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Family Structure, Roles and Dynamics Linked to Retirement Security

2019 Call for Essays

Don't Forget the Role of Families in Lifetime Financial Security

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As we consider financial wellness, we should be sure to focus on issues that tend to be downplayed or ignored. For many Americans, the extended family plays the role of sharing risk and supplementing (or even taking the place of) personal savings and formal risk management. For other Americans, there are few (and sometimes no) family members available to help.

I want to encourage greater consideration of issues related to family support in retirement planning and other lifetime financial security matters. Some key questions to think about follow.

- What is the role of the family in serving as a financial safety net?
- How can one tell if the family is likely to be supportive?
- What is the role of the family in helping those who have grown old and are now incapable of managing their own affairs?
- How much intergenerational support is there between seniors and younger family members? In what direction?
- Are family financial help and other support roles adequately considered in planning?
- How does it affect financial wellness if the family is not considered?
- Are blended families different? Do they have special issues?
- In couples, what is the impact on the caregiving spouse when the other member of the couple needs support? What later happens to the survivor?
- What should people without family do?
- What are the differences by gender?

We have clues about the answers to some of these questions. Many remain unanswered, however, so there is a need for further research. At a minimum, it would be useful to develop a process to do a family analysis to understand both the possibility of future help and likely future requests for help.

What Seniors Want and Expect

In 2015, the Society of Actuaries conducted focus groups[1] with individuals retired 15 years or more. Two years earlier, focus groups were conducted with more recent retirees. The 15-year plus retirees said they did not want to rely on their children for support, but some of them saw children as possible support and a resource to fall back on. My impression is that seniors do not plan on having children help them, and many work hard to avoid it, but at the end of the day, children and other family members typically offer a substantial amount of help.

One of the major topics of the 2015 focus groups and risk survey was shocks and unexpected expenses. One of the most frequently mentioned shocks was children needing help. This was also one of the shocks that was most difficult to manage, possibly because help was needed over a longer time. Many of the participants did not do a good job of planning for the unexpected. Also note that many Americans are not prepared to handle even a modest unexpected expense. The data on family financial help shown in the next section, however, indicates seniors are providing much more financial help to children than vice versa.

1 Greenwald & Associates Inc. 2016. "Post-Retirement Experiences of Individuals Retired for 15 Years or More: A Report on Twelve Focus Groups and Fifteen In-Depth Interviews in the United States and Canada," Society of Actuaries research report, *https://www.soa.org/Files/Research/Projects/research-2015-focus-group-report-final.pdf.*

What Americans Say About Family and Retirement

"The New American Family" study[2] documented the sense of responsibility Americans feel for aiding family members who need help. This study surveyed adults age 45 to 80 and focused on understanding whether there were differences by family type. It found that half of the respondents with adult children have provided them with financial assistance, and a fourth of respondents expect children to help retired parents in need. The study looked at issues related to blended families and found that couples in first marriages were better off financially. However, the results did not show any clear differences in support between first marriages and blended families. Big differences in support were found between couples and single individuals.

Merrill Lynch in partnership with Age Wave conducted a survey[3] of the link between retirement and family issues. They found strong links and introduced the idea of a **family bank,** defined as the household that family members most often turn to for help. Of respondents age 50+, 56% held the belief that there is a family bank in their family. That study indicated 62% of people age 50+ are providing financial assistance to family members. It can be one time, ongoing or something in between. The families providing such support are generally not factoring it into their retirement plans. Therefore, they may be underestimating their retirement spending requirements.

The study shows that among respondents age 50+ who provided money to family members in the last five years, recipients were:

Adult children (21+)	68%
Grandchildren	26%
Parents/in-laws	16%
Siblings	13%
Other relatives	14%

Some families help people in more than one group.

Among the individuals who were age 50+ and provided family financial support, the average amount of family help in the last five years was $14,900, and this varied by the individual's amount of investable assets.

Respondents age 50+ who had provided family support in the last five years were asked for what reason: 80% said it was the right thing to do, 50% said they thought it was a family obligation, and 15% said they had been helped in the past. The age 50+ pre-retiree respondents also indicated they would be willing to make "retirement sacrifices" to financially support family members: 60% said they would be willing to retire later/work longer, 40% said they would be willing to work after retirement, and 36% said they would be willing to have a less comfortable lifestyle in retirement.

The Merrill Lynch study states, "Unfortunately, very few people have prepared financially for potential family events and challenges." The study indicates 88% have not budgeted or prepared for providing financial support to others and 91% have not prepared for caring for an aging parent or relative.

Society of Actuaries post-retirement risk research is generally compatible with these findings and has consistently shown that many people do not plan for the longer term. When these results are looked at together, it seems likely that, in many cases, the implications of potential future family support are not carefully considered.

Financial Transfers

There is more research on family transfers. The Employee Benefit Research Institute (EBRI) discusses family transfers in a 2015 *Issue Brief*.[4] This is an analysis of Health and Retirement Study[5] longitudinal data. The EBRI report shows that 38% to 45% of older households make cash transfers to younger family members vs. 4% to 5% of older households that receive transfers from younger family members. The cause of the transfers is not identified. The older households are age 50+ and analysis covers 1998 to 2010.

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2 MetLife Mature Market Institute, "The New American Family: The MetLife Study of Family Structure and Financial Well-Being," study in partnership with the Society of Actuaries' Committee on Post-Retirement Needs and Risks, September 2012, *https://www.benefitsandretirementconsultantsllc.com/img/~www.benefitsandretirementconsultantsllc.com/soa%20american%20family%20study.pdf.*

3 Merrill Lynch, "Family & Retirement: The Elephant in the Room," study in partnership with Age Wave, 2016, *https://mlaem.fs.ml.com/content/dam/ML/Articles/pdf/family-and-retirement-elephant-in-the-room.pdf.*

4 Banerjee, Sudipto. "Intra-Family Cash Transfers in Older American Households," *EBRI Issue Brief* 415 (June 18, 2015), *https://www.ebri.org/content/intra-family-cash-transfers-in-older-american-households-3236.*

5 The Health and Retirement Study is a national longitudinal database of people at ages over 50 sponsored by the National Institute on Aging. It examines the period leading up to retirement, how they retire and their lives in retirement.

Table 1 Intrafamily Cash Transfers by Older American Households

Age Group	% Making Transfers	Average Amount	Average: 2nd Income Quartile	Average: Top Income Quartile
50–64	51%	$16,272	$7,411	$27,378
65–74	39%	$13,639	$7,784	$21,072
75–84	33%	$14,704	$9,849	$22,864
85–over	28%	$16,836	$13,474	$24,601

Note: Average amount is average transfer in last two years by households making transfers in 2014 dollars. Averages are shown for all households, and for second and top income quartile.

Source: Sudipto Banerjee, "Intra-Family Cash Transfers in Older American Households," *EBRI Issue Brief* 415 (June 2015).

Table 1 shows the percentage of households making transfers to children and grandchildren and the amount of transfers by age group in 2010.

Transfers are more likely in higher asset and income families, and the amounts are larger.

The 2015 SOA post-retirement risk research, both surveys and focus groups, reinforced these results. One of the major shocks and unexpected expenses experienced by the respondents was transfers of assets to children (and presumably grandchildren). The focus groups indicate the shocks were primarily in response to some sort of "problem"—a child had a major illness, lost their job, got a divorce and so on. These payments were one of the shocks that had a lasting impact and were often not dealt with well. My impression is the parents believed it was very important to help children when there was a need even if they could not really afford it.

The Family and Long-Term Care

The transfers discussed earlier do not include the value of help provided by family members, or the reduction in earnings or retirement savings experienced when help is provided. The vast majority of long-term care is provided informally at home, very often by women. The price to the caregiver of providing care is extremely high, but, in many cases, it may not be recognized. One study has estimated that the individual who provides caregiving for aging parents loses a lifetime average of more than $300,000 in wages, retirement benefits and Social Security benefits.[6] In married couples, the caregiver is often the wife. She then may be left as a widow without a spouse to care for her, and with family assets having been depleted due to her husband's care needs.

The Merrill Lynch study asked respondents age 50+ about their top choice for receiving long-term care, if needed. The majority, 86%, indicated their top choice was in their own home, 10% in an assisted living facility, 2% in a family member's home and 2% in a nursing home.

The SOA conducted in-depth interviews with caregivers of people retired 15 years or more and needing long-term care.[7] These interviews reinforced the huge impact of providing care on the caregiver.

Divorce and Retirement Security

The SOA focus groups found divorce after retirement was one of the shocks retirees could not recover from easily. The Merrill Lynch study points to the increase in **gray divorce,** or divorce among older adults. That report states that 14% of people age 50+ who were once married are now divorced and single, up from 2% in 1960.

Many studies show that couples are much better off than singles in retirement and widows are often better off than divorced individuals. It seems likely that most families do not have enough resources to provide adequately for both parties after divorce, and retirement security is often not at the top of the list of items to be considered in divorce. My view is that women are less likely to remarry after divorce, and if they spent earlier years more focused on the family than on financial security, they may pay a heavy price after divorce.

Special Issues Later in Life

Children are particularly likely to be called on to help as parents age. The chances of cognitive and physical decline are greater at the high ages. Research underway with later-in-life individuals (85+) shows not only informal support being provided, but a major role for family members in helping their elders manage their finances day-to-day. Interviews with people in assisted

6 Sandra Timmerman and Anna M. Rappaport, "Often Overlooked Issues in Retirement Planning: How Family Caregiving and Living Arrangements Relate to Long-Term Care," *Retirement Management Journal*, 6, no. 1 (summer 2016).

7 See Greenwald and Associates, "Post-Retirement Experiences of People Retired for 15 Years or More."

living and in their 90s showed that children were playing a heavy role in helping their parents manage their finances. This work needs to be supplemented by more extensive research.

Even when children are not providing hands-on care, they may be called on to help in different ways. When couples are both present, one may be able to help the other, although some couples also need additional help. Single individuals including widows are more likely to need help. Widows are heavily represented in the 85+ population. Research is needed about how people without family members are getting similar help, and what role neighbors, churches and so on are playing.

Consequences of Failure

Many, but certainly not all, people will step up to help family members when help is needed. While some may plan to do this, it appears that such help is more often provided without pre-planning.

Of the families who have become the family bank, some will have adequate resources, and there is no particular impact on their retirement security. But for many others, giving family help may drain their resources and leave them in a worse or even very difficult situation for retirement. This is potentially a huge problem for people who are involved in long-term caregiving requiring them to give up a job or reduce hours, and for people involved in long-term family support. For people not planning long term, the consequences of some of these decisions may not show up until much later.

A Family Analysis

A family analysis should include a listing of parents, siblings and children (and maybe others), together with some evaluation of who might be able to help and who might request help, with any notes about potential magnitude. Help can be with management of medical care, shopping, errands, household chores, household management, hands-on care, financial management and/or financial help. If people need to move because of diminished capacity, they may need help moving and/or cleaning out their earlier residences.

Conclusion

Over people's lives, help from family members can be an important source of support. Many people may also need/want help from family. Data from several sources indicates that many more older adults provide financial help to younger members of the family than vice versa. Data was not provided about caregiving, but most likely younger family members offer more caregiving and household assistance to older family members. (This discussion does not consider raising children.)

People without families need some of the help that family members offer. They have the challenge of finding help or figuring out how they will manage.

Planning usually does not take into account the potential for family help across generations. Nor does it take into account the added challenges for those without family. Financial wellness programs should help people to understand and focus on issues of importance, and give them information to help them address these issues. I recommend providing information on family as part of such programs as well as information on considering other support. These issues have become increasingly important as employers reduce their support for employees. Communication between family members is critical to success and the wellness programs can stress that issue.

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