NEWS FROM THE EMPLOYEE BENEFIT RESEARCH INSTITUTE

New 401(k) Participant and Consumer Finance Research Finds Household Spending Spikes Associated With Increased Use of Credit Card Debt and Plan Loans

-Report also reveals that higher credit card debt is associated with lower 401(k) contributions and account balances-

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For more information: Ron Dresner
dresner@ebri.org

(Washington, D.C.) – A new research report published today by the Employee Benefit Research Institute (EBRI) and J.P. Morgan Asset Management found that households with spending "spikes" that lack the income and cash reserves to support spending volatility are likely to increase their credit card debt or take a loan from their 401(k) plan.

The report, "How Financial Factors Outside of a 401(k) Plan Can Impact Retirement Readiness," provides a unique analysis of 401(k) plan participants' finances by linking 401(k) plan data with consumer banking data to better understand how 401(k) participants behave when faced with irregular expenses. Changes in credit card utilization, 401(k) plan contributions and/or 401(k) plan loan use were examined after these participants experienced a significant spending spike.

"As expected, this research found that the lack of income and cash reserves to support spending spikes is likely to result in higher credit card debt. What's interesting is how having household credit card debit impacts the household's retirement security, since higher credit card utilization is correlated with lower 401(k) plan contributions and account balances, even when controlling for tenure and income. As a result, the availability of emergency savings to cover spending spikes is a critical factor in preventing or stalling a cycle of increasing debt that can significantly impact retirement readiness," explained Craig Copeland, Ph.D., director, Wealth Benefits Research, EBRI.

Revolving consumer credit has grown at 9 percent per year during the study period from 2016-2020. In the 2023 Retirement Confidence Survey, almost two thirds of workers said their debt is a problem and half of workers said debt is negatively impacting their ability to save for retirement.[1] This study further validates this sentiment by looking at the relationship between spending spikes, credit card utilization and 401(k) loan usage.

"Findings from our research in partnership with EBRI confirm that emergency savings and debt management are both critical for retirement preparedness," explained Michael Conrath, Chief Retirement Strategist at J.P. Morgan Asset Management. "Analysis from our Guide to Retirement suggests that for most participants, two to three months of gross income in reserve would cover most spending spikes and act as adequate emergency savings."

"In addition, the report makes it clear that plan sponsors need to take into account participant behavior and spending volatility when designing their Qualified Default Investment Alternative (QDIA) offering." said Sharon Carson, Retirement Strategist at J.P. Morgan Asset Management. "The research also highlights the importance of sponsors keeping in mind that 'leakage' from plan accounts through 401(k) loans and withdrawals can have outsized effects on retirement readiness."

To view the complete 12-page report, "How Financial Factors Outside of a 401(k) Plan Can Impact Retirement Readiness," visit www.ebri.org/spending-spikes or https://am.jpmorgan.com/us/en/asset-management/adv/insights/retirement-insights/defined-contribution/spending-spikes-can-put-retirement-readiness-at-risk-but-plan-sponsors-can-help.

(**MEDIA NOTE:** To receive the complete 12-page research report or all-access credentials to the EBRI research library, email dresner@ebri.org).

About the EBRI/JPMC Research

The paper is based on research from a collaboration of Employee Benefit Research Institute (EBRI), with more than four decades of research on retirement policy, and JPMorgan Chase Bank, N.A. (Chase).[2] The latest research collaboration between J.P. Morgan Asset Management and the Employee Benefit Research Institute, which leverages data across 29 million Chase households[3] and 11 million 401(k) plan participant records, presents a new way of thinking about this critical – but still elusive – subject. Chase data includes a comprehensive view of total household spending through all payment mechanisms (select credit card, debit card, cash and checking) and sources of income including Social Security, annuity, pensions, etc. for around 21 million customer households.[4]

Commitment to Privacy and Security

No EBRI data was transferred to JPMorgan Chase Asset Management, and the data privacy of participants and contractual relationships with recordkeepers have been carefully protected. EBRI has no access to personally identifiable information.

About EBRI

The Employee Benefit Research Institute was founded in 1978. Its mission is to contribute to, to encourage, and to enhance the development of sound employee benefit programs and sound public policy through objective research and education. The EBRI is the only private, nonprofit, nonpartisan, Washington, D.C.-based organization committed exclusively to public policy research and education on economic security and employee benefit issues.

The EBRI's membership includes a cross-section of pension funds, businesses, trade associations, labor unions, health care providers and insurers, government organizations and service firms. The 401(k) universe is a joint collaboration between EBRI and the Investment Company Institute.

This research paper was produced through a collaboration between J.P. Morgan Asset Management and the Employee Benefit Research Institute, a Washington, D.C.-based organization committed exclusively to public policy research and education on economic security and employee benefit issues. In an ongoing collaborative effort, the Employee Benefit Research Institute and the Investment Company Institute (ICI) maintain the EBRI/ICI Participant-Directed Retirement Plan Data Collection Project, which is the largest, most representative repository of information about individual 401(k) plan participant accounts. ICI is the leading association representing regulated funds globally, including mutual funds, exchange-traded funds (ETFs), closed-end funds, and unit investment trusts (UITs) in the United States, and similar funds offered to investors in jurisdictions worldwide. While this paper uses data from the EBRI/ICI database, ICI did not participate in the research collaboration between EBRI and JPMAM and was not involved in the writing of this paper.

About J.P. Morgan Asset Management

J.P. Morgan Asset Management, with assets under management of $2.8 trillion (as of 6/30/2023), is a global leader in investment management. J.P. Morgan Asset Management's clients include institutions, retail investors and high net worth individuals in every major market throughout the world. J.P. Morgan Asset Management offers global investment management in equities, fixed income, real estate, hedge funds, private equity and liquidity. For more information: www.jpmorganassetmanagement.com. J.P. Morgan Asset Management is the marketing name for the asset management businesses of JPMorgan Chase & Co., and its affiliates worldwide.

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DATA PRIVACY: We have a number of security protocols in place which are designed to ensure all customer data are kept confidential and secure. We use reasonable physical, electronic, and procedural safeguards that are designed to comply with federal standards to protect and limit access to personal information. There are several key controls and policies in place which are designed to ensure customer data are safe, secure and anonymous: (1) Before J.P. Morgan Asset Management (JPMAM) receives the data, all selected data is highly aggregated and all unique identifiable information, including names, account numbers, addresses, dates of birth and Social Security numbers, is removed. (2) JPMAM has put privacy protocols for its researchers in place. Researchers are obligated to use the data solely for approved research and are obligated not to re-identify any individual represented in the data. (3) JPMAM does not allow the publication of any information about an individual or entity. Any data point included in any publication based on customer data may only reflect aggregate information. (4) The data are stored on a secure server and can be accessed only under strict security procedures. Researchers are not permitted to export the data outside of J.P. Morgan Chase's (JPMC) systems. The system complies with all JPMC Information Technology Risk Management requirements for the monitoring and security of data. (5) JPMAM provides valuable insights to policymakers, businesses and financial professionals, but these insights cannot come at the expense of consumer privacy. We take every precaution to ensure the confidence and security of our account holders' private information.

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[1] Employee Benefit Research Institute and Greenwald Research, 2023 Retirement Confidence Survey, EBRI Chartbook (Employee Benefit Research Institute, April 27, 2023)
[2] Chase serves nearly half of America's households with a broad range of financial services, including personal banking, credit cards, mortgages, auto financing, investment advice, small business loans and payment processing. For more information about Chase, visit the following website: https://www.chase.com/digital/resources/about-chase.
[3] This number represents the number of households we shared with EBRI to conduct the analysis. In this analysis, the Chase data sample is restricted to the households in 2016-2020 who use Chase as their primary banking institution.
[4] Data privacy and contractual relationships with recordkeepers have been carefully protected.