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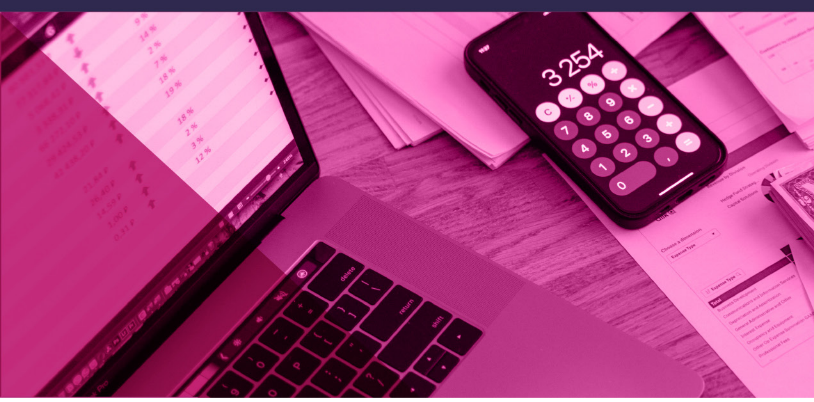

Shifting the Retirement Paradigm:

Moving toward Lifetime Financial Security

Cheryl L. Evans, JD, and Mairead Treanor

ABOUT THE MILKEN INSTITUTE

The Milken Institute is a nonprofit, nonpartisan think tank focused on accelerating measurable progress on the path to a meaningful life. With a focus on financial, physical, mental, and environmental health, we bring together the best ideas and innovative resourcing to develop blueprints for tackling some of our most critical global issues through the lens of what's pressing now and what's coming next.

ABOUT MI FINANCE

MI Finance focuses on finance as a force for good. MI Finance conducts research and constructs programs designed to facilitate the smooth and efficient operation of the financial markets—to help ensure that they are fair and available to those who need them when they need them.

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PREFACE

During the past two years, the Milken Institute has focused on how Americans manage retirement and lifetime financial security. The Institute held an initial convening in 2021 on issues of aging and the intersection of retirement security. It followed up with two private roundtables and one public session at the 2022 Global Conference focused on retirement and financial security issues.

In October 2022, the Lifetime Financial Security team held a private, half-day policy convening—*A Framework for Action: Strategies for Enhancing Retirement Security*. Contributors included retirement and financial security leaders from top financial services firms, the financial technology (FinTech) and online advising spaces, and insurance companies; experts in aging; researchers, academic experts, and specialists on investing issues faced by young investors; and, to discuss potential legislation, congressional policy staff. The event centered on challenges and possible private- and public-sector solutions related to retirement and lifetime financial security. More recently, sessions at the 2023 Global Conference covered "FinTech and Other Innovative Solutions to Enhance Lifetime Financial Security" and "Addressing the American Retirement Crisis."

Each convening built on the ideas pursued in prior sessions. Participants helped frame relevant issues related to long-term savings, agreed on challenges to be addressed, and discussed and analyzed many solutions that financial firms and thought leaders have raised. The Lifetime Financial Security team also met individually with financial and retirement experts to obtain their insight and conducted research. All this work informed the overview of significant issues and conclusions in this report.

Distinct from other reports on financial security, this report takes a comprehensive view of the various factors that come into play when we grapple with the complex basic issue: How can we ensure that all Americans are financially secure over time and into retirement? The report presents data together with insights from foremost experts on financial security and retirement planning.

This landscape report addresses critical challenges with actionable recommendations for readers who want to understand factors impacting long-term financial security and retirement security for all Americans. Each stand-alone section can facilitate discussion of discrete areas of interest. Further, each section outlines noteworthy developments, indicates where more work is needed, and offers suggestions for change. The report also presents points for consideration by people of all ages planning retirement. The Institute will use our comprehensive review to inform its continuing Lifetime Financial Security Program.

OVERVIEW

Many thought leaders and experts now talk about financial "wellness" or "well-being." In 2017, for example, the Consumer Financial Protection Bureau (CFPB), the US regulatory agency responsible for consumer protection in the financial sector, published its first *Report on Financial Well-Being in America*.[1] The CFPB defines financial well-being as having control over day-to-day and month-to-month finances, having the capacity to absorb a financial shock, and being on track to meet financial goals.[2]

Further, in 2021, the CFPB updated its first report with another analyzing the financial well-being of Americans from 2017 to 2020.[3] The follow-up report showed an overall increase in financial well-being bolstered by the government's response to the COVID-19 pandemic. However, the CFPB's second report indicated that the largest gains accrued to people in higher income brackets, whereas 36 percent of the US population experienced a decline in financial well-being between 2017 and 2020.

The report further stated, "When broken down into specific characteristics—such as income, education, gender, race/ethnicity, and age—almost 40 percent of respondents who reported a decline in financial well-being were individuals with incomes of less than $25,000, individuals without a bachelor's degree or higher, women, and Black/non-Hispanic adults."[4] The authors found that between 2017 and 2020, adults of color, younger adults, and women had smaller increases in financial well-being than White adults, older adults, and men. Thus, as we've seen in other studies and as we'll discuss, racial and gender disparities influence overall financial stability and retirement savings.

Much of the research on financial wellness indicates that many Americans don't have a high level of financial well-being, a lack tied to low levels of financial fluency or knowledge. For example, the 2021 annual Personal Finance (P-Fin) Index by the TIAA Institute and the Global Financial Literacy Excellence Center at George Washington University School of Business revealed the lowest level of financial literacy in the US since 2017, the first year of the index.[5] The P-Fin Index underscores the relationship between financial fluency and knowledge, on one hand, and financial well-being on the other: People with a very low level of financial fluency are six times more likely to have difficulty making ends meet, three times more likely to be debt constrained, three times more likely to be unable to cope with a $2,000 financial shock, and four times more likely to spend more than 10 hours a week on issues related to personal finances.

For our continuing programmatic work, the Milken Institute team decided on a broader definition of lifetime financial security (see Box 1) than the usual three-part definition of financial well-being.

BOX 1: DEFINING LIFETIME FINANCIAL SECURITY

- Having the financial ability to pay recurring monthly expenses.
- Having the funds to pay for adequate housing.
- Having the ability to absorb a financial shock (e.g., job loss or unexpected expense such as major repair of car or home)
- Setting and meeting both short-term and long-term financial goals
- Having a tax-advantaged savings plan to save for the end of your traditional work life.
- Being financially prepared for medical and long-term care costs
- Being comfortable with the lifestyle you live and can afford.

It's becoming increasingly urgent to address the issues that prevent Americans from saving and investing for the long term. According to the Transamerica Center for Retirement Studies, only 24 percent of workers feel very confident that they'll be able to fully retire with a comfortable lifestyle.[6] Statistics on retirement savings show marked shortfalls, inequities, and lack of any savings at all by many Americans.[7] Further, we are at a unique crossroads where an aging population and increasing longevity intersect, making improvements to the current system even more critical.

Some experts assert that the global pandemic caused many Americans to focus on their financial futures as workers lost jobs and financial uncertainty suddenly became a reality. Milken Institute experts believe that now is one of the best times to draw attention and spur action in encouraging and enhancing long-term financial security in the US.

Despite the unforeseen blip arising from COVID-19, people around the globe are living longer than ever before. For example, across the Organisation for Economic Co-operation and Development (OECD) countries, people aged 65 can expect to live another 19.7 years on average.[8] As baby boomers reach retirement age, the US population is skewing older. By 2024, 25 percent of American workers will be 55-plus; by 2040, Americans aged 65 or older will number 80 million.[9] These demographic trends compel the government, employers, and individuals to rethink long-term financial planning.

> **All Americans need to prepare for the realities of our longer lifespans; as a society, we must provide opportunities and tools that enable everyone to maximize their health and wealth expectancies to meet their life expectancies.**
>
> *— Peter W. Mullin, Founding Chairman, the M Center of Excellence*

In addition, at least 25 percent of people in the US lack any retirement savings, and roughly half have no access to employer-sponsored retirement plans.[10] Those at the lower end of the income spectrum are least likely to have access to an employer-sponsored retirement plan. The AARP Public Policy Institute's research shows that 81 percent of the 57 million US workers with annual earnings of $50,000 or less (46 million workers) do not have access to an employer-sponsored retirement plan.[11]

Moreover, significant savings inequities by gender and/or race imperil large portions of the population. Considerable gender disparities are evident in 401(k) savings when women's average account balances are examined as a percentage of men's accounts. Baby boomer women have the most significant gap, saving only 53 percent of the amount men have saved.[12]

The Employee Benefit Research Institute (EBRI) has focused much research on retirement gaps according to race/ethnicity and gender. One report showed that Black and Hispanic workers and retirees were more likely than others to say that debt adversely impacted their ability to save for retirement or live comfortably in retirement.[13] Indeed, Black and Hispanic households are often more likely to run out of money in retirement than White households because of higher debt and lower savings.

Americans generally don't begin to save for retirement until much later than they should. For example, the Transamerica Retirement Institute's Four Generations Research Survey found that 43 percent of respondents agreed with the statement, "I prefer not to think about or concern myself with retirement investing until I get closer to my retirement dates."[14] Some people have difficulty starting to save when they perceive that retirement could be 40 to 50 years away. Teresa Ghilarducci, PhD, a labor economist at the New School for Social Research, notes, "For Americans between 40 and 45 years of age, for example, the median retirement account balance is just $14,500—less than 4 percent of what the median-income worker will require in savings to meet [his] retirement needs."[15]

The Institute recognizes the need to develop solutions for the complex issues contributing to the lack of financial security among large swaths of the US population. Each section of this report outlines relevant issues, recent developments, and areas where change is needed or has occurred. The report recommends provisions for consideration by policymakers, the private sector (including financial firms and employers), and individual Americans who are thinking about how to ensure their long-term financial security.

The Institute highlights a variety of potential paradigm shifts that are either underway or needed. They include a change of focus beyond retirement security to financial security at life's stages, increased financial knowledge and early saving, understanding the power of compounding interest, and addressing the impact of student loan debt on saving by younger Americans. Equally important are working toward universal access to retirement savings vehicles, developing FinTech services and innovative products that make saving easier and more accessible, saving for medical and long-term care costs, and considering social security benefits as an income replacement tool. And employers need to plan for and address the need for longer working lives and focus on systemic inequities in hiring and pay. Individuals need to understand and try overcoming biases that prevent them from adequately saving for the long term or making wise investment decisions, while experts and financial firms need to educate on overcoming biases.

This report also highlights key federal and state legislative measures that encourage and enhance long-term savings.

The report concludes with key elements of lifetime financial security. They include: gaining financial knowledge and understanding how the power of compounding can increase the likelihood that Americans will begin long-term savings; encouraging early savings at least by age 25; ensuring that all Americans have access to a retirement savings plan at work and consistently make contributions to it; understanding and overcoming cognitive biases and blocks that may impede some Americans from adequately saving and investing for the long term, and making wise investment decisions; ensuring that all Americans save for medical and long-term care expenses; addressing and working to eradicate racial and gender inequities in long-term saving and investing; ensuring that all Americans estimate their projected monthly social security benefits and plan for the optimal time to claim them; addressing the need for longer working lives by addressing ageism in the workplace and developing retraining programs for older workers; enhancing engagement with FinTech applications and innovations that increase overall saving rates, remove impediments to saving, and make long-term saving and investing simpler and more accessible; and ensuring that all Americans have access to the means of developing a structured lifetime financial security plan.

Finally, a resource guide in the Appendix outlines retirement planning considerations for individual savers.

Key Issues and Analyses

Theme 1: Four Elements of a New Financial Paradigm for Americans

In thinking through ways to enhance lifetime financial security, the Institute would like to work toward a new paradigm. We conclude that four elements—encouraging savings at a young age, focusing on financial knowledge, considering life events, life stages, and lifestyle, and highlighting simple savings models and low-cost or free financial information—constitute the first key to change. Thus, Americans need to rethink their approach to their financial lives.

ENCOURAGING EARLY SAVING

The notion of saving money long before one's work life has begun has not taken hold in American culture. Finance experts and retirement researchers have long tried to focus on the impact long-term savings can have in leading to financial stability and, ultimately, financial freedom.

Interestingly, recent surveys show that younger generations may be more engaged in their financial futures than researchers imagined. The Transamerica Retirement Research Institute recently conducted intergenerational research and found that the median age Gen Z starts saving for retirement is 19, which is 16 years earlier than the baby boomer generation.[16] Around 67 percent of Gen Z have begun saving for retirement, with average savings of $33,000 in total household retirement accounts. This positive news indicates that encouraging saving at a young age may be less challenging than many feared.

However, Transamerica found that other generations were somewhat behind. For example, baby boomers did not start saving for retirement until they were around 35, Gen X started at 30, and millennials started at 25.[17]

FOCUSING ON FINANCIAL KNOWLEDGE

Nonetheless, early financial knowledge leading to early long-term savings is key to helping younger generations save for a financially secure future. While much research has focused on retirement security, we believe this concept needs to be broadened to "lifetime financial security." The model includes savings at each stage of life to establish and maintain financial stability leading to financial security later down the road. This becomes especially important as we begin to wind down our work lives.

When students graduate from high school, a large percentage would probably say that they don't know much about stocks and bonds, how to create a budget, how to manage their taxes, or how and why they should begin saving money as soon as possible. *Visual Capitalist* says that most Americans believe parents are primarily responsible for teaching their children about money and finance. Yet less than one-third of parents say they talk to their kids about finance.[18] Over the last few years, the number of high school students taking a personal finance course has increased from 16.4 percent in 2018 to 22.7 percent in 2022.[19] Eight states now require that all students complete a personal finance course in high school.[20]

Dorothy Kelly, a personal finance lecturer at the University of Virginia, teaches non-finance majors at the McIntire School of Commerce. She has found that students who took financial fluency courses in high school didn't feel prepared to make critical financial decisions, reinforcing the notion that preparing for your financial future must be a continuous process. Kelly regularly polls her students and asks why they are taking her class. Some respond that they want to avoid the financial mistakes that their parents have made.

> **I don't talk about 'retirement' in the Personal Finance class that I teach to undergraduate students; using the word 'retirement' does not lead to engagement with young people who are thinking about their first job, apartment, and financial futures. In fact, personally, I would like to 'retire' the word 'retirement.' To retire means to withdraw, which is not a great or inspiring goal for anyone, let alone college students. I challenge students to think about their goals, expected life phases, and transitions. Major transitions include from student to worker, from individual to spouse, spouse to parent, parent to an empty-nester, and from full-time employment in one job or career to something else. I want them to think about the options they have to finance the different phases of their lives so they can achieve and enjoy financial well-being for the next 70 years.**
>
> — *Dorothy Kelly, Personal Finance Lecturer, University of Virginia McIntire School of Commerce*

The more financial education people have, the less likely they are to encounter financial difficulty.[21] For most Americans, this education needs to begin early and continue in some form over time. An increasing number of financial firms are developing financial education programs. The Institute has counted hundreds of such programs.

CONSIDERING LIFE EVENTS, LIFE STAGES, AND LIFESTYLE

As mentioned above, planning for stages of life and considering lifestyle and life goals will lead to holistic life planning that will inform long-term financial planning and ultimately retirement planning. This is a key paradigm shift that will allow all Americans to think strategically about their financial goals. In order to plan for a secure financial future, Americans have to think beyond finance and envision the life they plan to live over time, as discussed later, and focus on potential costs such as health care, family costs, and what they would like to accomplish over time.

There are a variety of excellent, free resources that walk through how to consider life costs over time. The Institute supports these efforts, largely undertaken by financial firms, to direct investors and potential investors to take a holistic approach to creating their own financial plan which includes life planning as an essential component. One such program is based on a survey resulting in a report by Edward Jones with Age Wave—*The Four Pillars of a New Retirement*—that tie together health, family, purpose, and finances.[22] All Americans need to consider their health plan and costs, family costs such as savings for college, along with the type of life they want to live when creating a plan to save for the future. These topics are inextricably intertwined. This type of planning is a key element in planning for a secure financial future.

HIGHLIGHTING SIMPLE SAVINGS MODELS AND LOW-COST OR FREE FINANCIAL INFORMATION

The Institute encourages using such programs and highlights some of the information available to anyone looking for it. Even regular bank customers may be unaware that a great deal of free information is available online. Many people could also benefit from opportunities to work directly with a financial advisor. Most financial services firms and banks freely offer financial education information or retirement tools.

Standard Bank, for example, has an online financial education program called Walletwise with "Money Tips for Better Financial Education," covering topics such as digital banking, saving and investing, types of insurance, and more.[23] Prudential also has online information for individuals, advisors, employers, and institutions, including a retirement section for those planning for retirement, close to retirement, and in retirement.[24]

Many other firms, such as Charles Schwab and Edward Jones, reach out to retail investors and have developed broad financial education programs with supporting campaigns. Charles Schwab offers several financial literacy programs, including Money Matters, which has been active since 2004.[25] Using outreach, Charles Schwab has worked with more than one million teens. It has also partnered with the Securities Industry and Financial Markets Association (SIFMA) in creating the SIFMA Stock Market Game and Capitol Hill Exchange. Charles Schwab has worked with teachers and Junior Achievement in developing its financial education programs.[26]

Edward Jones announced a comprehensive Financial Fitness Program and outreach program in 2022, with the aim of building financial knowledge and financial fitness. In May 2023, Edward Jones reported that it had "reached more than 500,000 learners." The original goal was to reach one million learners quickly—by the end of 2025.[27]

Edward Jones presents personal finance concepts through a digital education platform and learning experience. Since 2020, the company has reached more than 142,000 high school students in more than 3,400 schools. The educational offering is described as a component of Edward Jones' stated efforts to improve the lives of clients and colleagues and create better communities and a better society. Financial education is one focus area for Edward Jones' Grassroots Task Force, a volunteer group made up of more than 100 financial advisors and branch office administrators representing all 50 states. These advocates hold more than 300 meetings with members of Congress during their annual two-day Washington DC fly-in, where the chairs speak with lawmakers about the benefits of financial education.

> **At Edward Jones, we believe it is critical to provide financial education in schools to highlight the importance of saving earlier in life. By providing our youth the education and resources to establish smart habits early in their journey, we're helping to position young people for financial security throughout their lives.**
>
> — *Lamell McMorris, PhD, Principal and Head of Policy, Regulatory and Government Relations, Edward Jones*

Finally, the Financial Industry Regulatory Authority (FINRA) has a Financial Fitness Platform partnering with financial services firms: T. Rowe Price, RBC, PIMCO, Guardian, Pacific Life, Raymond James, Prudential, and CUNA Mutual Group. This comprehensive platform, described as personal financial education with measurable goals, is free and open to the public. It features financial content, interactive dashboards and calculators, gamification, quizzes, and calls to action.

Savology research has found that "People with a written financial plan are *two and a half times* more likely to save enough money for retirement. You have to know better, in order to do better. A written financial plan helps individuals to know better so that they can start to do better."[28] Continuing financial education beyond high school is beneficial, as students may gain financial knowledge in high school but not have the opportunity to use it for years. Increasingly, colleges are also creating voluntary personal finance courses to build on any baseline financial knowledge young people have gained from their parents or high school.

CONCLUSIONS AND RECOMMENDATIONS

- Financial education leading to early saving is key to building a financially stable future.
- Early investing can enhance financial stability at each stage of life.
- Over the last decade, financial firms have dramatically expanded educational offerings, making information about saving and investing simpler and more accessible to all Americans.
- A focus on holistic life planning to inform long-term and retirement planning is essential. The Institute encourages experts and financial firms to highlight this model and encourages individual investors to make a plan that looks at their health, family planning, and how they wish to live their lives and tie that to a financial plan.
- The Institute challenges policymakers to highlight existing resources and consider developing government programs to help Americans understand finance, investing, and early saving.
- Some Americans at or near the poverty level face complex challenges that demand action by policymakers and resources beyond the scope of this report.

Theme 2: Highlighting the Power of Compounding

Education on "the power of compounding" could trigger long-term investment leading to increased early investment, thus effectively contributing to a new paradigm. The power of compounding refers to the benefits accrued when the interest earned on investments is reinvested along with the original investment. As money is added to, and remains in, an investment account, the interest and principal grow exponentially over time. Broadly sharing examples like those that follow can positively impact potential investors.

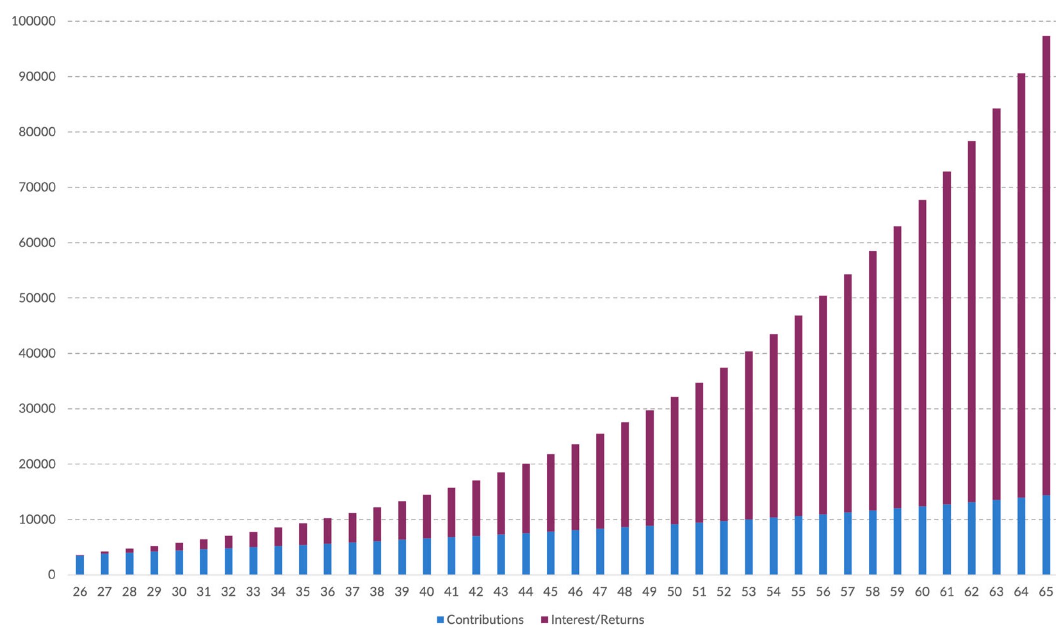
The Institute has concluded that age 25 is the latest Americans should start to invest for the future. For example, saving $100 a week, or $400 a month, starting at age 25 leads to savings of more than $1.1 million by age 65, assuming a 7 percent annual rate of return in the stock market.[29] Leading market expert Jeremy Siegel, PhD, Russell E. Palmer Professor of Finance at the Wharton School of the University of Pennsylvania, has been teaching the power of compounding while analyzing the markets for more than 30 years. Siegel has found an annual equities return rate of 8 percent over time.[30] Our example uses a slightly more conservative 7 percent rate of return.

If an investor waited until age 35 to begin saving that same amount, he or she would have a little over $300,000 in total savings at age 65. If investors could only save $50 a week, or $200 a month, over the same period, each would still have more than $550,000 by age 65. Likewise, if an investor saved half—$100 a month—over that same time, he or she would save over $250,000 by age 65.

The message of early investing needs to be conveyed in ways that resonate with Americans across the board.

Figure 1 shows saving over time and visualizes the power of compounding. The chart illustrates how the majority of money saved beyond the early stages comes from "interest credits" or compounding (purple bar) rather than contributions (blue bar).[31] In addition, it is important to note the more dramatic account balance increases that are seen over time. Doubling of the balance at the end of the chart is meaningful and if projected out, we would see jumps that would, for example, go from $250,000 to $500,000 in approximately ten years, and then double again in about ten years from $500,000 to $1,000,000. These large amounts are better examples of savings that can generate lifetime income.

Figure 1: Annual Increase in Account Balance, with Contributions and Interest Defined (Full Career)



Source: *Milken Institute (2023), adapted from the National Institute for Retirement Security*

CONCLUSIONS AND RECOMMENDATIONS

- Highlighting the power of consistent early savings combined with investing those savings to benefit from the power of compounding leading to significant long-term savings.
- Financial firms, policymakers, and retirement security experts need to drive home the value of compounding of invested funds in public discussions, educational materials, FinTech products, and services offered.
- The Institute plans to focus on compounding in communications currently in development.

Existing Inequities and Barriers

Theme 3: Addressing Inequities in Long-Term Saving

LONG-TERM SAVINGS DIFFERENCES BY WORKER

Another important area of focus is those who are or aren't saving for long-term financial security. The US Census Bureau created a data-based summary denoting those who have retirement accounts. It noted that new data outline inequality in retirement account ownership based on the *2021 Survey of Income and Program Participation*: "baby boomers, men, and non-Hispanic White and Asian individuals are the nation's most likely to own retirement accounts." The data outline differences in "retirement assets by generations, sex, race, and ethnicity."[32]

It's well established that wealth inequality is widespread by race and gender and is often tied to levels of education. This leads to a significant retirement savings gap among US workers who are not White males.

Retirement saving rates are significantly lower for specific groups in the US, a trend that has grown over the last 40 years.[33] Comfort with saving is related to education and income levels: More-educated Americans are more comfortable with saving and save more over time.[34] But less-educated people tend to have less income over time. Also, non-white Americans tend to have less education on balance due to systemic inequity.[35]

Management and professional workers have greater access to employer-sponsored retirement plans. According to the US Bureau of Labor Statistics (BLS), 84 percent of management and professional workers in the private sector have access to an employer-sponsored plan, compared to only 41 percent of workers in service jobs. Further, "The bottom 25 percent of workers by wage level are less than half as likely as the top 25 percent of workers to have access to a retirement plan (42 percent vs. 88 percent). Similarly, only 39 percent of workers in part-time jobs have access, compared to 77 percent of workers in full-time jobs."[36]

RACIAL INEQUITY IN LONG-TERM SAVINGS

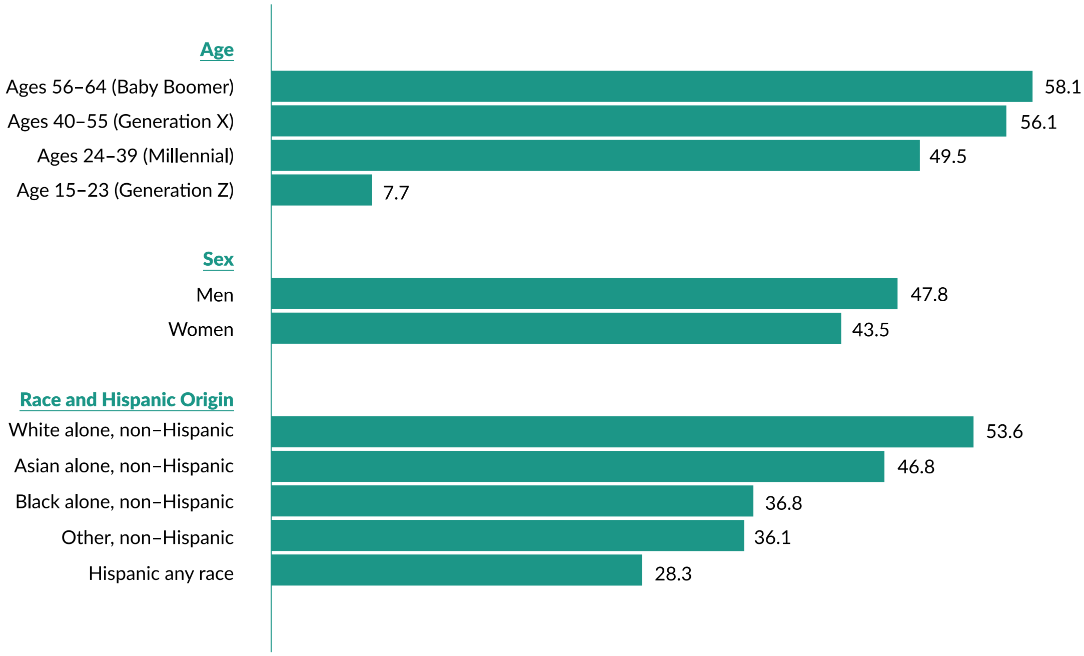
Many Black, Latino, and Asian American households have less wealth to supplement their social security benefits than White households.[37] Although the numbers reported vary, AARP has cited the "2020 Retirement Risk Readiness Survey," noting that "Fewer than half of the nonwhite respondents reported owning investments or accounts associated with retirement security. The rates for participation in employee-sponsored plans (48 percent) and [individual retirement accounts (IRAs)] (21 percent) are lower than the average for adults as a whole."[38]

The National Institute on Retirement Security similarly found that "A large majority of Black and Latino working age households—62 percent and 69 percent, respectively—do not own assets in a retirement account, compared to 37 percent of white households." It further found that the racial gap in retirement account ownership persists across age groups.[39]

The US Census Bureau's "2021 Survey of Income Program and Participation" chart (Figure 2) outlines retirement accounts held by race, age, and sex. Inequality in retirement savings is clear from the US Census Bureau chart.

Several factors contribute to inequality in long-term savings. One such factor that experts

Figure 2: Retirement Account Ownership Rates by Demographic Characteristics (2020)



Note: *Working-age individuals born between 1956 and 2005.*

Federal surveys give respondents the option of reporting more than one race. There are two basic ways of defining a race group. A group such as Black may be defined as those who reported Black and no other race (the race-alone or single-race concept) or as those who reported Black regardless of whether they also reported another race (the race alone-or-in-combination concept). This figure shows data using the first approach (race-alone). The use of the single race population does not imply that it is the preferred method of presenting or analyzing data. The US Census Bureau uses a variety of approaches. Data on race and Hispanic origin are collected separately. People of Hispanic origin may be of any race.

Source: *Milken Institute (2023), based on US Census Bureau Survey of Income and Program Participation (2021)*

highlight is less intergenerational wealth transfer among people of color. "Many White households have historically benefited from wealth advantages passed from one generation to the next through inheritance and access to wider and wealthier social networks. Such advantages were seldom available to minority workers."[40]

Further, people of color often face employment discrimination that decreases the odds of getting high-paying, stable jobs with retirement and other benefits.[41] Many financially qualified buyers have had to contend with prohibited discrimination in the housing market, leading to higher home loan debt.[42] A lower level of wealth and less access to stable jobs among some people of color, due to societal inequities, and the related need to help out families and friends, have also been cited as barriers to saving over time.[43]

Another large retirement service provider, TIAA, asserts that it is fighting to close the retirement savings gap. TIAA's president and CEO, Thasunda Brown Duckett, is resolute on this issue. She emphasizes the need to "retire inequality for good."[44] Duckett asserts employers need to change their behavior, and policymakers need to make lifetime income solutions easier. TIAA is expanding its financial education and tools with the goal of achieving equality in savings. Duckett discusses the need to promote financial fitness for a lifetime.[45]

Resolving systemic problems underlying racial inequities will take a concerted effort over time, and it begins with recognizing the issues and working for widespread acceptance of this reality.

GENDER INEQUITY IN LONG-TERM SAVINGS

Women earn less than men and save less than men overall for retirement. Several financial firms have been gathering data on the savings gap between men and women in the US. Focusing on the gender retirement savings gap, Edward Jones has found that 41 percent of women, compared to 58 percent of men, planning to retire stated that they were saving each month for retirement.[46] Edward Jones' survey of confidence in retirement savings showed significant disparities between men and women as of March 2021, with men's confidence increasing and women's recently decreasing. Among pre-retirees, the confidence level was 56 percent for men versus 35 percent for women.[47]

Edward Jones has also provided research-based examples of the gender savings gap. The company's report, *Four Pillars of a New Retirement*, states, "If a man and a woman both work full time from age 23 to 65, the woman will, on average, make $469,000 less than the man." It notes that if you factor in the racial earnings gap, "a Black woman will make $705,000 less than the average man, while a Hispanic woman will make $849,000 less."[48]

One of the largest sources of data related to retirement savings based on gender comes from Bank of America, which acts as a retirement service provider. Bank of America's recent Chief Investment Office (CIO) study gathered anonymous, aggregate data on 4.6 million participants in 401(k) plans administered by Bank of America Retirement Services.[49] Analysts reviewed data on differences in savings rates between men and women, noting factors accounting for disparities. Women earned less than men overall and spent less time in the workforce, resulting in women's 401(k) balances totaling approximately two-thirds of men's balances.

Another Bank of America research report highlights men's and women's different experiences in the labor market, noting that female earnings have remained lower than men's for decades: "In 2021, the US Census Bureau still showed that female full-time median earnings were around 84 percent of male earnings."[50] The earnings gap also appears to increase with age. BLS data show that women ages 25–34 were earning 90 percent of what men in that age group were earning, but by ages 45–54, women were earning only 75 percent of what men were earning.[51]

Updated as of April 2022, Bank of America's CIO data reported significant savings differences between men and women, based on a review of 4.6 million accounts for which it is the record keeper. It found that women's retirement account participation rates remained lower than men's, and women invested more conservatively than men. Women claimed hardship retirement account loans at greater rates and had higher loan-to-balance ratios than men. It also found that women's 401(k) balances lag behind.[52]

Bank of America also provides retirement advice and specializes in women's investment behavior. Features of women's savings profiles include longer lifespans than men, greater likelihood of being caregivers, and greater likelihood of spending their last years alone—all of which put women at an economic disadvantage.[53]

The time many women spend out of the workforce to care for children and parents is a key factor in the gender wealth gap.[54] This issue has become more prevalent: By most accounts, more women left the workforce to care for children at home during the global pandemic. Numbers vary by source, but those cited have been reported in the hundreds of thousands between 2020 and 2022, and up to four million by other accounts.[55]

The Care Economy Business Council focuses on gender equality in workplaces and advocates for the federal government to create a minimum standard for federally funded time off for caregiving and medical leave.[56]

> **There have been notable improvements to retirement savings in the country, including improved retirement account balances, access to retirement plans, greater employee participation in savings plans, and increases in savings and account balances overall. However, we still see significant gender disparity. Women generally have lower account balances, are generally more conservative investors than necessary, and have greater use of retirement account loans and withdrawals. Thus, we still need to work to reduce pay disparity and to support women with career changes and ways to continue to save through various life stages.**
>
> — *Lorna Sabbia, Managing Director, Head of Retirement and Personal Wealth Solutions, Bank of America*

The Bank of America Institute advocates addressing labor market gaps and gender pay disparities. The bank has found that women earn less than men over time due to pay disparities and the need to leave the workforce for caregiving, such as when their children are young, then again to care for parents.[57] The bank has issued recent surveys of women's views of money and confidence about their financial futures.[58]

That study was a nationwide survey of 3,500 women and 1,200 men which examined "the progress women are making on their financial journeys" to determine where women need financial guidance.[59] They found that 94 percent of women believed they will be solely responsible for their finances at some point, and 48 percent felt confident about their finances. In contrast, only 28 percent felt empowered to take action. Finally, women were united in a leading financial regret: not investing sooner. This study resulted in the *Women, Money, Confidence Report*.

As with all systemic change, the first step is to identify and prioritize the challenges. Continuing the discussion of inequities leading to significantly different levels of financial security by discrete groups of Americans, the Institute will collaborate with policymakers and experts who are working to formulate targeted solutions. Making lifetime income solutions easier by focusing on systemic racism and pay gaps faced by people of color and women and improving access to information, financial advising, investment vehicles, and investing platforms are all key to shifting the paradigm toward long-term financial security for all.

CONCLUSIONS AND RECOMMENDATIONS

- A review of financial inequities derived from education, race, and gender indicates a need to increase incomes for subsets of US workers, broaden access to investing information, shore up investing confidence, and ease access to and use of tax-deferred retirement investment vehicles.

- Employers should also review their policies on salaries and compensation (including pay raises and promotions) to eliminate inequities.
- Employers should allow paid time off for caregiving and childcare programs for all employees. This is particularly important for those at lower pay levels.

Theme 4: Extending Working Life to Enhance Financial Security: Addressing Ageism and Retraining Needs

With an aging population and increasing longevity due to medical advances, many retirement experts believe that more Americans will need to delay traditional retirement and spend more time in the workforce.

However, researchers have found that this assumption does not match the reality of what's happening in the United States or worldwide. The Institute found this a daunting issue. Many American workers will want or need to work past age 60. However, social science data reveal that many people cannot keep working, even when necessary to secure their financial futures, because of age, increased caregiving responsibilities that pull many out of the workforce, poor health, and age discrimination.[60]

According to the Family Caregiver Alliance, "Seventy percent of working caregivers suffer work-related difficulties due to their dual roles. Many caregivers feel they have no choice about taking on caregiving responsibilities (49 percent)."[61] And by many accounts, employers increasingly are quietly getting rid of older workers, notwithstanding federal laws prohibiting age discrimination starting at age 40.[62]

ProPublica and the Urban Institute have gathered data indicating that more than half of older workers in the US are pushed out of longtime jobs before they choose to retire, which often causes them to suffer irreversible financial damage.[63]

Teresa Ghilarducci, labor economist and professor at the New School for Social Research, has said, "The obsession with telling people to work longer because they don't have enough retirement savings is oblivious, unrealistic, and little bit savage. Compelling people to work longer is not the magic wand to solve the retirement income crisis."[64]

As age discrimination and other barriers persist, older workers are continuing to get pushed out of the labor force, which has led to a host of labor market difficulties and phenomena only older workers experience.[65]

AARP has established several programs to encourage employers to hire older workers and facilitate longer working lives for those who want or need to work longer. AARP works with employers to help implement policies and practices focusing on recruiting, retaining, and investing in multigenerational workforces through its Living, Learning, and Earning Longer initiative.[66]

Further, AARP has established the AARP Employer Pledge Program, which helps experienced workers and those reentering the workforce locate companies that are committed to hiring such job candidates and offering them more autonomy and flexible hours.[67] Last, AARP recently launched the Business Case for Healthy Longevity program to assist employers in creating working environments that foster health, longevity, and well-being over time.[68]

While the work of AARP and others is making an impact, diversity, equity, and inclusion initiatives generally do not focus on age. Rather, the focus, for the most part, has been on racial and gender discrimination and bias. These are certainly important issues, but age is universal: We will all grow old, should we have the privilege of doing so.

Most Americans over age 45 report witnessing or being the subject of age discrimination.[69] We need a new paradigm for working as our demographics—and, thus, our financial needs—change. And many Americans over age 55 or 60 want or need to keep working.

Paul Irving, JD, is a distinguished scholar-in-residence at the University of Southern California Davis School of Gerontology and senior advisor at the Milken Institute. Irving offers insights into the opportunity for longer working lives and what that can mean for individuals of all ages, employers, and the broader society.

Irving notes that ageism often devalues older workers, leaving them out of hiring and promotions. He has called for a focus on age diversity in the workplace and has called upon businesses to change the worker paradigm. Irving has asserted that businesses should advance policies and work to champion the needs and potential of older workers. He has called on corporate boards to prioritize addressing the growing impact of the demographic shift. Irving has said, "Awareness of the issues should spread to every corner of their companies. The issues are too big—the numbers too compelling—to ignore."[70]

Sadly, the work statistics for those in their 50s and 60s are fairly grim, and employers, employees, and all Americans truly need to focus on changing the dynamic for older workers. In an interview with the *Harvard Gazette*, Lisa Berkman, director of the Harvard Center for Population and Developmental Studies and co-editor, with Beth Truesdale, PhD, of *Overtime: America's Aging Workforce and the Future of Working Longer*, outlines some harsh statistics regarding the inability of older workers to maintain employment outlined herein.

In discussing *Overtime*, Berkman stated that in her research, she and others assumed that working longer was the solution to longevity and commensurate concerns about financial security over time.

She further stated that employment statistics don't count people who are not looking for employment, resulting in an undercounting of unemployed older workers. Berkman calls this a *non-workforce* characterized by "economic and educational gradients." Hence, the people most likely to drop out of the workforce are those with less education and more physically demanding jobs and those who are often less secure, leading to more inequality.[71]

Many people in their 50s and 60s leave the workforce, she says, because of caregiving responsibilities or health issues. As a society, we need to create working conditions, such as more flexibility and good jobs for all, that allow people to stay in the workplace longer. Berkman concludes that "labor policy is retirement policy," and we need to consider them two sides of the same coin.[72]

Berkman and Truesdale's book, *Overtime*, has other significant findings regarding employment rates of American workers in their 50s and 60s. Berkman states that only around 50 percent of people are steadily employed through their 50s, about 35 percent are in and out of the workforce in their 50s, and the rest are not working.[73]

ProPublica and the Urban Institute developed the Health and Retirement Study (HRS), a primary source of quantitative data on aging in America. Like Berkman's, the findings are discouraging for workers aged 50 and above. HRS has followed a representative sample of 200,000 Americans from when they turned 50 through the rest of their lives beginning in 1992.[74] The data revealed that between the time workers enter the study in their mid-to-late 50s and when they leave the workforce, 56 percent are laid off at least once, and only one in 10 of these workers ever earns as much as they did before the layoff, even years later.[75]

Gary Burtless, PhD, a labor economist with the Brookings Institution, stated, "We've known that some workers get a nudge from their employers to exit the workforce, and some get a great big kick. What these results suggest is that a whole lot more are getting the great big kick."[76]

In another study, many workers who entered their 50s in positions they'd held for years self-reported leaving their jobs under circumstances that appeared as if they were pushed out, although many of them claimed they had "retired." And others in this group reported having left jobs because their pay, hours, work locations, or supervisor treatment had changed.[77]

Focusing on ageism and age discrimination is imperative. The Institute recognizes that, as a society, we need to think differently about older workers, recognizing the value of the experience, judgment, and diversity of thought they bring to the workplace.[78] It's well established that diversity of thought leads to better outcomes in work teams. Allowing older Americans to continue to work and contribute is important for the financial security and happiness of many. The Institute encourages employers to look at their hiring and retention practices through an age-inclusive lens.

Lifelong learning can help older workers change careers or roles and defend them from being forced out of the workforce before they are ready to retire. Upskilling helps older workers take charge of their work lives, ageism notwithstanding.

> **The benefits of lifelong learning, upskilling, and reskilling are invaluable when it comes to remaining competitive throughout one's working life. In this way, we must look at lifelong learning as a necessity—not a luxury—for the growing number of people who want or need to work longer.**
>
> *— Julie Miller, PhD, Director of Thought Leadership, Financial Resilience, AARP*

AARP lists lifelong learning as one of the five megatrends shaping the future of work.[80] Thus, retirement experts list working longer as a financial strategy for those approaching retirement age who are not financially secure as they prepare to end their traditional work lives, and we must ensure that such workers can do so.[81]

AARP has published more details to help implement "6 Ways to Include Age in Your Diversity and Inclusion Work."[82]

Retraining opportunities for older workers need to be widely available. That would mean devising ways to transition older workers to new positions profiting from their skills and offering retraining opportunities for valued employees. Workers whose age prevents them from doing their jobs need special attention. These people may have difficulty finding a way to keep working for needed income; many may respond well to retraining in a different position or even another field.

The Institute supports and encourages the widespread development of programs enabling workers in physically demanding roles—paramedics and construction workers come to mind—to transition to a training or supervisory position in their field. Such an approach would help the many Americans engaged in strenuous work to remain employed while letting newer employees benefit from their seniors' experience and wisdom. The Institute hopes that all Americans will come to recognize and truly value the contributions of the many people recognized as essential workers during the global pandemic. They must not be left behind in the transition to age-friendly and multigenerational workforces.

The nature of work is evolving. Many people of different ages are pursuing second jobs: setting up an online business, doing gig work, or taking on side work such as food delivery, online tutoring, or online marketing. This new working model can provide many with extra income to help shore up their financial futures. And for some American workers, these secondary jobs can turn into a primary source of income—one in which age is generally not an issue.

While these developments are encouraging for older workers, the Institute still suggests that everyone should prioritize creating a *longevity career plan*. This strategy includes planning to retrain or switch to a more age-friendly position to avoid being forced out of a job. The Institute intends to push for systemic change, recognizing that with age, everyone nonetheless needs a plan to cope with the realities of today's workplaces.

Finally, as longevity increases and the population grows older, our sights need to shift to a new social paradigm. We must value, rather than exclude, older workers for their wealth of experience, knowledge base, judgment, and other qualities, such as the ability to manage difficult situations, that they bring to jobs. The Institute encourages collective efforts that allow our societal structures and belief system to catch up with our demographics and the reality that older workers have much to contribute to the workforce. We must push for all the changes that will lead to the development of longer working lives.

CONCLUSIONS AND RECOMMENDATIONS

- A focused, multipronged strategy is imperative to tackle ageism in the workplace.
- The Institute urges employers to include age as a focus in diversity, equity, and inclusion (DEI) policies and action plans for developing and maintaining an age-diverse workforce.
- AARP recommends six ways to develop and maintain an age-inclusive workplace that the Institute embraces:
  - Focus on age as a diversity element.
  - Build age into antibias training.
  - Reexamine hiring practices.
  - Establish age as a valued diversity element in internal and external communications.
  - Create opportunities for collaboration.
  - Reexamine management practices.

- Employers also need to offer ways for older workers to stay in the workforce and share their wisdom by doing things like transitioning them to training roles particularly when they are in a physically demanding job.

- Everyone should consider the realities of today's workplace and plan to upskill or retrain to enhance their ability to remain in the workforce over time, effectively creating a *longevity career plan*.

Theme 5: Behavioral Issues: Overcoming Biases, Making Conscious Choices to Save for the Future

Some Americans are not focused on saving for the future. However, other Americans are having trouble making ends meet and we are not addressing the causes of or ways to address poverty in this report. For others, though, that's not the primary issue; psychological factors are at play. So, why do some people fail to save adequately for a financially secure future when they could do so at some level? Some common psychological biases or traps prevent people from focusing on this essential issue. Experts in psychology and behavioral economics have analyzed investor behavior and choices for years. They are focused on how to help investors and potential investors make conscious choices and overcome unconscious biases that may prevent them from adequately saving for the long term or making wise investment choices. Psychologists have identified and defined a range of cognitive biases impacting everyday behavior and choices. Many of these also relate to financial decision-making.

TEMPORAL DISCOUNTING: ENVISIONING YOUR FUTURE SELF

The bias that seems to have the most impact on whether a person chooses to make long-term investments is *temporal discounting*: the inability to envision your future self. This block is intimately tied to efforts to change minds and behavior, such as persuading workers to begin investing for lifetime financial security by age 25. Leaving aside the common disconnect between today and a distant tomorrow, for many 25-year-olds, saving to prepare for 40 years ahead can be challenging when they need to take care of other pressing responsibilities, such as student loans or rent payments.

Temporal discounters tend to view their future selves as different from their present selves and cannot bring themselves to take actions that may discount present rewards in favor of benefiting those other, future selves. Temporal discounting drives a person to value immediate over future gains.[83] This tendency—also called *time discounting* or *delay discounting*—causes the discounter to perceive a desired result in the future as less valuable than one in the present.[84]

How do we overcome a bias toward being present focused rather than future focused? Some experts suggest that one way to make the switch is to envision yourself as two people whom you must help.[85] Others suggest ways to make your future self feel real.[86] Famed poker player, author, and expert on decision-making, Annie Duke, has contemplated this point. Duke urges us to try and imagine our future selves when making decisions, which will help us bring our future selves into our decision-making.[87]

THE POWER OF VISUALIZATION

Everyone can train their brain to visualize a good life in retirement or consider hard truths through visualizing situations, making them more real. The Institute suggests walking through an imagined day as an older person without financial security. The subject could then switch the picture and visualize how a contrasting, financially secure retirement or end-of-work-life plan would look.

Similarly, University of California, Los Angeles psychologist Hal Hershfield, PhD, studies how thinking about and connecting with our future selves can increase retirement savings. He notes that his "research concentrates on the psychology of long-term decision-making and closing the *intention-behavior gap*, where people intend to save, but often have a hard time doing so." Hershfield's wide-ranging research on behavior has revealed that "from savings to ethics to health, visualizing [one's] future self can help change behavior for the better."[88] His experiments, for example, include showing college students and older adults aged photos of themselves to foster a connection to their future selves and make better savings decisions.[89]

> **Given the ongoing retirement crisis in America, there remains a pressing need to better understand the psychology underlying long-term decision-making. By doing so, researchers and policymakers alike can better understand not only why some workers fail to save an adequate amount but what some practical solutions might be to help them do better.**
>
> *— Hal Hershfield, Psychologist, University of California, Los Angeles*

THE POWER OF REGRET

Behavioral researcher Daniel Pink, JD, notes that not saving for retirement is often a significant regret and he refers to that choice as a *foundation regret* in life.

"The first of the four categories in the deep structure of regret are what I call foundation regrets. *Foundation regrets* arise from our failures of foresight and conscientiousness. Like all deep-structure regrets, they start with a choice. At some early moment, we face a series of decisions... There are long-term ramifications of the incremental choices that we discount."[90]

Pink relates cautionary tales of people from the *World Regret Survey* who failed to save for retirement: "Foundation regrets begin with an irresistible lure and end with an inexorable logic. Take this Alberta woman, who wrote in the *World Regret Survey*, 'I regret not looking after my health through the years. I did lots to hurt my health and not much to help it. Also, I did not save for retirement, and now I'm 62, unhealthy, and broke.'"[91]

Everyone should try to imagine how much they will regret not focusing on and saving for the future when making decisions about long-term savings. Picturing potential regret and envisioning ourselves as older people can help everyone make smarter decisions about long-term savings. This ties into visualization techniques psychologists suggest employing for various purposes, including preparing for competitive sports. Visualization allows people to see themselves engaging in a particular activity and doing well. The brain can make that connection automatic in the case of sports.

THE POWER OF CONSEQUENTIAL THINKING

An author and motivational speaker has also suggested using a "10-10-10" method when making decisions. This structure, he claims, can help some people think through the impact of decisions, such as those related to financial security, over time. According to this method, each person asks himself, "What are the consequences of the decision in 10 minutes? In 10 months? In 10 years?"[92]

Investors need to project out another 20 or 30 years for financial security. This conscious reflection leads willing participants to think through their decisions concretely rather than glossing over them or ignoring certain facts or choices. Further, it is important to note that not acting is a choice with ramifications.

Touch points like these can help work through this common subconscious bias. Merely acknowledging bias is the first step to making conscious, unimpeded decisions. But other biases prevent individuals from investing for a secure life as they age.

INERTIA: FAILURE TO ACT

Nobel Prize-winning economist Richard Thaler, PhD, has outlined other primary biases that impact long-term investing behavior.[93] In his book *Misbehaving*, Thaler describes three reasons why people often fail to save for retirement: *inertia or failure to act*, which explains why people do not begin to start saving or do not make appropriate investment plans even when they have the opportunity to do so; the *lack of self-control* that generally contributes to choosing actions that provide immediate gratification rather than planning for the future; and *loss aversion*, which explains why people avoid taking actions perceived as decreasing their current spendable income or reducing their paycheck.[94]

In both *Misbehaving* and another book, *Nudge*, Thaler notes that we are often myopic and fail to act, preventing ourselves from taking a variety of worthwhile actions, including saving for retirement. His theories have led to employers adopting the automatic enrollment features of employer-sponsored 401(k) plans and defaulting to automatic increases, as many contributors defer to automatic enrollment and increases, to their benefit. These theories also informed other programs that many financial firms have adopted like *rounding up*, which encourages customers to round up their purchases to the next dollar amount and sweep that money into a savings account. Thaler notes that you can often guide or nudge people in a particular direction without forcing them to take any action. This is known as *choice architecture*.[95]

Thaler's work outlines how the actions of real people depart from traditional economic models. He has asserted that economists often do not describe *Homo sapiens* when crafting economic models of behavior. Instead, he says, they work with an idealized version of a human, whom he calls "*Homo economicus*" or "Econ." This imaginary human maximizes resources to his benefit in a purely rational way, with none of the emotions that complicate the lives of regular people. Thaler asserted that humans do a lot of "misbehaving" and often make choices that are not in their best interest, which are based on biases and blocks such as inertia.[96]

There is a great deal of research on overcoming inertia or failure. Much of it references taking one small step at a time, such as committing to invest a small amount toward long-term financial security.[97] Other experts suggest activities such as setting a date to begin managing your money, or sitting down on your own or with a financial expert and figuring out how much money you're likely to need to meet financial goals over time.[98] It's helpful to focus directly on funding your life over the next 10 to 40 years, depending on age, and assessing the opportunity costs of not saving.[99] This approach can help both those who need to begin saving and those who are already saving but are stalled by inertia when confronted with saving at a higher level or anxiety about market fluctuations, for example.

DEVELOPING SELF-CONTROL

Similarly, everyone may lack self-control in some areas of their lives. Typically, areas that most people focus on are eating habits and exercise. So, why don't people do things they know are in their best interest, such as exercising or saving for the future? One of the reasons this may be the case is the simplest one—a lack of self-control. This is the tendency that causes people *not to act* in pursuit of their long-term, overarching goals due to a lack of self-discipline in the short term.[100]

Self-control and levels of impulsivity have been determined over time to be related to long-term success in life on a variety of levels. Walter Mischel, PhD, led the seminal work in this area in 1972 in what has come to be known as "the marshmallow test."[101] Four-year-olds were offered an immediate treat (a marshmallow or pretzel depending on their preference) or two treats if they waited 15 minutes. The researcher left the room, and approximately 67 percent of children ate the treat without waiting to get two treats, indicating a lower level of self-control. The children were followed for years, and those with higher levels of self-control fared significantly better in various areas, including higher SAT scores and education levels, and reported a higher sense of self-worth and lower body mass. And they were less likely to be addicted to drugs, among other things.

Several studies linking self-control and financial behavior found—predictably—that subjects with lower levels of self-control lacked good financial habits. People with lower self-control, planning, and commitment issues accumulated less wealth.[102] And another study found that people with lower levels of self-control were less likely to save for retirement.[103]

How do Americans overcome a lack of self-discipline preventing them from saving for the future? Investment advisor Michael Pompian says there are two things a financial advisor can do to remedy this behavior in clients: (1) discuss spending control and (2) build a financial plan with a debt limit.[104] As adults, we try to gain control over our plans and actions. Thus, activities that make people feel in control of their lives as they plan to implement a long-term savings plan may be helpful.

David Laibson, PhD, professor of finance at Harvard University, describes *cognitive self-deployed strategies* in which people generate a deadline by committing to a course of action within a specific time. In the meantime, they allow themselves a pleasurable diversion, such as watching a movie.[105] Laibson has concluded that situational rather than cognitive strategies are more successful in helping people increase their savings. He asserts that trying to talk someone into saving by explaining its importance can work to some degree, but it's generally not enough.

Laibson notes that mandatory savings, as required in Australia, is a successful situational strategy. The Australian government mandates that everyone who gets a paycheck must put some of it away for retirement. Laibson further notes that when private employers use autoenrollment in employer retirement plans, they encourage savings using a less strict situational strategy, which requires opting out or a conscious decision not to save.[106] This is similar to the nudges Thaler has championed.

LOSS AVERSION

Loss aversion is a powerful, related pull that can guide investing behavior in ways people are unaware of when acting. Loss aversion is the fear of loss above the desire for gains. This psychological pitfall can also impact how Americans save and spend money. The more losses people experience, the more likely they are to be prone to loss aversion. Another Nobel Prize winner in economics, psychologist Daniel Kahneman, PhD, first validated the loss aversion principle with Amos Tversky, PhD.[107]

Psychologists and behavioral economists have found that many people feel a loss twice as strongly as a gain of the same amount.[108] Thus, most people will focus on avoiding a loss more than pursuing a gain. If asked whether someone would like to make a bet on a coin toss in which they would lose $100 for tails and gain $200 for heads, most people would rather avoid losing the $100 and would prefer not to take the bet, even though the chance of either outcome is 50:50 and they could have a significant gain.[109] Often people do not want to "lose" the money they have on hand by moving it to a retirement account; they may feel safer by feeling that they are holding on to their money.[110]

Regarding understanding loss aversion, Kahneman has commented: "There is an asymmetry I think between pain and pleasure, and in general, pain is a more urgent signal than pleasure. They both are signals, but one is more urgent than the other. Now is it rational? Well, that's a really complicated issue because if you have any loss aversion, it is bad because loss aversion will cause you to miss out on many opportunities."[111]

Likewise, Thaler has highlighted how inertia and loss aversion can work together to cause us not to act, saying, "loss aversion produces inertia, meaning a strong desire to stick with your current holdings. Loss aversion operates as a kind of cognitive nudge, pressing us not to make changes, even when changes are very much in our interests."[112]

Financial author Carl Richards has stated that when it is time to make a change to their investments, some people will hesitate to change from their current position because that means "having an opinion and making a decision" and with decisions comes the possibility of making the wrong one. Thus, for some people, sticking with the status quo feels better even if they know it is costing them money.[113]

In discussing loss aversion, retirement expert and researcher Wade Pfau, PhD, takes this a step further, stating, "Not recognizing this predisposition can cause people to misjudge their tolerance for risk, making them more likely to bail on their financial plan."[114] Pfau also notes that short-term stress can trigger fight-or-flight responses in investors. He asserts that market volatility can lead to bad decision-making by investors and giving up on well-considered plans. He further notes, "In times of market stress, it is important for retirees to stick with their financial plans and the asset allocation that matches their tolerance for market volatility."[115]

Overcoming loss aversion is necessary to plan and follow through with long-term savings for a financially secure future. This directly focuses on the bias toward avoiding loss when a gain is possible and the conscious recognition that downside risk is a part of investing for the long term.

CONCLUSIONS AND RECOMMENDATIONS

- Education on unconscious bias, overcoming it, and highlighting the need to make considered decisions can move investors toward good decision-making about long-term investing.
- The Institute encourages financial firms and policy makers to step into this space and work to educate investors on biases while recognizing that some financial firms have already begun to educate on this topic.
- This insight, coupled with incremental investing and a broad understanding of the power of compounding, can help more Americans secure their financial futures.

Theme 6: The Impact of Student Loan Debt on Younger Americans' Long-Term Savings

Student loan debt adversely impacts the ability of some younger American workers to build long-term savings or contribute adequately to retirement savings accounts. Savi is a FinTech company specializing in helping students and their families manage borrowing and repayment of educational loans. The company has described how student loan debt impedes savings by younger generations.

Aaron Smith, JD, Savi cofounder, and Keith Mestrich, Percapital cofounder, jointly stated, "Employers may offer a generous retirement match but find that employees are not getting the benefit simply because they have to make a large student loan payment each month, while their peers without student debt build up savings. Overall, an estimated 17.5 million Americans miss out on their retirement match by failing to adequately invest in their retirement accounts".[116]

Savi describes itself as "TurboTax for student loans." Savi reports that it has worked as a student loan technology platform with national partners, including AARP, TIAA, AIG, the United Way, and more than 100 other employers, financial institutions, and membership groups.

Savi asserts that it has uncovered more than $1 billion in projected loan forgiveness eligibility working with over 50,000 student loan borrowers.[117] Savi has also advocated for an employer match system tying retirement contributions to student loan payments that was enacted in the SECURE 2.0 Act discussed herein.

Research shows that employees are underinvesting in retirement because of their student debt. For example, a 2019 study by Massachusetts Institute of Technology's Age Lab and TIAA found that eight in 10 adults with student loans say that their debt is negatively affecting their ability to save for retirement."[118]

The Institute agrees that the increasing burden of student loan debt weighs on many young, working Americans at a time when their salaries are generally low, which adds to the burden of monthly loan payments. Further, student loan debt has significantly increased over the past 30-plus years due to the skyrocketing costs of higher education.

According to the BLS, college tuition and fees were 1,459.36 percent higher in 2022 versus 1977 (a $291,872.16 difference in value). And the college tuition average inflation rate was 6.29 percent per year compared to the overall inflation rate of 3.56 percent during that period.[119] For comparison, college tuition costing $20,000 in 1977 would cost $311,872.16 in 2022. By way of example from the recent past, BLS reports that "From January 2006 to July 2016, the Consumer Price Index for college tuition and fees increased 63 percent, compared with an increase of 21 percent for all items. Over that period, consumer prices for college textbooks increased 88 percent, and housing at school (excluding board) increased 51 percent."[120]

From another perspective, *Visual Capitalist* found that "The cost of obtaining a college education in the US has ballooned relative to inflation. Average college tuition and fees have increased 1,200 percent since 1980 while inflation is up 236 percent."[121]

It follows that student loan debt would increase substantially, as has been the case. Between 1995 and 2022, the total federal student loan debt balance increased by 766.3 percent, which is an annual rate of 45.1 percent.[122] Further, according to the Federal Reserve Bank, as of the fourth quarter of 2022, the current outstanding loan debt was approximately $1.75 trillion.[123]

These statistics, calls from organizations like Savi and other consumer groups, and anecdotal narratives led President Biden to approve the Biden-Harris Administration Student Debt Relief Plan in conjunction with the US Department of Education in 2021.[124] The plan was welcomed by some groups and by many current holders of student loans. However, critics deemed the plan unfair and excessive, claiming that it forced those who didn't take out loans for college and those who had already paid off their loans to subsidize education for others.

The plan aimed to help working-and middle-class federal student loan borrowers' transition back to regular payments as pandemic-related support expired. A primary feature of the plan included loan forgiveness up to $20,000 in conjunction with the US Department of Education. It also extended the student loan repayment pause related to the pandemic.[125]

Six states challenged the plan as exceeding the Secretary of Education's statutory authority and the US Court of Appeals for the Eighth Circuit issued a preliminary injunction halting the plan nationwide. The US Supreme Court granted *certiorari* and heard the case to review the loan forgiveness plan put forth by the Secretary under the Higher Education Relief Opportunities for Students Act of 2003 (HEROES Act) to establish a student loan forgiveness program that could have cancelled up to $430 billion in student loan debt. The court struck down the plan, holding that the HEROES Act did not authorize the loan cancellation plan; thus, the Secretary of Education exceeded his statutory authority.[126]

President Biden has vowed to find another path to address the student loan burden and the White House announced new rule makings by the Secretary of Education creating an alternative path for debt relief and a new repayment plan structure for many borrowers this summer. Thus, borrowers should follow what is happening through the US Department of Education.[127]

Student loan debt and its relation to investing was addressed in another way. In December 2022, Congress passed the Secure 2.0 Act, which contained various provisions strengthening the US retirement system.[128] The act addressed how student loan debt may impact the decision to save for retirement or work-life transitions. Under the new provisions, employers can match employee student loan payments with matching payments into a qualified retirement account. Certain qualified student loan payments are thereby treated as employee deferrals.

CONCLUSIONS AND RECOMMENDATIONS

- The Institute hopes that student loan repayment provisions in the Secure 2.0 Act, 2022 will encourage Americans with student loan debt to save for retirement.
- Student loan debt remains an impediment to early saving for many younger Americans.
- The Institute intends to work with policymakers on this important issue.
- Educating Americans on finance as early as possible and highlighting the need to begin long-term investing by age 25 can encourage the timely development of a plan for lifetime financial security.

The State of Lifetime Financial Well-Being

Theme 7: SECURE 2.0 Act: Key Provisions Promoting Retirement Savings

The SECURE 2.0 Act, passed as part of the omnibus 2022 end-of-year spending bill and signed into law on December 29, contained a long list of changes to the US retirement system.[129] This retirement plan legislation expanded the SECURE (Setting Every Community Up for Retirement Enhancement) Act of 2019 to improve the legal provisions related to retirement savings plans. Its sweeping changes to the laws governing the US retirement system were widely supported by retirement experts who recognized the need for action to ensure that Americans are increasing their retirement and career-transition savings.[130]

The Milken Institute's letter of support encouraged passing the act and highlighted provisions the Institute believed would be particularly impactful. Many modifications to the laws will make it easier for Americans to save and invest for their long-term financial security. The Institute has focused on proposed changes that would encourage those not saving for retirement to begin to save, encourage savers to increase their retirement savings, make retirement savings easier, and enhance employer retirement savings offerings. In addition, the Institute is focusing on various other policy and practice changes that will help ensure a more equitable system, improve overall retirement savings, and encourage Americans to pay attention to their long-term financial security.

Many summaries of the legislation are available. Here we highlight provisions that encourage or enhance lifetime savings and those that enable employers to create tax-deferred retirement plans.[131] Many Americans are not saving for retirement or are saving very little.

Several provisions in the SECURE 2.0 Act address the issue of facilitating retirement savings by those not inclined to do so. For example, autoenrollment provisions in the act require employers with a 401(k) or 403(b) plan to enroll employees automatically with a minimum contribution rate of 3 percent and up to 10 percent unless the employee opts out. The rate will increase from 1 percent per year to 15 percent unless changed by the employee. Behavioral economists have found that such autoenrollment and autoescalation provisions lead to greater savings as many employees default to the increases.[132]

Other key provisions encourage savings by people who struggle to save for emergencies and thus are unwilling to contribute to a retirement account. A number of provisions in the act enhance access to retirement funds in emergencies or ease the tax consequences of accessing emergency funds. Such allowable withdrawals include those for adoption, natural disasters, and for victims of domestic violence, in differing amounts. The act also created pension-linked emergency savings accounts (PLESA). And, if adopted by a plan sponsor, a PLESA would allow non-highly compensated employees, those who earn less than $150,000 per year for a look back year, to make after-tax Roth contributions to a separate PLESA account and to draw on that account up to once a month to pay short-term emergency expenses.

Research has shown that nearly 40 percent of Americans would struggle to cover a $400 emergency expense.[133] Many feel they can't save for retirement because they lack basic financial security in the here and now. Others may open retirement accounts but need to take withdrawals to meet unexpected expenses, resulting in a loss of principal coupled with tax penalties. And some Americans will accrue credit card debt to pay for such expenses.

Another key SECURE 2.0 provision creates Simplified Employee Pensions (SEPs) plans for domestic workers. It allows employers of domestic workers, including housekeeping staff and nannies, to offer a retirement plan through a Simplified Employee Pension Individual Retirement Account (SEP IRA). This provision is an example of a change that will directly benefit workers at the lower end of the income spectrum who may not have had the opportunity to save through an employer plan and those who may not otherwise be likely to have any retirement savings.

Many Americans lack access to an employer-sponsored plan. The AARP Public Policy Institute has found that "almost half of private sector employees ages 18 to 64—57 million Americans—do not have the option to save for retirement at work." And it further found that employees at small businesses are less likely to have a retirement plan, noting that "About 78 percent of those who work in firms with fewer than 10 employees and about 65 percent who work in companies with 10 to 24 employees lack a plan."[134]

However, the SECURE 2.0 Act contains provisions that make it easier for more small businesses to create retirement plans, allowing for greater retirement savings across the population. It allows eligible businesses with up to 100 employees to obtain a tax credit based on employer matching or profit-sharing contributions. This credit, which caps at $1,000 per employee, phases down gradually over five years and is subject to further reductions for employers with 51 to 100 employees.

SECURE 2.0 increases the required minimum distribution (RMD) age from 72 to 73 in 2023, and it has an automatic increase to age 75 in 2033. This is the age at which everyone must begin withdrawals from their retirement account. Some Americans will continue to work later in life or not need to draw down their retirement or long-term savings. Thus, increasing this age will allow them to increase their lifetime savings.

And starting in 2023, the penalty for failing to take an RMD will decrease from 50 percent to 25 percent of the amount that is not taken. The penalty will be reduced to 10 percent for IRA owners if the account owner withdraws the RMD amount previously not taken and submits a corrected tax return promptly.

Dan Doonan, executive director of the National Institute on Retirement Research, has outlined the issue of workers lacking access to resources for retirement, stating:

"There remains an urgent need to fix the gaping hole of about 57 million workers who lack access to a retirement plan at work. While this legislation will make significant progress, more work will be required to make retirement security a user-friendly proposition for all workers. Typically, low-and middle-income workers struggle the most. These workers often have no access to workplace retirement programs, are unlikely to save on their own, and benefit little from tax incentives that promote retirement savings."[135]

As a society, we need greater efforts to assist workers in the lower income brackets, especially those earning $50,000 a year or less. This report outlines various factors that could encourage those workers to save in incremental amounts. The lack of savings vehicles for many workers is one of the most important issues that policymakers and the private sector must address. The twofold issue of empowering or nudging workers to save small amounts for their financial futures and ensuring they have access to a tax-advantaged retirement savings account is complex. Nonetheless, addressing these interrelated issues will be impactful.

CONCLUSIONS AND RECOMMENDATIONS

- The SECURE 2.0 Act enhances the ability of Americans to save for retirement and will impact almost everyone regardless of the stage in their working life.
- Many provisions of the act change processes that regulate contributing to and withdrawing from retirement savings plans, including 401(k), 403(b), and IRA plans.
- Though commendable, this important bipartisan legislative effort will not drastically reframe the retirement savings landscape for everyone; however, everyone should read a summary to see how its provisions may apply to them.
- The Institute recognizes the persistent and critical need to assist workers at the lower end of the income spectrum to save for a financially secure future.

Theme 8: State-Facilitated Retirement Savings Programs

Some Americans are aware of federal discussions about solutions to the retirement crisis, federal legislation to enhance retirement savings, such as the recently enacted SECURE 2.0 Act, and the need to ensure the viability of our social security system. However, less is known about the development of state programs to expand access for the estimated 57 million private-sector workers who lack access to an employer-sponsored retirement savings plan.[136] States are enacting new programs designed to provide a retirement savings option for employers and their employees to help private-sector workers currently lacking access to a retirement savings plan. These state plans reach individuals who may work more than one job or are gig workers, among others. The program model states most often enacted are automatic enrollment in IRAs (auto-IRAs).[137]

Over the past seven years, 19 states have adopted state-facilitated retirement savings programs with the potential to reach approximately 20 million employees, according to Angela Antonelli, research professor and executive director of the Center for Retirement Initiatives at Georgetown University's McCourt School of Public Policy.[138] As these programs are implemented, several already stand out as beacons of success. Three programs—CalSavers, Illinois Secure Choice, and OregonSaves—had already accumulated $715 million in assets by the start of 2023, covering more than 643,00 savers who work for more than 145,000 employers.[139]

The CalSavers program requires employers with one or more employees who do not offer a retirement savings plan to enroll in CalSavers. The CalSavers plan "was created to ensure all Californians have access to a simple way to save for their future."[140] It provides for automatic employee enrollment, after 30 days of employment, in an IRA with no employer fees or fiduciary liabilities.[141] Participants save through payroll contributions facilitated by their employers. Participants can change their investments, choose their contribution rate, and opt out. The plan also includes the option for individuals to invest in a fund selected according to the saver's age—a target-date fund option.[142]

The CalSavers Retirement Savings Board is an agency of the state of California, chaired by the California state treasurer, who oversees the CalSavers program. Program costs are covered by a hybrid fee structure utilizing dollar- and asset-based fees. The dollar-based fee is an annual $18 per account, with asset-based fees ranging from 33 to 49 basis points. The CalSavers Program expects to reduce these fees as it hits certain predetermined growth milestones.[143]

Like CalSavers, Oregon and Illinois have auto-IRA programs. All three state programs offer a Roth IRA for employee participants and automatic enrollment for employees at no cost to employers. The accounts are portable from job to job within the state.[144] All Oregon business owners must register for OregonSaves unless they already have a qualified retirement plan. While the Illinois Secure Choice program has the same features, it differs from CalSavers and OregonSaves because it only requires employers with five or more employees who do not already have a retirement plan to participate.[145] California, Oregon, and Illinois demonstrate best practices and lessons for other states.[146]

Support has been strong for these new state-facilitated retirement savings plans. The National Institute on Retirement Security (NIRS) polled Americans on their views of these programs as the retirement crisis grows. State-facilitated retirement programs were popular, with 72 percent of respondents saying state-based retirement programs are a good idea.[147] NIRS also found that 75 percent of Americans report that they would participate in state-facilitated retirement programs, and support is constant across party and generational lines, with support highest among millennials at 78 percent.[148]

> **Ideally, all workers would have access to an employer-provided retirement savings plan. Unfortunately, too many workers do not, which leaves a large gap in access. States across the nation are acting to close this gap and provide their citizens with a user-friendly way to save for retirement. These state-facilitated savings programs will help lower-paid workers build some wealth and ultimately reduce the cost of safety net programs. Recent changes to the federal saver's credit should increase the effectiveness of these savings programs and provide a boost to savings for lower-income workers.**
>
> *— Dan Doonan, Executive Director, National Institute on Retirement Security*

As the founder and executive director of the Georgetown Center for Retirement Initiatives, Angela Antonelli has been a leading advocate for these state programs, working closely with states to design and implement state retirement savings programs. In early 2015 as the programs were beginning to take shape, she created a State-Facilitated Retirement Savings Program Network (SRSPN) with monthly meetings and an annual conference to facilitate dialogue among the states and to share best practices and lessons learned. Since then, as noted, 19 state programs have been established, and 46 states in total have taken some action to implement a new program, study program options, or consider legislation to establish state-facilitated retirement savings programs.

Antonelli's research focuses on how state-facilitated programs can "reduce the access gap and expand retirement savings coverage by 28 to 40 million workers by the year 2040" and provide additional participation from 50 percent to 70 percent of all private-sector workers who do not have access to a retirement plan.[149]

CONCLUSIONS AND RECOMMENDATIONS

- State-facilitated retirement plans are an important development in the movement to ensure that all American workers can save for a secure future.
- More data should be gathered on how these plans are working. This includes whether they are also spurring the development of separate employer plans such as increases in 401(k) or other plans, and whether those who save pursuant to these plans are maintaining long-term savings in these accounts.
- The Institute will follow developments in this area, advocate their widespread use, and highlight particularly successful aspects and impacts of the plans.

Theme 9: Planning for Medical and Long-Term Care Costs

Saving to pay for medical costs is an essential part of planning to live a stable and financially secure life as we grow older. Transamerica has described medical costs as "the elephant in the room," noting that while no one can project their health-care costs with certainty, research enables projected average costs for individuals and couples.[150]

Many people may not consider future health-care costs until they get sick or come within five to 10 years of retirement—if at all. Planning later in life and under stress is not ideal, and the Institute encourages everyone to factor medical and long-term care costs into their retirement or work transition planning as early as possible. In addition, it's important to note that significant medical costs can arise due to unexpected illness or injury at any age. Saving for these costs as a part of lifetime savings is the best course of action.

Americans need to consider saving for their out-of-pocket deductible and other costs. Further, those who obtain their health insurance through the Affordable Care Act often obtain health insurance that they may not have otherwise been able to obtain, but they have a particular need to calculate their yearly and out-of-pocket costs, as many people have higher costs under these plans.

All Americans are eligible for Medicare at age 65, but each person will still have uncompensated medical expenses. Information from the Medicare website notes, "You'll still have to pay for premiums as well as supplemental Medigap plans, prescriptions, dental work, vision needs, and hearing aids."[151] While the exact estimates of medical costs vary slightly by the researcher, the following facts may shed some light on planning.

The EBRI analyzed out-of-pocket spending estimates. They included spending on Medicare premiums and prescription drugs. In 2020, they found that a woman who lived to age 65 would need approximately $146,000 to pay for medical costs, and a man of the same age would need $130,000 to have a 90 percent chance of covering medical costs in retirement.[152] In its 2022 projection, EBRI estimated that a 65-year-old couple will need $296,000 for a 90 percent chance of covering all their health insurance premiums and out-of-pocket costs.[153]

Long-term care costs are a separate expense that everyone needs to plan for as they approach the end of their working life. Long-term care insurance covers services and support designed to meet individuals' health or personal care needs when they can no longer perform daily activities without aid. It includes assistance with activities of daily living such as eating, bathing, and dressing.[154] It also covers medical support for patients managing diseases like cancer, Parkinson's disease, dementia, and other chronic conditions. It can be provided in nursing homes, assisted living facilities, or at home.[155] It may be temporary or permanent, and the need for long-term care can come and go.

Many Americans have not considered this cost. About 70 percent of those who reach age 65 will need some form of long-term care in the future, according to a study by the Urban Institute and the US Department of Health and Human Services.[156] Further, 52 percent of adults will require a high level of long-term care.[157] In addition, the number of insurers offering long-term care insurance is approximately 12 today, a marked decrease from the more than 100 that offered this type of insurance in 2002.

Nonetheless, the need remains the same, and Americans' need for long-term care insurance will increase over the coming five to 20 years. The number of Americans aged 65 and older will nearly double from 52 million in 2018 to 95 million by 2060, and the 65-and-older age group's share of the total population will rise from 16 percent to 23 percent.[158] There is a significant mismatch between the number of Americans who will need long-term care insurance and those who actually choose to or can obtain it. So, while 70 percent of Americans will need long-term care insurance, only 7 percent of adults over age 50, and about one in 30 Americans overall, have long-term care insurance.[159]

Further, approval rates for long-term care insurance are low, with 21 to 51 percent of Americans of different age groups having coverage declined by insurers. Many applicants are not approved for long-term care insurance if they have two or more medical conditions.[160] Thus, policies and funding must be changed to ensure that long-term care is widely available.[161]

Most Americans aged 65 and older will use Medicare for their health care, but the system does not cover traditional in-home long-term care. Medicare will only pay for skilled nursing or physical therapy at home.[162]

However, Medicaid, the federal program that pays for medical services for people with limited income, will pay for care in a nursing facility and in-home care. Each state runs its own Medicaid program and sets medical and financial eligibility requirements. To qualify for Medicaid, applicants must meet asset limitations of usually just several thousand dollars a month and generally not have more than $2,000 in countable assets, as defined by statute. The definition of countable assets varies by state, and the treatment of a primary home residence for this purpose is also different from state to state.[163]

Notwithstanding the issues with long-term care insurance, Americans should either purchase a policy or a plan or put funds aside for long-term care and medical costs as they age.[164] The analysis of whether to buy an insurance policy is a personal matter, and insurance is a risk-mitigation strategy. Overall, medical costs are the single largest expense in retirement for most people.[165] Thus, everyone must plan to pay for these inevitable costs to achieve a financially secure future as they transition to retirement.

Health Savings Accounts (HSAs) can be a valuable tool in saving and paying for medical costs. An HSA is a type of savings account tied to medical insurance that allows the account holder to save money on a pretax basis to pay for certain "qualified medical expenses."[166]

Account holders may use the funds to pay for medical deductibles, co-payments, and other medically related expenses.

HSAs are used to pay for medical expenses listed in a medical plan, and individuals may use an HSA only if they have a high-deductible medical plan. By using untaxed dollars in an HSA to pay for deductibles, copayments, coinsurance, and some other expenses, account holders can lower their overall health-care costs.[167] HSA funds generally only cover certain preventative services before the deductible is met. Many Americans do not choose a high-deductible plan though, so they are not eligible to sign up for an HSA account. Further, not all high-deductible plans offer HSA accounts. According to a 2020 survey of more than 1,600 high-deductible insurance plans published in the *Journal of the American Medical Association (JAMA)*: Among US adults with a high-deductible health plan, "an estimated 32.5 percent did not have an HSA, 58.4 percent had an HSA, and 9.1 percent did not know whether they had an HSA or did not complete the survey question about having an HSA".[168]

However, another significant benefit of adding an HSA plan to an underlying insurance policy is that unused funds can be carried over yearly, effectively making them similar to a tax-free savings plan.[169] In 2023, the annual limit on HSA contributions rose to $3,850, and the family contribution limit increased to $7,750 following a 5.5 percent increase in inflation.[170]

HSA funds can be used for reasons other than paying for qualified medical expenses, but those funds will be taxed as ordinary income, up to age 65, and be subject to a 20 percent penalty imposed by the IRS. After age 65, if used for nonqualified medical expenses, the penalty does not apply. Further, the funds can also be used for general non-medical expenses after age 65 but any withdrawn funds are still subject to income tax.

CONCLUSIONS AND RECOMMENDATIONS

- Medical and long-term care costs will be the largest or next-to-largest expense, along with housing costs, over time for most Americans.
- Every American must understand the amount they will need to save for medical and long-term care.
- Everyone should obtain a long-term care insurance policy or save separately for that care.
- The Institute urges Americans to consider using HSAs to alleviate medical costs and provide another avenue for long-term tax-free savings if this fits their health-insurance choice.
- The Institute encourages employers to offer HSAs with all high-deductible plans and encourages greater education by employers and experts on the benefits of their use as tool to save over the long-term for future medical costs.
- The Institute encourages policymakers and government leaders to highlight this key issue and urges financial firms to develop innovative products that specifically fund medical and long-term care.

Theme 10: Social Security as an Income Replacement Tool

Social security benefits have been essential to many Americans' retirement planning for more than 85 years. President Franklin Roosevelt signed the Social Security Act into law in August 1935. Retirement and survivor benefits began to be paid in 1940. Among several other provisions, the act was designed to pay retired workers a continuing monthly income starting at age 65; the age was lowered to 62 years for women in 1957 and men in 1962. The benefits from social security replace approximately 40 percent of preretirement income for Americans, on average, though the amount varies considerably from person to person.[171]

Many financial planners recommend that retirees have at least a 70 percent income replacement rate from all sources. In contrast, others suggest higher replacement rates based on each person's lifestyle, such as whether someone intends to downsize in retirement or transition to another job or must meet known medical costs. Other financial planners focus on higher income replacement rates, because Americans are living longer and health-care costs are rising.

As financial services leaders and retirement experts know, Social Security Administration (SSA) benefits arise from a separate payroll income tax. These taxes are used to pay benefits to retirees as they file claims, usually between the ages of 62 and 70, based on each individual's earnings history. (Different provisions apply for receiving survivor's benefits of a deceased or former spouse and for disability benefits, which are not highlighted in this report.)

The Office of the Chief Actuary for the SSA notes that the social security system is a self-funded, pay-as-you-go system with excess reserves to augment tax income as needed.[172] The SSA raises revenue through payroll taxes with a match by employers up to a maximum salary that has been adjusted over time.[173]

Further, experts have long highlighted social security as one of three legs of a metaphorical retirement stool comprising social security benefits, a public or private pension or defined benefit plan, and accumulated savings from a retirement savings account or defined contribution plan.[174] Over the past 30 years, the demise of the American pension system dramatically changed the retirement landscape for many. It generally puts the onus on the individual American to plan for and create an income stream or accumulate enough wealth to replace what was in a traditional pension to accompany their social security benefits as the source of retirement income.

According to the Pension Rights Center, as of 2020, only 31 percent of Americans are now retiring with a defined benefit pension plan.[175] The dwindling number of pension plans has left a savings gap for many retirees.

In addition, changes in work styles have resulted in very few workers staying with one or two employers for their whole career, thus entitling them to receive a pension or periodic income from a defined benefit plan. One company that still offers such a plan is Boeing. The aircraft company offers many employees the option at retirement to receive either a pension as income for life or a single lump sum deposited into a retirement account that the retiree can invest or withdraw as desired. In today's economic climate, this model makes Boeing a rarity.

Further, NIRS has found higher numbers of Americans without savings, asserting that 40 percent of Americans rely on social security as their only source of income in retirement. It also found that only 7 percent of US retirees have all three recommended income sources: social security benefits, a pension, and retirement savings.[176] According to the SSA, $1,825 is the average monthly social security benefit in 2023.[177] This reality places many older Americans at or near the poverty level. This result is unacceptable, and the US needs to do better.

While the Institute recognizes how challenging this issue is, we must nevertheless focus on how to help Americans in this group. Again, education to encourage early saving and extending the working years are keys to fostering financial security late in life.

So, what are the primary issues to focus on in considering the role of social security in planning for retirement? And how should individuals consider social security in planning for retirement? Everyone needs to pull their own social security records and estimate their benefits as they reach age 50, if not sooner. Many people have not estimated their social security benefits, which constitute a key factor in planning retirement or work-life transition with age.

For calculating social security benefits, employment records have been distributed to most US workers annually since 1999.[178] Today everyone can go to the SSA website, pull up their records, and use the formula to calculate potential benefits at various ages, based on their past income and by estimating future income. Social security benefits are subject to cost-of-living increases and will increase over time to keep up with inflation. US social security recipients received an 8 percent increase in benefits in 2023 to compensate for the high inflation rate after approximately a decade of low increases.

Individuals must decide when they want to begin collecting social security benefits. For those born in 1962 or later, the full retirement age is 67; the age is slightly lower for older retirees. The longer people wait to collect retirement benefits, the higher their monthly payout. For every year that retirement benefits are delayed beyond the minimum retirement age, monthly benefits increase by 8 percent up to the full retirement age, with some increases up to age 70.[179] Each person's situation is unique, and everyone will need to decide when they may need to begin collecting their benefits.

> **Deciding when to claim social security retirement benefits is one of the most important decisions older Americans will make for their long-term economic security. Government, nonprofits, and the financial industry all have roles to play in making sure Americans have simple, clear, accurate information and guidance so they can make an informed claiming decision that best meets their needs.**
>
> — *Gary Koenig, Vice President of Financial Security, AARP's Public Policy Institute*

Most retirement experts tell people to put off taking their benefits as long as possible to gain the highest monthly benefit, which will be locked in for life. However, that choice is not for everyone. Each earner can calculate the break-even point in the future when considering taking their SSA benefits before full retirement age, as there will be several years when they are obtaining benefits and would not have collected anything had they waited. Thus, they will need to make up the difference in future years to stay ahead financially.[180] Furthermore, all Americans should factor in their own health and longevity expectations, their need for income, whether they are still earning income, their total family income and expenses, and their spending needs in retirement to determine the best date to begin collecting these benefits they have earned through a lifetime of work.

A number of financial firms offer free information on how to decide when to take social security benefits. For example, Edward Jones offers a "LENS" framework for this purpose—Life Expectancy, Employment, Need, and Spouse. This decision involves respectively evaluating how long you expect to live, if you plan to continue working, if your current assets can support your needs and desired lifestyle, and if you expect your spouse to live longer than you and receive the survivor benefit.[181]

CONCLUSIONS AND RECOMMENDATIONS

- Policymakers and retirement experts should highlight social security education and help Americans learn about social security benefits long before retirement age.
- Social security is a key aspect of retirement planning that everyone must understand and consider in making long-term financial decisions.
- Individuals should periodically pull their earnings records, from SSA.gov, to review their potential benefits.[182]
- Every individual should plan to maximize social security benefits and figure this amount into lifetime income calculations.[183]
- As a key income stream, social security functions as a lifetime annuity adjusted for inflation.

Theme 11: FinTech Developments and Innovative Solutions that Enhance Long-Term Saving

FinTech has created new opportunities for financial services firms to connect with all potential investors. FinTech generally refers to new technology that automates and improves the delivery and use of financial services. What began as a way to automate back-end services for financial transactions has evolved into a panoply of products and services. These include automating financial transactions and developing automated or electronic consumer financial products and apps.

More firms are focusing on investing for retirement, as these accounts often have a large dollar value and are generally long-term investment accounts. Potential investors ages 50 and above represent 35 percent of the US population but control over half of the investible assets.[184] Olivia Mitchell, PhD, a finance professor at the Wharton School and a retirement researcher, has stated, "The many complex financial challenges facing this aging group will require many new solutions, and technological innovations are well suited to provide the answers."[185]

FinTech retirement products and services are often embedded in suites of banking and investing services offered by robo-advisors and traditional financial services firms. Robo-advisors are online platforms that provide access to automated investment advice and investment services. Over the past 10 years, we've seen the rise of stand-alone robo-advisors and robo-advising programs being adopted by traditional financial firms. This benefits individual investors and is profitable for financial services firms.

ROBO-ADVISING SERVICES

Robo-advising firms, at their core, democratize finance by providing access to financial advice in ways that are simple and easily accessible. They generally charge lower fees than traditional financial firms. In the past, financial advice was often reserved for the wealthy. That is no longer the case. These firms usually provide a variety of services through a single portal and have integration across services.

Robo-advisors have created online platforms, through which consumers can interact directly, rather than reaching out to a live person, to obtain investment advice and engage in transactions. They use computer algorithms to manage investment portfolios and provide financial advice based on input from potential investors. Most Americans have used such firms, looked at their websites, or at least seen the advertisements.

Gathering information on the decumulation phase of life is another key area many Americans neglect when planning retirement. This is the period when workers are planning to spend saved funds and income streams and are no longer striving to build wealth. Instead, they are in a drawdown rather than a wealth-accumulation phase.

During decumulation, whether in retirement or toward the end of their traditional work life, investors are spending and depleting funds. Advice is just as important during this period as during wealth accumulation. Online advice is moving into decumulation, with education and services focusing on information about topics such as when to take social security.

The robo-advisor space has grown to a multi-hundred–billion-dollar industry, and traditional financial firms with a large retail client base maintain online investing and advice platforms. Online investing services appeal especially to younger consumers who prefer interacting with online platforms in many areas of life. Such platforms also ease access to investment advice for those who cannot afford it or aren't inclined to meet with an investment advisor in person.

Women engage with online platforms more at younger ages, says Barbara Stewart, chartered financial analyst and author of the yearly *Rich Thinking Survey of Women and Finance*. The 2022 *Rich Thinking Survey* found, not surprisingly, that younger women had higher engagement levels with online investing platforms. Stewart found that 96 percent of women aged 18–29 engaged with a financial platform, and the percentage dropped as age increased. She found that 91 percent of 30- to 44-year–old women engaged, 88 percent of 45- to 60-year–old women engaged, but just 41 percent of women aged 60-plus engaged.[186]

The largest online advising/robo-advising firms that allow investors easy access to investment products and services are Vanguard, Charles Schwab, and Betterment.

As of July 2022, Vanguard had the largest robo-advisor firm in the US with more than $200 billion in assets under management (AUM), and over one million individual clients (and a giant footprint exceeding $8 trillion in global assets), followed by Schwab Intelligent Portfolios with $65.8 billion in AUM and 262,000 individual clients, and then Betterment with $26.8 billion in AUM and 615,000 clients.[187] Most traditional firms, however, are also developing online platforms with automated advice and trading functions.

Both larger and smaller firms have developed an integrated model and platform that provides suites of services. Some services are better than others, and financial firms are innovating continually. This report highlights some of the interesting developments. It also outlines other innovative ideas that could enhance and encourage lifetime savings.

Some firms offer a pure robo-advisor structure, and some have a hybrid model that offers a robo-advisor service and access to a live person. In general, traditional robo-adviser firms tend to have lower minimum investment thresholds. For example, Vanguard's Digital Advisor requires $3,000 to invest and has a management fee of 0.15 percent of AUM. Its Personal Advisor has a $50,000 investment threshold with a management fee of 0.30 percent of AUM.[188]

Betterment, on the other hand, offers a straight robo-advisor program with no minimum investment amount. It provides purely automated advice through Betterment Digital, with the ability to select separate services from a menu that includes high-yield cash savings accounts and recurring deposits.[189] Charles Schwab offers its lower-level service, for those who invest at least $5,000 without management fees, but each account must keep 10 percent in cash. It has another portfolio service that requires an investment of $25,000 with a $30 monthly subscription, regardless of assets, and has a one-time $300 planning fee. Schwab's fees effectively decrease as AUM increases.[190]

Many robo-advisers now offer services such as investing by goal category such as investing in cryptocurrency or investment for retirement. Many allow investors to connect directly with outside accounts to schedule deposits and they often calculate how to reach an investing target amount over time.

> **I started Betterment 15 years ago with the promise of unlocking access to intelligent retirement savings plans. There is no better time than the present to plan for your future self. Even if the increments are small, time is a powerful force that is multiplied by the wonders of compounding and good habits. It is this combination of high-quality and low-cost retirement planning that puts people in control of their financial future. We are proud to unlock these essential financial services for all customers, no matter how far along they are in their journey.**
>
> *— Eli Broverman, JD, Co-founder and Board Member, Betterment*

MICRO-INVESTING SERVICES

Micro-investing platforms allow very small investments, which are generally set up by creating portfolios that permit the purchase of fractional shares in companies selected by the firm.

Acorns is one of the largest such firms, specializing in investing very small amounts. Acorns serves 8.2 million customers and has more than $3 billion in assets under management.[191] Acorns' typical client is a microinvestor who may not have otherwise been saving for long-term financial security or retirement. Clients can open banking and investment accounts. It has no minimum balances and no overdraft fees for bank accounts. The cost of using Acorns is $3 a month. Acorns offers several retirement vehicles, including a Roth IRA, traditional

IRA, and SEP IRA, starting with as little as $5 to open an account. Acorns and other firms in the space allow customers to round up to the nearest dollar when making debit or credit card purchases, when those accounts are linked, thereby investing the small amount with them.

Acorns maintains that the power of microinvesting is to nudge clients into investing with a low entry point, which allows them to see that they can afford to invest.[192]

A number of microinvesting firm websites and other firms that have digital investing capabilities embed educational videos into their platform covering topics such as how stock and bond investments work, considerations for investing in a down market, what are exchange traded funds, how target date funds work, and how to set up custodial accounts for children to begin saving for them over time.

MIXED-PRODUCT ONLINE INVESTING

Other FinTech firms focus on marketing a combination of online services, including retirement services, insurance products, annuities, and HSAs.[193]

Voya Investment Management is one such firm. It has over 50,000 institutional clients and nearly 5.7 million individual retirement plan investors. Voya offers a variety of retirement investment solutions, including target date, target risk, equity, fixed income, real-estate mutual funds, and variable portfolios. The variable portfolios are available exclusively within variable insurance products and retirement programs. It offers investment strategy advice and free online research. This includes the Voya Behavioral Finance Institute for Innovation, which has studied topics such as reframing investment behavior in terms of pennies contributed per dollar earned versus the percentage of salary to encourage retirement savings.[194]

AI-ASSISTED VISUALIZATION

At least one financial firm has developed an artificial intelligence (AI) program that helps future retirees visualize their later lives to make retirement planning more real.[195] Visualization helps preretirees picture themselves as older persons to overcome temporal bias—the inability to envision their future selves.[196]

T. Rowe Price has created an online AI platform, Visualize Retirement, which focuses on life planning for entry into retirement, including the "the lifestyle and emotional changes that retirement brings." This is a useful basis for every financial plan: We all need to picture the life we want to live in retirement if we are going to make a practical financial plan for the end of our traditional working lives.[197] The T. Rowe Price visualization plan focuses on whom you'll spend time with, what you'll want or need to do, where you want to live, when you'd like to retire, and finding your purpose and fulfillment. The AI program includes "repeatable, scalable frameworks with modular designs" for video presentations, program guides, and e-workbooks.

Other financial firms walk pre-retirees through a written process to help them visualize their post-retirement life. Centerpoint Advisors, for example, has written articles discussing "Visualizing and Realizing Your Retirement Reality." Their online materials walk investors through questions to assist them in visualizing their life in the future.[198]

The Institute encourages holistic life planning like this as a practical way to prepare for retirement costs which are inextricably tied to the life each person plans.

INTEGRATED FINANCIAL WELLNESS PLATFORMS

Firms have increasingly been developing online platforms that allow individuals to invest for the different stages and aspects of their lives, including setting up 529 college savings plans and HSAs that allow employees to save for medical costs in tax-deferred accounts.[199] Many financial institutions have developed suites of linked services and accounts to cover an array of financial needs.

By way of example, Bank of America has recently developed a broad suite of varied connected services. Included in this is a financial education platform, which is called Better Money Habits. It is a free financial education platform for people to get practical, easy to understand knowledge about finances with hundreds of engaging videos, articles, and resources available online. The online content includes topics like budgeting, saving, retirement planning, owning a home, and more. It focuses on individuals making smarter, more confident financial decisions.

The Institute believes this model of FinTech-enabled batched services will continue to grow over time. Packaged together, these integrated services allow investors to access information quickly, along with methods of engaging with finance and saving for the future.

> **Our work is to help individuals with their financial well-being, from immediate to long-term financial security needs. A critical priority has been a significant investment in digital tools, giving individuals easy access to education, planning tools, personalized advice, and taking action.**
>
> — *Kevin Crain, Head of Retirement Research and Insights, Bank of America*

INNOVATIVE PENSION AND RETIREMENT PLANNING SOLUTIONS

Some financial firms are working to create income stream products for investors. Nationwide has developed a new product which is essentially a pension embedded in an employer 401(k) plan, creating a stream of income. Nationwide and Annexus Income Solutions created an in-plan stream of income. The new product, Nationwide's Lifetime Income Builder, provides participants with guaranteed income from a retirement account. The account provides a stream of income while allowing lump sum withdrawals.[200]

And, in the fall of 2022, Nationwide announced a partnership with NewRetirement to power a new retirement planning tool, My Interactive Retirement Planner. It also purports to help savers visualize how their savings will turn into income in retirement. It focuses on accumulation and decumulation planning, allowing participants to understand how their assets may work together by analyzing pensions, social security benefits, and savings.

> **It's critical that we continuously engage with plan sponsors and their participants to help them think about more than just accumulating savings. It's just as important to help retirement savers think about how their savings will translate to income in the decumulation stage.**
>
> — *Eric Stevenson, President of Nationwide Retirement Solutions*

This AI program shows how a participant's assets could be distributed over time. It illustrates how retirement income sources, including outside investments, retirement plan accounts, social security, and pensions work together—even highlighting years where there may be a shortfall or surplus of retirement income. It also considers future tax rates and inflation.[201]

INSURANCE INNOVATION: LONGEVITY ANNUITY

Insurtech refers to technological innovations designed and implemented to improve efficiency in the insurance industry. Insurtech powers the creation, distribution, and administration of the insurance business. While annuity products have existed for many years, the longevity annuity is relatively new. Sometimes referred to as a qualified longevity annuity contract (QLAC), this product was designed to protect against outliving one's money. It's an annuity that usually requires payment from a tax-deferred retirement account but not a Roth IRA.

All annuities require a lump sum payment in exchange for a guaranteed income stream for life. Traditional annuities begin paying immediately upon purchase or in a few years. Longevity annuities are generally purchased at age 60 and begin to distribute monthly payments for life starting between ages 75 and 85, though the dates may vary.[202] A key feature is a delay in payment beyond age 72, which is often the required minimum distribution age for an annuity contract. As outlined in the annuity's discussion in the Appendix, the greatest risk is being unable to access the principal used to pay for the annuity. This newer product was created for investors who don't need their money soon and want to keep it invested longer.

NATIONAL RETIREMENT PLAN AUTO PORTABILITY INITIATIVE

In February 2023, Empower Financial announced that it had joined an auto portability consortium of financial recordkeepers, including Fidelity, Vanguard, and Alight. They are working to help investors with retirement accounts of $5,000 or less in 401(k), 401(a), 403(b), or 457 accounts. Empower joined the Portability Services Network,[203] which works automatically to locate retirement accounts in former employers' plans and help investors transfer accounts with small amounts of money. The stated goal is to decrease the number of people who cash in their retirement accounts rather than rolling them over into the account of a new employer. Retirement experts call this cashing-in *plan leakage*.

Retirement plan leakage tends to happen disproportionately among lower-income and people of color and results in tens of billions of dollars leaving retirement plans, according to the EBRI.[204] According to Empower president and CEO, Edmund Murphy, "Advancing autoportability adoption across the retirement system provides workers with the best chance to harness the power of all the assets they have earned through their workplace savings plans."[205]

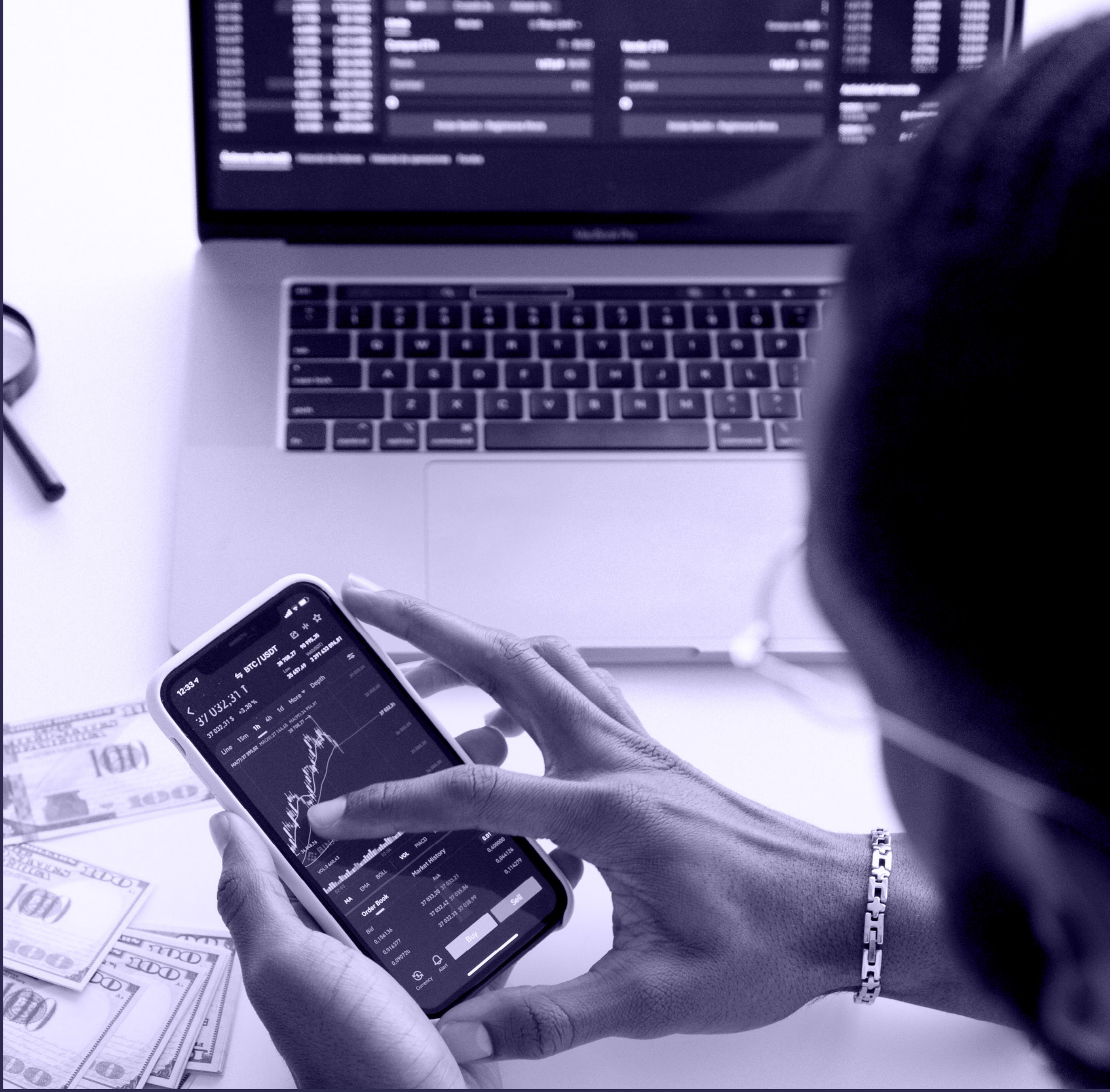
FINTECH-DRIVEN INVESTING SOFTWARE

Companies are selling software packaged for individual investors, providing prepaid products for retirement planning. The model is analogous to using TurboTax software to complete tax returns. Most of these companies provide downloadable software to help with multiple aspects of retirement planning in exchange for a yearly fee between $100 and $300.[206]

Personal Capital, now a wholly owned subsidiary of Empower, for example, sells investment planning and wealth management software. The firm has worked with a panel of experts, including Shlomo Benartzi, PhD, a behavioral economist, and the late Harry Markowitz, PhD, a Nobel Prize winner in economic sciences and a developer of modern portfolio theory. Their goal is to make personal retirement planning software easy to use and accessible.[207]

CONCLUSIONS AND RECOMMENDATIONS

- We've outlined several of the many innovations in lifetime saving that are changing the investing landscape.
- These developments make obtaining advice and planning for long-term savings much easier and more accessible.
- The Institute supports and will continue to encourage innovations and FinTech-enabled solutions that enhance lifetime financial security for all Americans.
- This area is in flux as financial firms continuously innovate.
- The Institute will continue to focus on developments, facilitating discussion, and education.



Conclusion

Conclusion

The developments in the lifetime financial security and retirement security space are encouraging, although we acknowledge that more work needs to be done. The SECURE 2.0 Act will enhance the ability of millions of Americans to save for retirement, and state-facilitated retirement plans are expanding and providing greater plan access. However, there is a continuing need for efforts to ensure all Americans have access to a retirement savings account. Financial firms are innovating and developing new platforms and services that allow for easier access to financial information and products with the promise of greater long-term savings and investing.

Further, addressing systemic issues related to longer working lives and inequity in investing, and educating Americans on the power of compounding and individual choices and behaviors, will also enhance lifetime financial security. Arming Americans with information about what to consider when planning to save over time is key. The topic is broad, and this report details many of the most significant issues and highlights areas of change in each section.

The Institute recognizes that policymakers, employers, financial services firms, and individuals all need to focus on lifetime financial security to change the investing paradigm. It's a complex issue for which a multiprong approach will likely have the greatest impact.

After consulting with experts and researching the interrelated issues that impact the ability of all Americans to save for a financially secure future, the Institute developed 10 action items (see Box 2). They form the core of the Lifetime Financial Security program.

BOX 2: CORE ELEMENTS: LIFETIME FINANCIAL SECURITY

1. Gain financial knowledge and understand the power of compounding, which can increase the likelihood that Americans will start systematic saving by age 25.
2. Ensure that all Americans have access to a retirement savings plan and contribute to at least one plan consistently.
3. Understand and overcome cognitive biases and blocks that may impede some Americans from adequately saving and investing for the long term and making wise investment decisions.
4. Ensure that all Americans save for medical and long-term care expenses.
5. Eradicate racial and gender inequities in long-term saving and investing.
6. Ensure that all Americans review and estimate their projected monthly benefits periodically and plan their optimal age to claim social security benefits.
7. Address the need to extend working lives by dismantling ageism, engaging with employers, and developing retraining programs for older workers.

8. Ensure that all workers devise a longevity career plan to help extend their working life.

9. Enhance engagement with FinTech applications and innovations that increase overall saving rates, remove impediments to saving, and make long-term saving and investing simpler and more accessible.

10. Ensure that all Americans have access to the means of developing a structured lifetime financial security plan.

Appendix: Retirement Planning Considerations

Appendix: Retirement Planning Considerations

While the Institute does not provide financial or investment advice, it encourages a systematic approach to long-term financial planning, beginning with making a written plan. Individuals and families can use the information below as they work to craft a long-term savings plan.

The considerations we suggest are not exhaustive. They provide a framework for analyzing your financial situation and setting investment goals. They are not meant to replace advice from an investment professional.

WRITE A PERSONAL PLAN

Drafting a plan will help everyone. Writing down your goals makes you more than 40 percent more likely to achieve them. People who don't write down their goals are much more likely to fail.[208] When you write your plan, consider your current situation and where you'd like to be 10, 20, and 30 years from now. Use your plan like a map and find out how to pay for your ideal life.

> **"For the majority of US workers, the defined contribution (DC) system is the primary mechanism for generating savings and income for retirement. This has led to tremendous growth in the DC system, which stands at roughly $13 trillion in assets under management. In my work in this space, I have come to believe that it is important to help retirees think through all aspects of their retirement. And PGIM believes in taking a highly personalized approach. This personalization begins with understanding the total financial situation of the individual and providing education and advice to identify and build a retirement plan. Every individual is unique, and therefore every plan will need different product requirements and income strategies to succeed."**
>
> — *Michael Miller, Managing Director and Head of DC Solutions, PGIM*

USE AN EARLY SAVING MODEL

Early saving is key to attaining financial security in retirement. All young American workers should begin paying into a tax-deferred, long-term savings account or other retirement account by age 25—and the earlier, the better. Student loans may be a hurdle in making financial choices at this age, along with maintaining an emergency fund, traveling, or other activities. However, any financial planner will suggest that you try to put enough money aside to qualify for any employer matching contributions to a 401(k) or other workplace plan.[209] Building an emergency fund should be another key goal at all stages of our working lives. While starting early is best, start now, no matter your age. It is never too late to start saving on a consistent basis.

LIST YOUR ASSETS

It's vital to get a clear idea of your total net worth. List your assets. Assets could include a car, a house, and other liquid assets such as savings. Assets also cover current and projected savings at the age you'd like to retire. Savings include money in 401(k)s or other retirement accounts. Make a separate list of your income streams, including pensions, if you have money besides your wages or salary.

Understanding all your assets is the starting point for a financial plan.

UNDERSTAND YOUR HOME AS AN ASSET

For many Americans, a home is their primary asset. Homeowners and prospective buyers should consider how they intend to use their home as a fixed asset with an assigned value, including whether to sell it, rent it out for an income stream (long-term, short-term vacation rentals, etc.), or age in place with or without borrowing money or obtaining a home equity line of credit. A key factor to listing your home as an asset is assigning it a value for your analysis. Factor the home equity you expect at retirement into the planning process.

The Institute doesn't endorse any strategy or products. Each person's situation is unique. Everyone should consider what their home means to them in the long term and how their home would best let them lead the life they want. Downsizing and adding the proceeds from the sale to an investing nest egg may be right for some. For others, aging in place is the right choice.

There are several options for using a home to provide an income stream in retirement. You can sell your home and invest the proceeds, refinance the mortgage to obtain a lower monthly payment, or get a home equity line of credit or loan.[210] A reverse mortgage allows homeowners 62 years or older to take out a loan based on their home equity. The homeowner does not make monthly payments, but the loan is repaid when the homeowner sells the house or dies.

It's essential to recognize the risks when taking out a home loan. Risks include foreclosure if the homeowner cannot repay the loan. In the case of a reverse mortgage, the homeowner can still lose the home to foreclosure if the taxes and homeowner association fees are not paid. Alternatives in development include selling a fractional interest in the property or annuitizing the home. Everyone should carefully review the risks of any option.

CALCULATE INCOME STREAMS

Take account of current and future income streams, not just total assets.

Many retirement analysts encourage all American workers to focus on replacing their current income in retirement.[211] Experts recommend replacing between 55 percent and 80 percent of your current income, depending on your planned lifestyle and whether your costs will change. The more income you replace, the less you will need to change your lifestyle in retirement.

It's important to estimate your monthly social security benefits using your records from the SSA through the "Plan for Retirement" and "Get an Estimate" articles on the SSA.gov website.[212] All Americans should review their potential social security benefits early in their planning and as part of devising a comprehensive retirement plan. Social security benefits function as a lifetime annuity with a guaranteed income stream that is adjusted for inflation over time. Seek advice, if you need to, about when to claim your benefits. Long before you would like to receive your SSA benefits, you should project how much you will receive per month and over time. This should be a part of the process of evaluating all of the assets that you will have over your estimated lifespan.

Be sure to add in any pension you're entitled to. Most employers will provide you with the amount of your pension. If you're entitled to a federal pension, you can estimate the amount using the federal government formula.[213]

CONSIDER ANNUITIES

Annuities combine insurance and savings to provide another stream of income. They generally require the purchaser to give up a lump sum from her retirement savings in exchange for lifetime income. Some variable annuities allow for payments into the product over time instead of making a lump sum payment.[214] They are structured as either fixed or variable and can be immediate or deferred. A fixed annuity pays a fixed interest rate but does not keep up with inflation. A variable annuity allows the holder to take advantage of market upsides while facing the risks of market downsides.[215]

American workers often consider annuities when they fear outliving their money, to mitigate longevity risk, provide an additional way to defer tax payments, and provide a consistent income stream that can result in more confidence in spending and budgeting over time. However, annuities require giving up a set portion of savings that you could use as you wish, in the hope that you'll get more than you would have gained from spending that sum over time. Annuities are generally not a good option for those who know they have a shortened lifespan, but it's important to seek advice from an expert.

Annuity investors turn over the face value or principal to an insurance company. After a free-look period, they cannot get that sum back, which represents an opportunity cost associated with annuities. Another potential opportunity cost is illiquidity. Investors cannot sell their way out of the product or request the return of the principal.

There are many different variations of annuity product structures that have different price points. For example, some annuities do not adjust for inflation and the holder receives the same amount over time. Other annuities offer monthly payments that adjust for inflation. An inflation-adjusted annuity comes with a cost relative to regular annuity, as the holder will receive a lower initial monthly payment for an inflation-adjusted annuity than for a regular annuity to account for potential inflation increases over time.[216]

Some annuities will pay out a sum to heirs, but others are not passed on, resulting in a loss if the holder dies shortly after purchasing the annuity. Annuities can come with up-front fees, and some have trailing or ongoing fees.

Further, many annuities offer *riders*, or customized contract enhancements that address many of the potential concerns of investors. Such riders come with fees but can cover areas such as spousal death benefits, for example. In addition, some riders allow the holder to take advantage of market appreciation while protecting against the risk of market downturns.[217]

Retirement experts Michael Finke, PhD, and Wade Pfau conducted research that included over 10,000 simulations. They concluded that income annuities improve retirement outcomes for many people when compared to investments alone. They noted that income annuities also can increase investor confidence and reduce stress in retirement.[218]

Experts at the Institute advocate neither for nor against purchasing an annuity to acquire lifetime income. Annuities may be useful as part of a structured planning strategy to ensure a stream of income for life. For some retirees, the security and benefits of an annuity are significant, especially for those without a lifetime pension.[219]

Anyone considering an annuity should be sure that they review and understand all the benefits of the different product structures, as well as all the costs and risks associated with them. It is wise to seek investment advice, when possible, especially with complex investment products that offer different structures such as annuities.

CONSIDER TARGET DATE FUNDS

Preretirement investors often consider target date mutual funds (i.e., funds invested based on the retirement year chosen by the holder). Investors select a target date fund and enter their expected year of retirement; the mutual-fund investments are adjusted over time. The account is rebalanced and assets are reallocated. The funds generally shift to more conservative investments as the holder nears the selected retirement age. These mutual funds are often featured in employer 401(k) accounts and are often thought of as funds that investors do not feel the need to review much unless they change their expected retirement date.

Investments of this type are usually fund of funds investments or mutual funds that invest in other such funds or in exchange-traded funds (ETFs), which are funds designed to mimic a market sector.

Target date funds can be a good choice for investors who aren't comfortable with making investment decisions, aren't knowledgeable about investing, or don't want to revisit investment choices. Vanguard is the largest provider of target date funds that diversify fairly broadly over time.

Target date funds are generally designed to maximize return by a specified date while decreasing risk up to retirement, although there are some others with different goals available. There are downsides, however, and these types of funds aren't the correct choice for everyone. There are fees associated with them, to which investors should pay close attention. Another downside is that because they manage risk based on a set retirement date rather than life expectancy, investments are sometimes too conservative, gaining inadequate returns over time.

Also, the one-size-fits-all approach does not take into account a particular investor's risk tolerance and whether he's prepared to increase his risk with the hope of obtaining a higher return. Furthermore, there is no provision to consider individual investors' circumstances. Finally, some studies have shown that people investing in target date funds are less likely to seek other investment advice during the target period, and this choice is often not the best course for all investors.[220]

For some, though, convenience overrides other considerations. Persuading US workers to invest a portion of their income is the primary goal. Target date funds offer a fairly simple way to invest for the long term.

POOL YOUR FUNDS AND PLAN FOR KEY LIFE STAGES

Estimating total savings in all accounts and how long that amount should last, given the investor's current age and predictions for longevity, is another key point. In planning ahead, it's helpful to pool all funds.

Planning for financial security at each stage of life and crafting the means to live the life you want in retirement should be the overarching goal. Planning for life stages is essential for workers who are still far from retirement age. A plan for lifetime savings will differ according to each investor's age and goals.

Many financial firms, including Transamerica, urge planning for financial security at the various life stages, considering costs and savings by category. For example, planning related to a first job would include paying off educational loans in descending order of interest rates. For many, the next stage includes planning for marriage, with the potential need for life and disability insurance; saving for a down payment and purchasing a home; and having children and setting up a college savings account. Midlife cost planning might include caring for family members, which could require a spouse to withdraw from the workforce, with drastic effects on income.[221] Transamerica has also outlined savings goals and habits for each decade of life.[222] It may be difficult to quantify these costs, but financial advisors are trained to make the process easier.

Without planning for life stages, it is very difficult to achieve lifetime financial security and peace of mind in retirement.

CONSIDER TAX IMPLICATIONS OF RETIREMENT PLANNING

It's important to understand the tax implications of long-term savings.[223] Key factors to consider are ways to decrease your total taxes due and the timing of tax payments. For many, it may come as a shock to learn that some income sources in retirement, including social security benefits, may be taxed. Tax treatment of social security benefits, however, differs by state, and, in some states, such benefits are not subject to state income tax.

Everyone should plan for ways to minimize their tax burden when in the accumulation phase, when they are primarily saving, as well as in the decumulation phase, when they are primarily spending down long-term or retirement assets. As a part of the planning process, it is important to determine early whether assets are taxed immediately, taxed later, or not taxable. 401(k) account savings, for example, and annuities are subject to tax upon receipt of funds. In most instances, tax payments on different payouts of funds should be staggered, and retirees need to plan for the likelihood of a significant tax bill as they receive different categories of funds. Some Americans may seek out free tax planning resources and others may consult with a tax professional or financial advisor when working on the timing of distributions of funds for tax purposes and reducing their total tax burden.

ASPECTS OF DEBT AND CREDIT MANAGEMENT INCLUDING HSAs

Managing credit and debt is yet another key to lifetime financial security, but we haven't explored it at length for this report. Simply put, everyone should avoid nonessential debt from any source and from credit cards. As we've discussed, a tax-free HSA can facilitate saving for medical costs. What's more, an HSA can accumulate for years, offering a way to save for medical costs far down the road.

Public information on debt management is widely available at no charge.

CONSIDER LIFE INSURANCE WITH A CASH VALUE

Cash from a life insurance policy is another potential source of income in retirement. A cash value policy differs from a traditional death benefit that pays the face value of the policy to the beneficiary. Cash value policies earn interest, and holders can draw against the total value if they need additional income to meet an emergency during their lifetime. According to their circumstances, those who aren't going to need the death benefit of life insurance may decide to obtain a stream of monthly income based on the cash value of such a policy.[224] Some insurance buyers choose policies that permit this use of the value over time. It's important, therefore, to consider what better suits your family's circumstances: traditional life insurance providing a legacy at the end of your life or a policy with cash value during your lifetime.

There's nothing—except disposable funds—to stop you from having both types of life insurance.

SAVING FOR MEDICAL AND LONG-TERM CARE COSTS

Separately saving for and setting aside funds for medical and related long-term care costs is another key element of lifetime financial security. One of the highest costs in retirement for most Americans will be medical costs. Thus, saving for these costs is necessary, as the report outlined. The report discusses this topic and estimates average amounts that are needed for men versus women in the US.

EMPLOYER SAVINGS MATCH AND CATCH-UP SAVING

Every worker should make sure they're saving enough to qualify for any employer match in a retirement savings account.[225] This is essentially free money—the amount contributed by the employer plus interest that accrues over time.

The Institute urges that as workers get within 15 years of retirement, they should take advantage of rules that allow increased contributions to a retirement plan. Using these catch-up provisions, investors can increase retirement contributions beyond the prescribed limits once they reach age 50. This can be enormously helpful for those who couldn't save much because of their income level, family obligations, or other burdens. In 2023, the catch-up amount allowed above the maximum contribution to a 401(k) is $7,500 annually.[226]

PLAN FOR AND CATEGORIZE EXPENSES

The approach of thinking about your long-term savings in segments throughout your life is one that we believe will work best and also decrease the possibility of getting discouraged. Further, knowing that you have a plan is helpful and can spur action.[227]

> **Effective retirement planning requires savers to make deliberate choices and give careful consideration to their projected expenses over time. Thus, categorizing expected expenses into inelastic expenses (needs) and elastic expenses (wants) and then considering wishes and dreams is a key component of planning for a secure retirement.**
>
> — *David Blanchett, PhD, Managing Director, Head of Retirement Research, PGIM DC Solutions*

It is also important to consider expenses in retirement in planning for a financially secure future. Categorizing expenses is key. It would help individuals to visualize the life they would like to lead before retirement or transition to working less, as this will allow for a clearer picture of how much money is necessary to support desired lifestyles. Thus, individuals should consider things like owning a car, sharing expenses, travel, and downsizing to decrease their monthly housing and related expenses, among other things. Looking at which retirement expenses are fixed and which can fluctuate and considering expenses in terms of spending needs versus wants is important.

CONSIDER DECUMULATION IN RETIREMENT

Retirement experts are increasingly researching and explaining decumulation in retirement: the phase of life when the emphasis is on spending rather than saving. This outflow requires a separate category of planning.

The Institute isn't outlining how to perform a complicated decumulation analysis, nor is it providing financial advice. Team members agree, however, that using savings wisely is a vital consideration in retirement planning. Certain general factors go into that process. Choosing how to spend money and how to live in retirement are foundational. This is where financial planners and other investment professionals can provide useful, fact-based advice and mathematical analysis on managing outflow. Much of this type of information is also available for free on various financial and banking platforms.

Several researchers have published helpful analyses that can help you gain insight, especially if you're developing your retirement plan. A financial firm may have this type of information on a website, covering essentials such as when to claim social security benefits.

Books on retirement planning can be helpful guides in thinking about the financial future.[228] Bookstores or libraries are a source for up-to-date guides offering simple, understandable strategic advice. For preretirees looking for additional financial planning advice, the Consumer Financial Protection Bureau's website can connect consumers with a financial planning professional, if that is a possibility.[229]

Every retiree needs to plan how to use their retirement savings over time. Picturing your future life offers a map for this process.

SUMMARY

We've summarized a basic approach to creating a long-term savings plan. One of the most important moves toward a stable financial future is to contribute to a retirement savings account through an employer, or individually with an IRA, or through a financial firm. Even an account that sweeps negligible sums into a tax-deferred retirement account will make an impact over time.

As we've emphasized throughout, saving for the future is crucial to consider, even if it's only possible to save a small percentage of earnings. Savings invested in the stock market will be beneficial over time, due to the power of compounding. The Institute encourages everyone to develop a pay-yourself-first mindset.

It's impossible to overstate how important and rewarding it is to begin saving as early as possible. Start planning now, regardless of your age. Start saving now, regardless of your circumstances. The costs of neglecting your future are too high.

Picture yourself in the future and plan to take good care of your "future self." You'll never regret taking this step.

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About the Authors

Cheryl L. Evans, JD, is a director at the Milken Institute and leads MI Finance's Lifetime Financial Security Program. She is an attorney and has worked on securities, capital markets, and business law issues. Evans has experience in a variety of roles handling traditional legal matters and working on policy, advocacy, and content development. Her work has spanned the US Securities and Exchange Commission, where she worked in the divisions of enforcement, trading and markets, and examinations and was a member of the WorldCom case team. She worked at Pensions & Investments and held several roles with CFA Institute, the global association of investment management professionals. She worked at the US Chamber of Commerce, focusing on securities litigation, capital markets, accounting and economic issues, and general litigation issues. Evans was a trial attorney in commercial litigation at the US Department of Justice and a special assistant US attorney in the Eastern District of Virginia, handling criminal cases. She also served as a judicial law clerk at the US Court of Appeals for Veterans Claims. Evans is trained as a wellness and life coach and sits on several boards. She holds a BA in sociology and psychology from Marietta College, a JD from Rutgers Law School, and an LLM in transnational business practice from McGeorge School of Law at the University of the Pacific.

Mairead Treanor is an associate at the Milken Institute as a part of MI Finance's Lifetime Financial Security Program team. She has expertise in public administration and policy. Before her work with the Milken Institute, Treanor worked in multiple positions focusing on congressional research, technology policy, and communications strategy with a small technology firm focusing on helping policymakers stay connected. Treanor holds a master's degree in public administration and policy from American University and a bachelor's degree in government and politics, with a minor in global terrorism, from the University of Maryland.

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