Financial Security Shifts in America's Demographic Landscape

Introduction

Since its inception, a primary goal of the Sightlines Project has been to emphasize that longevity is a phenomenon that affects every person in the American population at every stage of life, rather than simply a topic of discussion about "old age." To this end, the project was designed to track key measures of financial security, social engagement, and physical health that span generations, or age cohorts, to highlight actions that can be taken to improve longer lives for all. In the inaugural Sightlines report, across these domains, and particularly with respect to financial security (the focal domain of the current chapter), we observed that one of the most intractable obstacles to helping all people live long and live well are the pervasive inequalities between various subgroups of the U.S. population. These include types of families, genders, ethnicities, and educational backgrounds. As such, it is difficult to adequately describe general trends in the financial security of the U.S. population and at least equally as difficult to identify points of need and promise for enhancing longevity. It is for this reason that in our introductory chapter, we focus on demographic variations in key indicators of financial security using the Sightlines framework with the hopes of providing a more nuanced, informed understanding of Americans' financial security as they live longer lives.

Overview

It is critical that any analysis of the American population accounts for the exceptionally diverse set of characteristics and backgrounds which it comprises. In particular, in evaluating the state of American financial security, we must avoid blanket generalizations across the population, which would mask variation among many U.S. subgroups that have unique sets of needs and strengths and prevent us from identifying challenges facing the most severely underperforming groups. Providing the most complete picture of the state of financial security for all Americans means examining as many unique facets of the population as possible. In doing so, we will be better positioned to make more comprehensive and fine-tuned assessments leading to the most effective solutions for improving outcomes for all.

In order to effectively evaluate how demographic characteristics are related to financial security, this chapter aims to assess the state of American households' finances using key indicators from the Sightlines project and the most recent survey data from the Survey of Consumer Finances (SCF). The key indicators are:

- Manageable Debt
- Retirement Plans
- Investment Accounts
- Emergency Funds
- Long-term Care Insurance
- Life Insurance

We look at several demographic markers for each of these indicators across a 15-year time span to see how different age cohorts of the American population have fared over time and the extent to which some groups are more or less financially stable than others. Specifically, we compare data from 2001 to 2016 and focus on age, marital status, education, and race. By doing so, we reveal any patterns or changes in relation to demographics that should be made apparent, or that reflect concerning declines in financial security. We hope to spur discussion around those indicators where Americans are lagging, in order to raise awareness and suggest necessary change.

The Specifics

Manageable Debt

In the Sightlines Project we determine a family's debt level to be manageable if their total outstanding balances on uncollateralized loans are less than 20% of their annual income. Uncollateralized debt includes items such as student loans, consumer loans, private loans, and credit lines. Manageable debt is a key metric for financial analysis as it demonstrates which families can safely pay off their debts and manage their current assets versus those which are at more immediate risk of financial breakdown. If fewer families have a manageable level of debt over time, then this can be an indicator that financial burdens are becoming increasingly harder to overcome. As such, current lending processes and traditional money management education may be inadequate in their current form to offer resolution.

Using this metric, we find that compared to 2001, fewer families in 2016 have manageable debt levels (Figure 1). In particular, families with a head of household ages 25 to 34 have the worst outcomes. Only 59% of families in this age group have manageable debt levels in 2016, compared to over 85% for those above age 65.

As shown in Figure 2, while we observe a decrease in manageable debt for families across all racial and ethnic backgrounds from 2001 to 2016, Hispanics experienced the greatest decline, from 86% in 2001 to 69% in 2016. Taking into account both race/ethnicity and age, African American families ages 35-44 showed the greatest decrease of all groups—over 20 percentage points, signifying a particular need among middle aged African Americans to address overwhelming debt and financial instability as they enter the second half of life.

The decline in the number of families with manageable debt can be observed across all income levels as well (Figure 3). Somewhat surprisingly, we found younger middle-high income families to be especially vulnerable to incurring unmanageable debt. In particular, for the 25-34 age group, the share of families in the third income quartile (Q3) with manageable debt dropped from 80% in 2001 to under 60% in 2016, a decline of over 20 percentage points. This indicates that middle-high income families are taking on more debt proportional to their income, and may possibly be occurring in the form of student loans, which we will explore more in-depth in a later section of this report focused on home ownership.

The overall decline in families with manageable debt indicates that increasing numbers of households are accumulating more obligations than they can handle with the assets available to them. Most alarming is that younger families have more debt. As they age, it will be harder for them to pay off these larger balances while accumulating enough assets to retire securely, posing a significant threat to securing longer, healthier lives. One possible explanation for the decrease in middle-income families with manageable debt might be a result of younger generations having taken on student and other loans earlier in life while at the same time putting off asset accumulation like buying homes, both of which we will explore further in Chapter 3.

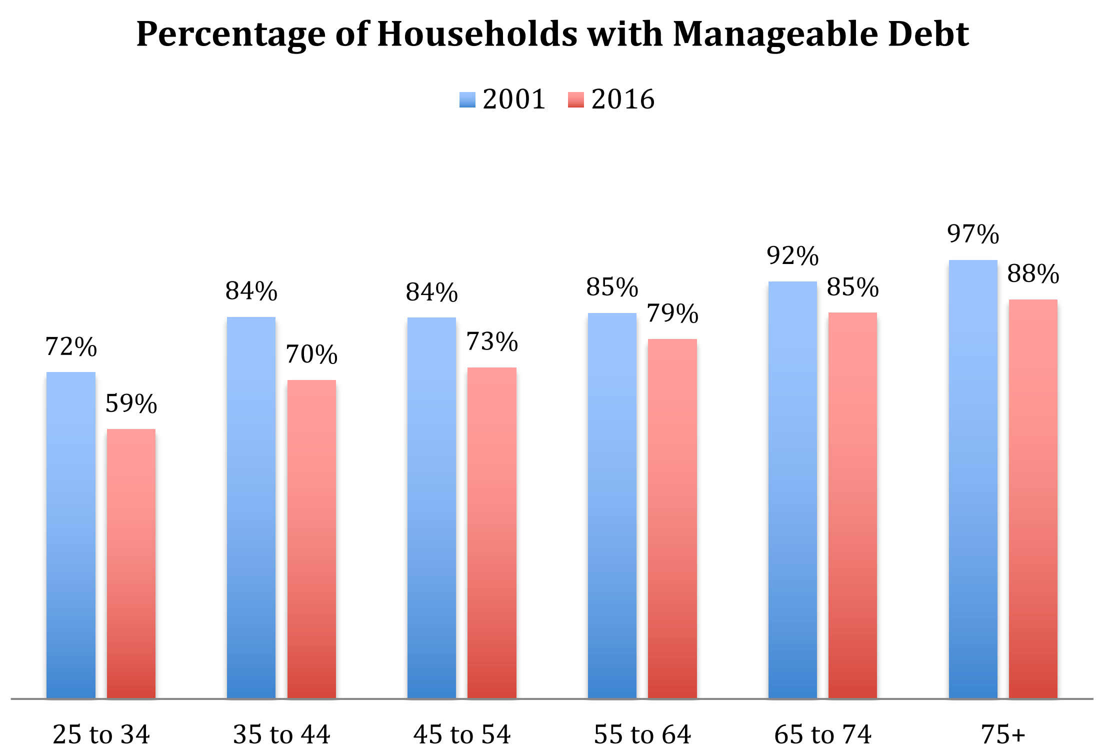

Figure 1: Manageable debt. Percent of households in SCF reports from 2001 (blue bars) and 2016 (red bars) with manageable debt. Data is separated by age group indicated on the x-axis.

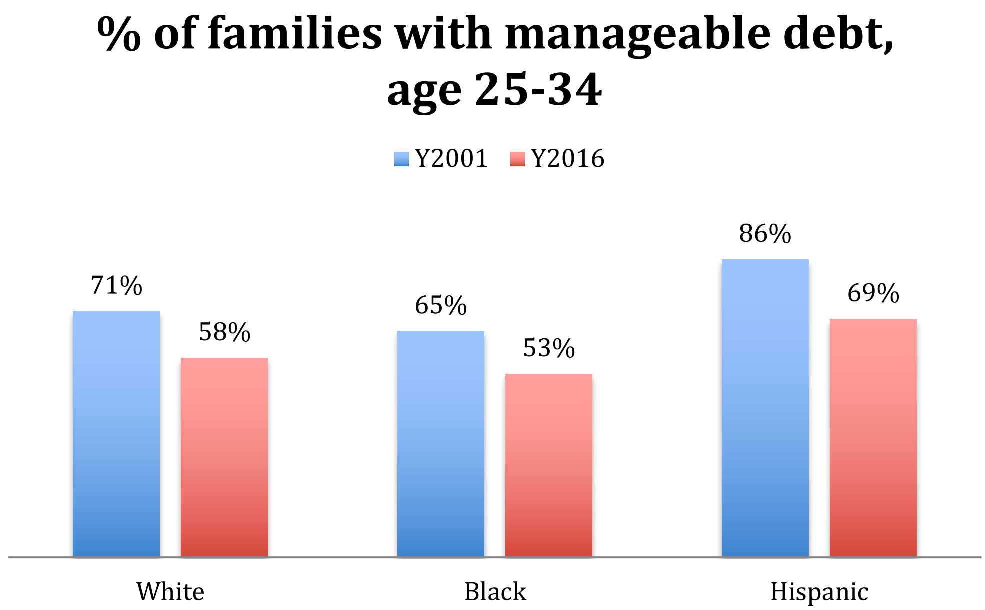

Figure 2: Manageable debt, by race and ethnicity. Percentage of households with manageable debt in 2001 (blue bars) compared to 2016 (red bars). Data is separated by ethnicity on the x-axis.

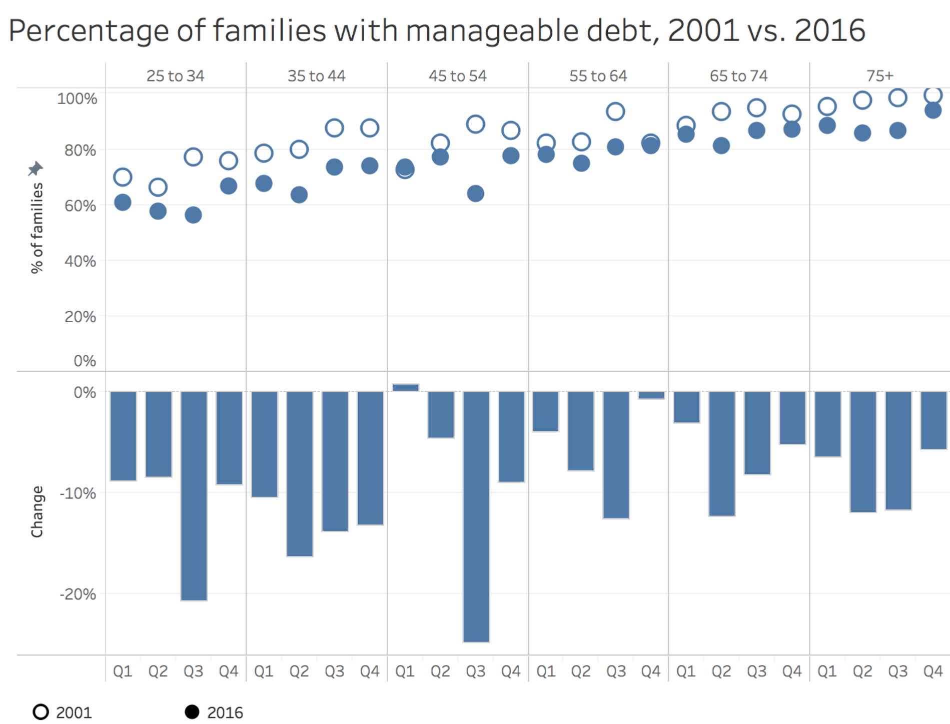

Figure 3: Manageable debt, by income quartile and age. Percent of households with manageable debt in 2001 (white circles) compared to 2016 (blue dots), with percent change on the bottom.

Retirement Plans

A household has a retirement plan if at least one spouse or partner meets at least one of the following criteria:

- Having an Individual Retirement Account (IRA)
- Having a workplace-based retirement account from their current job
- Currently receiving benefits from a retirement plan
- Having a retirement plan from a past job that will distribute benefits in the future

With tax advantages and employer company matchings, retirement accounts have been critical tools for ensuring financial security and planning. Without such security, a family's ability to meet basic demands, such as housing and food, during an increasingly longer retirement period are dubious at best. Measuring the number of American families who have such plans will help determine whether current financial habits are sustainable, assuming people plan to allocate additional years of life to retirement (versus working longer).

Between 2001 and 2016, the percentage of families with retirement plans dropped for all age cohorts between 35-64. The share of Americans across mid-life reported having a retirement account declined by up to 8 percentage points (see Figure 4).

Figure 5 shows married households are more likely to have retirement plans than unmarried ones, which include living with a partner, separated, divorced, widowed, or never married. The gap is approximately 20 percentage points between the two groups and can be observed across all age cohorts. This gap is especially concerning, given single individuals will likely have fewer options for support not just financially, but with respect to social support and health care as well, as compared to their married counterparts who can count on spousal assets in addition to their own.

Educational attainment, which is closely correlated with employment, is a strong predictor of retirement planning, as employer-sponsored retirement plans are a key component of such savings. As shown in Figure 6, families whose head of household had less than a high school diploma were the least likely to have retirement plans--approximately 20% in 2016. Those with at least a four-year college degree were most likely to hold a plan, with over 80% doing so in 2016. From 2001 to 2016, families with no college education at all saw the steepest decline in retirement plan participation, whereas those with at least a four-year college degree showed the smallest change.

We also examined the relationship between race and ethnicity in retirement planning. As shown in Figure 7, regardless of background, younger families have lower retirement participation than older ones. Within a given age group, white families are the most likely to have retirement plans, and Hispanic families are the least likely. A major caveat being that Hispanic families are more likely to work for small businesses or own small businesses themselves, and thus, are less likely to have an employer-sponsored plan. This raises the question as to what other metrics of retirement planning could be considered among those engaging in less traditional employment [1].

The trend overall suggests a troubling decline in households having retirement plans in a post-financial crisis world. Our analysis indicates that younger generations are the least likely to have retirement accounts, though the Stanford Center on Longevity Milestones report has shown younger generations are starting to think about retirement earlier, and the youngest cohort demonstrated more retirement savings stability than those in mid-life between 2001 and 2016. One explanation for this is that fewer employers offer traditional pensions, and the task of creating and managing one's own retirement accounts can be much more difficult. It is concerning that so few households who report less than a college education hold retirement plans. They are less likely to have access to employer-sponsored accounts, and generally earn less and have a reduced ability to plan and save for retirement. These data demonstrate that it will be harder for a large percentage of American families to be aptly prepared for retirement in the future, despite their intentions. As the average life span increases, maintaining a standard of living over an extended period of retirement appears to be increasingly out of reach. As such, we further delve into the state of retirement as people enter older age in Chapter 4 and whether we are aiming and meeting sufficient contribution levels in Chapter 5.

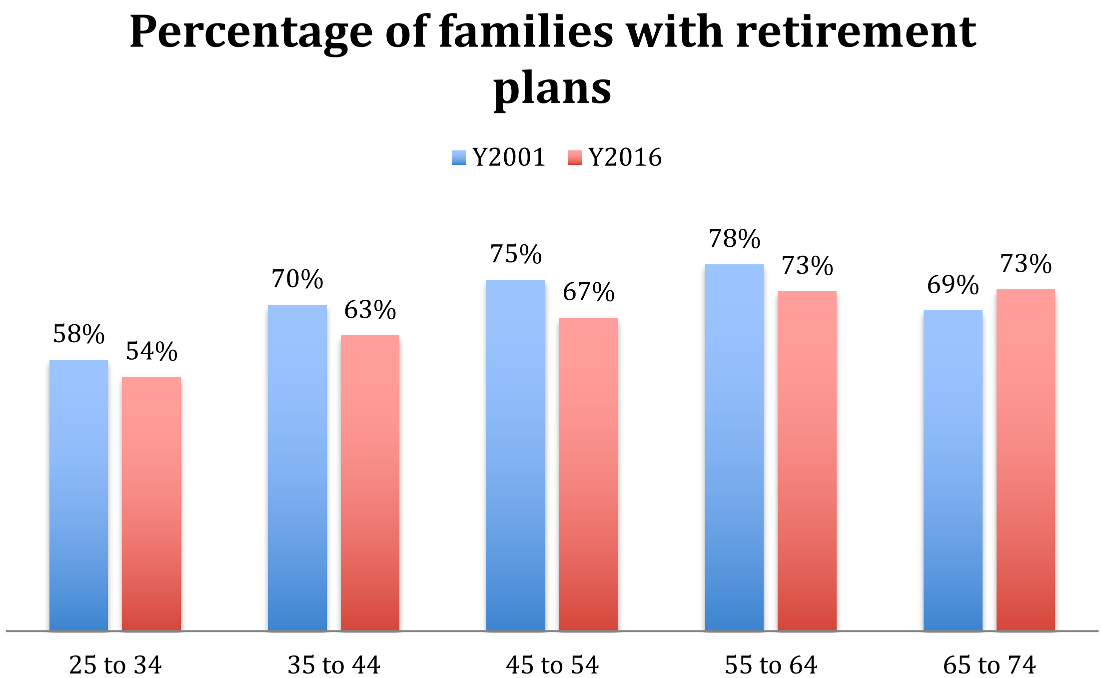

Figure 4: Retirement planning by age. Percent of households with retirement plans in 2001 (blue bars) compared to 2016 (red bars). Data is separated by age on the x-axis.

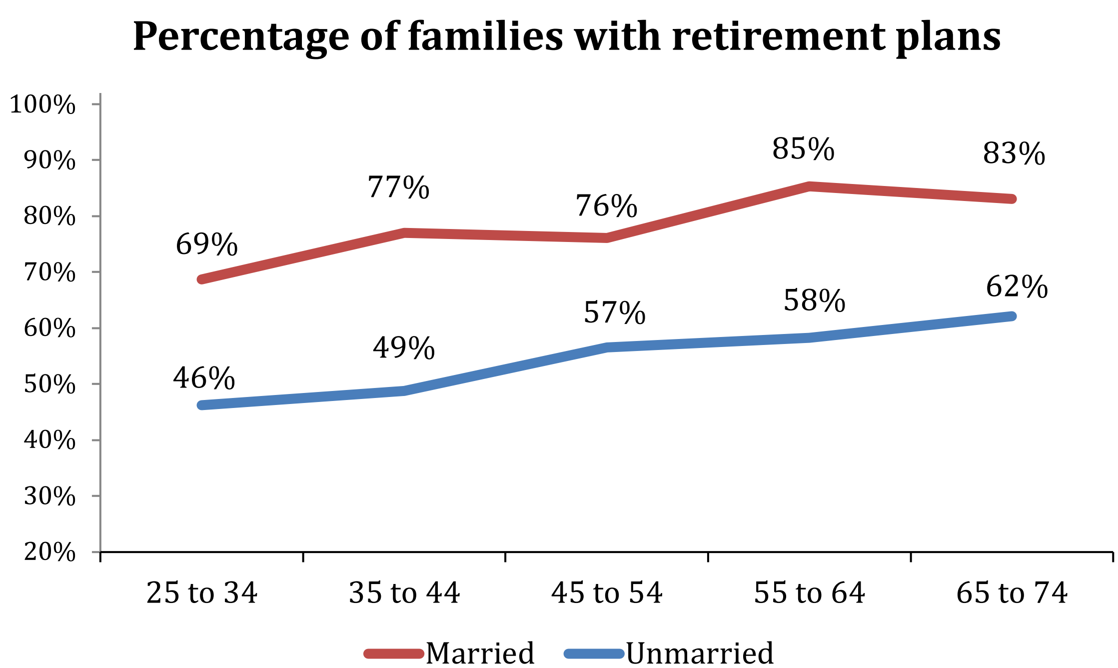

Figure 5: Retirement planning, by marital status. Percent of households with retirement plans, separated by age on the x-axis.

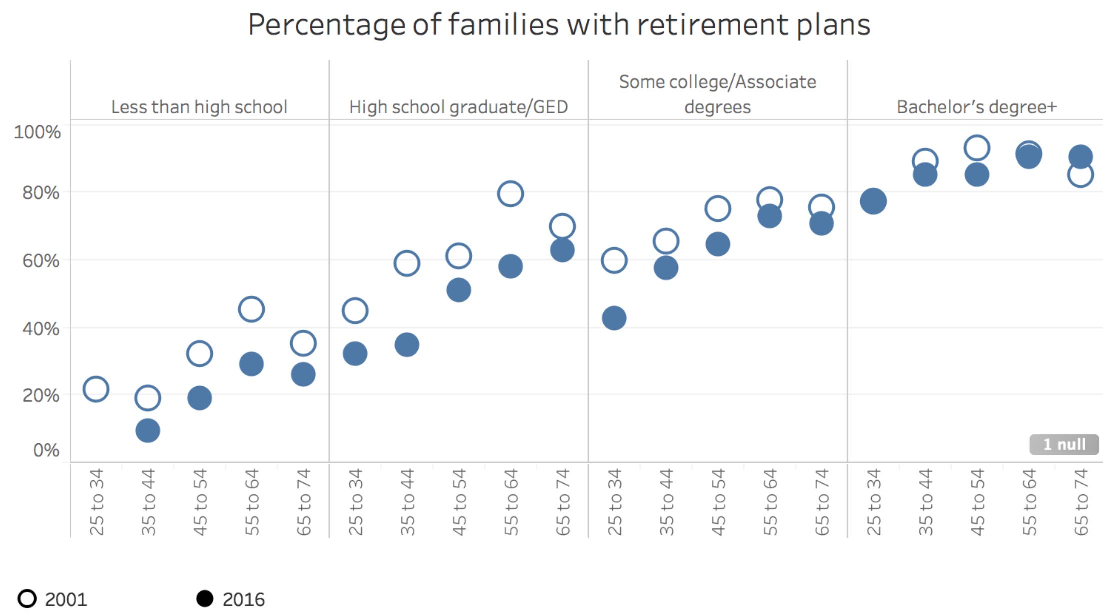

Figure 6: Retirement planning, by age and education. Percent of households with retirement plans in 2001 compared to 2016, with data separated by age on the lower x-axis and education on the upper x-axis.

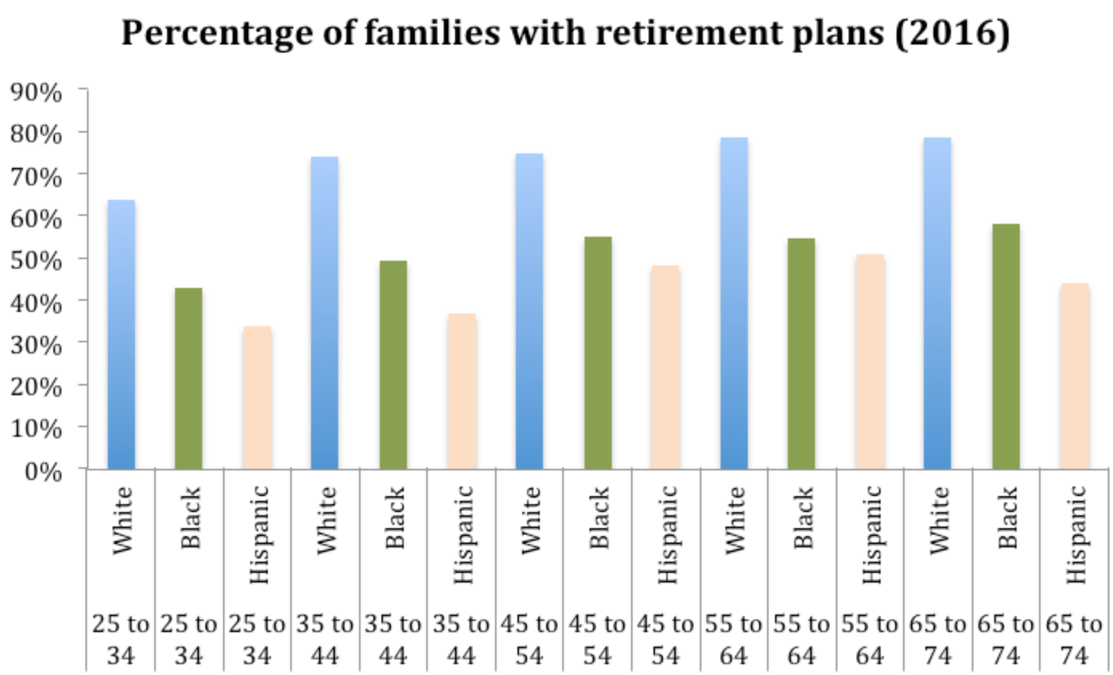

Figure 7: Retirement planning, by age and race/ethnicity. Percent of households in 2016 with retirement plans, with data separated by ethnicity and age group on the x-axis.

Investment accounts

Investment accounts are an important tool for diversifying assets, helping to protect families against financial downfall, especially if other resources unexpectedly depreciate in value. In this section we analyze specifically whether households have such accounts; the value of those accounts will be further explored in later chapters.

There are two commonly used definitions for an *investment account:*

1. Any of the following: mutual funds, savings bond, other bonds, stock, cash call, annuity, trust investment, life insurance with cash policies, or any retirement plans.
2. A narrower definition is any investment account described above but excluding retirement plans.

As of 2016, not surprisingly, the percentage of families with investment accounts increases with age. As shown in Figure 8, by the narrower definition, about 32% of families ages 25-34 have investment accounts in 2016, compared to over 58% for the 75+ age group. If one includes retirement accounts as well, approximately 63% of the younger families and 82% of the older families would be defined as having investment accounts

Similar to decline in retirement plans noted above, between 2001 and 2016, the percentage of American families with non-retirement investment accounts also declined . This decrease is observed across all ages and income levels, with the most prominent decline for middle-income families and for those ages 35-54 (Figure 9).

Both income and education are positively correlated with holding an investment account. Within each income quartile, families with more education are more likely to invest (Figure 10). It is notable that the positive effect of education on investment is more pronounced in the third and fourth income quartiles.

Our analysis indicates those with greater income and education, as well as those who are older, are more likely to have investments. Thus, while wealth is an obvious path to investing, so too is age, suggesting that experience, knowledge and access to financial resources that accompany age may make investing accessible to those who are typically considered unlikely investors. In a similar vein, younger families with fewer opportunities and resources might not believe they are knowledgeable or have sufficient assets to diversify, which further compounds their risk of suffering from negative financial events. Overcoming these beliefs offers promise for future generations, even if one's education and income quartile remain stable over time. We discuss such beliefs in Chapter 2 and pathways for financial behavior change in Chapter 6.

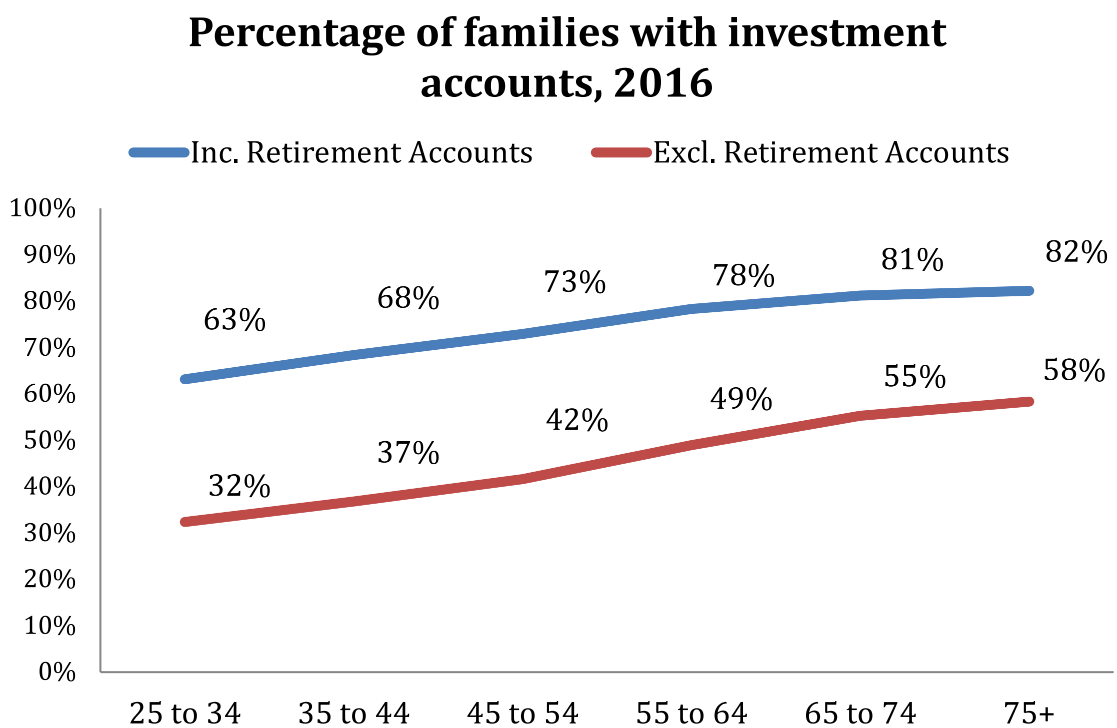

Figure 8: Investment accounts, by age. Percent of households holding an investment account in 2016, with a comparison between including and excluding retirement accounts. Data is separated by age on the x-axis.

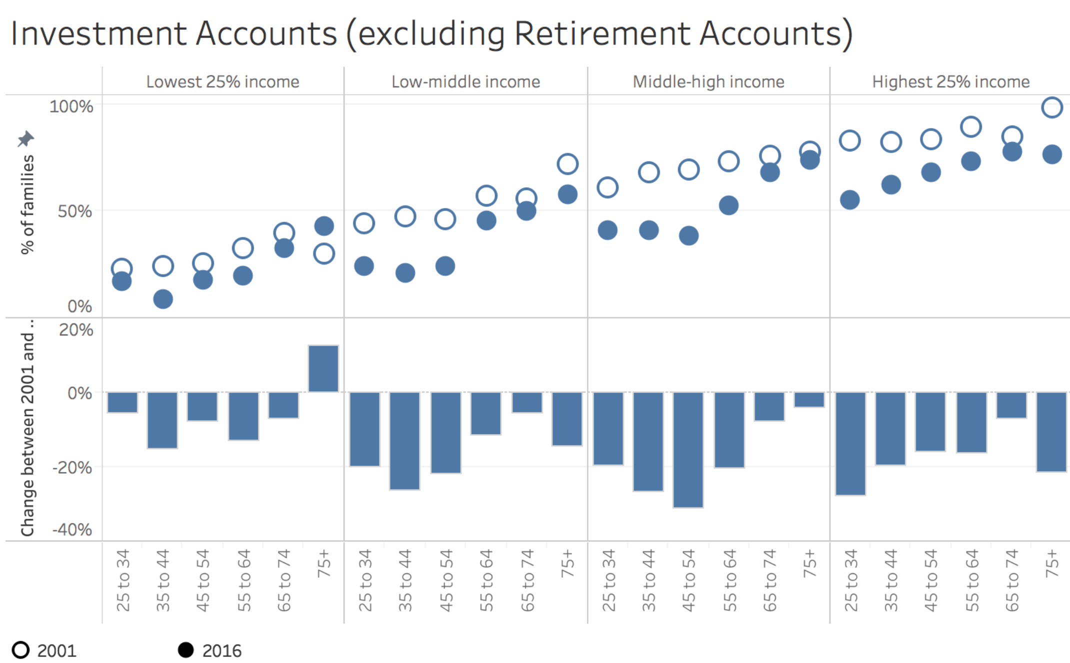

Figure 9: Investment accounts, by age and income quartile. Percent of households holding investment accounts in 2001 compared to 2016, separated by age on the lower x-axis and income quartile on the upper y-axis.

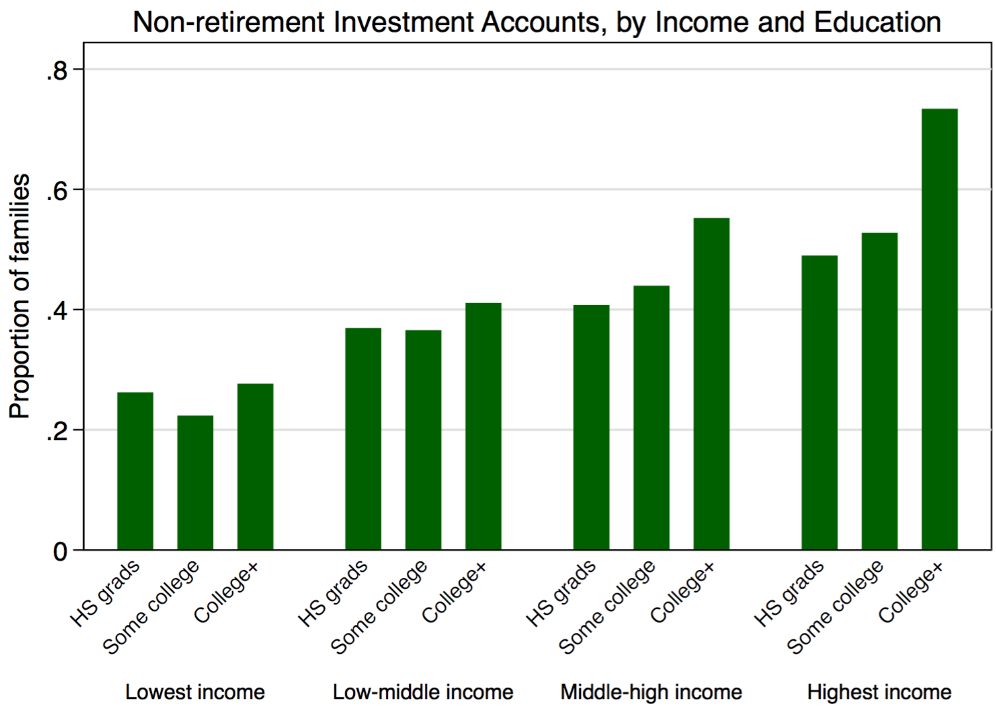

Figure 10: Investment accounts, by income and education. Percent of households with non-retirement investment accounts, with data separated by education level and income on the x-axis.

Emergency Funds

Within the framework of Sightlines, access to emergency funds is defined as whether or not a family has immediate access to $3,000 in the case of an unexpected event. A family has emergency funds if they have $3,000[1] worth of liquid assets, or if they have the ability borrow that amount. Arguably, the ability to deploy these funds could mean the difference between being able to weather a financial emergency versus needing to sell off assets, lose household resources, or incur unmanageable debt

[1] The 3000 dollars are in norminal terms. We didn't express the emergency funds in real dollars because the survey question on borrowing 3000 dollars stays the same over the years.

Given inflation, we would expect that the percentage of families with access to the fixed $3,000 amount would increase, if not at least remain stable, over time, yet access to $3000 in emergency funds actually declined between 2001 and 2016. Even more concerning, this decrease is most prominent among families with below-median income, further exacerbating U.S. income inequalities that are growing at an alarming rate. To make matters worse, salary growth has not matched the rise in cost of living for these below median-income households, which is mostly likely the key reason for this decline in access to emergency funds.

Access to emergency funds is largely determined by both family income and age cohort. As shown in Figure 11, young, low-income families are least likely to have access to emergency funds. Given the fact these families are also less likely to have retirement plans, investment accounts, and other asset accumulation mechanisms, their financial security is most at risk if faced with an adverse financial shock, such as unemployment or a health crisis.

Marital status plays an important role in a family's access to emergency funds. Across all ages, married families are more likely than the unmarried ones (including those living together, divorced, or never married) to have access to $3,000 should the need arise (Figure 12). Specifically, access is increased most for those ages 35-54, where marriage offers significantly more security than "living with a partner." While 86% of married couples can gather $3,000 if needed, across families who are "living with a partner," "divorced," or "never married," all were substantially less likely (~20% difference between groups) to have access to emergency funds (ranging from 65 and 69% as shown in Figure 13). Notably, only 69% of couples living together reported having access to $3,000 for an emergency, putting them on par with their "divorced" and "never married" counterparts and behind those who are legally wed by 17%.

Overall, the continued decline in access to emergency funds paints a future wherein more families will struggle to be financially prepared for even small financial shocks at any stage of life. Access to such funds, however, is scarcest for lower income, younger families, especially if they are not married. This is not surprising, as those with less money and less time are less equipped to save adequately for an emergency. Not captured by this metric, however, is the fact that this group may have access to other resources, such as community members, and other forms of non-traditional monetary support. Thus, it is important for future research to better understand and investigate less traditional coping mechanisms in a financial emergency through assessment of families lacking access to emergency funds.

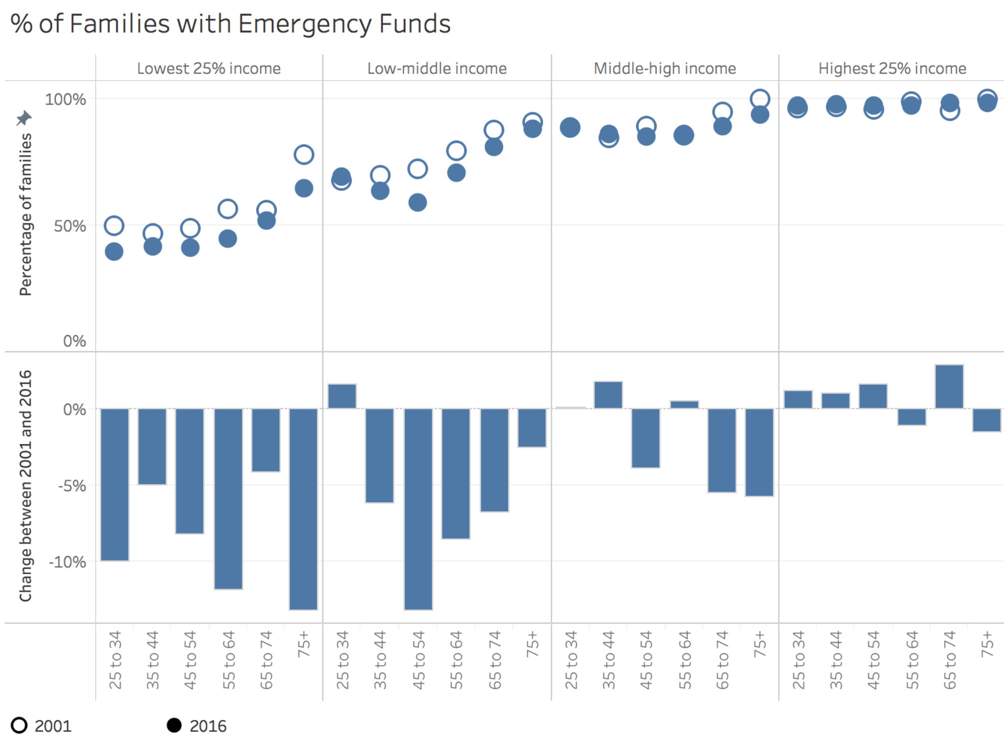

Figure 11: Access to emergency funds, by income and age. Percent of households with $3,000 in emergency funds in 2001 compared to 2016, with the data separated by age on the lower x-axis and income on the upper x-axis.

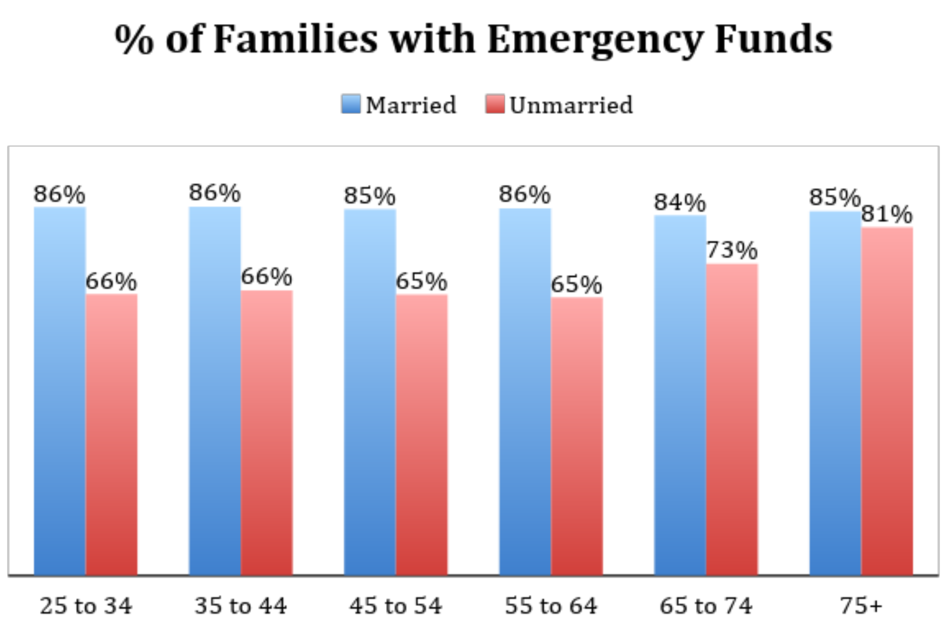

Figure 12: Access to emergency funds, by marital status and age. Percent of households with $3,000 in emergency funds, with data separated by age group on the x-axis.

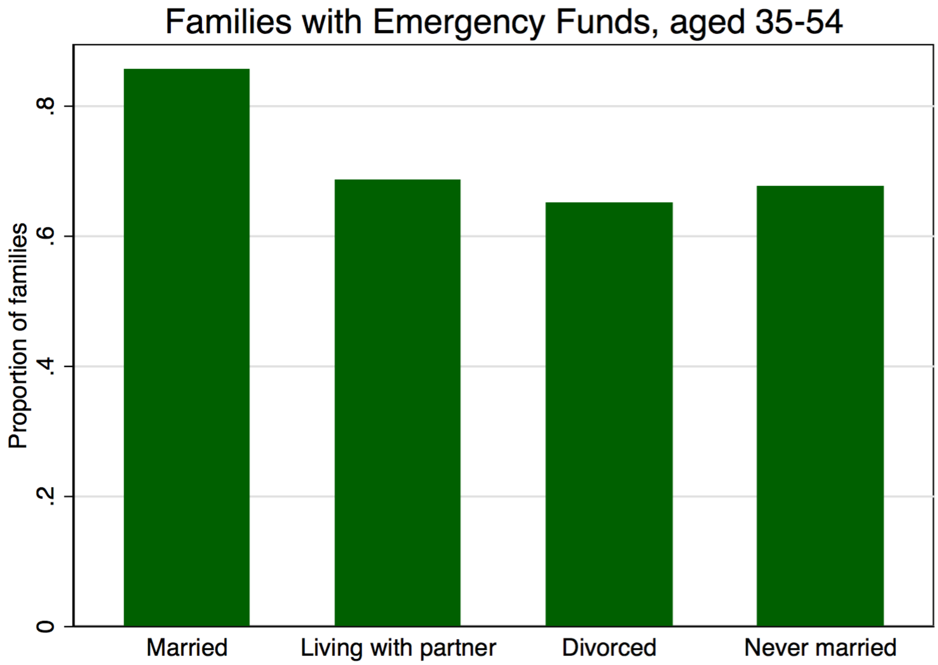

Figure 13: Access to emergency funds according to specific martial status. Percent of households with access to $3,000 in emergency funds, with data separated by marital status on the x-axis.

Long-term care insurance

Long-term care insurance covers a variety of services for those who need continued assistance, often due to aging and/or chronic illness. According to one 2017 report, the median annual cost of long-term care ranges from $45,000 per year in assisted living, to over $97,000 for a private room in a nursing home.[2] As America's population ages, more individuals will need to utilize long term care, and more families will need to plan for this substantial expense. For families whose head of household is age 65 or older, we used the Consumer Expenditure Surveys (CEX) which provides information on such long-term care insurance coverage. The first year CEX started reporting long-term care coverage was 2007. Between 2007 and 2016, the proportion of families with long-term care insurance declined across all age cohorts.

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[2] https://www.forbes.com/sites/nextavenue/2017/09/26/the-staggering-prices-of-long-term-care-2017

Age group	Percent with long-term care insurance in 2007	Percent with long-term care insurance in 2016
65-74	13.6%	10.7%
75-84	11.6%	10.6%
85+	9.0%	8.4%

Table 1: Percent of households with long-term care insurance in 2007 compared to 2016, according to age group. Source: Consumer Expenditure Survey

Holding long-term care insurance is strongly correlated with a family's highest level of education (Figure 14). In 2016, 18% of families with a four-year college degree or more had long-term care coverage, whereas only 6.5% of families without a high school diploma had long-term care. Interestingly, from 2007 to 2016, where the percentage of families with long-term care insurance declined for all groups with at least a high school education, this situation was reversed for those with less than a high school education. In fact, those without high school showed a marked increase, growing from 2.7% in 2007 to 6.5% in 2016.

As shown in Figure 15, married families are also more likely to have long-term care insurance, but the gap between married and unmarried families was smaller in 2016 (2 percentage points) than it was in 2007 (7 percentage points). The narrowed gap is mainly attributed to married families having less coverage, rather than unmarried families having more. With the exception of unmarried 75-84 year-olds, the general trend is that older families today have less long-term care coverage than they did in 2001. This change is particularly disconcerting, as older adults are most likely to utilize such coverage and stand the most to benefit from it.

Long-term care insurance covers enormous health care and living expenses often not covered by traditional insurance, social security, or savings. It is no surprise then that top-earning families are better able to prepare themselves in this area than low-income earners, despite having better health outcomes that make it less likely for them to actually need to use the benefit. Similar to expanding retirement years and resultant costs of living, long-term care is also expected to become more protracted and prevalent in the future. Thus, long-term care is becoming an increasingly important indicator of financial security as Americans live longer, yet individuals are less prepared as time goes by.

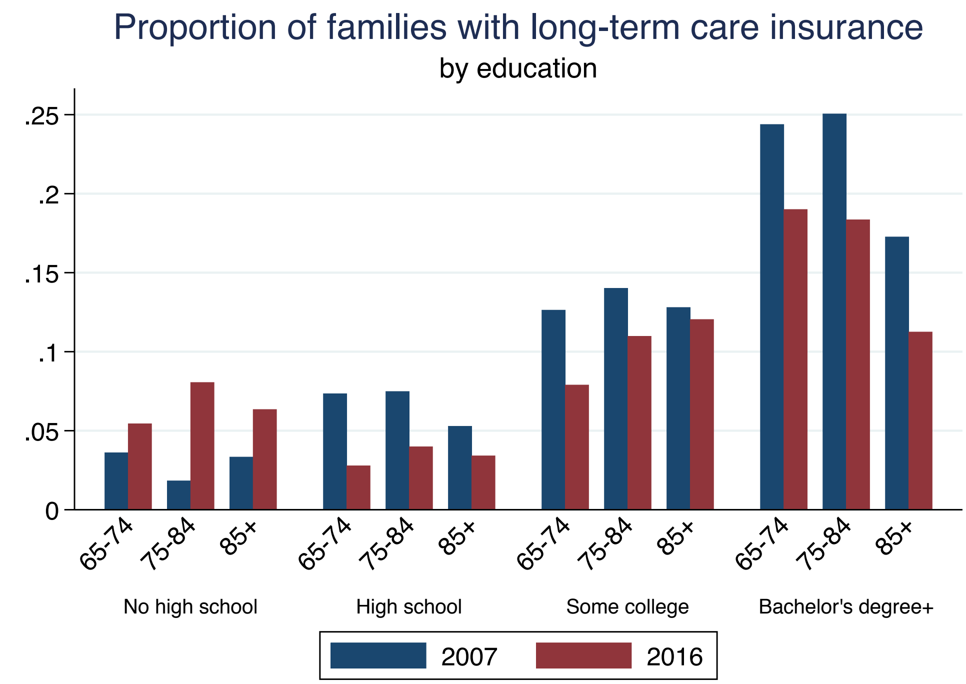

Figure 14: Long-term care insurance coverage, by education. Percent of households with long-term care insurance in 2007 compared to 2016. Data is separated by age group and education level on x-axis.

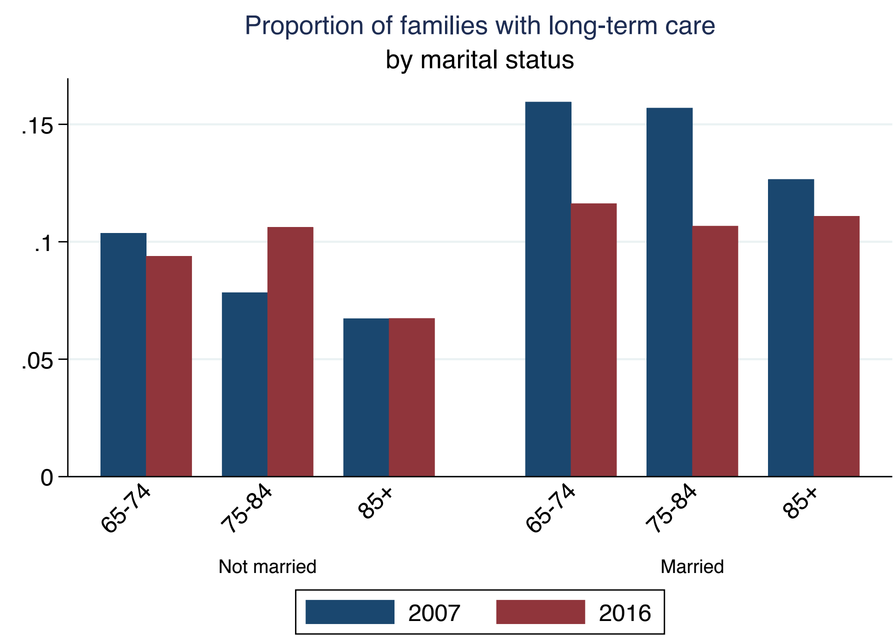

Figure 15: Long-term care insurance coverage, by marital status. Percent of households with long-term care insurance in 2007 compared to 2016. Data is separated by martial status and age group on the x-axis.

Life Insurance

Life insurance is defined as the current value of life insurance policies with a cash value that can be withdrawn. It measures the policy's current value, not the value of the death benefit, and only if the value is currently greater than zero dollars. Life insurance helps relatives of the policyholder support themselves and cover the insured's end-of-life expenses in the event of their death. A family without life insurance is more at risk of taking on debt in order to settle affairs.

Overall, we observed a decline in the percentage of households with life insurance across all age groups. The magnitude of decline, however, is less pronounced among older cohorts (Figure 16). For example, among those ages 25-34, 10.5% fewer people had life insurance between 2001 and 2016, while those 75 and older only dropped 3.2%. In both 2001 and 2016, households ages 45-54 had the highest percentage with life insurance. This could be because in addition to employer-sponsored plan availability, older households may have a greater awareness of the need to consider end-of-life preparations.

In 2016, married households were much more likely than any other type of household (i.e. divorced, single, etc.) to hold a life insurance policy, though the difference becomes negligible for those 75 and older. The gap is as much as 28.2 percentage points (for the 25-34 age group) between married and unmarried, with younger groups particularly vulnerable. This "marriage benefit" follows the same trend observed with our other financial indicators. Of course, it should be noted that in this case, life insurance policies are especially designed to support family dependents (e.g. spouse or children) after death of the policyholder, so it stands to reason that married households are more likely to have life insurance.

Although the percentage of households with life insurance declined between 2001 and 2016, there were a few notable exceptions to this situation when figures are broken out by race, ethnicity, education level, and income. For example, Hispanics ages 25-34 and Blacks ages 45-54 showed stability in the percentage with life insurance (with net increases of 1.5% and 4%, respectively). Yet, the percentage of Hispanics with life insurance still lags behind other groups in every age category (Figure 18). As noted earlier, this may be partly attributed to workplace benefits, but may also be a reflection of how families provide support in response to the death of a family member.

The percentage of households with life insurance declined for all education levels, but those with a four-year college degree or higher experienced less decline in all age groups except 75+. For the 75+ group, those with some college education and those with less than a high school education saw an *increase* in households with a life insurance policy (5.3% and 6%, respectively). Because this age group is closer to end of life, there might be more incentive to accumulate value in a life insurance policy, irrespective of education. This would also explain the smaller magnitude of declines between 2001 and 2016 among older cohorts, both overall and when taking marital status into account.

Younger families are least likely to hold life insurance policies mainly because they consider death and its associated costs to be a distant concern. At the same time, due to the overall decline in other financial security indicators, younger families might also be diverting scarce resources towards more pressing priorities, such as paying off student loans and mortgages.

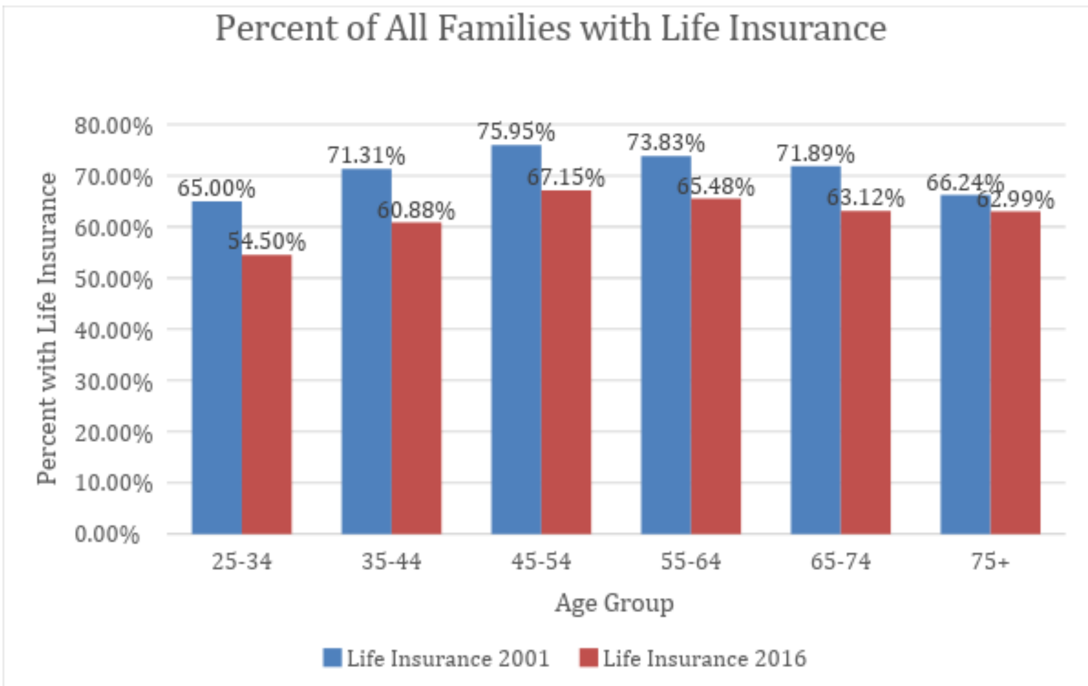

Figure 16: Life insurance, by age. Percent of households with life insurance in 2001 compared to 2016.

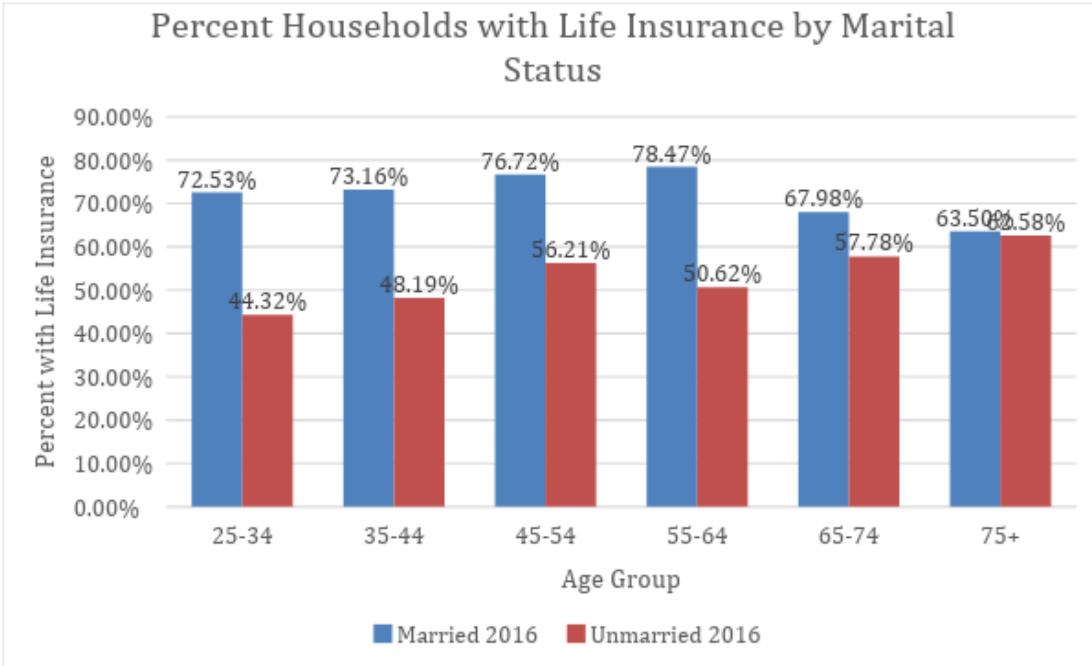

Figure 17: Life insurance coverage. Percent of households with life insurance according to marital status.

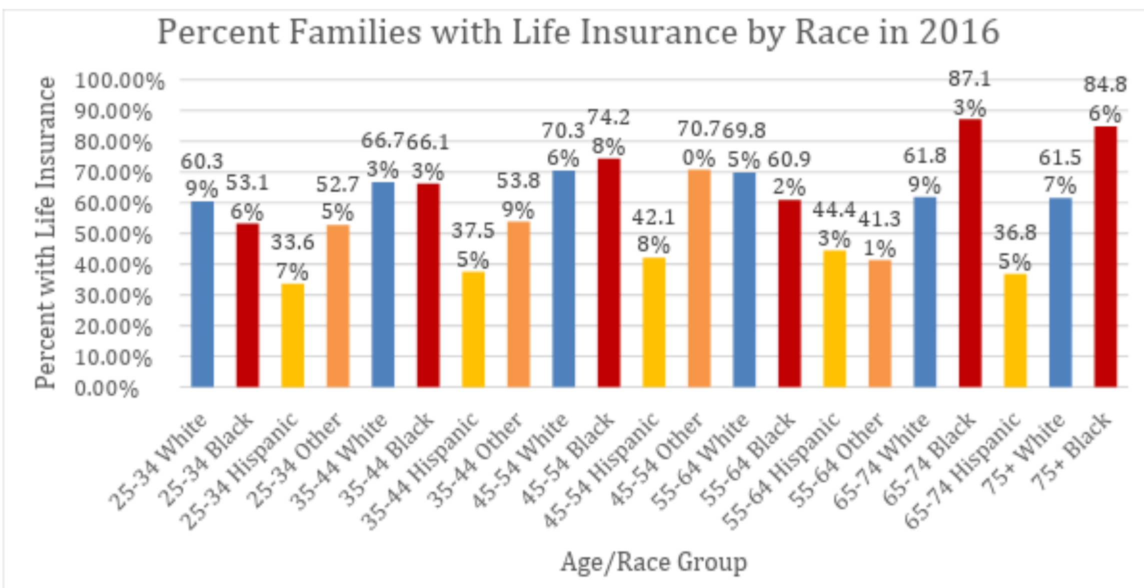

Figure 18: Percent of Families with Life Insurance by Ethnicity in 2016

Discussions

This chapter examines financial security of American families through key indicators such as debt management, the ownership of investment account and retirement plans, emergency funds preparation, and disability or long-term care insurance.

The comparisons of these financial security indicators across socioeconomic-demographic subpopulations highlight a number of concerning trends. Regardless of which subgroup we focus on, there are distinct warning signs across households of all shapes and sizes in meeting the standards for financial security in the age of longevity. According to the indicators used in Sightlines, younger families, unmarried individuals, and non-white families appear the least prepared. Lack of emergency funds, life insurance, and retirement accounts would seem to leave these groups particularly vulnerable to unexpected financial shocks. Not considered in this report, however, are some potentially brighter spots. For example, there are indications that the financial security of small business owners and immigrant households --which are not broken out in our datasets-- may be greater than that for other groups.

The decrease in American financial health, indicated by these key variables, calls for academic and political discussions on how to improve the financial security for those with various socioeconomic-demographic backgrounds. And although the demographic investigation highlights the "what," it is also important to understand the "why."

In a recent report, Bill Frey at the Brookings Institute referred to the millennial generation as the demographic "bridge" to the nation's increasingly diverse future. By the mid-2040s, racial and ethnic minorities are projected to make up over half of all Americans. Even sooner, by the 2020 census we will see that the majority of those under the age of 21 will already be non-white. This presents an exceptional opportunity to re-evaluate how we conceptualize and approach achieving financial security given the ability to challenge traditional assumptions and interventions that are clearly not working today. As our youngest generations enter adulthood and midlife as workers, consumers, and leaders in business and government they will pave the way for the most diverse, inclusive and participatory society our country has known.

This unprecedented dynamic means that our unique analysis of financial security by demographics is more timely than ever before. Conclusions based on a simple analysis of the current population no longer encompass the realities for most Americans in the near future. Our report offers insight into how specific population characteristics impact their financial security, offering us an opportunity to propose changes to be made proactively instead of reactively.

In the next several chapters, we take a closer look at some metrics of financial security in order to better understand the complex relationship between demographics, the economy, and financial wellbeing. We hope to unwrap some of the underlying causes, trends, and other data that may indicate a need to spend further attention on the wellbeing of American households in regards to their finances.

Reference:

[1] Geoscape. (2013). Hispanic business and entrepreneurs drive growth in the new economy.