NEWS FROM THE EMPLOYEE BENEFIT RESEARCH INSTITUTE

New Research Study of Public Defined Contribution Plan Participants Finds That Spending "Spikes" Are Associated With Increased Credit Card Debt and DC Plan Loans

- Higher credit card obligations are also associated with lower contributions and account balances similar to what private-sector participants experience -

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(Washington, D.C.) – A new research report published today by the Employee Benefit Research Institute (EBRI), J.P. Morgan Asset Management and National Association of Government Defined Contribution Administrators (NAGDCA) reviewing public-sector defined contribution (DC) accountholder data from the Public Retirement Research Lab (PRRL) Database found that participants who experienced unfunded spending "spikes" were more likely to have increased credit card debt and to have taken a DC plan loan. Furthermore, those with a higher percentage of their available credit card debt being used had lower contributions and lower account balances, on average.

Spending spikes are determined to occur when a household's monthly spending is at least 25% or more than the previous 12 months' median monthly spending and this spending cannot be covered by the household's income and cash reserves (checking and savings accounts). Nearly one-third (29%) of the public sector DC plan participants were found to have these spikes in the study year, and they were not among just those with lower incomes as nearly one-quarter of those with incomes of $100,000 or more experienced a spike. These spending spikes have a clear impact on the likelihood of DC plan participants taking a plan loan and increasing their credit card debt in the year of the spike. Of those with a spending spike in the analysis year, 7% took a new plan loan and 31.7% increased their credit card debt, compared with 2.7% and 25.9, respectively, of those without a spending spike in the same year.

Other key findings in the new report, "How Financial Factors Outside of a Defined Contribution Plan Can Impact Retirement Readiness: An Examination of Public-Sector Participants," include:

• On a dollar basis, among those with incomes of $150,000 or less who had a spike, 60% of these household observations had spikes larger than $2,500 aggregated over the year and 82% had spending not covered by income alone above this threshold.

• The likelihood of experiencing a spike increased with the spending ratio and beginning of the year credit card utilization. In contrast, the likelihood of a spike decreased as gross income increased. However, nearly one-quarter of the households with incomes of $100,000 or more had a spike.

• Households are more likely to take on additional credit card debt before taking the plan loan, as approximately one-third to one half of those with credit card utilization of less than 80% increased credit card debt, while less than 8% took a new plan loan with that level of credit card utilization. However, when credit card utilization reaches 80%, the likelihood of increasing credit card debt decreases to 22.4%, while the percentage taking a new plan loan increases to 11.5%.

"It is clear that spending, debt and saving for retirement are explicitly linked. This study builds on the prior J.P. Morgan/EBRI study that looked at the links between these actions among private sector DC plan participants to determine if the same links are found among public sector DC plan participants and found that the same relationships exist among these workers as well. These links between spending and debt suggests that retirement planning is not wholly different by place of employment, even where benefits availability may be dissimilar, but part of a broader holistic financial planning journey where all factors need to be incorporated. In fact, participating in a budget webinar has been found to be associated with higher DC plan contributions. Programs to help with workers' overall finances could be indispensable. The decision to a take a plan loan is not just dependent on what happens in the plan but on the total financial profile of the participant," said Craig Copeland, director, Wealth Benefits Research, EBRI.

The data analyzed for this research study came from the PRRL Database and JPMorgan Chase Bank, N.A. The PRRL Database is an opt-in collaboration among public retirement plan sponsors, EBRI and NAGDCA. The database includes information from two hundred and sixty-seven 457(b), 401(a), 401(k) and 403(b) defined contribution plans, representing 2.5 million state, county, city and subdivision government employees and incorporating over 3 million retirement accounts that is valued at $170 billion in assets (as of year-end 2021). The Chase data sample is restricted to the households in 2019–2021 who use Chase as their primary banking institution, and their total household spending through all payment mechanisms.

"Given the impact of participants' overall finances, it is clear that prohibiting plan loans would not necessarily improve participants' retirement security. Without the option, participants would seek loans outside the plan to fill spending gaps, and those loans may have terms more expensive than those available as part of the plan," said Sharon Carson, executive director and retirement strategist, J.P. Morgan Asset Management. "The research found that, like private sector DC plan participants, public sector DC plan participants who lack income and cash reserves to support a spending spike are likely to end up with more credit card debt. This higher debt can have a long-lasting impact on retirement security, since higher credit card utilization is correlated with lower DC plan contributions and account balances, even when controlling for income. As a result, the availability of emergency savings to cover spending spikes can be a critical factor in preventing or stalling a cycle of increasing debt that can significantly impact retirement readiness, wherever the individual works."

To view the complete report, "How Financial Factors Outside of a Defined Contribution Plan Can Impact Retirement Readiness: An Examination of Public-Sector Participants," visit https://www.ebri.org/publications/research-publications/issue-briefs/content/how-financial-factors-outside-of-a-defined-contribution-plan-can-impact-retirement-readiness.

(MEDIA NOTE: To receive the complete research report, contact Ron Dresner at dresner@ebri.org).

<u>About the EBRI/JPMC Research</u>
This 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).[1] The latest research collaboration between J.P. Morgan Asset Management and the Employee Benefit Research Institute, which leverages data across 29 million Chase households[2] and 2.5 million public sector defined contribution 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.[3]

<u>About the EBRI/NAGDCA Research</u>
The public sector DC plan data for this paper is from the PRRL Database, the first-ever resource specific to public-sector defined contribution data, to produce unbiased, actionable research aimed at enhancing understanding of the design and utilization of public-sector defined contribution retirement plans to better inform public plan design, management, innovation and legislation.

<u>Commitment to Privacy and Security</u>
No PRRL 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.

<u>About EBRI</u>
The Employee Benefit Research Institute was founded in 1978. Its mission is to contribute, encourage and enhance the development of sound employee benefit programs and sound public policy through objective research and education. The EBRI is the only nonprofit, nonpartisan, Washington, D.C.-based organization committed exclusively to public policy research and education about 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 Public Retirement Research Lab is a retirement industry collaborative effort of the EBRI and NAGDCA. The PRRL analyzes data from its Public Retirement Research Database, the first-ever database specific to public-sector defined contribution data, to produce unbiased, actionable research aimed at enhancing understanding of the design and utilization of public-sector defined contribution retirement plans to better inform public plan design, management, innovation and legislation. For more information, visit www.prrl.org.

About J.P. Morgan Asset Management
J.P. Morgan Asset Management, with assets under management of $3.3 trillion, as of June 30, 2024, 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.

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] 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.
[2] This number represents the number of households shared with EBRI to conduct the analysis. In this analysis, the Chase data sample reference herein is restricted to the households in 2019-2021 who use Chase as their primary banking institution, and their total household spending through all payment mechanisms (including select credit and debit card transactions, electronic payment transactions, check and cash payments) and sources of income including wage income, Social Security, annuity, pensions, etc. can be linked to the PRRL Database. For more information about Chase, visit the following website: https://www.chase.com/digital/resources/about-chase.
[3] Data privacy and contractual relationships with recordkeepers have been carefully protected.