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Aging and Retirement

Diversity, Equity and Inclusion

Exploring Financial Fragility Across Generations, Race and Ethnicity

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Exploring Financial Fragility Across Generations, Race and Ethnicity

Financial fragility, defined here as vulnerability to a financial crisis and having a negative outlook of personal finances, can play a significant role in an individual's financial planning, priorities and retirement concerns. The current financial situation differs widely among Americans, the gap of which has been made even wider by the COVID-19 pandemic. Significant ranges in assets, income and levels of financial literacy result in some individuals making well-thought-out and longer-term financial decisions, while others are focused on day-to-day expenses and are vulnerable to financial setbacks.

This report examines how financially fragile Americans are, explores distinguishing characteristics of the financially fragile, and examines their views and concerns regarding their current finances and retirement planning. To do that, a financial fragility index was developed in 2019 based on responses to a survey conducted by the Society of Actuaries (SOA) with Greenwald Research on individuals' feelings toward their financial situation, how confident they are in making financial decisions, whether they can cover an unexpected expense, whether they are on track in planning for retirement and whether debt is complicating their finances. A full description of the index is provided in the Methodology section at the end of this report.

As an update to a 2019 report,[1] this report analyzes financial priorities across generations and is part of the SOA's Aging and Retirement Strategic Research Program. Using results from an online survey in January 2021 of 2,017 individuals including Millennials, Gen Xers, Late Boomers, Early Boomers, and the younger portion of the Silent Generation, key financial issues around financial goals, concerns and retirement preparedness are examined. An additional oversample of 520 Black/African American, 516 Asian American and 495 Hispanic/Latino respondents was also collected. Full reports with detailed data by generation as well as race and ethnicity can be found at www.soa.org/research/topics/aging-ret-res-report-list/.

Who Is Financially Fragile?

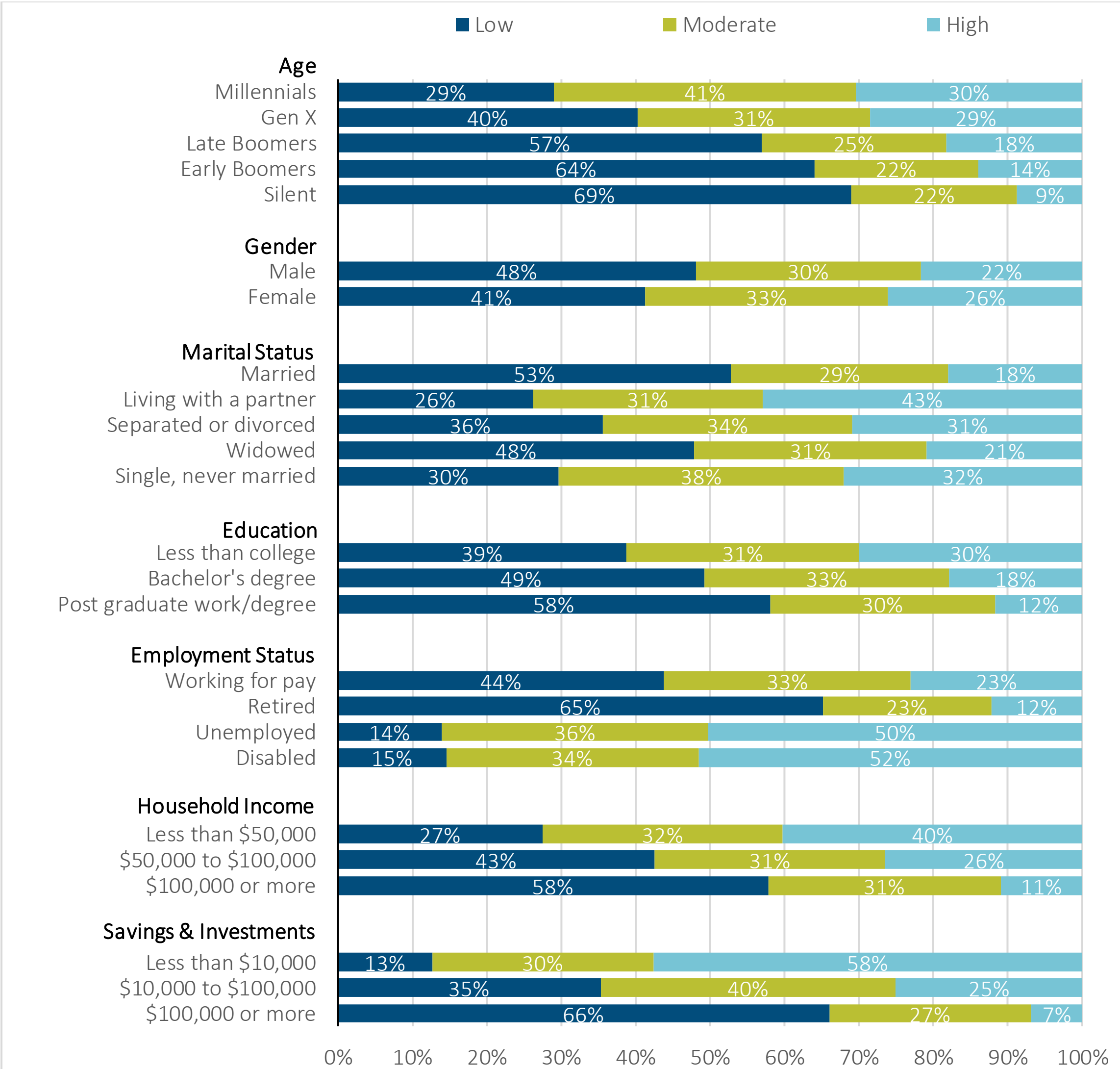
Before looking in detail at financial priorities, behaviors and concerns based on the level of financial fragility, it is important to see how different demographic groups compare. As seen in Figure 1, about 3 in 10 Millennials and Gen Xers are financially fragile. The proportion of people classified as highly fragile is lower for older generations, with the Silent generation the least financially fragile.

By marital status, those married are the least likely to have high financial fragility (18%) and the most likely to have low fragility (53%). Individuals who are living with a partner, who are single, or who are separated or divorced are much more likely to have high financial fragility. Retired individuals are the least financially fragile, followed by those currently working. Those unemployed or disabled are significantly more likely to be highly financially fragile, with more than half falling into this group. As expected, financial fragility decreases with more education, household income and higher values of savings and investments.

[1] Data for the 2019 report was collected in July 2018.

Figure 1

FINANCIAL FRAGILITY BY DEMOGRAPHIC GROUPS

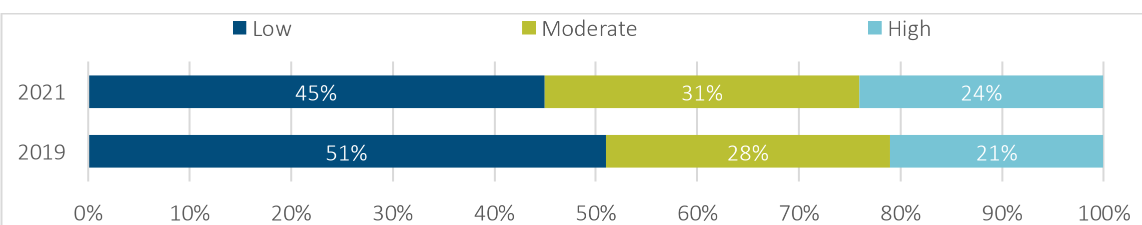


Comparisons to the 2019 Report and the Impact of the Pandemic

Based on our financial fragility index, one-quarter of respondents are highly financially fragile, while 45% have low fragility. Compared to 2019, fragility has edged up slightly (Figure 2).

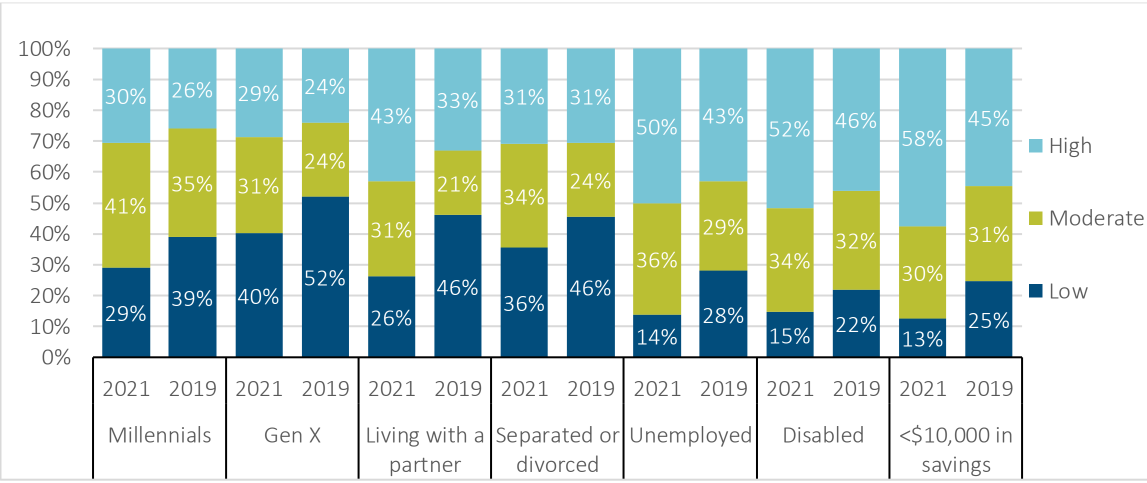
Figure 2

FINANCIAL FRAGILITY: 2021 AND 2019



Many groups that were already financially fragile in 2019 saw high shares categorized as fragile in 2021. Figure 3 shows the groups that saw some of the largest increases in fragility.

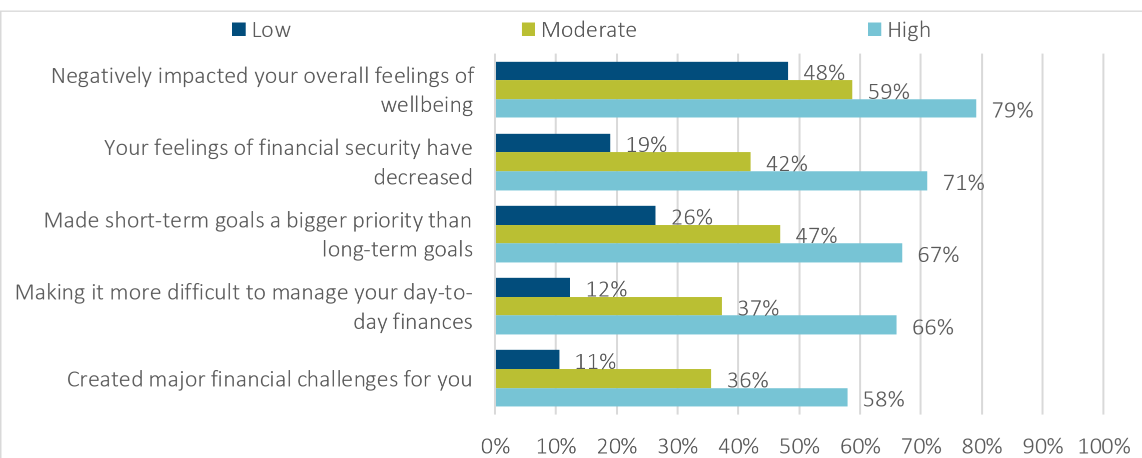
Figure 3
FINANCIAL FRAGILITY BY DEMOGRAPHIC GROUPS: 2021 AND 2019



Those with high financial fragility are much more likely to say their finances were negatively impacted by the pandemic, including their income, debt and assets. That is likely due to the increased likelihood that they experienced negative job impact due to the pandemic; 21% were laid off from their job, and another 11% were furloughed (compared to 3% and 4% of those with low fragility, respectively). Additionally, 22% with high fragility had their working hours decreased (versus 7% of those with low fragility), and 19% experienced a pay decrease (versus 8% of those with low fragility).

It is not surprising to see that those with high fragility are more likely to agree that the pandemic has negatively impacted their overall feelings of well-being and that their feelings of financial security have decreased. Those impacts have the potential to be long lasting because those with high fragility are also more likely to say the pandemic has made short-term goals a bigger priority than long-term goals (Figure 4).

Figure 4
IMPACT OF THE PANDEMIC BY FINANCIAL FRAGILITY



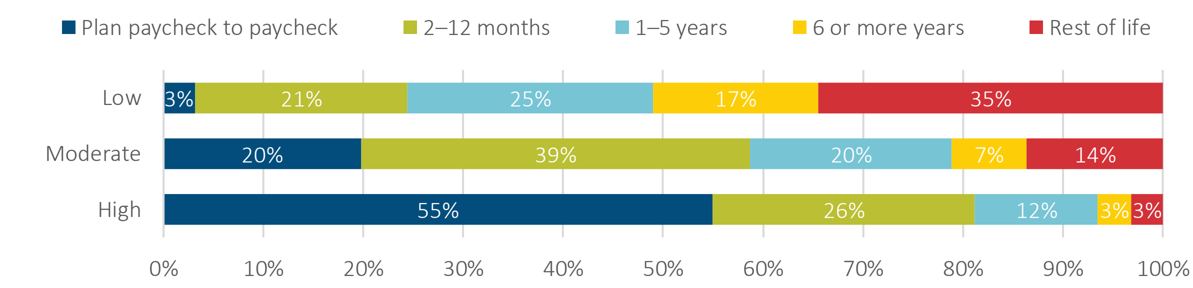
Please indicate the extent to which you agree or disagree with the following statement concerning the impact of the COVID-19 pandemic? (Low Fragility, n = 900; Moderate Fragility, n = 635; High Fragility, n = 482)

Financial Priorities

As may be expected, individuals with different levels of financial fragility tend to have an impact on their planning times frames. Those with high fragility are more likely to focus on the short term – 55% only plan paycheck to paycheck compared to 20% with moderate fragility and just 3% of those with low fragility (Figure 5). On the other end of the planning spectrum, only 3% with high fragility plan for the rest of their lives compared to 14% of those with moderate fragility and 35% of those with low fragility.

Figure 5

FINANCIAL PLANNING TIME FRAME BY FINANCIAL FRAGILITY

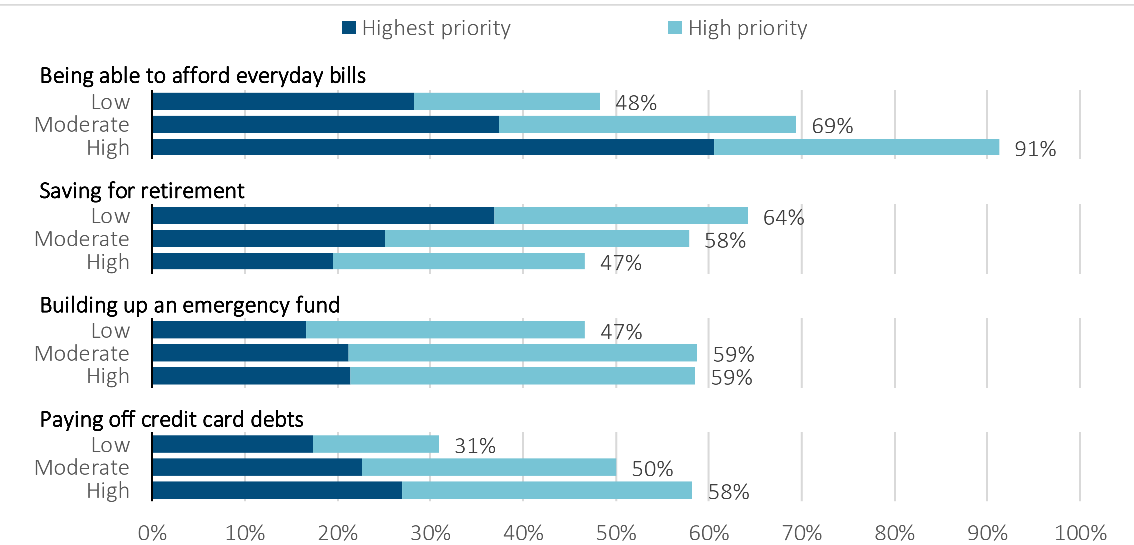


When you are reviewing your financial situation and looking ahead for planning purposes, what time frame do you tend to consider? (Low Fragility, n = 900; Moderate Fragility, n = 635; High Fragility, n = 482)

These planning time frames are echoed in the different fragility groups' financial priorities. Almost all of those with high fragility are prioritizing affording everyday bills compared to 48% with low fragility reporting the same (Figure 6). Additionally, those with moderate and high fragility are significantly more likely to be prioritizing paying off credit card debt and building up an emergency fund. Those with low fragility are more likely to be prioritizing saving for retirement (64% versus 47% with high fragility).

Figure 6

FINANCIAL AND SAVINGS PRIORITIES BY FINANCIAL FRAGILITY



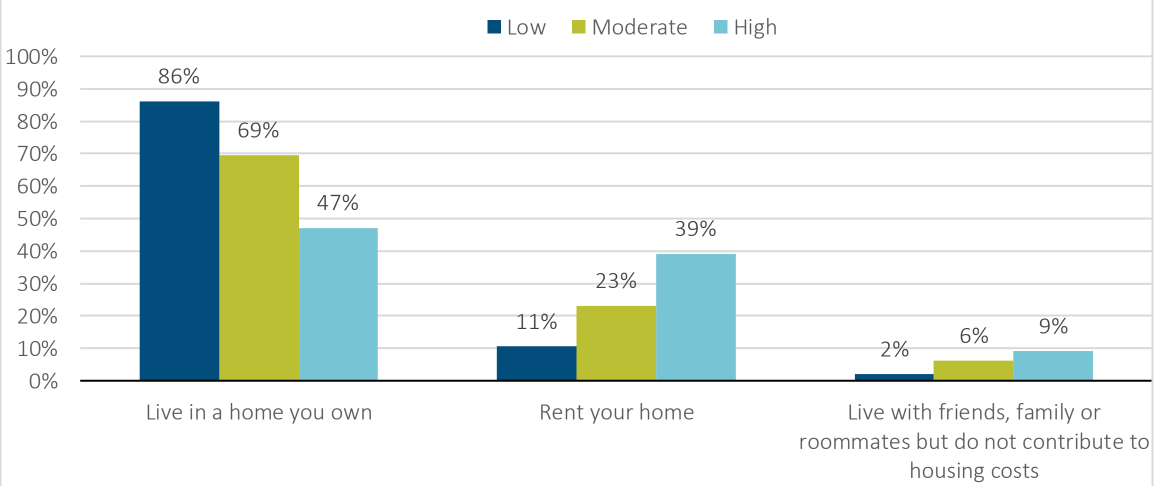
Thinking of your current financial situation, how much of a priority is each of the following? (Low Fragility, n = 900; Moderate Fragility, n = 635; High Fragility, n = 482)

These financial priorities are just some of the areas that are causing stress for those with high financial fragility, which 93% say they experienced due to financial issues in 2020. Comparatively, 69% of those with moderate fragility and 36% of those with low fragility experienced a financial stressor in 2020. For those with high fragility, the most common reasons for financial stress are affording everyday bills (59% versus 23% moderate fragility and 6% low fragility), not having enough emergency savings (49% versus 21% moderate fragility and 5% low fragility), and their level of debt (49% versus 18% moderate fragility and 4% low fragility). In fact, 65% of highly financially fragile individuals say that their level of debt is complicating their ability to manage their finances, compared to 41% with moderate fragility and 10% with low fragility who say the same.

Homeownership

Over 80% with low fragility own a home, compared to 69% with moderate fragility and 47% with high fragility (Figure 7). About 40% of those with high fragility are renting their home, and another 9% are living with family or friends but not currently contributing to the cost of their housing. Since the pandemic, 20% of those with high fragility report they have had difficulties making rent or mortgage payments compared to 5% with moderate fragility and 0% with low fragility.

Figure 7
LIVING ARRANGEMENTS BY FINANCIAL FRAGILITY



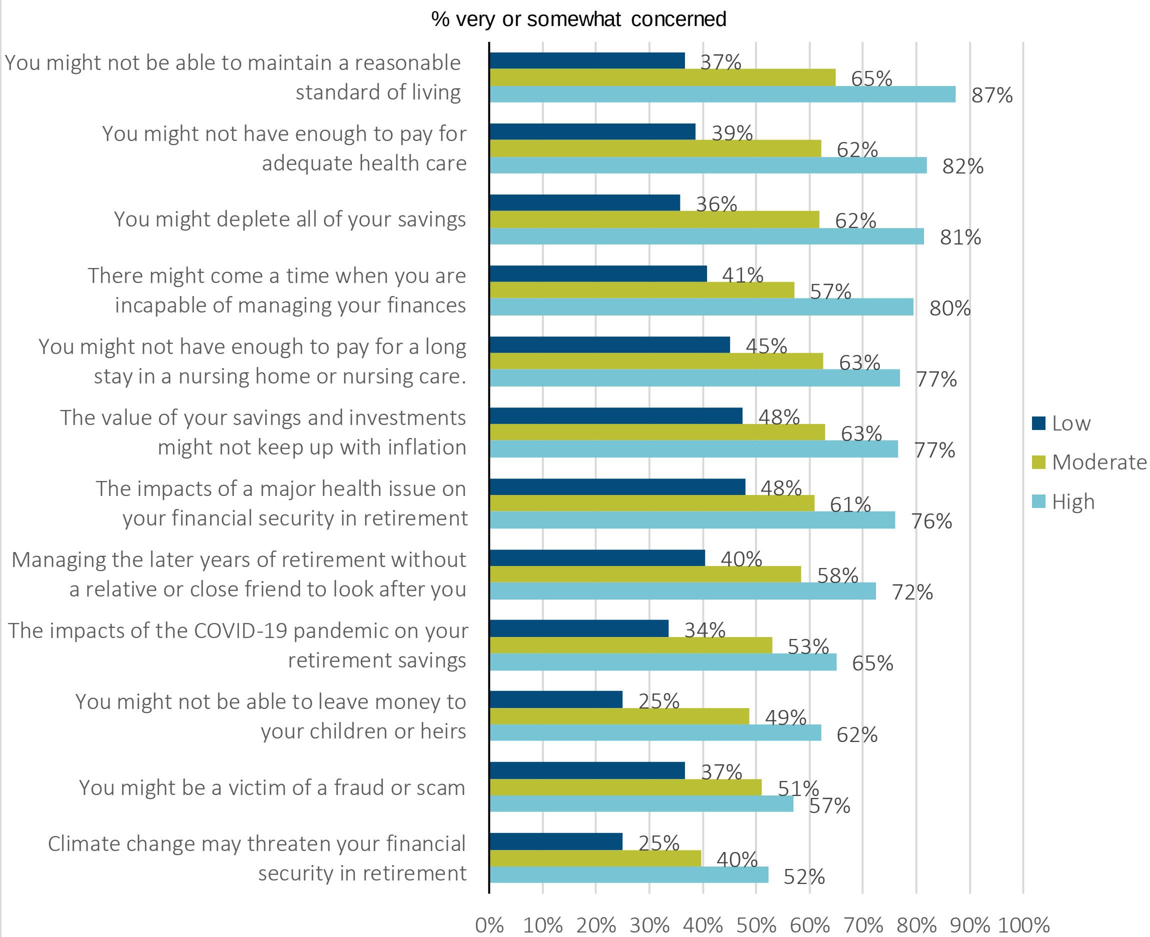
Do you currently ...? (Low Fragility, n = 900; Moderate Fragility, n = 635; High Fragility, n = 482)

Retirement Concerns

As described earlier, those with lower levels of savings and investments are more likely to be financially fragile, so it is not surprising that retirement concerns are high for these individuals. As seen in Figure 8, for each possible retirement issue presented, concern increases with financial fragility. People with high financial fragility are also more likely to think climate change will impact their retirement in a variety of ways, including higher costs of living (58% versus 41% with low fragility), higher taxes (51% versus 39% with low fragility) and negative impacts to their health (46% versus 21% with low fragility).

Figure 8

CONCERNS FOR RETIREMENT BY FINANCIAL FRAGILITY



How concerned are you about each of the following in retirement? (Low Fragility, n = 900; Moderate Fragility, n = 635; High Fragility, n = 482)

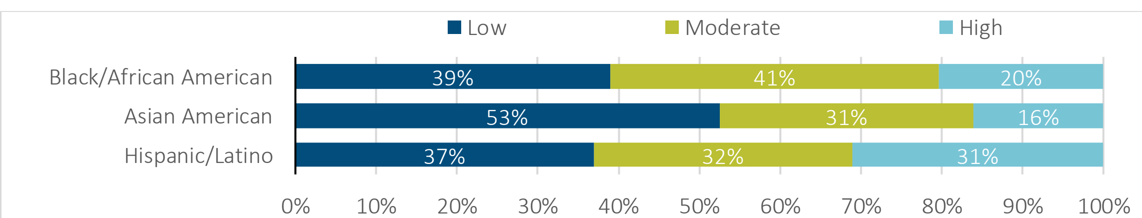
These concerns add up – only 18% of financially fragile individuals believe they are on track in planning for a financially secure retirement compared to 47% with moderate fragility and 88% with low fragility.

Race and Ethnicity

Among the groups that were specifically oversampled in this study, 16% of Asian American respondents are highly fragile, as are 20% of Black/African Americans and 31% of Hispanic/Latino respondents (Figure 9).

Figure 9

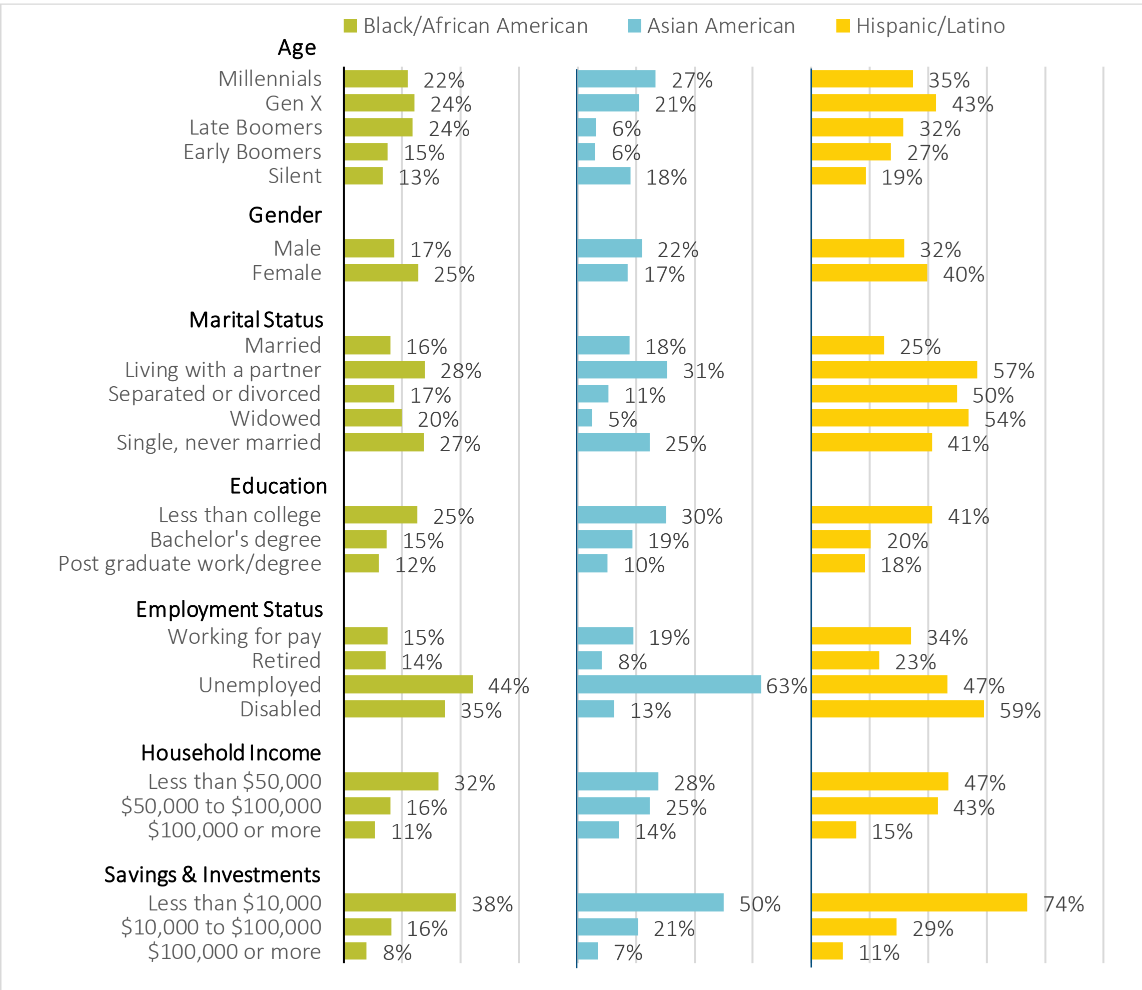
FINANCIAL FRAGILITY BY RACE AND ETHNICITY



As is true with all respondents, the share of those considered highly fragile generally drops with age in each of the racial and ethnic cohorts (Figure 10). However, Asian American respondents in the Silent Generation are more likely than Boomers to be considered highly fragile. Additionally, within each group, those with lower household income or lower savings are more likely to be highly financially fragile.

Among Black/African American respondents, female, single respondents (versus married) and unemployed (versus workers and retirees) are more likely to be financially fragile. For Asian Americans, those more likely to be fragile include those with less than a college degree and unemployed individuals. Hispanic/Latino respondents who are not married, have less than a college education or are disabled are more likely to be highly fragile.

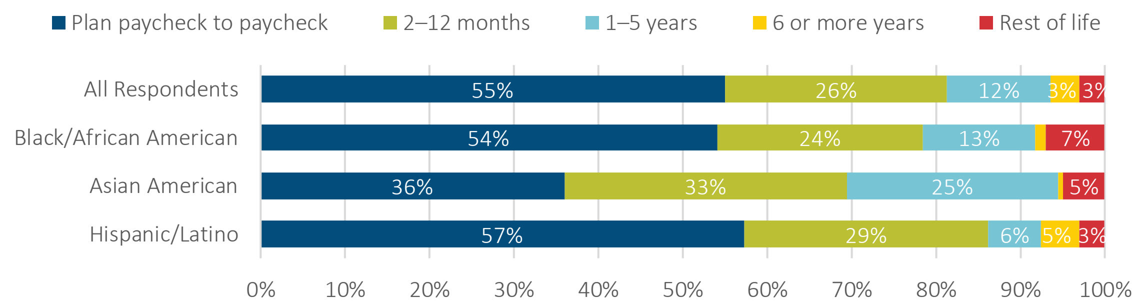
Figure 10
HIGH FRAGILITY BY RACE AND ETHNICITY



While the pandemic impacted the jobs of 6 in 10 of the highly fragile, it appears these three groups were affected differently. Black/African American respondents with high fragility are more likely than lower-fragility Black/African Americans to have experienced a decrease in their hours or been laid off or furloughed from their job. For Asian Americans, the highly fragile are more likely to have been furloughed but not laid off than Asian Americans with low or moderate fragility. As for Hispanic/Latino respondents, there were high rates of pay decreases for all fragility groups (22% with low or moderate fragility, 30% with high fragility). Highly fragile Hispanic/Latino respondents were much more likely than less-fragile Hispanic/Latino respondents to have lost their job.

While Black/African American and Hispanic/Latino respondents with high fragility have similar rates of only planning paycheck to paycheck, just 36% of Asian Americans with high fragility say the same (Figure 11).

Figure 11
FINANCIAL PLANNING TIME FRAME OF THE HIGHLY FRAGILE BY RACE AND ETHNICITY



When you are reviewing your financial situation and looking ahead for planning purposes, what time frame do you tend to consider? (Low Fragility, n = 900; Moderate Fragility, n = 635; High Fragility, n = 482)

Among the highly fragile, there are some interesting differences in their top financial priorities. While 59% of Black/African Americans and 50% Hispanic/Latinos say affording everyday bills are their top priority, just 36% of Asian Americans say the same. That results in more stress for Black/African Americans and Hispanic/Latino respondents. Highly fragile Black/African Americans and Hispanic/Latino respondents are more likely to be stressed about not having enough in emergency savings and losing their income. Both Asian Americans and Hispanic/Latino respondents are more likely to be concerned about paying mortgage or rent.

Key Findings and Implications

There are dramatic differences in financial priorities, concerns, planning behavior and the impact of the pandemic by different levels of financial fragility. Those more likely to be fragile include Millennials; Gen Xers; females; those single, divorced or living with a partner; and, not surprisingly, individuals with lower income and savings levels. The study also finds significant differences between racial and ethnic groups, with Hispanic/Latinos having higher shares with high financial fragility.

Those with high fragility are much more likely to have short planning horizons and are prioritizing affording everyday bills over building up savings for retirement or emergencies. Across the board, concerns for retirement are higher among those with high fragility than those with low financial fragility, and the uneven impact of the pandemic revealed how unexpected events can quickly cause additional setbacks for the financially fragile.

Those results point to some of the potential causes of financial fragility, including income, personal financial behaviors and larger societal issues. Highlighting the concerns, financial priorities and planning behaviors of the financially fragile is important to understanding the short- and long-term implications so individuals, employers and policymakers can better address the issue.

Financial wellness and education programs looking to address these issues should consider the range of differences among financial fragility levels so they can connect to what is most useful and important to different individuals, such as affording housing, debt or saving for a child's education. Some considerations and strategies include:

- Spending strategies are critical to developing sound money management, including how to pay for things, how to avoid impulse purchases and how to maximize the value of one's income.
- Debt can be a huge barrier to financial security. Avoiding high-cost debt and understanding intelligent use of debt are important issues for those with high financial fragility.
- Maintaining an emergency fund is an important tool that is underutilized. Employers should consider offering education and benefits around emergency savings within their financial wellness programs.
- Increasing planning efforts and extending planning horizons are hurdles for some with high financial fragility. For others, the key issue is finding a job with better pay or resolving other societal issues.
- Employing effective strategies that integrate affording everyday bills and saving for the future – including for retirement, education and emergencies – is important for many people.
- Recognizing that, as savings accumulate, the focus will need to shift from how to save to how to invest.
- For those with high fragility, strategies need to be based on the underlying causes of the fragility. To increase financial stability, strategies are needed to move to longer-term planning, getting debt and/or expenses under control, and/or increase earnings.
- For those in the middle tier of fragility, strategies should be matched to individual circumstances. There is room for improved retirement savings in this group, and attention should be paid to whether the individual is planning for the longer term.
- For those with low financial fragility, areas for improving retirement security include optimizing savings on their own or through an employer, understanding how much to save, fine-tuning long-term planning, effectively managing investments well, not using retirement funds too early, maintaining disability protection, employing other preretirement risk management programs and not retiring too early.

Reducing financial fragility is an important step in helping individuals manage the priorities of today as well as those of the future.

Methodology

The report presents the results of research conducted by Greenwald Research, on behalf of the SOA. Greenwald conducted an online survey of 2,017 individuals: 406 Millennials (born 1980-1998), 405 Gen Xers (1965-1979), 402 Late Boomers (1955-1964), 403 Early Boomers (1946-1954), and 401 Silent Generation (1935-1945). An oversample of 520 Black/African American, 516 Asian American and 495 Hispanic/Latino respondents were also collected. The survey was conducted from Jan. 5 through Jan. 27, 2021.

The financial fragility index is based on the following questions:

- “What are your feelings when you are reviewing your financial situation and looking ahead for planning purpose?” *Zero to 20 points were allotted based on the respondent’s net score of 10 possible answer choices with five positive and five negative answer choices.*

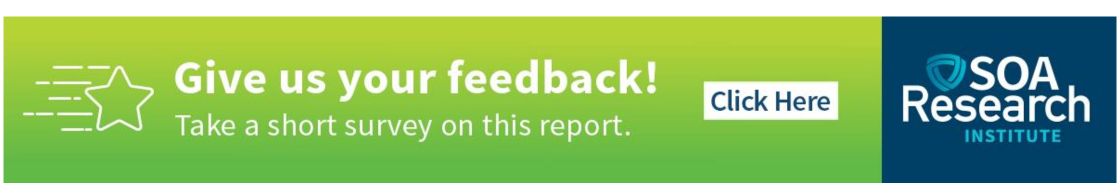
- “Please check the box that best describes where you stand in the continuum between each of the following pairs of opposing words: Confident in making financial decisions; not confident in making financial decisions.” *Zero to 10 points were allotted based on the respondent’s confidence level in making financial decisions with those with the most confidence receiving zero points and those with the least 10 points.*

- “If you had an unexpected expense of $10,000 that had to be paid immediately, how would you cover it?” *Five points were allotted if the respondent was unable to cover a $10,000 unexpected expensive with only emergency savings, general savings and – for those retired – retirement savings.*

- “If you had an unexpected expense of $1,000 that had to be paid immediately, how would you cover it?” *For those who could not afford an expense of $10,000, five points were allotted if the respondent was unable to cover a $1,000 unexpected expensive with only emergency savings, general savings and – for those retired – retirement savings.*

- “Please indicate the extent to which you agree or disagree with the following statements: You are on track in planning for a financially secure retirement; your level of debt is complicating your ability to manage your finances.” *Zero to 10 points were allotted for each statement based on the respondent’s level of agreement or disagreement. The most on track received zero points, and the least received 10 points. Those with no debt complications received zero points, and the most received 10 points.*

In total, the index ranges from zero, indicating the least financially fragile, to 60, the most financially fragile.



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