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Navigating an Unclear Path: Preparing for Retirement in the 21st Century

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Tori Millen is a single mother living in a West Coast city. While Tori's income has increased from $37,900[1] in 1998 to $55,000 in 2010 she has struggled to build any long term economic security. Recently laid off from a marketing and sales job, and without a substantive wealth cushion, Tori was forced to draw down what little assets she had accumulated to help cover this period of unemployment, using up her 401K and savings account to keep afloat; she has relied on her daughter to help chip in money for groceries. While Tori's parents could offer little in the way of direct financial support, in the past she was able to live with them, enabling her to save for a down payment on the home she has owned for the past 15 years. Her community, however, was hit hard by the economic recession with increasing vacancies and turnover rates throughout her neighborhood. Such trends have caused home values to plummet and left families like the Millens with little or no home equity.

In contrast, Andrea and Blake Mills, who also are raising their two children on the West Coast, have been able to secure substantial retirement savings and other assets years before expecting to retire. Blake's parents helped them buy their first home in the early 1990s and they were able to use the equity from their starter home to purchase their current, larger home in 2000. With home prices rising "significantly" in their community their current home has almost doubled in value since they bought it, providing them with a strong financial foundation. Blake's been at the same firm for 20 years and has moved up to a management position with secure health and retirement benefits. Combined the Mills have about $310,000 in retirement accounts and both expect to be able to work for another 15 to 20 years before retiring. The combination of employer-based retirement savings, rising home values in their neighborhood, and family support in buying their first home, have paved a secure retirement trajectory as they approach their later years.

These two divergent examples reveal how institutional, community, and extended family resources play an important role in shaping the retirement savings trajectory for families and how the lack of these resources can leave a family approaching retirement without savings and solely dependent upon Social Security. For some, the path to retirement is clear and smoothly paved. For many others the path to financial security later in life is insecure and filled with numerous obstacles. Unequal access to key resources and supports means that existing economic inequalities are often replicated over time and worsen over the life course. National retirement trends reveal that retirement savings are increasingly insufficient for families. Without policy action, the path to retirement security will become more and more challenging.

Terms Used in This Series

Assets/Wealth: Assets are the resources available to households—financial, personal, institutional, and social (networks of family and friends)—that can be drawn upon in times of need, or can be invested for the future. Examining the change in a family's wealth over time helps reveal changes in economic security and opportunity for the family as a whole.

Head Start Assets: Head start assets are those assets parents provide to their children to help them access opportunities. These assets might include a loan or gift to buy a house, or a savings account to help pay for college.

Transformative Assets: Transformative assets are inherited wealth that lifts individuals or families beyond their own direct achievements.

Net Financial Assets/Liquid Wealth: Financial assets are those liquid financial resources, such as savings accounts, retirement accounts, children's college funds, and stocks and bonds, available to a family to draw upon. Net financial assets are the sum of all financial assets minus the sum of all debts (excluding home equity).

Net Worth (Total Wealth): Net worth is a wealth measure that looks at the sum of a family's assets minus all its debts, including home equity.

Asset Security: A family has asset security if, together with three months of unemployment insurance and its own assets, it has sufficient liquid assets to cover 75% of average household consumption for three months.

Introduction

All families hope for lasting financial security, but today, many families in the United States struggle to make ends meet, let alone prepare for their financial future. Looking ahead towards older age, families hope to pay off debts, give their children a secure start in life, and build a nest egg for retirement. However, these basic aspirations prove elusive for many, placing long-term financial security out of reach and the retirement that many imagined is now fraught with insecurity. Rather than dream about the "golden years," many families approaching later life do not have a clear vision for what the future will look like. Just as many are simply trying to get by today, with a similar, if not more difficult path ahead.

Families who earn incomes near that of the typical (i.e. median) family in the United States have very little retirement savings outside of Social Security. With more and more of the burden for ensuring sufficient retirement resources shifted to households and facing so many future unknowns, even those families that are relatively well-off—compared to their peers—feel uncertain and insecure about retirement. In the past, when pensions were the primarily defined-benefit style, retirees were guaranteed an income stream for life—dependent on years of service—and employers were tasked with investing and saving for their employees' retirement. By contrast, the more recent and increasing shift towards defined-contribution pensions, which are essentially tax-deferred savings accounts, such as 401(k)s, places extremely complex and difficult saving and investing decisions, even for the very well informed, into the hands of employees. This brief highlights that today there is a relatively small portion of the population that can expect a secure retirement because they spent most of their lives in the upper reaches of the income and wealth distributions or have secure traditional pensions; however, even their numbers are decreasing as income inequality grows and employer-managed, traditional pensions that provide a life-time annuity are becoming increasingly rare.

Not enough has been done to pave the way for the next generation of older adults to achieve economic security. Like an overgrown hiking trail, looking ahead is difficult as families try to determine the best path to take. Obstacles along the unkempt path may become difficult to navigate. As families progress along this dense trail, they face growing financial demands—skyrocketing higher education costs for their children and an uncertain job market—and often make little progress towards preparing for retirement. Our hikers have a very sparse toolkit for their trek—with Social Security as a crucial safety net which provides modest income for retirees—but how likely are they to reach the peak of the mountain without a clear path and a more complete set of supplies? Moving towards a pension system primarily characterized by defined-contribution accounts changes the retirement landscape. The trek becomes more unclear than before and presents a number of potentially unforeseen pitfalls. This investigation aims to explore options to allow aging families to successfully view the path, tackle the climb, and reach the summit: long-term financial security.

In this brief, a mixed-methods approach is taken to analyze the long-term financial well-being of middle-aged households as they plan for the future and approach retirement. The Leveraging Mobility Study—utilizing a unique longitudinal, qualitative dataset of families with children—reveal the available financial resources and challenges of families as they approach their later years. Given the limited qualitative research done in this area, this report is able to provide new insights into the economic dynamics and tradeoffs that families face as they approach their senior years. Combining the qualitative data with nationally representative data from the Panel Study of Income Dynamics (PSID) captures the foreboding trends and pervasive inequalities that shape the future of retirement security in this country. Contrasting a single case study family approaching retirement with several key financial resources in place to the many more households in the Leveraging Mobility Study who face an uncertain trajectory for their upcoming years, we are able to identify the key patterns which can help lead families to long-term economic security and identify where the potholes lie. By understanding the sources of security and the key vulnerabilities families face, we can propose policy and structural solutions for expanding long-term later life security to greater numbers of families.

An Ideal Retirement Scenario: Work Benefits, Rising Home Equity, and Family Support

Financial security in later life—in which families do not worry about basic necessities or running out of savings comes from two key sources: having economic resources well-beyond what most U.S. households have or possessing a secure traditional pension, resulting from a long-career with few (if any) changes in employer. Families with either one or both of those key resources can often look forward to a relatively secure retirement as a period of "golden years". However, data suggest that nationally it is becoming increasingly rare to have a sense of economic security (as will be discussed in the next section). The Conways are an example of one family able to reach a level of genuine financial security that provides a strong foundation for a secure future retirement.

The Conways, a white, college educated family of three live on the West Coast. The family has reached a level of economic security beyond that of most families in the U.S. In 2010, Angela and Steve, aged 50 and 57 respectively, were not thinking about retirement; their priority was to assist their high school-aged son through college. Steve, a public school teacher, and Angela, a manager at an investment firm, have both held long-term, salaried positions with their employers where they have access to employer-sponsored health and retirement benefits and regular cost-of-living increases. Together they earn approximately $122,000 per year. As a teacher, Steve has a public-sector pension that guarantees an income stream after retirement; in recent years, he earned a master's degree that increased his salary on the pay scale for teachers in their area. In addition to their employer sponsored retirement savings accounts, they have bonds, and CDs, which they have been able to use for large purchases and major expenses, like home repairs and new vehicles.

Approximately 20 years ago, the Conways were able to purchase their current home with the help of a loan from Angela's parents. They have accumulated substantial equity in their home, which is located in a gentrifying neighborhood, where historic homes are being remodeled and upgraded. Steve noted, "…we're much better off than when we first bought the house. I think that the appreciation has been at least 100 percent." Just as family was helpful when the young Conways started-off financially, their extended family resources will provide a significant boost to their retirement security through an expected inheritance of approximately half a million dollars from Angela's mother.

About the Leveraging Mobility Study

The *Leveraging Mobility Study* is a unique, longitudinal dataset of in-depth interviews that focuses on families' financial decision-making processes and the trade-offs families make between current needs, long-term financial security, and opportunities for mobility. Conducted at two periods of time, the *Leveraging Mobility Study* interviewed households across the U.S., primarily focusing on three cities in diverse regions of the country. In 1998, the original sample of 180 families was selected to include half white and half African-American families with an equal share of both working class and middle class families. At baseline, all of the families in the sample had children between 3 and 10 years old. The second wave of 137 interviews was conducted between 2010-2012. At the time of the follow-up interviews, the parents in the study were primarily in their 40s and 50s and nearing retirement, while their children were at the end of their high-school careers or beyond.

About the Panel Study of Income Dynamics (PSID) Study and Sample

The Panel Study of Income Dynamics is a national, longitudinal dataset that began in 1968 and is conducted by the University of Michigan. Following the same families and their descendants for almost 50 years, the PSID is the longest existing longitudinal survey of households in the world. The data include information on a diverse set of individual and household characteristics including income, wealth, education, employment, and health. For the analysis in this report, the same households were followed for seven survey periods—from 1999 to 2011—to closely mirror the time period covered in the Leveraging Mobility qualitative sample. To further match the PSID data with the *Leveraging Mobility* data, a study sample was selected of households with a head that was of prime working age (25-50) and had children under the age of 18 at baseline (1999).

The Conways have been able to establish a secure financial position as they look towards retirement; however, their story reveals that the trajectory for retirement security does not occur in a vacuum. Instead, neighborhood and family resources, as well as institutional setting, are key resources in creating a financial foundation for families. While the Conways are a high earning, dual-income household, with disposable income, they do not live the frugal lifestyle that many retirement experts have ensured is the key to retirement security. Each month, the family spends approximately $900 combined on exercise and dance classes, housecleaning services, and gardening equipment and supplies. They donate approximately $15,000 per year to charities and their church. Thus, the Conways have been able to regularly put money towards favored personal and family expenses without sacrificing long-term security. This is due to their broad financial resources through their work, housing equity, and extended family resources.

The case study of the Conways, who approach retirement in a far better financial position than most Americans, highlights the dynamics of how a family might reach an ideal retirement scenario and suggests ways to broaden security in retirement to more households. What are the key foundations of financial security in retirement and how do families get to a level of financial security in their later lives that will sustain them through retirement? In the next sections, we will see how these key resources are declining and unevenly distributed in the United States overall before looking at specific families that are not as fortunate as the Conways.

Declining Retirement Security in the U.S.

Families like the Conways are the exception to the rule, as pensions from employers become less secure and income inequality grows nationally. Even when incomes seem adequate for a working-aged household, disability, unemployment, income fluctuations, and other economic shocks can make long-term financial planning challenging. Thirty-five years ago, two-thirds of full-time private sector workers, ages 25-64, had an employer who *sponsored* any type of pension plan; since then, the number has fallen to 57.6 percent (Center for Retirement Research 2013).[2] While approximately 50 percent of private sector workers have pension coverage today, employees commonly move in and out of coverage due to job transitions or unemployment; thus, they are likely to have insufficient retirement savings as they approach their later years (Munnell and Bleckman 2014). The traditional "defined-benefit" pension coverage has been declining for several decades as companies adopt defined-contribution pensions, such as 401(k)s, in their place putting the burden of saving and investment decisions on workers as they try to manage retirement savings accounts (Hacker 2006). Since 1989, the percentage of workers with defined-benefit pensions has fallen from nearly one-third (32 percent) to just over one in eight (13 percent) (Munnell 2014).

These factors lead to an increasingly gloomy retirement outlook for U.S. households. Data tracking patterns of overall economic security among seniors using a multifactor index, the Senior Financial Stability Index (SFSI), reveal that increasingly seniors are financially vulnerable, with overall insecurity rising from about one-fourth of older adults in 2004 to over one-third in recent years (Meschede et al., 2015). Rising housing costs, everyday expenses—especially medical expenses—and insufficient retirement assets are key factors driving these foreboding trends (Meschede, Sullivan et al. 2011). However, general trends mask differences and vulnerabilities among subpopulations within U.S. society and analysis of retirement security among households of color, using the SFSI framework, reveal that nine-in-ten African American and Latino seniors confront long-term financial insecurity (Meschede, Shapiro et al. 2010). The following section highlights the ways in which current ominous trends nationally are affecting households of color disproportionately.

Disparities in Access to Retirement Resources

Investigating the trends in retirement security broadly hides the inequities across the U.S. population, in which pensions, wealth, and retirement security have long been unequally distributed by race and ethnicity. Among prime working-age employees (25-59), substantial differences exist by race/ethnicity regarding access to and take up of employer-based pensions; in 2009, 55.1 percent of white wage and salary workers participated in a work retirement plan compared to just 44.5 percent of blacks and 30.2 percent of Latinos (Butrica and Johnson 2010).

PSID analyses examined whether working-age parent households (either head or spouse in 1999) had a pension based on current employment and revealed large and significant ($p<0.05$) differences by race/ethnicity (see Figure 1). As expected, the analysis reveal higher rates of household-level pension participation compared to individual-level pension participation (as reported in the studies reviewed above), given the possibility of two potential workers having a pension in a household. However, the data also reveal substantial racial disparities with one-third of white households (35 percent) in 2011 lacking employer based pension coverage, compared to three-in-five (61 percent) of African American and over seven-in-ten Latino (71 percent) households. In addition, access to employer-based pensions declined for all, most dramatically for African Americans with close to 20 percent among them losing access to this important ingredient of retirement security.

Many families do not have access to a work-based pension plan, and if they do are unable to afford to contribute because they live paycheck to paycheck. Analyses of household pension contribution patterns reveal that less than half of all households (44 percent) reported that they directly contributed to a work-based pension in 2011. Thus, while encouraging families to contribute to pensions may help some households, policymakers and experts should understand that today *most* U.S. households are not able to contribute to a pension.

Research suggests the likelihood of a family contributing to a pension is determined by a number of factors, but wage levels, pension access, outside family financial support, and student debt all influence a household's ability to contribute to an employer-based savings account. With typically lower wages (Sullivan, Meschede et al. 2015), lower pension access, a greater likelihood of holding student debt (Ratcliffe and McKernan 2013), and a lower probability of receiving large gifts and inheritances from relatives (McKernan, Ratcliffe et al. 2011) African American and Latino households, compared to white households, often face even greater barriers to saving for retirement through work-based vehicles. The disparities by race/ethnicity, as seen in Figure 2, reveal that less than one-third of African American households (31 percent) have at least one worker contributing to a pension, and only about one in five Latino households do (22 percent).

Home equity is another major source of retirement security for families in the U.S.; yet, the American dream of security through homeownership is also unequally distributed across the country and the ability of families to build home equity is shaped by existing patterns of residential segregation and discrimination in lending practices. Home equity is the primary asset for most families and homeownership rates tends to rise with age as families save and are able to enter into the housing market, but not all households are able to utilize home equity as a retirement resource and these patterns tend to be racialized. At the end of 2014, homeownership rates in the U.S. were about 64 percent overall, but disparities by race show that less than half of black and Latino households (42 and 45 percent respectively) are homeowners compared to 72 percent of white households (U.S. Census Bureau 2015).

Figure 1: Head of Household and/or Spouse Lacking Access to Work-Based Pension in Current Job

Head of Household, 25 - 50 Years Old, with Children in 1999

Households that lack access to work-place pensions face a steeper climb towards retirement security.

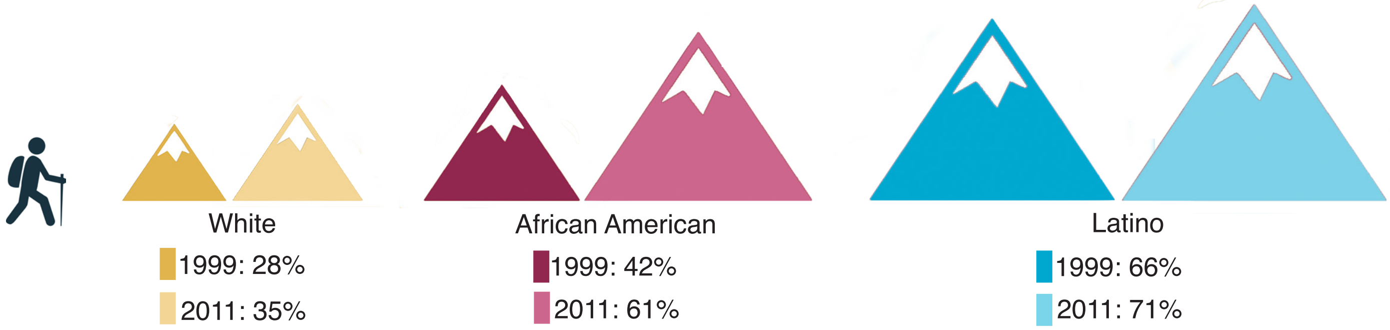
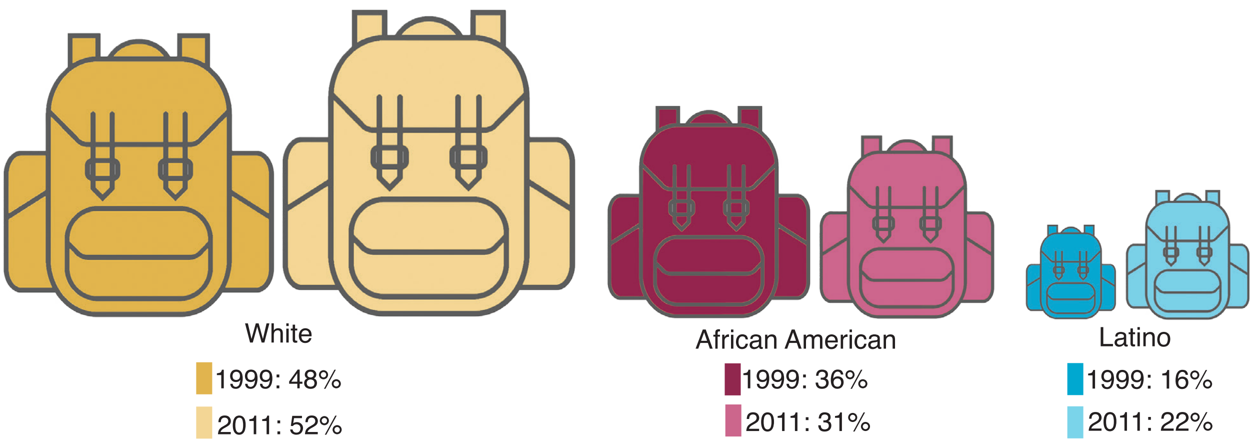


Figure 2: Head of Household and/or Spouse Contributing to a Pension

Head of Household, 25 - 50 Years Old, with Children in 1999

Contributing to a pension during one's working years expands the set of resources and tools a household can draw from during the long hike towards retirement security.



Source: Authors' analysis of Panel Study of Income Dynamics, 1999 - 2001
Figures drawn to scale.

Disparities in homeownership rates reflect a number of factors including policy decisions that excluded people of color from federal home buying programs after World War II and from purchasing homes in certain neighborhoods. These past discriminatory policies shape current homeownership realities as white families are more likely to have parents with home equity and wealth that they are able to translate into their own homes (Shapiro 2004). Additionally, evidence suggests that discrimination and mortgage market segregation continue to lead to slower growth in home-equity and asset stripping among homeowners of color. One study in California revealed that the greater likelihood that households of color obtain subprime mortgages—controlling for financial background—has led to greater foreclosures among minority borrowers (Reid and Laderman 2009). Also, continued segregation of communities across the United States and inadequate school and community resources in many communities of color means that home equity values in under-resourced neighborhoods tend to rise more slowly. Thus, disparities in homeownership rates, the targeting of predatory lending and costly loans in communities of color, and inconsistencies in community resources all shape the nature of segregated communities and the homeownership experiences of households. These patterns, in turn, shape the life course asset-development, or lack thereof, of families as they aim to achieve long-term economic security for retirement.

Like institutional and community-level disparities in resources that facilitate or hinder asset-building, the extant literature has demonstrated that disparities in family financial support from parents to children is substantial by race and ethnicity (Shapiro 2004, Oliver and Shapiro 2006). Unlike the Conways, who will have a substantial inheritance from Angela's side of the family and have built their wealth over the years with the help of family financial assistance for the initial down-payment on their home, households of color are five times less likely to receive large gifts and inheritances from family members; in fact, Latino families are more likely to give than receive financial support from extended family members thus experiencing negative net financial support (McKernan, Ratcliffe et al. 2011). These private transfers of resources within families can have important long-term impacts on the wealth trajectories of their recipients by helping families buffer the impacts of financial hard times and aiding families in making financial investments in opportunities to achieve mobility.

Without an extended family network, or "web of wealth," many households, particularly low income and households of color, are unable to achieve the same levels of wealth accumulation over the life course, as those who receive support from relatives (Thomas, Meschede et al. 2014). While *transformative assets* provided by family members can be a key boost in helping families attain upward mobility earlier in life (Shapiro 2004), inheritances can help families achieve much greater retirement security with much less proactive long-term savings.

Clearly, from a number of viewpoints the data reveal that inequalities by race and ethnicity are pronounced as we examine the key retirement resources that families lean on as they move towards their later years. Households of color often do not have access to the institutional, community/housing, and familial resources that facilitate a secure retirement that we saw in the case of the Conways. Additionally, the overall patterns reveal troubling trends for most households as retirement resources trend towards a general decline. While never universal, retirement savings mechanisms are increasingly failing to reach broad shares of the population.

The next section discusses how more typical families experience the years leading up to retirement and the common challenges facing households as they try to navigate the route towards economic security before reaching an age when work becomes difficult or unmanageable.

Most Families Face Treacherous Climb Towards Retirement Security Without Key Tools

Low-, moderate- and middle-income families, without strong structural and private network support in building retirement savings, often have virtually no retirement savings outside Social Security and thus, retirement security feels beyond reach. Many of these families, disproportionately including families of color, have difficulty making ends meet during their working lives, let alone saving for retirement. As hikers who want to climb towards their goal of economic security in retirement, these families are often stuck at the trailhead without much progress and limited equipment, until it is virtually too late to make much headway and end up having to rely on the basic resources provided by Social Security.

Social Security provides at least half of income to more than half of older households; 52 percent of couples 65+ and 74 percent of individuals 65+ get more than half of income from Social Security (Social Security Administration 2014). Today, the voices of families' interviewed by our team underscore the real challenges and trade-offs families must face as they prepare for retirement and try to balance current needs with future economic security. These families reveal that without access to key institutional, community, and extended family resources, retirement savings is often out of reach, while helping us to identify ways to address the vulnerabilities currently seen by many families.

Institutional Facilitation of Savings: The Importance of Retirement Benefits through Work

Work-based pensions, whether defined-contribution or defined-benefit, are critical to successful retirement preparations. They give participants tax benefits and employer savings matches that are not available to those without employment-based retirement benefits. As a key form of "employment capital," retirement benefits help families build long-term savings far beyond what is feasible otherwise (Thomas, Boguslaw et al. 2013). While the shift towards replacing pensions that provide guaranteed annuities with retirement savings accounts places more and more households at risk of insecurity in retirement, those families with no employment-based pensions at all are even more at risk of approaching retirement with virtually no retirement savings (Hacker 2006).

The Rowans, a biracial family from the Midwest, own a modest home in a working-class neighborhood, which they purchased over 10 years ago. Kerri, a 54 year old white mother and grandmother, was recently laid off from a position in hotel service she had held for the past twenty years. Her husband, Pete, an African-American male in his 60s, worked as a painter for an apartment complex in the area for many years. Combined their annual income in 2010 was approximately $53,000, close to the national median. Despite both holding long-term jobs with the same companies, neither Kerri nor Pete had access to employer-based retirement accounts. Living paycheck to paycheck, the family had essentially no emergency or long-term savings outside of their home and they had substantial credit card debt ($38,000) on which they had been making monthly payments of $700 per month. With very little savings, the family has turned to a home equity loan as a way to pay off other debts. Even with some potential family support from Kerri's parents, the Rowans will have accumulated minimal assets they can draw on for retirement, outside of Social Security. Facing an economic shock of unemployment as well as helping to support young adult daughters and grandchildren, who live in their home, the retirement path for this family is still not fully clear even as they both near retirement. Without access to any type of workplace pension, Kerri and Pete face retirement with uncertainty, especially while managing an economic downturn in the household.

Community Matters: Homeownership and Retirement Security

Home equity is often highlighted as a key potential retirement resource for families. For most American families that own their primary residence, their home is their key asset; however, the ability of families to build and take advantage of home equity as a retirement resource is conditional on the household owning a home for a number of years and the value of that home rising. Families in higher-opportunity neighborhoods—often characterized by good schools, robust community services, and a strong employment base—see their home equity grow, while those in lower-opportunity neighborhoods experience higher crime rates, limited home appreciation, and lower levels of homeownership (Thomas, Meschede et al. 2014).

Selena Palma, a single African American mother living in a Midwestern city with her son, works full-time in the city's policy department. Selena lived and raised her son in the house that her parents bought in 1964, inheriting the house after her mother passed away. Her mother paid off the mortgage before she died so Selena inherited the house debt-free. Facing a string of economic shocks, including a divorce and rising medical bills, and hoping to lighten the burden of college tuition costs for her son, Selena took a mortgage out on the house. At the time the bank estimated her home to be valued at approximately $90,000. However, after taking out the home equity loan, property values in her neighborhood have and continue to decline. At the time of the interview, Selena estimated that other houses in the neighborhood were selling at about $40,000 due in large part to the increasing number of abandoned and foreclosed properties in the area. Given this decline in property values, Selena is worried that she now owes more on the mortgage than the house is worth and that she might lose the house to foreclosure.

Homeownership can be a path towards asset development; however, for families in lower-opportunity communities, homes are not the spring of wealth that families in higher-opportunity areas experience. While a homeowning family in an area such as the Conways could comfortably fund college expenses, emergency needs, or retirement income using equity in their home, for Selena, however, declining home values mean that a home loan has left her underwater and with few options.

The Path to Retirement without Extended Family Support

Jennifer Allen is also a single mom who went through a divorce in recent years. Aged forty-nine when we spoke to her in 2010, she has faced a number of financial obstacles alone without financial support from family, nor any expectation of an inheritance. An African-American mother of a young adult son and a daughter, who still lives at home, Jennifer relocated for employment opportunities after facing a year of unemployment. With just $1,500 total in her savings and checking accounts, Jennifer has very little assets beyond her small retirement savings ($10,000) at her current job. Trying to manage financially on her own without a "web of wealth" in her family networks, Jennifer has had to dip into what little retirement savings she built up with previous employers in financial hard times. Several years ago she cashed out $2,000 in stock from a previous employer and recently when she was out of work, she took approximately $1,000 out of a retirement account from a previous job, liquidating the account and paying penalties.

In clear contrast to the Conways, who were able to purchase a home with family help when they were in their 30s, Jennifer, with no family financial support, has not been able to buy a home and see the equity rise over the years. She hopes to buy a home soon with the help of a local home buyer's program that assists with closing costs, but thus far in her life course, she has been unable to take advantage of the asset-building opportunity of home-ownership.

Economic Trade-Offs Over the Life Course: Immediate Pressures Often Trump Long-Term Needs

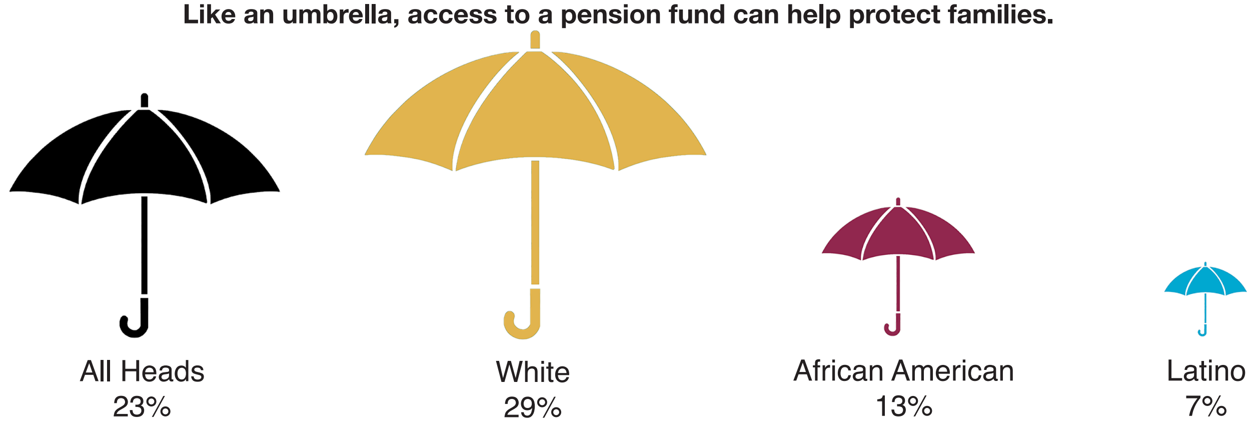
Families often explicitly know that their financial decisions are a trade-off between current needs and future security. Like many families, Jennifer Allen cashed out some of her limited retirement savings in times of financial need and job transition. This is a common experience among households in the United States; when families face financial difficulties, retirement accounts often function as precautionary savings rather than long-term investment mechanisms.

Figure 3 presents analysis of national PSID data that reveals that cashing out pensions is a relatively common experience among parent households. Over one-in-five households cashed out money from a retirement account at least once from 1999-2011. However, the ability to tap these resources is associated with access. Fewer households of color reported cashing out retirement accounts compared to white households ($p<0.05$), but households of color are also less likely to have retirement accounts. Recent analysis of employees of a single large employer reveals that conditional on having an account, African American and Latino employees are more likely to make withdrawals from their 401(k) accounts (Kuan, Cullen et al. 2015).

Figure 3: Working-Age, Parent Households that Cashed out Pensions, 1999 - 2011

Children under 18 and Head of Household aged 25 - 50 in 1999

Like an umbrella, access to a pension fund can help protect families.



Source: Authors' analysis of Panel Study of Income Dynamics, 1999-2001
Figures drawn to scale.

Facing an economic downturn, families who have long-term security built through institutional, community, and familial resources are able to weather the storms and come out okay; however, families, who have faced cumulative disadvantages over the life course, have very little resources to turn to in times of need and often must put their long-term security on the line to meet immediate needs.

One mother in the sample clearly stated that after her divorce, her recent financial worries have been much more immediate than retirement savings: *"When you go from 15 years of just being able to…pay what you need to pay, do what you need to do, kids need something, when you're able to do that and then all of the sudden you're like oh my God, how am I going to pay this? How am I going to feed my kids? Do I pay heat or do I feed the kids this week?"* Her precautionary savings were depleted after her divorce and she had to dip into these assets for basic needs like groceries and heating. While hoping for a better future and the ability to save more in the future, this mom has not been able to participate in decades of retirement savings that the traditional literature around retirement has told us is key to retirement security.

In addition to facing economic downturns, common household expenses are increasingly on the rise for families leading to frequent trade-offs between future security and current needs. In particular, rising higher education costs have led to a clear substitution of retirement savings for college expenses. In a recent survey of 2,000 U.S. parents that have retirement savings accounts, 53 percent of respondents indicated that they would rather utilize their retirement savings to pay for their children's higher education than have their children take out student loans (T. Rowe Price 2015).

Families in our *Leveraging Mobility* sample were very explicit about the need to support their children through higher education, even though this will delay their retirement savings. One couple lamented that they would like to retire soon but they do not believe they can afford to do so. *"No, we've got one more kid to get through college and then we will see…and bills to pay and then we will see what happens. But I don't see it as likely."* This sentiment is echoed across many of the families in the study. "*I'd like to retire in two years...I'd like to retire around 60. So I hope that I can do that but I would like, as again, I'd like to have colleges paid off, and I'd like…you know, so we have a couple things we have to get done before I do that."* One mother helped put her children through college by taking on student loans. Now, facing ballooning college debt, she feels helpless. *"It's pretty discouraging because I'm at a time in my life when I would like to be saving more for retirement and thinking about stopping working sometime in the next five, eight years, or whatever, but I swear it feels like I'm going to be working until the pine box retirement plan comes along. Here's a nice place for you."* Without the institutional, community, and family resources that help facilitate retirement security, families with pressing needs and higher education expenses are often unable to put away substantial savings for retirement.

So, what do these observations suggest for the future of retirement security in the U.S. and how can we bring the retirement resources embedded in the lives of some families within reach for more families? The next sections provide a conclusion and policy implications that will help spread retirement security more broadly in the country.

Policy Implications

The trends are clear: retirement security is on the decline and the current employer-based system of retirement security is failing to reach many families. In fact, a recent study suggests that 86 percent of Americans believe that there is a current retirement crisis and 57 percent strongly agree (Oakley and Kenneally 2015). Additionally, the institutional and community structures that support asset-building over the life course are unequally distributed, with low-income and households of color less likely to have access. Clearly, policy action is needed to address growing retirement insecurity in the nation.

Expand Access to Retirement Savings Through A Nationwide Savings System

The United States needs a nationwide savings system that is widely available and benefits low- and moderate-income families. Numerous policy design options have been proposed and the precise policy design will be a compromise across political interests and parties. However, there is bipartisan support for enhancing the capacity of families to save by creating improved structures for retirement savings during the working careers of families. The MyRA program, introduced by the Obama Administration, is in early stages of pilot implementation and is an important start in creating an institutional framework that provides low- and moderate-income families with retirement savings accounts that function similarly to a Roth IRA. Previously unavailable to many, this will create a structure for retirement savings through the payroll system dramatically expanding access to retirement savings accounts (U.S. Department of Treasury 2015).

In addition, establishing an Auto-IRA system that is available and portable for all workers will help expand the tax benefits of the current retirement savings programs to low- and moderate-income families. Currently, the tax benefits for retirement savings are highly skewed towards wealthy households. Developing new structures that not only facilitate savings but also equalize existing benefits in a cost-neutral manner will further enhance the retirement prospects of many U.S. families. Finally, regulators and consumer advocates should work with financial institutions to ensure that financial products for long-term savings do not include exorbitant and hidden fees that reduce the ability of assets to grow over time. New rules are being developed by the Department of Labor to ensure that investment advisors put their clients best interests ahead of their own; this is a step in the right direction.

Protect Social Security for Future Generations

Social Security, the bedrock of retirement security in the United States, must be secured financially for future generations of retirees. While the financing of the program will require some modifications, maintaining the basic security provided through this program is essential for future generations. Numerous proposals have been made that will help to shore-up financing the Social Security retirement system. Proposals that increase the taxable maximum limit of income subject to the Social Security payroll tax will reduce the regressivity of the tax system for current workers and enhance financing the program. Raising or eliminating the cap will do much to improve financing the program, while returning the total amount of wages covered by the Social Security payroll tax to levels seen in past decades, before recent rising levels of income equality. Additionally, improving the adequacy of benefits for low-income families and workers who take time off from the labor force for caretaking should be considered.

Increase National Investments in Higher Education

Increasing national investments in higher education will be crucial for both assuring the retirement security of parents and enhancing the nation's international competitiveness. The *Leveraging Mobility* data reveal that skyrocketing higher education costs for young adults are a substantial threat their parents' retirement security. With the increasing importance of higher education for the economic security of households and the competitive position of the country, it is becoming more and more important that higher education is affordable and accessible to students of all economic backgrounds and does not create undue educational debts and/or threaten the future retirement security of parents. Understanding that higher education is a public good that bolsters the national economy as well as the economic prospects of graduates, it is imperative that public investment in higher education be a priority of the federal and state governments, as it was in past decades. By supporting young people in their efforts to increase their employment prospects and future wages, public investment in higher education will also reduce the economic squeeze on parents trying to save for retirement as they send their children off to college. Various options exist for investments in higher education; however, a new policy agenda for higher education should focus on affordability for students, while maintaining quality.

Broaden Access to Homeownership and Reduce Housing Segregation

Policy should promote several strategies aimed at broadening access to homeownership and reducing housing segregation. The analysis in this report reveals that inequality in community resources across neighborhoods not only leads to unequal outcomes in commonly understood areas—such as education and safety—but also fosters disparate outcomes in home equity and asset-building for families. To promote home equity as a reserve for retirement, policymakers should support the expansion of homeownership coupled with fair lending practices as well as eliminate the existing policies that allow segregation to remain a defining characteristic of U.S. communities. More families, particularly households of color, will be able to grow their wealth through homeownership, if first-time homebuyer programs and loan modification programs are expanded, particularly for families who were targeted by subprime lenders in recent years. Additionally, strengthening enforcement of anti-discrimination laws in housing will reduce segregation, which remains significant across the nation, and enhance community resources and home equity values for households of color.

Conclusion

The path to retirement security is distinct for every family; however, access to key institutional, community, and family resources plays an important role in successfully navigating the path towards long-term retirement security for families. National data reveal increasing retirement insecurity nationally with particular vulnerabilities among households of color. Through interviews with families approaching retirement, this analysis demonstrates that while retirement security is possible for those with key assets, it is more common for families to approach retirement with uncertainty and trepidation. While many of the families in the *Leveraging Mobility Study* interview sample expressed remorse that they had not saved more in the past, the analysis reveals that the distinctions between a secure family, such as the Conways, and the other families examined had less to do with careful saving and more to do with opportunity structures based in work institutions, homeownership opportunities, and family networks.

By creating social structures that facilitate asset-building over the life course, public policies can enable an increase in retirement security for upcoming generations of families. Rather than the cumulative disadvantage that has built-up over time for those families that had trouble making ends meet, policy can serve to bolster the resources of families who face a precarious retirement. As evidenced by declining poverty rates among seniors since the passage and expansion of Social Security during the 20th century, policy can have a key role in helping families meet their financial needs in retirement. However, given that the current Social Security levels provide a very modest retirement income, more must be done to ensure that seniors in the 21st century have adequate resources for retirement.

By helping households to build assets through a variety of channels explored in this report, policymakers can assist families in successfully scaling the mountain of retirement security; however, policy design efforts should focus on the trajectory, not just the end goal. The data make clear that long-term security over the life course can lead to later life security, just as economic insecurity across adulthood will likely lead to retirement insecurity. Thus, rather than just concentrate policy efforts simply on retirement savings, a comprehensive approach to life-long economic security is needed. As we imagine families tackling a hiking trail towards retirement security, it is clear that we need to “clear the path” along the way, not just “focus on the summit.”

End Note

[1.] All dollar figures in this report are presented in 2010 dollars.

[2.] Pension sponsorship tends to be higher than participation because some employees to not participate in offered plans. Coverage data varies by data source and employee characteristics based on number of hours and age. A discussion of various U.S. data sources which provide pension coverage information is available in Munnell & Bleckman 2014.

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About the Institute on Assets and Social Policy

The Institute on Assets and Social Policy (IASP) is dedicated to advancing economic opportunity, security and equity for individuals and families, particularly those left out of the economic mainstream. Our work is premised on the understanding that assets provide the tangible resources that help individuals move out of and stay out of poverty, as well as inspiring effective individual, community, state and national actions through the belief that security, stability, and upward mobility are indeed possible.

This brief is the sixth in the *Leveraging Mobility* series. Earlier briefs include:

- Leveraging Mobility: Building Wealth, Security and Opportunity for Family Well-Being
- Employment Capital: How Work Builds and Protects Family Wealth and Security
- Keeping Dreams Alive: The Lane-Changer Costs of Financial Disruptions
- The Web of Wealth: Resiliency and Opportunity or Driver of Inequality?
- Location, Location, Location: The Role Neighborhoods Play in Family Wealth and Well-Being

Additional reports and briefs that draw on these interviews can be found on our website: www.iasp.brandeis.edu.

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