No One is Safe

Americans use retirement savings to cover hardships long before retirement

Americans of all income levels who have 401(k)s are saving about a third of the amount needed to maintain their living standards in retirement. And they have been told that the shortfall is their fault. But NEFE-funded research from The New School finds that almost no one is safe from periods of lost income due to a health crisis, job loss or other life transitions in their working years; and lower-income Americans are especially vulnerable. Ninety-three percent of low-income men don’t even have a 401(k). And those who do often need that money long before retirement.

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About the Research

Most retirement savings research looks for a single factor — such as medical expenses — to explain why individuals aren’t saving enough for retirement, but this study by The New School takes into account the reality that income shocks such as unemployment, divorce and other earnings changes often cluster together; and the impacts from these shocks vary in magnitude depending on the person’s race and socioeconomic status.

Researchers looked at data from the Survey of Income and Program Participation (SIPP) by the U.S. Census Bureau, which includes retirement savings, education, demographic characteristics, marital and parental history, health status and government assistance records. The SIPP data were linked with earnings records from the Social Security Administration and the Internal Revenue Service.


In addition to race, citizenship and other demographic characteristics, the study looked at American male workers in four age groups:
- Ages 25-34
- Ages 35-54
- Ages 55-61
- Ages 62-70

Because the impact of life events depend heavily on the cushion one has in wealth and income, the sample also was divided into three income groups:

Top 10%
- More likely to be white and educated
- More likely to work full time for a large company
- Only 2% report fair or poor health
- 45% have a defined contribution retirement plan

Middle 40%
- 8% report having fair or poor health
- 36% have a defined contribution retirement plan

Bottom 50%
- 22% report fair or poor health
- 7% have a defined contribution retirement plan

The effect of being nonwhite is largely negative. Compared to their white peers, nonwhite workers had significantly lower retirement savings:
- African-Americans ($-16,977)
- Asians ($-11,743 to -$41,979)
- Hispanic nonwhites ($-8,280 to -$24,278)

The racial impact is more negative and significant among the top 10 percent of earners ($-19,000 to -$54,000) than among the bottom 50 percent ($-8,000 to -$16,000).

By age 55-61, older men have $11,000 to $47,334 more in retirement savings (depending on income level) than their younger counterparts.

Older men are more likely to:
- Be white
- Be widowed, divorced or separated
- Have more children
- Have defined benefit retirement plans
- Be in poor health and/or be disabled
- Have health insurance

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What are Income Shocks?
Common factors that affect retirement savings accumulation include:

<table>
<thead>
<tr>
<th>Personal Life</th>
<th>Work Life</th>
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<tr>
<td>• Changes in health status due to illness or injury</td>
<td>• Educational attainment</td>
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<tr>
<td>• Marriage or divorce</td>
<td>• Type of workplace (industry, size of employer)</td>
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<td>• Number of children</td>
<td>• Working full or part time</td>
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<td>• Receiving a lump sum payment such as an inheritance or spousal death benefits</td>
<td>• Union membership</td>
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<td>• Whether the person has a defined benefit or defined contribution retirement plan</td>
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How Common Are Income Shocks?

By age 70, **96 percent** of American men have had their annual earnings drop more than 10 percent at least four times in their working life.

Among American male workers, **61 percent** of those ages 25-70 report at least one episode when they lost work earnings for an entire year.

And by age 70, **1 in 4** male workers reports having four or more episodes of no work earnings for at least a year.

The Effects of Income Shocks

Unsurprisingly, those in the middle- and lower-income groups are more likely to experience economic shocks from job loss or poor health and they are more negatively affected by earnings losses. For those lucky enough to have a retirement plan at all (only 7 percent of the bottom income group have defined contribution plans), these funds often are the only resource to turn to in times of financial need.

By far the most negative impacts come from declines in health, including long-term illness and work-limiting disability. When a low- or middle-income worker cannot work, or when their income decreases significantly for any reason, often they withdraw money from retirement savings accounts — and pay large penalties — or they stop contributing to their retirement savings altogether. Even decreasing the amount of their contributions can have lasting detrimental effects on savings momentum over time.

“Positive” Income Shocks

Not all income shocks have negative effects. Drastic changes to earnings and retirement savings can come from windfall payments, such as receiving a lump sum payout from a previous job’s pension, an inheritance or spousal death benefits.
No one likes to believe that income shocks will happen to them; however this research shows that it is not a matter of if something will disrupt earnings, but when and how severe the effects of such shocks will be.

“The story is more nuanced than simply ‘Americans are failing at retirement saving,’” says Ted Beck, NEFE president and CEO. “This research provides a more realistic, less judgmental way to talk about the context for why people are tapping their long-term savings long before retirement.”

Implications and Takeaways

An individual’s level of retirement savings depends strongly on their level of education and whether they participate in a retirement plan at work.

• But only about 50 percent of American workers have access to an employer-sponsored retirement plan; and of those only about half participate.
• Even those who do have retirement plans at work often take hardship withdrawals or stop contributing to their plans in times of crisis.
• The 401(k) system was built to favor high- and mid-income earners with uninterrupted and growing earnings over time.

While it may work in theory, the system does not account for the high likelihood of most workers needing a source of liquidity to cover financial emergencies.

Poorest health and disability severely degrade retirement savings.
• People in good health and with no disability in the bottom 90 percent of income distribution (the middle and bottom groups) have over $24,000 more saved for retirement.
• People in good health and with no disability in the top 10 percent have about $86,000 more than those in poor health.

Episodes of lower earnings hurt older workers and low- and middle-income workers most.
• Workers age 55 and up struggle to recover from episodes of losing 10 percent or more in earnings.
• Periods of losing 10 percent or more in earnings did not affect high earners, but negatively affected low- and middle-income workers, highlighting the need for liquid savings for those in the middle and bottom groups.

Read more about the New School research at www.nefe.org/research.
NEFE Supports Global Research at Cherry Blossom Institute

In its commitment to building knowledge in financial capability research, NEFE again sponsored the Cherry Blossom Financial Education Institute in April, hosted by the Global Financial Literacy Excellence Center at George Washington University.

“This conference provides a unique platform for innovative research,” notes Billy Hensley, Ph.D., NEFE’s senior director of education. “It’s an important investment in the body of knowledge for the field.”

Beck Honored With Visionary Leadership Award

NEFE President and CEO Ted Beck received the William E. Odom Visionary Leadership Award April 5 for his dedication to building a financially literate future for young Americans. Laura Levine, president and CEO of the Jump$tart Coalition for Personal Financial Literacy, presented the award on behalf of Jump$tart.

“In any discussion of the most influential leaders in financial literacy, Ted Beck’s name will always come up in the top few,” says Levine. “Ted’s significant contributions to the field have focused on effectiveness and innovation, so it seems fitting to bestow this award.”

Under Beck’s leadership since 2005, NEFE has developed new programs for college students, consumers and intermediaries, as well as provided support and guidance for financial education research and national initiatives such as three Presidential advisory councils on financial capability.

Beck also has served on the Jump$tart board of directors since 2005, becoming chairman from 2011 through 2016. “Ted has led NEFE — and the financial capability field as a whole — to make significant contributions to research and to financial education,” notes Mike Staten, Jump$tart chairman and director of the Take Charge America Institute at the University of Arizona.

With more than 50 presenters and attendees from the United States, Brazil, Japan and seven other countries, the conference included insights on financial behaviors and decision making among youth and adults worldwide. “We are learning a lot from the international community,” says NEFE President and CEO Ted Beck. “It’s humbling, but important, to understand that the U.S. needs to pay attention to innovation in other countries.”

The conference also featured research from “rising scholars” from Chicago, Washington, D.C., Germany and Switzerland. “We also need to hear fresh voices,” says Beck. “This forum brings forward new talent to spark new ideas for consideration.”

Annamaria Lusardi, Ph.D., academic director of GFLEC, oversees the annual institute.

View all papers and presentations at www.gflec.org.

Jump$tart President and CEO Laura Levine and NEFE President and CEO Ted Beck

Read more at www.nefe.org/press-room.
Strong Foundations: The High School Financial Planning Program (HSFPP) Still Resonates Years Later

As a junior at Miami Jackson High School in 1997, Michele Godfrey’s thoughts were those of a typical teenager — buying a car, preparing for college, and spending time with her boyfriend. Like many teenagers, she didn’t know what she didn’t know about money.

Although her dad taught her the importance of paying bills and showed her how to manage payments, Godfrey’s introduction to personal finance came when her teacher passed around workbooks in her business and finance class entitled: High School Financial Planning Program — It's never too early to plan for success!

“I still remember my green workbook,” Godfrey says. “The HSFPP taught us about budgeting and making our spending plans. We were all getting ready for internships that summer and it taught us how to understand our paychecks.”

The car-buying lessons particularly stood out.

“Of course, at that age, everybody wants a car,” Godfrey says. “There was a module about what goes into financing a car, having insurance and registration.”

The HSFPP helped the students understand broader concepts like credit, protecting their purchases and consumer rights and responsibilities. Lessons like these not only gave Godfrey and her classmates the knowledge they needed to tackle their financial lives, but it sparked Godfrey’s interest in a financial career.

She went to college in Florida and majored in finance, but rather than concentrating on the world of investing, she decided to focus on helping others understand the basics. Now she works with the United States military, where she helps service members and their families as a personal finance counselor.

“I see everyone from those who have just finished basic training all the way to those preparing to retire,” Godfrey says. “I just had someone this morning who was retiring today. I had a client yesterday who had never seen a budget before. I literally sometimes want to get out the HSFPP modules and say, ‘OK, let's start with understanding what cash flow is.’”

For many of the people Godfrey sees, the biggest revelation is that they can manage their money, rather than their money managing them. She encourages them to see the power they have over their cash flow. “That's one of the biggest a-ha moments,” she says, “when they realize that they can be in control of their own finances.”

Cash flow is something that Godfrey and her family think about often. She married her high school sweetheart, Jerry Godfrey, who also took the HSFPP program, and they have two children — a 10-year-old son and an eight-year-old daughter. They live in northern Virginia, where Jerry is finishing up his military career.

“I still remember my green workbook. The HSFPP taught us about budgeting and making our spending plans.”
“We are starting to teach our children about money. Both of them have savings accounts. Recently, my son announced that he needs to find another ‘income stream,’ because right now his only income streams are his birthday and Christmas.”

Because both she and her husband took the HSFPP program, they understand the importance of making financial decisions together. As they consider Jerry’s retirement from the military, they are looking at starting a business or a second career.

“We keep tossing around the idea of ‘what’s our number?’ There’s so much talk about retirement these days, so we want to sit down and determine what we would need to retire, as well as how we can continue to build wealth, donate to organizations we believe in, and save money to help our kids with college tuition.”

Some of the most powerful lessons she learned from the HSFPP are about purchasing power, earning potential, and spending and credit principles. Having the HSFPP as a foundation has helped her and her family “remain grounded.”

In 2011 while stationed in North Carolina, Godfrey had the chance to teach a few modules of the current HSFPP program to youth at a community organization. She and her husband looked over the current HSFPP booklets to see how much had changed, and how much had stayed the same.

“It was very exciting, not only to have the opportunity to take the course, but also to have the opportunity now to teach the course to high school students,” she says.

When asked what advice she gives to people her own age who never had a program like the HSFPP, Godfrey’s message is clear: It’s never too late.

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“We talk about the time value of money, but I like to tell people, don’t think that it’s too late to start. As soon as you get the information, start implementing it and using it. Don’t give up hope,” she says. “Start with the basics; educate yourself; look toward using your employee benefits like your retirement plan if you have one.”

“And then always teach the next generation. Just because you didn’t get it doesn’t mean you can’t encourage your children, your nieces and nephews and your neighbors to learn how to manage their money.”

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