Financial & Retirement Security Before & After COVID-19:

A Conversation with the St. Louis Federal Reserve

Webinar

May 28, 2020

NATIONAL INSTITUTE ON
Retirement Security
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Agenda

1. Logistics & Speaker Introductions
2. Research Review
3. Q&A

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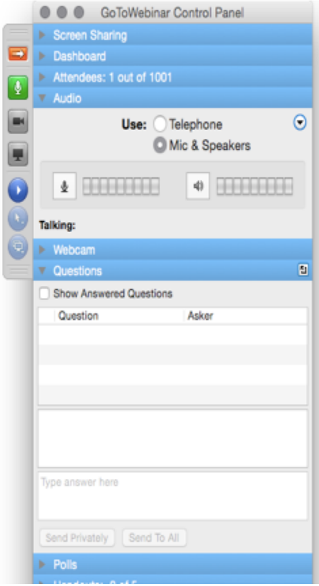
Logistics

- Attendees in listen only mode.
- Questions welcome. Type question using "Question" function on control panel, and we will answer.
- Audio, technical issues during webinar, call GoToWebinar at 1-800-263-6317.
- Webinar replay and slides will be posted at https://www.nirsonline.org/events.



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Speakers

Dan Doonan
Executive Director
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Ray Boshara
Director of the Center for Household Financial Stability
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Tyler Bond
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Lowell Ricketts
Lead Analyst for the Center for Household Financial Stability
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Financial and Retirement Security Before and After COVID-19

National Institute on Retirement Security Webinar
May 28, 2020

Ray Boshara, Senior Adviser and Director

Lowell Ricketts, Lead Analyst

**These are my own views, and not necessarily the views of the Federal Reserve Bank of St. Louis, Federal Reserve System, or the Board of Governors*

Overview

- Introduction
- Retirement Security *Before* COVID-19
- Retirement Security *After* COVID-19
- Thoughts on Moving Forward

Introduction

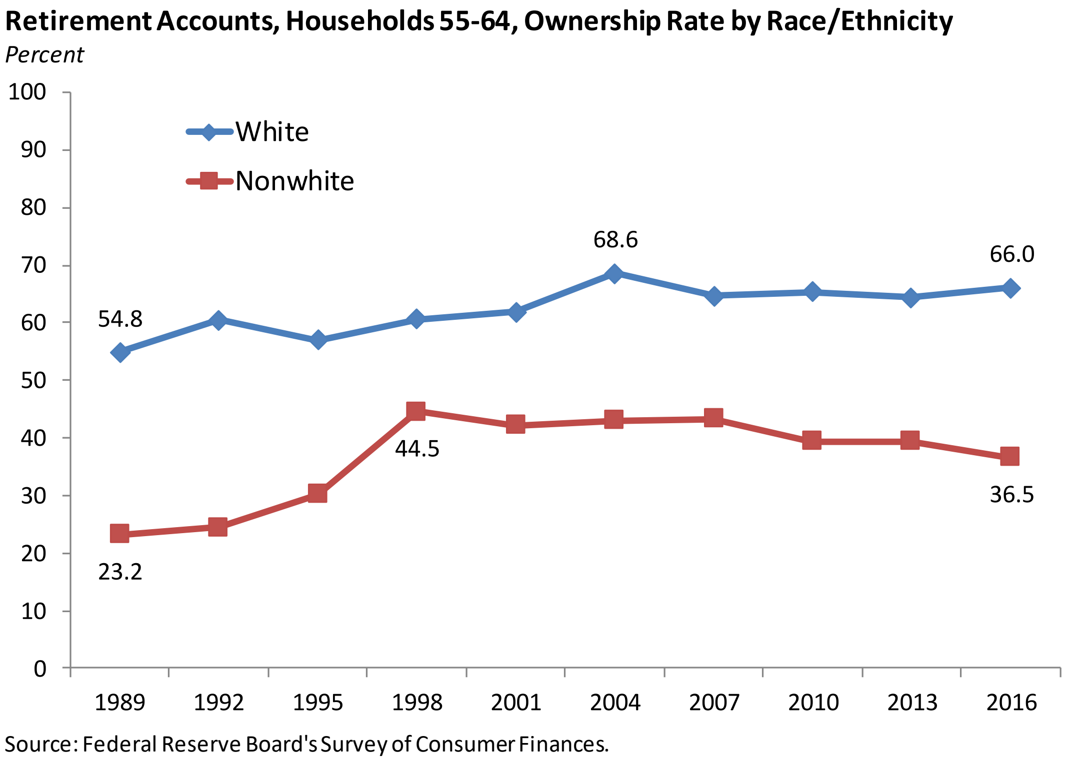
- The Center for Household Financial Stability, a research initiative of the Federal Reserve Bank of St. Louis, was launched in 2013 to address three questions:
  - (1) What is the state of U.S. family wealth?
  - (2) Why does wealth matter for both families and the economy?
  - (3) What can we do to strengthen family balance sheets?
- The Center's 1st chapter has been defined by the Great Recession; our 2nd is likely to be defined by COVID-19—both cataclysmic economic events with profound impacts on family balance sheets in ways that, generally, exacerbate already existing inequalities of wealth.
- We examine retirement savings as one key component of family balance sheets, with a particular focus on how three demographic drivers—age/birth year, race/ethnicity, and education—predict retirement savings and family wealth.

Retirement Security *Before* COVID-19

How Prepared are Americans for Retirement?

- According to the 2019 SHED, only 37 percent of non-retired adults think their retirement savings plan is on track.
- Furthermore, 25 percent of non-retired individuals reported that they had no retirement savings or pension whatsoever.
- Among non-retired adults, only 22 percent have money in *defined benefit* pensions.
- Of those aged 60 and older, 11.4 percent have no retirement savings or pension; 51 percent think their savings are on track.

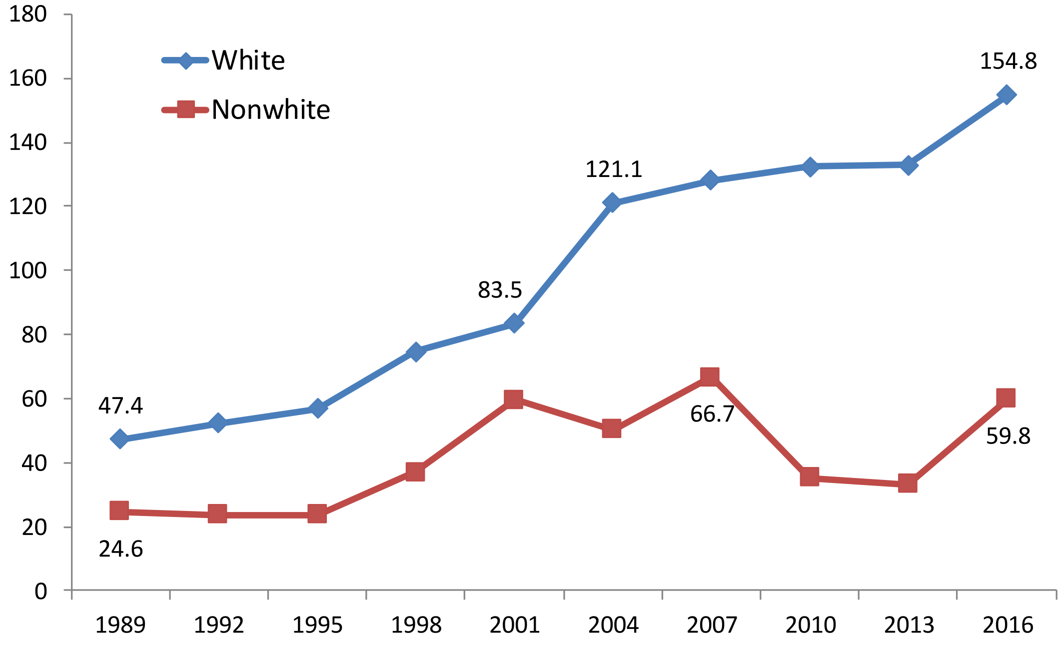
Coverage Gap, Whites vs. Non-Whites



- Ownership of *defined contribution* (DC) plans has long differed between white and nonwhite families.
- The gap was narrowest in 1998 and has since gradually expanded to 29.5 percentage points in 2016.

Funding Gaps, Whites vs. Non-Whites

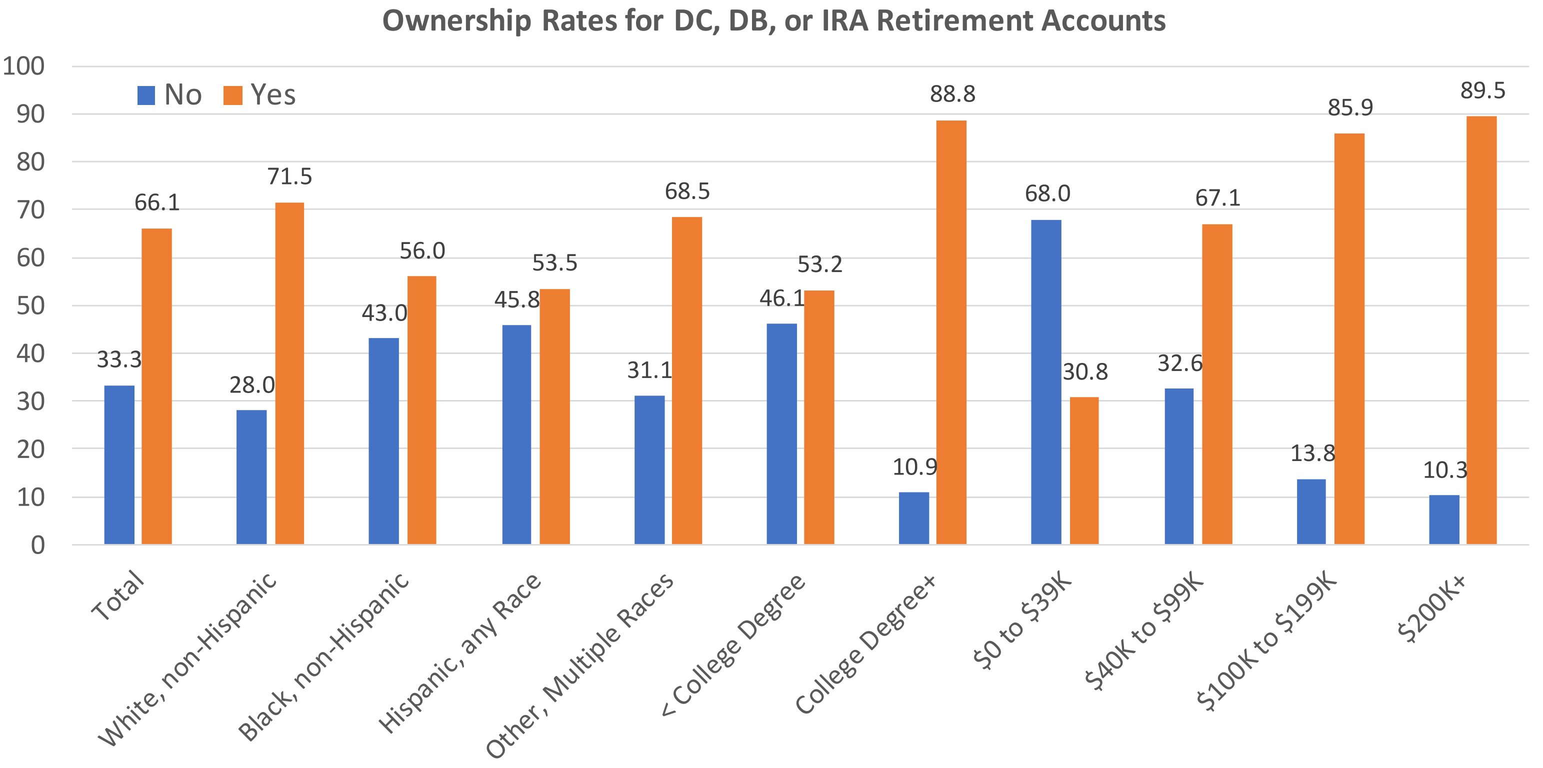
Retirement Accounts, 55-64, Median Value by Race, Conditional on Ownership
Thousands of 2016 $



Source: Federal Reserve Board's Survey of Consumer Finances.

- *Of those families that own DC plans*, the typical white and nonwhite family differs dramatically in funding.
- As of 2016, the typical white family had 2.6 times the level of funding.

Coverage Varies by Race, Education, Income



Source: Federal Reserve Board's 2019 SHED and Center for Household Financial Stability calculations.

Long-Term Savings Require Short-Term Stability

- In 2019, **36%** of adults would borrow, sell something, or not be able to cover a $400 expense.

- This short-term financial insecurity precludes long-term savings: **10.1%** of retirement account holders borrowed or cashed out funds in 2019.

- Thus, improving retirement preparedness must proceed hand-in-hand with other efforts to improve financial well-being.

RETIREMENT SECURITY *AFTER* COVID-19

Employment Shock Varied Across Groups

- From start of March to early April, **24.8%** of *non-retired*, *non-disabled* adults lost a job, were furloughed, or lost hours.
- **Earning less**: **34.5%** of those earning less than $40,000.
- **Lacking a college degree**: **27.5%** lost jobs or hours.
- **White, non-Hispanic: 26.2%** experienced disruption, although other racial and ethnic groups were similar.

Income Loss Short-Changes Retirement Security

- The *overall* share that would borrow, sell something, or not be able to cover a $400 expense **was similar (35%)**.
- However, among those that lost a job or had their hours significantly reduced, **54%** would borrow, sell something, or not be able to cover the expense.
- Lower-income and non-college educated individuals are least likely to currently have retirement accounts; weathering this crisis may **delay investment** in retirement security.

Moving Forward:
Newer Ideas to Improve Retirement Security

Pre-COVID

1. Improve overall household financial stability, especially managing cash and income/expense volatility
2. Develop economic resilience, especially through liquidity "buffers" such as emergency savings
3. Establish a "Roth at Birth" for every child in America

Post-COVID

All pre-COVID ideas, *plus* consider more ambitious proposals made potentially possible by the pandemic:

1. Develop a more "wholistic" approach to savings, reflecting lived financial lives
2. De-link retirement security and employment
3. Re-imagine and broaden wealth-building for the 21st Century

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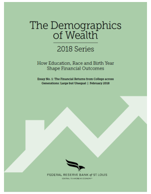

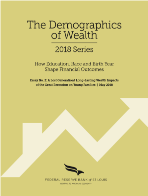

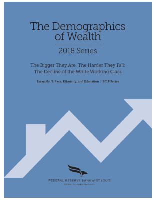

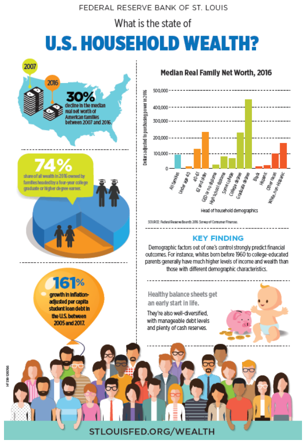

Questions