EBRI EMPLOYEE BENEFIT RESEARCH INSTITUTE

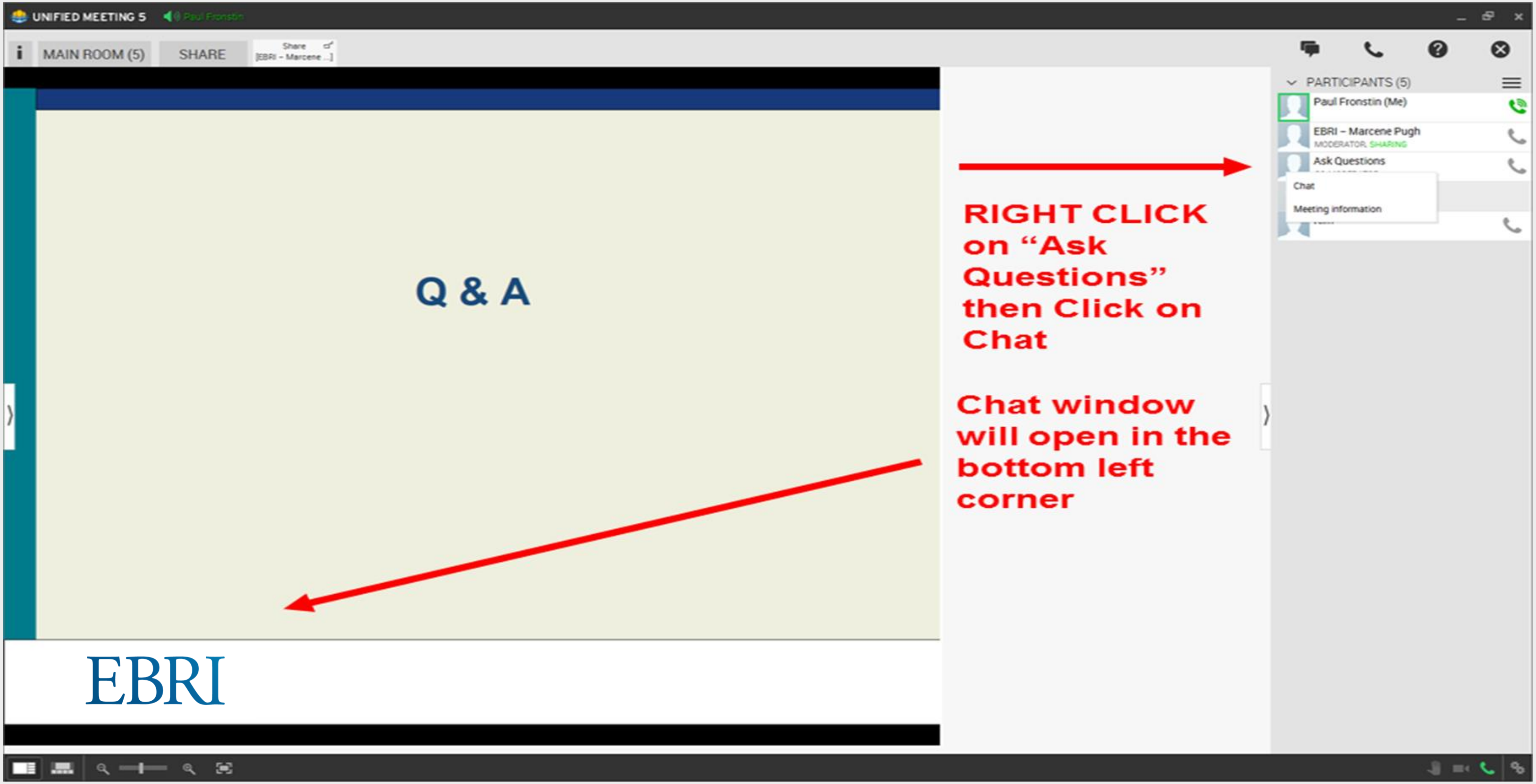
# RESEARCH ROUND-UP WEBINAR

# Speakers

**Zahra Ebrahimi, Research Associate, EBRI**

**Jake Spiegel, Research Associate, EBRI**

Moderated by: **Josh Cohen, Managing Director, Head of Institutional Defined Contribution, PGIM**


UNIFIED MEETING 5
MAIN ROOM (5)
SHARE
PARTICIPANTS (5)
Paul Fronstin (Me)
EBRI – Marcene Pugh
MODERATOR, SHARING
Ask Questions
Chat
Meeting information
Q & A
EBRI
RIGHT CLICK on "Ask Questions" then Click on Chat
Chat window will open in the bottom left corner

# PRESENTATION OUTLINE

- Opening Remarks: Josh Cohen
- Part I: Retirement Research, Presented by Zahra Ebrahimi
- Part II: Financial Wellness Research, Presented by Jake Spiegel
- Part III: Health Care, Presented by Jake Spiegel
- Q/A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# PART I: RETIREMENT RESEARCH

# RETIREMENT RESEARCH

- Projecting the Impact of Policy and Design Proposals on Retirement Income Adequacy (*Jack VanDerhei*)

- What Happens to Asset Allocation When Participants Roll 401(k) Plan Assets Into IRAs? (*Craig Copeland*)

- How Prepared Are Families to Pay for Expenses When Losing Their Main Income Source? (*Craig Copeland*)

- How Do Older Americans Spend Their Assets? (*Zahra Ebrahimi*)

# PROJECTING THE IMPACT OF POLICY AND DESIGN PROPOSALS ON RETIREMENT INCOME ADEQUACY

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# RETIREMENT SECURITY PROJECTION MODEL®

- RSPM simulates the percentage of the population at risk of not having retirement income adequate to cover average expenses and uninsured health care costs (including long-term-care costs) at retirement age
- RSPM simulations are based on:
  - ✓ A set of deterministic and data-driven expenses including costs for necessities
  - ✓ Stochastically modeled long-term costs
- RSPM simulates households' wealth/income through their retirement including Social Security, defined contribution and IRA balances, defined benefit annuities, and net housing equity
- RSPM produces:
  - ✓ Percentage of simulated household life-paths that do not run short of money in retirement. In other words, the RRR is a measure of "retirement success."
  - ✓ Present value of simulated retirement deficits at retirement age. The RSS, in this way, measures retirement savings shortfalls.


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# MAKING PROJECTIONS

Our projections reveal reduced deficits for all age cohorts. Deficits would be significantly lowered by the addition of auto portability.

**Scenario 1: Coverage Enhancements**

All employers (except those with fewer than 10 employees) are required to offer defined contribution plans. New plans are auto-IRAs with a 6 percent default contribution rate that auto-escalates by 1 percent annually until it reaches 15 percent of pay. It assumes 30 percent opt-out for new eligibles and includes all non-excludable employees.

**Scenario 2: Coverage Enhancements + Auto Portability**

Upon termination, participants in Scenario 1 would have the account from their former employer automatically combined with their account in the new employer's plan.

**Average Retirement Deficit and Projected Deficit Reduction Under Two Scenarios**

By Age




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# REFERENCES

- **Source:** "Under the Dome – A Closer Look at Legislative Proposals Impacting Retirement," Jack VanDerhei, *EBRI Issue Brief*, no. 486 (Employee Benefit Research Institute, July 11, 2019).

- "How Much More Secure Does the SECURE Act Make American Workers: Evidence From EBRI's Retirement Security Projection Model®," Jack VanDerhei, *EBRI Issue Brief*, no. 501 (Employee Benefit Research Institute, February 20, 2020).

- Join us on Tuesday, March 17, 2020, from 2–3 p.m. Eastern in a webinar that will address findings of the SECURE Act *Issue Brief*.

# WHAT HAPPENS TO ASSET ALLOCATION WHEN PARTICIPANTS ROLL 401(K) PLAN ASSETS INTO IRAS?

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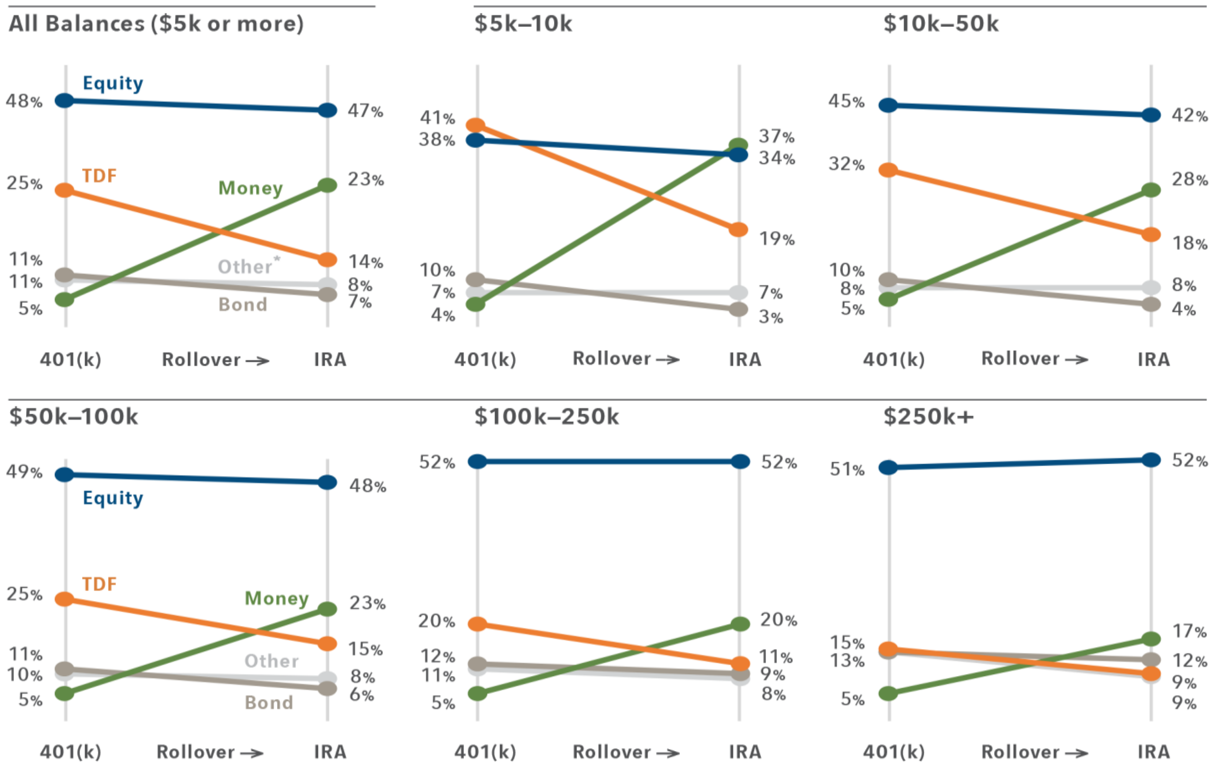
# FROM 401(K) TO IRA

Assets were much more likely to be in money after a rollover from a 401(k) into an IRA. Even though target-date/balanced funds (TDFs) were specifically designed to make the asset allocation process automatic, assets are not being allocated the same way when they are rolled into IRAs.

As the size of rollover balances grew, the average asset allocations were increasingly likely to look the same after a rollover from 401(k) plans to IRAs. The average equity allocations were virtually equal for balances of $50,000 or more. However, the allocation to TDFs consistently decreased, while the money allocation consistently increased after the rollover.

**Average Asset Allocations Before and After Rollover From 401(k) Plan to IRA**

By Rollover Balance




* Other: Assets that do not fit into the other categories, such as real estate, fixed and variable annuities, etc.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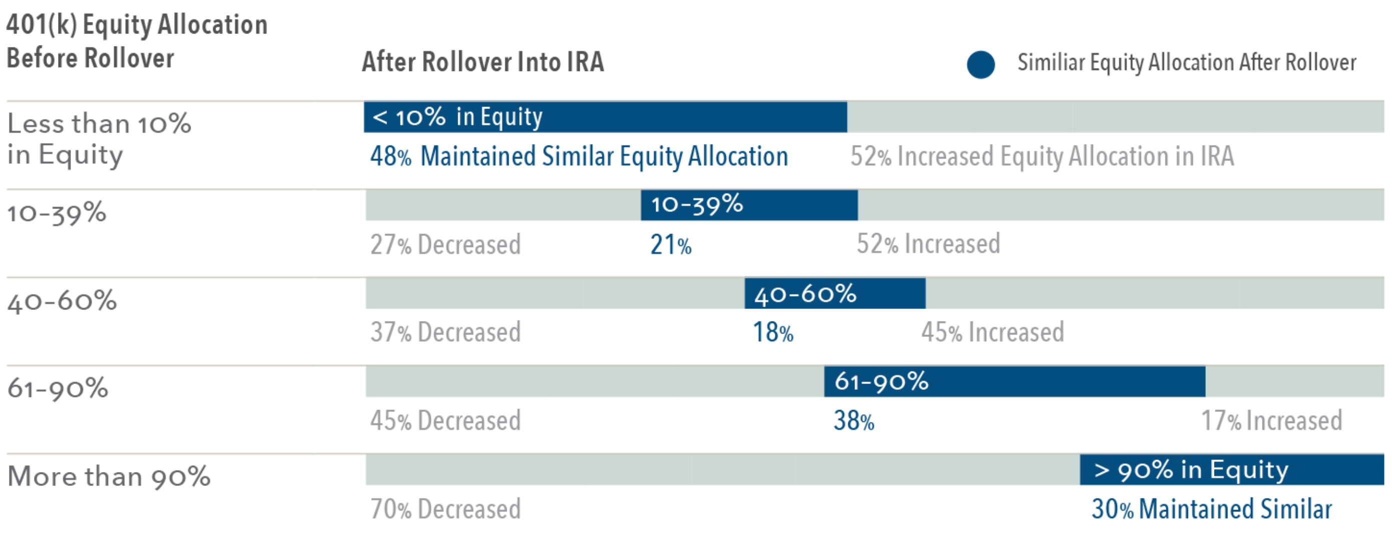
# SHIFTING EQUITY

Of the accounts that started with less than 10 percent of assets allocated to equities, just under half maintained a similar allocation when rolled over to IRAs. Of 401(k) plans with more than 90 percent in equities, only 30 percent still had this allocation when rolled over to IRAs.

**Equity Allocation in 401(k) Plans Before vs. After a Rollover Into IRAs (Rollover Balances of $5,000 or More)**





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# HOW PREPARED ARE FAMILIES TO PAY FOR EXPENSES WHEN LOSING THEIR MAIN INCOME SOURCE?

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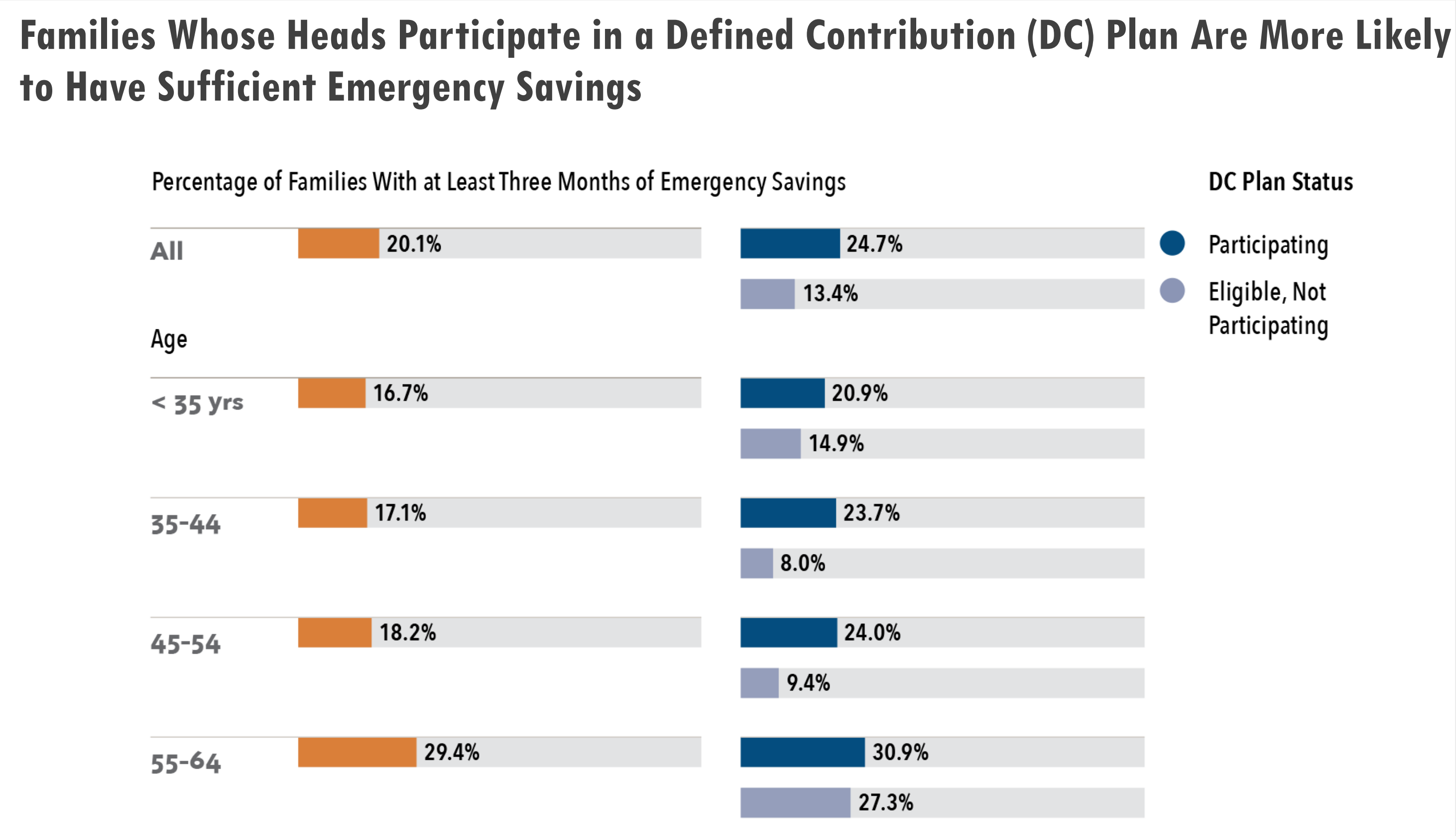
# DC PLANS AND READINESS

Only 1 in 5 families with working heads under age 65 have enough emergency savings — three months of family income in liquid savings.*

Families whose heads participate in a defined contribution (DC) plan are more likely to have sufficient emergency savings.




* Liquid savings include checking accounts, savings accounts, money market funds, call accounts, and prepaid accounts.

# HOW MUCH SAVINGS?

Looking at the distribution of savings, a majority of families have less than one month of their income. The families with the most savings have at least just under two and a half months.

Given the low percentage of workers with enough savings, emergency savings programs provided by employers could directly benefit their workers and indirectly benefit them through higher employee satisfaction.

### A Majority of Families Have Less Than One Month of Emergency Savings

| Percentile | Weeks of Emergency Savings Available | Emergency Savings Amount |
|---|---|---|
| Least* | 1.2 Weeks | $1,040 |
| Median | 3.3 Weeks | $4,500 |
| Most** | 9.2 Weeks | $16,300 |

* Least represents the 25th percentile, which is the maximum value of the families with the lowest 25 percent of available emergency savings.

** Most represents the 75th percentile, which is the minimum value of the families with the highest 25 percent of available emergency savings.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# REFERENCES

- **Source:** "Comparing Asset Allocation Before and After a Rollover From 401(k) Plans to Individual Retirement Accounts," Craig Copeland, *EBRI Issue Brief*, no. 495 (Employee Benefit Research Institute, November 7, 2019).

- **Source:** "Emergency Savings: The Reality of Workers' Liquid Savings — Evidence From the Survey of Consumer Finances," Craig Copeland, *EBRI Issue Brief*, no. 490 (Employee Benefit Research Institute, August 29, 2019).

- Join us on Wednesday, April 8, 2020, from 2–3 p.m. Eastern in a webinar that will address findings on emergency savings.


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# HOW DO OLDER AMERICANS SPEND THEIR ASSETS?

Using the Health and Retirement Study (HRS) and the Consumption and Activities Mail Survey (CAMS), we examine the spending behavior of retirees and near-retirees.

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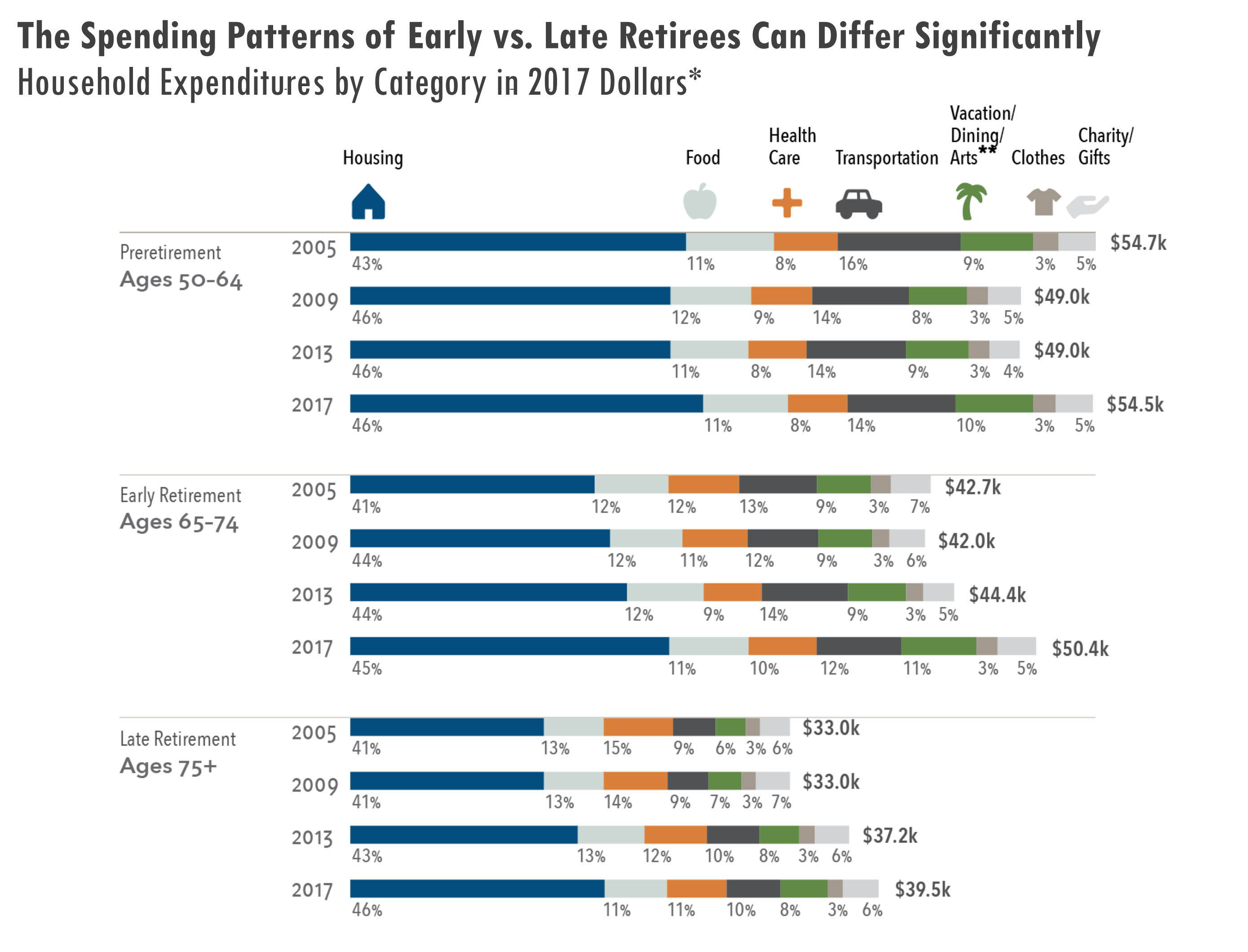
# RETIREE EXPENDITURES

Evidence from retiree spending patterns challenges the assumption that people can expect to spend a constant level — e.g., 75 percent of preretirement income — every year in retirement.

In general, spending declined during retirement. Also, the composition of spending changed over time: While housing remained the largest spending category for every age group, older households allocated a smaller share of their budgets to transportation and vacations / entertainment and a larger share of their budgets to health care costs. However, the average annual share of health costs for the 65–74 and 75-or-older age groups declined after 2007, the year after Medicare Part D went into effect.




Health and Retirement Study, public use dataset. Produced and distributed by the University of Michigan with funding from the National Institute on Aging (grant number NIA U01AG009740). Ann Arbor, MI (2014, 2015).

* Percentages may not add to 100 due to rounding.

** Entertainment: Sum of trips and vacations, tickets to movies and sporting or performing arts events; hobbies and leisure equipment (photography, reading, camping, etc.); dining out in restaurants, cafes, and diners; and take-out food.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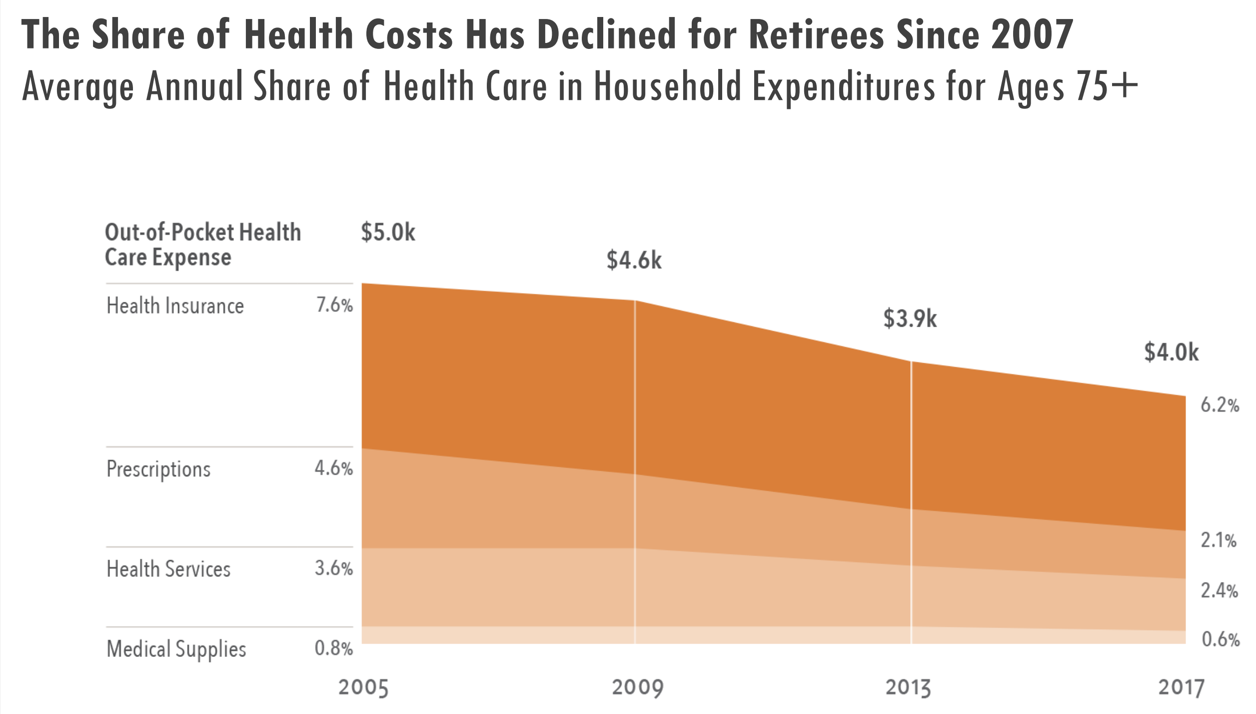
# HEALTH CARE SHARE

The breakdown of the out-of-pocket health costs for those ages 75 or older indicates that most of the drop in total health costs for this age group is attributed to health insurance and drugs, while other components remained unchanged for the most part.




Health and Retirement Study, public use dataset. Produced and distributed by the University of Michigan with funding from the National Institute on Aging (grant number NIA U01AG009740). Ann Arbor, MI (2014, 2015).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# REFERENCES

- **Source:** "How Do Retirees' Spending Patterns Change Over Time?," Zahra Ebrahimi, *EBRI Issue Brief*, no. 492 (Employee Benefit Research Institute, October 3, 2019).

- "Spending Patterns of Older Households," Zahra Ebrahimi, *EBRI Issue Brief*, no. 480 (Employee Benefit Research Institute, May 2, 2019).

- Check our previous webinars on Spending Patterns of Older Americans on the EBRI Website.


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# FUTURE RESEARCH

- Simulating the Impact of HSAs on Retirement Income Adequacy (*Jack VanDerhei*)
- Simulation Analysis of the Impact of the SECURE Act on AUM (*Jack VanDerhei*)
- Simulation Analysis of What Else Can Be Done to Increase Retirement Income Adequacy After the SECURE Act (*Jack VanDerhei*)
- Do Individuals Coordinate Their Withdrawals From Traditional and Roth IRAs? (*Craig Copeland*)
- Older Americans and Debt (*Zahra Ebrahimi*)
- Changes in the Traditional Path to Full-Time Retirement (*Zahra Ebrahimi*)


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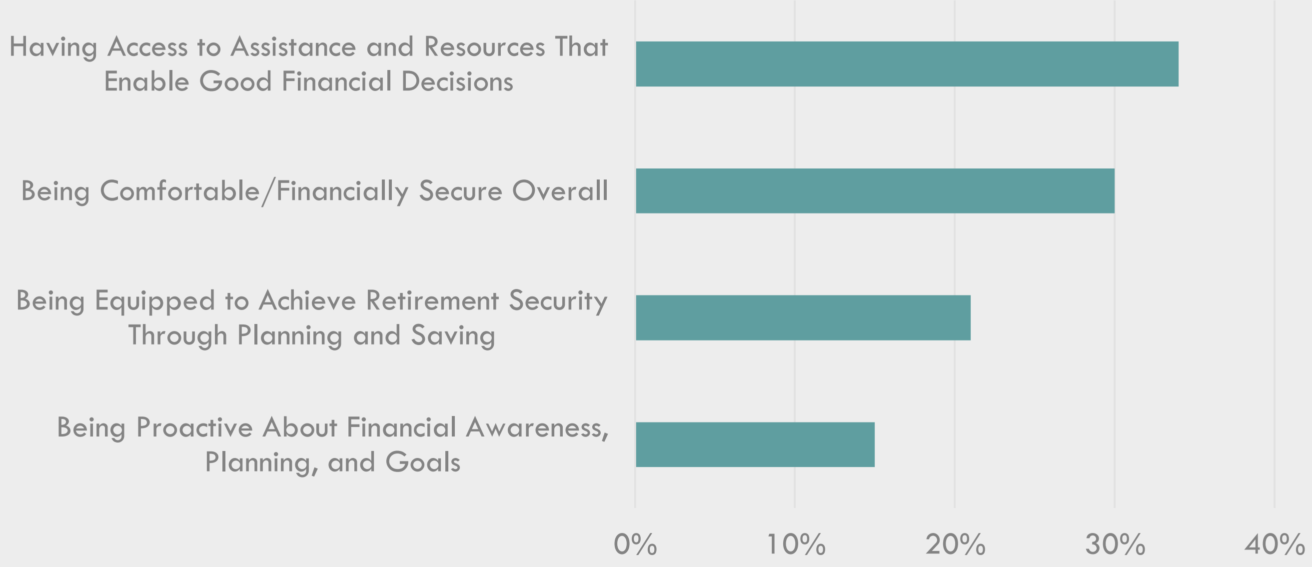
# PART II: FINANCIAL WELLNESS TOPICS

# MOTIVATIONS AND MEASUREMENT OF FINANCIAL WELLNESS INITIATIVES

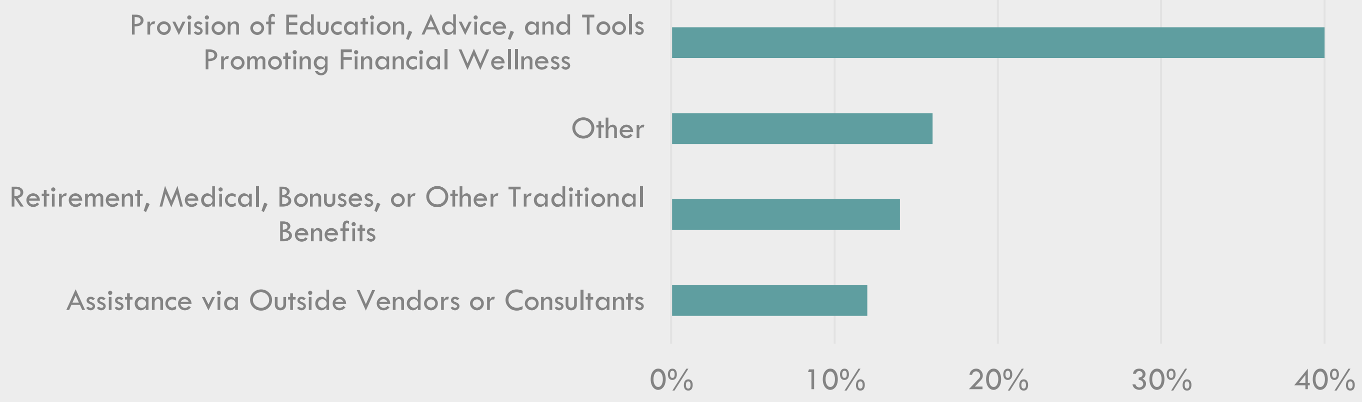
- As part of the Financial Wellness Research Center, EBRI conducts a survey of employers' financial wellness initiatives
- The survey focuses on companies with at least 500 employees that are currently offering, currently in the process of implementing, or planning to implement financial wellness initiatives
- The goal of the survey is to develop a better understanding of financial wellness initiatives, how workers user them, and how they impact workers' financial wellbeing

# MOTIVATIONS AND MEASUREMENT OF FINANCIAL WELLNESS INITIATIVES

- Among employers, there is little consensus on what financial wellness looks like.




- And, there are a wide variety of implementation strategies.

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**Source:** Lori Lucas and Jack VanDerhei, "2019 Employer Approaches to Financial Wellbeing Solutions," *EBRI Issue Brief*, no. 491 (Employee Benefit Research Institute, September 26, 2019).

# PART III: HEALTH CARE TOPICS

# DO LARGER HSA BALANCES AFFECT USE OF HEALTH CARE SERVICES AND SPENDING?

This paper combined EBRI's HSA Database with health claims data from a large employer

HSA balances have increased significantly over the years. Has this affected health care usage?

In short, yes!

- As HSA balances increase, accountholders use several health care services and products more frequently, and spend more on them

- Compared to accountholders with less saved, accountholders with more than $3,000 saved in their HSAs
  - Visited their primary care physicians **more frequently**, and **spent $20 more** on PCP care
  - Visited specialists **more frequently**, and **spent $30 more** on specialist care
  - Visited outpatient physicians **more frequently**, and **spent $551 more** on outpatient care

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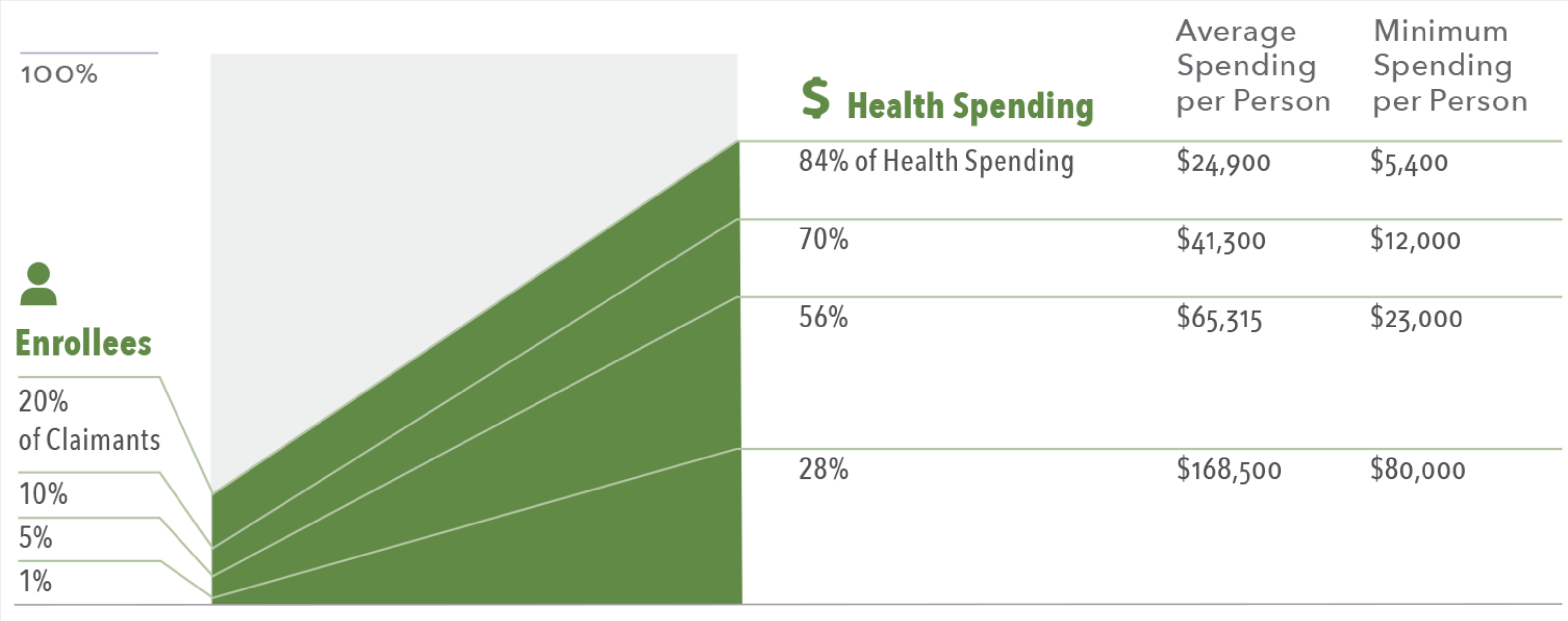
**Source:** Paul Fronstin and M. Christopher Roebuck. "Do Accumulating HSA Balances Affect Use of Health Care Services and Spending?" *EBRI Issue Brief*, no. 482 (Employee Benefit Research Institute, May 23, 2019).

# AREAS OF HEALTH CARE SPENDING CONCENTRATIONS

EBRI analyzed a database of health care claims data to examine high-cost users of health care

- Like in many areas, the 80/20 rule is applicable to health care
- EBRI found that 20% of the population accounted for 84% of health spending, and the top 1% accounted for 28% of health spending
- Furthermore, 15% of high spenders were in the top 10% of spending for three or four years






**Source:** Paul Fronstin and M. Christopher Roebuck, "Persistency in High-Cost Health Care Claims: 'It's Where the Spending Is, Stupid,'" *EBRI Issue Brief*, no. 493 (Employee Benefit Research Institute, October 24, 2019).

# AREAS OF HEALTH CARE SPENDING CONCENTRATIONS

Among the top 20% of health care spenders, between 30% - 40% hit their plan's out-of-pocket maximum

- Among the top 5% of health care spenders, between 60% - 70% hit their plan's out-of-pocket maximum
- Finally, among top 1% of health care spenders, 70% - 80% hit their plan's out-of-pocket maximum

These users are not particularly sensitive about cost-sharing arrangements



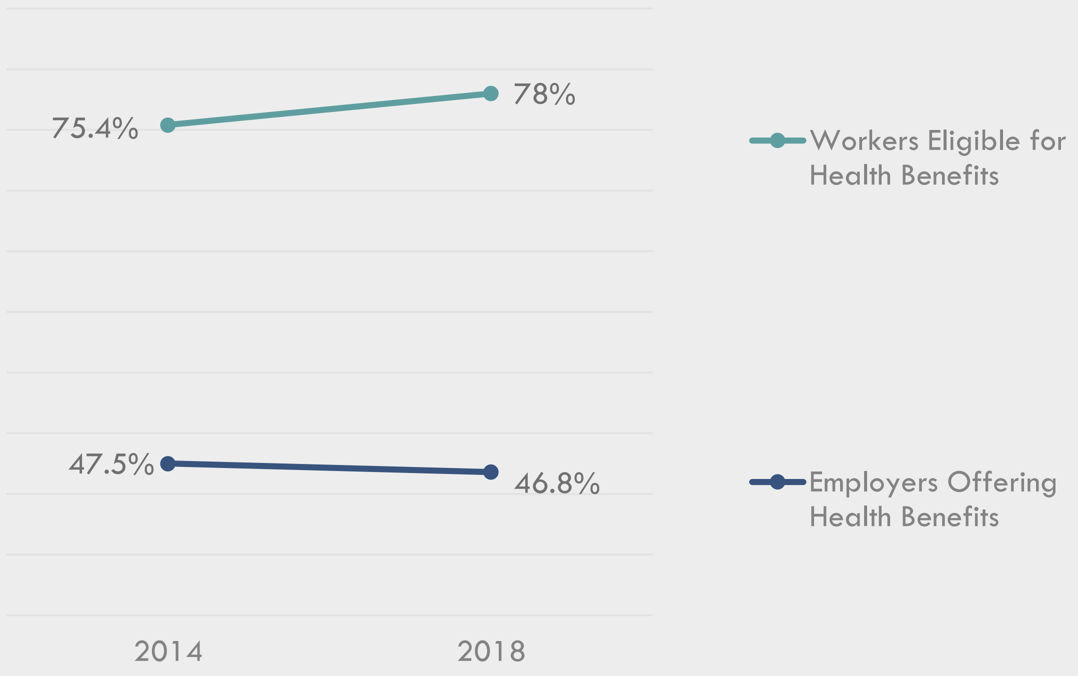
**Source:** Paul Fronstin and M. Christopher Roebuck, "Persistency in High-Cost Health Care Claims: 'It's Where the Spending Is, Stupid,'" *EBRI Issue Brief*, no. 493 (Employee Benefit Research Institute, October 24, 2019).

# WHY ARE MORE WORKERS ELIGIBLE FOR HEALTH COVERAGE WHEN FEWER EMPLOYERS ARE OFFERING IT?

EBRI analyzed data from the Medical Expenditure Panel Survey (MEPS) to trace how insurance offer rates have been affected by the Affordable Care Act (ACA)

More workers are eligible for workplace-sponsored health coverage, despite fewer employers offering it. Why is that?

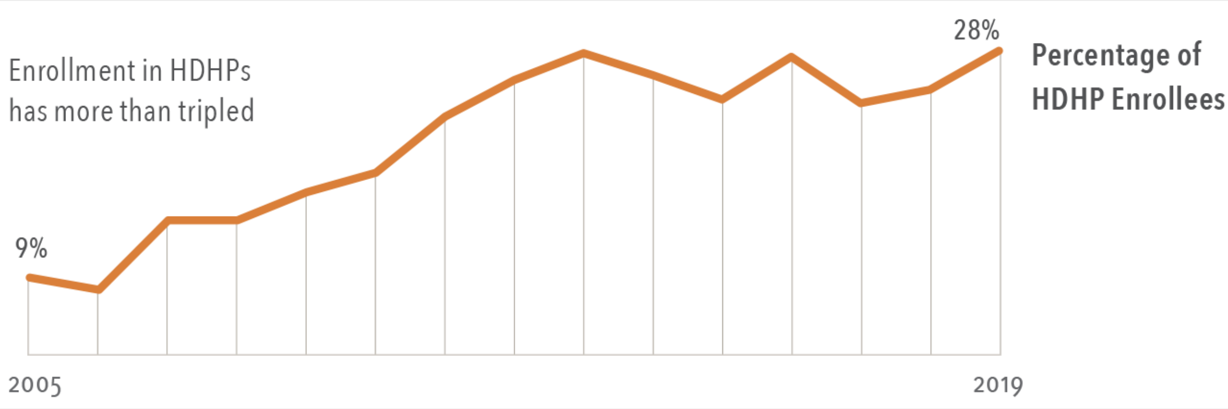
- Evidence suggests that workers are migrating towards firms that are more likely to offer coverage
- There has been a shift toward more full-time employment in recent years
- There has been a shift away from lower-wage work
- And, there has been a shift toward larger firms



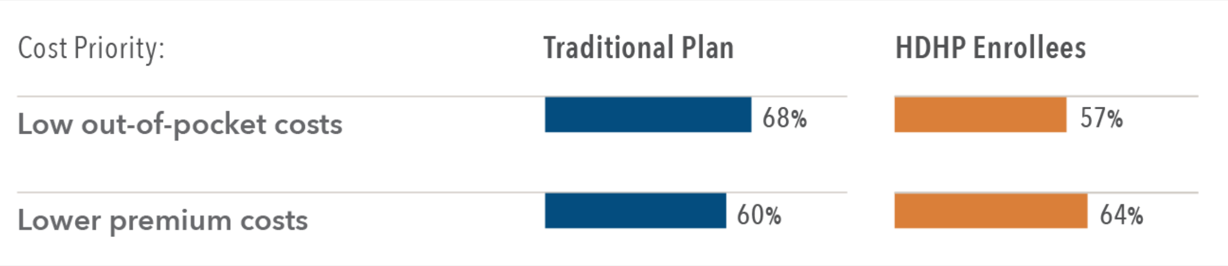

EBRI **Source:** Paul Fronstin, "More Workers Eligible for Health Coverage Despite Lack of Growth in Employer Offer Rates," *EBRI Issue Brief*, no. 487 (Employee Benefit Research Institute, July 25, 2019).

# COST AND SATISFACTION: TRADITIONAL VS HIGH-DEDUCTIBLE HEALTH PLAN ENROLLEES

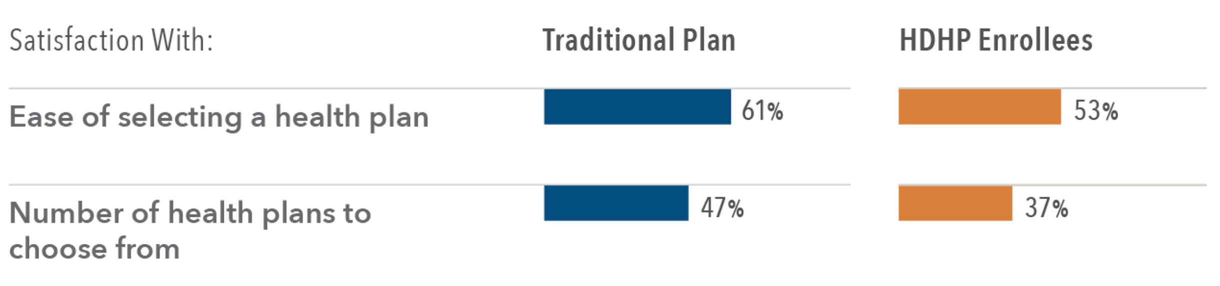
High-deductible plans have continued to proliferate




Traditional health plan users reported prioritizing low out-of-pocket costs, while high-deductible health plan users reported prioritizing low premiums




Traditional health plan users tended to be more satisfied with the ease of selecting a plan, and the number of choices available




**Source:** Employee Benefit Research Institute and Greenwald & Associates, "[The 2019 EBRI/Greenwald & Associates Consumer Engagement in Health Care Survey]" (Employee Benefit Research Institute, December 19, 2019).

# FUTURE WORK

## In progress

- Medicare buy-in proposal analysis
  - How would employers' health benefits be affected if older workers could transition to Medicare?
- HSA investment analysis
  - Do HSA accountholders wait to accumulate a certain amount of money before investing?
- 401(k)/HSA substitution effect analysis
  - To what extent does opening and contributing to an HSA reduce 401(k) deferrals?
- Flexible Spending Accounts (FSAs)
  - New EBRI database is in the works
- Center for Research on Health Benefits Innovation
  - Study on impact of copayments vs coinsurance on use of health are services and spending

## In the pipeline

- Employer focus groups on the future of health care benefits
  - We will be conducing roundtables with benefits executives to explore their point of view on how public policy make affect health benefits in the future. The roundtables will also explore the next generation of benefit design.
- Center for Research on Health Benefits Innovation
  - Primary care
  - Mental health
  - Telemedicine
- Consumer Engagement in Health Care Survey
  - EBRI conducts this survey yearly, with a focus on tracing the growth of high-deductible health plans and their impact on the engagement, behavior, and attitudes of health care user
- Workplace Wellness (Benefit) Survey

# Q&A