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THE 80%

The Continued Toll of Financial Insecurity in Retirement

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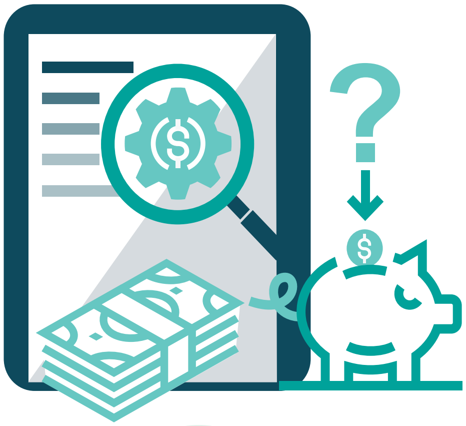

The Continued Toll of Financial Insecurity in Retirement

The COVID-19 pandemic and its aftereffects on the U.S. economy are still playing out. From high inflation to significant changes in the labor market, to supply chain pressures, America's families need to adjust to new economic and financial realities. How we live and work has changed. All this change impacts people differently. Older adults who bore the brunt of the COVID-19 pandemic continue to face financial hardships.

Purpose

In order to better understand the financial realities facing older adults as they age in the U.S.—and to develop effective strategies to address the ongoing needs of this population—examining current data is beneficial. Building upon previous years' analyses, the National Council On Aging (NCOA) and research partners at the LeadingAge LTSS Center @UMass Boston used data from the Health and Retirement Study (HRS), a well-respected and nationally representative panel study of middle-aged and older adults, to assess the financial security of Americans aged 60 and over. In a prior study completed in 2020, the research team presented detailed information on the distribution of total net wealth along with related granular measures of financial well-being. In order to examine trends over time, comparisons were made between data from 2014 and 2016. The purpose of the current analysis is to update our prior report with data from 2018.

In the U.S., financial shocks (large, sudden losses of net worth) are common. In 2015, **60% of households experienced a financial shock** in the previous 12-month period. The risk of experiencing a "shock" only intensifies in older age, as health status often declines, people become divorced or widowed, or they lose the ability to work or live independently. Over a 20-year period, **more than 25% of adults age 50 and over will experience a shock resulting in a 75% or more drop in net wealth**. Among adults age 70 and older, **more than two-thirds will experience at least one negative shock** with financial consequences over a nine-year period.

One of the most significant costs burdening older adults is long-term care services and supports (LTSS), ranging from non-medical assistance with activities of daily living to medical care in a skilled nursing facility. While many Americans underestimate the need for LTSS, **over half of adults 65 and older will need LTSS** for less than two years, and about one in seven will require care for more than five years. Financing even one year of care can prove unwieldy for most Americans. In 2018, **the average yearly cost of a private room in a nursing home was $105,485, and that of a home health care aide was $37,440**. LTSS costs have continued to rise over time, with the cost of a private nursing home room increasing 15.4% from 2013 to 2018, and the cost of homemaker services increasing 15.1% over the same period. As Medicare does not absorb the shock of LTSS costs, this financial risk is often faced directly by older adults and their families or by social safety net programs such as Medicaid. Our updated report captures how the financial status of older adults has changed between 2014 and 2018, offering a clearer understanding of their ability to weather financial shocks and maintain economic security.

Methodology

For this analysis, we segmented the HRS sample of adults age 60 and older into quintiles based on the net value of their total wealth. This means we divided the population into five equal parts of 20%. The last quintile was further broken out into two groups, each representing 10% of the population. Each quintile represents approximately 11 million older U.S. households, and the two deciles comprising the last quintile each represent 5.5 million U.S. households. The study sample was robust with 11,819 households included in this analysis.

We examined a number of financial measures of well-being across the quintiles. We also compared data from 2014 to 2018, which allowed us to examine trends in the financial health of older households. The measures are defined as follows:

- **The *net value of total wealth* is the total sum of housing and financial assets less debts.**
- **The *net value of primary residence* is the value of homeowner's primary residence less mortgages and home loans. This measure reflects home equity that an older person may tap into should they need income and desire to stay in their current home.**
- **The *total value of financial assets* is the total sum of retirement plans, stocks, mutual funds, investment trusts, checking, savings, money market accounts, government savings bonds, T-bills, bonds, bond funds, and other savings. It does not take into account debts or the net value of a homeowner's primary residence.**

Figure 1 shows households with adults age 60 and older divided into quintiles based on their net value of total wealth. For each quintile, there are three columns showing data for the years 2014 through 2018. The numbers in the rows represent the median value of the financial measures for each quintile.

FIGURE 1. Older Adult Households Divided into Financial Quintiles based on Net Value of Total Wealth

	0–20%			21–40%			41–60%			61–80%			81–90%			91–100%		
	2014	2016	2018	2014	2016	2018	2014	2016	2018	2014	2016	2018	2014	2016	2018	2014	2016	2018
Total Household Income (median)	$17,227	$16,500	$16,989	$28,700	$26,052	$27,240	$39,578	$38,069	$40,000	$54,983	$49,200	$52,229	$74,514	$65,786	$71,135	$113,621	$110,684	$109,092
Net Value of Primary Residence (median)	$0	$0	$0	$39,000	$30,000	$45,000	$110,00	$100,000	$115,000	$185,000	$190,000	$220,000	$250,000	$260,000	$300,000	$260,000	$370,000	$400,000
Household Value of Financial Assets (non-housing, median)	$150	$0	$0	$4,000	$2,000	$2,000	$30,000	$15,100	$16,300	$179,000	$127,000	$130,000	$490,000	$407,900	$480,000	$407,900	$1,175,718	$1,331,254
Household Net Value of Total Wealth (median)	$0	$0	$0	$47,341	$36,000	$39,500	$151,000	$133,000	$150,000	$356,059	$323,000	$369,405	$731,119	$700,500	$779,287	$700,500	$1,606,000	$1,800,000

Findings

The results of this updated analysis suggest that most older Americans continue to lack sufficient resources to brave a financial shock such as a significant long-term care need, health issue, or loss of income due to divorce or widowhood. Though the value of financial assets marginally increased or stayed the same for 80% of older adults from 2016 to 2018, the bottom 20%, approximately 11 million households, have no assets. This group has a 2018 median income of $16,989 and would be unable to rely on personal finances to pay for LTSS, especially with rising costs of care. The next three quintiles (21–40%, 41–60%, and 61–80%) of older adults saw modest increases in their financial assets between 2016 and 2018, but these individuals would still be **unable to afford more than two years of nursing home care** in a semi-private room or four years in an assisted living community if their median income and household value of financial assets were added together. **Despite adults' preference to age in place, 60% of adults would be unable to afford two years of in-home long-term services and supports.** Therefore, although the need for services both in the short- and long-term remains a reality for many older Americans, most do not have the financial resources to afford either.

Beyond financial shocks and LTSS needs, additional HRS analyses revealed that a substantial percentage of older adults do not have adequate income to live independently in the community without some assistance. Specifically, the 2018 HRS data showed that 45% of those 60 and older had household incomes below the **Elder Index**[1] value for their geography, meaning that their average income was below the standard needed to afford basic living needs. Among those in the bottom 20% of the quintiles shown in Figure 1 (2018), 87% had household incomes below the Elder Index. Of the 80% noted above who could not absorb a financial shock, 55% had incomes below the Elder Index in 2018, which means they did not have the financial means to adequately meet basic living costs.

With the exception of the bottom 20%, many older adults hold most of their financial assets in the property value of their homes. Whether household wealth is comprised primarily of liquid assets or home equity is also important. If annuitized, home equity could theoretically act as a potential buffer in the event of a financial shock. However, **a prior HRS analysis** demonstrated that **only 18% of those 62 and older would benefit from using their home equity to pay for long-term care**, should the need arise. The remaining 82% either did not have enough home equity to make enough of a difference in the payment of LTSS costs and would still qualify for Medicaid coverage over time or a much smaller group could afford LTSS care, depending on how long they needed it. Still, this observation of current older adults having property assets that may help weather financial shocks is an important consideration in the conversation regarding the economic stability of future generations. With **fewer young adults owning property compared to the Baby Boomer generation at their age**, it is unclear how property ownership will transition in the coming decades and how this will impact the ability to absorb financial shocks for future older adults.

Conclusions

Our findings show that although income and the value of household assets generally increased between 2016 and 2018—a reversal of the pattern from 2014 to 2016—older Americans still struggle financially or are at risk of falling into economic insecurity. Despite modest increases in income and household assets for the middle 40% of older adults in the U.S., **80% of older adults in the U.S. would be unable to absorb a financial shock such as long-term services and supports**. Financial insecurity has largely remained unchanged for those already most at-risk. In 2018, those in the bottom 20% had no financial assets, and those in the 21–40% quartile saw no increase in their assets' value from 2016. Financial patterns over the next several years would need to improve dramatically in order for most older Americans to maintain economic security in the face rising living costs and increasing risks of financial shocks.

national council on aging

About NCOA

The National Council on Aging (NCOA) is a trusted national leader working to ensure that every person can age well. Since 1950, our mission has not changed: Improve the lives of millions of older adults, especially those who are struggling. NCOA empowers people with the best solutions to improve their own health and economic security—and we strengthen government programs that we all depend on as we age. Every year, millions of people use our signature programs BenefitsCheckUp®, My Medicare Matters®, and the Aging Mastery Program® to age well. By offering online tools and collaborating with a nationwide network of partners, NCOA is working to improve the lives of 40 million older adults by 2030. Learn more at **www.ncoa.org** and **@NCOAging**.

LeadingAge LTSS CENTER @UMass Boston
Research bridging policy and practice

About the LeadingAge LTSS Center @ UMass Boston

The LeadingAge LTSS Center @UMass Boston conducts research to help our nation address the challenges and seize the opportunities associated with a growing older population. Established in 2017, the LTSS Center is the first organization of its kind to combine the resources of a major research university with the expertise and experience of applied researchers working with providers of long-term services and supports (LTSS). Learn more at **www.ltsscenter.org**.

[1] The Elder Economic Security Standard™ Index (Elder Index), developed by the Gerontology Institute at the University of Massachusetts Boston, measures the income needed for older adults to meet their basic needs. The Elder Index factors in household size, location, housing tenure, and health status.