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EBRI Policy Forum #82 – Retirement and Financial Wellbeing

Introduction

On December 14, 2017, presenters at EBRI's 82nd Policy Forum examined retirement security topics with a special focus on overall financial wellbeing. Presenters addressed questions such as how sufficiently have Americans saved for retirement, and whether options are available to help improve the current state. Other questions included how can we protect retirement security for those who struggle with their financial wellbeing? What are the best ways to examine and address financial difficulties?

In the following presentations and ensuing discussions, the Policy Forum brought to light research tools, ideas, and analyses that employers, policymakers, and other stakeholders can use in approaching these and other questions. From new research models to innovative thinking, the event began with a focus on retirement security and then transitioned to financial wellbeing, in the process highlighting the connection between the two topics.

Do Older Americans Have More Income Than We Think?

Josh Mitchell from the U.S. Census Bureau presented joint research produced with Adam Bee, also with the Census Bureau, about retirement preparedness. Adopting a critical analysis of the data used in previous research, his presentation focused on the discrepancies between retirement income reporting in household surveys—which often are cited to describe Americans' retirement readiness—and retirement income reporting in administrative records from the Social Security Administration and the IRS. By linking the Census Bureau's 2013 Current Population Survey to administrative records, their research developed a nationally representative estimate of median household income and poverty levels for those over 65 from 1990 to 2012, allowing for a reassessment of overall retirement readiness. Ultimately, they found that retirement income is underreported in household surveys, with administrative records indicating a much less drastic decline in income at retirement and providing no evidence of an increase in poverty.

Worker Reactions to State-Sponsored Auto-IRA Plans

Continuing with retirement security, Sarah Spell from Pew Charitable Trusts examined how private-sector employees without employer-sponsored plans reacted to automatic enrollment in proposed state-sponsored, workplace/payroll deduction IRAs. Survey respondents' initial reactions to such a program were largely positive. After learning additional details about the proposed program, such as the state's role and the absence of employer contributions, approximately 75 percent of respondents did not change their reactions to the proposed program. The results of the survey, Pew concluded, highlighted that clearly defined policies are an important factor in encouraging employees to save.

Financial Shocks Put Retirement Security at Risk

A presentation by Alison Shelton (also from Pew) combined the two overarching subjects of the Policy Forum. She discussed the impact of financial shocks—large unplanned expenses like car or home repairs, medical emergencies, or income loss—on retirement security. With a focus on the threat posed by financial shocks in the form of retirement account leakage, this presentation looked at Pew's Survey of American Family Finances that was administered in late 2015. Fifty-six percent of respondents experienced a financial shock in the year prior to the survey, and the median cost was $2,000. Among households with retirement accounts, about 13% experienced a financial shock and took a loan or distribution. Factors increasing the likelihood of drawing on retirement accounts included size of financial shock relative to income and prolonged financial struggles, among others. Her presentation concluded that additional tools—such as "sidecar accounts"—are necessary to encourage short-term savings in addition to retirement savings.

Can/Should We Build Emergency Savings Through Employer-Sponsored Accounts?

Mark Iwry of the Brookings Institution addressed a similar topic, asking if short-term savings can be integrated into retirement savings more effectively. He, like Alison Shelton, proposed the implementation of a buffer or "sidecar savings account" to cover emergency expenses. He suggested that the availability of non-retirement plan savings could reduce retirement plan leakage (tax data shows that nearly a third of retirement income is distributed before employees' actual retirement). Some evidence, he argued, indicates that simply contributing to a second account with a separate purpose could lead to an overall increase in savings, including retirement savings. He concluded that with a secondary source of savings to manage unpredictable costs, employees' financial stability and retirement security could be better protected.

Introducing the Inside Employees' Minds™ Survey - Financial Wellness Edition

With Neil Lloyd from Mercer, the Policy Forum transitioned to employees' views of financial wellbeing and employer-sponsored financial wellbeing programs. In a survey of 3,000 employees, Mercer found that objective financial literacy and financial wellness are *not* correlated, while subjective self-assessment and financial wellness are. As a result, Mercer developed a "financial courage" index, finding that those with low levels of financial courage tend to have lower levels of financial wellness and are less likely to engage in employer-provided financial wellness programs. Mercer concluded that employees with access to financial wellness programs report higher levels of trust and satisfaction with their employers, that financial courage is important for initial engagement with financial wellness programs, and that even those employees with low financial courage tend to implement specific steps provided by financial wellness programs.

Financial Wellbeing and Employer Benefits: Findings from CFPB's Financial Wellbeing Survey

Hector Ortiz of the Consumer Finance Protection Bureau (CFPB) discussed selected findings from CFBP's National Financial Wellbeing Survey. The 2017 survey of 6,400 adults measured respondents' financial status and circumstances using CFPB's Financial Wellbeing Scale and Score (a scale of 0-100 created by CFPB that is designed to capture how people perceive their ability to meet current and ongoing financial obligations, feel secure in their financial future, and make choices that allow enjoyment of life). Using this Scale and Score, CFPB found consumers' levels of financial wellbeing were widely distributed when matched up with factors like employment status, income, and employer-provided benefits. But, on average, objective financial measures correlated with consumers' subjective perceptions of financial wellbeing. As a result, CFPB research identified a strong relationship between its subjective scale and objective circumstances, and concluded that perception can be an effective predictor of reality when it comes to financial wellbeing.

Defining and Measuring Financial Wellness

Meghan Murphy from Fidelity closed off the presentations by shifting to the employer's perspective. She first described Fidelity's work in developing a financial wellness score that is determined through a combination of objective and subjective measures. She then turned to Fidelity's predictive model for financial wellbeing that uses 401(k) plan data to analyze a particular employer's workforce. The model looks at 50 different behaviors within the employer's 401(k) plan (such as contributions and loan activity) to estimate what percentage of the employer's workforce is financially well, and what percentage needs help. The model can then be used to identify areas where employees may need assistance, such as managing debt or establishing/increasing savings.

Closing Discussion and Looking Forward

In a closing panel, speakers discussed the relationship between retirement security and financial wellbeing. Without an appropriate degree of financial wellbeing, retirement solutions like automatic enrollment may be ineffective. The panelists recognized, however, that retirement savings may be out of reach for some individuals who are focusing on managing day-to-day expenses or due to personal circumstances. Also, they discussed the need for research on whether short-term savings opportunities might improve retirement savings, particularly if some amounts earmarked for short-term savings can actually be used in retirement.

It's evident that EBRI and the research community at large will need to continue examining and working to solve these complex issues of retirement security and financial wellbeing. By challenging prevalent ideas and approaching existing issues from new angles, however, the Policy Forum focused on new possibilities for improving people's overall financial futures.

To focus EBRI's and other research activities more crisply on key questions around financial wellbeing itself and as it relates to retirement (and health and other benefits), EBRI is starting a new Financial Wellbeing Research Center. Please contact Harry Conaway (conaway@ebri.org) if you're interested in learning more about this Center.

Policy Forum Resources

Replay

- https://media1.ifebp.org/MediasiteEX/Login/Register?ReturnUrl=%2FMediasiteex%2FPlay%2F9e04c40b7c1e460095ba43237ae255b91d
- Password: 12EBRI2017

Presentations, Papers, Presenters, Bios

Do Older Americans Have More Income Than We Think? (Replay: 0:04:05)
Joshua Mitchell, Senior Economist, Center for Administrative Records Research and Applications, US Census Bureau, https://www.linkedin.com/in/joshua-mitchell-55455945/

Worker Reactions to State-Sponsored Auto-IRA Plans (Replay: 0:43:22)
Sarah Spell, Senior Associate, Research, Retirement Savings, The Pew Charitable Trusts, https://www.linkedin.com/in/sarah-spell-5a9527b8/

Financial Shocks Put Retirement Security at Risk (Replay: 0:54:35)
Alison Shelton, Senior Research Officer, Retirement Savings, The Pew Charitable Trusts, https://www.linkedin.com/in/alison-shelton-89137833/

Can/Should We Build Emergency Savings Through Employer-Sponsored Accounts? by John Beshears, James J. Choi, J. Mark Iwry, David C. John, David Laibson, and Brigitte C. Madrian (Replay: 1:09:10)
Mark Iwry, Brookings Institution, http://www.ebri.org/pdf/Iwry Bio Sept 2017.pdf

Introducing the Inside Employees' Minds™ Survey - Financial Wellness Edition (Replay: 1:57:00)
Neil Lloyd, Head US DC & Financial Wellness Research, Mercer, https://www.linkedin.com/in/neil-lloyd-a0825514/

Financial Wellbeing and Employer Benefits: Findings from CFPB's Financial Wellbeing Survey (Replay: 2:19:23)
Hector Ortiz, Policy Analyst, Consumer Finance Protection Bureau, https://www.linkedin.com/in/hector-ortiz-a0553315/

Defining and Measuring Financial Wellness (Replay: 2:35:08)
Meghan Murphy, Vice President, Workplace Thought Leadership, Fidelity, https://www.linkedin.com/in/meghan-murphy-48a1098/
