# 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, we observed that one of the most intractable obstacles to helping all people live long and live well were the pervasive inequalities between various subgroups of the U.S. population. These included types of families, genders, ethnicities, and educational backgrounds. As such, it is difficult to adequately describe the state of financial security in the U.S., and to identify points of need and promise for enhancing longevity, based singularly on highly generalized trends. It is for this reason that we focus here on demographic variation in key indicators of financial security using the Sightlines framework so as to provide a more nuanced, informed understanding of Americans' financial security as they live longer lives.

## Overview

To evaluate how demographic characteristics are related to financial security, this analysis 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 Disability Insurance/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, as well as 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 as it intersects with ethnicity, education, and marital status. For brevity, below we selectively describe notable findings, however, all findings illustrating age group differences by ethnicity, education, and marital status are available via the Sightlines webpage online. By doing so, we can reveal any patterns or changes that reflect concerning declines or promising trends in financial security that may or may not be specific to any one particular American demographic subgroup. As with the overarching Sightlines project, the intent is to spur discussion around particular sets of indicators and U.S. subgroups that stand out, for better or for worse, in order to raise awareness about where change is most necessary and possible.

## The Metrics

Access to Emergency Resources refers to whether or not a family can acquire $3,000 in case of an unexpected expense, which can include both liquid assets or the ability to borrow the amount. Arguably, access to these funds could mean the difference between the ability to weather a financial emergency versus needing to sell off assets, losing household resources, or incurring unmanageable debt.

Considering inflation between 2001 to 2016, we would expect the percentage of households who have access to the same $3,000 to increase, or at least remain stable over time. However, we see a sharp decline in the number of households with such access, indicating that Americans today may be less prepared to weather even small financial shocks. Both ethnicity and education play a role in declining access to emergency funds for several age groups, resulting in deepening disparities. In particular, 25-34 year old Black and Hispanic Americans show the largest declines in the ability to access emergency funds over time. In 2016, only 51 percent of Black households and 64 percent of Hispanic households have access to emergency funds, compared to 81 percent of White Americans in this younger bracket. Those with less than a college education in nearly every age group suffered a significant decrease in the percentage who have access to emergency funds. On the other hand, over 90 percent of those with a college degree have $3,000 available, which holds steady from 2001 to 2016.

Marital status correlates with the access to emergency funds. For every age group, married households are more likely than unmarried ones (those living together, divorced, or never married) to have access to emergency resources should the need arise (Figure 1). Specifically, while 86 percent of married couples can gather $3,000 if needed, only about 66 percent of unmarried can do so. Interestingly, the percentage of couples living together who report having access to $3,000 for an emergency is on par with their "divorced" and "never married" counterparts, which is behind those who are legally wed by 17 percentage points. Further research and program development supporting unmarried households will be particularly important to help Americans deal with unexpected financial emergencies.

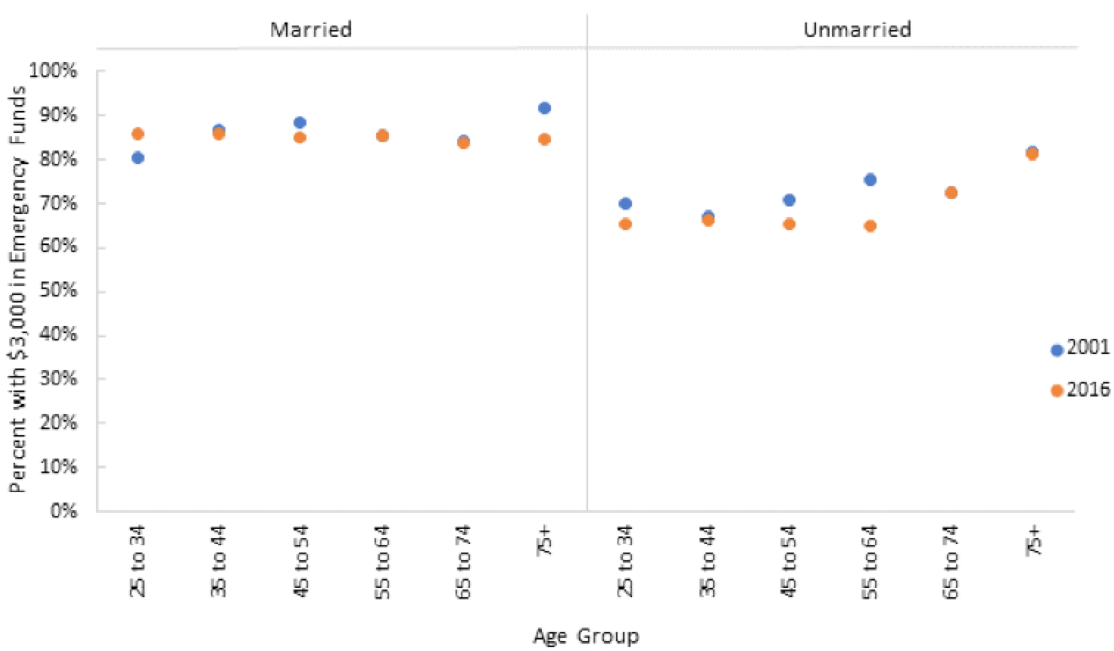


*Figure 1: Access to emergency funds, by age and marital status 2001 vs. 2016.*

**Manageable Debt** is defined as when the total outstanding balances on uncollateralized loans are less than 20 percent of a household's annual income. Uncollateralized debt includes student loans, consumer loans, private loans, and credit lines.

Compared to 2001, debt rates are increasing, and fewer households have manageable debt in 2016. Young households ages 25 to 34 show the worst outcomes over this time period. Only 59 percent of this age group have manageable debt in 2016, compared to over 85 percent of those above age 65. As shown in Figure 2, we also observe a decline in manageable debt for families across all ethnicities from 2001 to 2016. Across age groups, Hispanics show the greatest decline, from 86 to 69 percent. Comparably, 35-44 year old African Americans show an even larger drop, from 86 to 63 percent, signifying a particular need among middle aged African Americans to address overwhelming debt as they enter the second half of life.

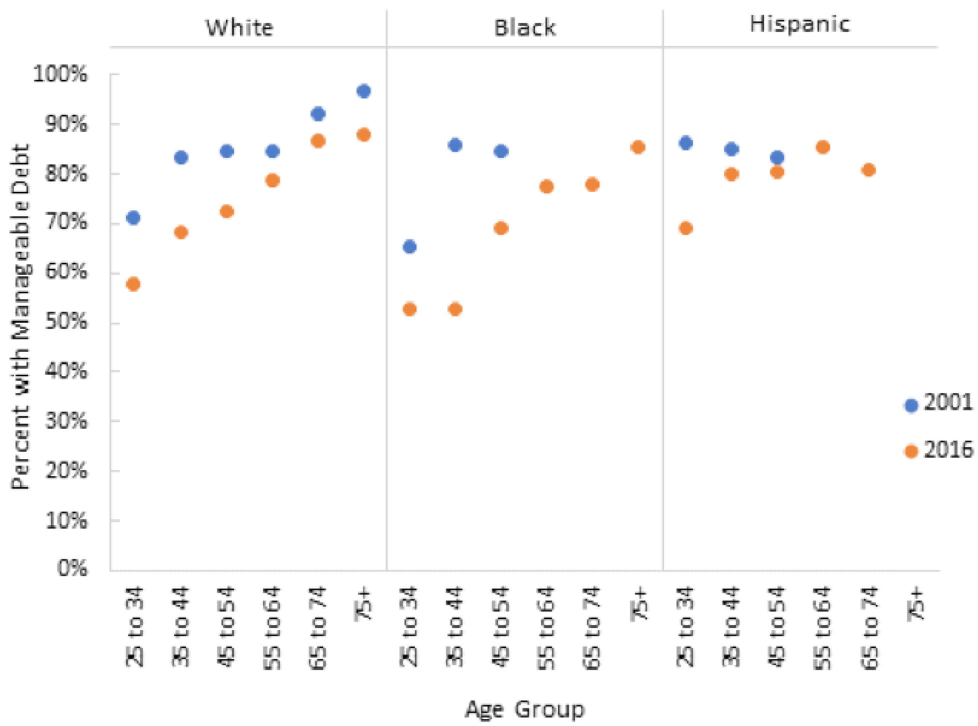


*Figure 2: Manageable debt, by age and ethnicity 2001 vs. 2016.*

Additionally, the data show a large decline in the ability to manage debt among college educated, younger households, with a decrease from 63 percent in 2001 to just 48 percent in 2016. Little variation is observed between married and unmarried households across all age groups.

The decline in households with manageable debt is evident among younger and/or minority families who may be focusing on paying off higher levels of debt, making it extremely challenging for them to accumulate enough assets to properly fund retirement. One factor for the decline of manageable debt in this group is that these households are taking on too much debt earlier in life, likely due to the rapid expansion of student loan access, while at the same time people are putting off asset accumulation, such as buying homes, in hopes of paying down these debts.

**Retirement Plans** are defined as at least one spouse or partner having an individual retirement account (IRA), an employer-sponsored retirement plan, and/or receives plan benefits.

Between 2001 and 2016, the percentage of working-age households with retirement plans dropped eight percentage points. Across age groups, households ages 25-34 are the least likely to have retirement plans.

White households are the most likely to have retirement plans and Hispanics are the least likely, regardless of age group (Figure 3). Most troubling is that both Hispanic and Black households ages 35-44 suffered a decline of approximately 15 percentage points from 2001 to 2016. It is important to consider that minority families may be more likely to work for small businesses, or own small businesses themselves, reducing accessibility to employer-sponsored plans. On the other hand, minority families represent a greater share of multigenerational households with implications for social support networks that may afford supplementation of financial needs in old age. These examples suggest that retirement traditional metrics should be revisited with these factors in mind to create a more inclusive portrait of how modern American families approach retirement.

Having a retirement plan also largely depends on education, which is in turn correlated with employment and access to employer-sponsored plans. For all ages, 77 to 90 percent of households with at least a four-year college degree have a plan as of 2016, a stark contrast to the 43 to 73 percent of those with only some college education. Between 2001 and 2016, families with no college education took the hardest hit in retirement plan participation, whereas those with at least a four-year college degree showed little to no change.

Married households are more likely to have retirement plans than unmarried ones (living with a partner, separated, divorced, widowed, or never married). The gap is approximately 20 percentage points and persists for every age group. Single people likely have fewer options for financial, social, and health-related support, especially as they age, compared to married people who are able to rely on spousal assets in addition to their own.

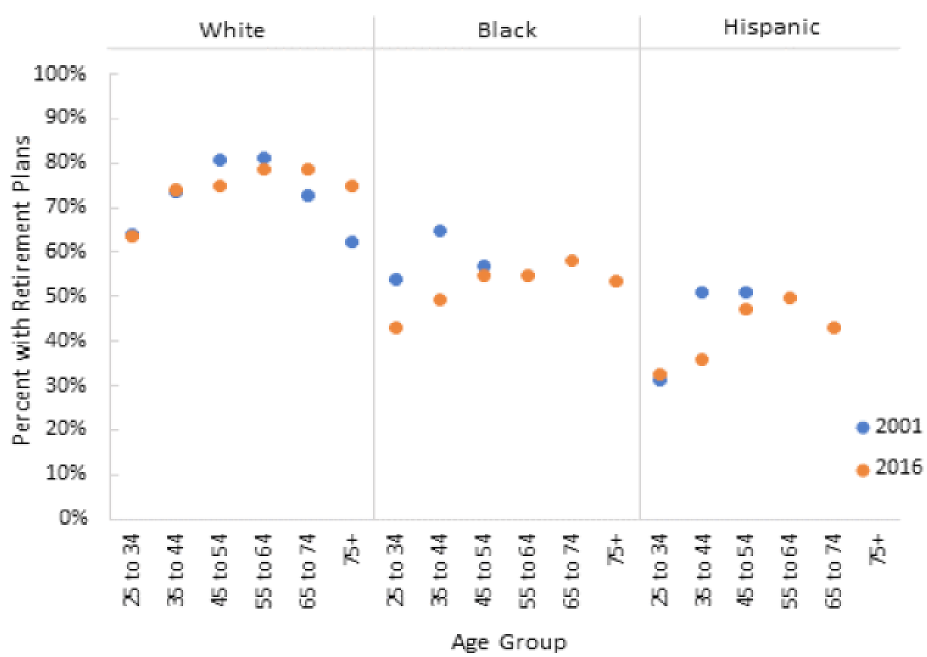


*Figure 3: Retirement plans, by age and ethnicity, 2001 vs. 2016.*

**Investment accounts** are defined as having any of the following: mutual funds, savings bonds, other bonds, stock, cash calls, annuities, trust investments, and life insurance with cash policies. This definition can also either include or exclude any retirement plans.

Between 2001 and 2016, the percentage of American families with investment accounts declines, regardless of the inclusion or exclusion of retirement plan participation, across all ages, with the most prominent decline for those ages 35-54. As of 2016, the percentage of families with investment accounts increases with age. Excluding retirement plans, approximately 32 percent of those ages 25-34 have investment accounts, compared to over 58 percent for those ages 75+.

Not surprisingly, education is positively correlated with holding an investment account (Figure 4). College educated households over age 65 showed the least change in investment account ownership between 2001 and 2016. In contrast, for those working-age households without a college education, the decline ranges from 9 to 19 percentage points. Given that education and age predict likelihood of investing, it is likely that experience, knowledge, and access to financial resources are key pathways to this outcome, even among unlikely investors. Regardless of age and education then, financial education programs and tools for motivating even small investments could jumpstart future generations to invest.

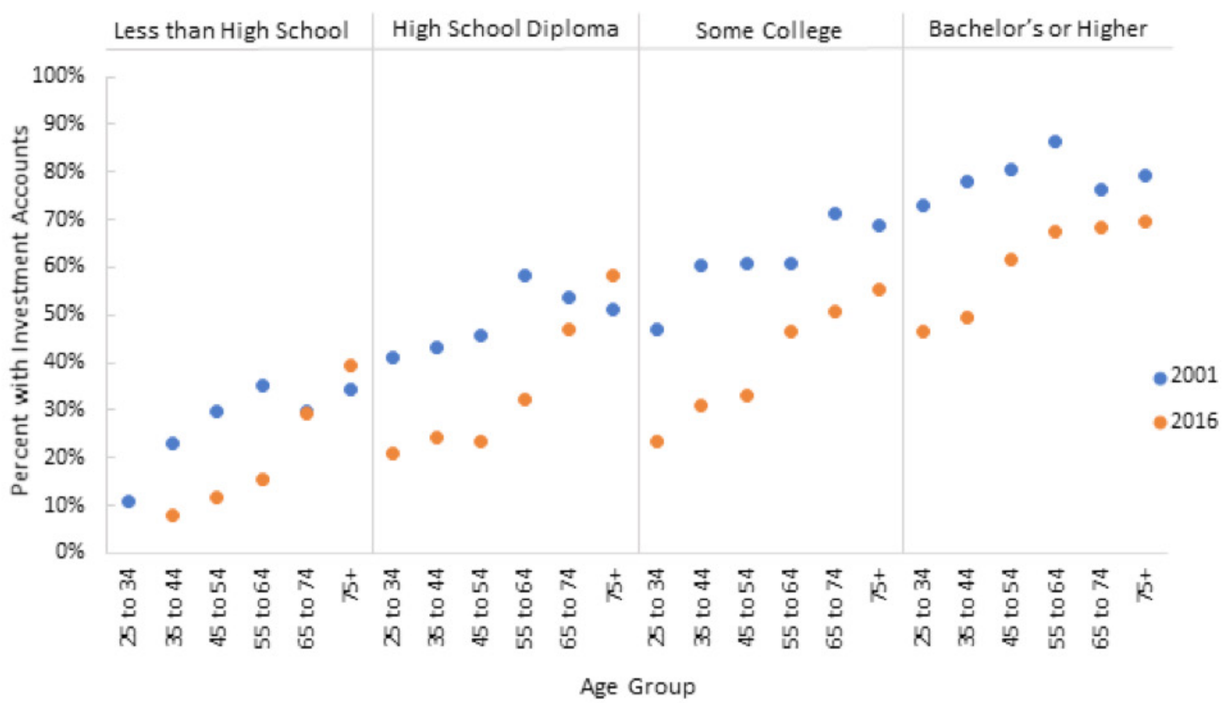


*Figure 4: Investment accounts, by age and education, 2001 vs. 2016.*

**Life Insurance** helps the policyholder and family members cover the insured's end-of-life expenses and replace lost income. Households without life insurance are more at risk of spending down assets and taking on debt to settle affairs.

Over half of Americans report having a life insurance policy in 2016. This proportion has fallen approximately 10 percentage points since 2001 across nearly every age group, except for those 75+. However, there are subgroups who show stability over time. For example, Hispanics ages 25-34 and Blacks ages 45-54 show a slight, although not significant, increase in the percentage of those with life insurance from 2001 to 2016 (1.5 percent and 4 percent, respectively). Yet, the percentage of Hispanics with life insurance still lags behind other ethnic groups at every age. This may be partly attributed to ethnic differences in access to workplace benefits. Ethnic inequalities may also reflect cultural differences in how families solicit and provide support in response to the death of a family member, and point to the need for future research to investigate less formal or non-traditional measures of getting financial support.

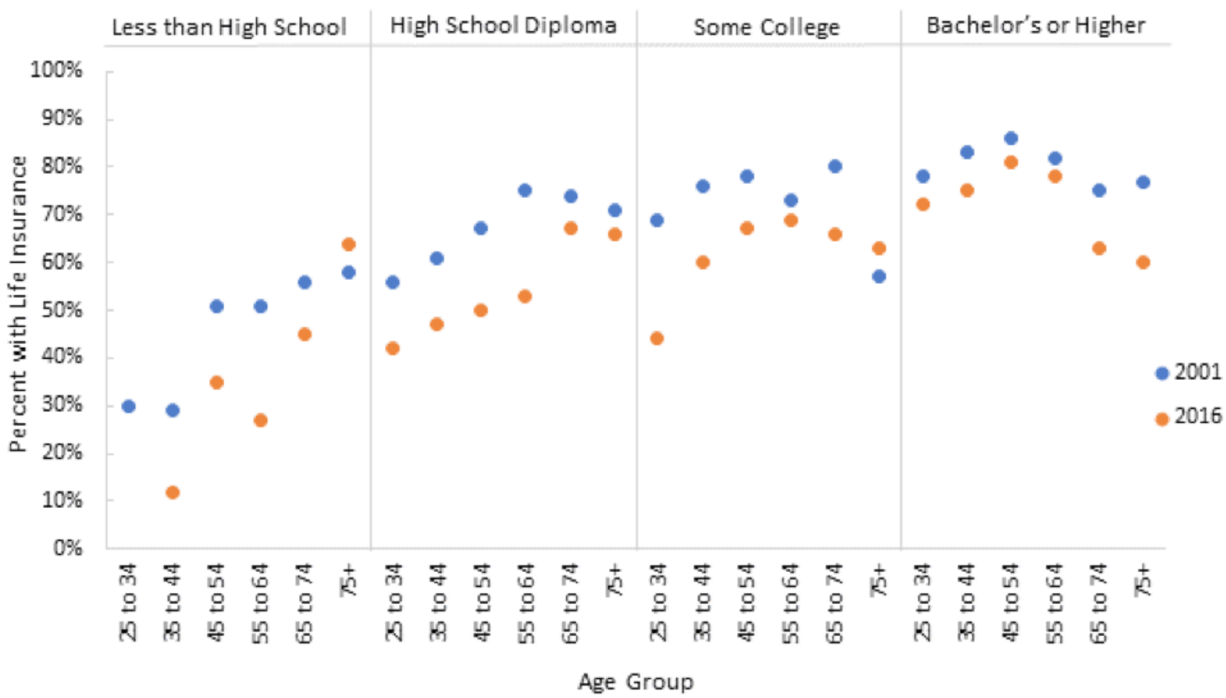


*Figure 5: Life insurance, by age and education, 2001 vs. 2016.*

The percentage of households with life insurance declines for all education levels as well, but those with at least a four-year college degree experience the least decline. For those ages 75+ either reporting some college education or less than a high school education, however, we saw an *increase* in households with a life insurance policy (5.3 percent and 6 percent, 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.

Smaller magnitude of declines between 2001 and 2016 among older age groups was also evident regardless of marital status. In 2016, married households are more likely than unmarried ones to hold a life insurance policy, though the difference is not significant for those 75+. The gap between married and unmarried households is approximately 28 percentage points for those ages 25-34. This "marriage benefit" follows the same trend observed with many other financial indicators. Of course, it should be noted that life insurance policies are designed to support dependents, such as spouses, after the policyholder's death, which likely drives this trend in particular.

Overall, younger groups are least likely to hold life insurance policies, possibly in part because death and its associated costs are a distant concern. Younger groups might also be diverting scarce resources towards more pressing priorities, such as paying off student loans and mortgages, leaving them exponentially vulnerable and ill-prepared to ensure a financially secure future.

Long-term Care Insurance offers protection against long-term expenses and lost earnings in the event of disability and/or a serious illness. It also covers enormous care and living expenses often not addressed by traditional insurance, social security, or savings. As people are living longer, and many more doing so while managing chronic, serious illness, long-term care is increasingly vital to financial security in old age.

In spite of this, as of 2016, only 10.3 percent of households over age 65 have long-term care insurance. We observed a slight, but insignificant, decline in rate of coverage over time. Long-term care coverage for those ages 65-74 declined by 3.3 percentage points from 2007 to 2016. We are unable to report breakdowns by ethnicity, as there was an insufficient number of observations among minority groups for this metric.

Long-term care insurance coverage is strongly correlated with education. In 2016, 18 percent of those with at least a four-year college degree have long-term care coverage, whereas only 6.5 percent of those without a high school diploma do. From 2007 to 2016, the likelihood of having long-term care insurance declines for all groups with at least a high school education, but the situation reverses for those with less than a high school education. In fact, those without a high school diploma show a marked increase, growing from 2.7 percent in 2007 to 6.5 percent in 2016.

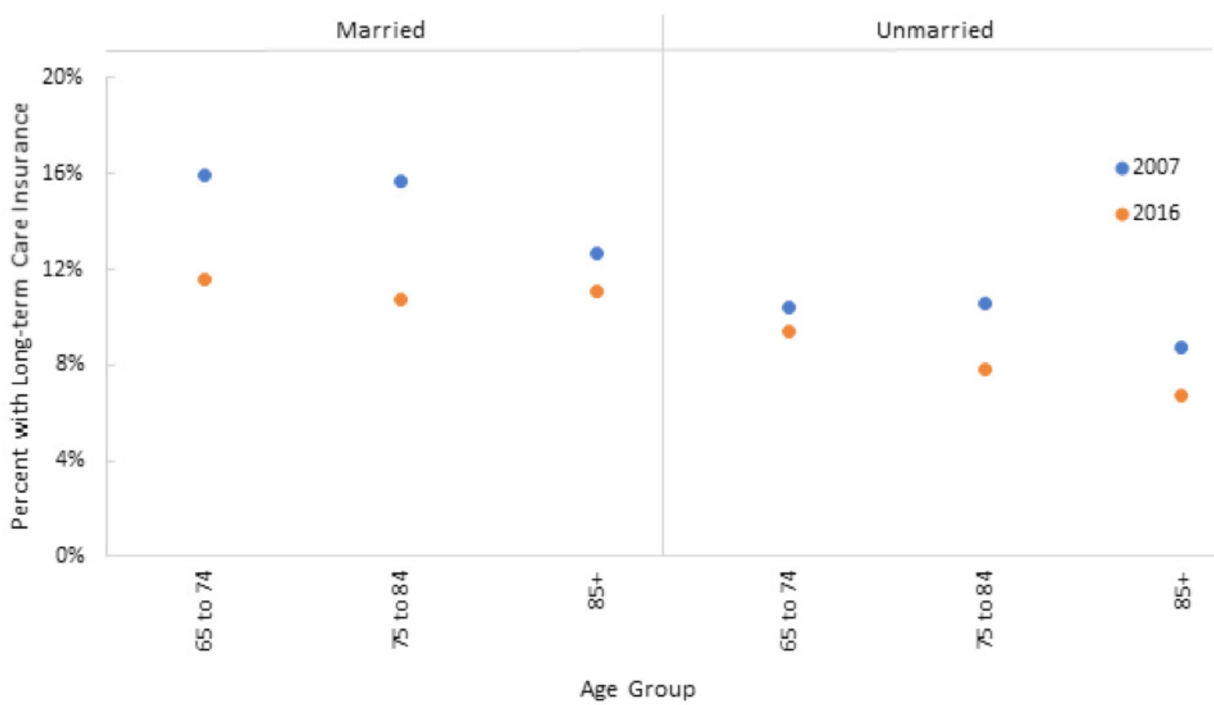


*Figure 6: Long-term care insurance, by age and marital status 2007 vs. 2016.*

Like other indicators of financial security, marriage was associated with a greater likelihood of having long-term care insurance in 2007 (Figure 6). Between 2007 and 2016, however, the gap between married and unmarried households narrows from 7 percent to just 2 percent. Unfortunately, this change is driven by a decrease in the percentage of married households having coverage in 2016, and not an increase in coverage for unmarried households. With the exception of unmarried 75+ year-olds, who showed a slight uptick, the general trend is that fewer older people have long-term care coverage today than a decade ago.

For working adults under age 65, we also consider disability insurance as a supplement to social security disability benefits, which is often necessary to sustain costs of living. Disability insurance is typically acquired through employer-sponsored plans, and thus, rates are often conflated with working status. For instance, only 35 percent of those ages 55-64 have disability insurance coverage, but 47 percent of those working do. Compared to 2001, in 2016, 5 to 9 percent fewer households report having disability insurance across all age groups, with only approximately 40 percent having coverage.

## Key Takeaway

This report adds to a growing body of research depicting major historical shifts in financial well-being for most Americans in recent decades. Invariably, the extent to which individuals are encountering financial decline largely depend on cultural factors, setting the stage for increasing inequalities as we navigate longer lives. Using the most up to date data available for key Sightlines financial security metrics, it is undeniable that financial security trajectories at all stages of adult life are far more nuanced and complex when viewed through various ethnographic lenses including ethnicity, education level, and marital status. It is crucial, then, that any analysis of the American population accounts for the exceptionally diverse set of characteristics and backgrounds which it comprises. When evaluating the progress of American financial security in long-lived modern societies, there is no value in making blanket, overreaching generalizations as they inevitably mask important distinctions among prevalent subgroups. Clearly, these subgroups have unique sets of needs to be addressed and strengths to be leveraged. These findings also highlight the need for further investigation by researchers, policy makers, and industry leaders alike in identifying likely drivers of inequalities. In-depth portrayals that focus on intergroup differences in both financial outcomes and their causes will better equip decision makers to develop the most effective solutions for optimizing financial security across the life span not just for a privileged few, but for all.