

Financial Security Research Symposium



Future Directions for Research

Future Directions in Research Financial Preparedness and Retirement Security

Barry Bosworth

The Brookings Institution

Averages Versus Disparities

- As point of departure, the welfare of the average retiree has improved dramatically over the last half century
 - Poverty rates are much lower than those for younger families
 - 65+ 10%
 - Children 21%
 - Adults (19-64) 13%
 - The aged stand out in their near-complete coverage by a generous system of national health insurance
 - Largely protected from the consequences of the Great Recession of 2008-09.
 - A particular contrast with the economic condition of children
 - Major concerns are focused on remaining disparities among the elderly by socio-economic group.

Income Diversity Among Retirees

- Large differences in the sources of retirees' income suggests that changes in retirement policies will have highly disparate effects at different points in the income distribution.
- For individuals and couples at the bottom of the earnings distribution, retirement income is completely dominated by public programs, which are very effective in ensuring an income above the poverty line--there is no three-legged stool.
- Public programs are of much less significance for the top third of the retiree population.
- Working longer is common only among those at the very top of the income distribution—higher earnings have offset the fall in capital income.
- Persons at the bottom of the earnings distribution need to be encouraged to take actions to improve their current economic condition, not necessarily save for retirement.

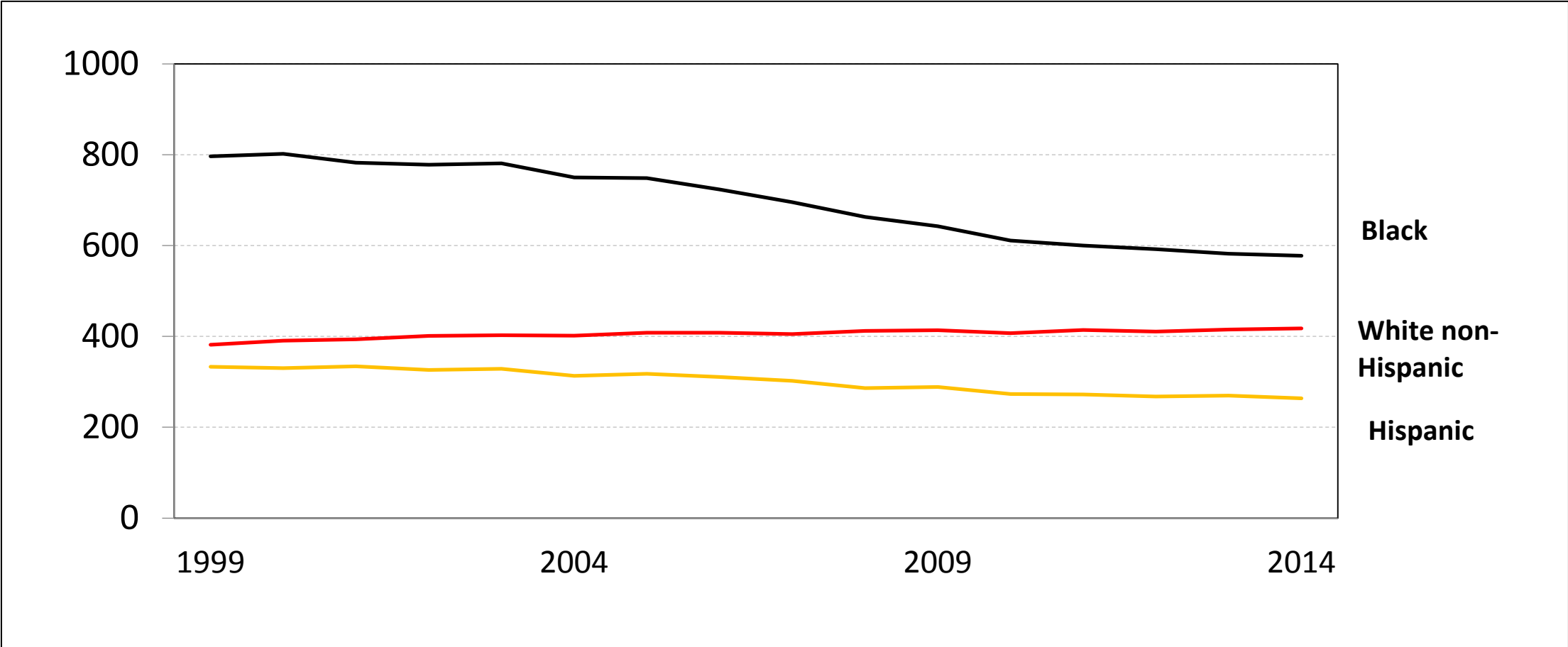
Sources of Income, Age 65+, 2014

| Category | 1 st Quintile | 2nd Quintile | 3rd Quintile | 4th Quintile | 5 th Quintile |
|-----------------------------------|--------------------------|--------------|--------------|--------------|--------------------------|
| Social Security/Public Retirement | 81.7 | 82.9 | 66.8 | 49.1 | 24.6 |
| Public Assistance/Other | 11.5 | 4.3 | 4.4 | 5.3 | 3.1 |
| Pensions/Annuities | 2.0 | 5.2 | 12.2 | 16.3 | 13.1 |
| Earnings/Own Assets | 4.8 | 7.7 | 16.7 | 29.4 | 59.2 |
| Total | 100.0 | 100.1 | 100.1 | 100.1 | 100.0 |

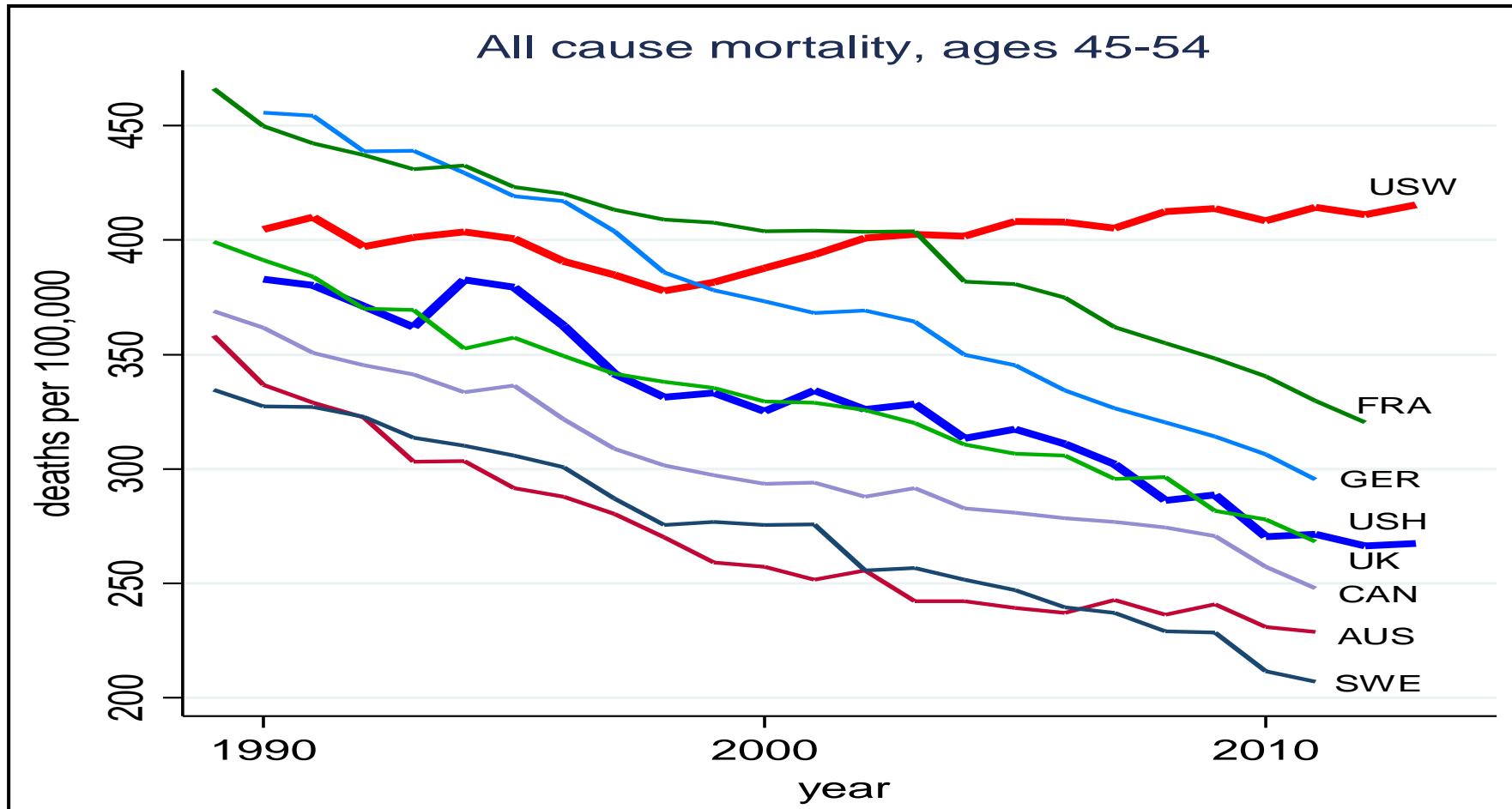
Growing Diversity in Mortality Expectations

- Growing 'gap' in life expectancy between rich and poor.
 - Reversal of the pattern of the 19th and 20th centuries.
 - Evidence greatly increased by access to individual social security records linked to survey information on socio-economic characteristics and health condition of the population.
 - Health and Retirement Study and Survey of Income and Program Participation.
 - Important Implications for changes in retirement policy (e.g. increase in retirement age)
- Declining racial differences in Life expectancy
- Rising morbidity and mortality of mid-life non-Hispanic whites (Case&Deaton, 2015)
- Why are these changes occurring (Drug use, health status, behavioral characteristics?)?

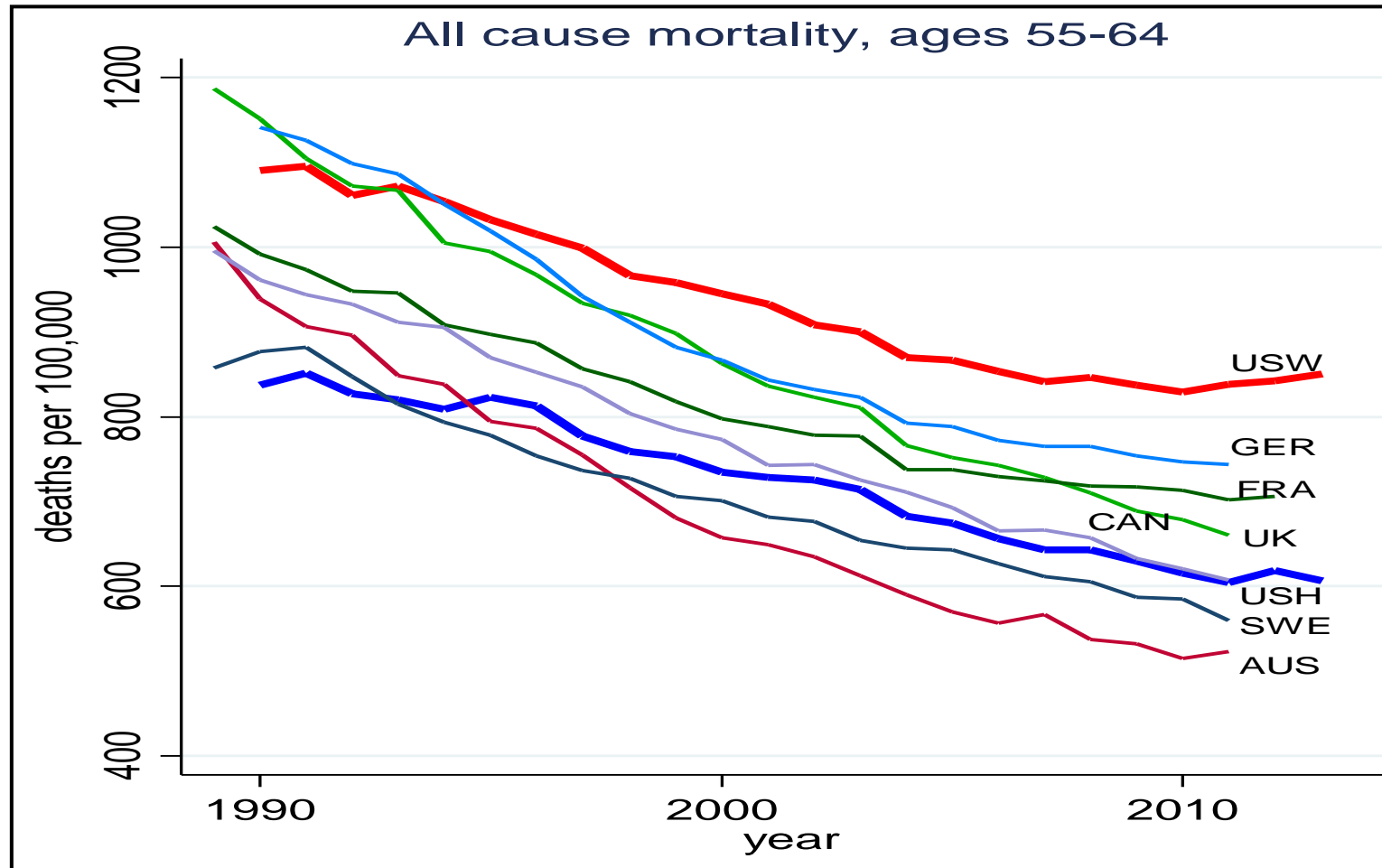
Mortality Rates by Race, ages 45-54



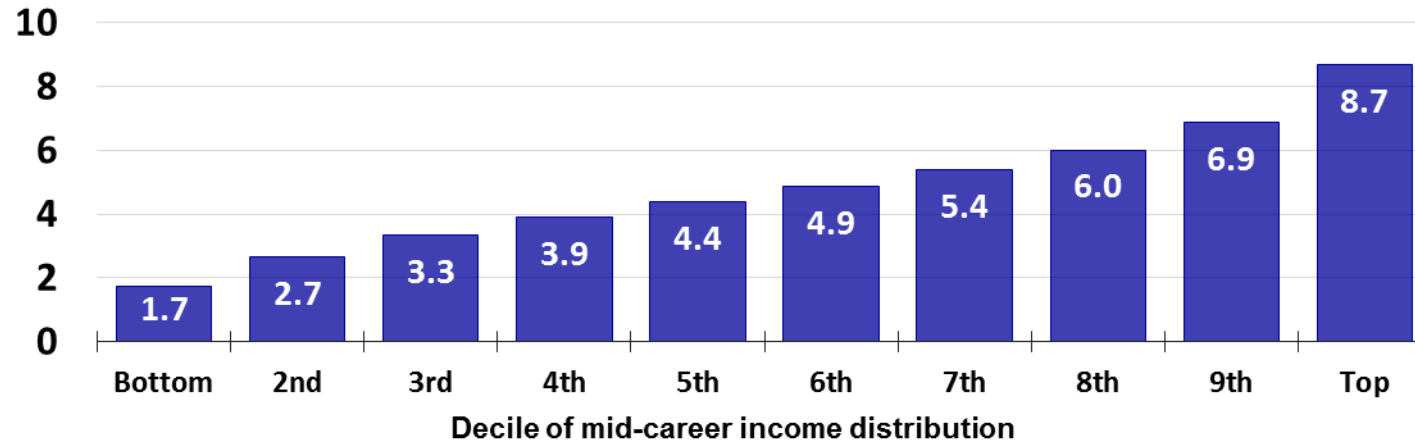
International Comparisons of Mortality by Age Group



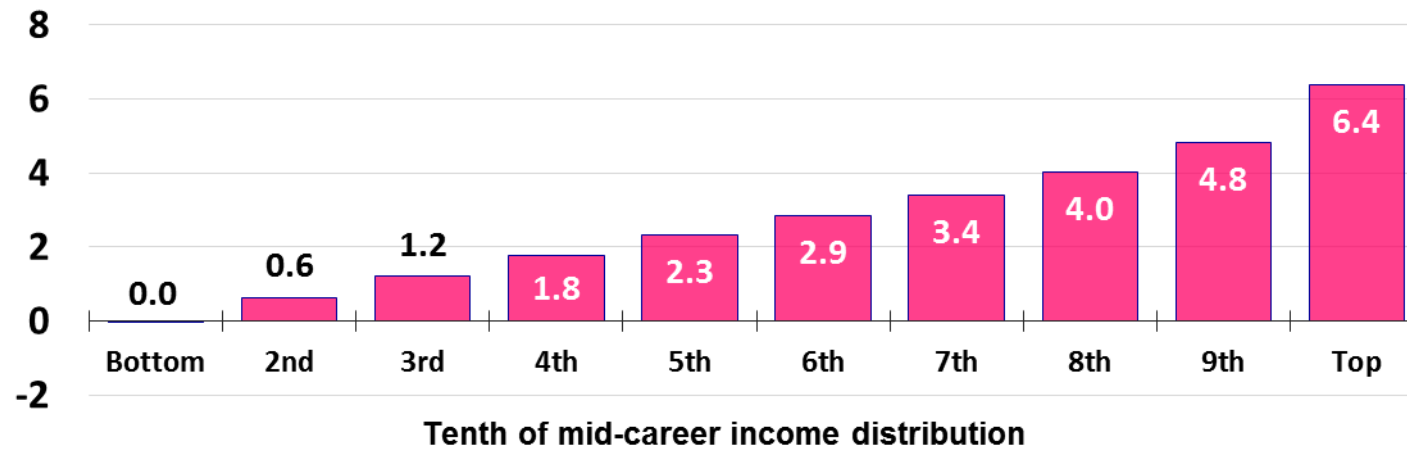
International Comparisons of Mortality by Age Group



Predicted ***Change*** in Life Expectancy at Age 50 between Men Born in 1920 and 1940, by Rank in Mid-Career Income Distribution (in years)



Predicted ***Change*** in Life Expectancy at Age 50 between Women Born in 1920 and 1940, by Rank in Mid-Career Income Distribution (in years)



Significance of Low Market Interest Rates

- U.S. interest rates have been low for over a decade.
 - An increasingly common global phenomenon with even lower rates in Europe and Japan.
 - Low rates have been maintained in Japan for over a quarter century.
- Why are interest rates so low?
- Why has there not been more response of public and private investment?
- What are the implications of sustained low interest rates for public policies and the viability of various pension schemes?
- Why has the maturity of the federal debt remained so low?
 - Until recently, average maturity was falling and is still less than 6 years.
 - Only 12% of debt has a maturity beyond 10 years.
 - In contrast, average maturity of corporate debt has doubled over last decade to 17 years.
 - Why has the public sector not tried to lock in low rates?

Commission on Evidence-Based Policymaking



SHELLY MARTINEZ
EXECUTIVE DIRECTOR

What is the Commission?



- CEP is the result of discussions between Congress and the Executive Branch on **improving how government uses survey and administrative data**
- Making better use of administrative data has tremendous **potential to improve how government programs operate**
- **Created by bipartisan legislation** co-sponsored by Speaker Paul Ryan and Senator Patty Murray, enacted March 30, 2016 (P.L. 114-140)

Who are the Commissioners?



- 15-member bipartisan commission:

| | Researchers and Administrators | Privacy Experts | |
|-------------------------------|----------------------------------------------------------------------|----------------------------------------------------|---------------------------------------------------------|
| President | Katharine Abraham <i>University of Maryland</i> (CHAIR) | Allisson Orris <i>OMB</i> | Paul Ohm <i>Georgetown University</i> |
| Speaker of the House | Ron Haskins <i>Brookings Institution</i> (CO-CHAIR) | Bruce Meyer <i>University of Chicago</i> | Robert Hahn <i>University of Oxford</i> |
| House Minority Leader | Hilary Hoynes <i>University of California, Berkeley</i> | Sherry Glied <i>New York University</i> | Latanya Sweeney <i>Harvard University</i> |
| Senate Majority Leader | Kenneth Troske <i>University of Kentucky</i> | Robert Shea <i>Grant Thornton LLP</i> | Kathleen Rice <i>Faerge Baker Daniels LLP</i> |
| Senate Minority Leader | Jeffrey Liebman <i>Harvard University</i> | Kim Wallin <i>Wallin Ltd.</i> | Robert Groves <i>Georgetown University</i> |

What will the Commission work on?



- **The Commission will have the opportunity to**
 - consider how data, research, and evaluation are currently used to build evidence,
 - and how to strengthen evidence-building in the Federal government
- **Key Areas of Focus:**
 1. Integrating Survey & Administrative Data
 2. Supporting Data Infrastructure & Security
 3. Incorporating Evaluation in Program Design
 4. Considering a Federal Data Clearinghouse

What is the Commission's timeline?



How can you learn more?



- Visit the Commission website
 - Temporary: <http://www.census.gov/about/adrm/data-linkage/what/policymaking.html>
 - Coming soon: www.cep.gov
- Ask via the Commission mail box to be on the list for future updates:
 - adrm.commission.liaison.team@census.gov

Behavioral Economics and Retirement Security

**Presentation for
Financial Security Research Symposium**

William Congdon

Behavioral Economics and Retirement Security

- 2001 – Research on effects of automatic enrollment in 401(k) is published
- 2006 – Pension Protection Act of 2006 facilitates growth of opt-out 401(k)s
- Since – Growth in retirement savings through 401(k)s due in part to automatic enrollment and escalation

Brigitte C. Madrian and Dennis F. Shea, “The Power of Suggestion: Inertia in 401(k) Participation and Savings Behavior,” *Quarterly Journal of Economics* 116 (2001): 1149–1187.

Shlomo Benartzi and Richard H. Thaler, “Behavioral Economics and the Retirement Savings Crisis,” *Science* 339 (2013): 1152–1153

Executive Order 13707 of Sept. 15, 2015

1. identify policies, programs, and operations where applying behavioral science insights may yield substantial improvements
2. develop strategies for applying behavioral science insights to programs and, where possible, rigorously test
3. recruit behavioral science experts to join the Federal Government
4. strengthen agency relationships with the research community

Social and Behavioral Sciences Team

- Provides agencies with advice and policy guidance to help them execute these policy objectives
- Cross-agency group of applied behavioral scientists, program officials, and policy makers
- Organized under the National Science and Technology Council (NSTC) and Chaired by the White House Office of Science and Technology Policy (OSTP)

Executive Order 13707 of Sept. 15, 2015

Areas of focus:

1. Access to programs
2. Information provision
3. Choices within programs
4. Incentive design

Behavioral Economics and Retirement Security

1. Workplace savings
 - Plan participation
 - Contribution rates
 - Investment choices

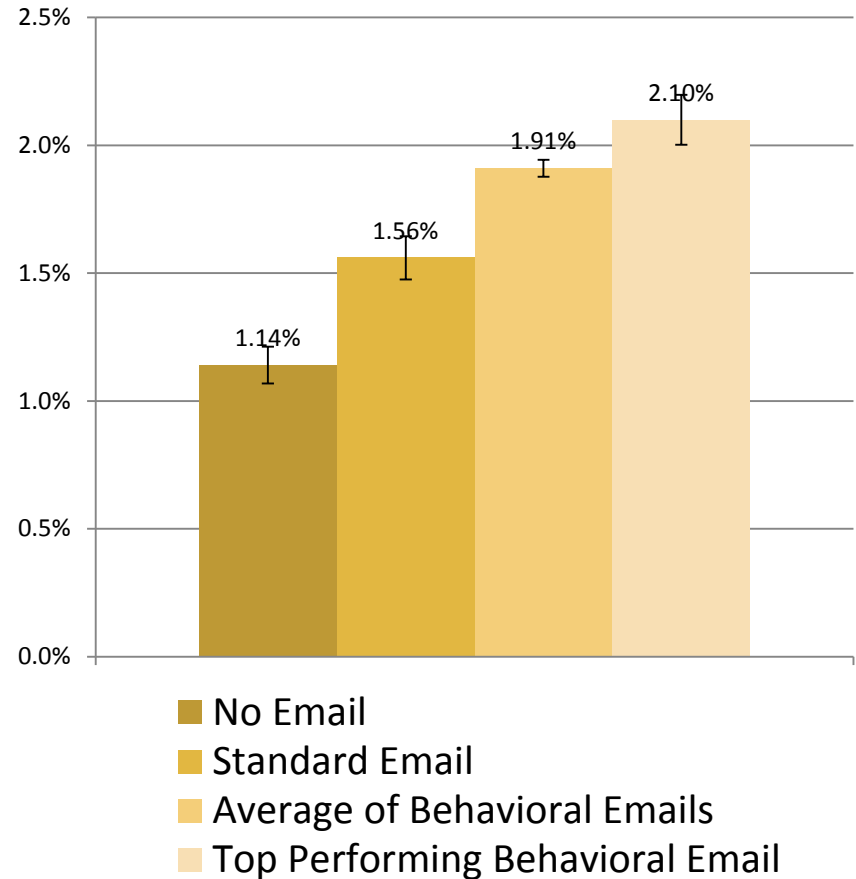
2. Private savings

3. Social Security

Behavioral Economics and Retirement Security

SmartDocs TSP:

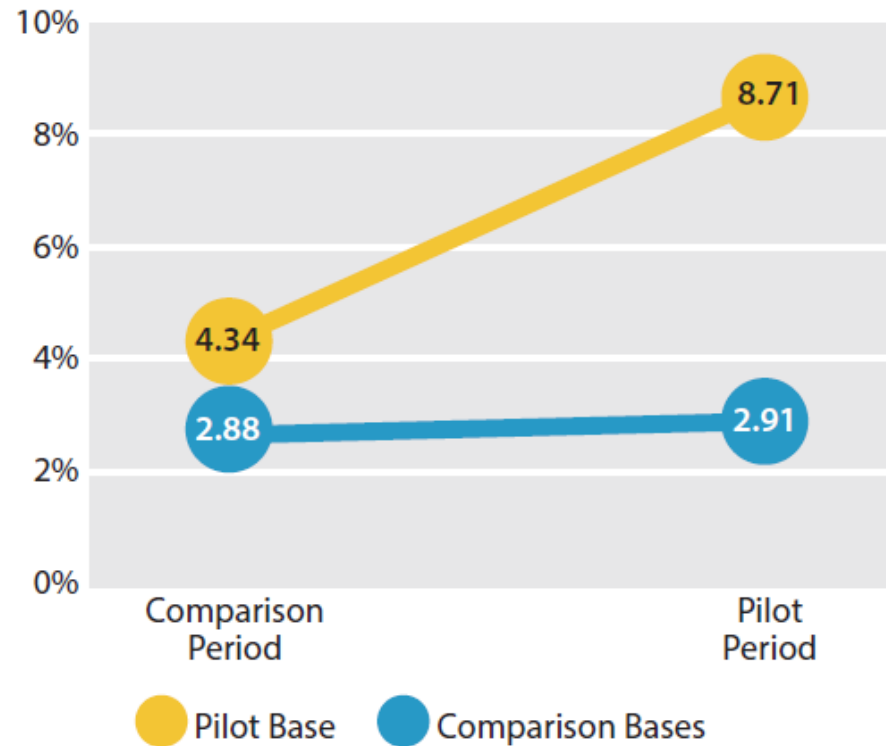
- Enrollment in May 2015
- Roughly 800,000 service members who were not enrolled
- Nine email variants plus a control group



Behavioral Economics and Retirement Security

On-Base TSP:

- Enrollment, 20 April to 12 June 2015
- Service members changing bases
- Prompting a “yes” or “no” choice as part of orientation



Behavioral Economics and Retirement Security



U.S. Department of the Treasury

Behavioral Economics and Retirement Security



Financial capability in retirement: future directions in research

Financial Security Research Symposium | September 2016

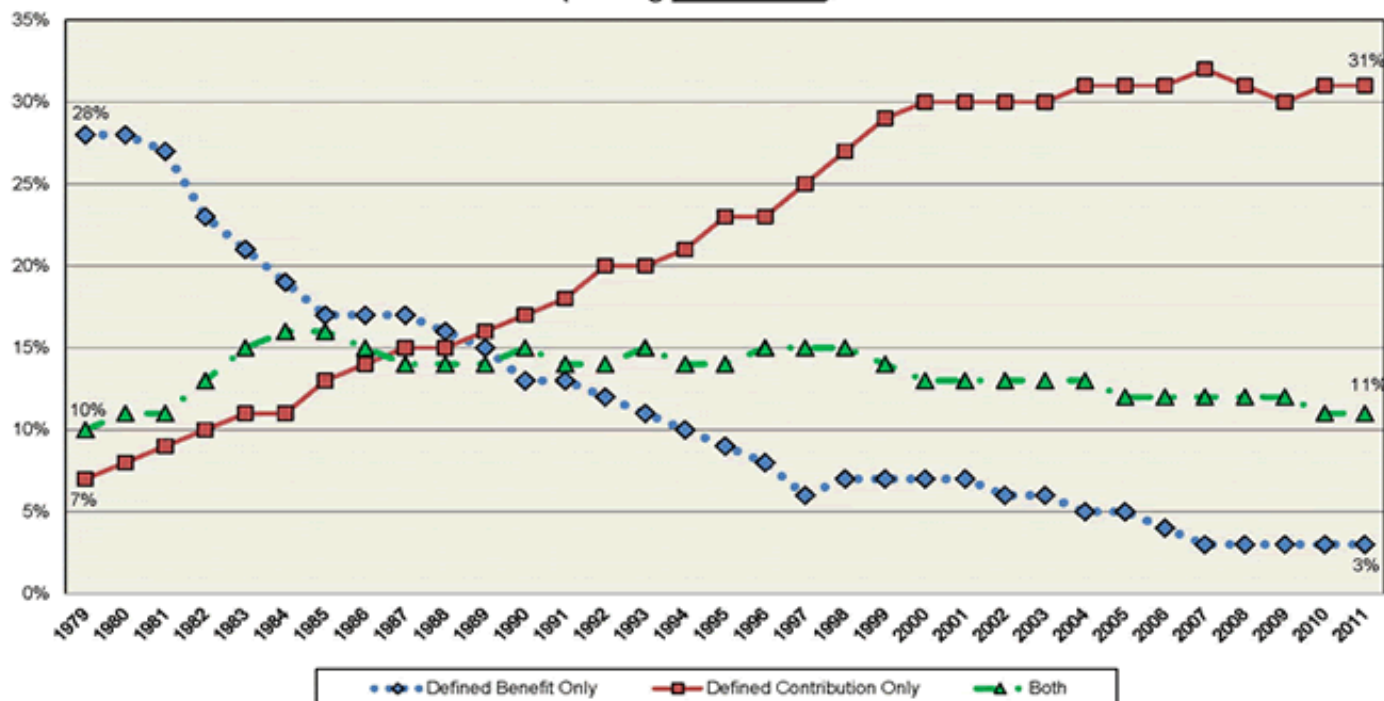


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Financial capability is needed
for retirement security

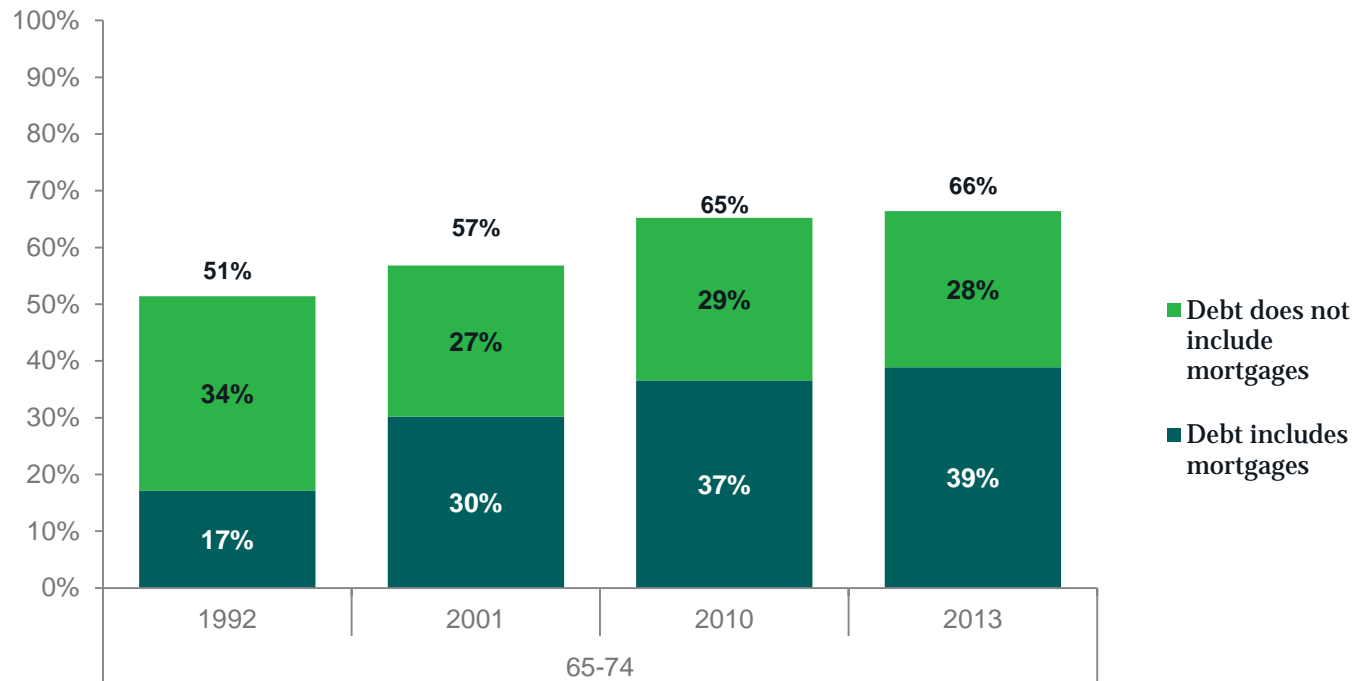
Changing pension system

Figure 1
Private-Sector Workers Participating in an Employment-Based Retirement Plan, by Plan Type, 1979–2011
(Among All Workers)



Source: U.S. Department of Labor Form 5500 Summaries 1979–1998, Pension Benefit Guaranty Corporation, Current Population Survey 1999–2011, EBRI estimates 1999–2010.

Increasing debt in retirement

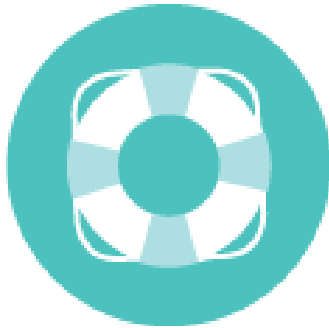


CFPB's Mission

The mission of the Consumer Financial Protection Bureau is to make markets for consumer financial products and services work for consumers by making rules more effective, by consistently and fairly enforcing those rules, and by *empowering consumers to take more control over their economic lives.*

About the Office for Older Americans

We help older consumers:



Prevent unfair,
deceptive and abusive
practices



Make sound financial
decisions as they age

Learn more about us at consumerfinance.gov/older-americans

Understanding financial capability in retirement

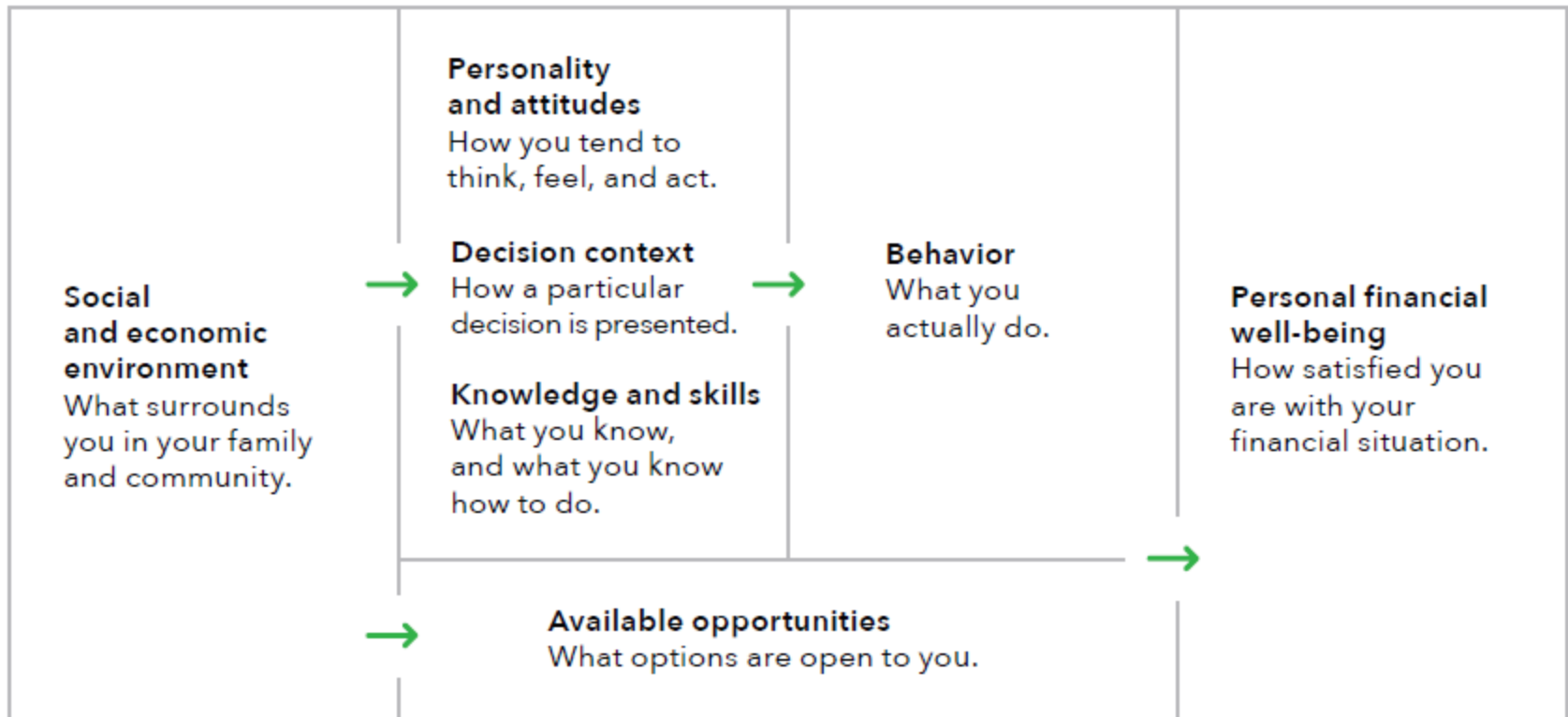
What is financial well-being

A state of being wherein a person can fully meet current and ongoing financial obligations, can feel secure in their financial future, and is able to make choices that allow enjoyment of life.

Elements of financial well-being:

- ✓ Having control over day-to-day, month-to-month finances
- ✓ Having the capability to absorb a financial shock
- ✓ Being on track to meet financial goals, and
- ✓ Having the financial freedom to make choices that allow one to enjoy life

What influences financial well-being



Supporting financial capability

Older adults more likely to be targeted and engage

A FINRA commissioned study found that:

- Respondents age 65 and over were more likely to be solicited to participate in a potentially fraudulent offer (93%),
- more likely to engage (49%), and
- more likely to have lost money (16%) than younger respondents

Money Smart for Older Adults curriculum

- ❑ An awareness program developed in collaboration with the FDIC.
- ❑ Content on common issues facing seniors, including how to identify a potential scam or fraud and other forms of exploitation
- ❑ Curriculum for trainers
- ❑ Resource Guide available in bulk at no charge
- ❑ Available in Spanish



Financial institutions advisory

March 2018

Recommendations and report for financial institutions on preventing and responding to elder financial exploitation

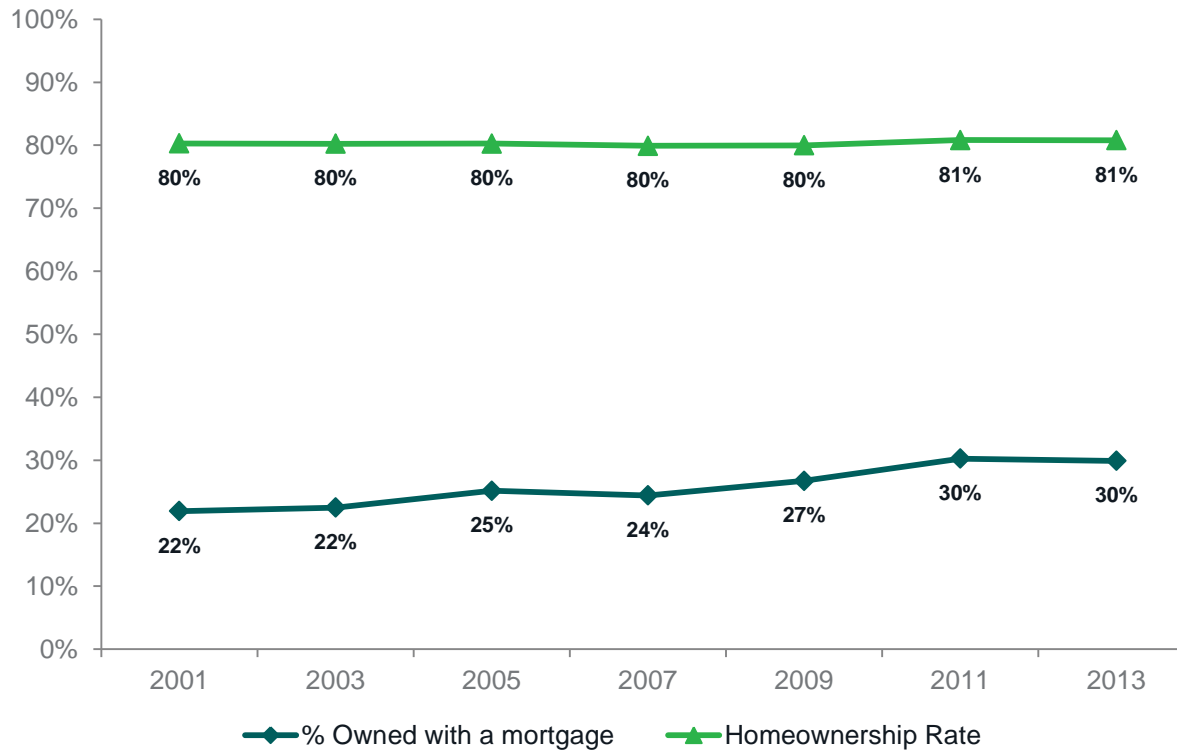
Recommendations

- Training staff to recognize abuse
- Using fraud detection technologies
- Offering age-friendly services
- Reporting suspicious activity to authorities

cfpb Consumer Financial Protection Bureau



More older consumers carrying mortgage debt



Owning a Home

consumerfinance.gov/owning-a-home

Owning a Home

We're here to help you with buying and financing your home. Learn what to expect and what questions to ask, and get tools and resources to help you make decisions.



Know the process

Buying a home is exciting, but the process can feel overwhelming at times. Our guide lets you know what to expect and what to do next. Our tools and resources will help you every step of the way.



Prepare to shop

Not sure how to get started, how much you can afford, or what to expect when buying and financing a home? Set yourself up for success with a little bit of preparation.

KEY TOOLS

[Explore interest rates](#)

[Monthly payment worksheet](#)

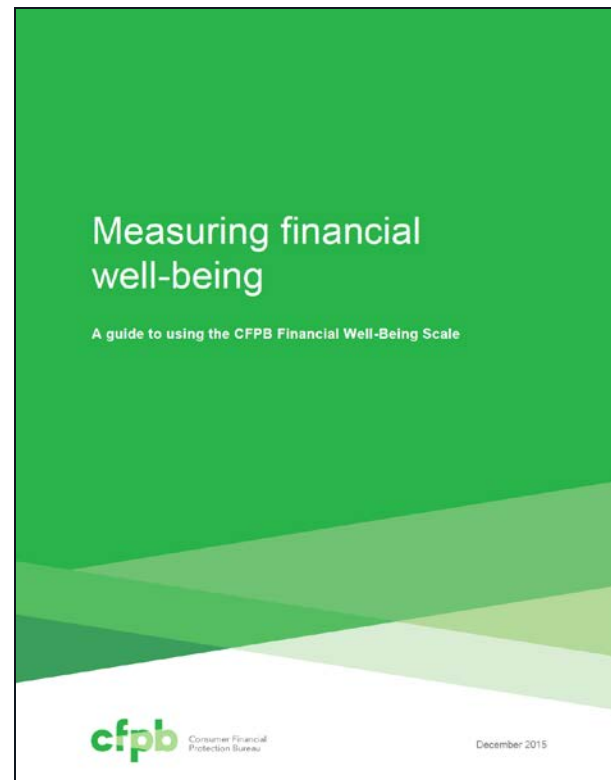
STAY TUNED

Sign up for our email list, and we'll let you know when we add more tools and resources.

RESOURCES

Have a mortgage question?
[Get answers from AskCFPB](#)

Next steps



Learn more:

consumerfinance.gov/financial-well-being-scale