Financial and Retirement Security Before and After COVID-19

National Institute on Retirement Security Webinar
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*These are my own views, and not necessarily the views of the Federal Reserve Bank of St. Louis, Federal Reserve System, or the Board of Governors
Overview

- Introduction
- Retirement Security *Before* COVID-19
- Retirement Security *After* COVID-19
- Thoughts on Moving Forward
Introduction

- The Center for Household Financial Stability, a research initiative of the Federal Reserve Bank of St. Louis, was launched in 2013 to address three questions:
  1. What is the state of U.S. family wealth?
  2. Why does wealth matter for both families and the economy?
  3. What can we do to strengthen family balance sheets?

- The Center’s 1st chapter has been defined by the Great Recession; our 2nd is likely to be defined by COVID-19—both cataclysmic economic events with profound impacts on family balance sheets in ways that, generally, exacerbate already existing inequalities of wealth.

- We examine retirement savings as one key component of family balance sheets, with a particular focus on how three demographic drivers—age/birth year, race/ethnicity, and education—predict retirement savings and family wealth.
RETIREMENT SECURITY BEFORE COVID-19
How Prepared are Americans for Retirement?

- According to the 2019 SHED, only 37 percent of non-retired adults think their retirement savings plan is on track.

- Furthermore, 25 percent of non-retired individuals reported that they had no retirement savings or pension whatsoever.

- Among non-retired adults, only 22 percent have money in *defined benefit* pensions.

- Of those aged 60 and older, 11.4 percent have no retirement savings or pension; 51 percent think their savings are on track.
Coverage Gap, Whites vs. Non-Whites

Ownership of defined contribution (DC) plans has long differed between white and nonwhite families.

The gap was narrowest in 1998 and has since gradually expanded to 29.5 percentage points in 2016.

Source: Federal Reserve Board’s Survey of Consumer Finances.
Funding Gaps, Whites vs. Non-Whites

- Of those families that own DC plans, the typical white and nonwhite family differs dramatically in funding.

- As of 2016, the typical white family had 2.6 times the level of funding.

Source: Federal Reserve Board’s Survey of Consumer Finances.
Coverage Varies by Race, Education, Income

Ownership Rates for DC, DB, or IRA Retirement Accounts

Source: Federal Reserve Board's 2019 SHED and Center for Household Financial Stability calculations.
Long-Term Savings Require Short-Term Stability

- In 2019, 36% of adults would borrow, sell something, or not be able to cover a $400 expense.

- This short-term financial insecurity precludes long-term savings: 10.1% of retirement account holders borrowed or cashed out funds in 2019.

- Thus, improving retirement preparedness must proceed hand-in-hand with other efforts to improve financial well-being.
RETIREMENT SECURITY AFTER COVID-19
Employment Shock Varied Across Groups

- From start of March to early April, **24.8%** of non-retired, non-disabled adults lost a job, were furloughed, or lost hours.

- **Earning less:** 34.5% of those earning less than $40,000.

- **Lacking a college degree:** 27.5% lost jobs or hours.

- **White, non-Hispanic:** 26.2% experienced disruption, although other racial and ethnic groups were similar.
Income Loss Short-Changes Retirement Security

- The *overall* share that would borrow, sell something, or not be able to cover a $400 expense was similar (35%).

- However, among those that lost a job or had their hours significantly reduced, 54% would borrow, sell something, or not be able to cover the expense.

- Lower-income and non-college educated individuals are least likely to currently have retirement accounts; weathering this crisis may *delay investment* in retirement security.
# Moving Forward: Newer Ideas to Improve Retirement Security

## Pre-COVID

1. Improve overall household financial **stability**, especially managing cash and income/expense volatility
2. Develop economic **resilience**, especially through liquidity “buffers” such as emergency savings
3. Establish a “**Roth at Birth**” for every child in America

## Post-COVID

All pre-COVID ideas, *plus* consider more ambitious proposals made potentially possible by the pandemic:

1. Develop a more “**wholistic**” approach to savings, reflecting lived financial lives
2. **De-link** retirement security and employment
3. **Re-imagine** and broaden wealth-building for the 21st Century
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IN THE Balance
Perspectives on Household Balance Sheets

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