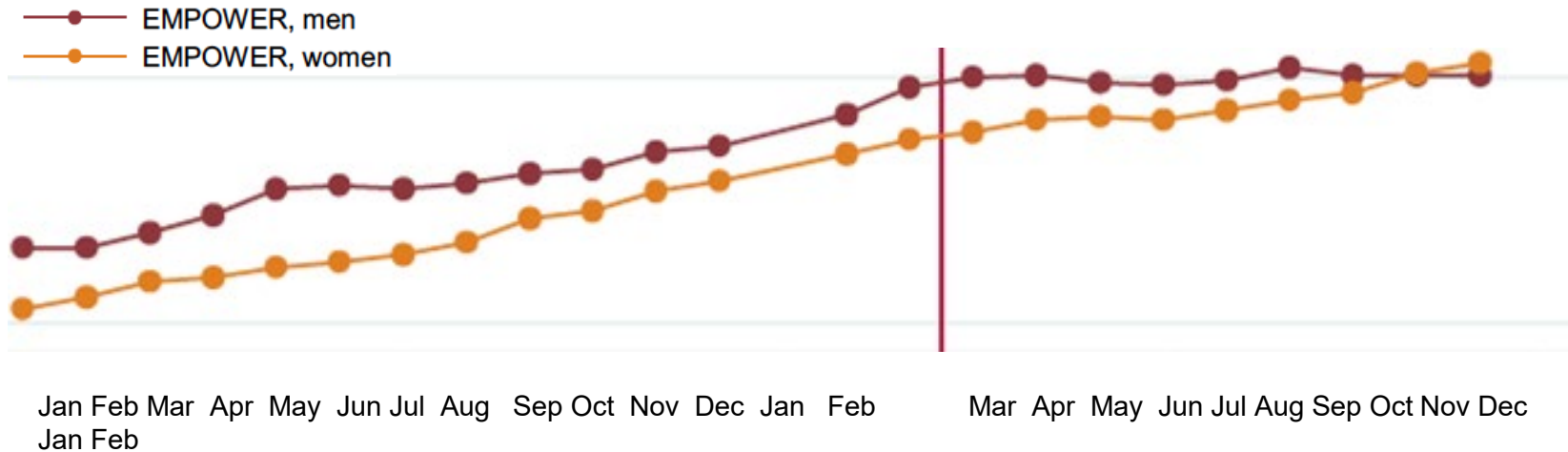
Anderson, D. M. and J. M. Collins (2018). "Can Knowledge Empower Women to Save More for Retirement?"

Financial Wellbeing

Meet financial **obligations**,

Feel **secure** in financial future,

Able to **make choices** that **allow** enjoyment of life.

– Independence

– Control

– Stability

– Resilience

Financial Wellbeing

❑ Control over day-to-day finances

❑ Ability to absorb a financial shock

❑ On track to meet financial goals

❑ Financial situation does not limit basic consumption
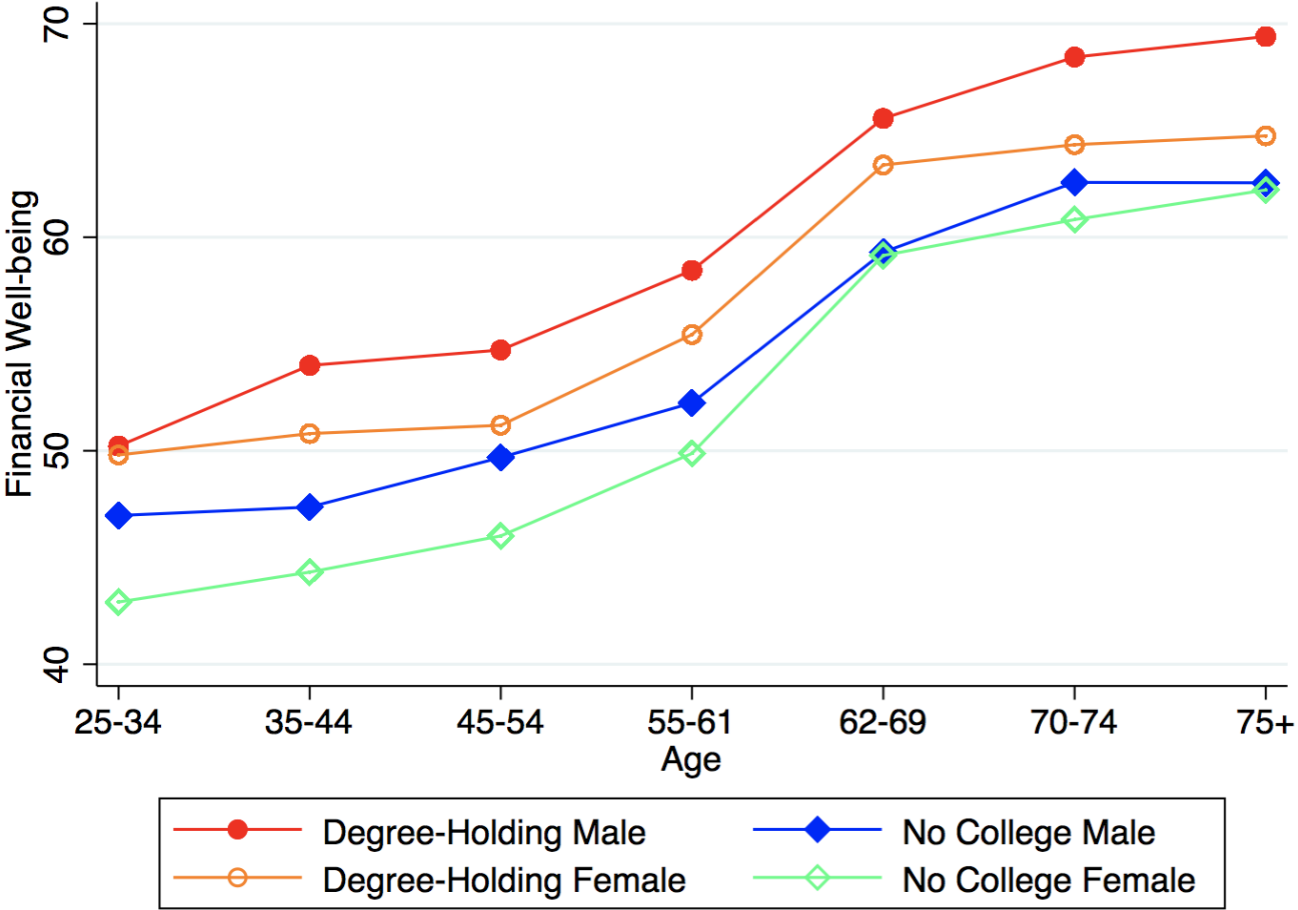
National Financial Wellbeing Survey, 2016.

Key Factors for Financial Capability

Motivation

Attention/ Planning
    Take on new financial tasks
    Reminders to stick with it

Liquidity
    Emergency Savings
    Credit
    Insurance (payment security vs volatility)

Access
    Products & Services

EDITED BY J. MICHAEL COLLINS

A FRAGILE BALANCE

EMERGENCY SAVINGS AND LIQUID RESOURCES
FOR LOW-INCOME CONSUMERS
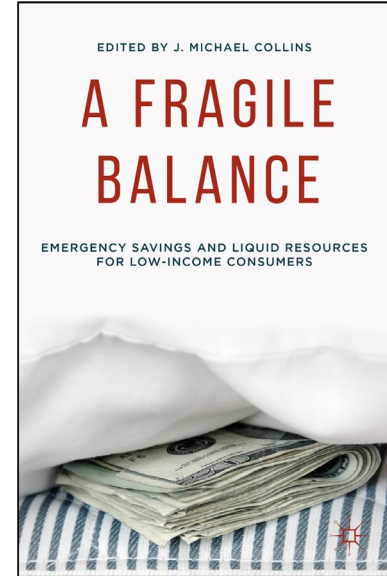
Rate of People Working by Age, 2017
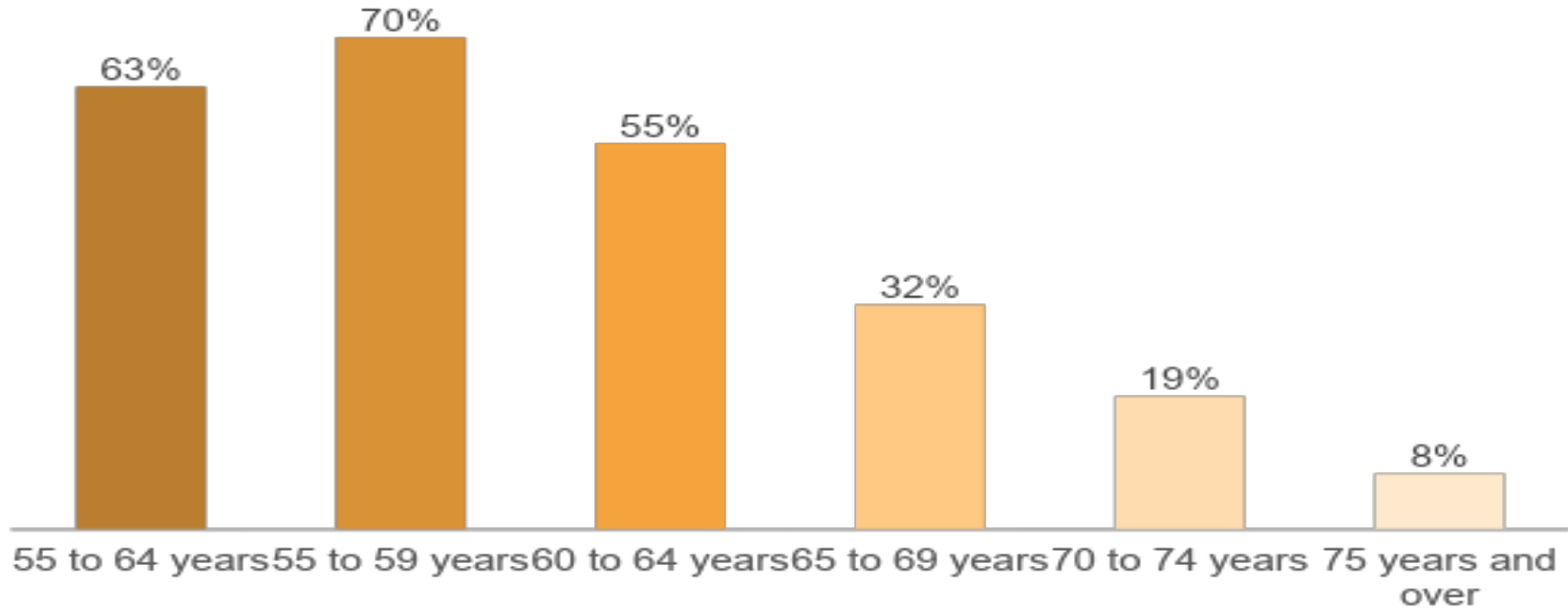
65+ Age & Self-Reported Retirement From Work by Income
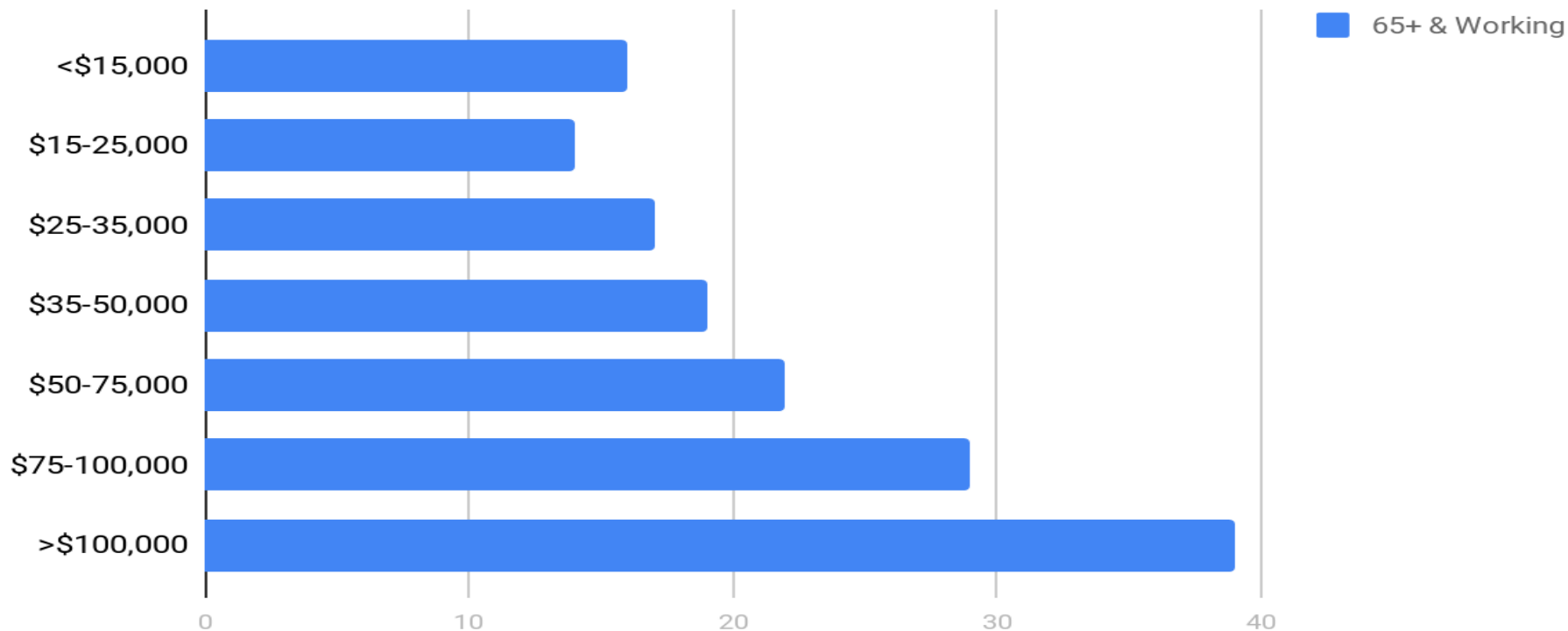
Life Expectancy at age 65

Only 50% of men made it to age 65 in 1940.

Today 75% do.
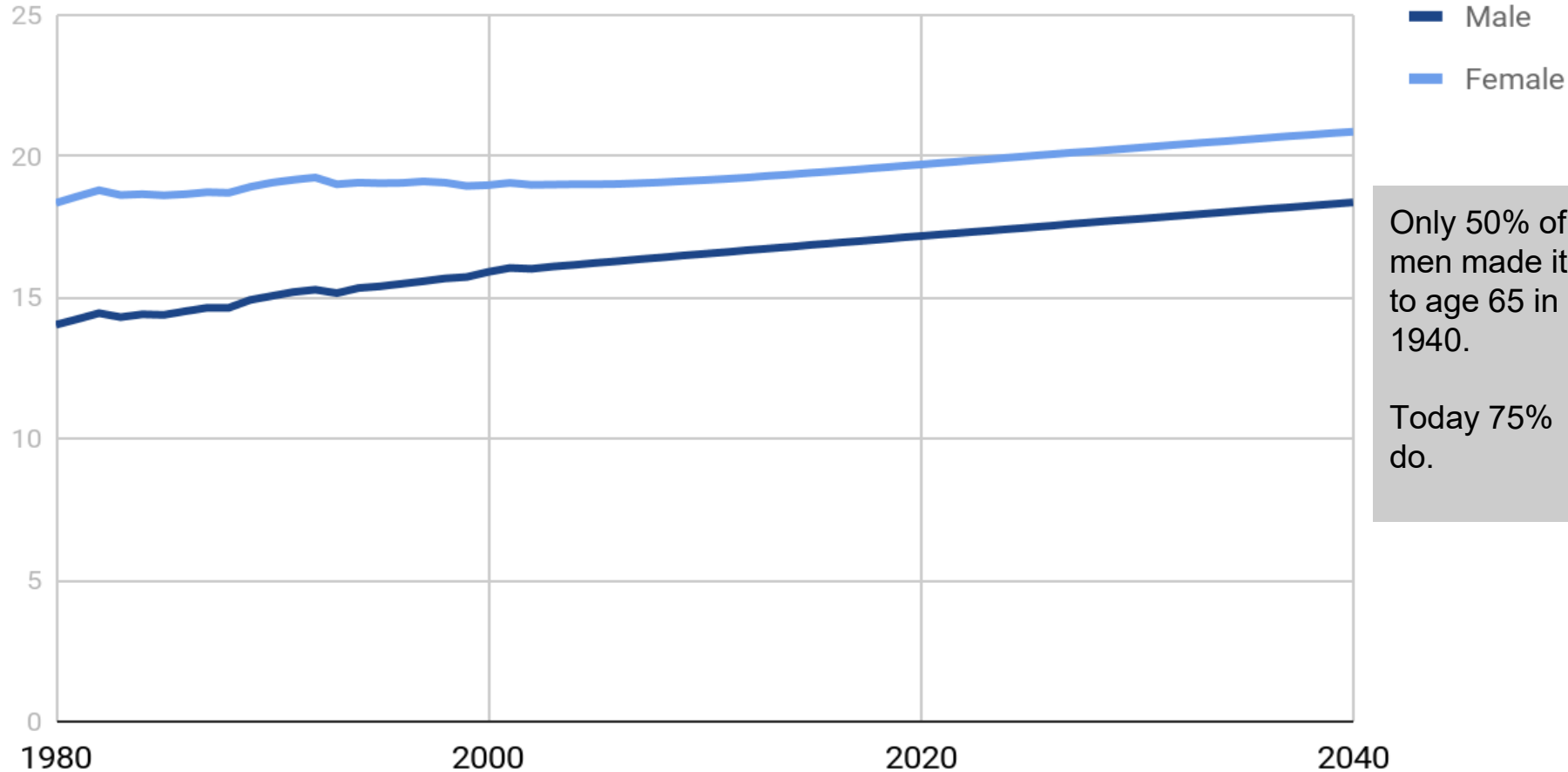
Wealth Levels Over Time by Age
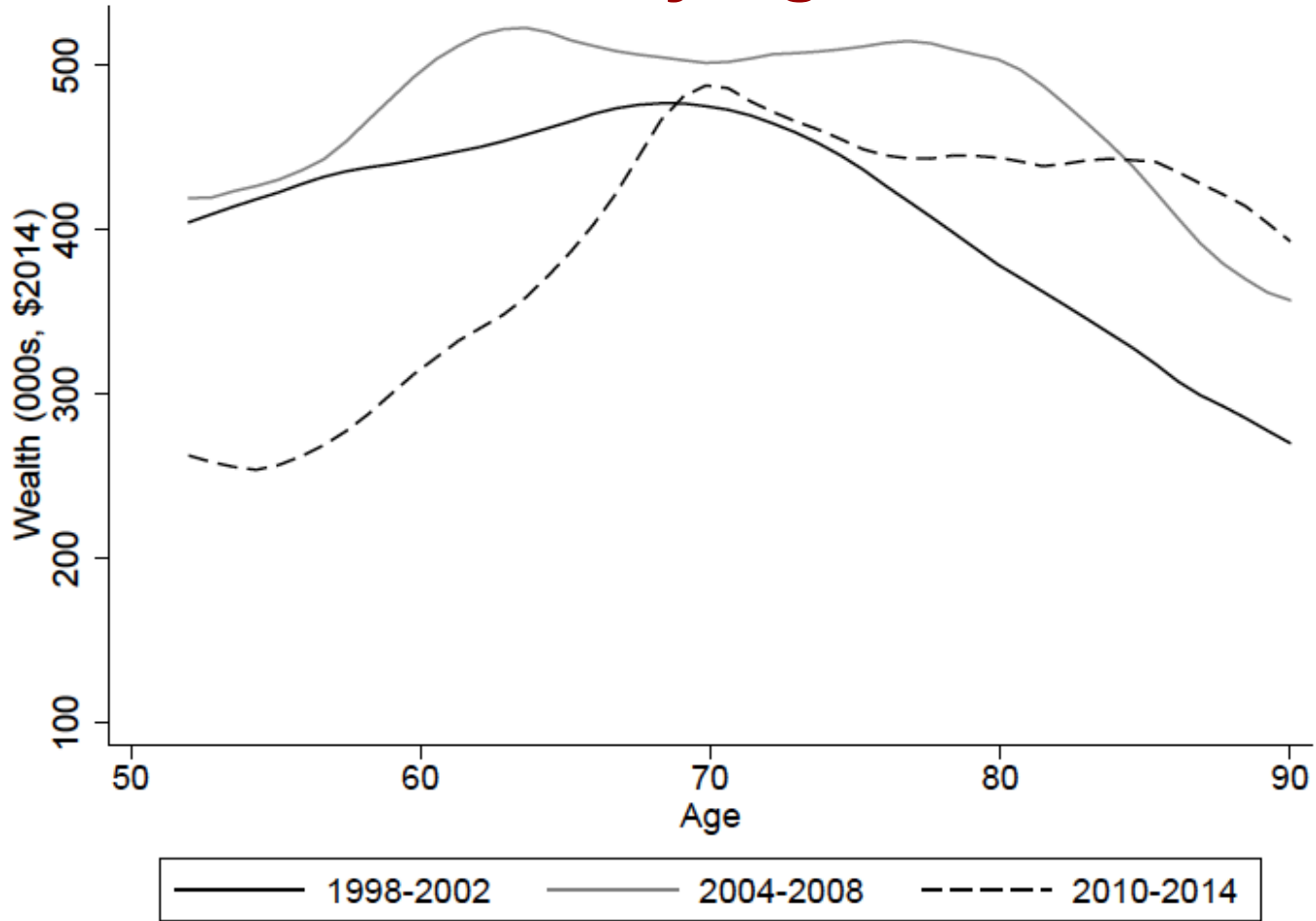
20th Wealth Percentile
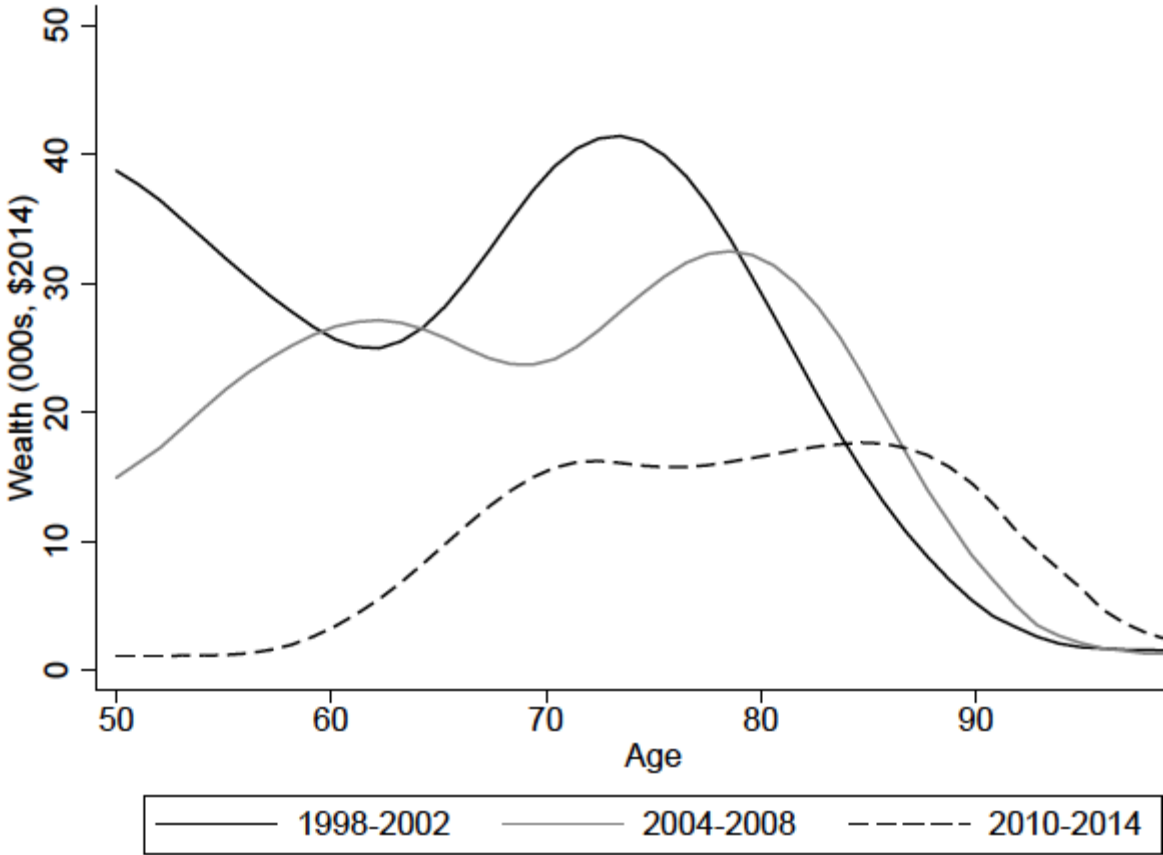
From Defined Benefit to Defined Contribution

Access by Income Level

Chart: Access by Income Level showing Defined benefit and Defined contribution

Income Level	Defined benefit	Defined contribution
Lowest 10 percent	4	30
Lowest 25 percent	8	41
Second 25 percent	21	62
Third 25 percent	33	69
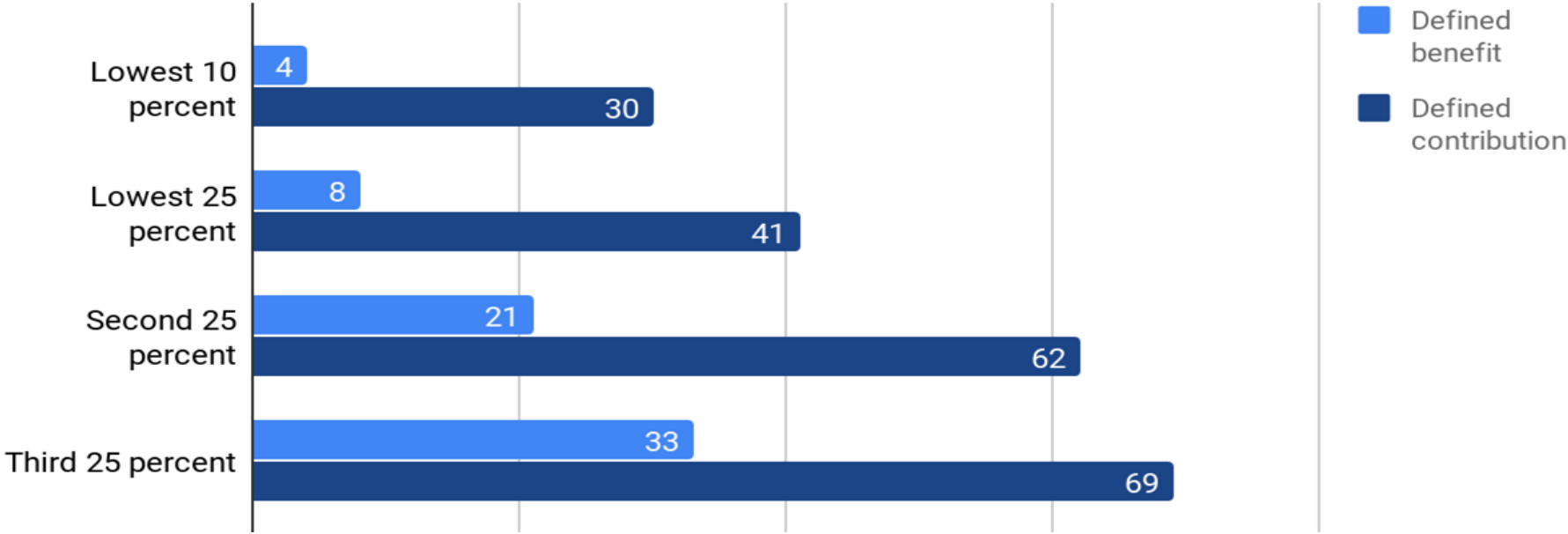
Housing Wealth by Income
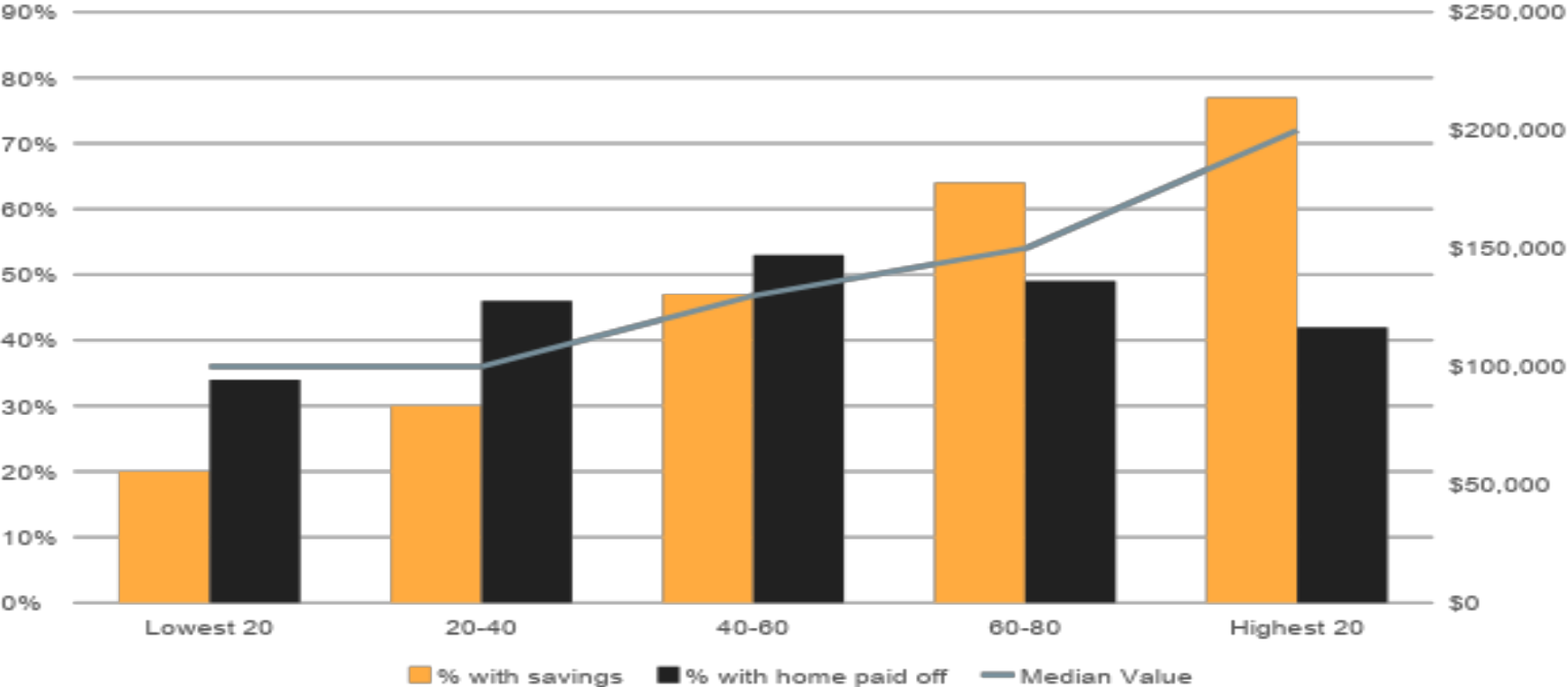
Home Equity as Primary Form of Wealth

	Age 50-64			
	Homeowner			Renter
	Home Equity	Non-Housing Wealth	Net Worth	Net Worth
Less than $15,000	55,000	9,100	**66,100**	**790**
$15,000–29,999	60,000	11,500	**93,150**	**2,520**
$30,000–44,999	70,000	42,290	**120,200**	**9,700**
$45,000–74,999	90,000	86,150	**192,500**	**14,735**
$75,000 or More	186,000	447,405	**691,200**	**121,800**

2016 Survey of Consumer Finances.

https://www.jchs.harvard.edu/housing-americas-older-adults-2018
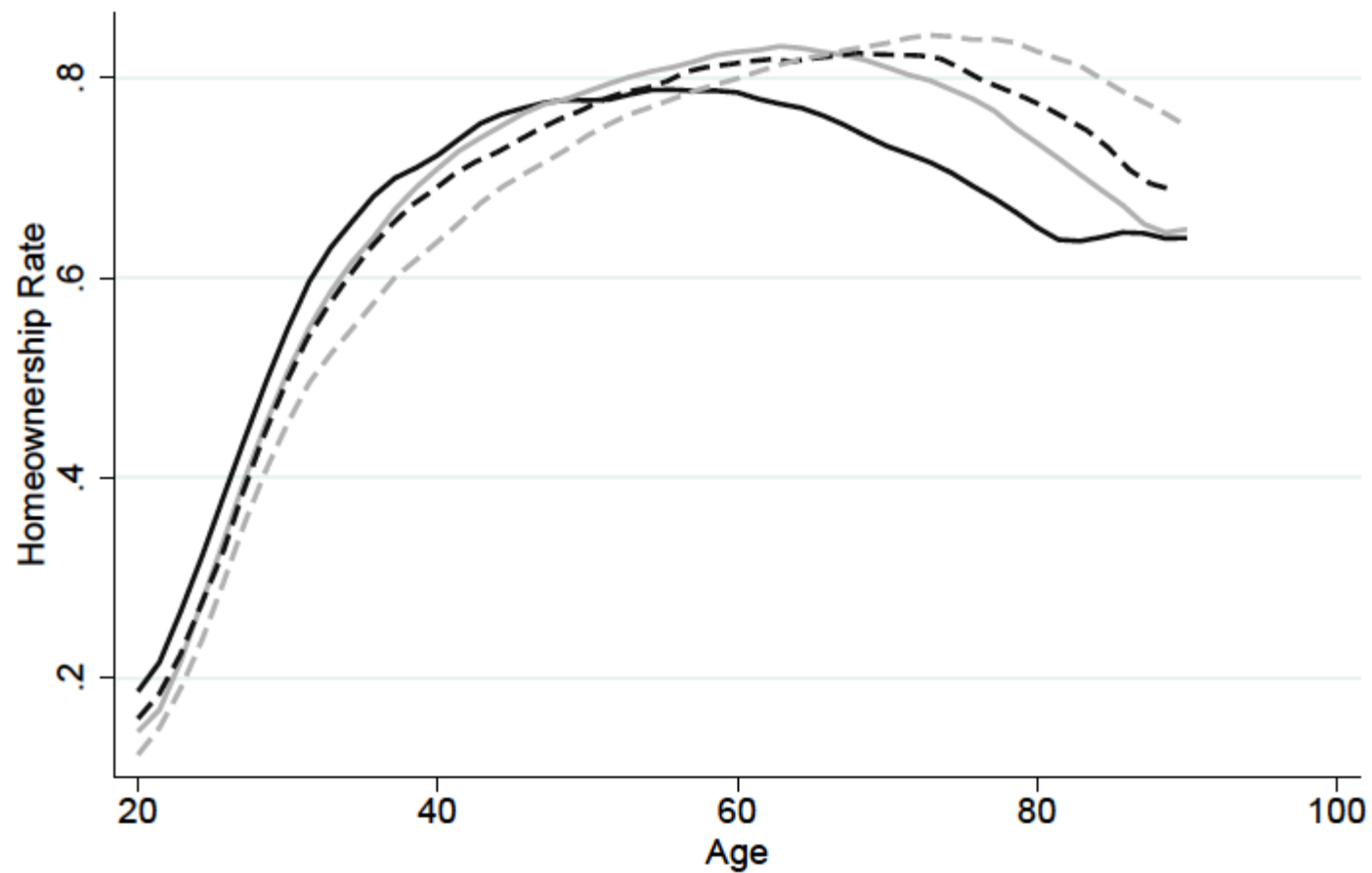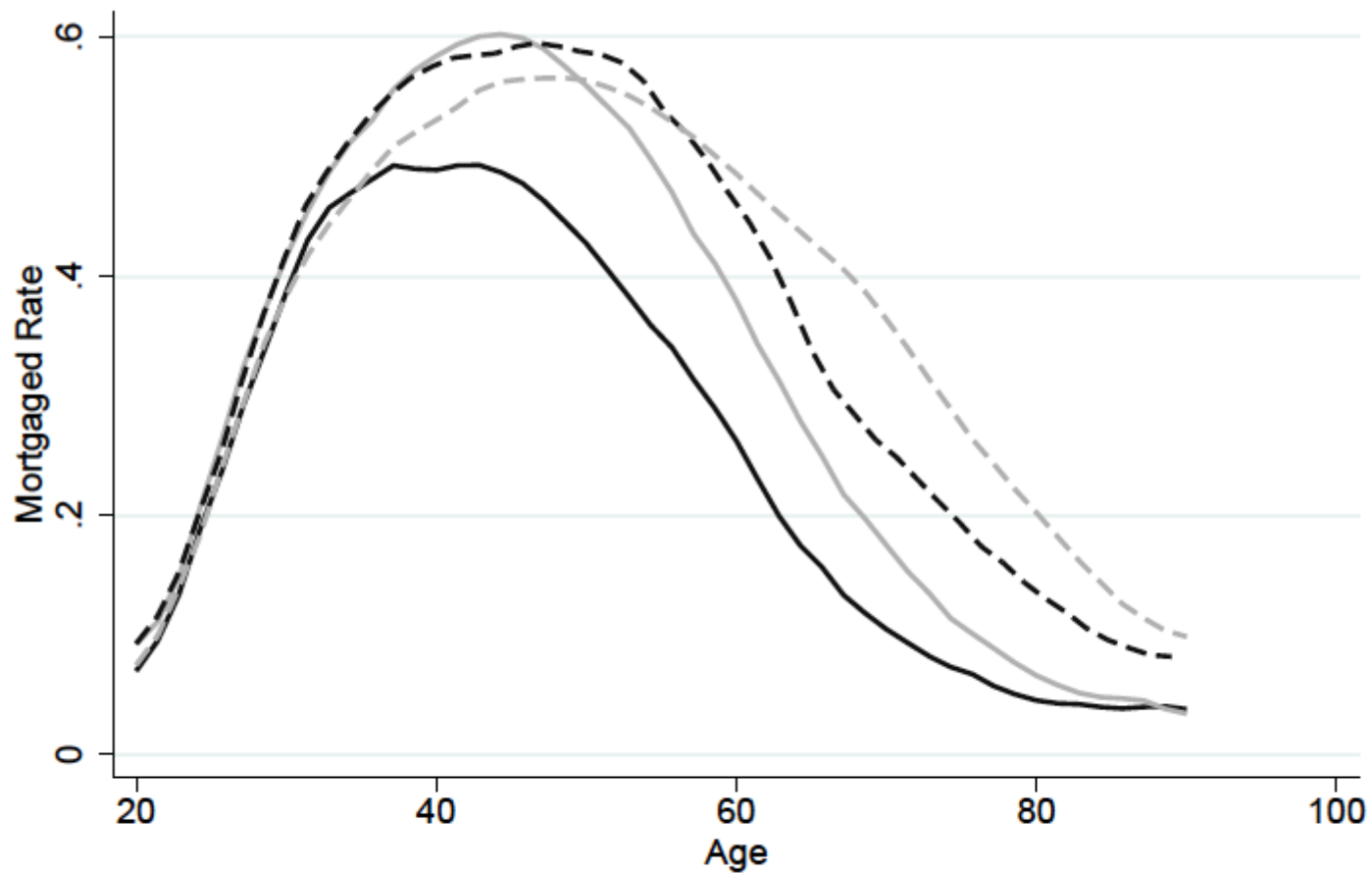
Reverse Mortgage

Home Equity Conversion Mortgage (HECM)

Homeowners 62 and older to convert home equity into cash for…
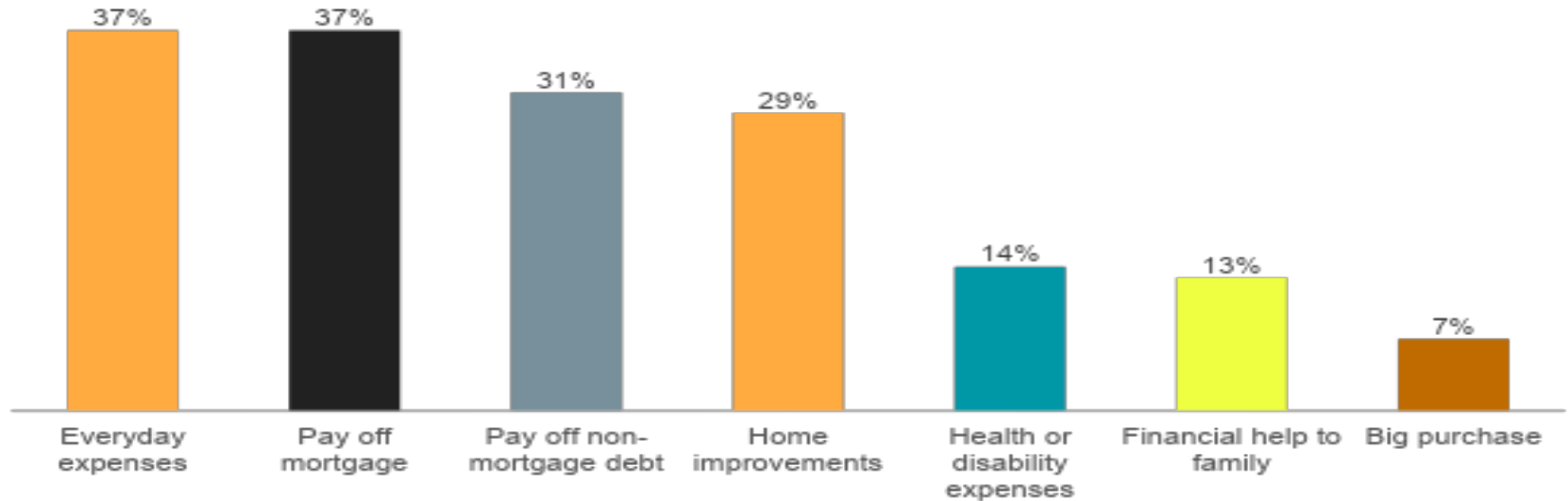
Planning: Good Scenario

Replacement rates – level of consumption will cover costs of living

Saving – have access to programs at low cost

Work – no disruptions, no health problems

Debt – little or no debt service required in retirement

Coordination -spouse and family issues / timing

Example: Male Born in 1962

Began working in 1980 at age 18.
In 2027 will be age 65 and plan to retire from work

Worked every year, earning $12,000 annually in 1980
3% wage increases annually: $25,500 in 2019

Saved 3% of income annually, grew at 5% annually

Will have $94,000 saved
Social Security will pay $15,000 per year if claim at 65

Goal: replace income of $30,000 when retire.
Gap: $15,000 per year. **By age 72, savings depleted**

https://www.ssa.gov/benefits/retirement/estimator.html

Social Security Income is Major Source

Among households age 65-74 with no retirement savings

- Public assistance
- 4%
- 7% Other
- 19% Defined benefit plan income
- 13% Wage/salary income
- 57% Social Security income

Among households age 65-74 with some retirement savings

- Retirement savings plan distributions
- 16% Other
- 31% Social Security income
- 9%
- 16%
- 30% Wage/salary income
- Defined benefit plan income
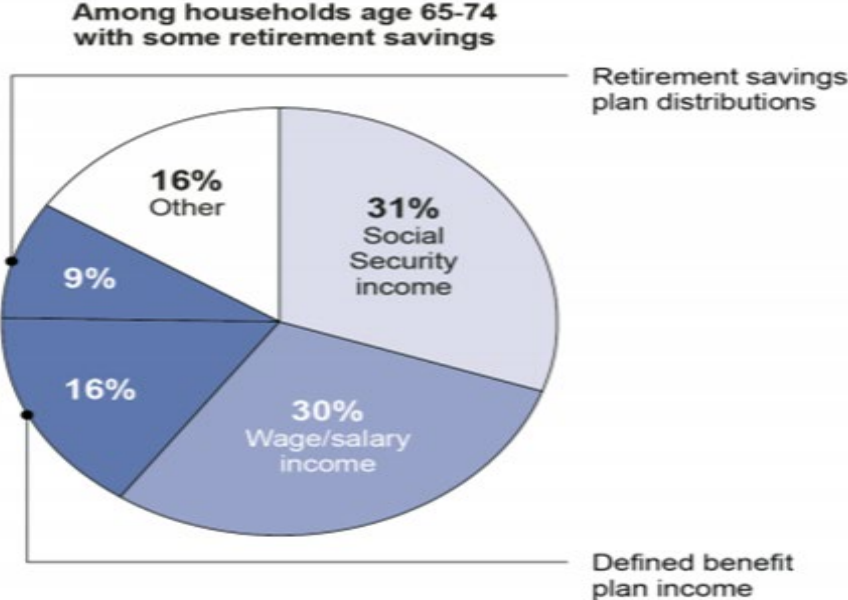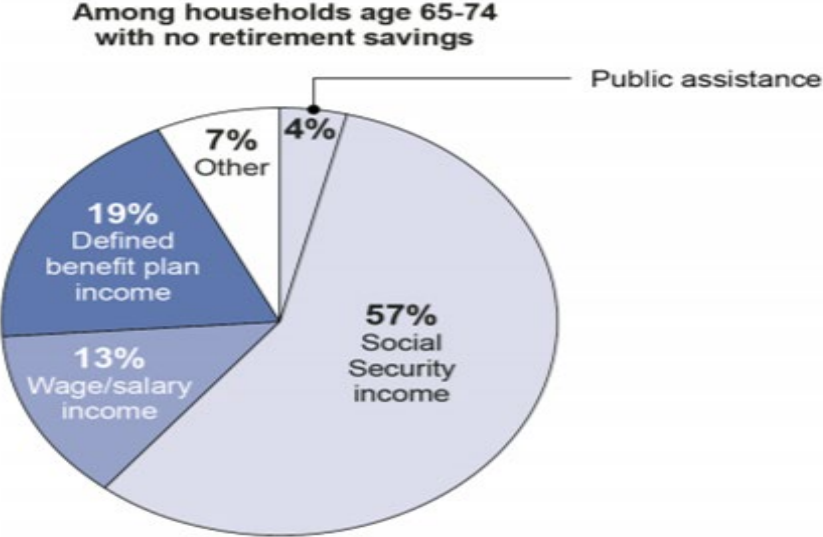
Source: GAO analysis of 2013 Survey of Consumer Finances (SCF) data. | GAO-15-419

Social Security helps 15 million seniors avoid poverty

-Elderly poverty rate would be 39% instead of 9%

https://www.gao.gov/assets/690/687797.pdf

Social Security Beneficiaries: 2017

51 million people / **$799** billion for Old Age and Survivors

10 million people / $**143** billion for Disability

5 million people / **$55** billion for Supplemental Security Income

44 million people / **$706** billion for Medicare
➔ *DI and OASI beneficiaries also qualify for Medicare (after period); SSI generally can qualify for Medicaid*

Social Security Administration: Old Age and Survivors Insurance

Funded by payroll, or "FICA" taxes (Federal Insurance Contributions Act) on earnings

Benefit is based on Primary Insurance Amount: generally average of the highest 35 years of earning

Birth Year	1943-54	1955	1956	1957	1958	1959	1960 & later
Full Retirement Age	66	66 + 2 mos.	66 + 4 mos.	66 + 6 mos.	66 + 8 mos.	66 + 10 mos.	67

http://www.socialsecurity.gov/estimator/

Social Security SSI

2.2 million senior households receive SSI

Maximum benefit $750 for a single individual and $1,125 for a married couple.

Assets cannot exceed $2,000 ($3,000 for couple)

Income level: $9,252 for an individual and $13,884 for a couple.

Applications
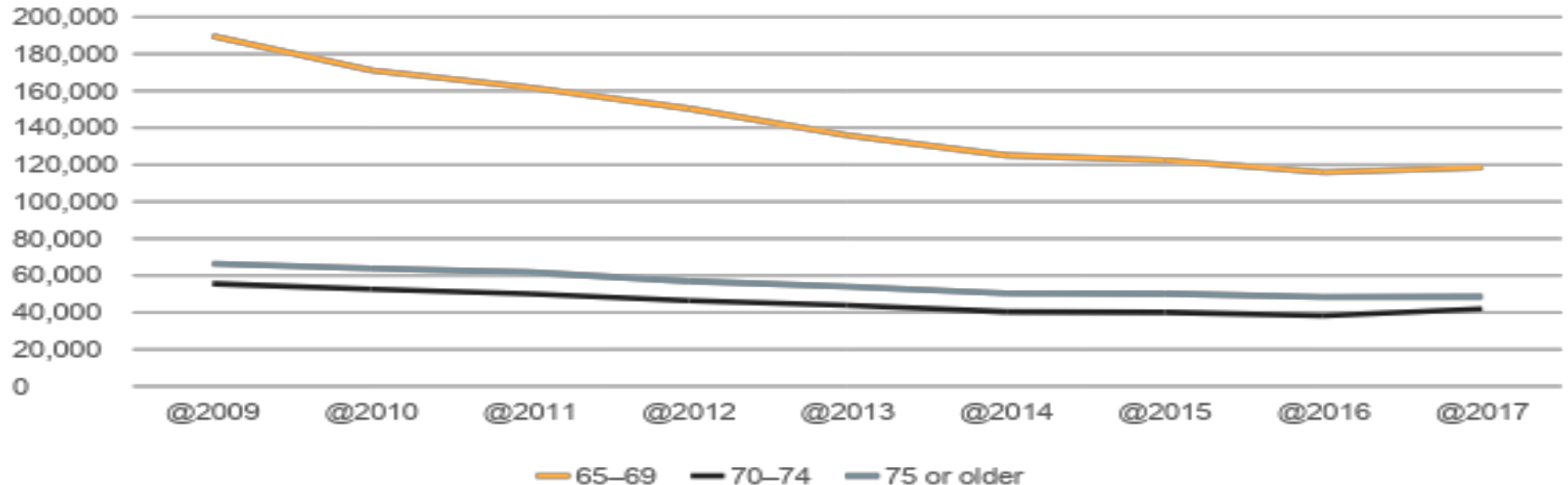
Age 65+ Income Share of Income by Source

Income Level	Earnings	SS-OASI	SSI	Retirement Plan	Other	SSA Amt
Lowest	3%	**55%**	**30%**	6%	6%	$12,596
2	3%	**83%**	4%	6%	4%	$12,325
3	4%	77%	2%	13%	4%	$14,638
4	8%	64%		22%	6%	$16,441
5	11%	53%		29%	7%	$19,313
6	13%	46%		35%	6%	$20,674
7	17%	39%		36%	8%	$22,065
8	19%	32%		40%	9%	$22,752
9	25%	24%		40%	11%	$23,235
Highest	35%	14%		34%	17%	$25,309

Aggregate income, by source (in percent)

	Social Security	Earnings	Asset income	Government employee pensions	Private pensions	Other
1962	31	29	16	6	3	15
2015	33	34	9	8	12	4

SOURCES: Data for 1962 are from SSA, *The Aged Population of the United States: The 1963 Social Security Survey of the Aged* (1967). Data for 2015 are SSA calculations from the March 2016 Annual Social and Economic Supplement to the Current Population Survey.

Ratio of covered workers to Social Security beneficiaries

Immigration, Health/Mortality, Fertility…
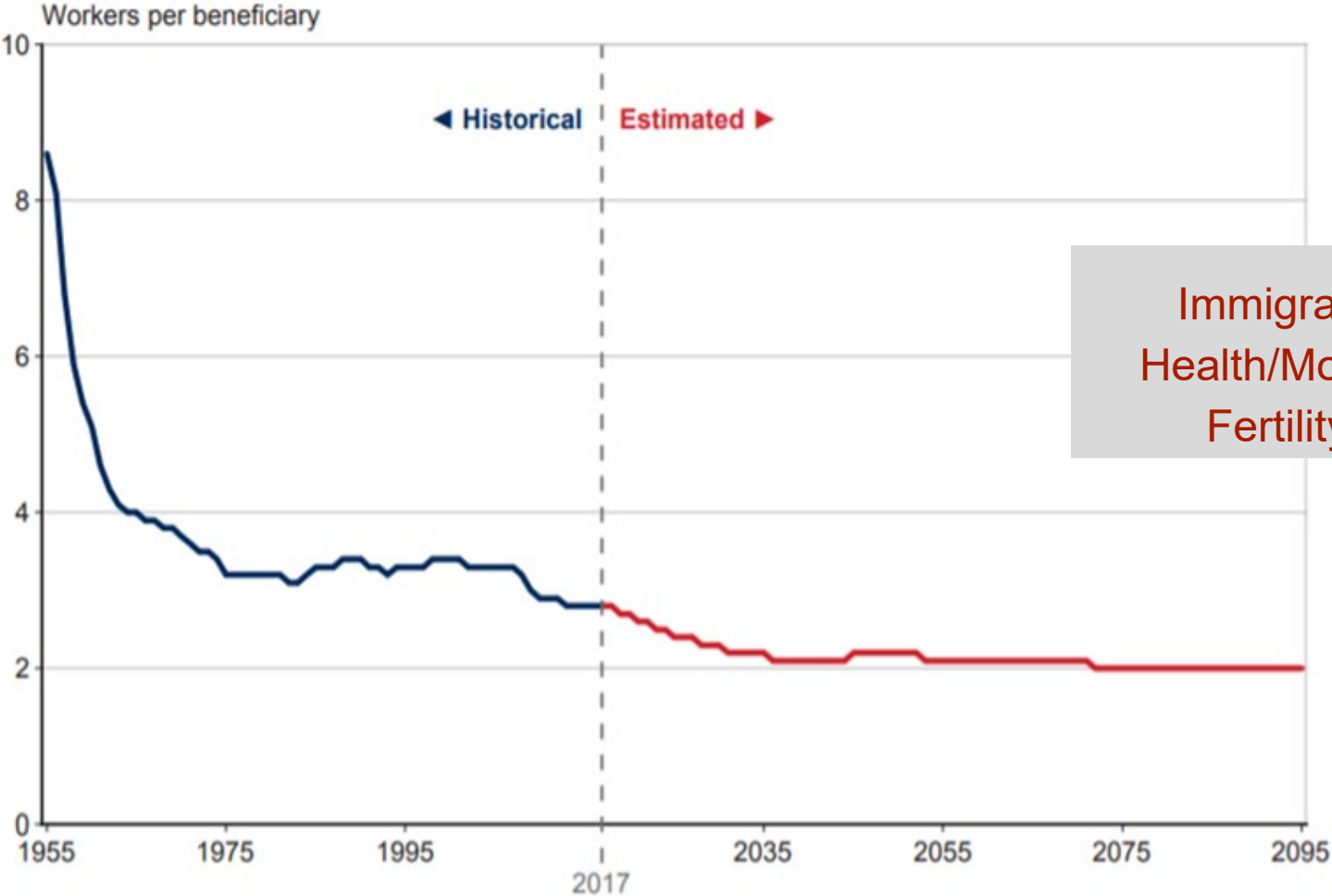
Back to Example: Born in 1962

Can use housing – pay down debt, use equity as income, if owner

Delay Social Security until age 70: OASI benefit is now $21,000
$125,000 saved (because worked/saved/invested longer)

Gap: $12,000 per year. **Now, savings depleted at age 81.**
- Expected life span of 85 for a male who makes it to age 70

Could continue to work part time…if health okay and work exists
Cut expenses…
Rely on spouse or family support…

https://www.ssa.gov/OACT/population/longevity.html

Old Age and Survivors Insurance Will Not "Go Bankrupt", But... (if no reforms) 80 cents on $1

Legend:
- $ from SS Trust Fund
- $ from taxes
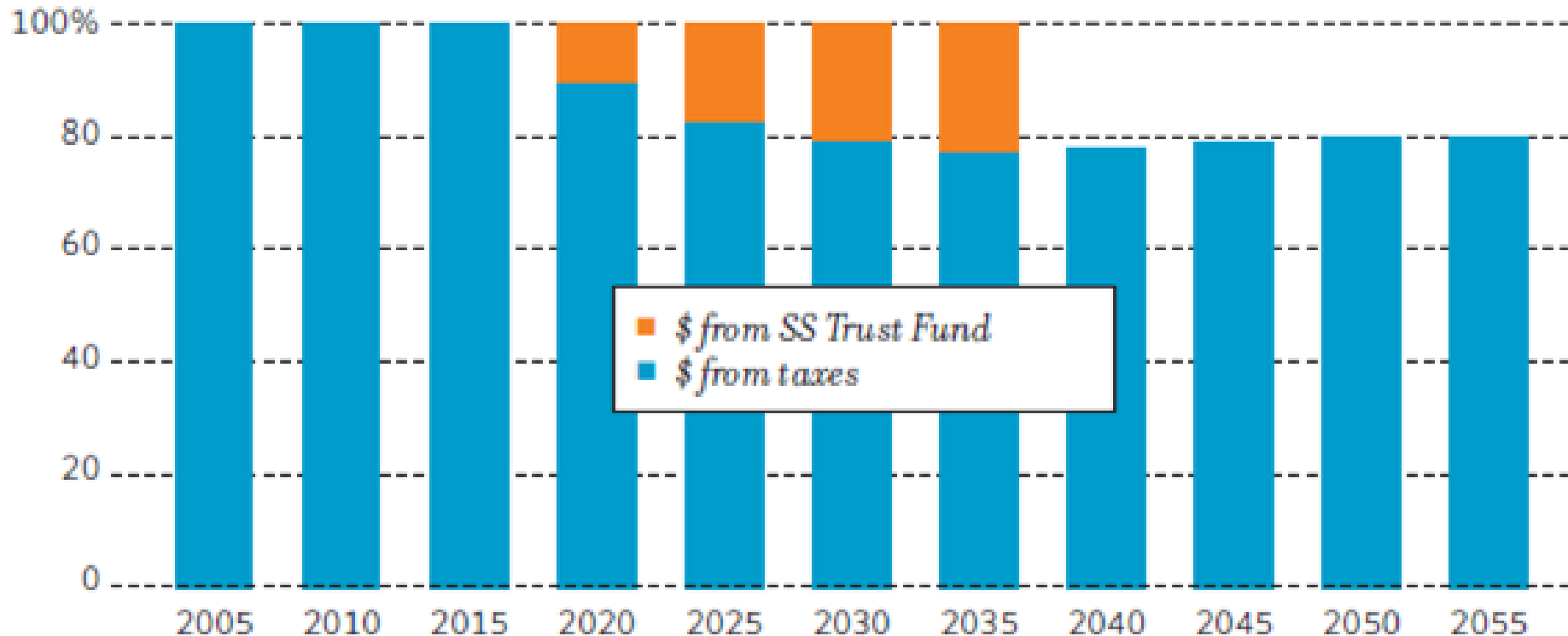
Source: Boston College

Looking Ahead

Social Security's stability is important issue for vulnerable households

Housing wealth; long-run value of owning even a modest home

Healthcare costs—at end of life, but also generally out-of-pocket costs

Strategies to reduce consumption costs; food, housing, energy – including **benefit** programs

At very low incomes, benefits are critical

Changing Face of Retirement Security

More than half of 65-year-olds will require **long-term care** at some point

Out of pocket **medical costs** rising

Demands of **caring** for spouse or family members

Spending on Healthcare as % of Income
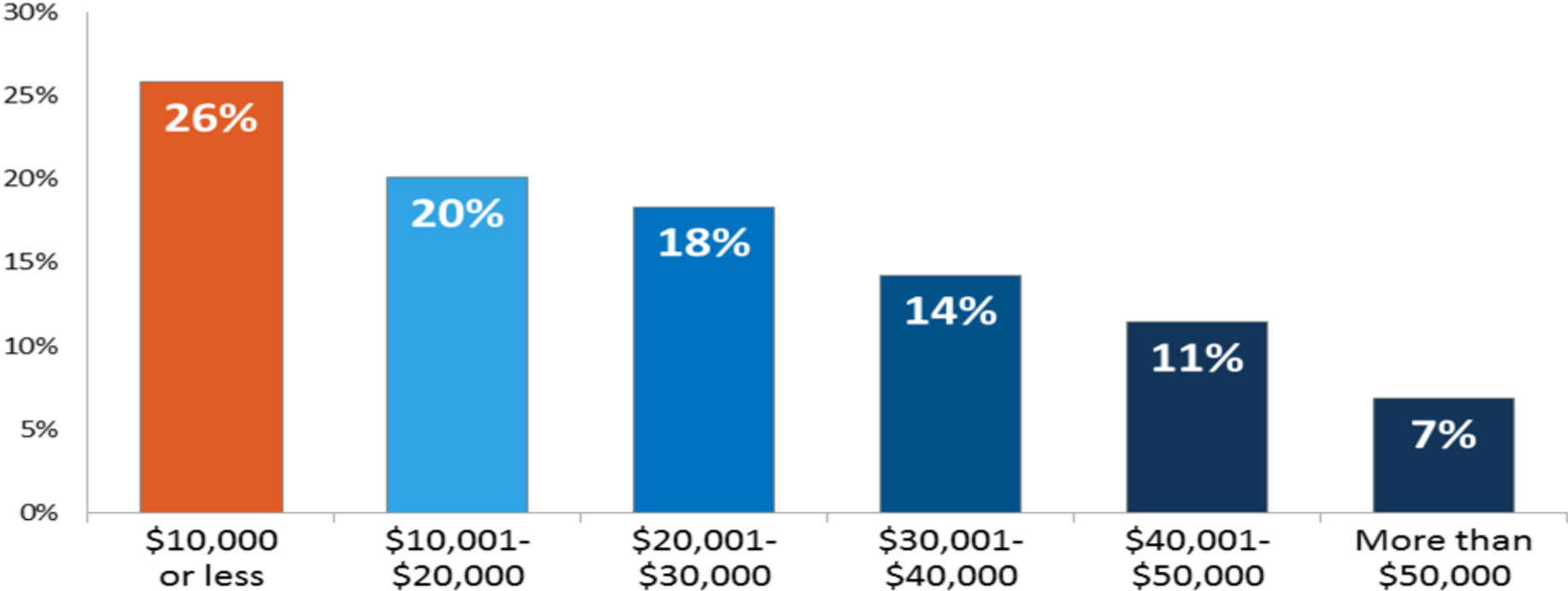
NOTE: Estimates based on spending and income amounts in 2016 dollars. Excludes Medicare Advantage enrollees and beneficiaries enrolled in Part A or B only. Total out-of-pocket health care spending includes spending on services and premiums for Medicare and private health insurance premiums. Per capita income for married couples is income for the couple divided by two.
SOURCE: Kaiser Family Foundation analysis based on CMS Medicare Current Beneficiary Survey 2013 Cost and Use file.

Medicare

In 1965, 56% of seniors did not have health insurance.

Program has expanded coverage over time

Population has aged

Health care costs have increased

billions

Legend:
- Private Health Insurance (dark blue)
- Medicare (light blue)
- Medicaid (yellow)

Y-axis: $0, $500, $1,000, $1,500, $2,000

X-axis: 2012, 2014, 2016, 2018, 2020, 2022, 2024, 2026
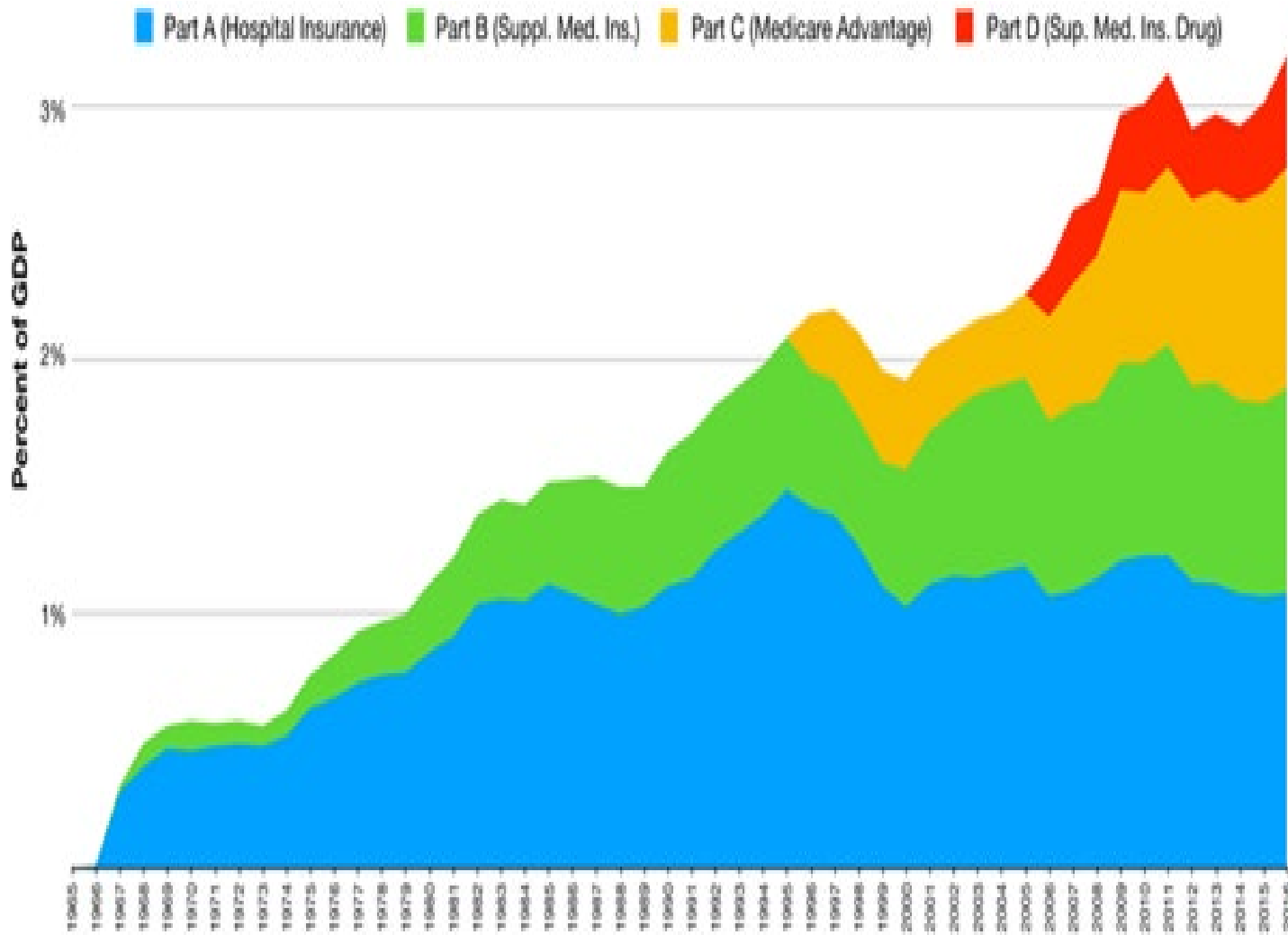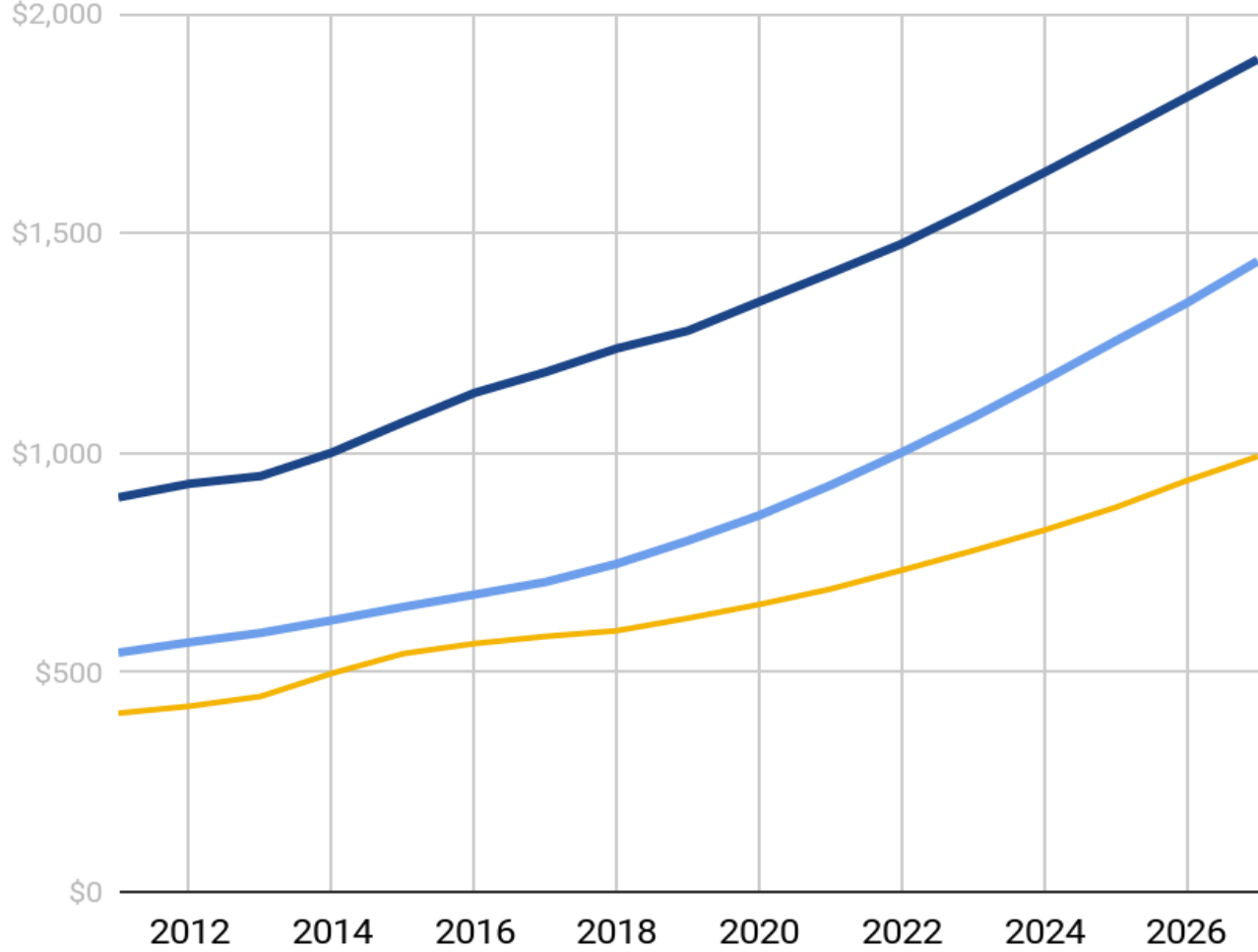
SOURCE: Centers for Medicare & Medicaid Services, Office of the Actuary.

Part B and Part D Premiums and Cost Sharing as a Share of Average Social Security Benefit Payments, 1980–2010

1980	1990	2000	2010
7%	12%	14%	26%
$772	$906	$1,001	$1,151

AVERAGE MONTHLY SOCIAL SECURITY BENEFIT PAYMENT

Medicare Financing

Medicare Hospital Insurance (Part A) Trust Fund is projected to be **depleted in 2026** (2018 Medicare Trustees Report)

- Will only pay **91 cents** per dollar - gap filled by appropriations or other sources

Medicare costs will grow from 3.7% gross domestic product (GDP) to **5.9% by 2040**

Policy Choices: Is there a path forward?

Social Security - strongly influenced by demographics
- Shifting benefits and costs as demographics change
- Intergenerational tradeoffs

Medicare part of larger health care system
- Part of larger market with rising costs

No easy answers: major policy issues keep getting kicked down the road

Medicare Options

- **Cost sharing** - out-of-pocket costs
- Increasing Medicare **premiums**
- Raising the **eligibility** age
- Expand use of **cost controls** through ACOs & Medicare Advantage
- Increasing Medicare **payroll tax** or expanding application of payroll tax (biggest impact)

OASI Policy Options

- Increase Retirement Age
- Limit Benefits
- Increase payroll tax or what income levels are taxed
- Expand coverage of payroll tax

YOUR POLICY SELECTIONS	% OF GAP CLOSED
Slow Benefit Growth for Top 20% Of Earners	12%
Raise Age to 69 then index to Longevity	41%
Tighten SSDI Eligibility Criteria	8%
Limit Spousal Benefits for High Earners	4%
Offer "Bump-Up" for Very Old Beneficiaries	-6%
Calculate Benefits Based on Highest 38 Years	11%
Raise and Re-Index the Taxable Maximum	22%
Cover Newly-Hired State & Local Workers	9%

http://www.crfb.org/socialsecurityreformer/

Multi-Generational Financial Planning

55 year old

30 year old
adult children
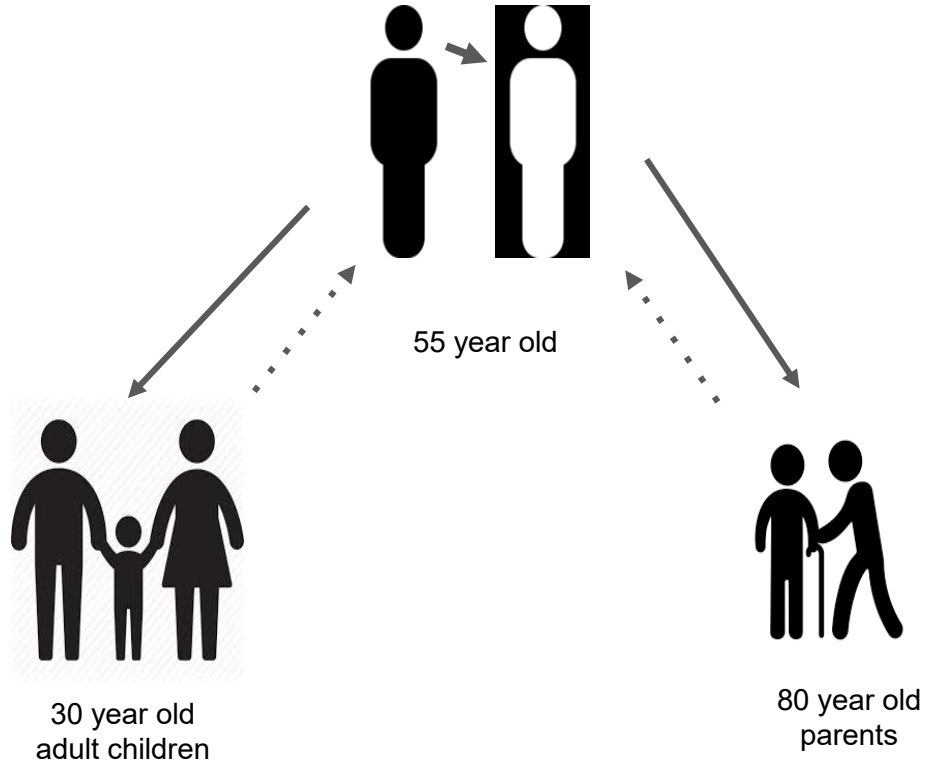
80 year old
parents

65 year old male likely to live to age 84 (19 years)

65 year old woman will live to age 88 (23 years).

★ 8 out of 10 women will outlive their husbands-- and be the sole financial decision maker

21% of people 65 and older live with two other generations

Major Financial Planning Issues

Estates – beneficiaries, titling, simple steps, power of attorney

Life insurance – document management
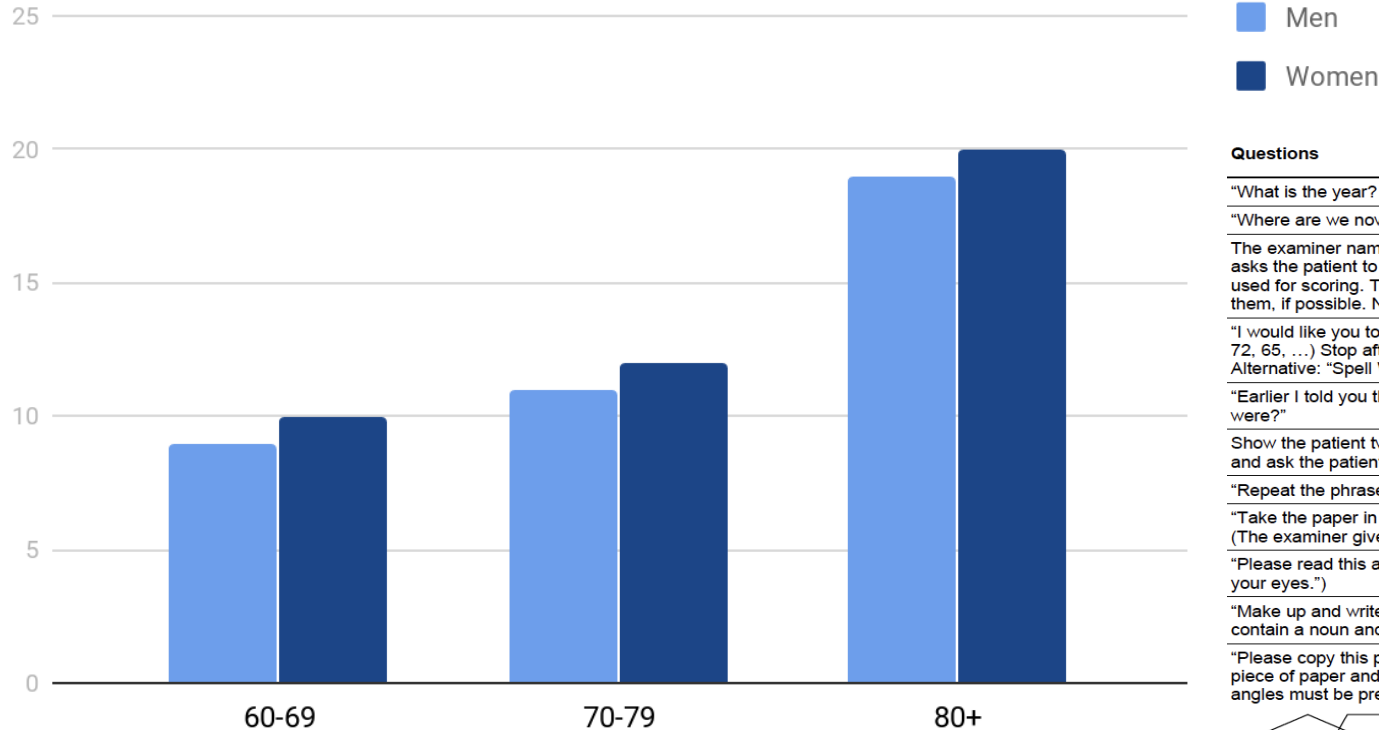
Debt – mortgages, other credit planning

Taxes – need to manage IRA and other accounts as age

Organization - abandoned accounts

Cognitive Decline

% with Reported MMSE Problems

1 in 5 by age 80

Men
Women

Mini-Mental State Examination (MMSE)

Questions

"What is the year? Season? Date? Day of the week? Month?"
"Where are we now: State? County? Town/city? Hospital? Floor?"
The examiner names three unrelated objects clearly and slowly, then asks the patient to name all three of them. The patient's response is used for scoring. The examiner repeats them until patient learns all of them, if possible. Number of trials: _____
"I would like you to count backward from 100 by sevens." (93, 86, 79, 72, 65, …) Stop after five answers. Alternative: "Spell WORLD backwards." (D-L-R-O-W)
"Earlier I told you the names of three things. Can you tell me what those were?"
Show the patient two simple objects, such as a wristwatch and a pencil, and ask the patient to name them.
"Repeat the phrase: 'No ifs, ands, or buts.'"
"Take the paper in your right hand, fold it in half, and put it on the floor." (The examiner gives the patient a piece of blank paper.)
"Please read this and do what it says." (Written instruction is "Close your eyes.")
"Make up and write a sentence about anything." (This sentence must contain a noun and a verb.)
"Please copy this picture." (The examiner gives the patient a blank piece of paper and asks him/her to draw the symbol below. All 10 angles must be present and two must intersect.)

Sachdev PS, Lipnicki DM, Kochan NA, Crawford JD, Thalamuthu A, et al. (2015) The Prevalence of Mild Cognitive Impairment in Diverse Geographical and Ethnocultural Regions: The COSMIC Collaboration. PLOS ONE 10(11): e0142388. http://journals.plos.org/plosone/article?id=10.1371/journal.pone.0142388

More "Hot" Issues

Saving

- OASI will not cover all retirement expenses; IRA, 401k etc. critical
- Medicare cost sharing on the rise: HSAs as one strategy

Insurance

- Annuitization products
- Medicare Advantage and supplemental plans

Lifestyle

- Major costs of care due to chronic conditions and end of life care
- Managing health care costs and treatments

Social Security Administration's Retirement and Disability Research Consortium
2019-2024

- Studying issues relate to disability and retirement programs
- Training for emerging scholars
- Outreach and translation of research
- Focus on economically vulnerable households

https://cfsrdrc.wisc.edu/

The findings and conclusions presented today are those of the author and do not necessarily represent the views of the Social Security Administration or the University of Wisconsin.

Thank you!

J. Michael Collins

jmcollins@wisc.edu
@jmcollinswisc

cfs.wisc.edu