EBRI EMPLOYEE BENEFIT RESEARCH INSTITUTE

How Consumer Spending Spikes and Student Loan Debt Have a Negative Impact on Savings and Retirement

March 27, 2024

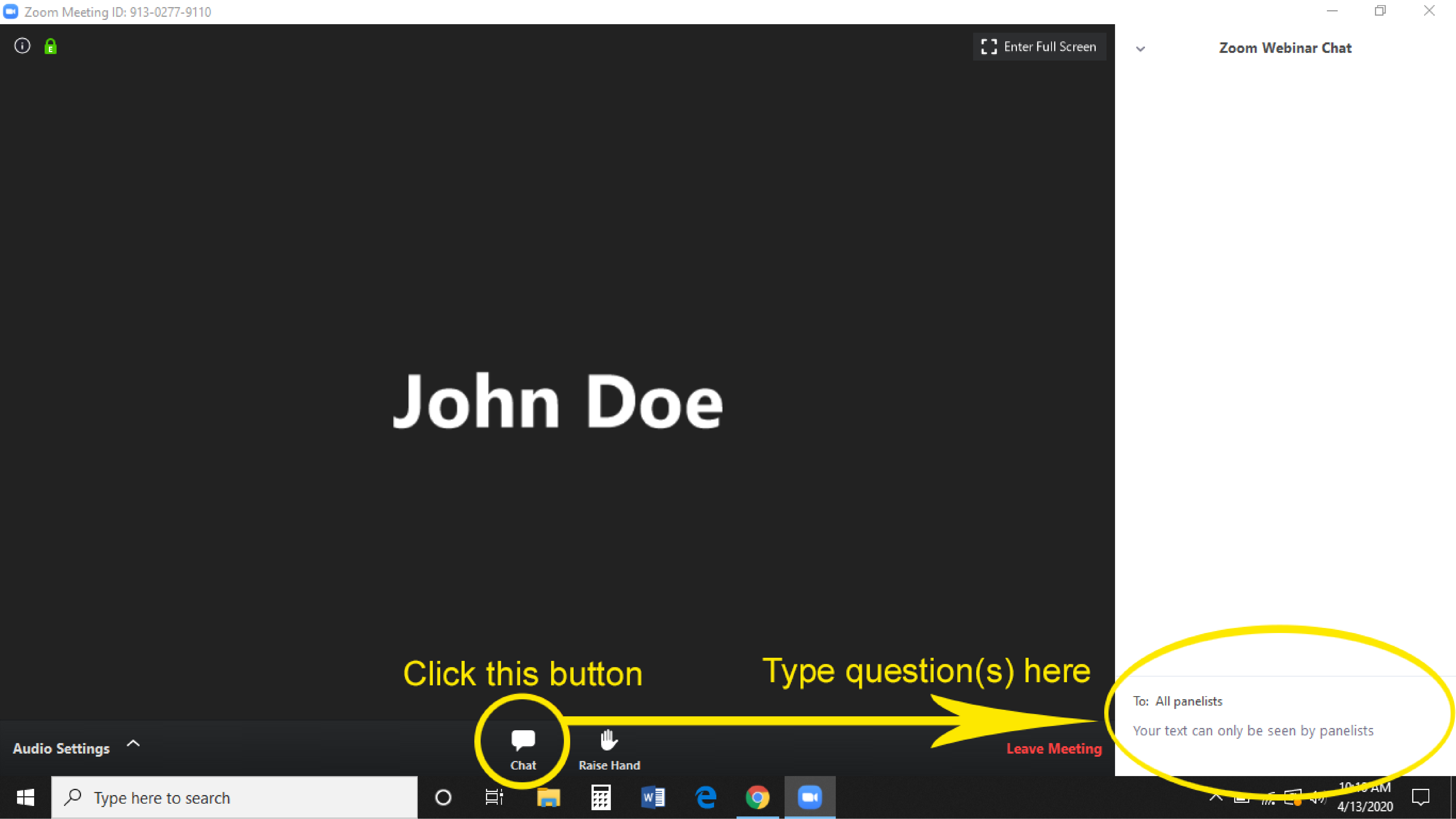
Speakers

Craig Copeland, Director, Wealth Benefits Research, EBRI

Michael Conrath, Chief Retirement Strategist, J.P. Morgan Asset Management

Sharon Carson, Retirement Strategist, J.P. Morgan Asset Management

Barb Marder, President & CEO, EBRI (Moderator)


Zoom Meeting ID: 913-0277-9110
Enter Full Screen
Zoom Webinar Chat
John Doe
Click this button
Type question(s) here
To: All panelists
Your text can only be seen by panelists
Audio Settings
Chat
Raise Hand
Leave Meeting
Type here to search
4/13/2020

Goals of the Studies

- Two studies will be discussed today.
  - *How Financial Factors Outside of a 401(k) Plan Can Impact Retirement Readiness (EBRI Issue Brief #591 Sept. 14, 2023)*
  - *Student Loans and Retirement Preparedness (EBRI Issue Brief #601 Feb. 8, 2024)*
- EBRI and J.P. Morgan Asset Management conducted these studies as part of an ongoing joint effort to deliver data-driven research to better understand the retirement plan system and to provide unique fact-based insights to help policymakers, plan sponsors, and plan providers build a stronger system
- Both studies look at how consumer spending and other financial factors outside of a 401(k) plan can impact how employees save within the plan.
- As result of these studies, important implications for plan sponsors and policymakers can be drawn to help improve worker financial wellness.

UNEXPECTED SPENDING SPIKES AND FINANCIAL WELLNESS

Spending Spikes

- The variation in spending during a year is widespread across workers, and the amount of spending spikes can be quite large and can happen frequently. A spending spike is defined in this study as a month's spending that is 125 percent or larger than the median spending in the prior 12 months.
- The level of a household's cash reserves impacts the likelihood of taking on other debt that could lead to a continual issue for short and long-term financial wellbeing. For those who do not have sufficient cash reserves, how are these expenses covered?
- Combining J.P. Morgan Chase banking data and EBRI/ICI 401(k) plan data allows for the investigation of the use of credit card debt and 401(k) plan loans to cover these spending spikes.

Study Sample

- In this study, spending and 401(k) plan data from 2016–2020 at the household level are examined.

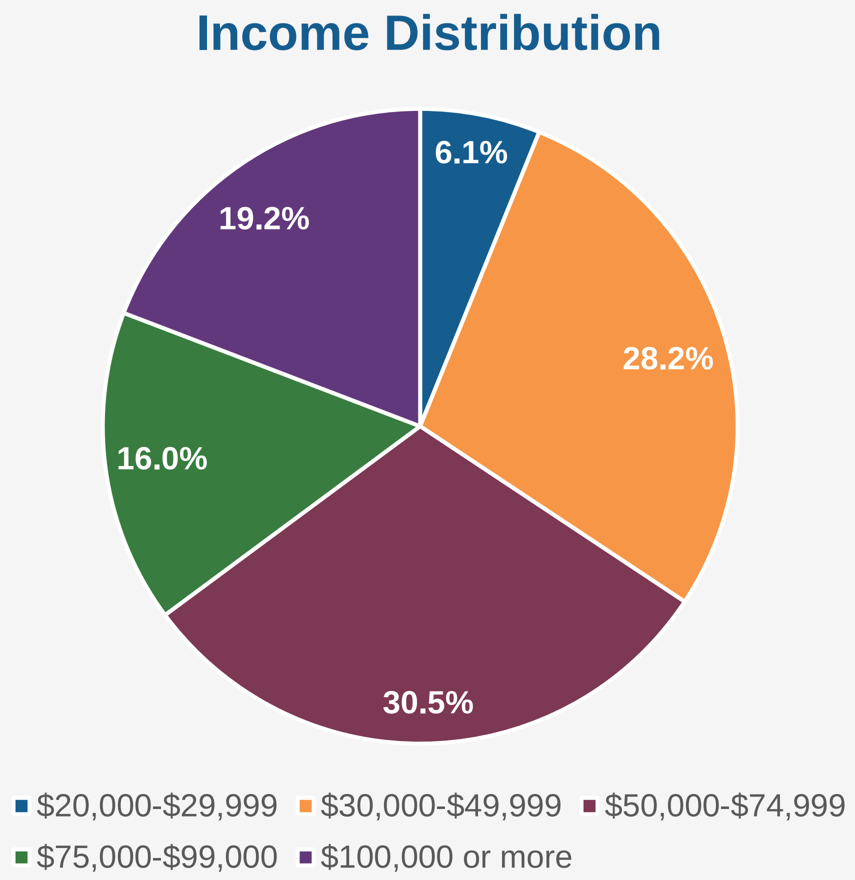
- Single customer households from the Chase data are matched with participant data from the 401(k) database to identify the participant/household sample.

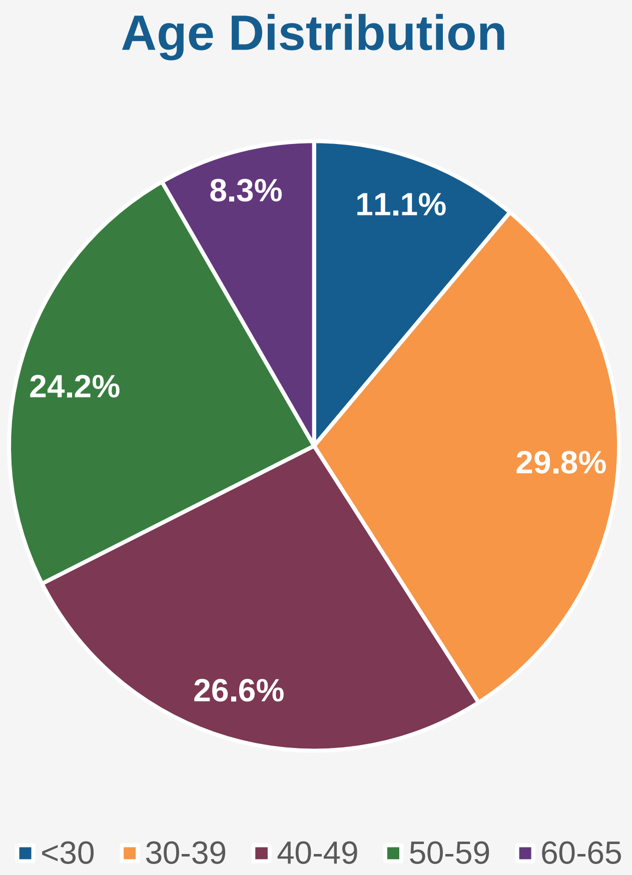
- Only the households with all 12 months of spending data in each year, where that spending is more than 50 percent of their estimated gross income and credit card spending outside of Chase is less than 30 percent of their overall spending.

- The single-customer households must include a person who is also a 401(k)-plan participant where a loan is available in their plan and is age 65 or younger.

- Since the status of many of the variables must be known before and after the study year (year two), these households must have three contiguous years in the sample to be included. Thus, each instance of a household having three contiguous years of complete data during 2016–2020 is an observation for this analysis. This results in 58,915 observations from 35,184 unique households.

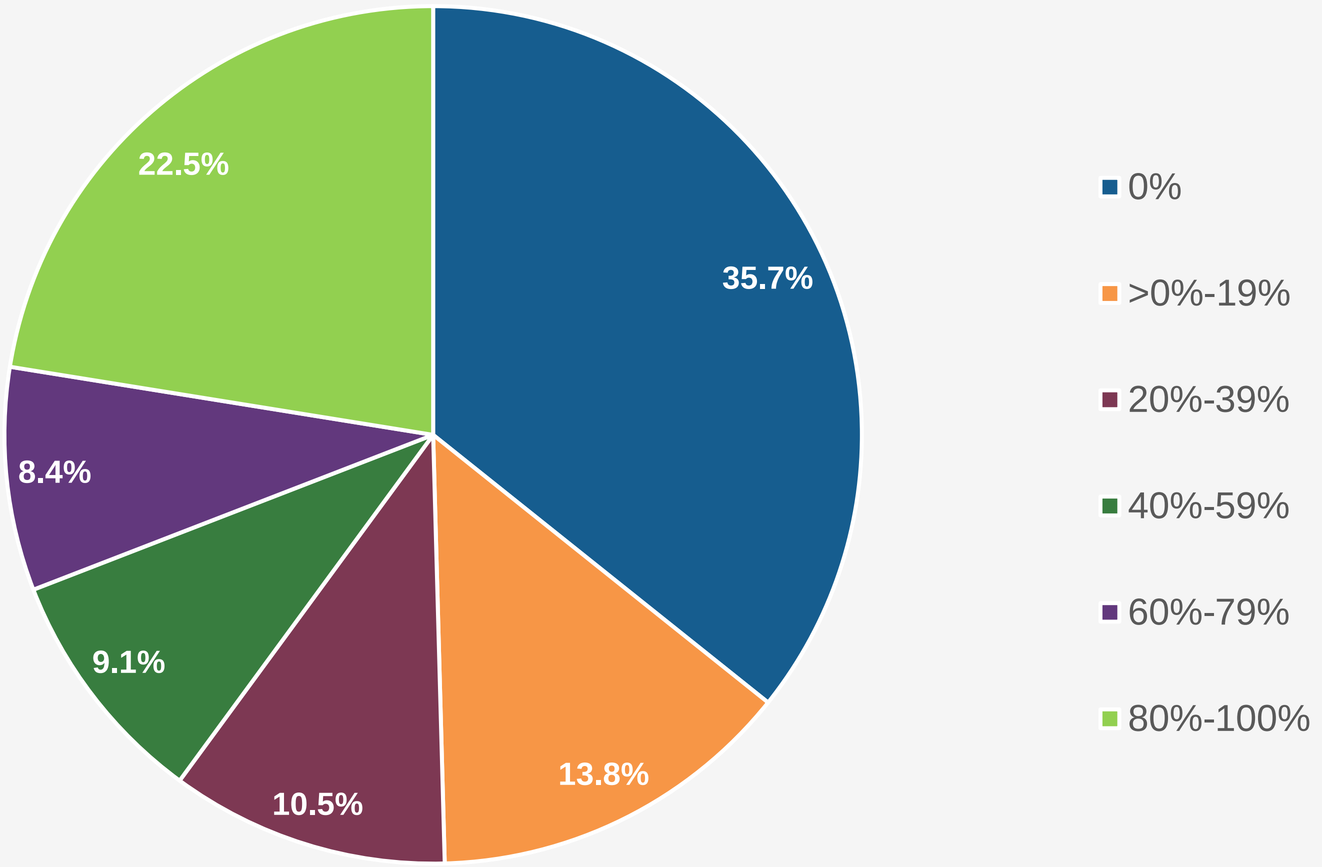
Single Household Customer/Participants Income and Age Distributions





Source: Estimates from the EBRI/ICI 401(k) Plan Database and select Chase data.

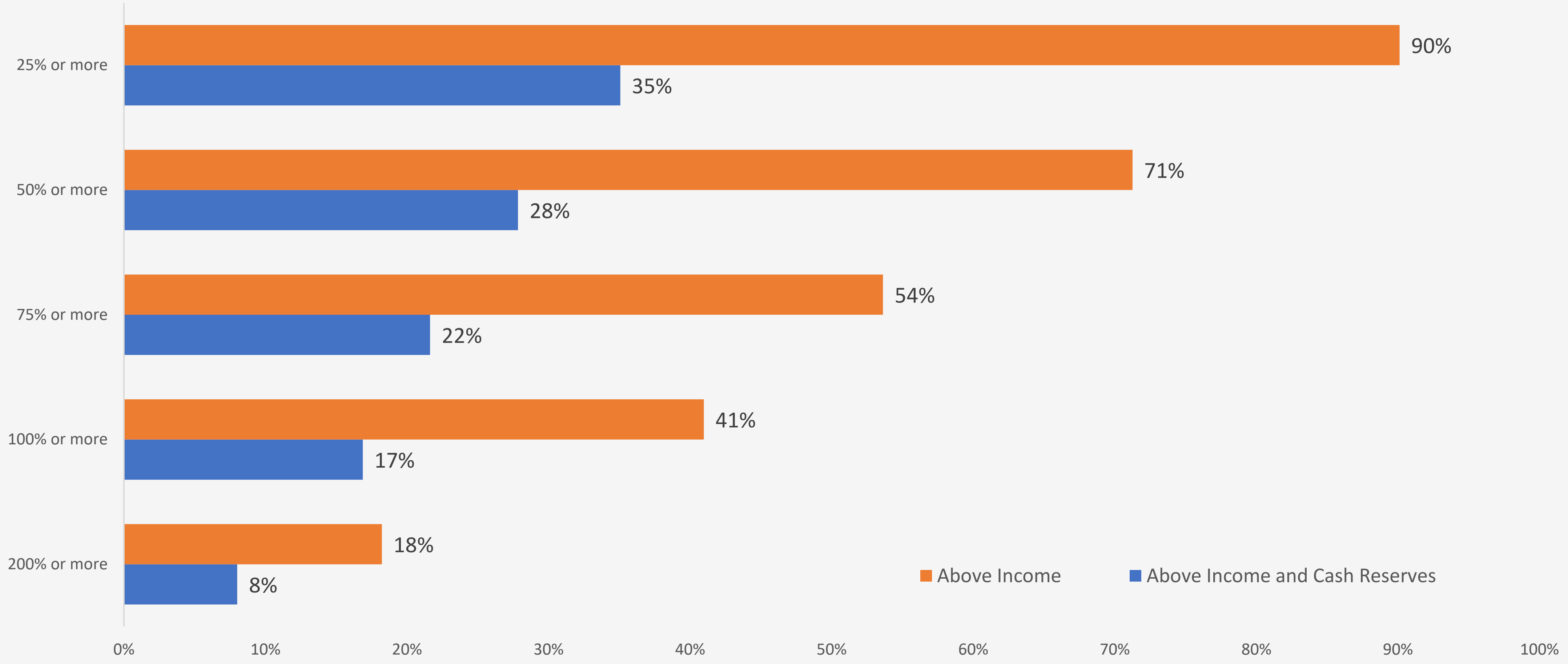
Initial Year Credit Card Utilization Distribution



Source: Estimates from the EBRI/ICI 401(k) Plan Database and select Chase data.

HOW OFTEN DO SPENDING SPIKES OCCUR? HOW LARGE ARE THEY? WHO HAS THEM?

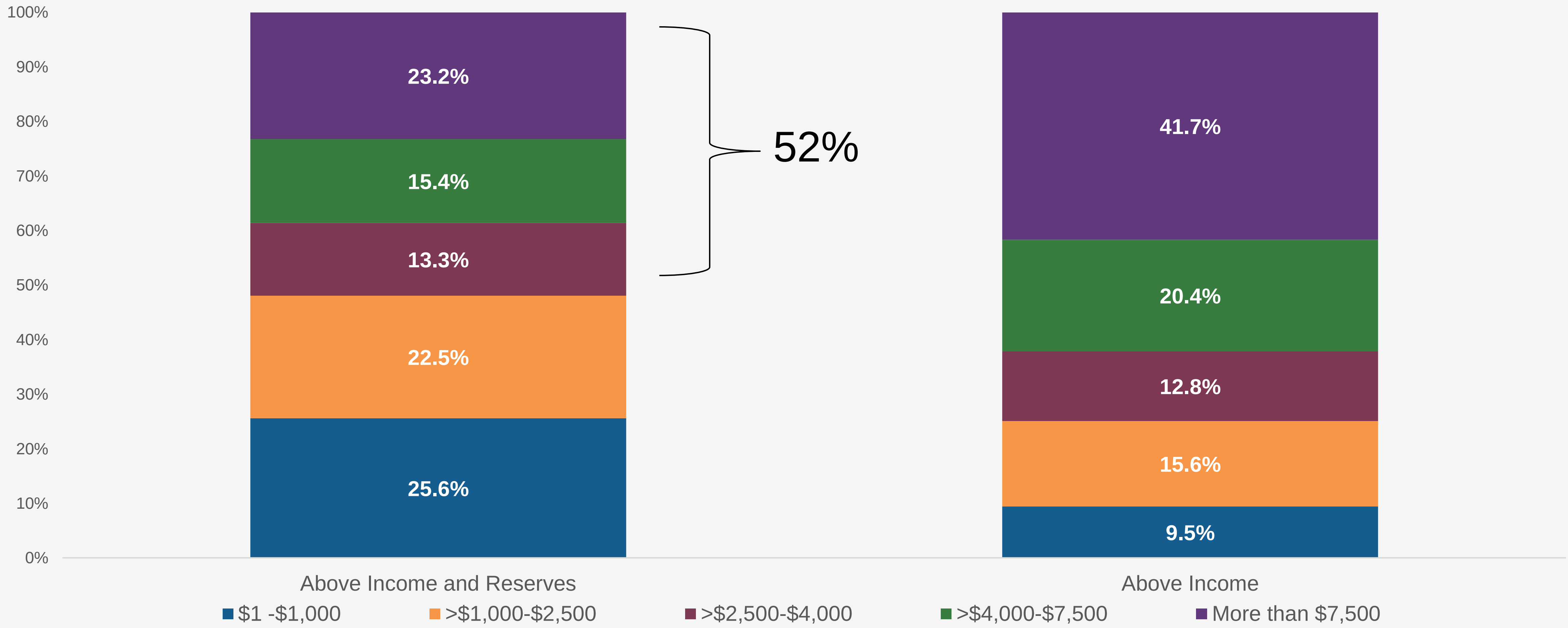
Spending Relative to the Median of the Prior 12 Months of Spending—Percentage Above Specific Thresholds of Median Monthly Spending



Source: Estimates from the EBRI/ICI 401(k) Plan Database and select Chase data.

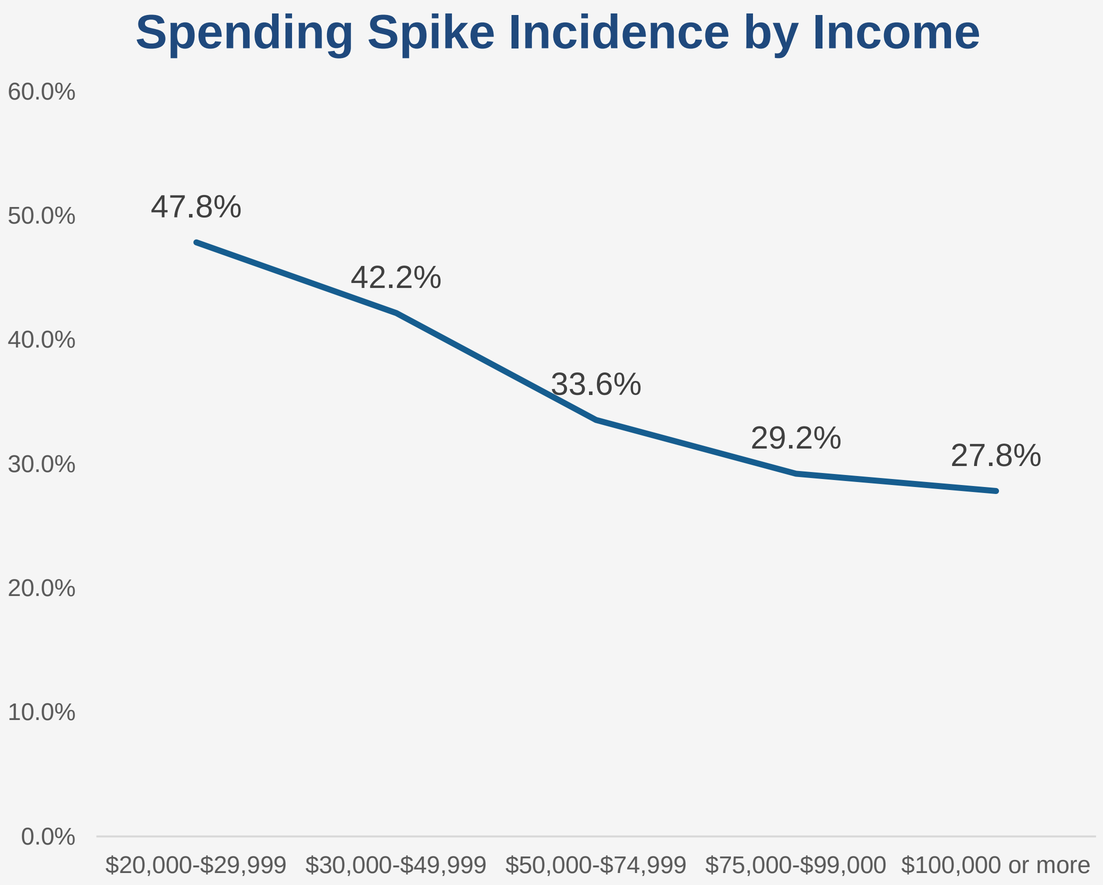
Distribution of Spending Annual Amounts Above Income and Cash Reserves and Above Income

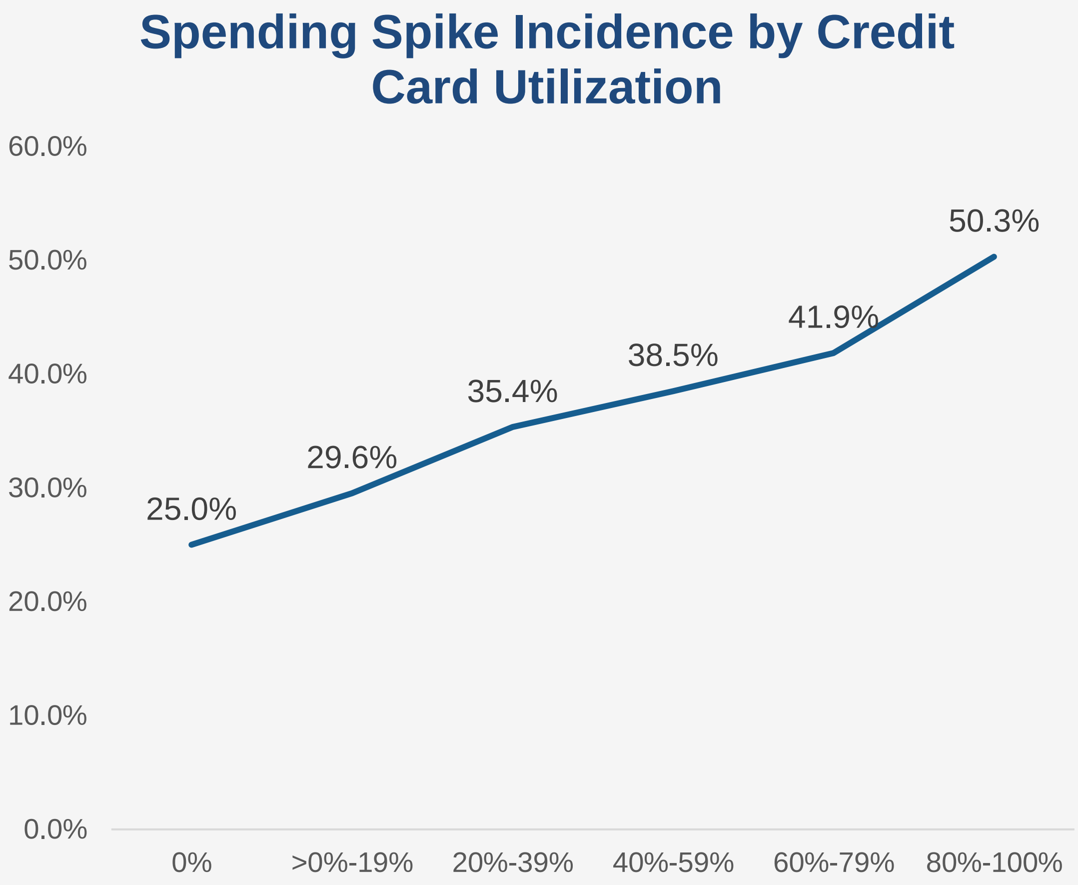
(Households With Incomes Less than $150,000)



Source: Estimates from the EBRI/ICI 401(k) Plan Database and select Chase data.

Spending Spike Incidence, by Financial Characteristics

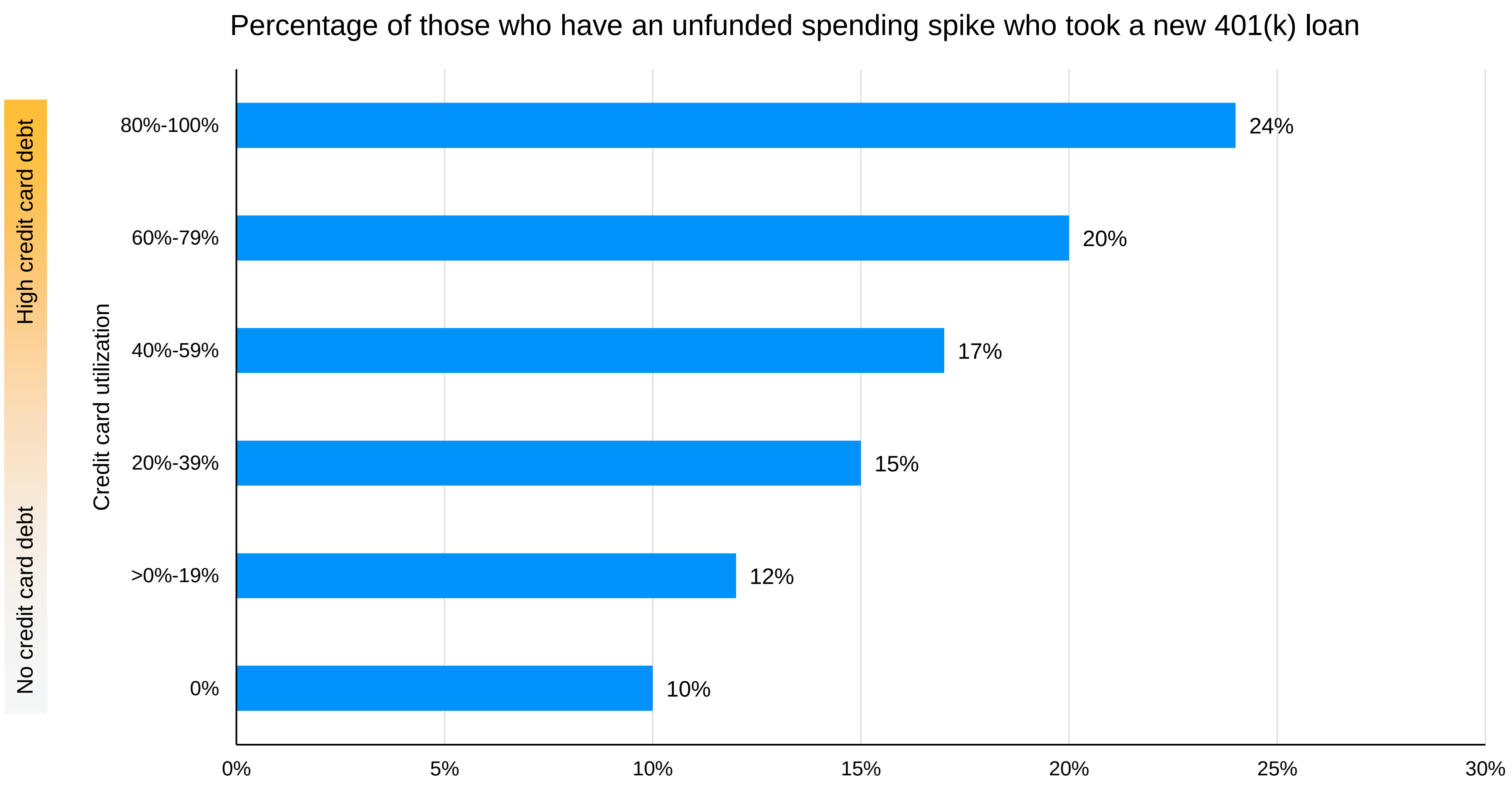




Source: Estimates from the EBRI/ICI 401(k) Plan Database and select Chase data.

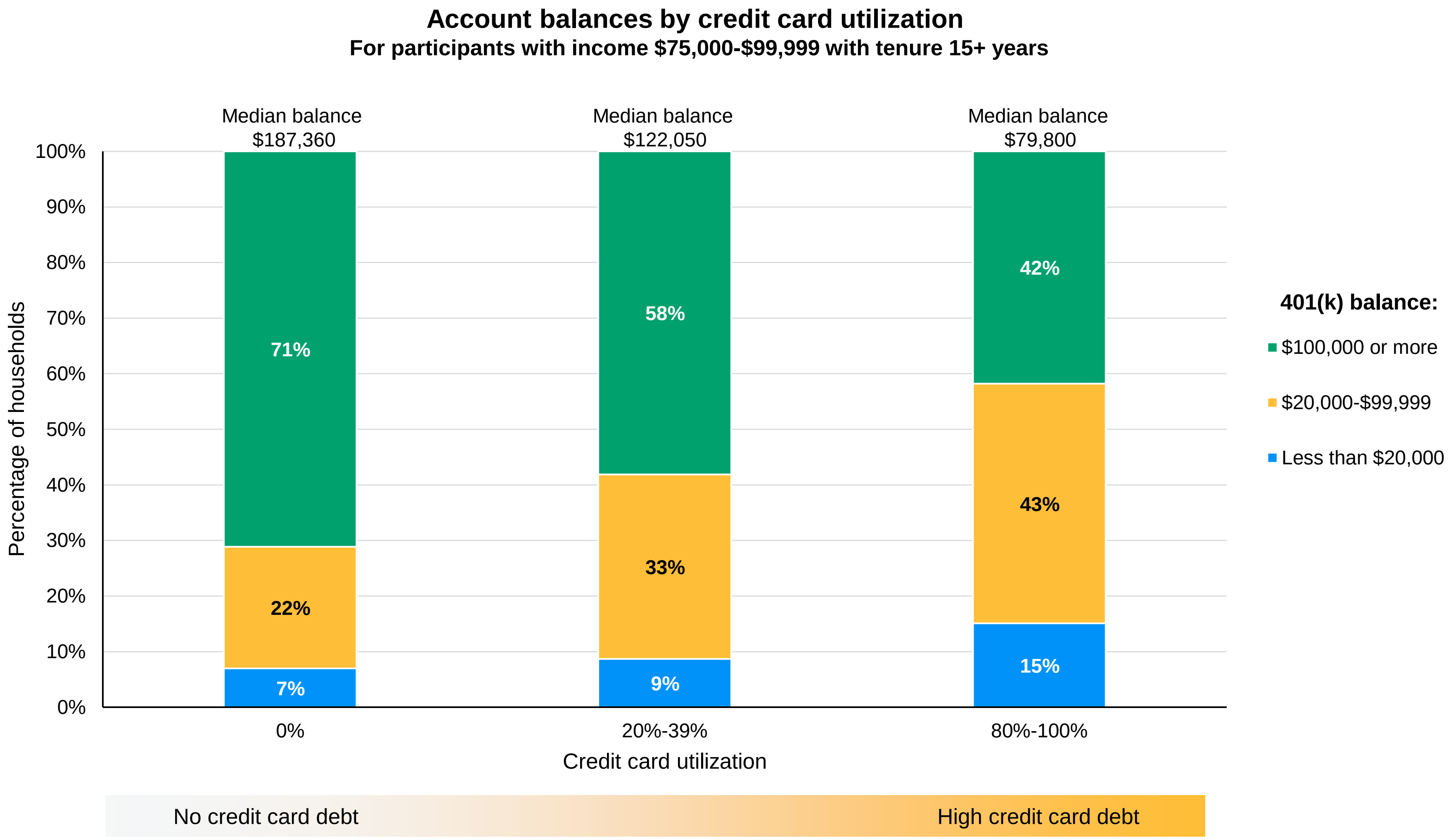
HOW IS THE LACK OF FINANCIAL WELLNESS RELATED TO RETIREMENT READINESS?

As households near their credit card limit, reliance on 401(k) loans increases



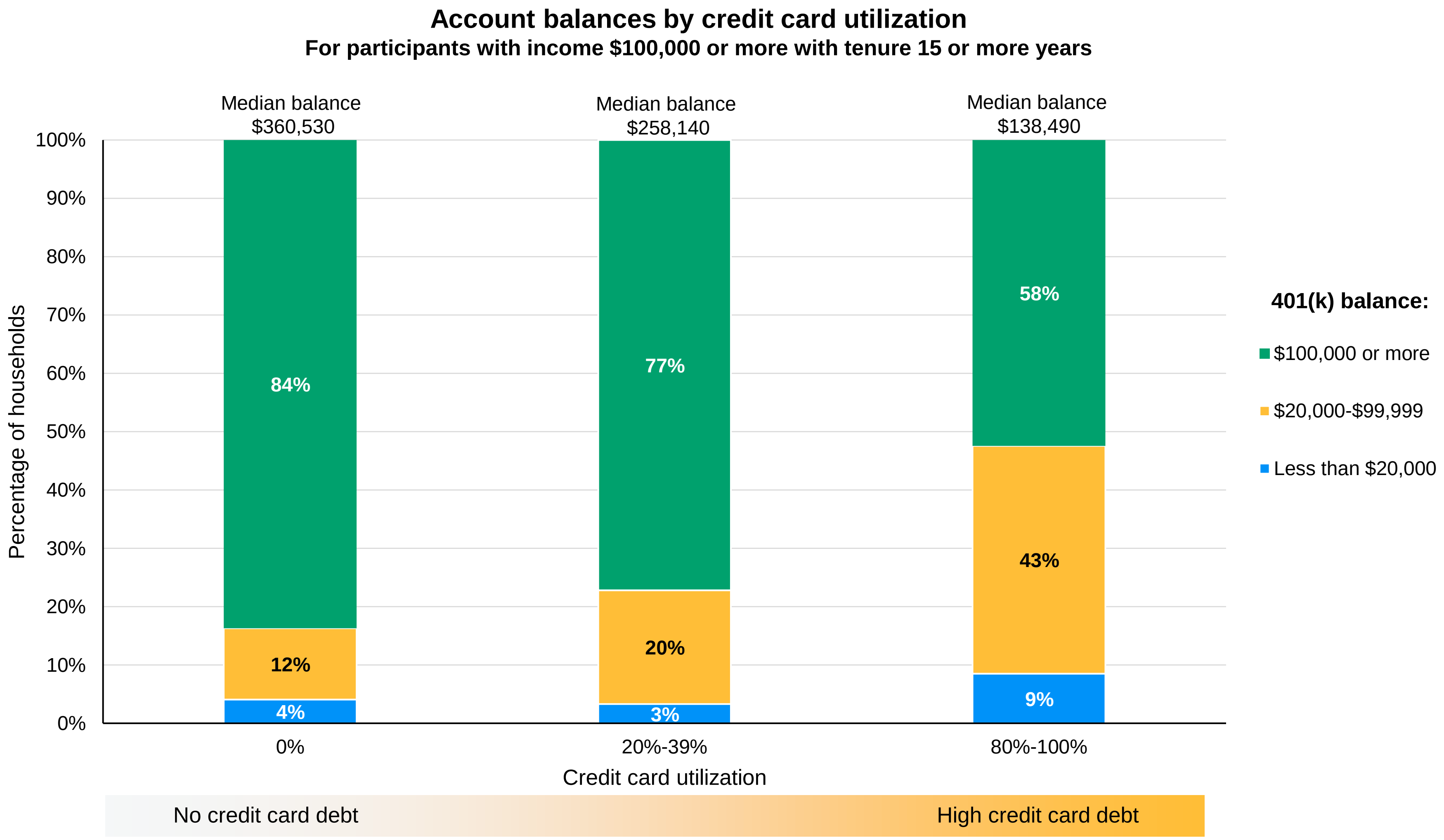
Source: How Financial Factors Outside of a 401(k) Plan Can Impact Retirement Readiness https://www.ebri.org/content/summary/how-financial-factors-outside-of-a-401(k)-plan-can-impact-retirement-readiness

Retirement readiness: those with higher credit card utilization are more likely to have lower 401(k) balances…



Source: How Financial Factors Outside of a 401(k) Plan Can Impact Retirement Readiness
https://www.ebri.org/content/summary/how-financial-factors-outside-of-a-401(k)-plan-can-impact-retirement-readiness
Note: Median balance amounts have been rounded to the nearest $10

…and this holds true for those with higher incomes



Source: Employee Benefit Research Institute (EBRI) used with permission.
Note: Median balance amounts have been rounded to the nearest $10

Implications

Plan sponsors can help

1. Automate, incentivize and/or encourage emergency savings

2. Provide education on debt management and budgeting, and target participants who have taken 401(k) loans

3. Explicitly take participant behavior into account when defining criteria for the Qualified Default Investment Alternative (QDIA)

Public Policy Implications

- Participants across all incomes and balances access funds from their 401(k) plans before they retire.
- Understanding that retirement is not just about how much is in a retirement account, but the overall financial status of the individual can lead to better development of policies surrounding retirement security.
- The overall financial wellness of participants impacts the decision to make 401(k) plan withdrawals. Policymakers need to be aware of this issue and account for this possibility. Emergency savings accounts can provide an additional source of funds that could limit the need for 401(k) loans and withdrawals.
- However, as shown, the dollar amounts of spending spikes can be large (>$2,500) and occur across all income levels, but the emergency savings accounts established in SECURE 2.0 have limits on both amounts that can be saved and who can have them.

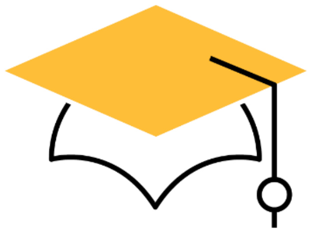
WHAT IS THE IMPACT OF STUDENT LOAN PAYMENTS ON RETIREMENT READINESS?

Student loans take a toll on retirement readiness

Student loan debt: select all that apply

Amount of outstanding Federal student loan debt in the US?

1. A lot
2. More than $1.6 Million
3. More than $1.6 Billion
4. More than $1.6 Trillion



National student loan data system as of January 18, 2024

Quick student loan facts

After a three-year pause, most Federal student loan payments resumed in October 2023*

SECURE 2.0 permits employer matching contributions on behalf of employees who are repaying student loans

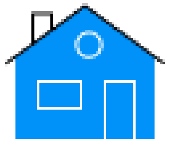
* The U.S. Department of Education paused Federal Student Loan Payments as part of COVID-19 emergency relief on March 13, 2020, with 0% interest until September 1, 2023. For more information, see J.P. Morgan's "Latest developments in college planning."
Source: U.S. Department of Education; SECURE 2.0 Act of 2022.

Does student loan debt impact retirement readiness?

J.P. Morgan Asset Management and the Employee Benefit Research (EBRI) embarked on joint research to answer:

1. Who has student loan debt?
2. Are contribution rates affected by student loan debt?
3. Does student loan debt affect 401(k) balances?

What population did we analyze?

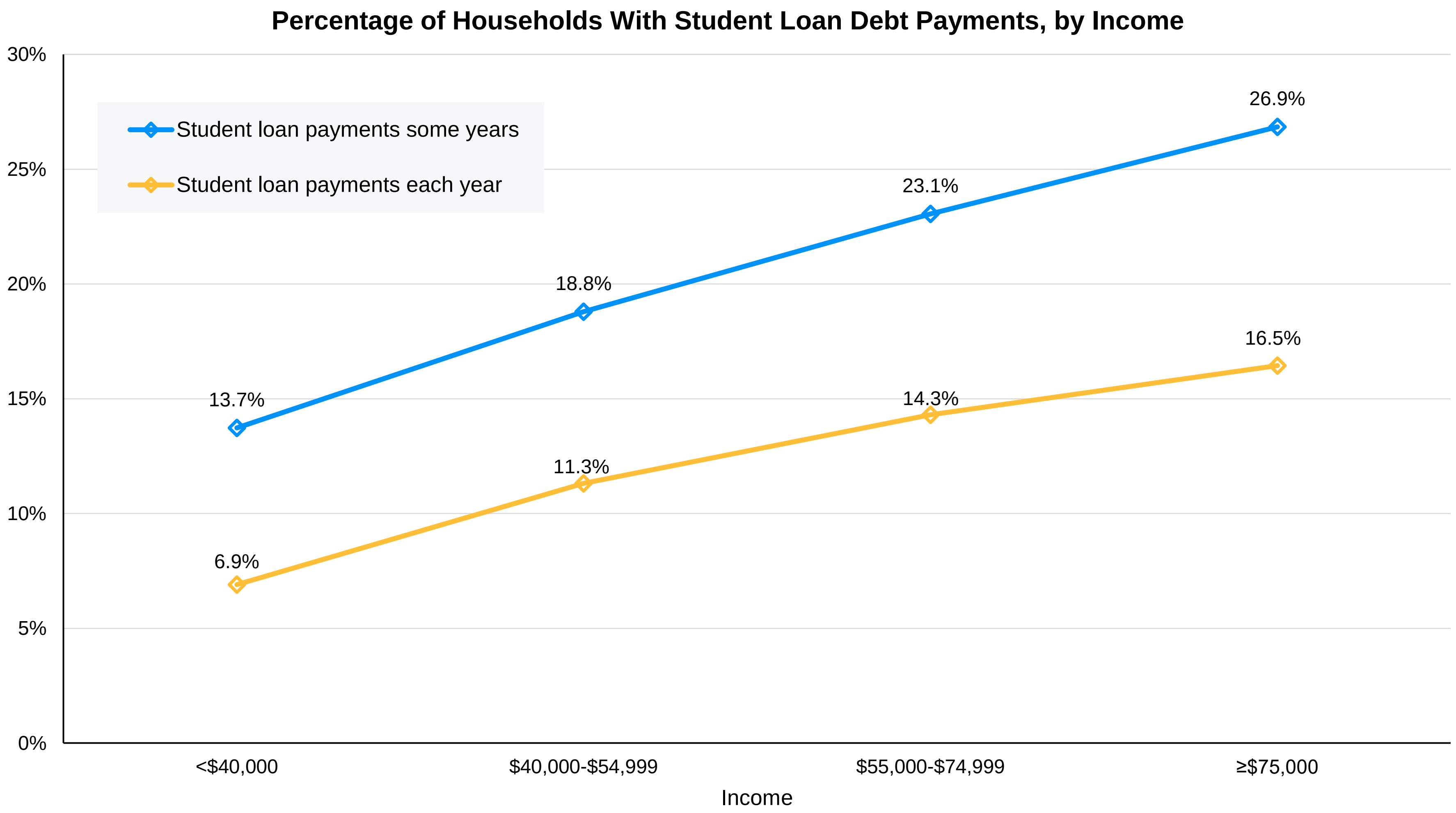


51.6k single-customer households who are active participants with complete 401(k) and spending data from 2017-2019

Source: “Student Loans and Retirement Preparedness,” Employee Benefit Research Institute and J.P. Morgan Asset Management.

Employees with higher income are more likely to have student loan debt

1

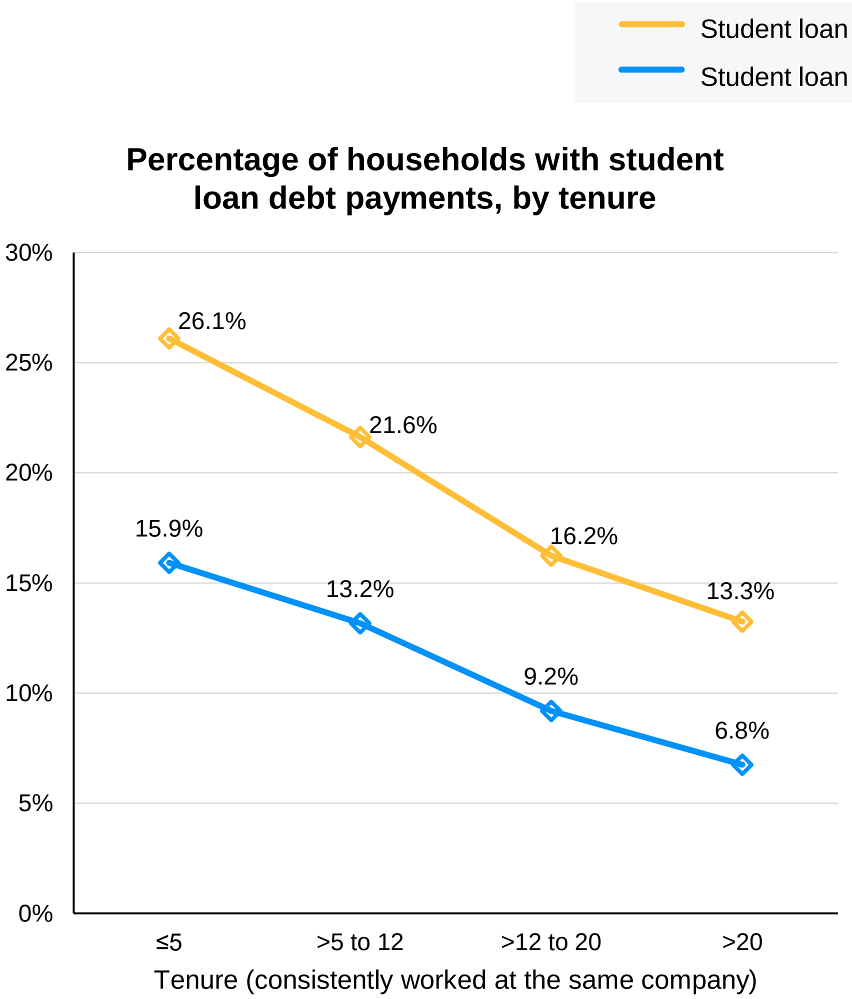


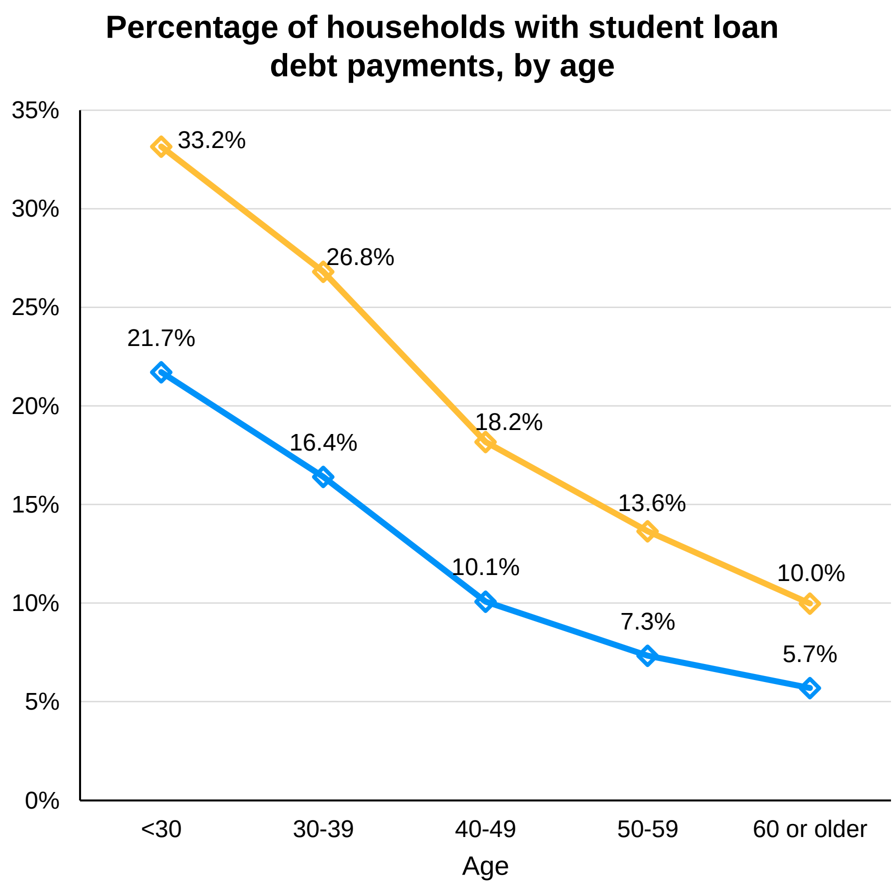
Source: "Student Loans and Retirement Preparedness," Employee Benefit Research Institute and J.P. Morgan Asset Management.

J.P.Morgan
ASSET MANAGEMENT

Younger employees and those with lower tenure are more likely to have student loan debt

1



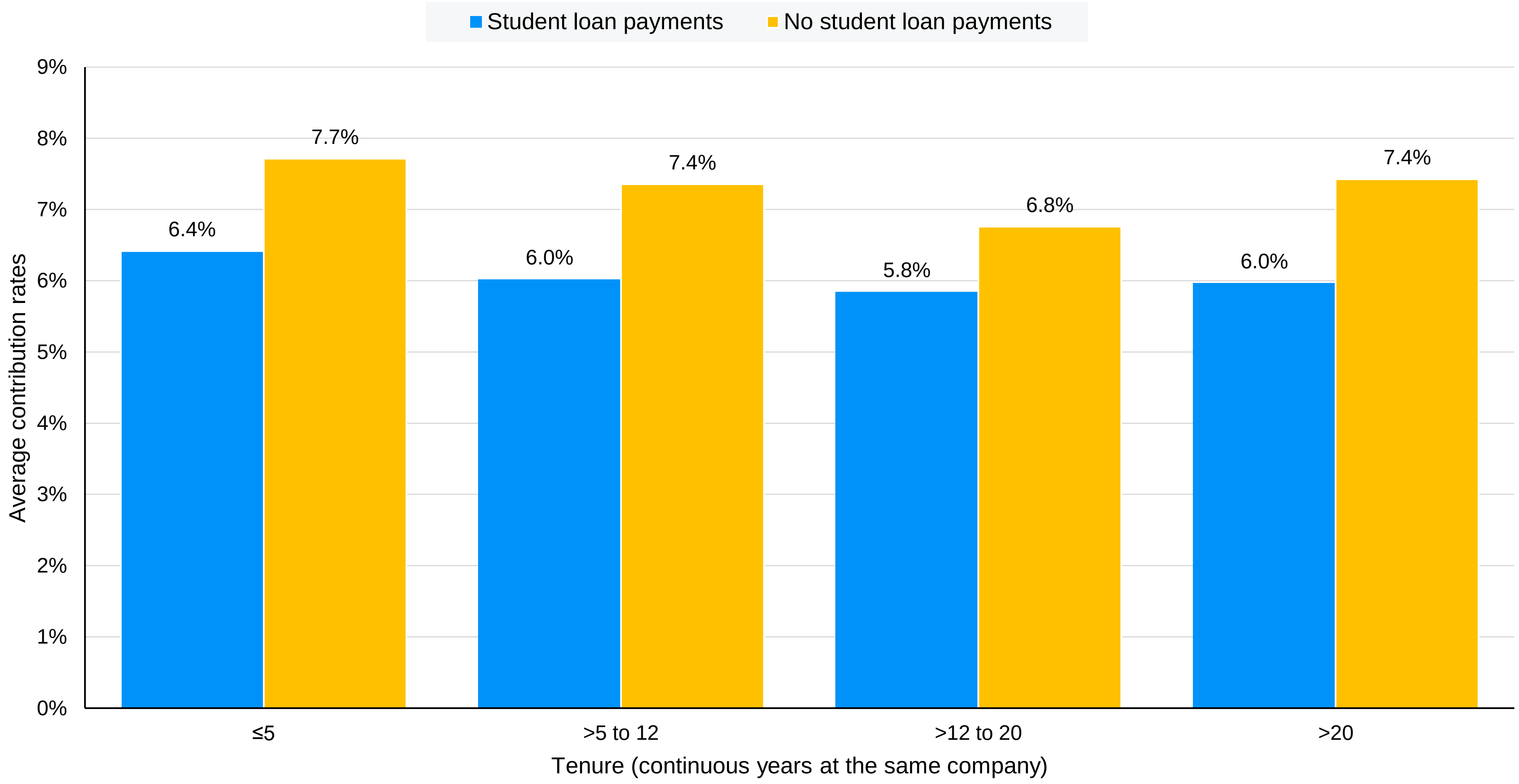


Source: "Student Loans and Retirement Preparedness," Employee Benefit Research Institute and J.P. Morgan Asset Management.

Average contribution rates were significantly higher for those making no student loan payments

2

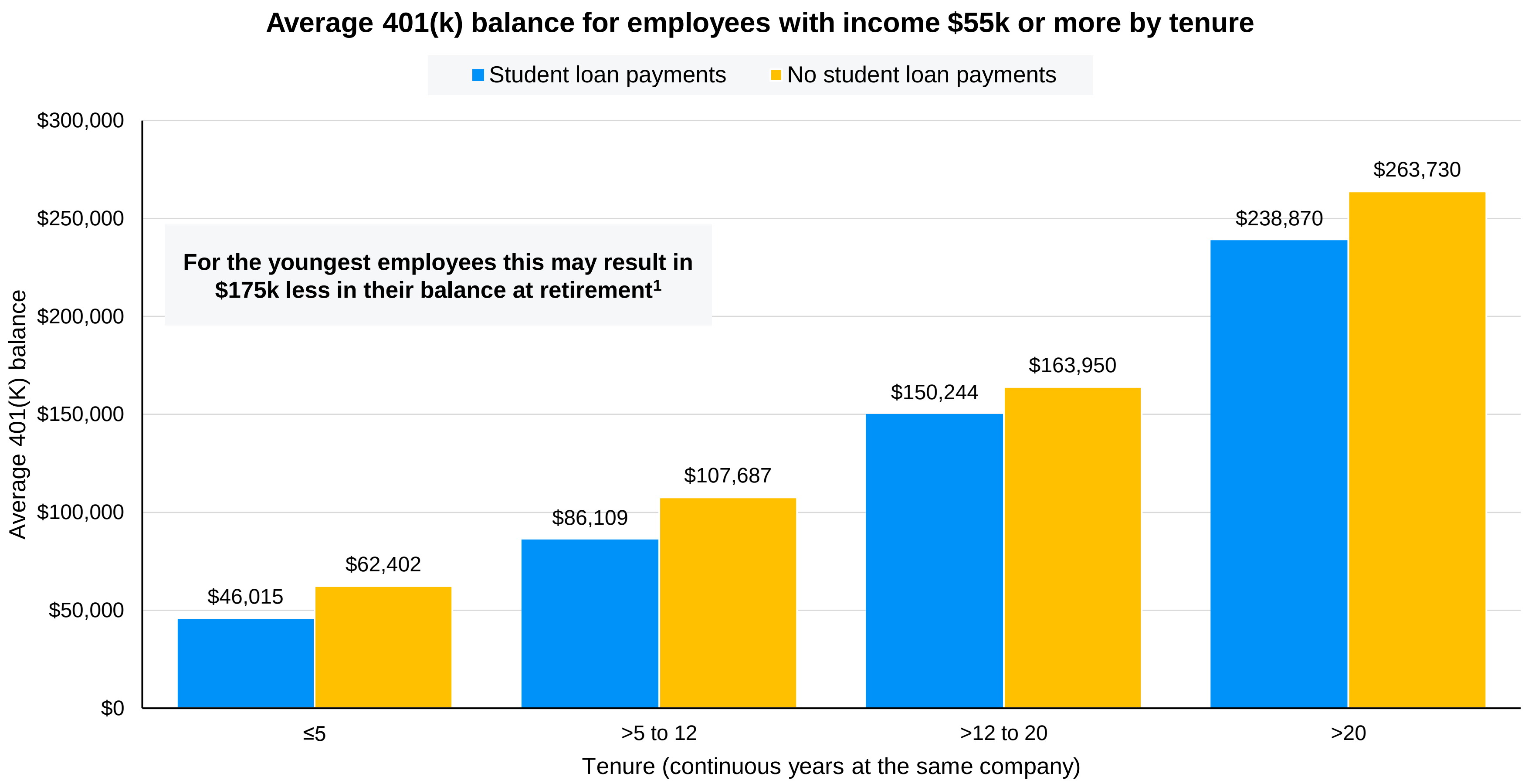
Average employee contributions for employees with income $55k or more by tenure



Source: “Student Loans and Retirement Preparedness,” Employee Benefit Research Institute and J.P. Morgan Asset Management.

J.P.Morgan
ASSET MANAGEMENT

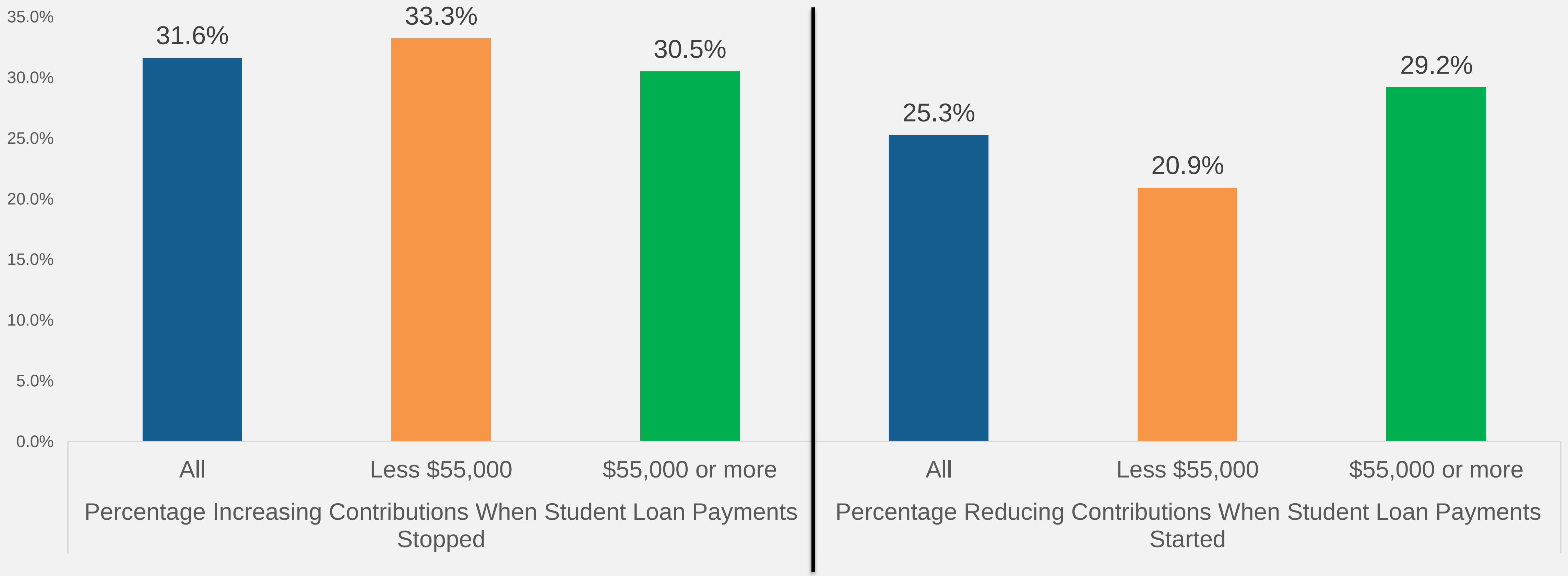
Average plan balances were significantly lower for those making student loan payments



[1]Assumes the $16k difference for participants with less than 5 years of tenure has growth rate of 7% per year for 35 years.
Source: "Student Loans and Retirement Preparedness," Employee Benefit Research Institute and J.P. Morgan Asset Management.

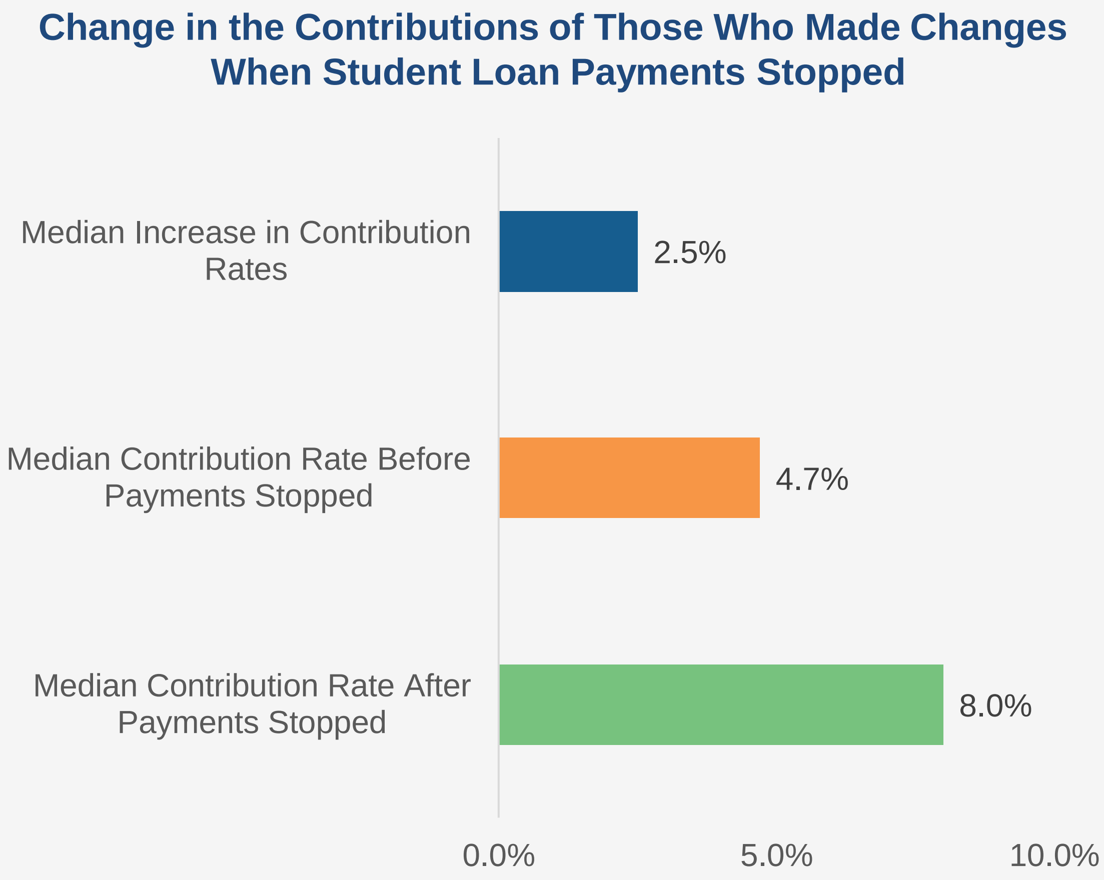
WHAT HAPPENS TO CONTRIBUTION RATES WHEN PARTICIPANTS' STUDENT LOAN PAYMENTS STOP OR START?

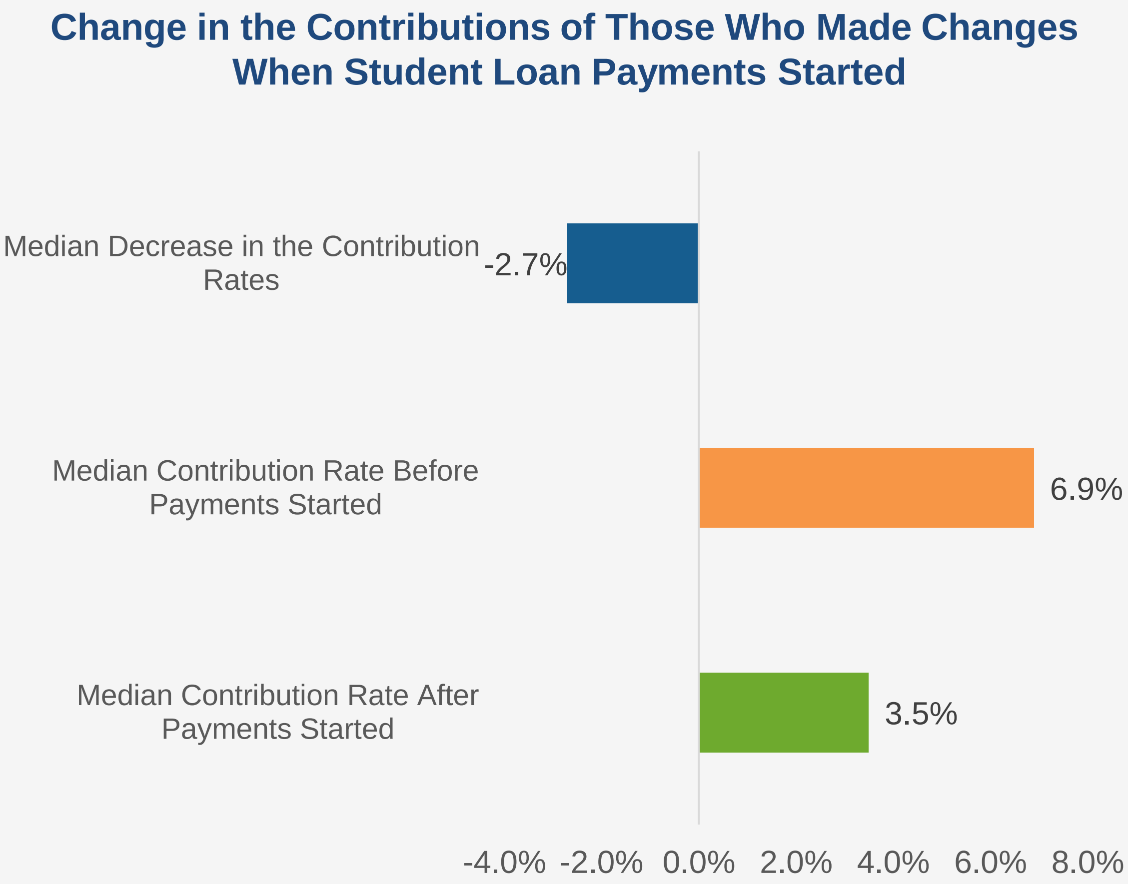
Percentage of Those Who Had Student Loan Debt Payments Stop or Start That Changed Their Contribution Rate by One Percentage Point or More, by Income



Source: Estimates from the EBRI/ICI 401(k) Plan Database and select Chase data.

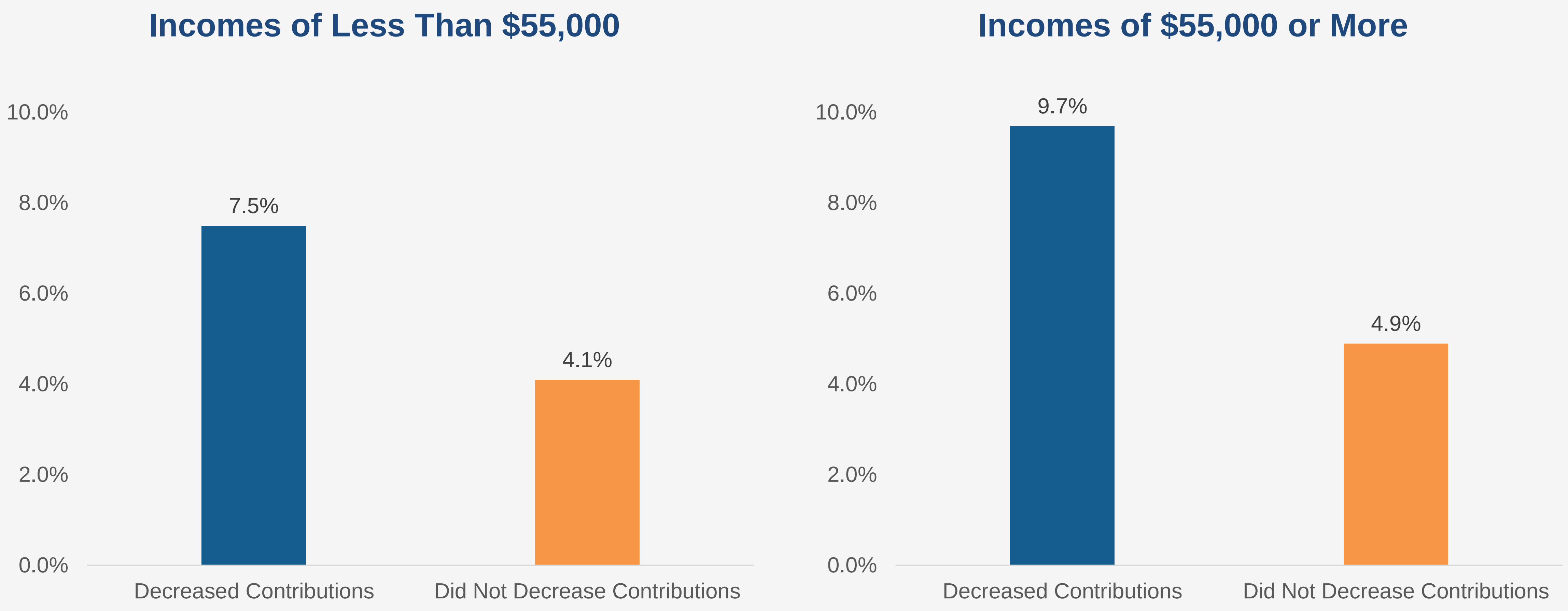
Magnitude of the Contribution Rate Changes When Contributions Were Changed After Student Loan Payments Stopped or Started





Source: Estimates from the EBRI/ICI 401(k) Plan Database and select Chase data.

Average Contribution Rates Before Student Loan Debt Payments Started of Those Who Decreased Contributions and Those Who Did Not Decrease Contributions, by Income



Source: Estimates from the EBRI/ICI 401(k) Plan Database and select Chase data.

WHAT DOES THIS MEAN FOR PLAN SPONSORS WHEN THINKING ABOUT STUDENT LOAN BENEFITS INCLUDING MATCHING CONTRIBUTIONS?

How plan sponsors can help improve retirement readiness

Summary

- Student loan debt has a direct impact on participants' ability to contribute towards their retirement
- For those who make more than $55k, there is a meaningful difference in contribution rates and 401(k) balances for those who have student loan debt

Plan sponsors can help

1. **Carefully examine plan characteristics** (participation rate, savings rates and demographics) when considering offering the employer match for student loans. **Consider surveying non-participating employees** to see if student loan debt is a factor holding them back from saving.

   PRO: May encourage greater participation and increase retirement readiness

   CON: May discourage contributions if employees are only saving up to the match

2. Employers that do not implement the matching provision may **consider sweeping nonparticipating employees via automatic enrollment** each year to capture those who may have the capacity to contribute (i.e., once student loan payments stop).

3. **Incorporate financial education:**
   - Help participants with prioritization of savings and loan repayment
   - For plan sponsors that implement SECURE 2.0 provision for student loan matching, consider targeted communications when student loan payments stop

Prioritizing long-term retirement savings

Prioritizing savings

- 8 Taxable account
- 7 IRA[3]
- 6 Pay down lower interest loans (such as student loans with interest < 7.0%)[2]

Maximize contribution

- 5 Additional Defined Contribution savings
- 4 HSA (Health Savings Account)[1]

- 3 Pay down higher interest loans (such as credit card debt/student loans with interest > 7.0%)[2]

Maximize employer match

- 2 Defined Contribution savings to maximize employer match (if available)

Start here

- 1 Emergency reserve (see "Annual emergency reserves" on slide 26)

Getting started

Start with emergency savings to weather spending and income shocks throughout the year and make sure to take advantage of employer matching funds if they are available.

An HSA offers triple tax benefits if used for qualified medical expenses in retirement.

[1]Must have a high-deductible health insurance plan that is eligible to be paired with an HSA. Those taking Social Security benefits age 65 or older and those who are on Medicare are ineligible. Tax penalties apply for non-qualified distributions prior to age 65; consult IRS Publication 502 or your tax professional.
[2]This assumes that a diversified portfolio may earn 7.0% over the long term. Actual returns may be higher or lower. Generally, consider making additional payments on loans with a higher interest rate than your long-term expected investment return.
[3]Income limits may apply for IRAs. If ineligible for these, consider a non-deductible IRA or an after-tax 401(k) contribution. Individual situations will vary; consult your tax professional.
Source: J.P. Morgan Asset Management analysis. Not intended to be a personal financial plan.

Data privacy & disclosures

DATA PRIVACY: We have a number of security protocols in place which are designed to ensure all customer data is 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 is 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 in place for its researchers . 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 is stored on a secure server and can be accessed only under strict security procedures. Researchers are not permitted to export the data outside of JPMorgan 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.

This document is a general communication being provided for informational purposes only. It is educational in nature and not designed to be a recommendation for any specific investment product, strategy, plan feature or other purposes. By receiving this communication you agree with the intended purpose described above. Any examples used in this material are generic, hypothetical and for illustration purposes only. None of J.P. Morgan Asset Management, its affiliates or representatives is suggesting that the recipient or any other person take a specific course of action or any action at all. Communications such as this are not impartial and are provided in connection with the advertising and marketing of products and services. Prior to making any investment or financial decisions, you should seek individualized advice from personal financial, legal, tax and other professionals that take into account all of the particular facts and circumstances of your own situation.

DISCLOSURES:
Target date funds: Target date funds are funds with the target date being the approximate date when investors plan to retire. Generally, the asset allocation of each fund will change on an annual basis with the asset allocation becoming more conservative as the fund nears the target retirement date. The principal value of the fund(s) is not guaranteed at any time, including at the target date.

Conflicts of interest: Refer to the Conflicts of Interest section of the Fund's Prospectus.

Opinions and estimates offered constitute our judgment and are subject to change without notice, as are statements of financial market trends, which are based on current market conditions. We believe the information provided here is reliable, but do not warrant its accuracy or completeness. References to future returns are not promises or even estimates of actual returns a client portfolio may achieve.
J.P. Morgan Asset Management is the brand name for the asset management businesses of JPMorgan Chase & Co. and its affiliates worldwide.

JPMorgan Distribution Services, Inc., member FINRA.

If you are a person with a disability and need additional support in viewing the material, please call us at 1-800-343-1113 for assistance.

Q & A

Upcoming Events

May 15 — EBRI Research Committee Meeting (Members Only)

May 15 — EBRI Board of Trustees Meeting (Members Only)

May 16 — Policy Forum: ERISA at 50

Please visit ebri.org for more information or contact info@ebri.org