Is Retirement Planning Possible for Low-Income Families?

J. Michael Collins

May 22, 2019

Webinar begins at 2pm EDT/1pm CDT/12pm MDT/11am PDT
J. Michael Collins
Faculty Director, Center for Financial Security
University of Wisconsin-Madison
Retirement Planning and Low-income Families
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.
Rate of People Working by Age, 2017

- 55 to 64 years: 63%
- 55 to 59 years: 70%
- 60 to 64 years: 55%
- 65 to 69 years: 32%
- 70 to 74 years: 19%
- 75 years and over: 8%

https://www.bls.gov/cps/demographics.htm#age
Social Security Income is Major Source

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

http://www.socialsecurity.gov/estimator/
### Age 65+ Income Share of Income by Source

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

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

https://www.ssa.gov/benefits/retirement/estimator.html
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

- Lowest 10 percent:
  - Defined benefit: 4
  - Defined contribution: 30

- Lowest 25 percent:
  - Defined benefit: 8
  - Defined contribution: 41

- Second 25 percent:
  - Defined benefit: 21
  - Defined contribution: 62

- Third 25 percent:
  - Defined benefit: 33
  - Defined contribution: 69

55-65 Age & Saving Regularly for Retirement, 2016

- At least $15,000: 38%
- At least $25,000: 35%
- At least $35,000: 52%
- At least $50,000: 56%
- At least $75,000: 72%
- At least $100,000: 75%
- $150,000 or more: 84%

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

<table>
<thead>
<tr>
<th>Age 50-64</th>
<th>Homeowner</th>
<th>Renter</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Home Equity</td>
<td>Non-Housing Wealth</td>
</tr>
<tr>
<td>Less than $15,000</td>
<td>55,000</td>
<td>9,100</td>
</tr>
<tr>
<td>$15,000–29,999</td>
<td>60,000</td>
<td>11,500</td>
</tr>
<tr>
<td>$30,000–44,999</td>
<td>70,000</td>
<td>42,290</td>
</tr>
<tr>
<td>$45,000–74,999</td>
<td>90,000</td>
<td>86,150</td>
</tr>
<tr>
<td>$75,000 or More</td>
<td>186,000</td>
<td>447,405</td>
</tr>
</tbody>
</table>

*2016 Survey of Consumer Finances.*

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

https://www.ssa.gov/policy/docs/statcomps/ssi_asr/
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

https://www.cbpp.org/research/housing/federal-rental-assistance-fact-sheets#US
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

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…

https://www.ssa.gov/OACT/population/longevity.html
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

**Estate**s – 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
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.
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