



SHIFTING THE RETIREMENT PARADIGM: MOVING TOWARD LIFETIME FINANCIAL SECURITY

There is an urgent need to address numerous issues preventing a substantial portion of the American population from adequately saving for a financially secure future. The Milken Institute supports public policy change and private-sector solutions that address financial security across our lifetimes and in retirement.

An upcoming Institute report highlights many of the interrelated factors that impact the ability of all Americans to be financially prepared to live the life of their choice over time. The report provides an overview of policy changes, private-sector developments, and individual behaviors linked to establishing lifetime financial security. It discusses systemic problems and individual choices that need to be addressed. Lastly, the report highlights promising solutions that encourage and enhance lifetime financial security, leading to a financially secure retirement.

The Institute believes it is important to focus on financial security at each stage of life. Financial security considerations will change over the course of one's life, and funding a work transition period or retirement will look different for each person or family. Our program and this report reference "lifetime financial security," which is broader than traditional notions of "financial well-being." Achieving lifetime financial security should be the goal of all Americans. The Institute recognizes that this goal is aspirational for some Americans, and the report outlines many factors that impact an individuals' ability to achieve lifetime financial security.

Lifetime financial security includes:

- setting and meeting both short-term and long-term financial goals,
- having the financial ability to pay recurring monthly expenses,
- having the funds to pay for adequate housing,
- having the ability to absorb a financial shock such as a job loss or an unexpected car repair,

- being financially prepared to pay for medical and long-term care costs,
- having a plan to save for the end of your traditional work life, and
- being comfortable with the lifestyle you live and can afford.

According to the Transamerica Center for Retirement Studies, only 24 percent of workers are confident they will be able to retire fully with a comfortable lifestyle. The Institute believes that it is important for all Americans to focus on strategies to enhance financial security and develop a plan for a financially secure retirement. Further, the United States faces demographic shifts with an aging population and increasing longevity. The Institute also recognizes that these factors, alongside the global pandemic, have caused many Americans to focus on their financial futures. Thus, the Institute hopes now may be the time to highlight financial security issues and spur action.

The Milken Institute has held convenings focused on the intersection of aging and financial security through its Center for the Future of Aging. It also held public and private sessions focused on long-term financial security and retirement savings at the 2022 Global Conference led by the Center for the Future of Aging and its MI Finance Division. And MI Finance held a half-day private policy convening that focused on achieving lifetime financial security that brought together diverse retirement and financial leaders, including leaders from top financial firms, online advisors, insurers, trade associations, researchers, and policymakers. The Institute's convenings, research, and interviews with experts informed the report.

KEY FOCUS AREAS

Developing a New Financial Paradigm in Which Americans Focus on Financial Knowledge and Early Saving

The Institute believes the path to lifetime financial security should begin with early investing, no later than age 25, leading to financial security in retirement. Financial security at all stages of life is tied to financial knowledge, and those with greater knowledge of finance and investing tend to make better financial decisions and are more likely to save for retirement. Financial education at key stages of life is one way to improve the impact of financial fluency programs. And Americans need to become comfortable with finance and understand the power of compounding—the fact that funds invested in the stock market grow exponentially over time. The report provides powerful examples of the financial results of compounding from long-term saving and investing.

Addressing the Impact of Student Loan Debt on Long-Term Savings by Younger Americans

The Institute recognizes that student loan debt prevents many younger Americans from beginning to save for a financially secure future and that these costs continue to rise. The SECURE 2.0 Act provisions that allow employers to match student loan payments should encourage younger Americans to save for the future. Nonetheless, we must address the dramatic rise in college

tuition and commensurate student loans to ensure younger Americans can begin to save to create lifetime financial security.

Considering the Impact of Key Provisions of the SECURE 2.0 Act That Encourage and Enhance Retirement Savings

The amendments in the SECURE 2.0 Act, signed into law in December 2022, contain dozens of separate provisions that expand on previous retirement legislation. The act strengthens America's retirement system, creates additional flexibility, and allows many Americans to increase their retirement savings. The report highlights some of the key provisions that encourage those not saving for retirement to do so, those that enhance the total savings of current savers, and those that help smaller employers create retirement plans, among other things.

The Milken Institute supported this important, bipartisan legislation while recognizing that Americans who currently do not have access to a retirement savings plan will generally not benefit from the new legislation and still need assistance. The act does, however, provide for the creation of simplified employee pension plans for domestic workers, and it allows small employers to pool funds to create retirement plans. These are examples of provisions that will impact thousands of Americans who may not have had access to a retirement savings plan.

Highlighting State-Facilitated Retirement Savings Programs That Change the Retirement Savings Landscape for Many Americans

Over the past seven years, 16 states have adopted "state-facilitated retirement savings programs" with the potential to reach around 20 million employees. The most common program model that states are enacting automatically enrolls workers in individual retirement accounts. The report provides an overview of the top plans and supports expanding these plans that fill a gap. Further, surveys have shown that Americans are interested in such plans, and they currently provide hundreds of thousands of Americans with access to retirement savings accounts.

Planning for Medical and Long-Term Care Costs

It is essential that all Americans save to pay for future medical and long-term care expenses. Many people do not consider these costs until they get sick or are close to retirement age, which is often too late. The report provides an overview of these costs and highlights the challenges associated with paying for medical costs and obtaining long-term care. The report discusses factoring both sets of expenses into long-term financial planning. The report also discusses the strategic use of Health Savings Accounts in paying for medical costs.

Using Social Security as an Income Replacement Tool

Most Americans have contributed to Social Security over their careers and will be entitled to Social Security benefits beginning at age 62. However, the full retirement age for the majority of Americans today is between 65 and 67. Monthly payments decrease approximately 8 percent per year for each year that Americans begin claiming benefits before their full retirement age.

In addition, monthly benefits will increase up to age 70. Thus, it is best for many Americans to wait as long as possible to start their Social Security benefits.

However, the Institute encourages individuals to consider when to take their Social Security benefits based on their unique financial circumstances and longevity expectations. The report discusses this calculation. It also provides an overview of facts related to Social Security as a key income stream in retirement while highlighting that no one should rely on Social Security benefits as their sole source of income later in life. The report notes that, in 2023, the average monthly Social Security benefit is just \$1,827, and it is important to consider how to help older Americans with no other source of income.

Developing Longer Working Lives to Create Lifetime Financial Security

Research reveals that many Americans who need or want to work into their sixties will be unable to do so due to age discrimination leading to job losses, their own health issues or caregiving responsibilities, or being unable to continue in a physically demanding job. The report highlights the need for retraining or upskilling to allow older workers to continue working over time. The Institute encourages all Americans to develop a “longevity career plan” to prepare for the real possibility that they will be unable to continue in their current job into their sixties or even into their late fifties, while they may live until age 80 or beyond.

The Institute also encourages older Americans to focus on opportunities to change jobs and consider pursuing things like online opportunities and gig work. The Institute challenges employers to change their hiring practices and work environments to embrace and value multigenerational workforces. The Institute hopes that collective efforts will allow our societal structures and belief system to catch up with our demographics and the reality that older workers have much to contribute to the workforce.

Addressing Inequities in Long-Term Saving

The report provides an overview of differences in rates of savings and retirement assets by worker, race, and sex. Long-term savings rates have remained lower for specific groups of Americans, and this trend has increased over the past 40 years. It also discusses root causes of the inequities, such as racial bias, intergenerational wealth transfer rates, and gender pay gaps. The Institute focuses on systemic changes and changes that employers can make to increase equity in wealth building and retirement savings.

Overcoming Biases and Making Conscious Choices to Save for the Future

Some Americans do not focus on their financial futures due to poor choices governed by behavioral biases or psychological traps that prevent them from adequately saving for the long term or making wise investment decisions. Biases that most often relate to investment choices are temporal discounting: the inability to envision your future self, inertia, lack of self-control, and loss aversion. The report provides an overview of these biases and outlines ways to overcome them.

Highlighting FinTech Developments and Innovative Products and Solutions That Enhance Long-Term Saving

FinTech and innovative ideas are evolving quickly in the financial security and retirement space. FinTech plays a significant role in democratizing finance by making investment advice and investment vehicles simple, accessible, and affordable through robo-advising firms or online arms of established financial firms. Financial firms have developed suites of connected financial services that allow customers to do things such as invest related to stages in their lives, set up college savings accounts online and connect them to a checking or saving account, apply for small loans online, and sweep a small amount of money from a bank account into a retirement account. Hundreds of financial firms also provide a variety of types of educational information, including details about accumulating savings and the deaccumulation phase of retirement savings—the period during which investors primarily spend down their assets instead of saving for the future. The report provides an overview of other FinTech developments that enhance long-term financial security, such as micro-investing firms that allow customers to open bank accounts with no minimum balance and set up investment accounts with small amounts of money through the purchase of fractional shares of stock.

The report also highlights other new developments, such as AI-assisted visualization platforms that allow future retirees to visualize the non-financial aspects of retirement and FinTech firms that assist with managing debt. And it discusses developments such as the creation of pension-like income streams embedded in 401(k) plans and the creation of an “auto portability consortium” of financial firms that are working to make it easier for those with \$5,000 or less in a retirement account to move those funds to a new plan. Innovative products and services and FinTech developments are evolving quickly, and the Institute intends to track them and focus on this area going forward.

OVERVIEW OF RETIREMENT PLANNING CONSIDERATIONS

The Institute encourages a systematic approach to long-term financial planning. Some Americans may work with a financial advisor, but others may need or want to make their own plans. The Institute does not give investment advice. However, the report lists some of the primary planning considerations.

Creating a written, personalized plan is key for everyone. Some of the factors to consider in creating a plan include contributing to at least one retirement savings account; creating a list of assets and income streams; considering whether target date funds are a good option; understanding and calculating Social Security benefits; considering ways to minimize tax burdens; planning for how to make use of one’s home as a primary asset—including whether to sell it, obtain a stream of income from it, or age in place in it; considering whether an annuity should be a part of one’s retirement plan; setting aside funds for medical and care costs; financial planning

for life stages; and segmenting costs into essential and non-essential and then adding in wishes and dreams. The Institute encourages a “pay yourself first” and a “take care of your future self” mindset.

CONCLUSION

The Milken Institute is encouraged by developments in the lifetime financial security and retirement security space. The SECURE 2.0 Act will enhance the ability of millions of Americans to save for retirement, and state-facilitated retirement plans provide greater plan access. Financial services firms are innovating and developing new services that allow for easier engagement with financial platforms leading to greater long-term saving and investing by Americans. Further, addressing systemic issues and educating Americans on individual choices will also enhance lifetime financial security.

This topic is broad, and the report highlights some of the most significant issues. The Institute recognizes that policymakers, employers, financial services firms, and individuals will need to continue to focus on long-term financial stability to change the landscape. The Milken Institute has created an initial list of areas to discuss as it moves forward in the Lifetime Financial Security Program:

1. Emphasizing financial knowledge and widespread understanding of the power of compounding, leading to early saving by age 25.
2. Ensuring that all Americans have access to a retirement savings plan and contribute to at least one plan on an ongoing basis.
3. Understanding and overcoming cognitive biases and blocks that impede long-term saving and investing.
4. Ensuring that Americans save for medical and long-term care expenses.
5. Addressing racial and gender inequity in long-term saving and investing.
6. Encouraging Americans to think about the optimal time to claim their Social Security benefits and estimate their monthly benefits at different ages based on past and projected income.
7. Addressing the need for longer working lives by focusing on ageism, engaging with employers, and creating retraining programs for older workers.
8. Encouraging all Americans to create a “longevity career plan.”
9. Highlighting FinTech applications and innovative solutions that enhance overall saving rates, address issues that impede saving, and make long-term saving and investing simple and accessible.
10. Encouraging all Americans to develop a structured lifetime financial security plan.

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