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THE 80%

The True Scope of Financial Insecurity in Retirement

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The True Scope of Financial Insecurity in Retirement

Much has been written about the retirement crisis facing Americans—how people are living longer but saving less. New analysis by researchers at the National Council on Aging (NCOA) and the LeadingAge LTSS Center @ UMass Boston sheds a surprising new light on the full extent of this societal challenge.

To better understand the financial landscape of older Americans, NCOA and UMass researchers analyzed the latest data from the Health and Retirement Study (HRS), a longitudinal panel study that surveys a representative sample of approximately 20,000 people in America, supported by the National Institute on Aging and Social Security Administration.[1]

The analysis discovered that 80% of households with older adults—or 32 million—are financially struggling today or are at risk of falling into economic insecurity as they age. Moreover, this trend is worsening over time, as 90% of older households experienced decreases in income and net value of wealth between 2014 and 2016.

Purpose

The purpose of this analysis was to explore the distribution of total net wealth across adults aged 60 and older. In doing so, we identified the share of the population with little savings and income, as well as the share of the population we consider to be at risk of falling into financial insecurity.

We defined a household as financially secure if their total net wealth could cover the costs of housing, food, other necessities, and long-term care, if needed. We defined an “at risk” household as one with some savings and assets to potentially meet current needs, but not enough to cover a financial shock or catastrophe. Financial shocks are major, unexpected expenses including, but not limited to, medical bills from an illness or disease, necessary home modifications, long-term care, and losing one’s job if still in the workforce.

The likelihood of experiencing this kind of financial shock is high as people grow older. Over a nine-year period, more than two-thirds of adults aged 70 and older will experience at least one negative shock with financial consequences, such as falling into poor health, becoming widowed, or losing the ability to work or live independently.[2]

The risk of having substantial long-term care costs is even more pronounced. Among those aged 65 and over, half will have a significant need for help with two or more functional limitations or with dementia-related issues,[3] and nearly one in six will need care for more than five years,[4] incurring more than $260,000 in lifetime expenses.[5] Long-term care represents the single largest financial risk faced by older adults and their families.

Methodology

For this analysis, we segmented the HRS sample of adults aged 60 and older into quintiles based on the net value of their total wealth, which is to divide the population into five equal parts of 20%. Each quintile represents approximately 8 million older U.S. households. The study sample was robust with 18,271 households being included in this analysis.

We examined several financial measures of well-being across the quintiles. We also compared data for 2014 and 2016, which allowed us to examine trends over time. This data is the latest available from HRS. The measures are defined as follows:

- **The *net value of total wealth* is the total sum of housing and financial assets less debts.**
- **The *net value of primary residence* is the value of homeowner's primary residence less mortgages and home loans. This measure reflects home equity that an older person may tap should they need income and want to stay in their current home.**
- **The *total value of financial assets* is the total sum of retirement plans; stocks, mutual funds, and investment trusts; checking, savings, and money market accounts; government savings and other bonds, T-bills, and bond funds; and other savings. It does not take into account debts or the net value of homeowner's primary residence.**

Figure 1 shows households with adults aged 60 and older divided into quintiles based on their net value of total wealth. For each quintile, there are two columns showing data for the years 2014 and 2016. The numbers in the rows represent the median value of the financial measures for each quintile.

FIGURE 1. Older Adult Households Aged 60+ Divided into Financial Quintiles Based on Net Value of Total Wealth

	0–20%		21–40%		41–60%		61–80%		81–100%	
	2014	2016	2014	2016	2014	2016	2014	2016	2014	2016
Total Household Income (median)	$17,227	$16,800	$28,700	$26,052	$39,578	$38,069	$54,983	$49,200	$94,068	$88,235
Net Value of Primary Residence (median)	$0	$0	$39,000	$30,000	$110,000	$100,000	$185,000	$190,000	$310,000	$315,000
Household Value of Financial Assets (non-housing, median)	$150	$0	$4,000	$2,000	$30,000	$15,100	$179,000	$127,000	$830,000	$791,809
Household Net Value of Total Wealth (median)	$0	$0	$47,841	$36,000	$151,000	$133,000	$365,059	$323,000	$1,162,634	$1,153,250

Findings

The bottom 20% of older adults—approximately 8 million households—have no assets. In fact, some are in debt. This group has a median income of $16,800. These individuals are currently facing economic insecurity, and matters will only get worse as they age because many will need long-term care.

60% of older adults—approximately 24 million households—face significant risk for economic insecurity because they could not afford more than two years of long-term care if their average income and the household value of their financial assets were added together.

80% of older adult households are losing financial ground. Older Americans in the bottom four quintiles lost financial ground between 2014 and 2016, as evidenced by decreasing incomes, financial assets, and net total wealth. The net value of older homeowners' primary residence also decreased for the second and third quintiles. While not all these decreases are statistically significant, even a few hundred dollars can have a tangible impact on a low-income older adult's ability to make ends meet.

Conclusion

There is a misconception that older adults are asset rich, yet the reality is that the vast majority—**80%—are financially struggling now** or are at risk of falling into economic insecurity as they age. While the financial situation for older Americans may be difficult today, our analysis suggests things may be getting worse. **Ninety percent of older households experienced decreases in income** and net value of wealth between 2014 and 2016.

This analysis shows just how "**at-risk**" the majority of older Americans are, and how much they will need to rely on social safety net programs like Medicaid, should they experience a financial shock like a significant long-term care need or a health issue.

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About NCOA

The National Council on Aging (NCOA) is a trusted national leader working to ensure that every person can age well. Since 1950, our mission has not changed: Improve the lives of millions of older adults, especially those who are struggling. NCOA empowers people with the best solutions to improve their own health and economic security—and we strengthen government programs that we all depend on as we age. Every year, millions of people use our signature programs BenefitsCheckUp®, My Medicare Matters®, and the Aging Mastery Program® to age well. By offering online tools and collaborating with a nationwide network of partners, NCOA is working to improve the lives of 40 million older adults by 2030. Learn more at **www.ncoa.org** and **@NCOAging**.

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About the LeadingAge LTSS Center @ UMass Boston

The LeadingAge LTSS Center @UMass Boston conducts research to help our nation address the challenges and seize the opportunities associated with a growing older population. Established in 2017, the LTSS Center is the first organization of its kind to combine the resources of a major research university with the expertise and experience of applied researchers working with providers of long-term services and supports (LTSS). Learn more at **www.ltsscenter.org.**

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[1] Learn more about the Health and Retirement Study at *https://hrs.isr.umich.edu/welcome-health-and-retirement-study*

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