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

<table>
<thead>
<tr>
<th>Category</th>
<th>1&lt;sup&gt;st&lt;/sup&gt; Quintile</th>
<th>2&lt;sup&gt;nd&lt;/sup&gt; Quintile</th>
<th>3&lt;sup&gt;rd&lt;/sup&gt; Quintile</th>
<th>4&lt;sup&gt;th&lt;/sup&gt; Quintile</th>
<th>5&lt;sup&gt;th&lt;/sup&gt; Quintile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Security/Public Retirement</td>
<td>81.7</td>
<td>82.9</td>
<td>66.8</td>
<td>49.1</td>
<td>24.6</td>
</tr>
<tr>
<td>Public Assistance/Other</td>
<td>11.5</td>
<td>4.3</td>
<td>4.4</td>
<td>5.3</td>
<td>3.1</td>
</tr>
<tr>
<td>Pensions/Annuities</td>
<td>2.0</td>
<td>5.2</td>
<td>12.2</td>
<td>16.3</td>
<td>13.1</td>
</tr>
<tr>
<td>Earnings/Own Assets</td>
<td>4.8</td>
<td>7.7</td>
<td>16.7</td>
<td>29.4</td>
<td>59.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.1</strong></td>
<td><strong>100.1</strong></td>
<td><strong>100.1</strong></td>
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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, heath status, behavioral characteristics?)?
Mortality Rates by Race, ages 45-54
International Comparisons of Mortality by Age Group

All cause mortality, ages 45-54

Deaths per 100,000
International Comparisons of Mortality by Age Group

All cause mortality, ages 55-64
Predicted *Change* in Life Expectancy at Age 50 between Men Born in 1920 and 1940, by Rank in Mid-Career Income Distribution (in years)

- **Men**:
  - Bottom: 1.7
  - 2nd: 2.7
  - 3rd: 3.3
  - 4th: 3.9
  - 5th: 4.4
  - 6th: 4.9
  - 7th: 5.4
  - 8th: 6.0
  - 9th: 6.9
  - Top: 8.7

- **Women**:
  - Bottom: 0.0
  - 2nd: 0.6
  - 3rd: 1.2
  - 4th: 1.8
  - 5th: 2.3
  - 6th: 2.9
  - 7th: 3.4
  - 8th: 4.0
  - 9th: 4.8
  - Top: 6.4
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:

<table>
<thead>
<tr>
<th>President</th>
<th>Researchers and Administrators</th>
<th>Privacy Experts</th>
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<tr>
<td>Katharine Abraham</td>
<td>Katharine Abraham University of Maryland (CHAIR)</td>
<td>Allisson Orris OMB</td>
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<tr>
<td>Ron Haskins</td>
<td>Ron Haskins Brookings Institution (CO-CHAIR)</td>
<td>Bruce Meyer University of Chicago</td>
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<tr>
<td>Hilary Hoynes</td>
<td>Hilary Hoynes University of California, Berkeley</td>
<td>Sherry Glied New York University</td>
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<td>Kenneth Troske</td>
<td>Kenneth Troske University of Kentucky</td>
<td>Robert Shea Grant Thornton LLP</td>
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<td>Jeffrey Liebman</td>
<td>Jeffrey Liebman Harvard University</td>
<td>Kim Wallin Wallin Ltd.</td>
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<td>Robert Shea</td>
<td>Robert Shea Grant Thornton LLP</td>
<td>Robert Groves Faerge Baker Daniels LLP</td>
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<td>Robert Hahn</td>
<td>Robert Hahn University of Oxford</td>
<td>Latanya Sweeney Harvard University</td>
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<tr>
<td>Kathleen Rice</td>
<td>Kathleen Rice Faerge Baker Daniels LLP</td>
<td>Paul Ohm Georgetown University</td>
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<td>Robert Groves</td>
<td>Robert Groves Georgetown University</td>
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What will the Commission work on?

• The Commission will have the opportunity to
  o consider how data, research, and evaluation are currently used to build evidence,
  o 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?

- **CEP Enacted**
  - March 2016

- **First Commission Meeting**
  - July 22, 2016

- **Meetings, Research & Deliberations**
  - July 2016-August 2017

- **Final Report**
  - September 2017

- **Commission Ends**
  - Sept. 30, 2017

With ¾ approval of the Commission
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
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


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
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

myRA

U.S. Department of the Treasury
Behavioral Economics and Retirement Security
Financial capability in retirement: future directions in research

This presentation is being made by a Consumer Financial Protection Bureau representative on behalf of the Bureau. It does not constitute legal interpretation, guidance or advice of the Consumer Financial Protection Bureau. Any opinions or views stated by the presenter are the presenter’s own and may not represent the Bureau’s views.
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)

Increasing debt in retirement

Source: Fed. Reserve Board, Survey of Consumer Finances
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

Social and economic environment
What surrounds you in your family and community.

Personality and attitudes
How you tend to think, feel, and act.

Decision context
How a particular decision is presented.

Knowledge and skills
What you know, and what you know how to do.

Behavior
What you actually do.

Available opportunities
What options are open to you.

Personal financial well-being
How satisfied you are with your financial situation.
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

Recommendations

- Training staff to recognize abuse
- Using fraud detection technologies
- Offering age-friendly services
- Reporting suspicious activity to authorities
More older consumers carrying mortgage debt

Source: Census Bureau, American Housing Survey
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

Enter your email address  Sign up
Next steps

Learn more:

consumerfinance.gov/financial-well-being-scale