EBRI EMPLOYEE BENEFIT RESEARCH INSTITUTE

Debt: The Ticking Time Bomb for Retirement — Where Do We Stand and What Can We Do About It?

EBRI Webinar

February 3, 2021

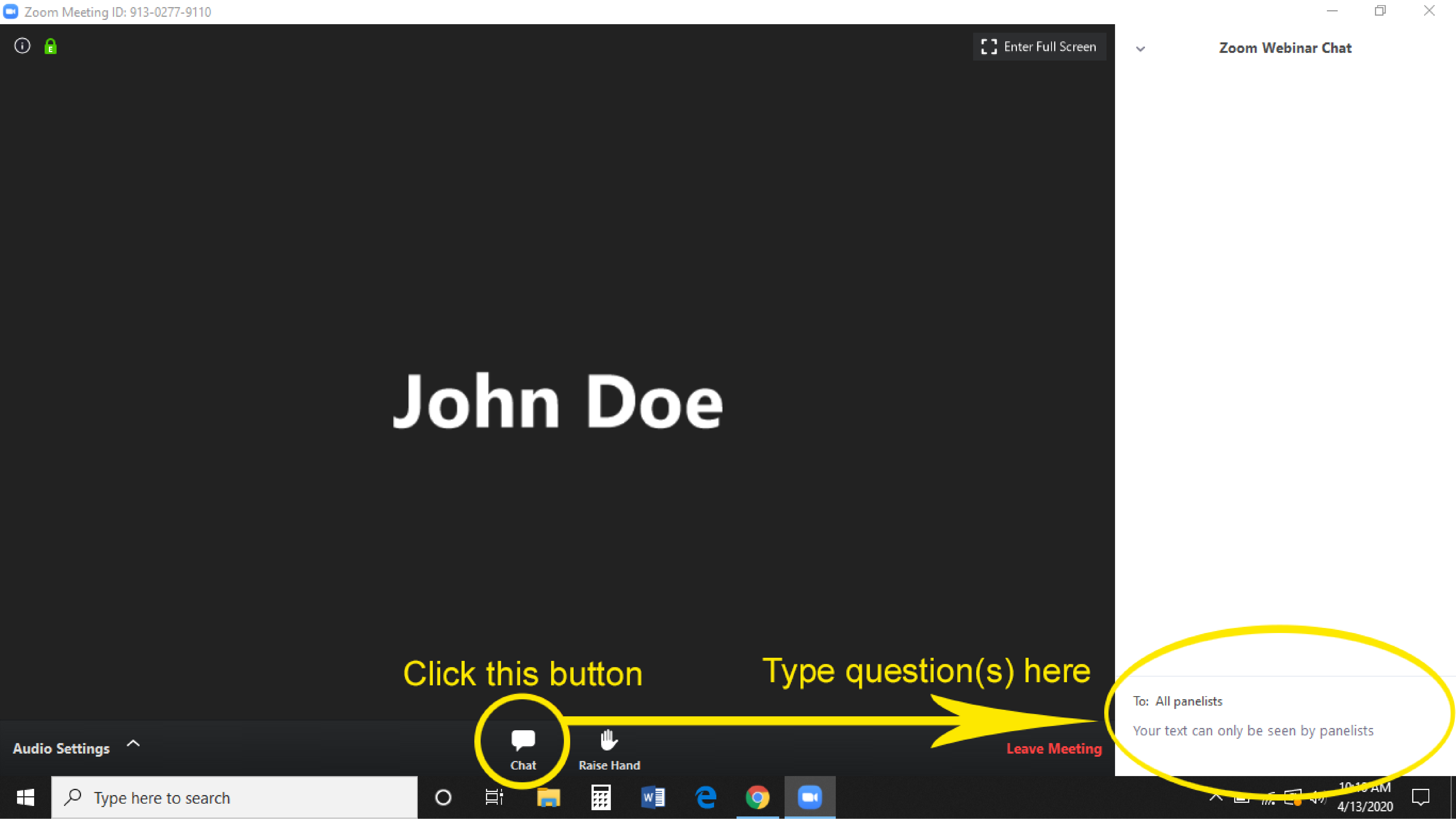
Speakers

Craig Copeland, Senior Research Associate, EBRI

Mark Smrecek, Senior Director, Financial Wellbeing Market Leader, Willis Towers Watson

Paul Yakoboski, Senior Economist, TIAA

Moderator: **Greg Ward, Director, Financial Wellness Think Tank, Financial Finesse, Inc.**



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How does debt influence retirement?

Are you comfortable with the amount of debt you have?

	Yes	No	Don’t have debt
I have high or overwhelming levels of financial stress	7%	43%	5%
I have a handle on cash flow	88%	48%	94%
I have an emergency fund	71%	23%	89%
I am on track for retirement	37%	17%	42%
I am comfortable with my investment strategy	55%	35%	59%
Overall Financial Wellness Score	6.2	4.4	6.9

**Financial Finesse, 2020*

Financial Wellness – Debt Management

By Race/Ethnicity

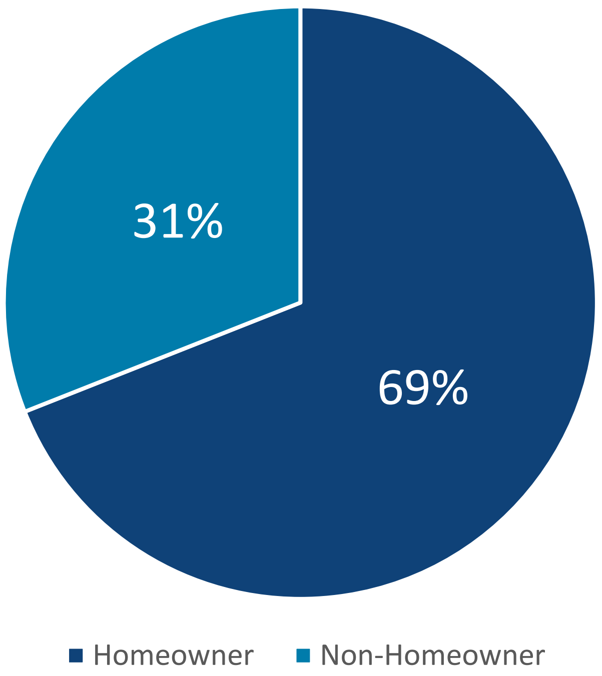
	White/non-Hispanic	Black	Hispanic
I have high or overwhelming levels of financial stress	17%	32%	25%
I'm comfortable with the amount of debt I have	68%	39%	54%
I carry a balance on my credit card	34%	61%	46%
I am on track for retirement	34%	21%	23%
I am comfortable with my investment strategy	53%	38%	39%
Overall Financial Wellness Score	5.9	4.7	4.9

**Financial Finesse, 2020*

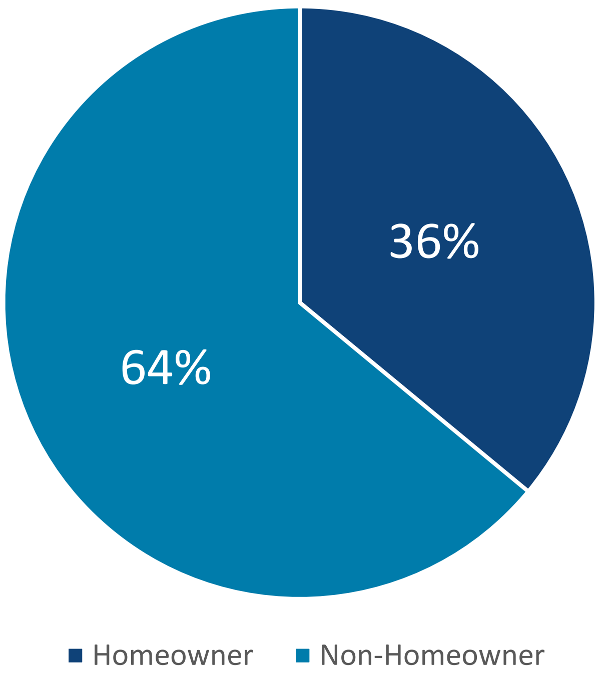
Financial Wellness – Debt Management

Homeownership

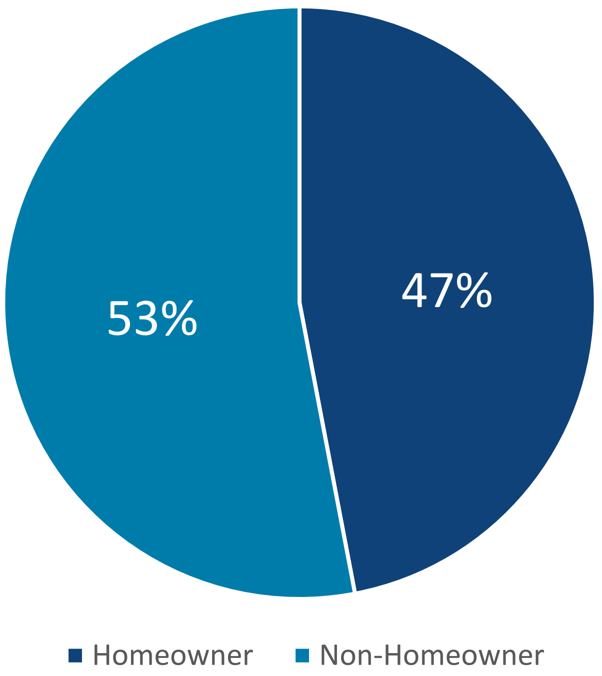
White/non-Hispanic



Black



Hispanic



**Financial Finesse, 2020*

Financial Wellness – Debt Management

Among Active Participants

	2016	2020
I have high or overwhelming levels of financial stress	19%	14%
I'm comfortable with the amount of debt I have	56%	71%
I carry a balance on my credit card	50%	33%
I am on track for retirement	27%	46%
I am comfortable with my investment strategy	46%	61%
Overall Financial Wellness Score	5.3	6.4

**Financial Finesse, 2020*

EBRI EMPLOYEE BENEFIT RESEARCH INSTITUTE

Debt: The Ticking Time Bomb for Families in Retirement?

EBRIefing

February 3, 2021

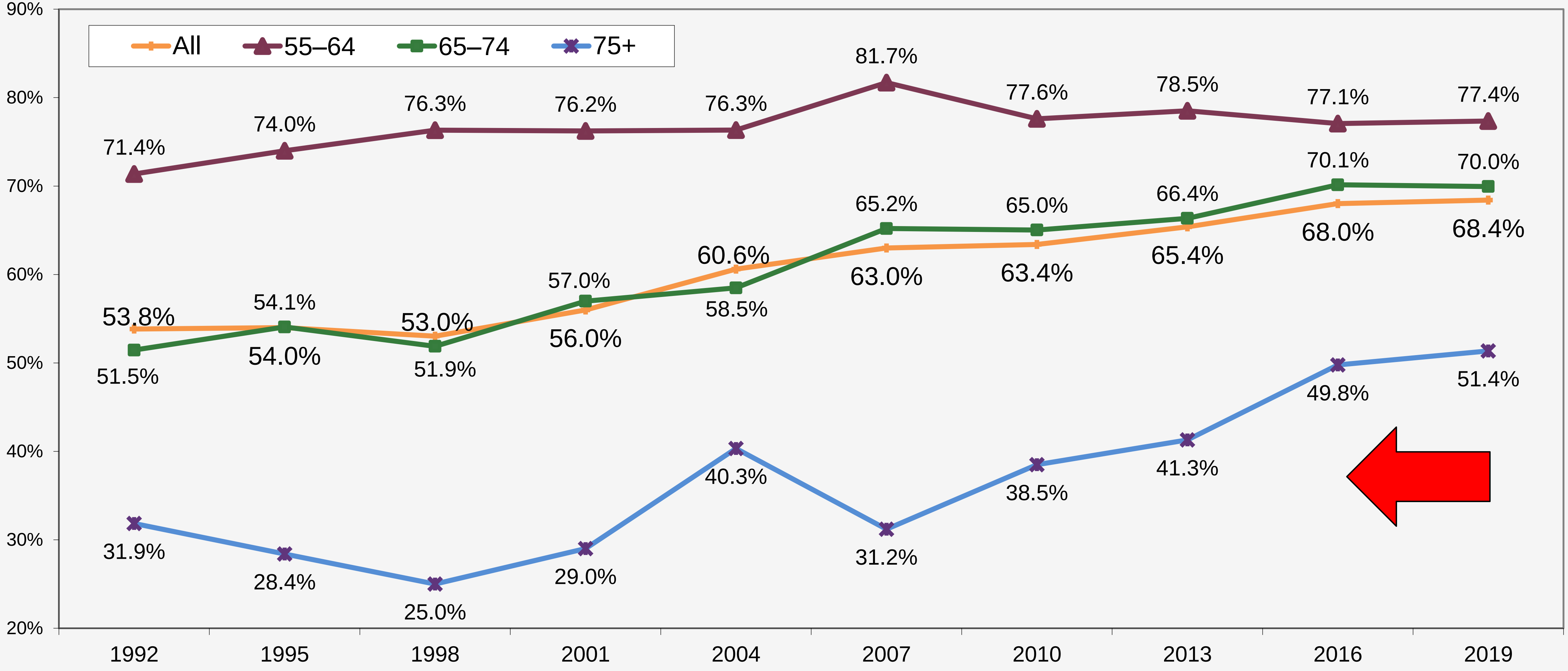
Overview

Data Source: Survey of Consumer Finances (SCF)-triannual survey from the Federal Reserve-considered the best source for assets and debt of American families.

- Debt of families with heads ages 55 or older
  - Incidence trends
  - Debt-to-asset ratio trends
  - Drivers of debt—housing and credit cards
- Comparison of debt trends with families with heads younger than age 55
- Debt comparisons by race and ethnicity
  - The racial/ethnicity categories from SCF are self-identified and include White, non-Hispanic; Black/African American; Hispanic; and Other (which consists of those races/ethnicities not defined in the three prior categories, such as Asian Americans and those that identify as multiracial). SCF is at the family level, so the characteristics of the family head (or the reference person) are used to categorize the families.

DEBT TRENDS OF FAMILIES WITH HEADS AGES 55 OR OLDER

Percentage of Families With Heads Ages 55 or Older With Debt, by Age of Family Head, 1992–2019



Source: Employee Benefit Research Institute estimates from the 1992, 1995, 1998, 2001, 2004, 2007, 2010, 2013, 2016, and 2019 Survey of Consumer Finances.

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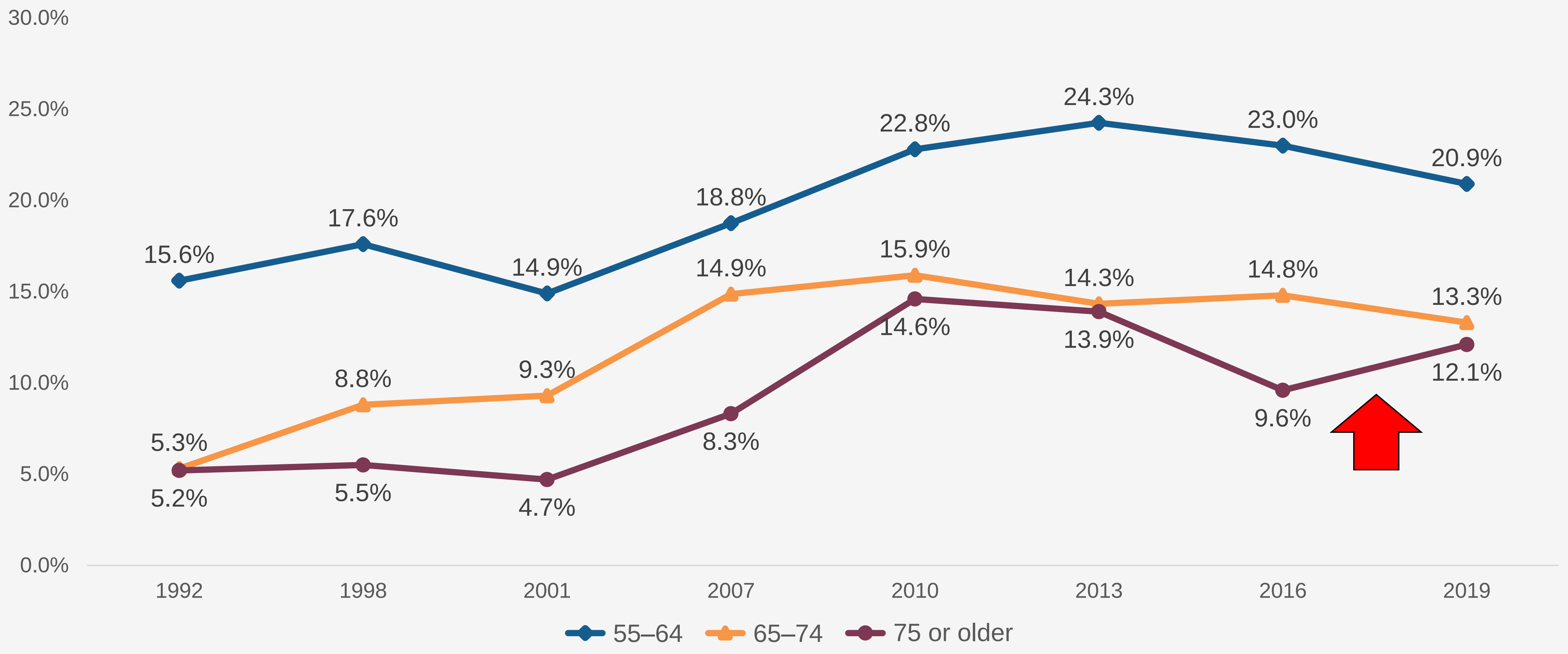
Median Debt-to-Asset Ratio For Those With Debt, For Families With Heads Ages 55 or Older, 1992-2019



Source: Employee Benefit Research Institute estimates from the 1992, 1998, 2001, 2007, 2010, 2013, 2016, and 2019 Survey of Consumer Finances.

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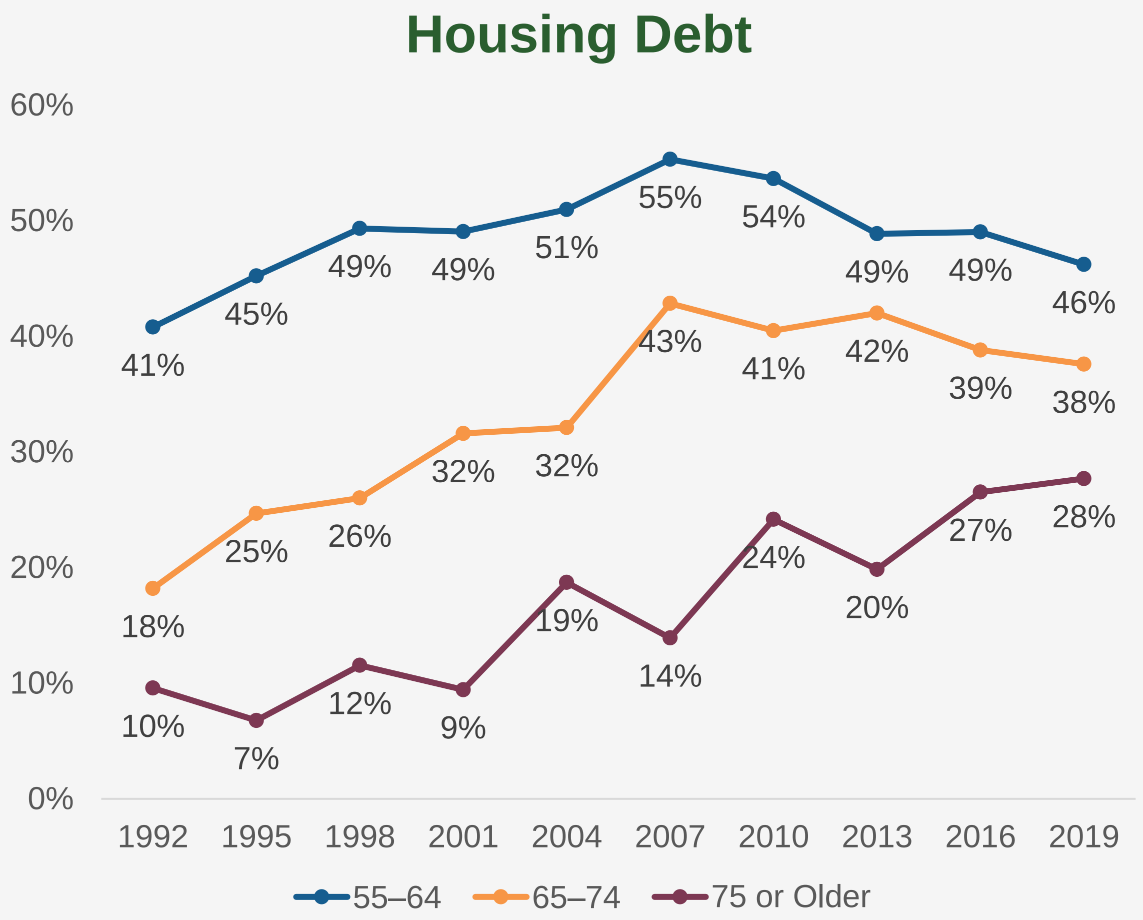
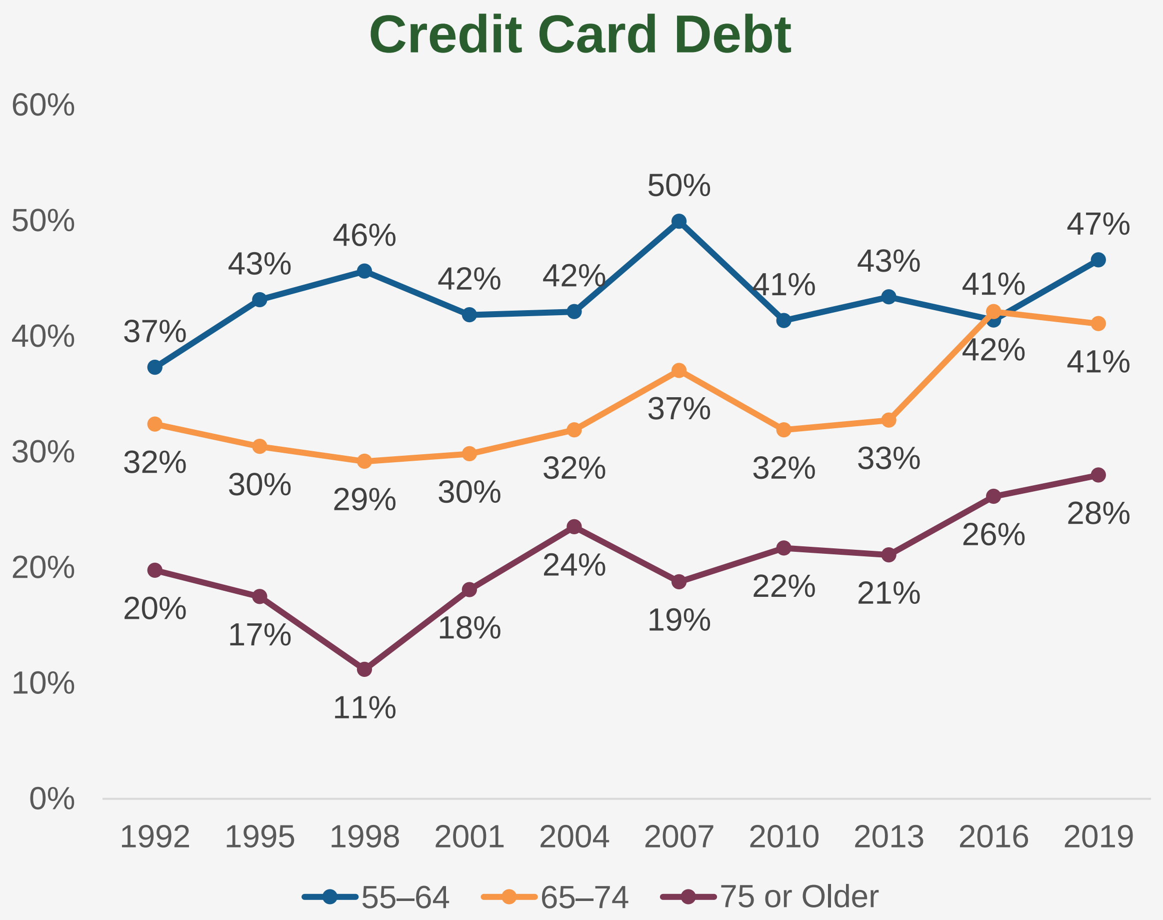
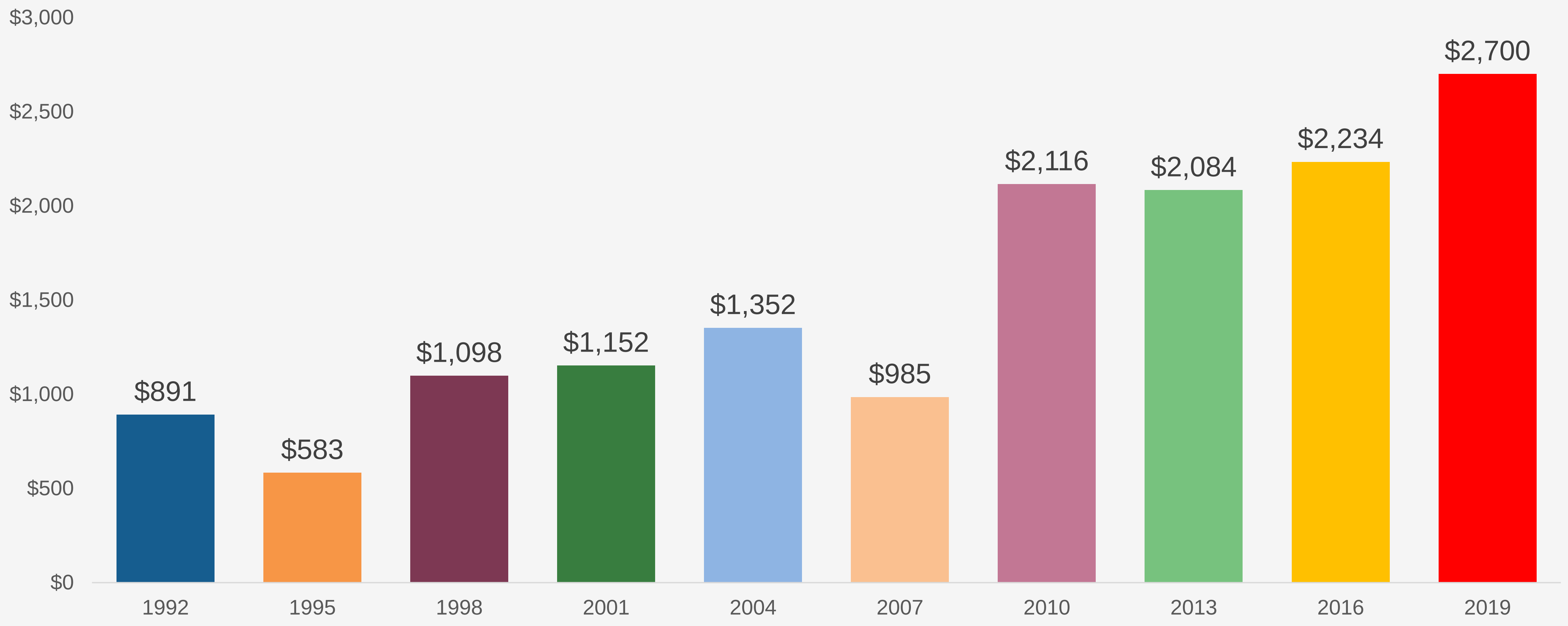
Percentage of Families With Heads Ages 55 or Older With Housing Debt or Credit Card Debt, by Age of Family Head, 1992–2019





Source: Employee Benefit Research Institute estimates from the 1992, 1995, 1998, 2001, 2004, 2007, 2010, 2013, 2016, and 2019 Survey of Consumer Finances.

Median Credit Card Debt for Families With Heads Ages 75 or Older With Credit Card Debt, 1992–2019



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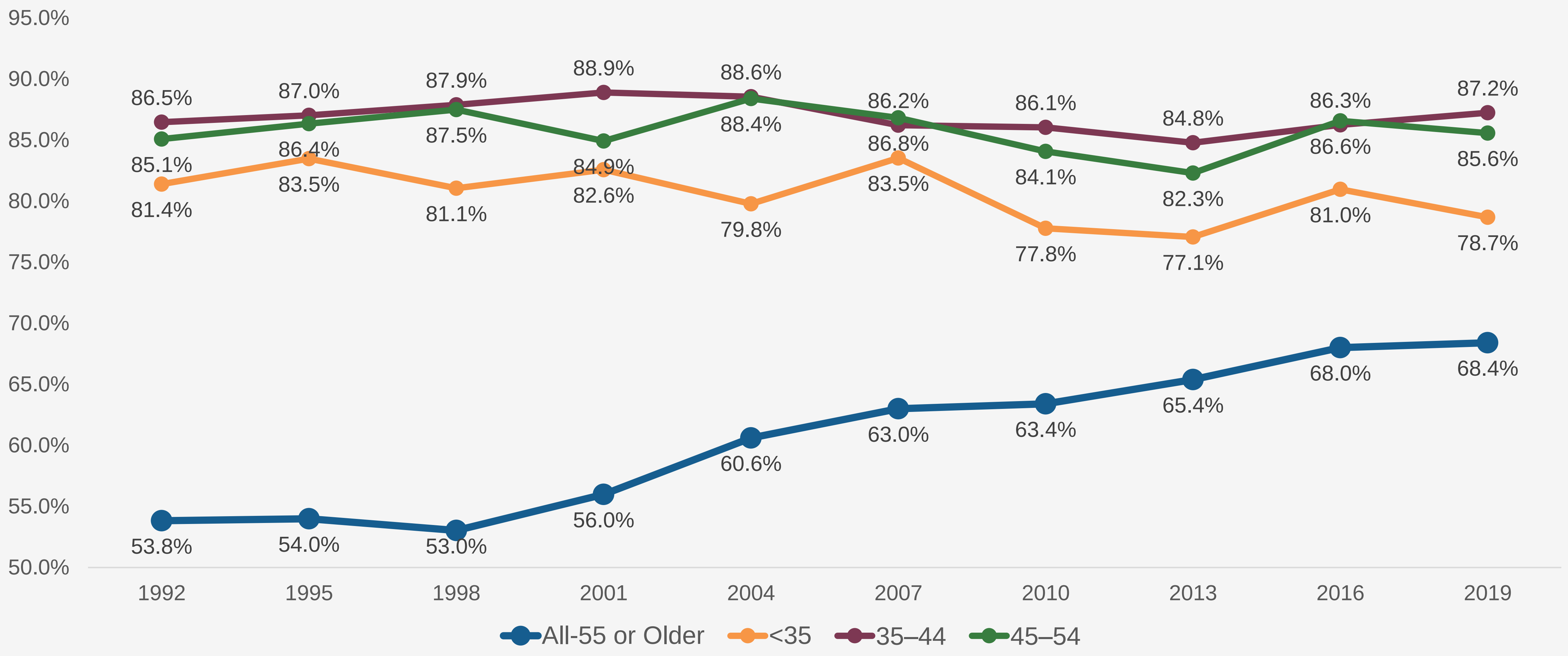
COMPARISONS WITH FAMILIES WITH HEADS YOUNGER THAN AGE 55

Percentage of Families With Heads Ages 54 or Younger With Debt Compared With Families With Heads Ages 55 or Older, by Age of Family Head, 1992–2019



Source: Employee Benefit Research Institute estimates from the 1992, 1995, 1998, 2001, 2004, 2007, 2010, 2013, 2016, and 2019 Survey of Consumer Finances.

Comparison of Various Debt Statistics Between Families With Heads Ages 55 or Older and Those With Heads Ages Younger Than 55, 2010 and 2019

	Heads Ages Younger Than 55		Heads Ages 55 or Older	
Category	2010	2019	2010	2019
Percentage With Debt	82.5%	83.5%	63.4%	68.4%
Average Debt	$131,562	$128,085	$88,245	$82,481
Median Debt of Those Having Debt	$96,377	$87,550	$65,272	$44,350
Total Debt Payments as a Percentage of Income	17.3%	14.0%	11.4%	9.2%
Percentage With Debt Payments Greater Than 40% of Income	12.4%	8.1%	8.5%	6.5%
Debt as a Percentage of Assets	27.9%	23.1%	8.4%	6.8%
Median Debt-to-asset Ratio of Those Having Debt	55.2%	47.8%	19.6%	16.5%
Percentage With Housing Debt	50.4%	44.9%	42.0%	39.0%
Percentage With Credit Card Debt	43.5%	49.8%	33.0%	40.0%
Median Housing Debt of Those Having It	$142,562	$154,000	$96,375	$97,000
Median Credit Card Debt of Those Having It	$3,299	$2,500	$2,856	$3,000

Source: Employee Benefit Research Institute estimates from the 2010 and 2019 Survey of Consumer Finances.

Note: All dollar amounts are in 2019 dollars.

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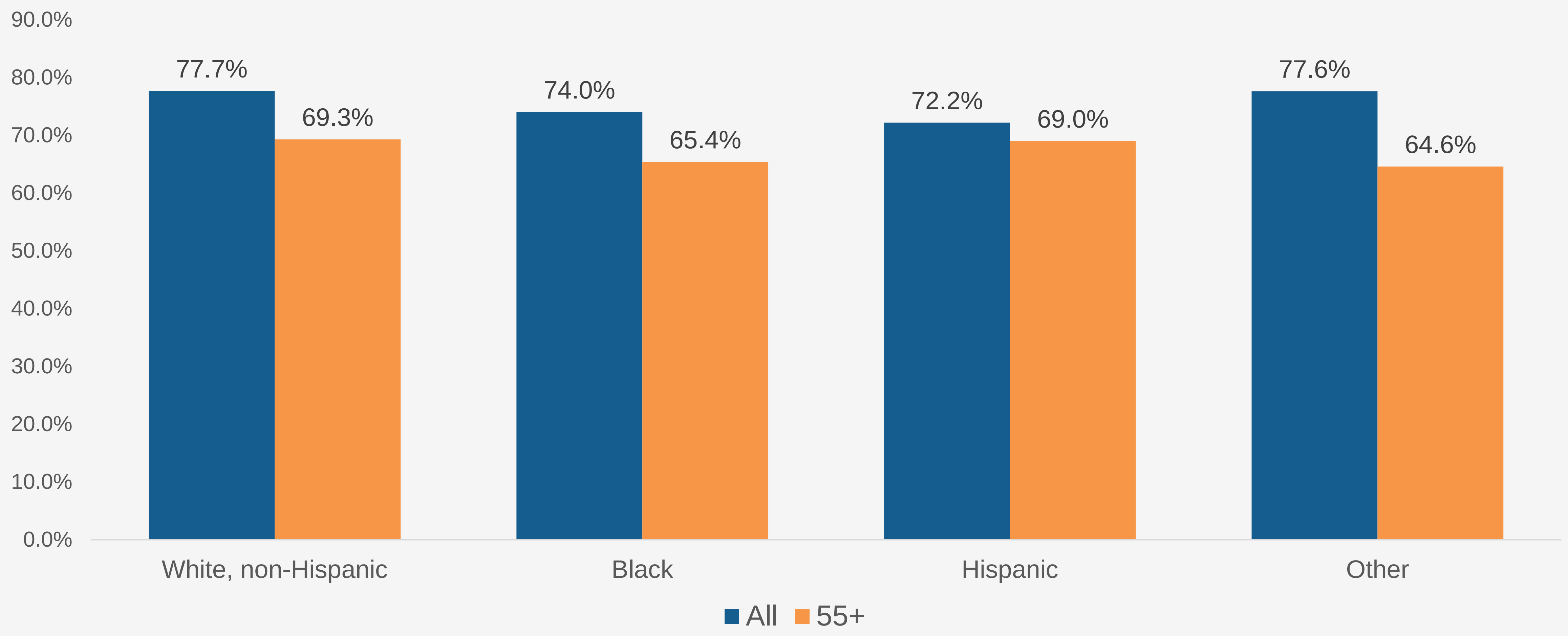
DEBT COMPARISONS BY RACE/ETHNICITY

Percentage of All Families Having Debt and Families with Heads Ages 55 or Older Having Debt, by Race/Ethnicity of the Family Head, 2019



Source: Employee Benefit Research Institute estimates of the 2019 Survey of Consumer Finances.

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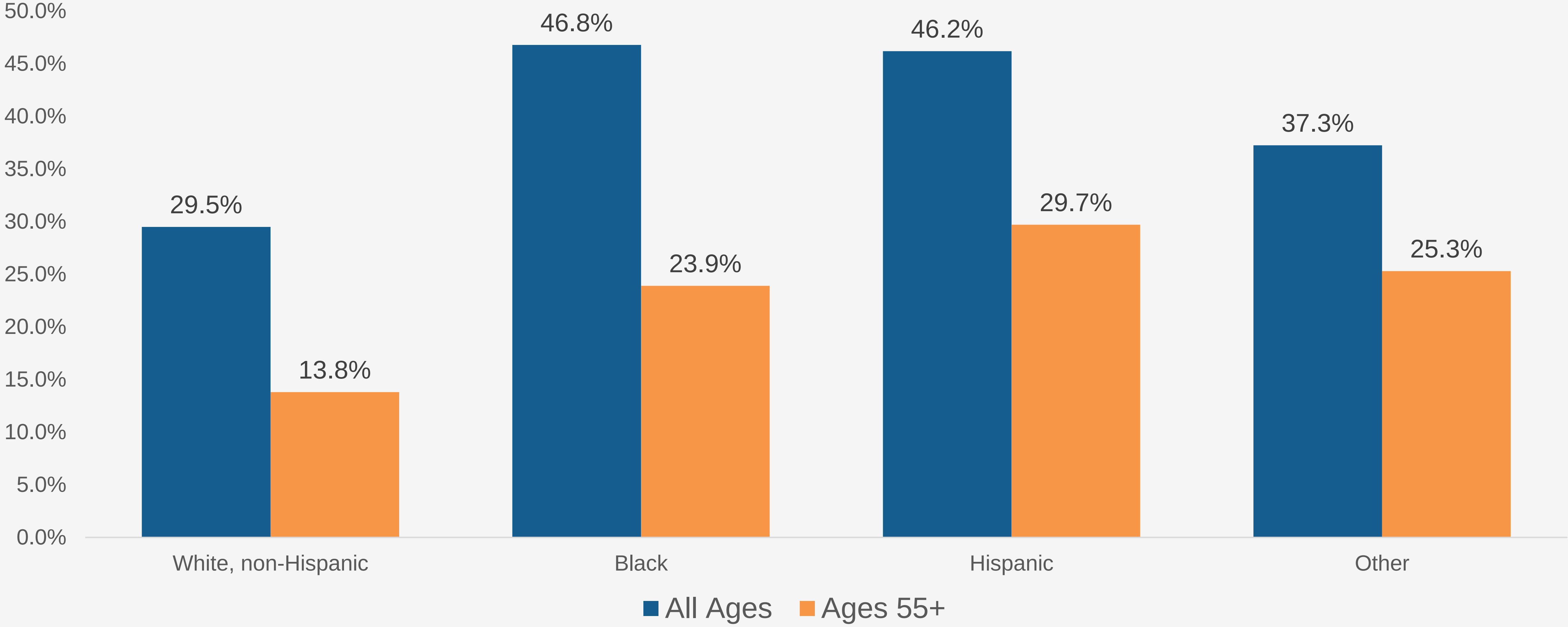
Median Debt-to-Asset Ratio of All Families and Families with Heads Ages 55 or Older Having Debt, by Race/Ethnicity of the Family Head, 2019



Source: Employee Benefit Research Institute estimates of the 2019 Survey of Consumer Finances.

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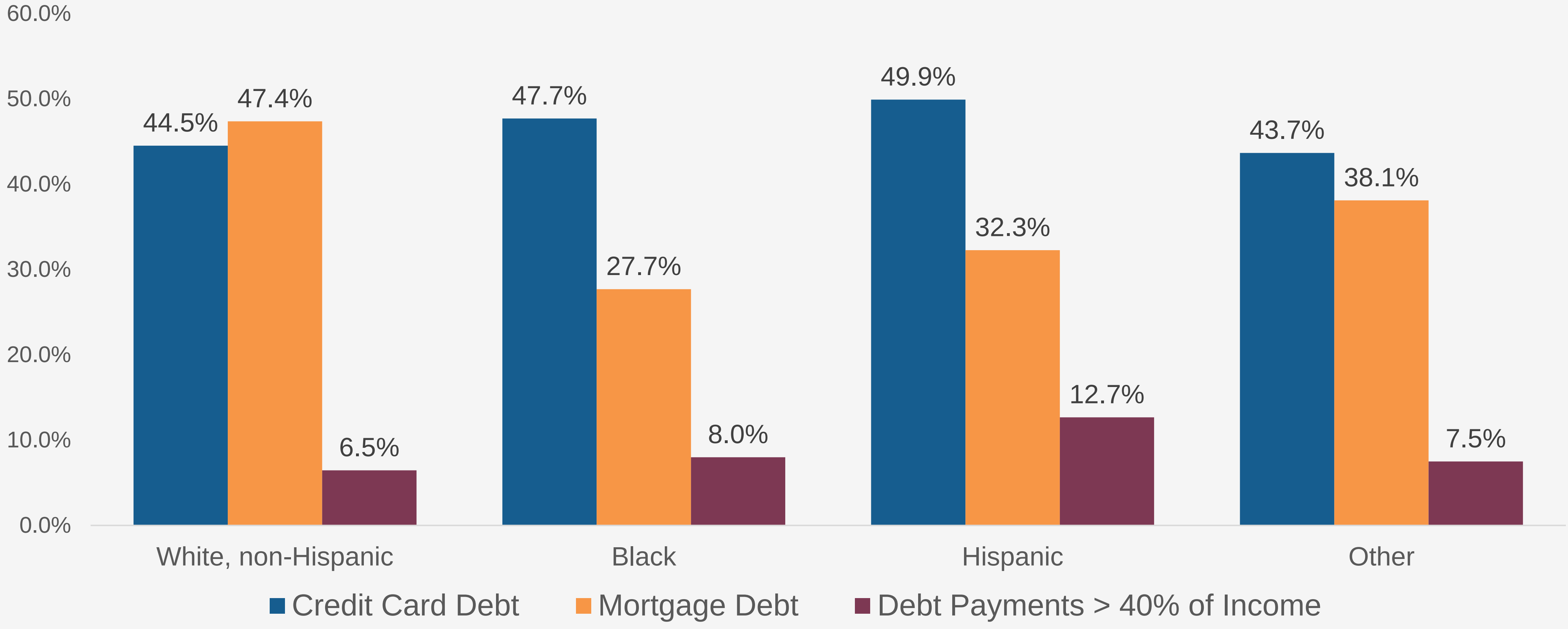
Percentage of All Families With Credit Card Debt, Mortgage Debt, and Debt Payments Greater Than 40% of Income, by Race/Ethnicity of the Family Head, 2019



Source: Employee Benefit Research Institute estimates of the 2019 Survey of Consumer Finances.

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Takeaways

- The debt of families with heads ages 55 or older has increased significantly since 1992, with the largest growth in recent years among families with the oldest heads.
- Housing debt incidence has been a driving force as families have continued to hold mortgages into older ages, but credit card debt is showing recent upticks in incidence, and there has been a notably increase in the amount held by the families with heads ages 75 or older.
- However, in general, the debt trends have improved since 2010.
- While the incidence of debt among families with heads of different races and ethnicities is relatively similar, the types of debts held are different, with credit card debt being relatively more prevalent for families with minority heads.
- Furthermore, families with minority heads have higher debt-to-asset ratios despite having lower nominal debt holdings.

Impacts of debt on retirement

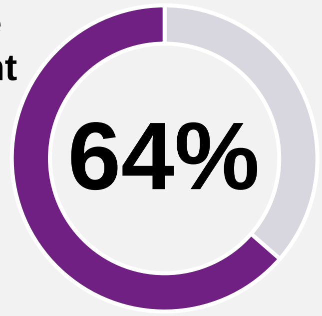
Research ties debt and current financial struggles with lower prioritization of retirement savings

- **Employee pre-COVID debt and retirement attitudes**
- **How has the pandemic impacted retirement expectations?**
- **How are plan sponsors supporting employee financial wellbeing?**
- **Key data sources**
  - Willis Towers Watson 2019 Global Benefits Attitudes Survey, United States
    - Survey of 8,000 US employees of large private sector organizations in 2019
  - Willis Towers Watson 2020 Global Benefits Attitudes Survey, United States
    - Survey of 4,898 US employees (4,481 full time) of large private sector organizations in October 2020
  - Willis Towers Watson 2020 U.S. Defined Contribution Plan Sponsor Survey
    - Survey of 464 U.S. plan sponsors in September 2020. 51% of respondents had plan assets of at least $1 billion

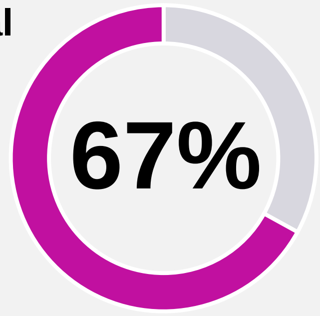
Employees have concerns about their future financial state

Few employees think they are saving enough for retirement

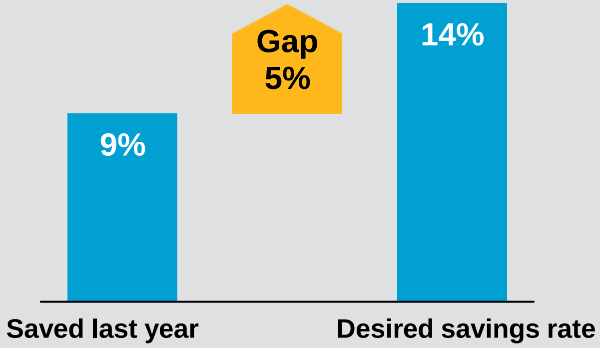
My generation is likely to be much worse off in retirement than my parents' generation are/were



When I come to retire Social Security will be much less generous than it is now



What percentage of your income do you think you saved for retirement last year?



7 in 10

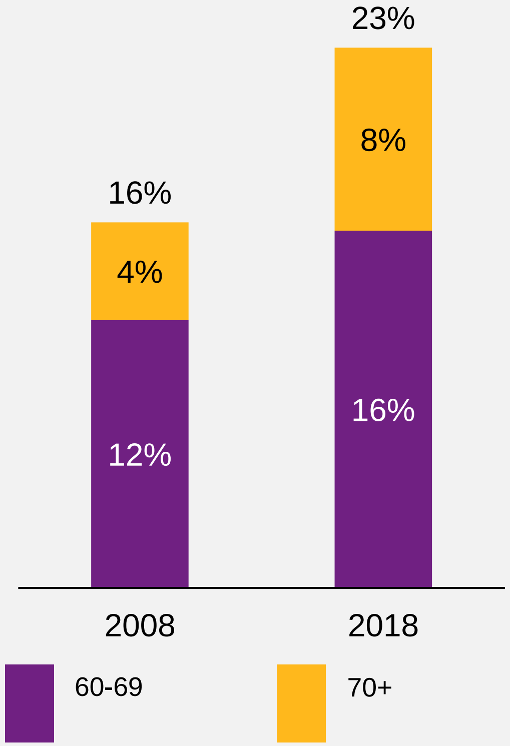
report they are saving less for retirement than they ideally should

Note: Percentage agree or strongly agree
Sample: Full-time employees only.
Source: 2019 Global Benefits Attitudes Survey, United States

Retirement risks for those approaching retirement are widespread

Greying of debt

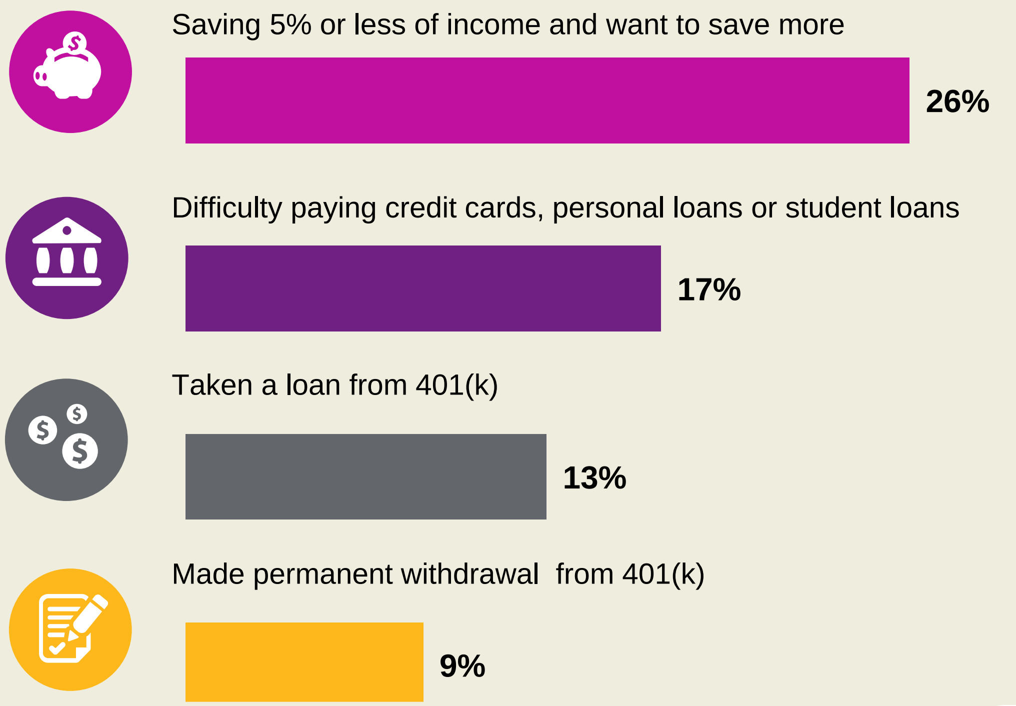
Percentage of debt held by people aged 60 or older



*Source: Derived data from New York Fed Consumer Credit Panel/Equifax

Retirement Risks

Employees aged 50 or older



2 in 5 employees approaching retirement are facing at least one key retirement risk

Sample: U.S. full-time employees
Source: 2019 Global Benefits Attitudes Survey, United States.

Financial issues and debt are key barriers to saving for retirement

Saving for retirement is never the main priority for workers of any age who have significant debt or who are struggling financially.

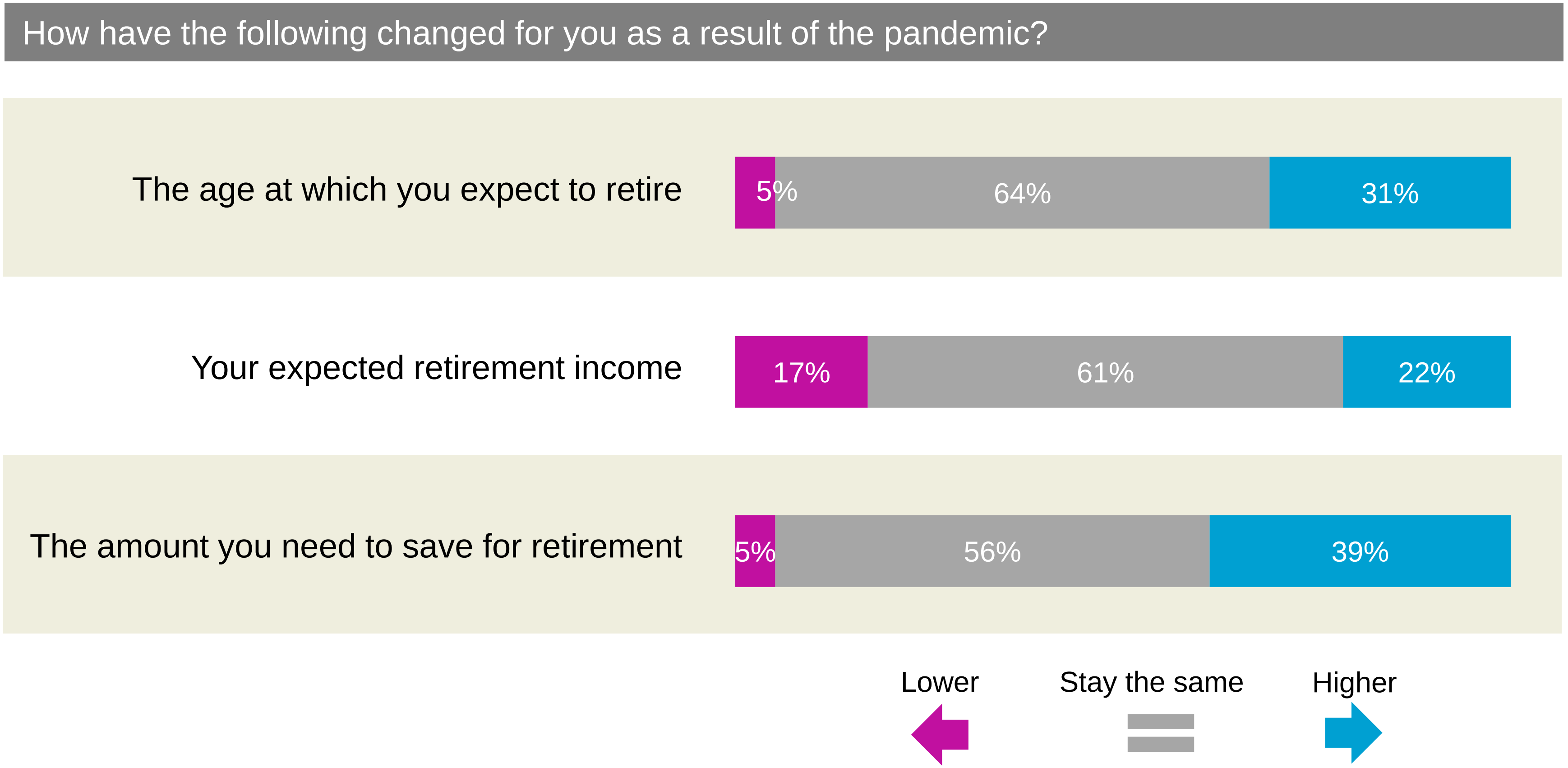
Age at which saving for retirement becomes the key financial priority of employees			
Less than 40	**40s**	**50+**	**Never**
	Home owners	DC only plan	Significant debt
	Open DB plan	Unworried	Getting by
	High Salary	No debt	Struggling

Sample: Full-time employees only.
Source: 2019 Global Benefits Attitudes Survey, United States

How has the pandemic impacted retirement expectations?

1 in 3 employees expect to retire later as a result of the pandemic

A significant minority of employees understand they will need to save more, retire later and on less income

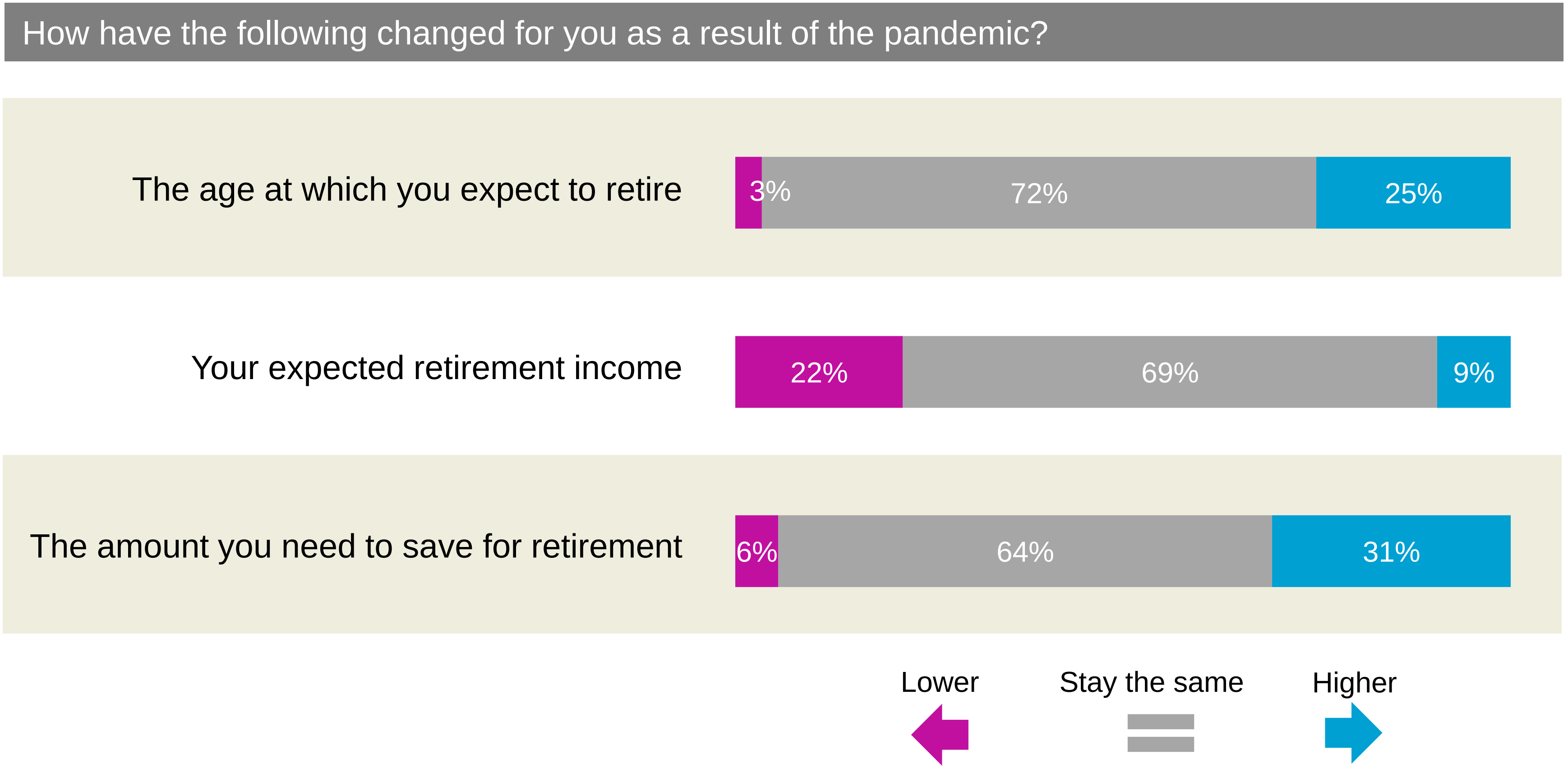


Sample: Full-time employees.
Source: 2020 Global Benefits Attitudes Survey, United States

1 in 4 employees expect to retire later as a result of the pandemic

A significant minority of employees understand they will need to save more, retire later and on less income

50+
Employees aged 50 or older



Sample: Full-time employees aged 50 or older only.
Source: 2020 Global Benefits Attitudes Survey, United States

Which segments are spending and borrowing differently?

Some households are saving and borrowing more as a result of the pandemic, but most have not changed

	Savings	Debt
More or much more	Very good health High salary Men Kids Gen Y Started work from home	Gen X Fair or Poor health Hispanic or Latino
Less or much less	Poor health Temporary laid off or that took time off	Asian Men Very good health Mid salary Temporary laid off or that took time off

Sample: Full-time employees only.
Source: 2020 Global Benefits Attitudes Survey, United States

Financial situations are strongly linked to broader wellbeing

Improving finances can be difficult resulting in higher stress and anxiety

Financial situation

	Worse / Much worse	About the same	Better / Much better
Very good health	35%	50%	75%
Suffer from anxiety/ depression	48%	25%	50%
High social wellbeing	25%	32%	50%

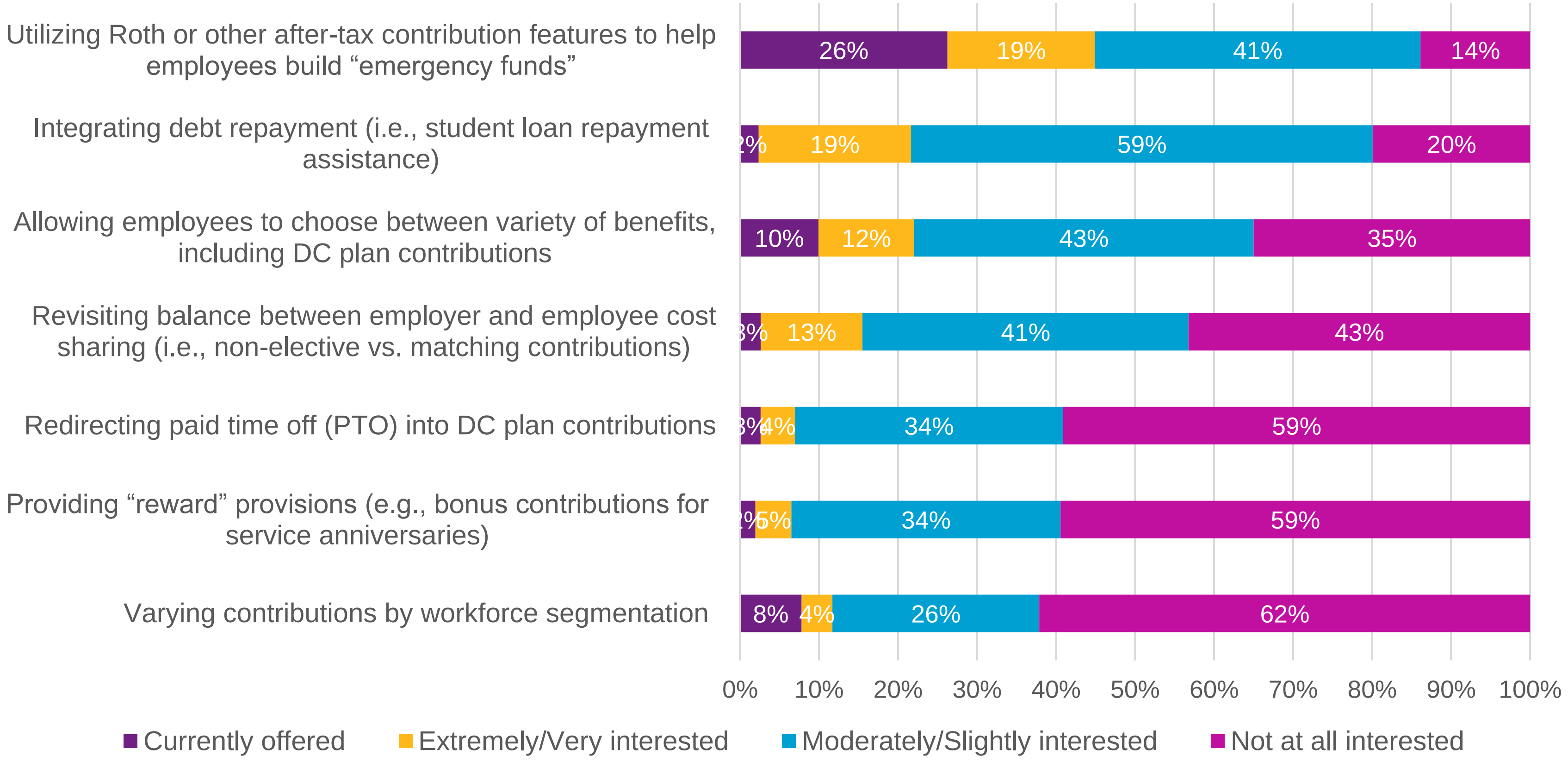
Sample: Full-time employees
Source: 2020 Global Benefits Attitudes Survey, United States

How are plan sponsors supporting employee financial wellbeing?

Sponsors eye new plan design features to improve financial resilience

What is your level of interest in the following innovative DC design strategies for you as a plan sponsor and for your employees?

2/3 of respondents are serious about offering innovative design solutions



Source: WTW 2020 U.S. Defined Contribution Plan Sponsor Survey

Sponsors who are concerned about workforce challenges due to employee financial distresses seemed more inclined to offer, plan to offer or consider services to help alleviate financial stresses

What services do you provide to your plan participants to deal with short-term and long-term financial issues? (Currently offer/Plan to offer/Considering to offer)

Source: WTW 2020 U.S. Defined Contribution Plan Sponsor Survey

Impacts of debt on retirement

Research ties debt and current financial struggles with lower prioritization of retirement savings

- **Employee pre-COVID debt and retirement attitudes**
  - 7 in 10 employees report they are under-saving by 5% on average
  - When debt and other financial issues are present, they are higher priorities than retirement
- **How has the pandemic impacted retirement expectations?**
  - Employees expect to need to save more, retire later and have lower retirement income
  - Workforce segments have disparate pandemic-related saving and borrowing behaviors
  - Strong correlation between current financial issues and anxiety, depression and other health issues.
- **How are plan sponsors supporting employee financial wellbeing?**
  - Plan sponsors are planning to support broader financial resilience including debt management
- **Key data sources**
  - Willis Towers Watson 2019 Global Benefits Attitudes Survey, United States
    - Survey of 8,000 US employees of large private sector organizations in 2019
  - Willis Towers Watson 2020 Global Benefits Attitudes Survey, United States
    - Survey of 4,898 US employees (4,481 full time) of large private sector organizations in October 2020
  - Willis Towers Watson 2020 U.S. Defined Contribution Plan Sponsor Survey
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Retirement readiness and debt in the context of COVID-19

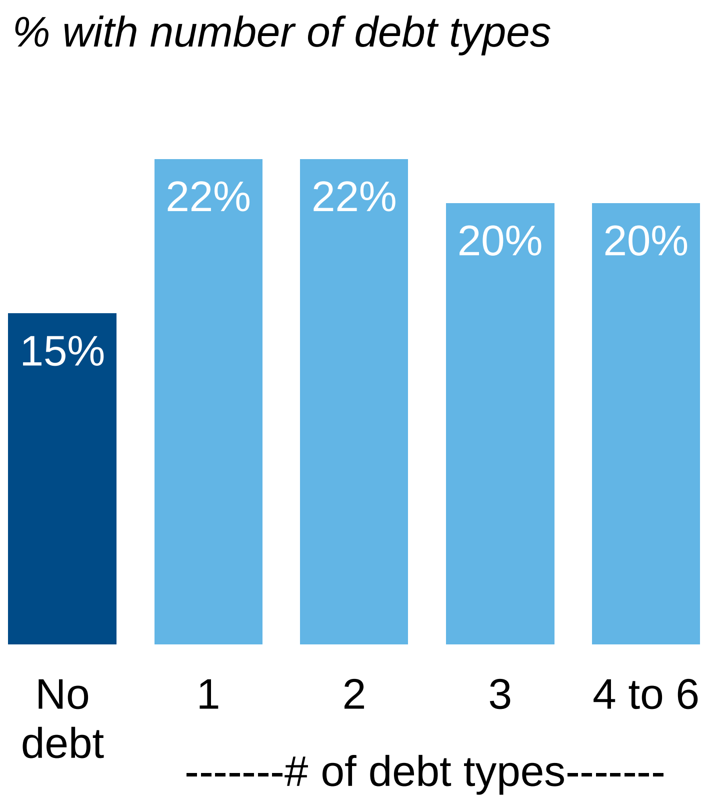
2020 Healthcare Sector Financial Wellness Survey

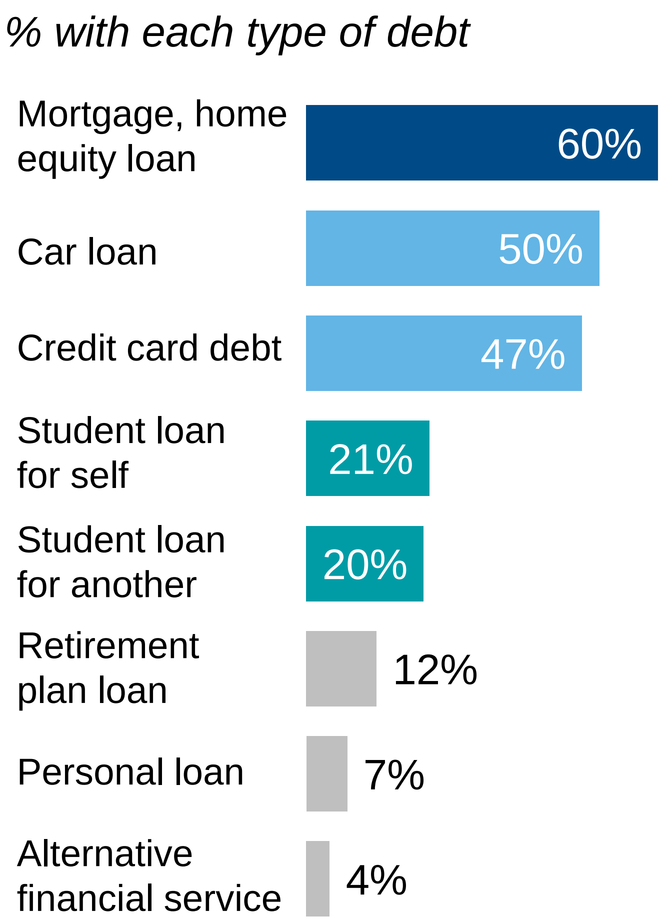
Paul Yakoboski

TIAA Institute

EBRI webinar
February 3, 2021

Eighty-four percent of healthcare workers carry debt.



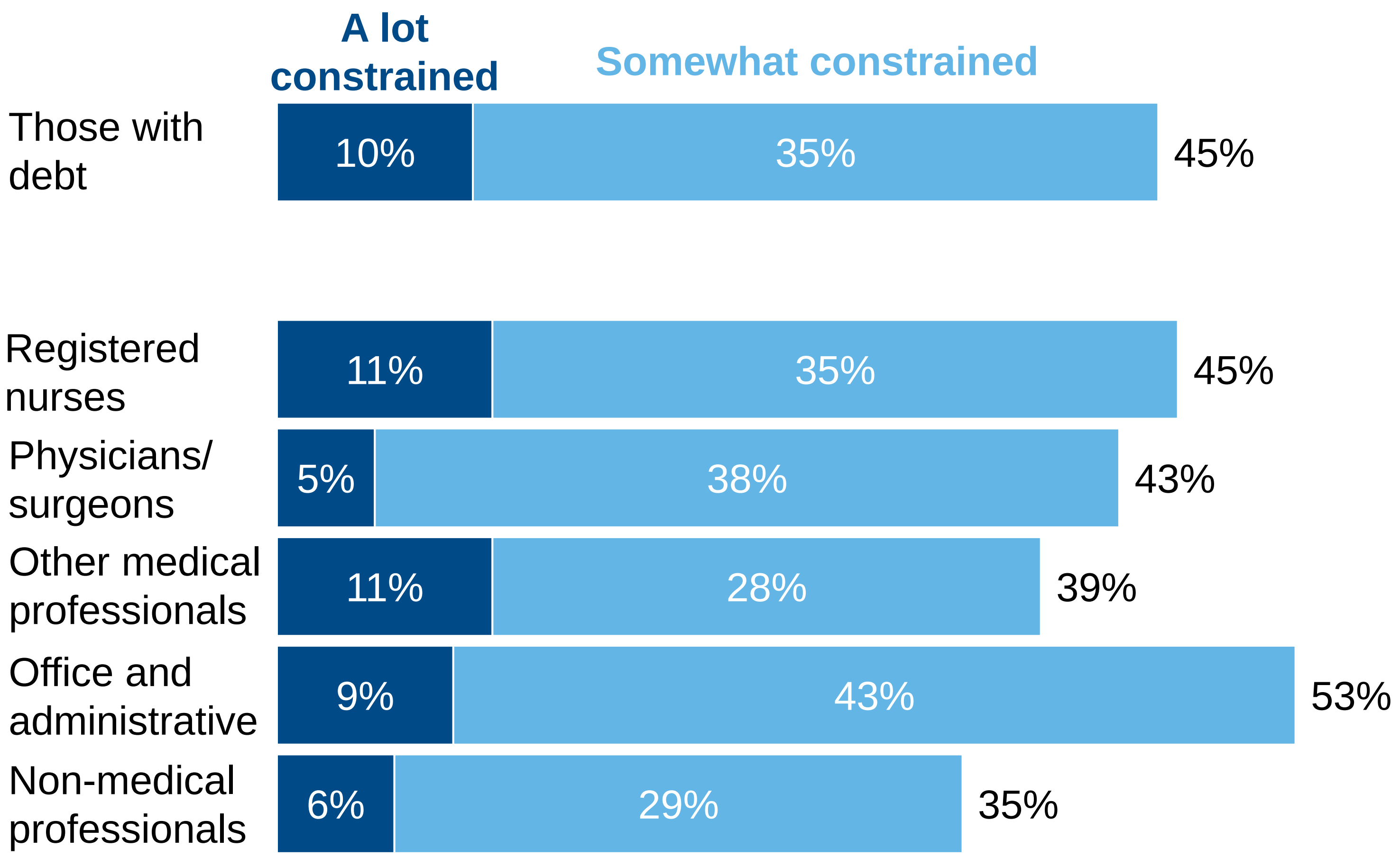


Source: *Healthcare Sector Financial Wellness Survey*, TIAA Institute (2020).

Debt constraint

TIAA Institute

Almost one-half of those with debt cannot adequately address other financial priorities because of it.



Source: *Healthcare Sector Financial Wellness Survey*, TIAA Institute (2020).

Debt

TIAA Institute

COVID-19 has led to debt issues for some healthcare workers.

Because of financial hardship resulting from COVID-19…

Paid late or missed any loan payments

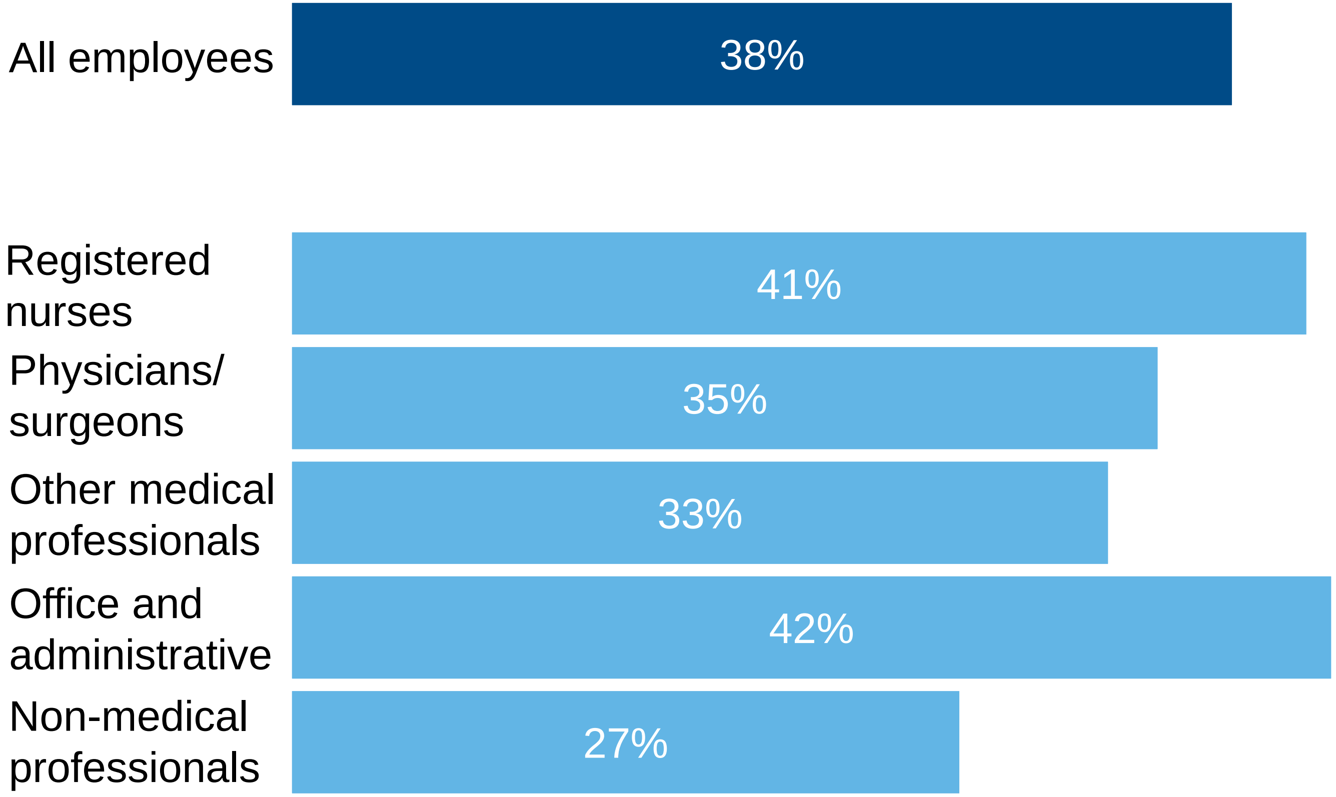
Took on new debt, including credit card debt

Source: *Healthcare Sector Financial Wellness Survey*, TIAA Institute (2020).

Overall retirement income confidence

Almost 40% of healthcare workers have become less confident that they will have enough money for a comfortable retirement.

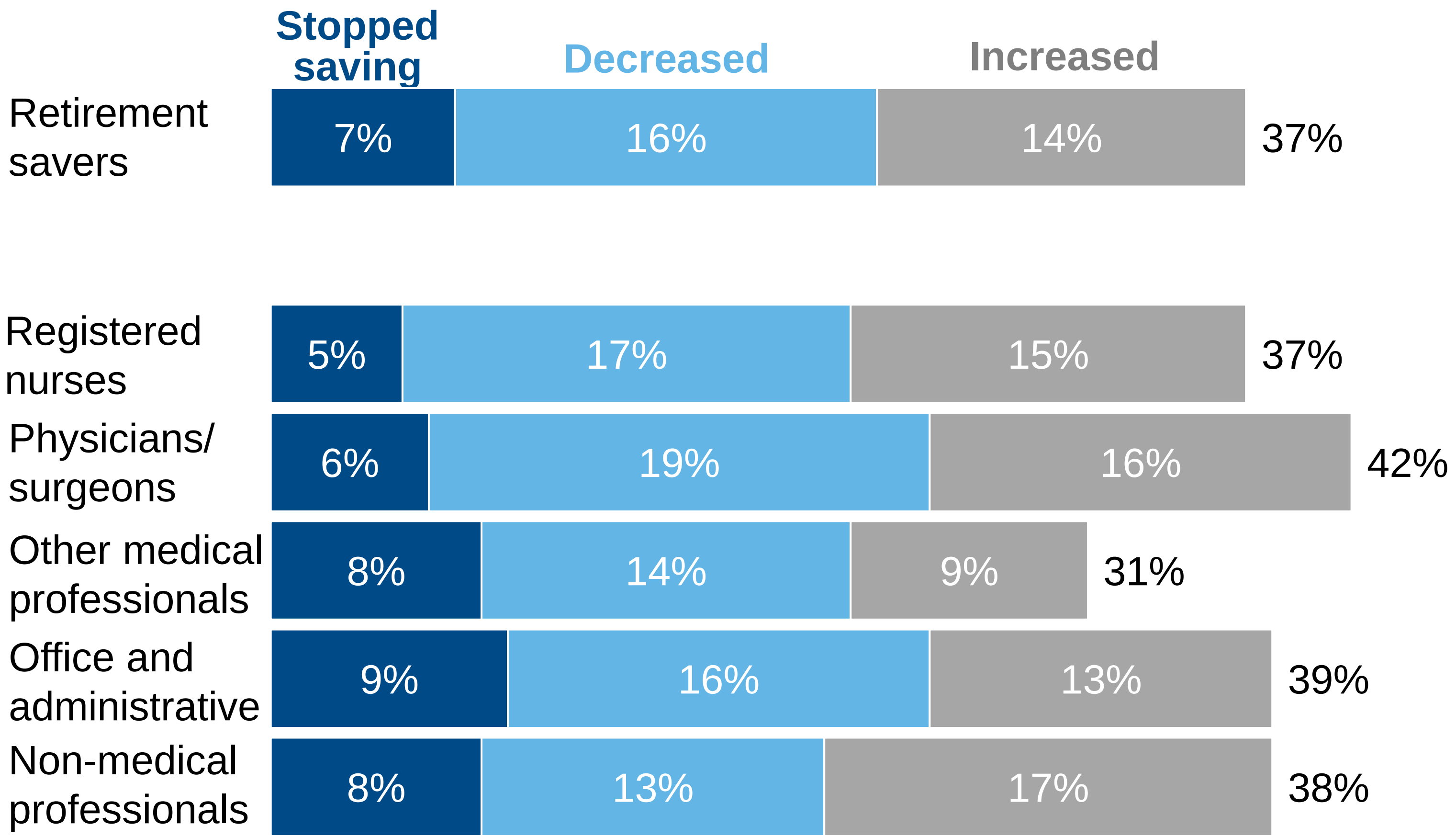
% whose retirement income confidence has dropped during COVID-19



Source: *Healthcare Sector Financial Wellness Survey*, TIAA Institute (2020).

Retirement saving

One-quarter of retirement savers have decreased the amount they are saving since the onset of COVID-19.

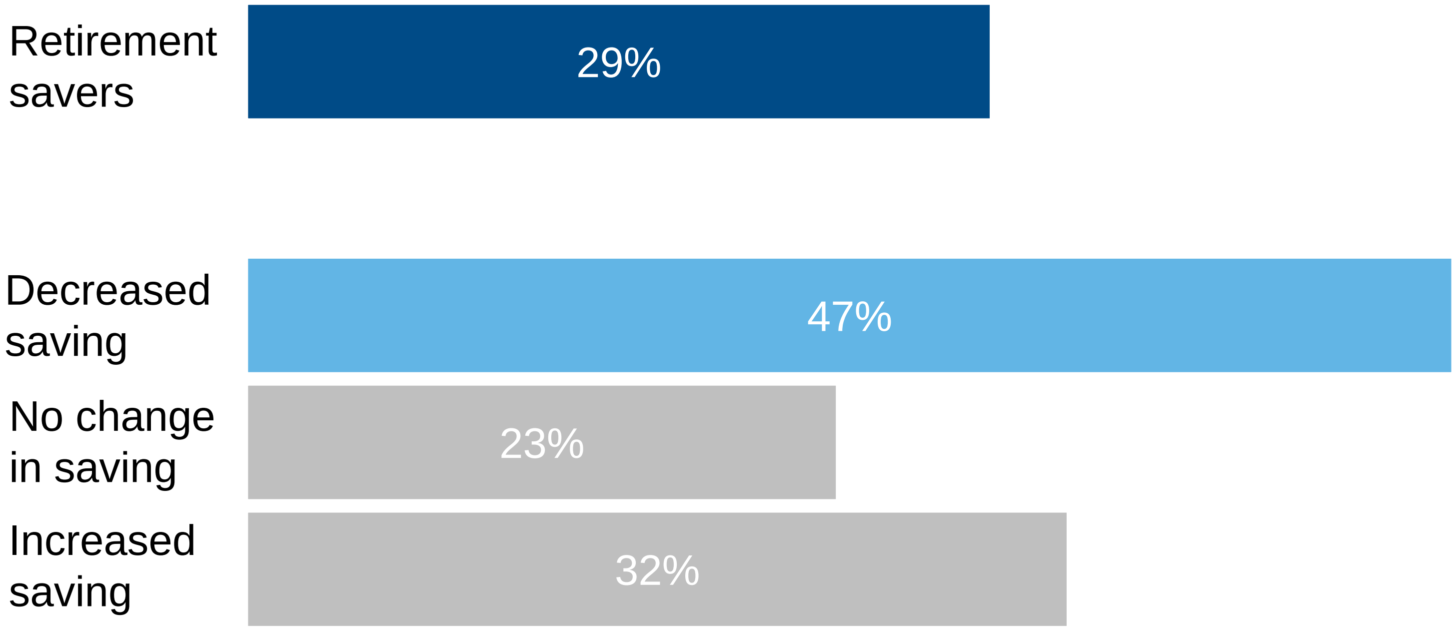


Source: *Healthcare Sector Financial Wellness Survey*, TIAA Institute (2020).

Retirement savings confidence

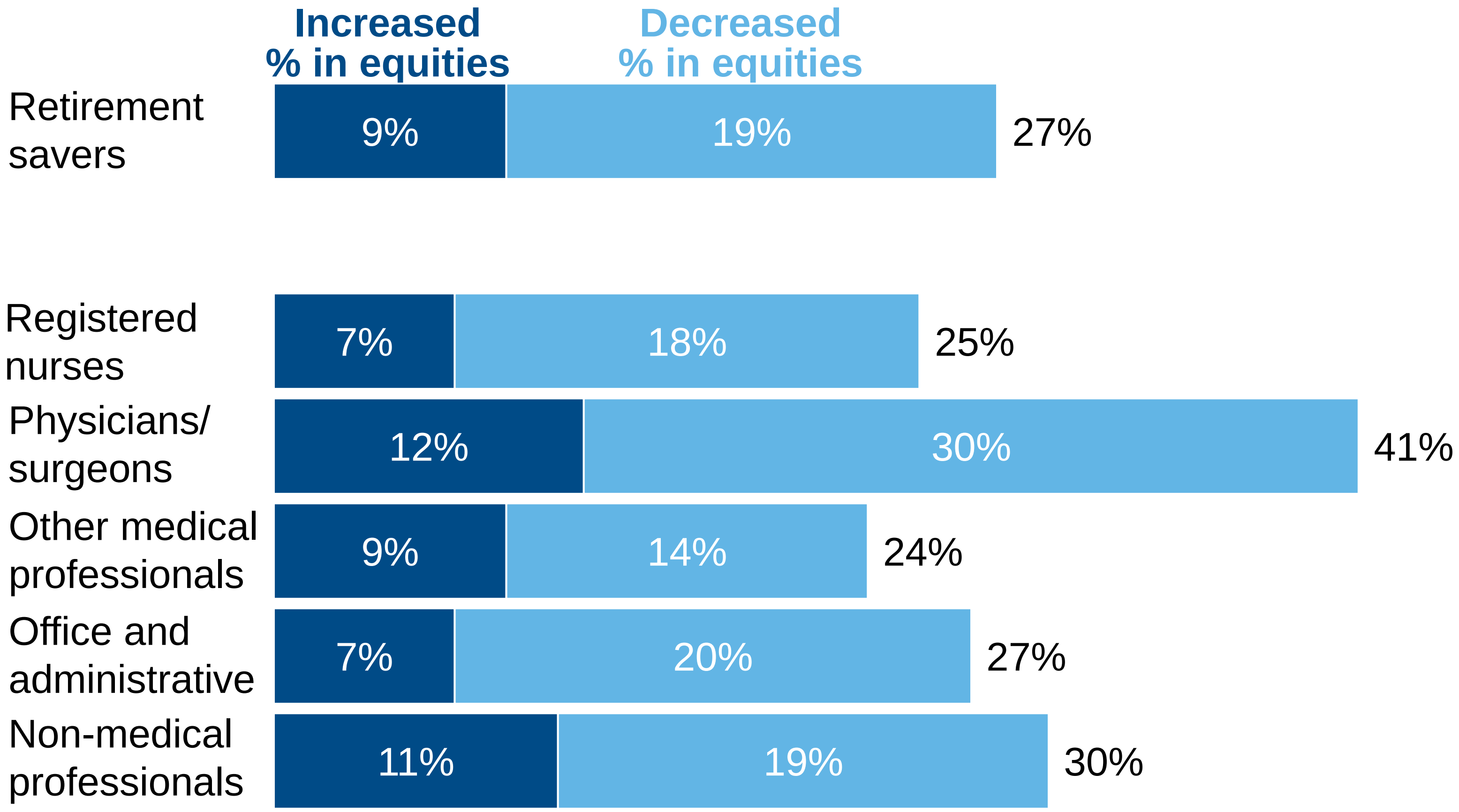
Almost 30% of savers have become less confident that they are saving an adequate amount for retirement.

% whose retirement savings confidence has dropped during COVID-19



Source: *Healthcare Sector Financial Wellness Survey*, TIAA Institute (2020).

Almost 30% of retirement savers have changed the investment of their savings since the onset of COVID-19.



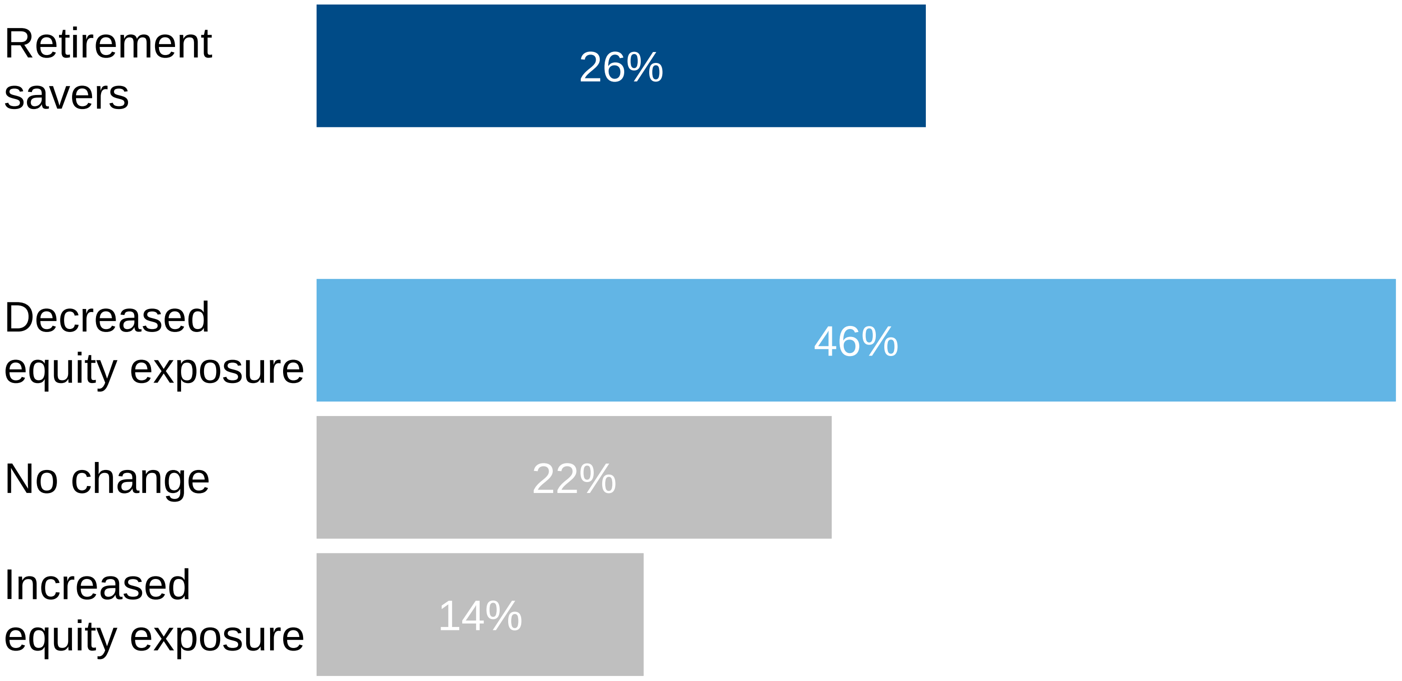
Source: *Healthcare Sector Financial Wellness Survey*, TIAA Institute (2020).

Retirement investment confidence

TIAA Institute

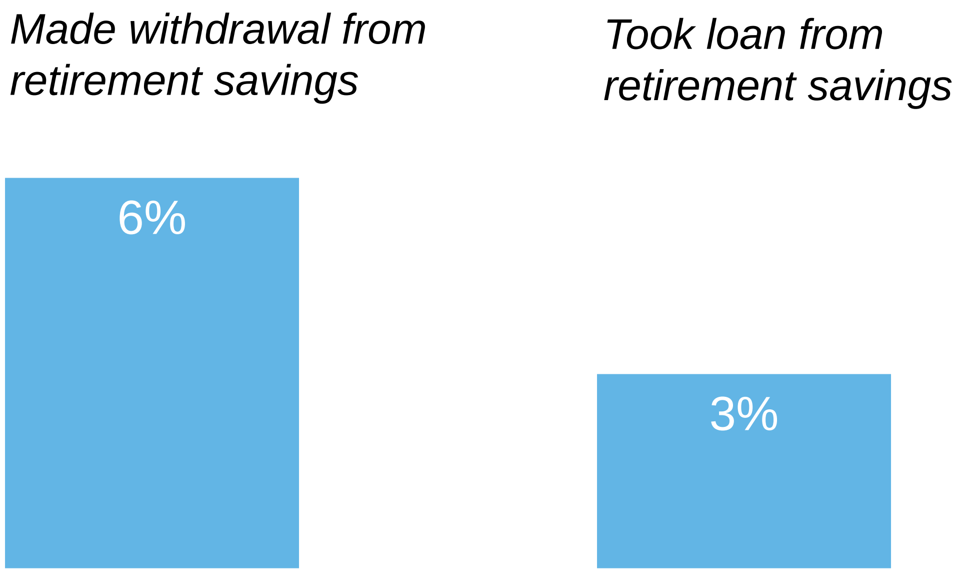
One-quarter of retirement savers have become less confident that their savings is invested appropriately.

% whose retirement investment confidence has dropped during COVID-19



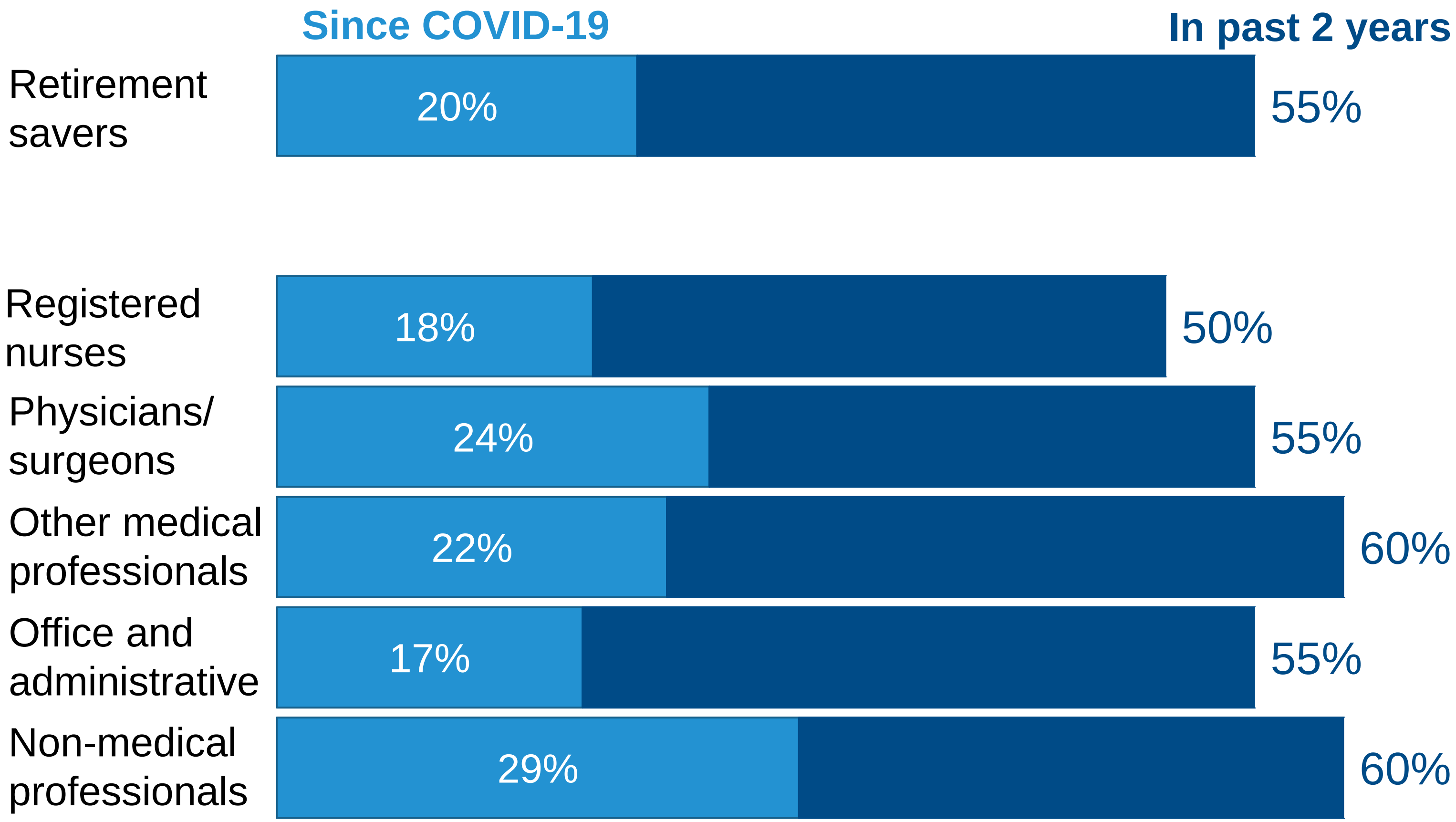
Source: *Healthcare Sector Financial Wellness Survey*, TIAA Institute (2020).

Some have taken loans or withdrawals from retirement savings because of financial hardship resulting from COVID-19.



Source: *Healthcare Sector Financial Wellness Survey*, TIAA Institute (2020).

Over one-half of retirement savers have recently received professional advice on planning and saving for retirement.



Source: *Healthcare Sector Financial Wellness Survey*, TIAA Institute (2020).

Q&A

Upcoming Events

Wednesday, February 10 — Members-Only Research Round-Up webinar

Tuesday, February 16 — Workplace Wellness: Firm Size Matters webinar

Wednesday, February 24 — COVID-19, Telemedicine, and More: Findings from the 2020 Consumer Engagement in Health Care Survey webinar

Save the Date: Spring Virtual Policy Forum May 10, 11, and 13