

# THE LONG-TERM EROSION OF FINANCIAL WELLNESS

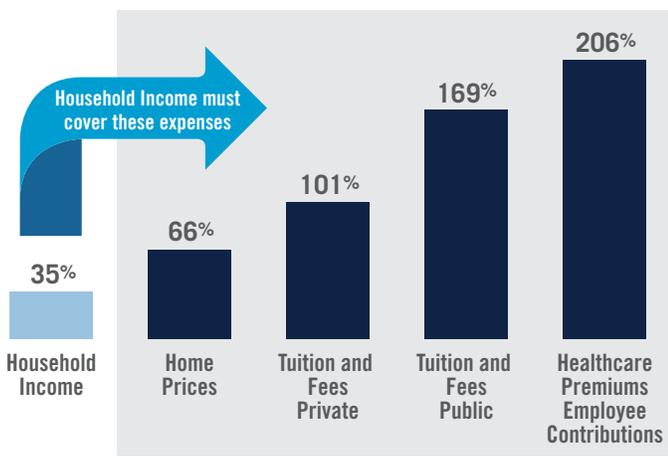
Economic prosperity and security are slipping out of reach for many Americans as they struggle with the foundational elements of financial wellness: managing day-to-day finances, protecting against key financial risks, and achieving important financial goals. Several trends are contributing to this phenomenon, and while problematic today, may prove even more dire tomorrow—especially for younger generations finding it difficult to save for retirement or protect against unexpected life events. Recent research from Prudential explores the financial wellness challenges Americans are facing, and identifies a number of opportunities to overcome them.

## KEY CHALLENGES TO FINANCIAL WELLNESS

### Managing day-to-day finances

- **The cost of big-ticket items such as homes and college tuition is growing faster than income.** One-quarter of employees spend their full paycheck—or more—each month<sup>1</sup> (see Figure 1).
- **Individuals are carrying more debt.** Among those 65 to 74 with household debt, average debt increased 360% between 1989 and 2013, to \$115,000 from \$25,000.<sup>2</sup>
- **Income is becoming more volatile as employment models replace traditional full-time jobs with alternatives like gig work.** By one measure, 16% of workers were engaged in alternative arrangements in 2015, up from 10% in 2005.<sup>3</sup>
- **Low interest rates are requiring individuals to save more money** to achieve financial wellness and retirement security.
- **New influences (e.g., social media, an increasingly cashless society) are challenging spending disciplines.**<sup>4</sup>

**FIGURE 1**  
**Growth in Household Income and Major Expenses 2000–2015**



Source: Federal Reserve Bank of St. Louis, College Board, Kaiser Family Foundation

### Protecting against key financial risks

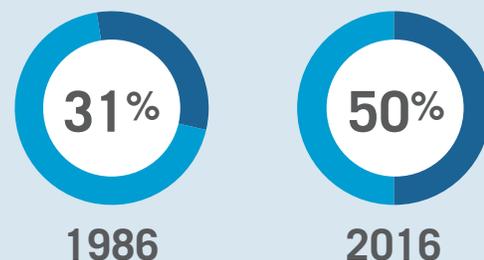
- **Employers are shifting more costs for health insurance to employees** by asking them to pay a bigger share of premiums and offering policies with higher deductibles and co-pays. Only 12% of employees had health insurance paid in full by employers in 2016, down from 72% in 1980.<sup>5</sup>
- **Individuals are paying a bigger share of healthcare costs in retirement** as long-term care insurance becomes increasingly inaccessible and access to employer-provided retiree health insurance declines. The percentage of large employers offering retiree health coverage fell nearly two-thirds from 1988 to 2016.<sup>6</sup>
- **Individuals are facing greater longevity risk.** The average male retiring at age 65 today can expect to live another 21 years in retirement, up from 15 years in the 1980s.<sup>7</sup>

### Achieving important financial goals

- **The shift from employer-sponsored pension plans to defined contribution (DC) plans has left many workers responsible for funding their own retirement.** Among those with access to a workplace retirement plan in 2016, only 27% had a defined benefit (DB) pension plan, down from 88% in 1983. During that same period, the percentage of workers with access to a DC plan rose to 83% from 38%.<sup>8</sup>
- **Savings levels in DC plans are worrisome.** By 2016, half of working-age households were at risk of not being able to maintain their standard of living in retirement, versus only 31% in 1986<sup>9</sup> (see Figure 2).
- **DC plans force workers to self-insure against longevity risk.** Since there is no risk-pooling in DC retirement savings plans, individuals must save more to self-insure against outliving their assets.<sup>10</sup>
- **Increases in the “full retirement age” mean Social Security will provide a smaller percentage of pre-retirement income.** Social Security is expected to replace 36% of pre-retirement income in 2035, versus 39% in 2015.<sup>11</sup>

**FIGURE 2**  
**NATIONAL RETIREMENT RISK INDEX (NRI)**

Working-age households at risk of being unable to maintain their pre-retirement standard of living during retirement



Source: Center for Retirement Research at Boston College

## OPPORTUNITIES TO STEM THE EROSION OF FINANCIAL WELLNESS

Individuals, employers, and policymakers can all play a role in helping Americans achieve financial wellness and security.

### Individuals

- Start saving early, commit to automatic escalation of 401(k) plan contributions, and, at a minimum, contribute at a rate that maximizes matching contributions from employers.
- Take advantage of employee benefits. Use on-site or digital financial wellness education and counseling tools provided by employers or financial advisors. Gig workers may have to adopt a do-it-yourself approach, using exchanges for healthcare insurance, setting up IRAs, and employing online budgeting tools.
- Consider delaying Social Security benefits to full retirement age or beyond to significantly increase monthly Social Security benefits, rather than taking discounted benefits before full retirement age.
- Protect retirement income against market, longevity, and interest-rate risk using guaranteed lifetime income solutions.

### Employers

- Enhance DC plans to help employees achieve more certain retirement outcomes. Add features such as automatic enrollment, automatic escalation of contributions, employer matching contributions, and in-plan guaranteed lifetime income solutions.
- Provide a robust and customized benefits lineup that meets the needs of the employee base. Use data analytics to gain insights into how plan design drives employee behavior.
- Provide financial wellness education tools and programs to traditional employees and gig workers alike. Offerings might include budgeting tools, retirement calculators, and needs assessments.
- Consider providing voluntary benefits to gig workers.

### Policymakers

- Enact legislation that makes it more feasible for small employers to offer 401(k) plans in the workplace.
- Adopt regulations that encourage DC plans to disclose DC account balances as a lifetime income stream.
- Expand, through regulation or legislation, DC plan participants' access to guaranteed lifetime income.
- Explore public and private sector solutions to enhancing gig worker access to retirement plans and other benefits necessary to improve financial wellness.

More on these trends and potential solutions can be found in Prudential's Thought Leadership publications at [research.prudential.com](https://research.prudential.com):

["The Power of the Wellness Effect"](#)

["Student Loan Debt: Implications on Financial and Emotional Wellness"](#)

["Four Trends Making Budgeting More Important Than Ever"](#)

["Planning for Retirement: A Generational Perspective"](#)

["The State of Financial Wellness in America"](#)

["Gig Workers in America – Profiles, Mindsets, and Financial Wellness"](#)

<sup>1</sup> Prudential's Financial Wellness Survey. Prudential, "The State of Financial Wellness in America," 2017.

<sup>2</sup> LIMRA, "The Retirement Income Reference Book," 2015. Debt figure from 1989 is stated in 2010 dollars.

<sup>3</sup> Lawrence Katz and Alan Krueger, "The Rise and Nature of Alternative Work Arrangements in the United States, 1995-2015," 2016. Alternative work arrangements include temporary and part-time work, as well as contractual arrangements, such as independent contractors.

<sup>4</sup> Prudential, "Four Trends Making Budgeting More Important Than Ever," 2017.

<sup>5</sup> Bureau of Labor Statistics and the Kaiser Family Foundation.

<sup>6</sup> Kaiser Family Foundation, "Retiree Health Benefits at the Crossroads," 2014, and "Employer Health Benefits: 2016 Summary of Findings," 2016.

<sup>7</sup> Prudential, "Life Insurance: The Versatile Tool for Retirement Protection," 2017.

<sup>8</sup> Alicia H. Munnell, Center for Retirement Research at Boston College, "401(k)/IRA Holdings in 2016: An Update from the SCF," 2017.

<sup>9</sup> Center for Retirement Research at Boston College. Prudential, "Planning for Retirement: A Generational Perspective," 2018.

<sup>10</sup> Prudential, "What Employers Lose in the Shift from DB to DC Plans...And How to Get It Back," 2017.

<sup>11</sup> Alicia H. Munnell, Center for Retirement Research at Boston College, "401(k)/IRA Holdings in 2016: An Update from the SCF," 2017.

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