Retirement Security and Financial Decision-making: Study Results

Webinar | August 12, 2020

Consumer Financial Protection Bureau

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Retirement Security
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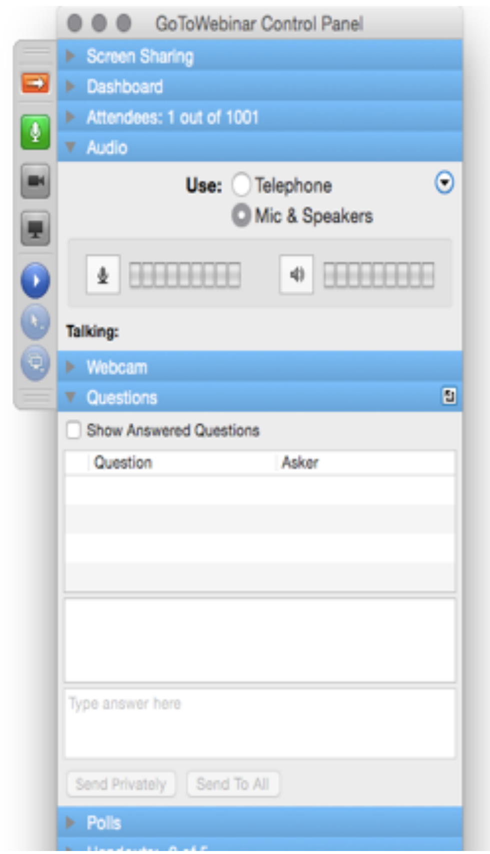

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About the Bureau

The Consumer Financial Protection Bureau regulates the offering and provision of consumer financial products and services under the Federal consumer financial laws, and educates and empowers consumers to make better informed financial decisions.

consumerfinance.gov

Consumer Financial Protection Bureau

Office for Older Americans

The Office for Older Americans engages in research, policy, and educational initiatives, designed to:

- help protect older consumers from financial harm
- help older consumers make sound financial decisions as they age

Learn more about us at **consumerfinance.gov/olderamericans**

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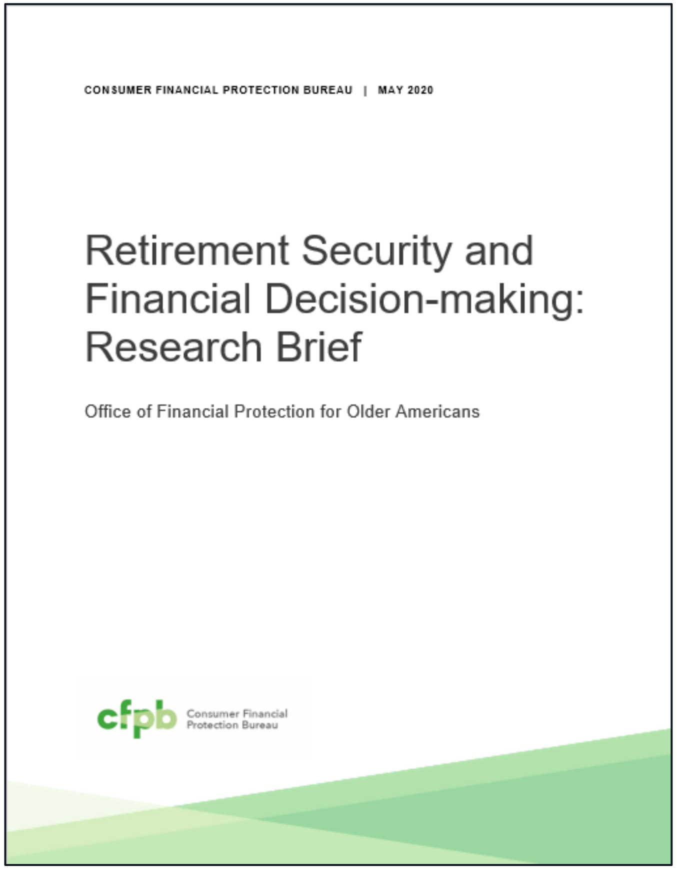
Today’s presentation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Retirement Security and Financial Decision-making: Research Brief

Office of Financial Protection for Older Americans

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Retirement Security and Financial Decision-making: Research Brief

May 27, 2020

consumerfinance.gov/data-research

Background

Financial challenges that retirees face

- The first years in retirement are, on average, retirees' most expensive years.
- Retirees are not experiencing the expected gradual reduction in spending after they retire.

  An EBRI study found 46 percent of retirees have post-retirement spending levels that are similar to their pre-retirement levels for at least two years.

Ability to maintain the same spending level for five consecutive years after retiring

Ability to maintain the same spending level for five consecutive years after retiring

The ability to maintain the same spending level is determined by comparing:

- (a) the total income and the value of all savings and non-housing assets with,
- (b) the total amount that the retiree would spend if the retiree spent the same amount in each of the first five years of retirement as the retiree spent in the first year of retirement.

Why do we care?

- Ability to meet ongoing financial obligations is an important component of financial well-being.

  Financial well-being is the state of being reflecting a person's ability to meet current and ongoing financial obligations, feel secure in their financial future, and make choices that allow enjoyment of life.

- The risks of being unprepared to meet this challenge include:

  Having to make distressing spending cuts

  Using all assets and savings

  Getting into debt/more debt

Key concepts and assumptions

Key concepts and definitions

Concept	Definition
Retiree	A person age 50 or older who is not employed, not looking for employment, and self-describes as fully retired. People employed part-time are excluded from the definition.
Age of retirement	The age at which the person fully transitioned to retirement.
Income	Money from pensions, annuities, Social Security retirement and disability benefits, Supplemental Security Income, VA benefits, the cash value of Supplemental Nutrition Assistance Program (SNAP) benefits and the cash value of other public assistance benefits such as the Temporary Assistance for Needy Families (TANF).
Savings and non-housing assets	Money from checking and savings accounts, retirement accounts, stocks, mutual funds, bonds, treasury bills, and any other savings. This measure also includes the value of vehicles, businesses and real estate. This measure excludes the value of a primary and secondary home.
Spending level	A given household's five-year total post-retirement spending on: housing, such as rent or mortgage payments, property taxes, home or renter's insurance, and home repairs and maintenance; transportation, such as purchases of vehicles, vehicle loan payments, gasoline, and vehicle maintenance and insurance; utilities (electricity, water, heat, and phone/cable/internet), health insurance, health services, medical supplies, drugs, house/yard supplies, groceries, dining out/take-out, clothing, and hobbies; and durable goods, such as refrigerators, washers, dryers, dishwashers, televisions, and computers. The expenses exclude spending on trips/vacations, charitable contributions, and gifts.

Assumptions about spending

Spending level in the first year in retirement is assumed to be constant for another four years.

- retirement spending patterns are similar when examined for limited age bands or specific stages of retirement, but widely different when examined over a retiree's lifespan.

Limitations of the measure

The key measure of this study does not:

- Measure actual spending
- Long-term ability
- Access to credit and home equity

Methodology

Acknowledgements

RAND Center for Financial and Economic Decision-Making (CFED)

- Philip Armour
- Katherine Carman
- Angela Hung

Health and Retirement Study

The HRS is a nationally representative panel survey of Americans over age 50.

The HRS includes core questions on a range of health, asset, income, socio-demographic characteristics, family structure, and labor market measures, first beginning with people ages 51-61 year-old and their spouses in 1992.

Sample

- 1992 - 2014 waves
- all single-headed households where the person was observed to fully transition into retirement *and* couple-headed households where at least one person was observed to fully transition into retirement (9,968 households).
- excludes households that never/have not retired and already fully retired before joining the HRS in 1992.

SAMPLE CHARACTERISTICS OF PEOPLE WHO RETIRED BETWEEN 1992 AND 2014 BY HOUSEHOLD COMPOSITION

	Single-Headed Household at Retirement	**Couple-Headed Household at Retirement**
Age (average)	68.9	68.8
Female	73%	17%
White, Non-Hispanic	61%	75%
Black, Non-Hispanic	26%	13%
Hispanic	10%	10%
Other, Non-Hispanic	2%	2%
% Baby Boomers	20%	12%
Less than High School	35%	28%
High School/GED	33%	34%
Some College	19%	19%
College and Above	12%	20%
Usual Household Income (2016 dollars)	\$19,731.62	\$45,556.90
Non-Housing Wealth (2016 dollars)	\$149,169.53	\$390,647.75
Number of observations	5,139	5,170

Source: Health and Retirement Survey (1992-2014)

Limitations

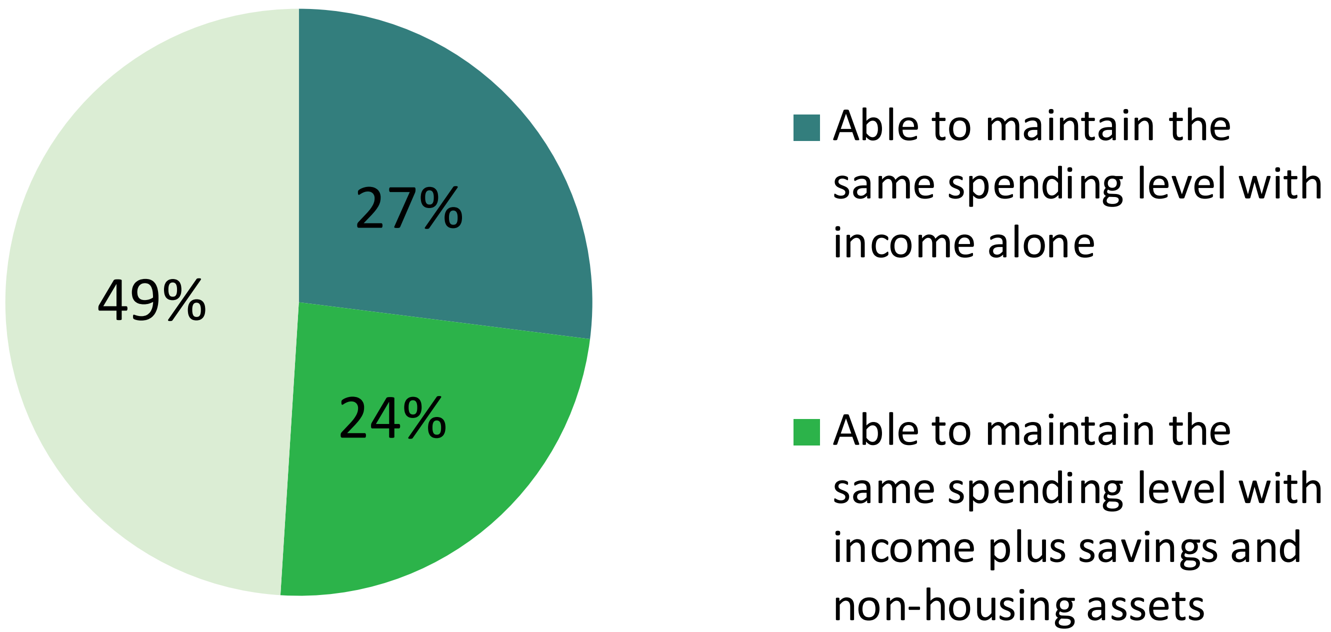
- Causality
- Adjustments to income and expenses
- Attrition
- Imputation of spending

Findings

Findings

Ability to maintain the same spending level

PERCENT OF PEOPLE RETIRED BETWEEN 1992 AND 2014 WHO HAD THE ABILITY TO MAINTAIN THE SAME SPENDING LEVEL FOR FIVE YEARS AFTER RETIRING



Source: Health and Retirement Survey (1992-2014)

AVERAGE INCOME, SAVINGS, NON-HOUSING ASSETS AND EXPENSES OF PEOPLE RETIRED BETWEEN 1992 AND 2014 WHO HAD THE ABILITY TO MAINTAIN THE SAME SPENDING LEVEL FOR FIVE YEARS AFTER RETIRING, SINGLE-HEADED HOUSEHOLDS

Income and expenses	**Retirees who are able to maintain spending level with income alone**	**Retirees who are able to maintain spending with income, savings and non-housing assets**	**Retirees who are unable to maintain spending level**	**All Retirees**
Regular Income *(a)*	$50,400	$19,100	$9,900	$20,100
Savings and non-Housing Assets *(b)*	$337,500	$387,600	$9,400	$152,500
Regular Expenses *(c)*	$27,700	$33,300	$25,100	$27,300
Gap/Surplus During First Five Years in Retirement *[a+b-c]*	**$90,200**	**$63,300**	**-$13,300**	**$23,400**

Source: Health and Retirement Survey (1992-2014)

AVERAGE INCOME, SAVINGS, NON-HOUSING ASSETS AND EXPENSES OF PEOPLE RETIRED BETWEEN 1992 AND 2014 WHO HAD THE ABILITY TO MAINTAIN THE SAME SPENDING LEVEL FOR FIVE YEARS AFTER RETIRING, COUPLE-HEADED HOUSEHOLDS

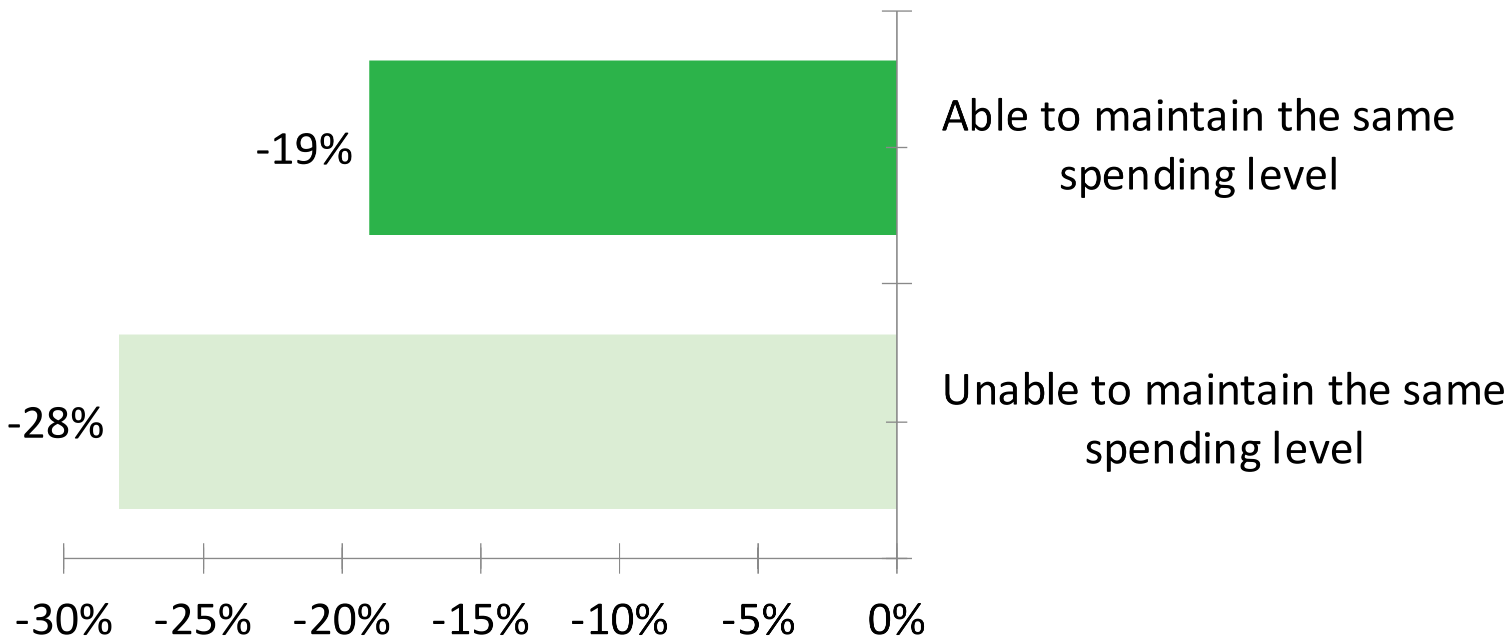
Income and expenses	Retirees who are able to maintain spending level with income alone	Retirees who are able to maintain spending with income, savings and non-housing assets	Retirees who are unable to maintain spending level	All Retirees
Regular Income *(a)*	$90,900	$29,900	$16,300	$45,500
Savings and non-Housing Assets *(b)*	$704,600	$497,600	$20,600	$390,500
Regular Expenses *(c)*	$46,700	$46,800	$37,200	$43,200
Gap/Surplus During First Five Years in Retirement *[a+b-c]*	**$185,100**	**$82,600**	**-$16,800**	**$80,500**

Source: Health and Retirement Survey (1992-2014)

Findings

Changes in spending over time

AVERAGE PERCENT REDUCTION IN SPENDING FROM THE FIRST TO THE SIXTH YEAR IN RETIREMENT BY ABILITY TO MAINTAIN THE SAME SPENDING LEVEL



Source: Health and Retirement Survey (1992-2014)

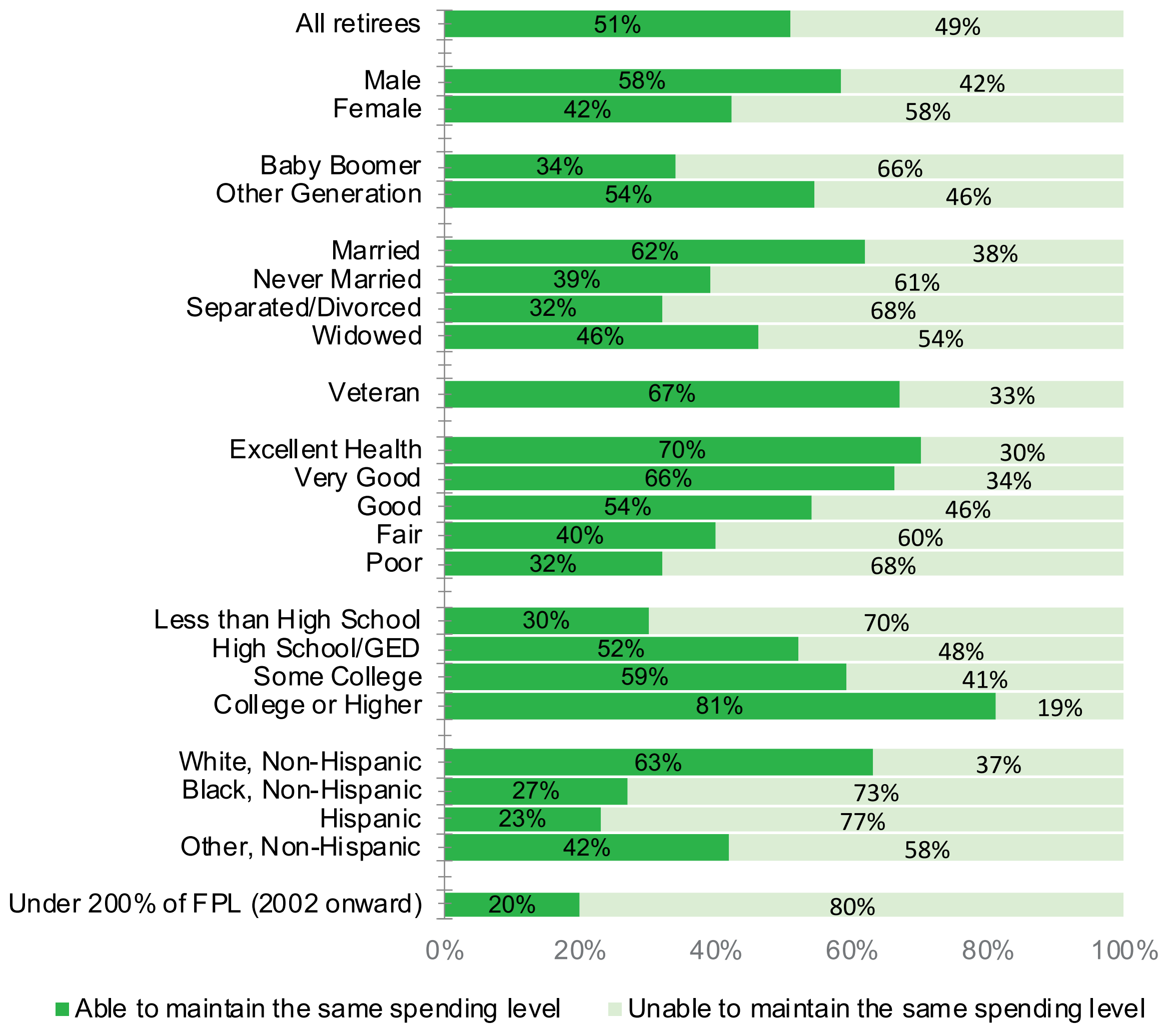
Reductions in spending of 50 percent or more

- 17 percent among retirees who were unable to maintain the same spending level for five years
- 11 percent among retirees who were able to maintain the same spending level for five years

Findings

Demographics and other characteristics

PERCENT OF PEOPLE RETIRED BETWEEN 1992 AND 2014 WHO HAD THE ABILITY TO MAINTAIN THE SAME SPENDING LEVEL FOR FIVE YEARS AFTER RETIRING BY SELECTED DEMOGRAPHICS

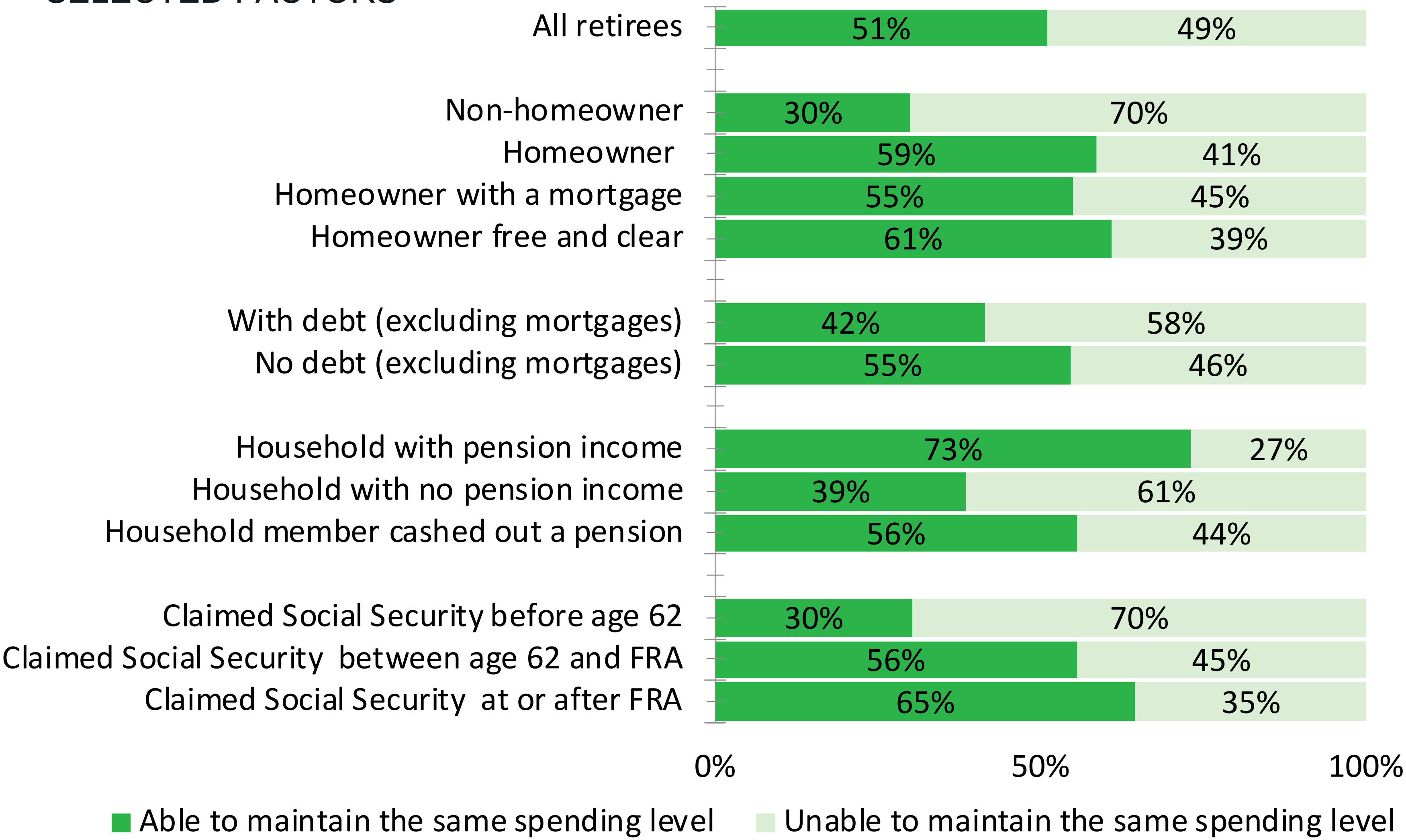


Source: Health and Retirement Survey (1992-2014)

Findings

Decisions about debts, pensions, and Social Security

PERCENT OF PEOPLE RETIRED BETWEEN 1992 AND 2014 WHO HAD THE ABILITY TO MAINTAIN THE SAME SPENDING LEVEL FOR FIVE YEARS AFTER RETIRING BY SELECTED FACTORS



Source: Health and Retirement Survey (1992-2014)

Summary

Summary

- Nearly half of the people who retired during this period did not have the income, savings, and/or non-housing assets to maintain the same spending level for five years after retiring.
- Retirees appear to reduce their spending as they age to address this gap between income and expenses.

  Retirees' reductions in spending deserve to be examined further as they raise questions as to whether the reductions are adversely affecting retirees' quality of life and/or essential expenses.

Summary

- Certain financial decisions are positively associated with retirees' ability to maintain the same spending level for five years.
  - For homeowners, entering retirement without mortgage debt,
  - For those with a pension, choosing a monthly annuity rather than in a lump-sum payout,
  - Claiming Social Security benefits at the full retirement age or after, as opposed to choosing a reduced benefit by claiming early

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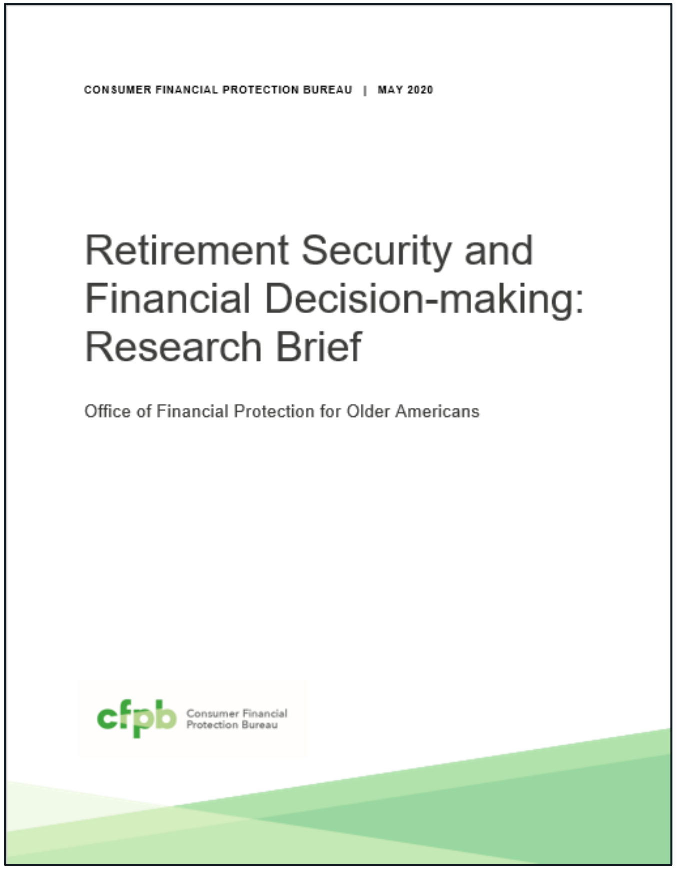
Resources

More information



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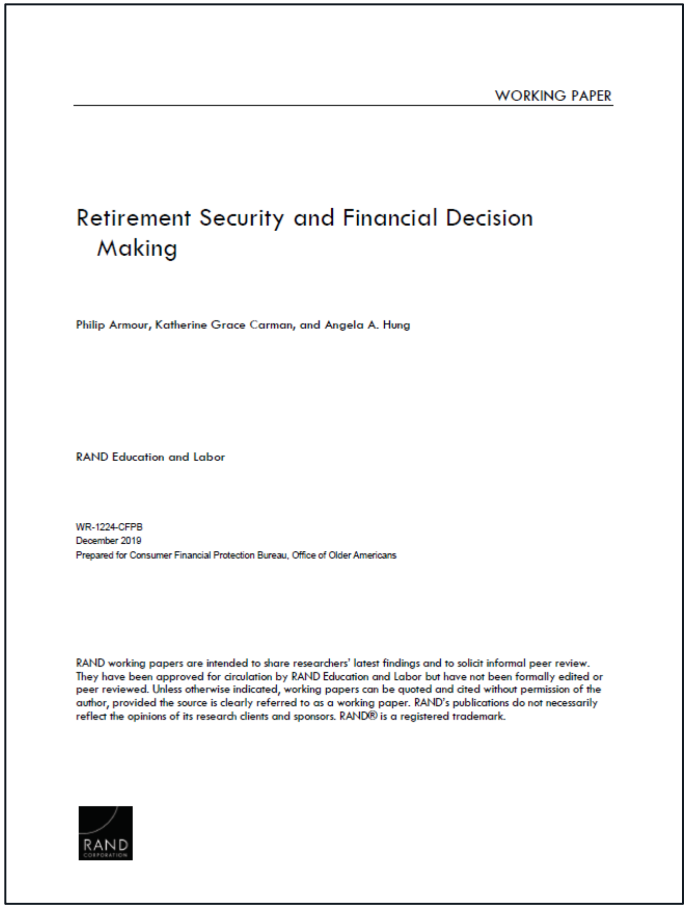
Additional results



WORKING PAPER

Retirement Security and Financial Decision Making

Philip Armour, Katherine Grace Carman, and Angela A. Hung

RAND Education and Labor

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Prepared for Consumer Financial Protection Bureau, Office of Older Americans

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Retirement Security and Financial Decision-making: Working Paper

https://www.rand.org/pubs/working_papers/WR1224.html

Social Security claiming age

Planning for Retirement

- Easy to use, interactive tool
- Three simple steps to help consumers navigate their Social Security claiming decision
- Optimized for mobile use
- Created with the support of the Social Security Administration
- Available in English and Spanish

consumerfinance.gov/retirement/before-you-claim

Guides to help older consumers make informed financial decisions

- The guides cover topics such as:
  - Reverse mortgages
  - Financial advisers
  - Pension lump-sum offers

- The guides list important questions to ask and where to go for help.

Consumer advisory: 3 things to keep your retirement plan on track

Read more: consumerfinance.gov/blog/consumer-advisory-3-things-to-keep-your-retirement-plan-on-track

Tips to help older student loan borrowers navigate common problems with their student loans

Read more:
consumerfinance.gov/about-us/blog/OAStudentLoanTips

Get a Handle on Debt Boot Camp

- 21-Day email course (1 each month – with on demand access coming soon)
- 9 emails
- 6 downloadable and fillable tools

Find answers to your questions on mortgages and student loans

consumerfinance.gov/askcfpb

Ask CFPB

We offer clear, impartial answers to hundreds of financial questions. Find the information you need to make more informed choices about your money.

Auto loans

- What effect will shopping for an auto loan have on my credit? Read answer
- I owe more on my current loan than my current vehicle is worth. What do I need to know if I buy a new vehicle? Read answer

Bank accounts and services

- How quickly can I get money after I deposit a check? Read answer
- I would like to be able to have my friend or family member help with my bill-paying and banking. What are my options? Read answer

Credit cards

- What is a credit card interest rate? What does APR mean? Read answer
- How do I dispute a charge on my credit card bill? Read answer

See all credit cards questions

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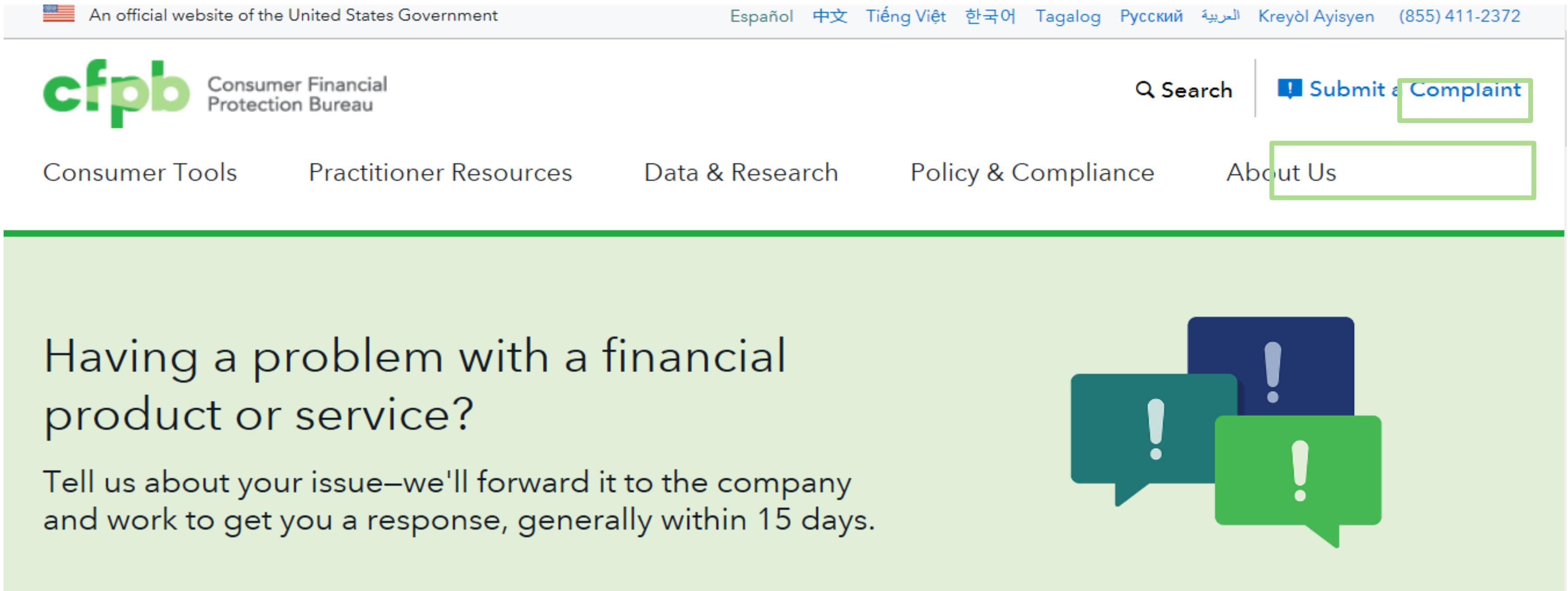
Problems with a consumer product or service?



Consumers can submit a complaint:

- consumerfinance.gov/complaint

(855) 411- 2372 or (855) 729-2372 TTY/TDD

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Questions?

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