



# Assessing Americans' Financial and Retirement Security

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# Overview



- ACLI and how research and data fit into our mission
- Background and objective of the ‘Assessment’
- ‘The Assessment’: a new way of looking at Americans’ financial and retirement security
- Findings
- Future research

# Quality Data and Economic Analysis are Critical for Effective Policymaking and Advocacy



- *“Data! Data! Data! I can’t make bricks without clay!”* – Sherlock Holmes (Sir Arthur Conan Doyle)
- *“The goal is to turn data into information, and information into insight.”* – Carly Fiorina
- *“Data really powers everything that we do.”* – Jeff Weiner, LinkedIn
- *“Errors using inadequate data are much less than those using no data at all.”* – Charles Babbage, considered by many to be the ‘father of the computer’.
- *“In God we trust. All others must bring data.”* – W. Edwards Deming, statistician, professor, author, lecturer, and consultant
- *“Most lobbyists can get you in the door, but you have to have the story to tell and you have to have the data that proves your point”* – Dan Berger, CEO of the National Association of Federal Credit Unions

# Data and Advocacy: ACLI's Data-Collection Efforts



- Effective advocacy requires a compelling story backed up by solid data and economic analysis.
- Since its inception, ACLI has been at the forefront of data collection and analysis.
- ACLI statistical publications:
  - Life Insurers Fact Book
  - Forum 500 Fact Book
  - Investment Bulletins:
    - Commercial Mortgage Commitments
    - Mortgage Loan Portfolio Profile
    - Private Placements
    - Bond Quality
    - Invested Assets Portfolio Profile
  - State Fact Sheets

# Data and Advocacy: ACLI's Data-Collection Efforts, cont.



- ACLI statistical publications (continued):
  - Benchmark Reports
  - Product Line Reports
    - Life Insurance
    - Annuities
    - Disability Income Insurance (*planning stages, would be annual*)
    - LTCI (*planning stages, would be annual*)
  - Databases
    - NAIC Database
    - AM Best International Database
    - CMC Historical Database
    - MLPP Historical Database
  - Recurring Surveys
    - State Premium Tax Survey
  - Special Surveys (as needed, about 10+ annually).

# Data and Advocacy: ACLI's Data-Collection Efforts, cont.



- ACLI data collection has focused primarily on companies and the industry – *the supply side*.
- ACLI has recently acquired Strategic Business Insights 2016-2017 MacroMonitor Household Survey data:
  - The ‘gold standard’ for data about consumers’ complete financial needs, *particularly life insurance products*.
  - Examines consumer finances and use of financial products in depth – more relevant detail than any other source.
  - Nationally representative, biennial survey of about 4,500 households (100+ pages of questions).
  - Measures of more than 140 attitudes about institutions, investing, retirement, credit, insurance, financial planning, and financial attitudes in general.
  - Very fast turn-around, so data is always current. Survey is fielded in mid-year, processed and released by year-end.

# Background and Objective of the ‘Assessment’



- As part of an effort to educate policymakers on the importance of private sector retirement options and expand awareness of the industry’s footprint in the retirement and financial security marketplace, the *Ad Hoc Committee on Retirement Security* developed the Assessment.
- Annuities, life insurance, disability income insurance, and long-term care insurance are critical components of financial and retirement security. No existing index, indicator, measure or study examines the use of these products.
- The Assessment is based on 2016 MacroMonitor data is used to provide a snapshot of the state of America’s financial and retirement security, with a positive outlook on how the life insurance industry can help prepare Americans for a better future.
- The Assessment will be updated every other year.

# How is the Assessment Different?



- **Strives to be balanced and rigorous.**
- **Uses a highly regarded data source.**
- **Focus on the financial behavior and habits of households, in addition to account balances, debt, etc.**
- **A wide array of measurement factors:**
  - Retirement saving balance;
  - Annual *contribution* to retirement saving (401(k)/403(b)/457 or IRA/Roth IRA);
  - Defined benefit plan;
  - Adequate life insurance, given the number of dependents and debt;
  - Disability income insurance (if working);
  - Long-term care insurance, given financial situation;
  - Health Insurance;
  - Good financial habits (e.g. paying off credit cards; maintaining appropriate levels of home equity, consumer debt, student debt, and emergency savings);
  - Financial planning (e.g. a specific financial plan/strategy, estate planning, etc.);
  - Utilize an individual annuity in or near retirement.



# How is the Assessment Different?

(cont.)



Financial Security...for Life.

- Households are grouped according to age, retirement status, dependents, and homeownership (13 cohorts).
- Every household is assessed relative to its peers.
- Profiles of financially secure households within each key demographic segment are defined, and indicators assigned an appropriate weight.
- Based on measurement factors appropriate for their group, each household in the sample is assigned a score/grade. Scores are then averaged for different age groups.
- The Assessment reports the percent of households in each age group who are well prepared ('on-track'), somewhat prepared ('needs some improvement'), or unprepared financially for the future ('needs substantial improvement').
- Methodology and results were validated with experts in various disciplines *at all stages of this project.*
- Academic and policy literature were used to inform methodology.

# How is the Assessment Different? (cont.)



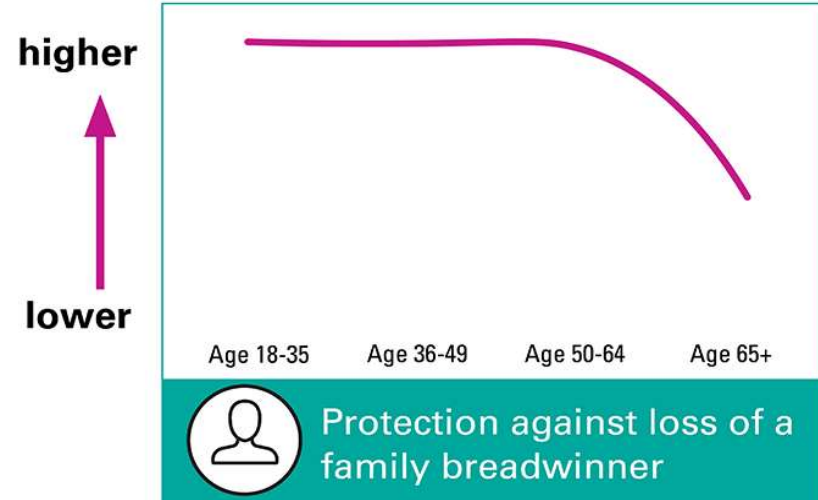
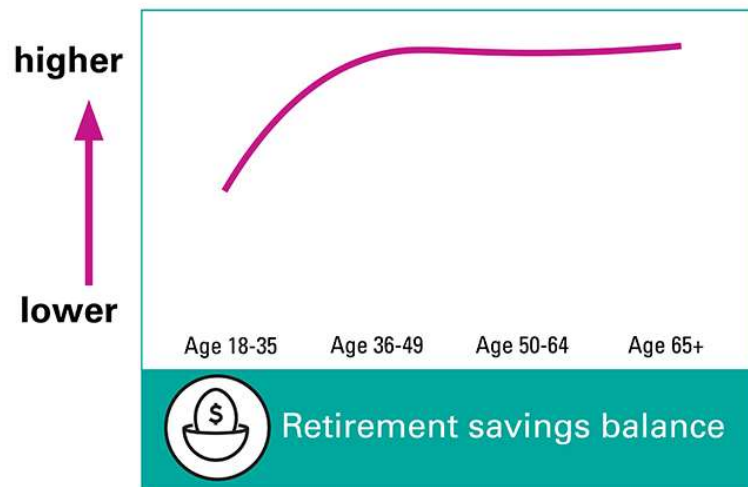
- Indicators are weighted differently depending on age, dependents, homeownership, and retirement status (i.e. which of the 13 cohorts a household falls into).
- There are two types of indicators: fixed-weight and variable weight.
- Fixed-weight indicators reflect financial habits that are consistently important throughout an adult lifetime.
- The Assessment includes the following fixed-weight indicators:
  - Creating and adhering to a financial plan.
  - Maintaining sufficient liquid (emergency) savings.
  - Practicing smart credit card habits.
  - Having health insurance coverage.
  - Maintaining appropriate home equity (if applicable).

# How is the Assessment Different? (cont.)



- Variable-weight indicators reflect financial habits that change in importance relative to other variable-weight indicators.
- The Assessment includes the following variable-weight indicators:
  - Retirement savings balance and contributions.
  - Protection against the loss of a breadwinner (life insurance).
  - Protection against loss of earnings due to disability (disability income insurance).
  - Student loan management.
  - Annuity ownership
  - Estate Planning
  - Preparing for long-term care services/support.

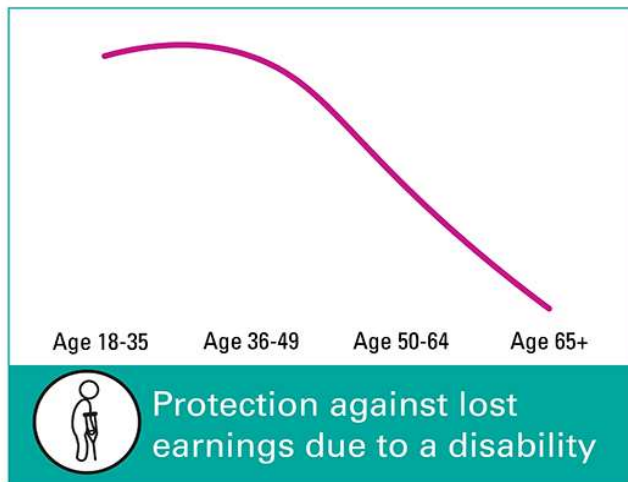
# Variable Indicator Weights Relative to Other Indicators for the Cohort



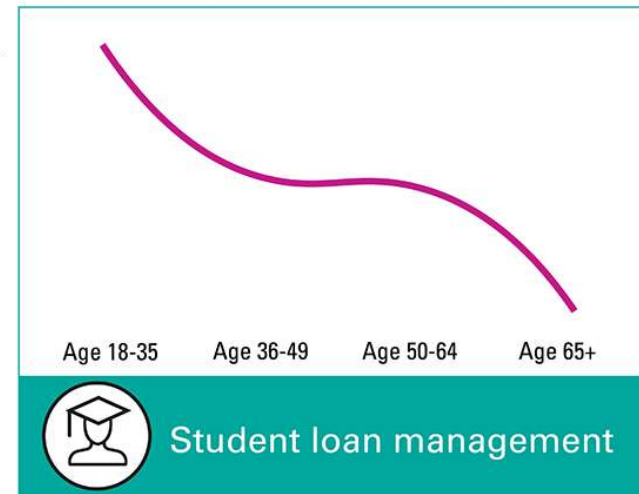
# Variable Indicator Weights Relative to Other Indicators for the Cohort (cont.)



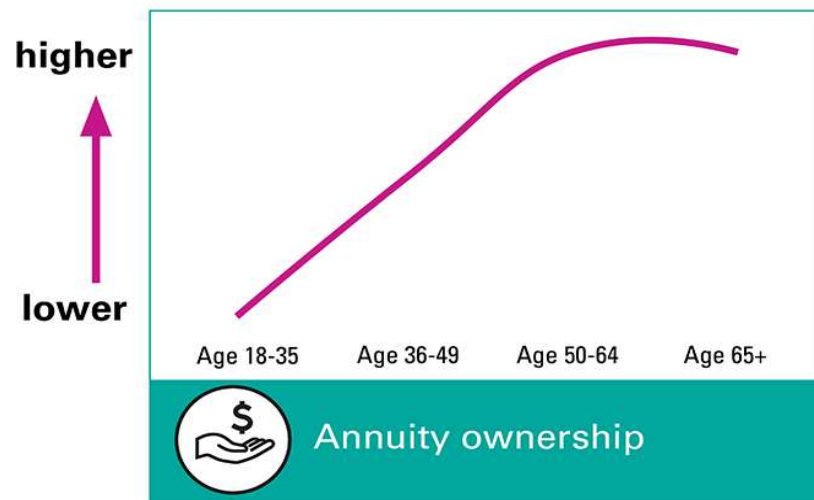
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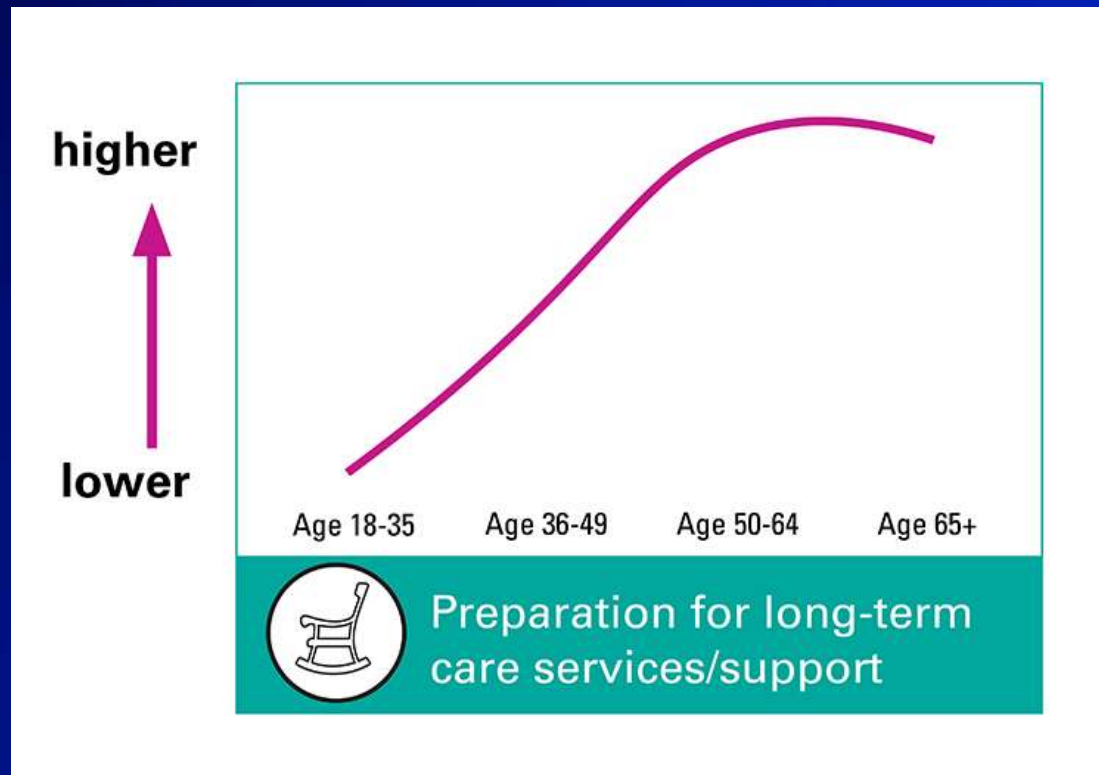
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# Variable Indicator Weights Relative to Other Indicators for the Cohort (cont.)



# Variable Indicator Weights Relative to Other Indicators for the Cohort (cont.)



# 2016 Financial and Retirement Security Scorecard

	On Track	Needs some Improvement	Needs Substantial Improvement
Age 21 to 34	28.6%	29.1%	42.4%
Age 35 to 49	33.4%	25.2%	41.4%
Age 50+ (working)	47.0%	15.0%	38.0%
Age 50 to 64 (retired)	45.6%	12.0%	42.4%
Age 65 to 79 (retired)	70.6%	14.4%	15.0%
Age 80+ (retired)	69.9%	11.8%	18.3%
All Retirees	64.7%	13.3%	22.0%
All Non-Retired	38.0%	21.6%	40.4%
Entire Population	44.7%	20.1%	35.2%



# High Scoring Households are More Likely to Use Life Insurance Products

	Highest Scoring/'On Track'	Lowest Scoring/'Need Substantial Improvement'
Does your employer offer a 401(k)/403(b)/457 plan?	79.0%	32.6%
Did you contribute to an employer plan last year?	68.9%	25.6%
Do you have an IRA/Roth IRA account?	62.8%	21.4%
Do you own life insurance?	80.2%	43.1%
Do you have disability income insurance?	73.4%	28.6%
Do you own an annuity?	18.8%	3.3%

# High Scoring Households Feel More Financially Secure



- **High Scoring HH:** 7 in 10 agree with the statement “*I am currently in a position to meet my long-term financial goals*”.
- **Low Scoring HH:** 3 in 10 agree with the statement “*I am currently in a position to meet my long-term financial goals*”.
  
- **High Scoring HH:** 1 in 10 say they are “struggling to make ends meet” (virtually none said that they ‘require financial assistance’).
- **Low Scoring HH:** 4 in 10 say they are “struggling to make ends meet” or “require assistance”.
  
- **High Scoring HH:** 5 in 10 are “extremely or very confident” they will reach their financial goals.
- **Low Scoring HH:** 2 in 10 are “extremely or very confident” they will reach their financial goals.
  
- **High Scoring HH:** 7 in 10 agree with the statement “I am satisfied with my household’s current situation”.
- **Low Scoring HH:** 4 in 10 agree with the statement “I am satisfied with my household’s current situation”.

# High Scoring Households Are More Likely to Plan and Set Goals



- **High Scoring HH:** 53% say that their single most important financial goal is *'providing for retirement'*.
- **Low Scoring HH:** 25% say that their single most important financial goal is *'providing for retirement'*.
  
- **High Scoring HH:** 5% “have no saving/investment goals”.
- **Low Scoring HH:** 30% “have no saving/investment goals”.
  
- **High Scoring HH:** Median FICO score is 780 (very good).
- **Low Scoring HH:** Median FICO score is 702 (moderate).
  
- High scoring households are not necessarily high income households:
  - 25% of high scoring households earn \$50,000 per year or less.
  - 25% of low scoring households earn \$72,000 per year or more.

# How Does the Assessment Compare to Other Indexes/Indicators/Measures?



- **ACLI's Assessment:**

- 'On-Track' or 'Needs Some Improvement'

- Overall: 64.8%
    - Age 21 to 34: 57.7%
    - Age 35 to 49: 58.6%
    - Age 50+  
(not retired): 62.0%

- 'On-Track':

- Overall: 44.7%
    - Age 21 to 34: 28.6%
    - Age 35 to 49: 33.4%
    - Age 50+  
(not retired): 47.0%

# How Does the Assessment Compare to Other Indexes/Indicators/Measures? (cont.)



- **EBRI Retirement Security Projection Model (2013):**
  - Will likely not fall short of money in retirement:
    - Gen-Xers: 57.7%
    - Late Boomers: 58.5%
    - Early Boomers: 56.7%
  
- **Boston College National Retirement Risk Index (2016):**
  - Will likely not fall short of money in retirement:
    - Overall: 50%
    - Age 30 to 39: 44%
    - Age 40 to 49: 48%
    - Age 50 to 59: 56%

# How Does the Assessment Compare to Other Indexes/Indicators/Measures? (cont.)



- Fidelity Retirement Preparedness Measure (2016):
  - Overall (not retired):
    - “On-Track”: 27%
    - Good: 18%
    - Fair: 23%
    - “Needs Attention” 32%

# Key Takeaways:



- Accurate, timely data is essential for effective advocacy. ACLI has been at the forefront of data collection and analysis since its inception and has recently expanded its capability.
- Tools such as ‘the Assessment’ and household-level data allow us to better understand consumer demand for life insurance products and to formulate more powerful messages for advocacy.
- The Retirement and Financial Security Assessment is a new tool to help gauge the financial well-being of American families.
- According to the Assessment, *in 2016 about 65% of all U.S. households were financially secure, or could be with some changes in behavior.*

# Key Takeaways (cont.):



- **High-scoring households :**
  - Are more likely to use life insurance products;
  - Feel more financially secure;
  - Are less likely to struggle financially;
  - Are more confident in the future;
  - Are better ‘planners’ (aware of the future); have more effective financial habits.
- A high income and/or higher education does not guarantee financial security and retirement preparedness.
- The Assessment can help demonstrate that, if utilized, *America’s private retirement system works.*



# Areas of (Potential) Future Research



- 2018 ACLI Assessment (early 2019-Q2).
- The decline in life insurance coverage and sales (particularly among younger adults)
- Retirement prospects for low-scoring households
- Online Financial and Retirement Security Calculator
- Areas of interest?



# Questions or Comments?

For more information on the Assessment see:

<https://www.acli.com/Industry-Facts/Retirement-Assessment>



# Thank you

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