



Institute for
Research on
Poverty

UNIVERSITY OF WISCONSIN-MADISON

Is Retirement Planning Possible for Low-Income Families?

J. Michael Collins

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Webinar begins at 2pm EDT/1pm CDT/12pm MDT/11am PDT



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Retirement Planning and Low-income Families



Overview

Workers who have low-incomes for most of their working lives may **lack pensions** and traditional retirement **savings**

Social Security programs play a key role for many

For those who own a home, **housing wealth** maybe critical

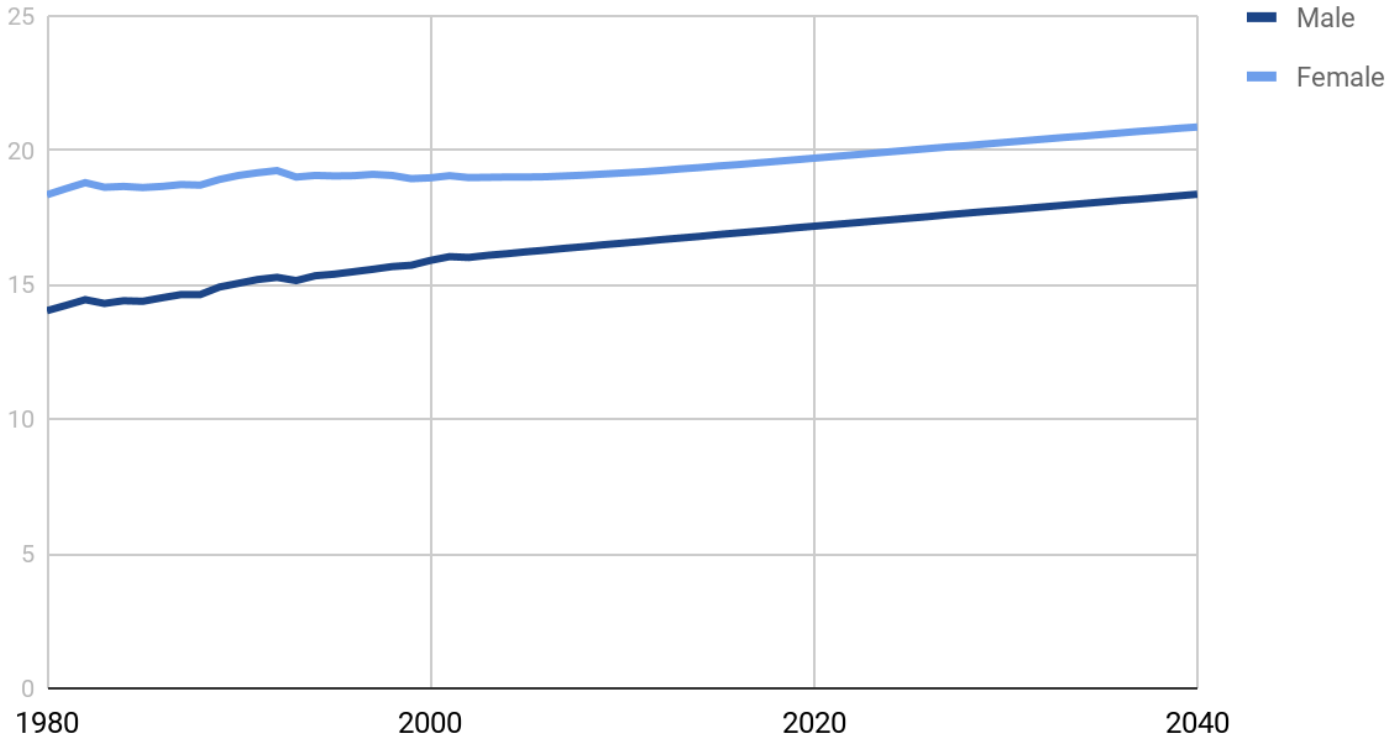
Other **benefits**--housing, food, energy/utilities offer some support

Healthcare coverage and costs continue to rise

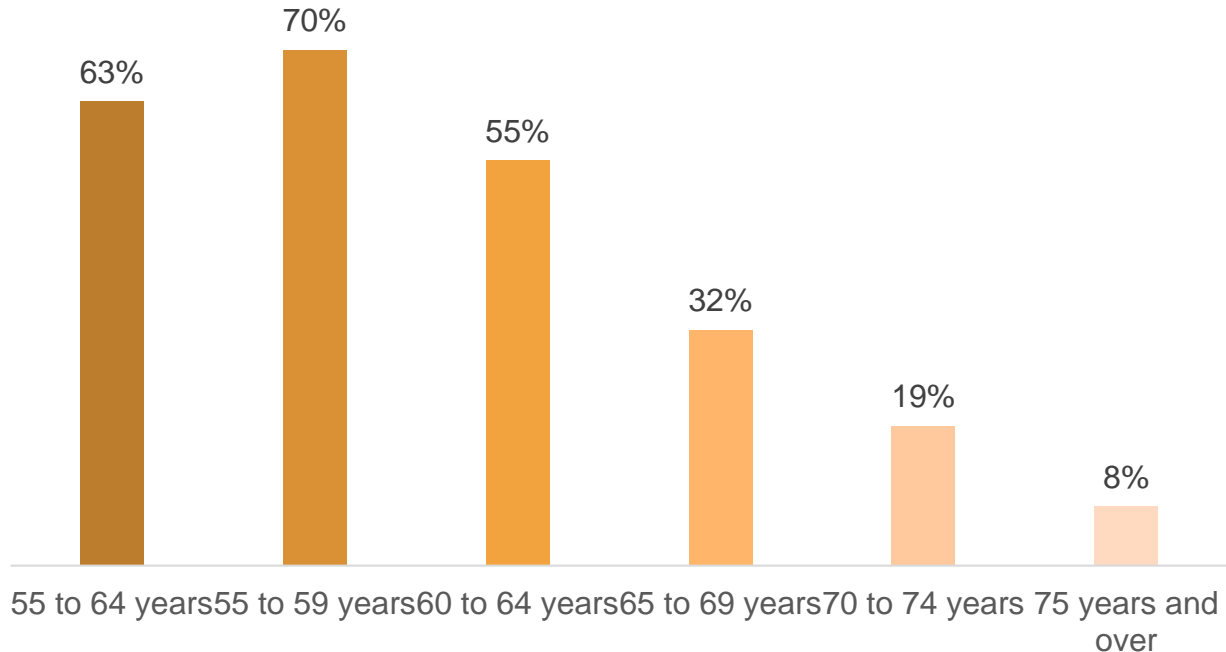
Only 50% of men lived to age 65 in 1940.

Today 75% do.

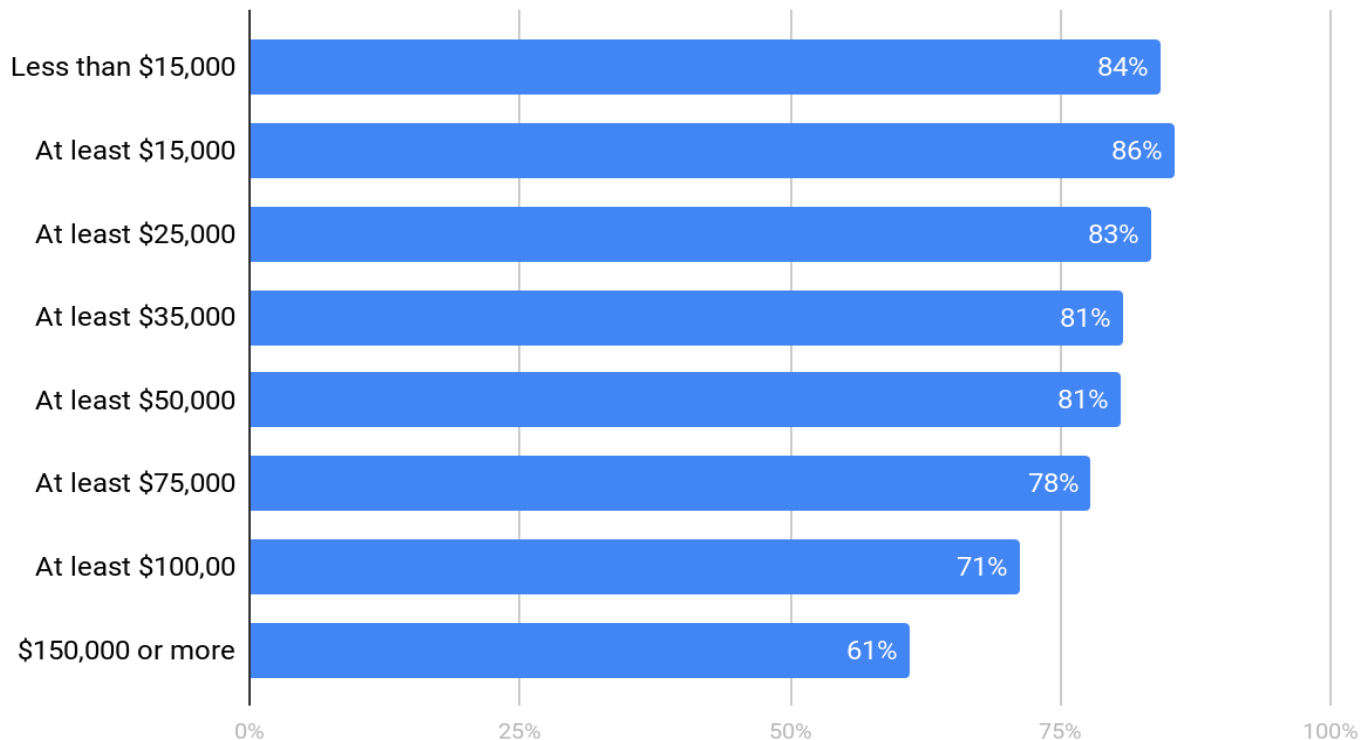
Life Expectancy at age 65



Rate of People Working by Age, 2017

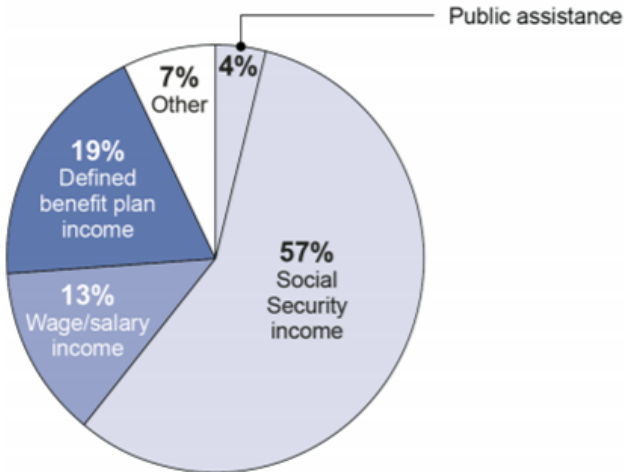


65+ Age & Self-Reported Retirement From Work, 2016

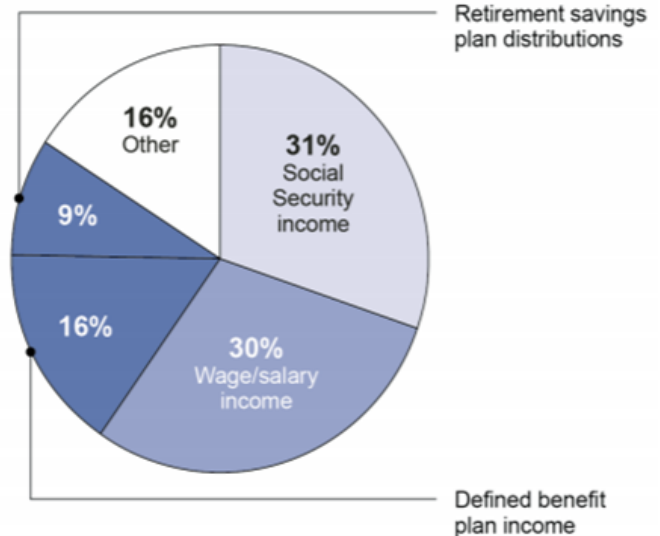


Social Security Income is Major Source

Among households age 65-74 with no retirement savings



Among households age 65-74 with some retirement savings



Source: GAO analysis of 2013 Survey of Consumer Finances (SCF) data. | GAO-15-419

Social Security helps 15 million seniors avoid poverty

-Elderly poverty rate would be 39% instead of 9%

Social Security Administration: Old Age and Survivors Insurance

Funded by payroll, or FICA taxes (Federal Insurance Contributions Act) on earnings

Benefit is based on Primary Insurance Amount: generally average of the highest 35 years of earning

Birth Year	1943-54	1955	1956	1957	1958	1959	1960 & later
Full Retirement Age	66	66 + 2 mos.	66 + 4 mos.	66 + 6 mos.	66 + 8 mos.	66 + 10 mos.	67

<http://www.socialsecurity.gov/estimator/>

Age 65+ Income Share of Income by Source

Income Decile	Earnings	SS-OASI	SSI	Retirement Plan	Other	SSA Amt
1	3%	55%	30%	6%	6%	\$12,596
2	3%	83%	4%	6%	4%	\$12,325
3	4%	77%	2%	13%	4%	\$14,638
4	8%	64%	0%	22%	6%	\$16,441
5	11%	53%	0%	29%	7%	\$19,313
6	13%	46%	0%	35%	6%	\$20,674
7	17%	39%	0%	36%	8%	\$22,065
8	19%	32%	0%	40%	9%	\$22,752
9	25%	24%	0%	40%	11%	\$23,235
10	35%	14%	0%	34%	17%	\$25,309

Example: Male Born in 1962

Began working in 1980 at age 18.

In 2027 will be age 65 and plan to retire from work

Worked every year, earning \$12,000 annually in 1980

3% wage increases annually: \$25,500 in 2019

Saved 3% of income annually, grew at 5% annually

Will have \$94,000 saved

Social Security will pay \$15,000 per year if claim at 65

Goal: replace income of \$30,000 when retire.

Gap: \$15,000 per year. **By age 72, savings depleted**

Planning: Good Scenario

Replacement rates – level of consumption will cover costs of living

Saving – have access to programs at low cost

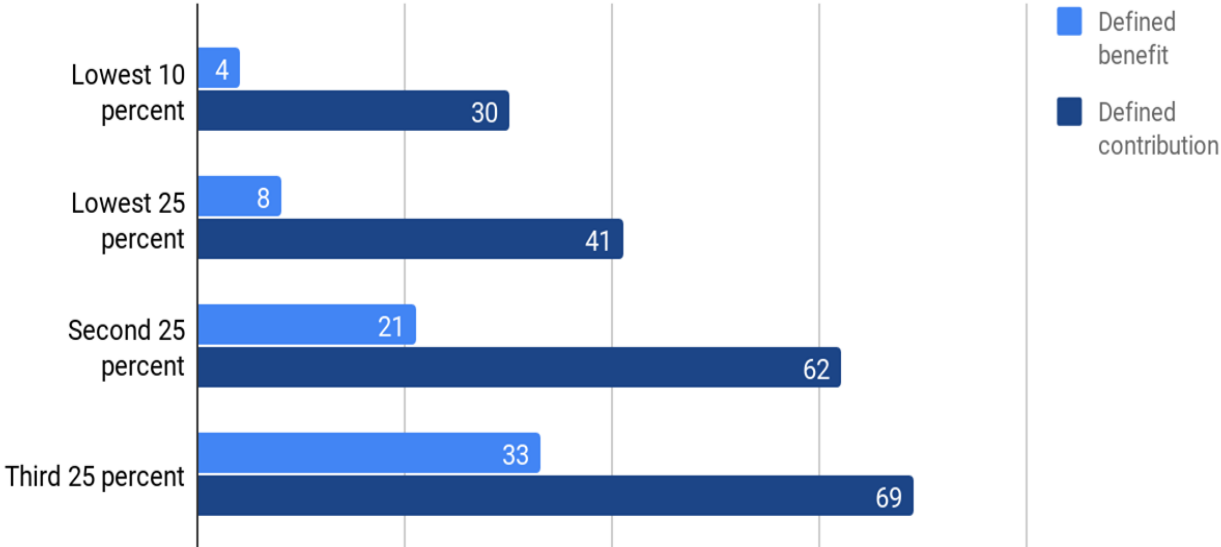
Working – no disruptions, health problems

Debt– little or no debt service required in retirement

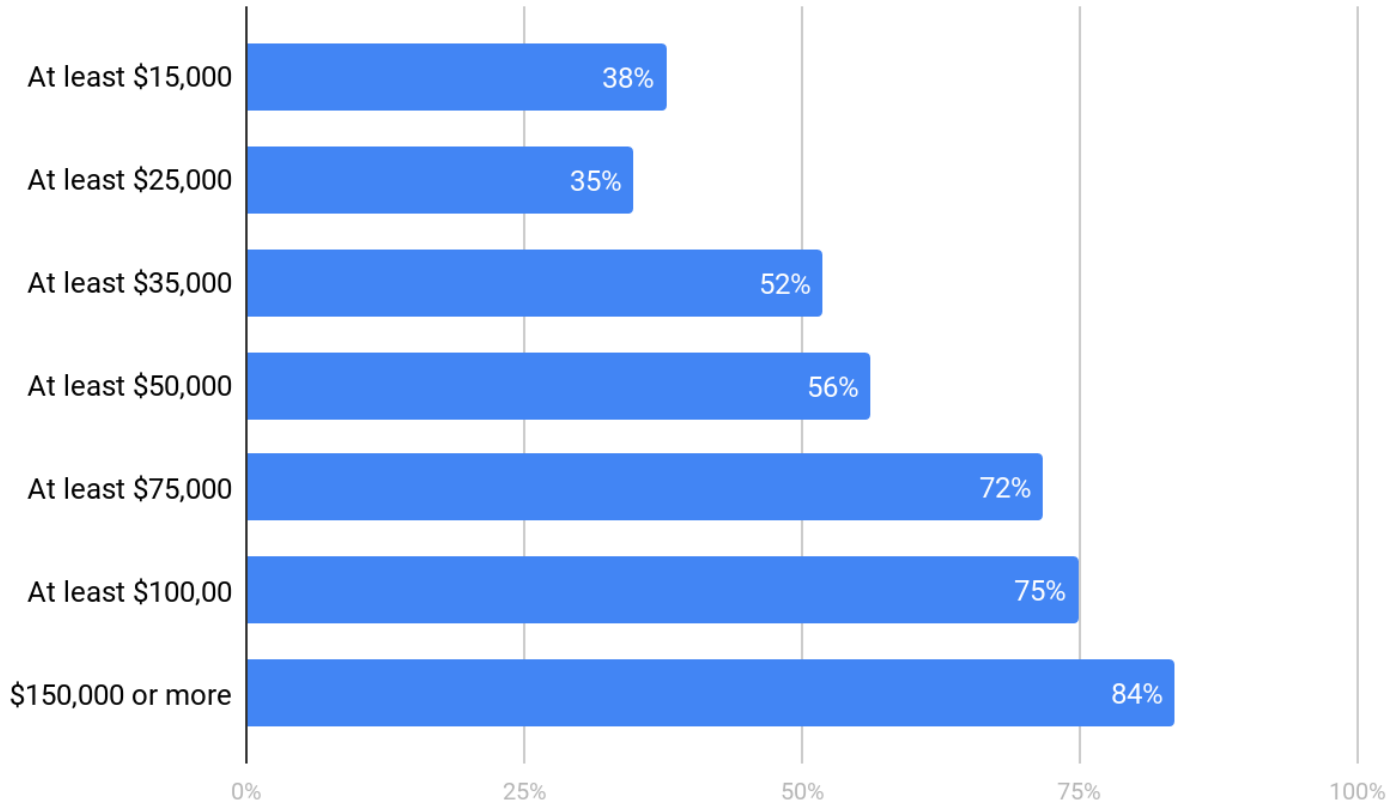
Coordination -spouse and family issues / timing

From Defined Benefit to Defined Contribution

Access by Income Level

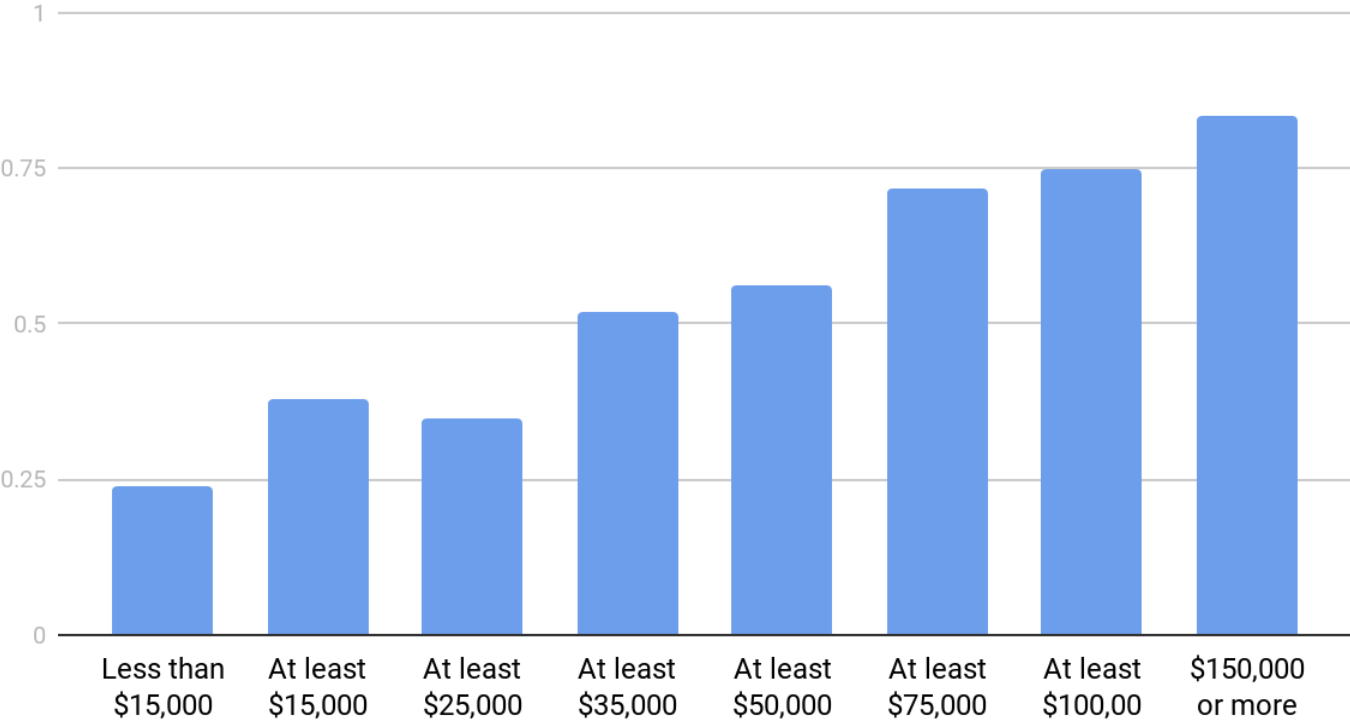


55-65 Age & Saving Regularly for Retirement, 2016

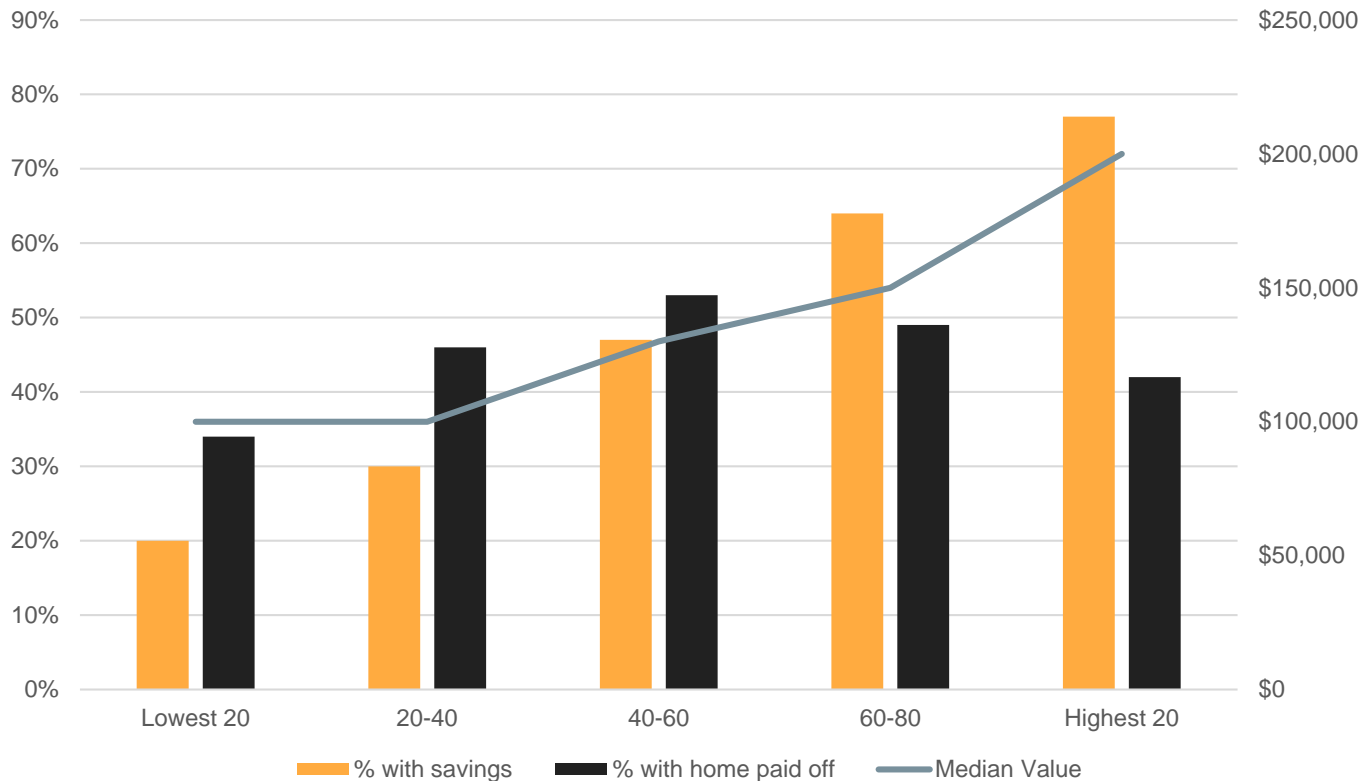


55-65 and Retirement Planning, 2016

Estimated Amount Need to Retire



Importance of Housing Wealth by Income, HRS 2012



Home Equity as Primary Form of Wealth

	Age 50-64			
	Homeowner			Renter
	Home Equity	Non-Housing Wealth	Net Worth	Net Worth
Less than \$15,000	55,000	9,100	66,100	790
\$15,000–29,999	60,000	11,500	93,150	2,520
\$30,000–44,999	70,000	42,290	120,200	9,700
\$45,000–74,999	90,000	86,150	192,500	14,735
\$75,000 or More	186,000	447,405	691,200	121,800

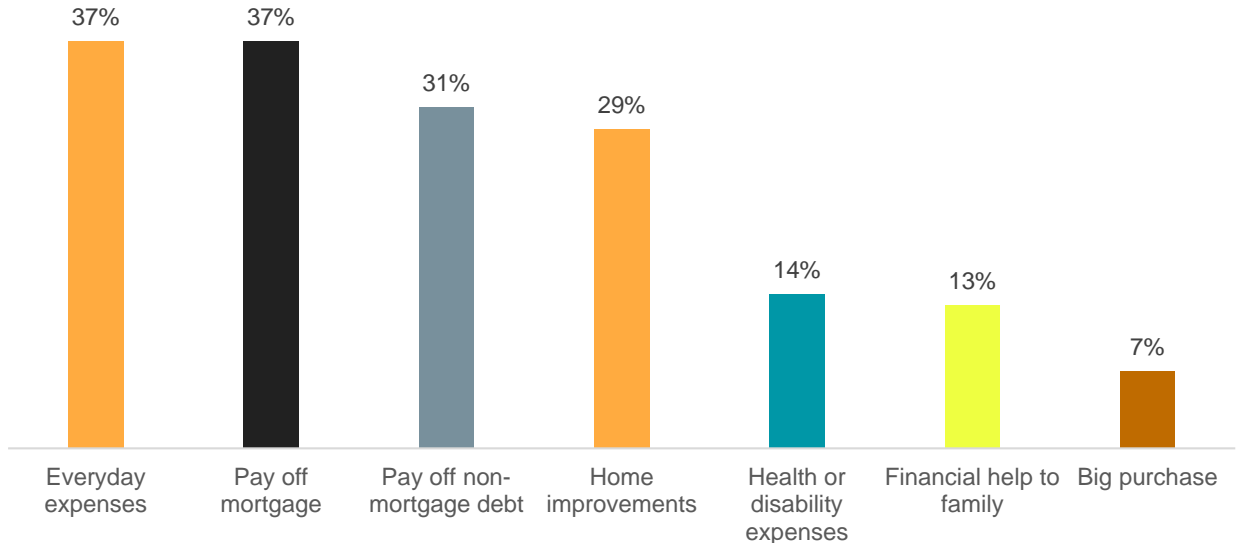
2016 Survey of Consumer Finances.

<https://www.jchs.harvard.edu/housing-americas-older-adults-2018>

Reverse Mortgage

Home Equity Conversion Mortgage (HECM)

Homeowners 62 and older to convert home equity into cash for...



Social Security SSI

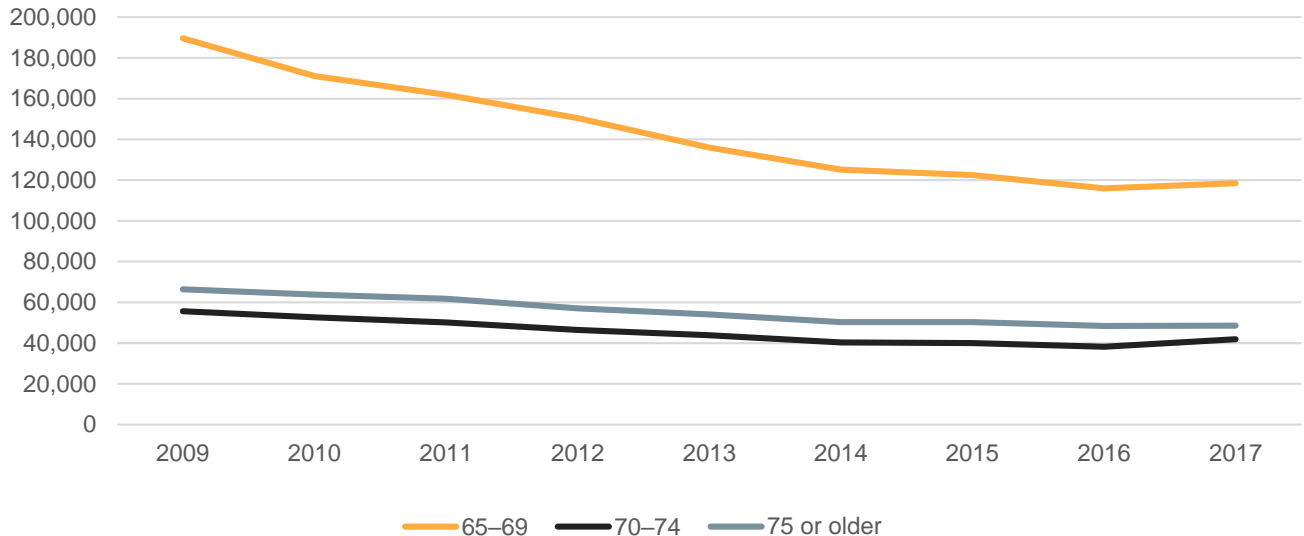
2.2 million senior households receive SSI

Maximum benefit \$750 for a single individual and \$1,125 for a married couple.

Assets cannot exceed \$2,000 (\$3,000 for couple)

Income level: \$9,252 for an individual and \$13,884 for a couple.

Applications



Housing Programs

Support about 2 million elderly households

Section 202 supportive housing

Vouchers

Public Housing

Section 515 Rural Rental

Section 811 for Persons with Disabilities

Very low household income (50 percent of area median).

Typical income is \$10,000 annually

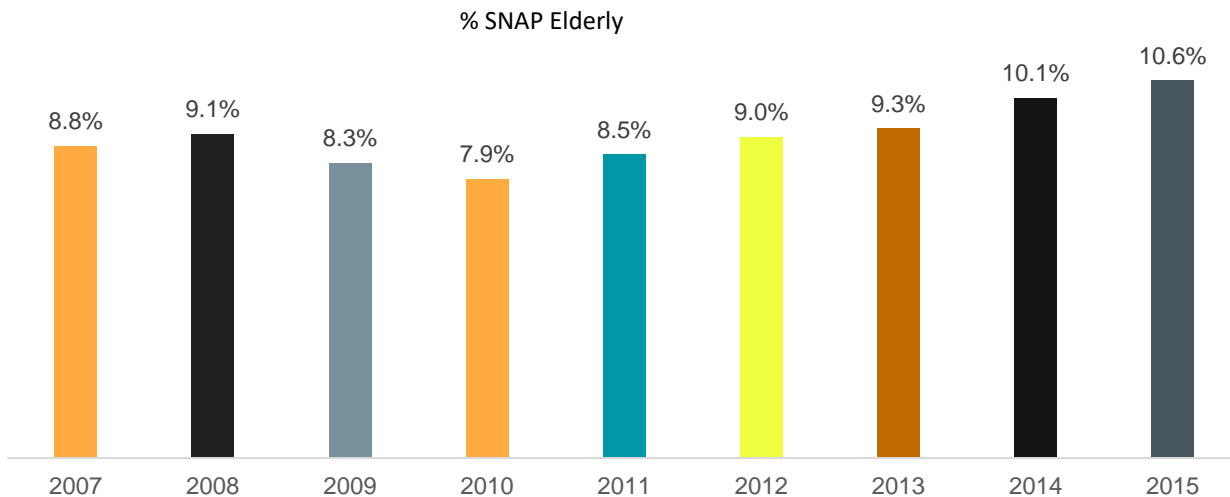
Priority access for Seniors 62 and older, but severe shortages

Long waiting lists, some priority for seniors with disabilities

Food Assistance

SNAP: Households with elderly member received \$128 in benefits each month, or about \$1,500 a year, boosting their income by 14 percent (around \$11,000)

SNAP with SSI (and sometimes housing) for very low-income elderly



Energy Assistance

Low Income Home Energy Assistance Program (LIHEAP)

Elderly priority for heating, cooling assistance, bill payment assistance, energy crisis assistance, weatherization and energy-related home repairs

~ 2 million elderly households

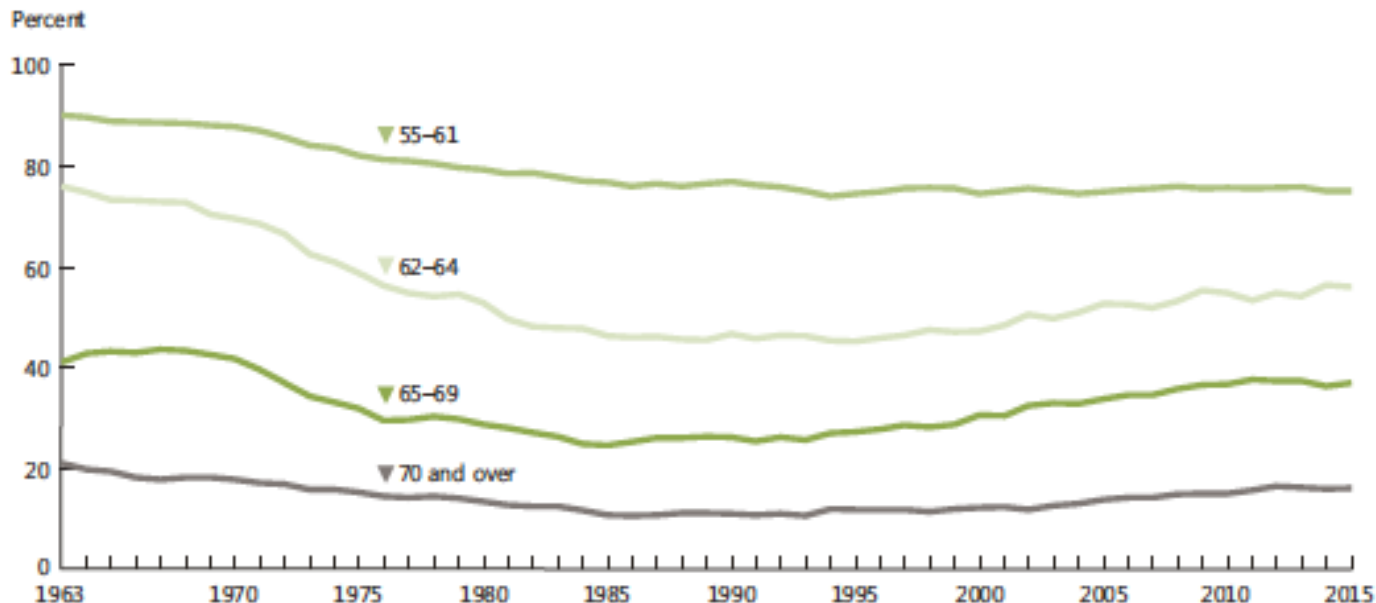
~\$200 per month - varies by state

May serve incomes up to \$35,000 adjusted for size in some states

<https://liheapch.acf.hhs.gov/tables/benefits.htm>

Working Longer?

Labor force participation rates (annual averages) of men age 55 and over, by age group, 1963–2015



NOTE: Data for 1994 and later years are not strictly comparable with data for 1993 and earlier years due to a redesign of the survey and methodology of the Current Population Survey.

Reference population: These data refer to the civilian noninstitutionalized population.

SOURCE: Bureau of Labor Statistics, Current Population Survey.

Back to Example: Born 1962

At income of \$30,000, not likely to qualify for public benefits

Can use housing – pay down debt, use equity as income, if owner

Delay Social Security until age 70: OASI benefit is now \$21,000
\$125,000 saved (because worked/saved/invested longer)

Gap: \$12,000 per year. **Now, savings depleted at age 81.**

- Expected life span of 85 for a male who makes it to age 70

Could continue to work part time...if health okay and work exists

Cut expenses...

Rely on spouse or family support...

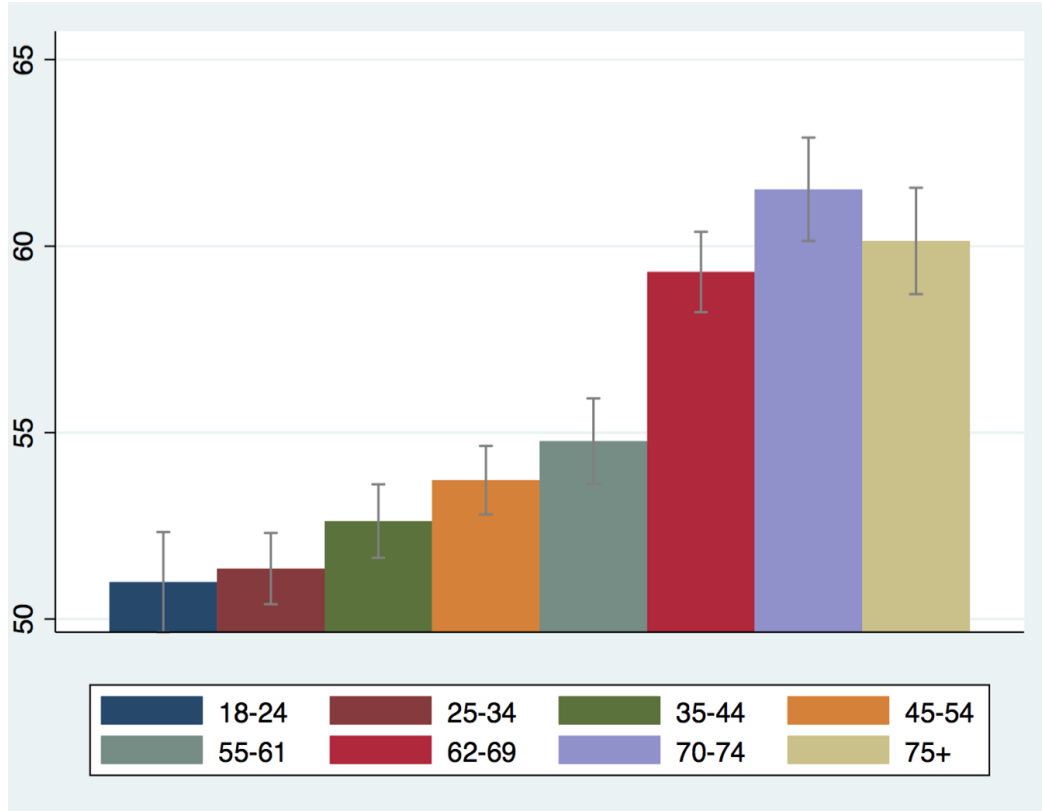
Financial Wellbeing At Risk For Seniors?

Control over day to day finances

Ability to absorb a financial shock

On track to meet financial goals

Financial situation does not limit basic consumption



Changing Face of Retirement Security

More than half of 65-year-olds will require **long-term care** at some point

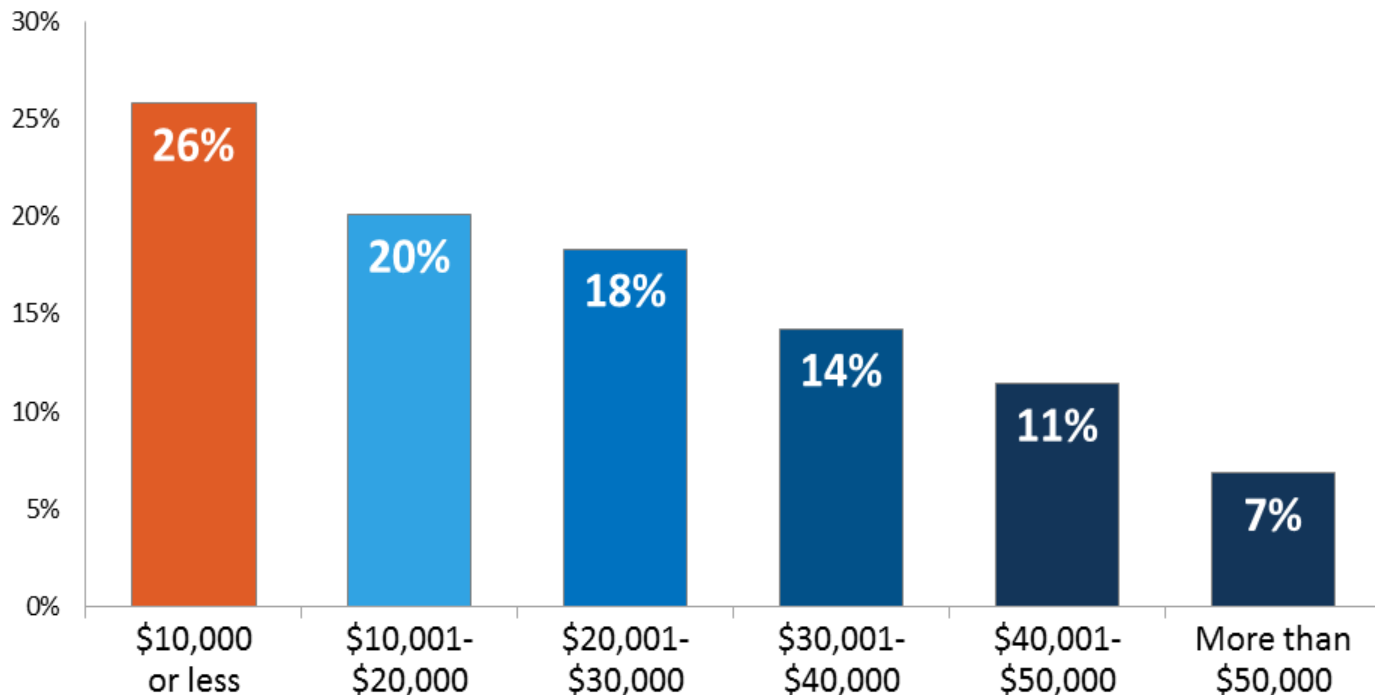


Out of pocket **medical costs** rising

Demands of **caring** for spouse or family members



Spending on Healthcare as % of Income



NOTE: Estimates based on spending and income amounts in 2016 dollars. Excludes Medicare Advantage enrollees and beneficiaries enrolled in Part A or B only. Total out-of-pocket health care spending includes spending on services and premiums for Medicare and private health insurance premiums. Per capita income for married couples is income for the couple divided by two.

SOURCE: Kaiser Family Foundation analysis based on CMS Medicare Current Beneficiary Survey 2013 Cost and Use file.

More Financial Planning Issues

Estates – beneficiaries, titling, simple steps, power of attorney



Life insurance – unlikely but document management



Debt – mortgages, other credit planning

Taxes – rarely factor for low-income, but need to manage IRA or other accounts as age



Looking Ahead

Social Security's stability is important issue for low-income households



Housing wealth; long-run value of owning even a modest home

Healthcare costs—at end of life, but also generally out-of-pocket costs

Strategies to reduce consumption costs; food, housing, energy – including **benefit** programs



At very low incomes, benefits are critical

Margaret S. Sherraden

Julie Birkenmaier

J. Michael Collins

Financial Capability and Asset Building in Vulnerable Households

Theory and Practice



Social Security Administration's Retirement and Disability Research Consortium 2019-2024

- Studying issues relate to disability and retirement programs
- Training for emerging scholars
- Outreach and translation of research
- Focus on economically vulnerable households



<https://cfsrdrc.wisc.edu/>

The findings and conclusions presented today are those of the author and do not necessarily represent the views of the Social Security Administration or the University of Wisconsin.



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Our next webinar

Improving Federal Student Loan Policy

Wednesday, June 26, 2pm Eastern/1pm Central

Karen Dynan

Professor of the Practice, Department of Economics at Harvard University, Assistant Secretary for Economic Policy and Chief Economist at the U.S. Department of the Treasury from 2014 to 2017