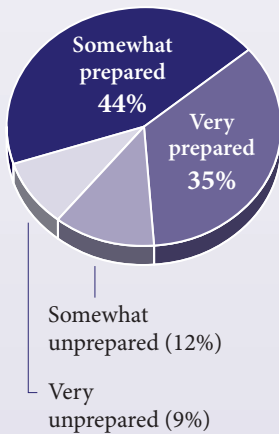


Aging Texas Well Issue Brief: Financial Preparedness



Being financially prepared for retirement strongly contributes to improved quality of life during our later years. Many Texans, however, do not save sufficiently for retirement. This issue brief presents findings from the 2008 Aging Texas Well (ATW) Indicators Survey on older Texans' views about their financial preparedness for their later years, and discusses those views within the context of broader state and national data. Current initiatives to address the needs of older Texans who require assistance are also presented. For more information about the survey, please see last page.

Figure 1:
Older Texans' self-reported levels of financial preparedness



**Texas Department
of Aging and
Disability Services**

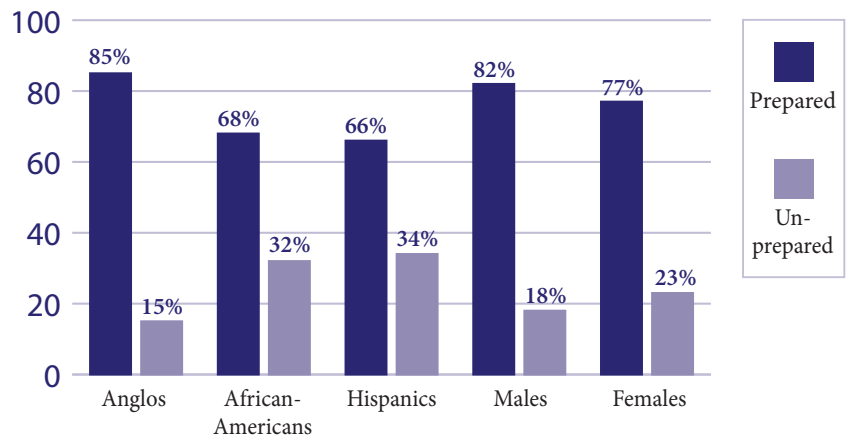
www.dads.state.tx.us

Findings

As Figure 1 shows, older Texans are generally optimistic about their financial preparations for retirement. In 2008, the majority of older Texans described themselves as being either “very” or “somewhat” prepared for retirement; only 21 percent described themselves as unprepared.

Figure 2 shows that Anglo Texans were far more likely to report being financially prepared than participants from other racial/ethnic groups. In addition, men were more likely than women to describe themselves as financially prepared.

Figure 2: Older Texans' self-reported levels of financial preparedness by race/ethnicity and gender



Aging Texas Well Issue Brief:

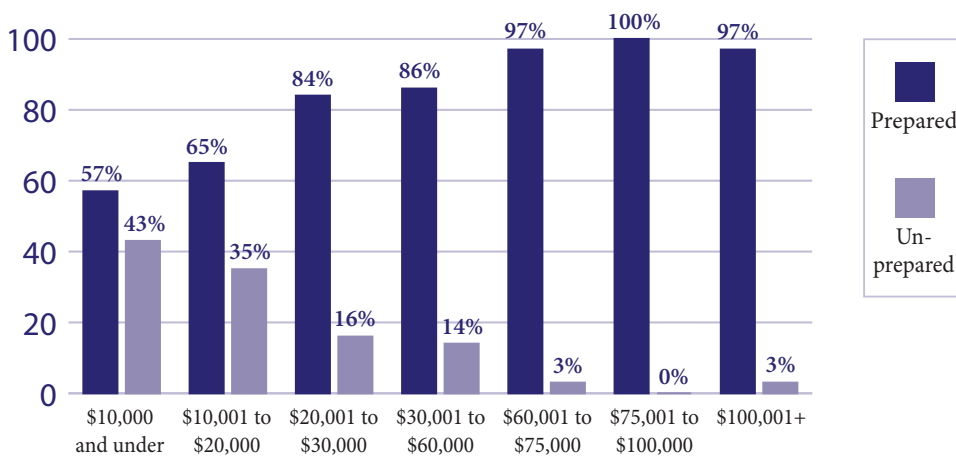
Financial Preparedness



These findings correspond with other available state and national data on retirement preparedness by ethnicity and gender. Nationally, African-American and Hispanic baby boomers have substantially fewer retirement investments than do Anglos, a factor correlated with inequalities in income and wealth. In 2007, while Anglos in the United States had a poverty rate of 8.2 percent, the poverty rates for African-Americans and Hispanics were 24.5 percent and 21.5 percent respectively (DeNavas-Walt et al., 2008). While only 7 percent of Anglo boomers reported not saving for retirement via a variety of investment strategies, 16 percent of African-Americans and 23 percent of Hispanics described not saving (AARP, 2004). And, although increased retirement saving by women is needed as they generally live over five years longer than men (National Center for Health Statistics, 2009), women save less than men, for a variety of reasons. Women spend more time providing long-term care to family members such as children and older relatives; this reduces their time in the labor force and detrimentally affects their long-term finances. In addition, women earn approximately 80 cents on the dollar compared to men (United States Bureau of Labor Statistics, 2009). Race and gender income disparities in earlier working years are reflective of wealth disparities in later years. In Texas, 35 percent of African-American women and 28 percent of Hispanic women age 65 and older live in poverty as compared to 7 percent of Anglo men (Institute for Women’s Policy Research, 2007).

Figure 3 shows that among respondents to the 2008 ATW Indicators Survey, total household income strongly influenced perceptions of financial preparedness: the higher a respondent’s income level, the more likely he or she was to report being financially prepared. Interestingly, however, the majority of respondents across all income levels reported being “very” or “somewhat” financially prepared for their later years.

Figure 3: Older Texans’ self-reported financial preparedness by household income



Aging Texas Well Issue Brief: Financial Preparedness



Figure 4: Older Texans' self-reported household income by race/ethnicity

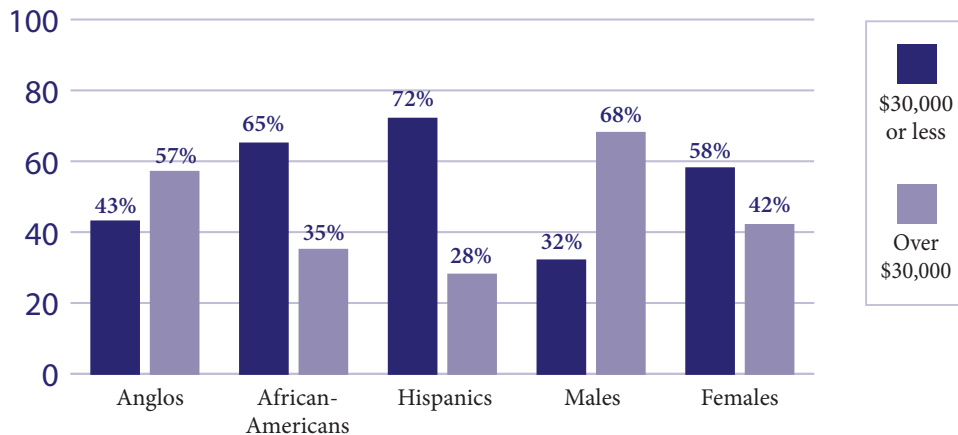
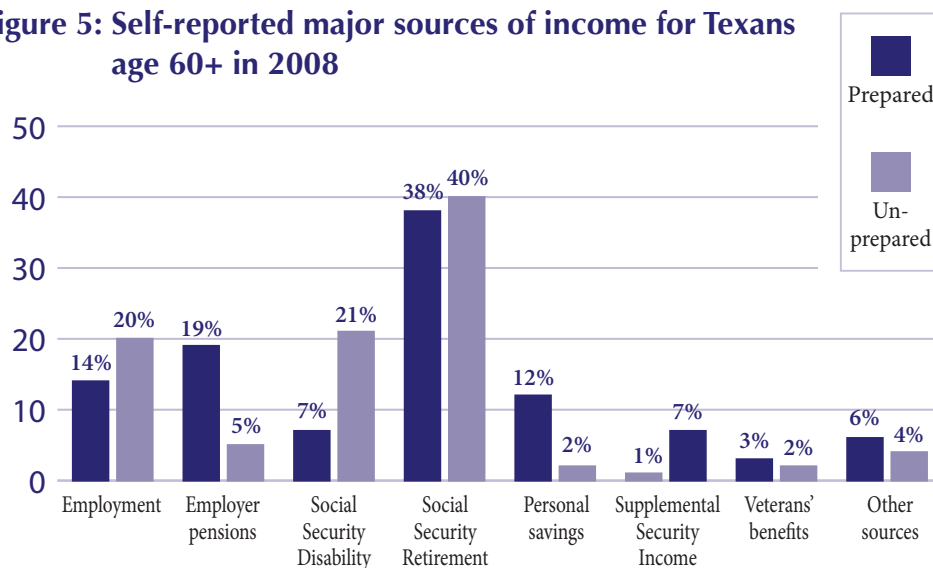


Figure 4 illustrates the significant differences reported in income by race/ethnicity and gender among participating older Texans. Anglos were far more likely than African-Americans or Hispanics to report household incomes greater than \$30,000. In addition, while the majority of single men reported individual incomes above \$30,000, the majority of single women reported individual incomes of \$30,000 or less.

As Figure 5 shows, Social Security retirement funds were identified as the major source of income for a substantial proportion of all respondents. Aside from this source of income, those who described themselves as financially prepared

Figure 5: Self-reported major sources of income for Texans age 60+ in 2008



Aging Texas Well Issue Brief: Financial Preparedness



for their later years reported significantly different sources of income than those who described themselves as unprepared. Respondents who stated they were either very or somewhat financially prepared for retirement were more likely to identify employer pensions or personal savings as their major source of income. Those who described themselves as unprepared more frequently identified Social Security Disability, Social Security Income, or current employment as their major source of income.

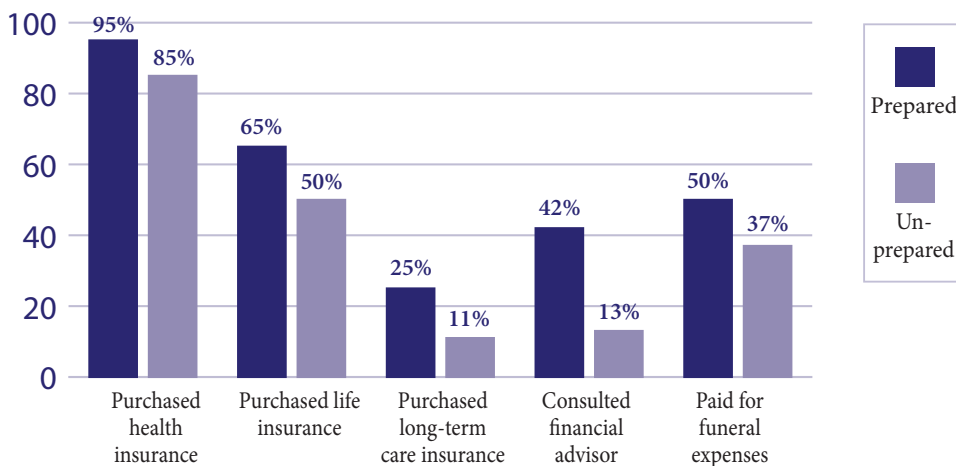
Having earned higher incomes during their working years, older Anglos were far more likely than older African-Americans or Hispanics to identify personal savings as their major source of income. Meanwhile, women more frequently than men identified Social Security retirement funding as their major source of income. Men were more likely than women to identify current employment, employer pensions, and veteran's benefits as their major source of income.

Figure 6 shows that older Texans who described themselves as financially prepared for retirement were far more likely to say they had purchased health, life, and long-term care insurance than those who described themselves as unprepared. These respondents also far more frequently reported having consulted a financial advisor, and having taken action in regard to their funeral expenses.

Twenty-three percent of Texans age 60 and older reported working (17 percent full time, 6 percent part time). Another 3.5 percent were looking, or were planning to look, for a job. The major reason they continued to work or seek work was financial need.

Almost one quarter of Texans age 60 + reported working due, in most part, to financial need.

Figure 6: Older Texans' self-reported financial actions



Aging Texas Well Issue Brief: Financial Preparedness



Analysis

Many of the older Texans who reported being financially prepared for retirement during the ATW Indicators Survey of 2008 are likely to have presented an overly optimistic assessment of their financial status. For example, while 22 percent of survey participants reported having purchased long-term care insurance, in fact only 2.3 percent of adult Texans had such policies in 2008 (Graber, 2010), allowing for a possible maximum of 16.4 percent of Texans age 65 and older owning long-term care policies.

According to the U.S. Census Bureau, in 2008, more than 12 percent of Texans age 65 and older lived in poverty, a proportion larger than the national average of nearly 10 percent for this age group. One major factor contributing to this higher rate of poverty among older Texans is the state's lower per capita income (\$25,096) in comparison to many other states (U.S. Census Bureau, 2008). As noted above, lifetime income and wealth are clearly correlated with retirement savings.

Another important factor contributing to the state's higher senior poverty rate is the soaring cost of health care combined with the large number of Texans who are without health insurance. Between 2005 and 2007, Texas had the highest proportion of people without health insurance among all states (DeNavas-Walt, et al., 2008). Medical expenses are onerous for both the insured and the uninsured. These expenses are projected to grow substantially over the coming decades. Nationwide, 57 percent of all bankruptcies filed in 2007 were directly related to problems with paying medical bills (Himmelstein, et al., 2009). Approximately 1.5 million families a year lose their homes to foreclosure due to medical costs (Robertson, et. al., 2008). Many people withdraw from their retirement savings to pay for medical care. A national survey conducted in 2007 found 20 percent of respondents reported withdrawing funds from their personal or retirement savings to pay for medical expenses (Rockefeller Foundation, 2008) despite the financial penalties and additional taxes that accompany early retirement account withdrawals. Fidelity Investments, the largest retirement plan administrator in the country, reported a 17 percent increase in the number of people making hardship withdrawals in 2007 to cover medical and other expenses (Kerber, 2008).

America's heavy reliance upon individually funded retirement accounts also plays a role in senior poverty. As has been widely reported, many Americans do not save enough for retirement. In 2008, 22 percent of workers and 28 percent of retirees reported having no savings of any kind (Helman et al., 2009). Among those who do save, the level of saving is low. The 2007 Survey of Consumer Finances found the median 401(k)/IRA balance for participants approaching retirement was

Americans' ability and willingness to save for retirement impacts senior poverty. In 2008, 28 percent of U.S. retirees reported having no savings of any kind.

Aging Texas Well Issue Brief: Financial Preparedness



only \$78,000 (Munnell et al., 2009). In contrast to the United States, many other industrialized countries have government and corporate pension plans that provide retirees with annual incomes close to the amounts earned during their working years. Citizens of those countries are retiring on schedule despite the recent global financial crisis. In 2008, for example, while just 4 percent of people ages 65 to 69 in France were still working or looking for work, almost one-third of Americans of the same ages were in the labor force (Rampell and Saltmarsh, 2009).

In addition, the downturn in the world financial markets has affected the retirement savings of many Americans. In the United States, between September 2007 and August 2009, assets in retirement accounts lost \$2.3 trillion, or 23 percent of their value (Soto, 2009). Due to such losses, 52 percent of working adults ages 50 to 64 say they may delay their retirement and another 16 percent say they never expect to stop working (Morin, 2009). Substantial decreases in investments and savings affect those near retirement more strongly than other groups because these people have less time to recoup their losses.

Despite the risk of the financial markets, maximizing contributions to retirement accounts and shifting funds from stocks to less risky investments as one nears retirement remains the best strategies for the majority of Americans (Butrica et al., 2009). Many experts estimate that at least 70 percent of annual pre-retirement income is required for retirees to maintain their standard of living (National Institute on Aging, 2009). Social Security disbursements amount to approximately 40 percent of pre-retirement earnings (Social Security Administration, 2009). Pensions, which are available only to about one-half of the American workforce (Parsons, 2009), savings, and investments are required to make up the difference.

Between 2010 and 2040, the number of Texans age 65 and older will nearly double from 2.4 million to 5.3 million (Texas State Data Center and Office of the Texas Demographer, 2009). With lower comparative income levels (and thus, lower levels of retirement savings), higher rates of the uninsured, and recent substantial financial losses to individual retirement accounts, over the coming decades increased numbers of older Texans will be working well into their “retirement” years. This will result in increased challenges for Texas in meeting the service needs of its older citizens.

With the proportion of its population over age 60 rapidly increasing, higher rates of uninsured, and lower rates of retirement savings, Texas faces considerable challenges to its system of services and supports over the coming decades.

Aging Texas Well Issue Brief: Financial Preparedness



Current Initiatives

A number of federal and state initiatives have emerged over the past decade to encourage increased savings for retirement and to assist retirees who live in poverty. At the federal level, the Saver's Credit of 2001 was created to encourage low- and moderate-income Americans to save for retirement via a tax credit allotted for participating in an employer-sponsored retirement plan and/or an IRA. Employed low-income Texans of any age can qualify to save \$1,000 on income taxes if they contribute to such retirement accounts. Information about the Saver's Credit is available at www.irs.gov/newsroom/article/0,,id=172969,00.html. Additional retirement planning information is available at www.ssa.gov/retire2/.

More recent federal initiatives include permitting companies to automatically enroll workers in 401(k) retirement plans and allowing employees to deposit their pay for unused vacation time into their 401(k) plans when they leave a job. Federal income tax forms are also being revised to allow individuals to purchase U.S. savings bonds with their tax refunds by checking a box on the forms (Parsons, 2009).

State initiatives to help Texans prepare for retirement include the Long-Term Care Partnership Program, a joint effort between private long-term care insurers and Texas state agencies to educate Texans about the costs of long-term care and to encourage them to buy insurance to help cover the cost of such care. Many Texans do not realize that Medicare provides coverage only for short-term medical costs. The long-term care needed in the event of a prolonged illness (such as Alzheimer's disease) or major disability (such as disability due to stroke) is not covered by Medicare. Long-term care can be extremely expensive. Costs vary depending upon the types of services needed and where those services are provided (nursing home services averaged \$70,000 a year for a semi-private room in 2008, while employing a home health aide for 20 hours per week averaged \$20,000). Insurance policies offered through the Long-Term Care Partnership help pay for such care. In addition, the policies have an "asset disregard" benefit that protects the policy owner's existing assets when the insurance benefits run out and the owner applies for Medicaid. The policy owner will still need to meet Medicaid's income, medical and other eligibility criteria, but will not need to "spend down" existing assets to qualify for Medicaid. More information about the Long-term Care Partnership Program is available at www.ownyourfuturetexas.org.

Texas also works to protect older adults from financial exploitation. The Adult Protective Services (APS) program at the Texas Department of Family and Protective Services investigates allegations of such exploitation. When APS suspects a crime has been committed, the case is referred to law enforcement. In fall 2009, APS launched

Aging Texas Well Issue Brief: Financial Preparedness



the state-wide campaign “If It’s Not Your Money, It’s A Crime” to educate Texans about financial exploitation. More information about this campaign, financial exploitation, and how older adults can protect themselves is available at www.everyonesbusiness.org.

Low-income Texans age 55 and older seeking employment can obtain assistance from Experience Works by calling (877) 781-9953 or by visiting their website www.experienceworks.org. The Texas Workforce Commission contracts with Experience Works to provide training and employment services to older low-income job seekers in 154 Texas counties.

Finally, assistance for low-income Texans 60 and older is also available from local Area Agencies on Aging (AAAs), which provide information and referrals to help older Texans maintain their independence. Agency staff work to connect older Texans to a variety of available services so they can continue to live independently. Contact information for local AAAs is available at www.dads.state.tx.us/contact/aaa.cfm. Benefits counselors with local AAAs can provide information about, and referrals to, services and programs such as Medicaid and Medicare, long-term care insurance, Social Security claims, assisted transportation, caregiver respite, in home and congregate meals, legal assistance, end-of-life decision making, mental health services, nutrition education, physical fitness programs, residential repair, and much more.

Aging Texas Well Issue Brief: Financial Preparedness



References

- AARP. (2004, May). Baby Boomers Envision Retirement II: Survey of Baby Boomers' Expectations for Retirement. Retrieved 7/9/09 from http://assets.aarp.org/rgcenter/econ/boomers_envision.pdf
- Butrica, B., Smith, K.E. and Toder, E. (2009, May). What the 2008 Stock Market Crash Means for Retirement Security. *The Urban Institute*. Retrieved 9/28/09 from http://www.urban.org/UploadedPDF/411876_2008stockmarketcrash.pdf
- DeNavas-Walt, C.; Proctor, B. D. and Smith, J. C. (2008). Income, Poverty, and Health Insurance Coverage in the United States: 2007. *U.S. Census Bureau, Current Population Reports*, P60-235. U.S. Government Printing Office, Washington, DC.
- Graber, Jan. (2010, January 12). Texas Department of Insurance. Personal communication with Martha Diase.
- Helman, R., Greenwald, M. and Associates, Copeland, C., and VanDerhei, J. (2009, April). The 2009 Retirement Confidence Survey: Economy Drives Confidence to Record Lows; Many Looking to Work Longer. *Employee Benefit Research Institute*. Retrieved 1/8/10 from http://www.ebri.org/pdf/briefspdf/EBRI_IB_4-2009_RCS1.pdf
- Himmelstein, D. E., Thorne, D., Warren, E., Woolhandler, S. (2009, May). Medical Bankruptcy in the United States, 2007: Results of a National Study. *American Journal of Medicine*. Retrieved 9/6/09 from http://www.pnhp.org/new_bankruptcy_study/Bankruptcy-2009.pdf
- Institute for Women's Policy Research. (2007, January). *The Economic Security of Older Women and Men in Texas*. Retrieved 9/5/09 from http://www.iwpr.org/pdf/Texas_D475.pdf
- Kerber, R. (2008, June 6). More Dip Early into Funds for Retirement. *Boston Globe*. Retrieved 9/05/09 from http://www.boston.com/business/articles/2008/06/06/more_dip_early_into_funds_for_retirement/
- Morin, R. (2009, May 28). Most Middle-Aged Adults Are Rethinking Retirement Plans. *Pew Research Center Publications*. Retrieved 9/5/09 from <http://pewresearch.org/pubs/1234/the-threshold-generation>
- Munnell, A. H., Webb, A. and Golub-Sass, F. (2009, October). The National Retirement Risk Index: After the Crash. *Center for Retirement Research at Boston College*. Retrieved 1/8/10 from http://crr.bc.edu/briefs/the_national_retirement_risk_index_after_the_crash.html
- National Center for Health Statistics. (2009). *Health, United States, 2008*. Hyattsville, MD.
- National Institute on Aging. (2009). *Saving for Retirement: What Do You Know?* Retrieved 10/3/09 from http://www.nia.nih.gov/HealthInformation/Publications/Retirement/08_answers.htm

Aging Texas Well Issue Brief: Financial Preparedness



- Parsons, C. (2009, September 6). Obama announces steps to help Americans save for retirement. *Los Angeles Times*. Retrieved 10/3/09 from <http://www.latimes.com/news/nationworld/nation/la-na-obama-retirement6-2009sep06,0,7524136.story>
- Rampell, C. and Saltmarsh, M. (2009, September 2). A Reluctance to Retire Means Fewer Openings. *The New York Times*. Retrieved 9/6/09 from <http://www.nytimes.com/2009/09/03/business/03retire.html>
- Robertson, C.T., Egelhof, R., and Hoke, M. (2008). "Get Sick, Get Out: The Medical Causes of Home Mortgage Foreclosures," *Health Matrix: Journal of Law-Medicine*. (18) 65-105. Abstract retrieved from http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1416947
- Rockefeller Foundation. (2008.) *American Worker Survey: Complete Results*. Retrieved 5/14/2010 from <http://www.rockefellerfoundation.org/uploads/files/1f190413-0800-4046-9200-084d05d5ea71-american.pdf>
- Social Security Administration. (2009). *Benefit Calculators: More Charts and Calculators*. Retrieved 10/4/09 from <http://www.ssa.gov/planners/morecalculators.htm>
- Soto, Mauricio. (2009, August). How Is the Financial Crisis Affecting Retirement Savings? The Urban Institute. Retrieved 9/6/09 from <http://www.urban.org/publications/901283.html>
- Texas State Data Center and Office of the Texas Demographer. (2009). Retrieved 10/6/09 from <http://txsdc.utsa.edu/tpepp/2008projections/>
- United States Bureau of Labor Statistics. (2009). Highlights of Women's Earnings in 2008. Report 1017. Retrieved 1/8/10 from <http://www.bls.gov/cps/cpswom2008.pdf>
- United States Census Bureau. (2008). Texas Selected Economic Characteristics: 2008. Retrieved 4/22/10 from http://factfinder.census.gov/servlet/ADPTable?_bm=y&-geo_id=04000US48&-qr_name=ACS_2008_1YR_G00_DP3&-context=adp&-ds_name=&-tree_id=308&-_lang=en&-redoLog=false&-format=
- United States Census Bureau. (2008). Texas State and County Quick Facts. Retrieved 1/8/10 from <http://quickfacts.census.gov/qfd/states/48000.html>

The Aging Texas Well Indicators Survey

In 2004 and 2008, Texas conducted the Aging Texas Well Indicators Survey. This survey seeks to objectively measure the self-reported status of Texans age 60 and older in 16 major life areas. The 2008 survey, conducted by the Survey Research Center at the University of North Texas, included more than 1,000 Texans age 60 and older. Only statistically significant findings are reported in these issue briefs. The full 2008 survey report is available online at www.dads.state.tx.us/news_info/publications/studies/ATWIndicators2009.pdf.