Forum on Financial Experiences of Older Adults
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Forum on Financial Experiences of Older Adults: Panel I--Financial Stress and Economic Security Issues

JULIE ZISSIMOPOULOS: Good afternoon, so I'd like to start by thanking our panelists and also thanking Ted Fishman [phonetic] for his very inspiring comments and you've made our job at this first panel a lot easier by putting out some of the big themes and issues. I'm going to make a few opening comments and then I'll turn it over to the panelists who will have some comments before we take up kind of a question and answer type of format. Individuals and their families, government employers all have a role in providing financial security of older adults. Challenges are faced by all groups coming from increased life spans, a shrinking work force due to the retirement of a large cohort, the baby boomers, as well as lower fertility rates, as well as the recent recession which unlike prior recessions affected not only unemployment and stock market but also the value of housing. Individuals and families are being asked more and more to manage their own retirement finances in an environment of complex financial instruments. The family is also a safety net, as Ted spoke about, and the American family is changing. Employers face challenges managing this retirement of a large cohort of workers in providing pension and health care benefits in an environment of very high health care costs. Government faces choices about how to address the future financial short fall of the Social Security Trust Fund as well as to cover the medical expenditures of aging population. Fortunately as researchers and policy makers we now have much rich data to work from to find solutions. Panel studies are linked with administrative data and this provides an excellent source of information about earnings and retirement benefits. Internet surveying such as the American Life Panel which was used in the report here allows for quick, high quality data collection in response to events such as the recent recession. There's also new technology such as brain imaging that brings new data for understanding the aging brain. In the first panel we have a variety of experts on financial security discussing some key areas of financial vulnerability of older adults including household financial stability, housing, long term care and work force, work of older adults. It will also provide the foundation for which the other panels will build. Our first panelist is Bill Emmons [phonetic], Chief Economist of the Center for Household Financial Stability at the Federal Reserve Bank in St. Louis. He will begin this session with an insightful discussion of the wealth holdings of successive generations of Americans. Next is Alayna Waldrum, [phonetic] Housing Legislative Representative and Director of Leading Age. She will discuss housing and long term care needs today and in the future and policies that will support them. Andrew Parker is a Senior Behavioral Scientist at the RAND Corporation; he will be third speaking about how cognition varies across age and the implication of these changes for financial decision making. And unfortunately our scheduled fourth panelist, Carl Van Horn, who is Director of the Heldrich Center for Workforce at Rutgers was unable to attend so I will make some concluding comments about older workers to wrap up the introductory comments. After the brief presentations I will lead the panel in a Q and A and then open up for audience questions. So thank you in advance and I'll turn it over to Bill, thank you.

BILL EMMONS: Thank you Julie, very glad to be here representing the St. Louis Fed but also a system-wide effort to really focus more on the financial positions of households, not just older adults but across the age spectrum. So this is reporting on some work that's part of a series of papers that I'm writing with Bryan Noeth [phonetic] at the St. Louis Fed and I want to also from the beginning of course mention there's been a lot of really good work in this area. What I want to do today is just provide a very small sample of some interesting things that we think we've identified and that is, as Julie mentioned, looking across different cohorts, looking at when people were born and how that seems to have affected the path of their financial well-being. So the title is borrowed from the paper by William Gale and Karen Pence [phonetic] that appeared in the Brooking's papers in 2006, “Are Successive Generations Getting Wealthier, and If So, Why?”. Their paper said evidence from the 1990's and we're adding evidence from the 2000's and I'll explain exactly what I mean by that. So this paper was based on the Survey of Consumer Finances, five waves starting in 1989 through 2001 and I think most would agree this is one of the best if not the best really micro level data sets to look at the wealth holdings of families along a rich set of demographic characteristics. So the question posed by those authors was answered with yes, it does appear that successive generations are getting wealthier which of course shouldn't be surprising. We think of a rising tide over time, everyone is getting wealthier. But I think what seemed to come out of their discussion, or maybe it was unexpected in the work, was that the lion's share of wealth gains during that period they were looking at were captured by older families. And so it wasn't entirely clear why that was the case and so they really kind of run a horse race between - is it the strong stock market in the 1990's, is it the spread of defined benefit pensions, or defined contribution pensions I think in the 90's, or was it something else and, in particular, was it just that the older families that were observing and successive waves of the survey are in fact different and maybe they are better able to accumulate wealth. So that's what they summarize with the term demographics so that was already mentioned in Ted's discussion. Families that are more highly educated tend to have better health, there's high correlations tend to be married more, tend to spend more years in the work force, tend to have access to these institutional forms of saving and so the whole cluster of things that might explain if the group of families are identifying as older adults in a later wave of the survey in fact have more of those things that tend to be associated with wealth. That in fact is what they concluded -

that overwhelmingly, they said, the evidence suggests that it's the second explanation, that is the wealth building characteristics of what we call older adults has changed and in fact improved that's why the sample of older families looks wealthier in the later years. They're as I said better educated, healthier, less likely to be widowed, more women worked during this period or during their working lives, they worked more years and it doesn't seem to be just the fact that there was a very strong stock market during most of the 1980's. So the work that Brian and I are doing is really if you will building on that but something that we noticed, we didn't expect there's something else going on we think so we're going to add evidence from the 2000's but then go back and check and see if our conclusions are also in the data, the five waves, so we have eight waves and they had only five waves to look at. And we think yes, we think that that result we're going to point to today actually was in the earlier data. So what I think...you'd say basically all of the same things that Gale and Pence said about the earlier group ending in 2001 is still true in 2010, first of all older families have accumulated a disproportionate share of wealth, another thing of course which they couldn't have said early in the decade, older families seemed to have weathered the most recent turbulence better than middle aged and especially younger families and we have some other work on that if you're interested. So demographics still seem to matter a great deal and I think another kind of a wrinkle to that is not only is it good for wealth accumulation it's also good for stability for resilience and something like this crisis atmosphere that we've gone through, so that adds to the strength. And I should say we're looking at medians, we've looked at means, we've looked at the 20th percentile, the 50th percentile...or the 80th percentile, we've looked at demographic groups broken down by race and ethnicity, by different education groups; it's all consistent. It seems to be that there's something about the older families that have fared better over this longer horizon identified already by Gale and Pence through 2010 that where we extended and specifically in the most recent 2007 to 2010 period. So at this point we're kind of wondering you know there's something really striking that older families seem to do so much better on these financial measures and we decided to take another kind of another look at it and say rather than just identifying groups of families as being of a certain age group at a certain time let's actually go back and track cohorts, look at when people were born. So we've looked at single age groups, that's more difficult obviously for more refined demographic groups because of the sample size issues but even putting them together in various ways we think a fairly consistent result. So our contribution, we think, is that birth year matters a lot in ways that I'm going to show you in just a second. So it creates a real wrinkle because there's a big change in how birth year plays into wealth accumulation. So I'll come back to these conclusions but it just looks like depression era babies or into World War II seem to have done unusually well, controlling for a host of other factors. Families or family heads born in the 1930's and first...say first half of the 1940's seem to accumulate more wealth than family heads born earlier or born later. So that means that the baby boomers or, the Gen-X generation, looks relatively disadvantaged relative to those depression era babies. And I think it's really too soon to say much about families born in 1980 and later although as I've said in some other work we've suggested that the housing boom hit younger families particularly hard. So I think an implication is that today's seniors, pre baby boomers, are likely to be richer than those to come holding all else constant. So that the challenges, if you're looking at today's older adults, that maybe understates the challenges on the financial side for families that will be older in future years. So here's the picture, a couple pictures I want to show you. So this is the result from a regression that's...we're following the same econometric techniques used in the Gale and Pence article where we're trying to control for a host of demographic factors including health, race, education, marital status, a number of others, also time effects and then we add separately when this family was born and for the results of presentation here, I've grouped them into five year cohorts. So these are five years centered on the years shown here, so the 1930 cohort actually includes family heads born ‘28 through ‘32. Okay so this shows, and we used as the omitted category the 1940 cohort, so this is the difference by cohort relative to the 1940 cohort in the amount of wealth across the eight waves of the survey controlling for all of these demographic and other time effects. So this is suggesting…and the solid bars here are statistically significant at least at 10 percent level. So this is suggesting that earlier born cohorts had less wealth controlling for everything else than say the 1940 or 1945 cohort. And you might say well that makes perfect sense, we're getting a lot richer over time and so that's not unusual, but what is unusual is when you roll the clock forward and show that after that family heads born in the 1950's and later seemed to have, again, significantly lower wealth than families born in that earlier period. So we thought well maybe that's just something about the data that we used added into the 2000's so we went back and ran it on just the periods that Gale and Pence had through 2001 and at least qualitatively I think the picture is very similar. So it was already there in the data, it's not just the crash that we've been through that's producing this effect; there seems to be something real about this cohort effect and I think it's probably related to the fact that birth rates were very low during this period. This in fact at the trough of this downturn in the late 1930's was something like 15 to 20 percent below the pre-depression rate of births. So summing up I think each successive generation before in the first half of the 20th century was indeed wealthier than one before, controlling for observable factors, probably related to all these demographic improvements, very strong growth in post-World War II America to diminishing legacies of discrimination. But it appears that generations born in the second half of the 20th century are losing financial ground relative to those earlier born cohorts.

So as I said the downturn in the birth rate perhaps caused a...created a scarcity premium for people born in those age groups. Of course it interacts with all sort of social change, changes in government programs that would have benefitted people in those age groups born in the 1930's and 40's. Of course part of the baby boom was simply a recovery from the birth dearth and then it went on beyond that. Now we've maybe normalized, come back down to a different trend but of course that leaves the baby boomers facing exactly the opposite. Whereas the depression era babies had a premium, a scarcity premium, the baby boomers face kind of the reverse. So I think as baby boomers move into retirement the financial position doesn't look quite as encouraging as it does for those born somewhat earlier. And I'm going to say I'm not going to make any guesses about the 1980 and later groups because I think it's really too early to tell. So with that I will pass it on.

ALAYNA WALDRUM: So good afternoon everyone. I like to think of myself as a wonk but I am significantly less wonky than many people in the room so hopefully this is a pretty accessible presentation about the long term care field which I know in and of itself can be very overwhelming for anyone who's had to deal with parents or grandparents and has tried to navigate what is a very, very convoluted system. So a little bit about Leading Age - Leading Age is an organization that represents the not-for-profit providers in the continuum of care, just to give you some sense of my perspective. We really do have kind of the bird's eye view of whole long term care system. Our members include not just affordable senior housing properties, they include assisted living nursing homes, home and community based services and the much more expensive options which are the continuing care retirement communities. So we really do have a very broad policy agenda and that's made it a little bit interesting as we try to craft policy solutions on a national level. So let's jump right in. Senior housing as we know it - the senior housing that most people are familiar with really does come from a cursory knowledge of the long term care system. Very few people, if they haven't had to get involved in long term care system, only know of senior housing as these categories: so there's active senior housing right, we've seen ads of the tennis playing 60 year olds; the supportive senior housing, a lot of people are familiar particularly in D.C. in the policy crowd with affordable senior housing options typically funded through HUD or the tax credit program which has been critical in boosting support and development; assisted living and nursing homes; continuing care retirement communities for those of you who are not familiar with them are typically package deals where you have every possible level of care available at that CCRC. They usually come with some type of life care contract where once you're in, they're committed to keeping you there through the rest of your life. So this is pretty much type that people look at when they think senior housing. What does senior housing have to do with this forum? I think it's pretty clear that housing is critical in terms of determining wealth, in terms of determining options that folks have and in terms of determining how people are going to age. Do you have the ability to age in place? Do you have the resources either in the equity in your house or do you have external resources that will allow you to stay in your house not tap the equity or if you don't have the equity to still move forward and get the services that you want there? This is what the long term care system actually looks like. It's not easy to digest; I'm sure many people in this room have seen other versions of this type of chart of the long term care system. We have a number of them at our organization, but this is one that I think gives you a pretty clear idea of how exactly the long term care system is divided up in our country. There's a lot of discussions of silos and I would agree that there are silos but I would say one of the biggest challenges is all of the options that we have in this country for how you get services, where you get services, how you get housing and where you get housing. Along with each of these different categories I would point out that there are state, local and sometimes federal guidelines that govern them in terms of regulation, in terms of reimbursement. And it's important to remember that the bulk of our Medicaid dollars go towards long term care and so really when you're looking at the higher levels of care, the skilled nursing where people need services 24 hours a day there's a lot of money that goes into that federally. So this is what we're looking at. You can see along the line there are a number of innovations that have come along - assisted living is certainly an innovation. Folks probably know a little bit about assisted living, typically comes with the housing and then you can buy the services a la carte. That's one of the things that was developed because people didn't want to go to nursing homes. It seemed to be you were in your house one day, you had some type of medical incident and then you were in skilled nursing and that was it. People wanted something in between. They said I don't need 24 hour services, I need somebody to help me with meals, I need somebody to help me with housekeeping, I need somebody to help me with a little bit of personal care and medication management. So assisted living is a perfect example of an innovation that we've seen but all along the continuum of care there have been innovations to try to address the consumer need, the consumer want and the policy desires. I think that there's been a big push federally to try to get home and community based services up and running, get an infrastructure that works nationally so that folks don't have to go into skilled nursing and we can maybe save some dollars on the nursing home side. So just be aware of that. So the characteristics of seniors based on housing- a lot of folks have already talked about this so I won't spend a lot of time on this slide but it's important to note that in the assisted housing - and when I say assisted housing I'm talking about housing that has some type of public dollars coming into it; they're either federal dollars through HUD or some type of local rental subsidy -those folks tend to have a higher level of disability than their homeowner counterparts. And that may be...I will defer to the experts and the other wonks in the room but it's probably due to the types of jobs that they have worked during their professional life. So just be aware that there are significant differences between homeowners and those folks living in assisted housing. Here's the challenge that we face nationally: how do we pay for the long term care? No one knows. We only have the models that we've had in the past and those have not served us very well in terms of desirability. So this is just from the Metlife survey, they publish a survey every year, I would strongly encourage folks to always take a look at it. They have very easy and digestible information. But a private room in a nursing home costs, the assisted living cost per month, the adult day services cost and hourly rate for home health aides. For those of you that are dealing with parents and thinking about okay we need to bring somebody in trying to coordinate with your siblings to figure out okay how can we pay for this if we don't have the resources through your parent's finances it's important to think how exactly will these things be paid for if they're not paid for through some type of federal program. So demographics we've already talked about. I would just point out that what we're looking at is more and more seniors that are going to live to be older which means that they will be frailer and they will have more chronic conditions that have to be managed and those have to be managed by somebody and they have to be managed somewhere. Disability trends, this basically makes the same point that you're looking at people that are going to have to have services in some way in their home and we can't ignore that. Everybody you know when we talk about the silos in the field one of the things that we miss is the fact that we typically manage our health issues in silos. You know, mom falls, okay we take care of that, we get her through rehab, we get her back home, something else happens we deal with that, we get her back home. That's not a good way for us to really approach aging in place, there has to be some type of strategy that's broader, there has to be a lot of education that has to be done in terms of what the options are and so I will just point out emerging models of housing and services. I talked about the push towards the expansion of home and community based services, you're seeing more small housing models for levels of care so you might hear a lot about greenhouse setting, which are 6 to 12 beds in a nursing home setting. Co-housing and village networks, this is one of the things that a number of people mentioned, Governor Stein [phonetic] as well as Mr. Fishman really building on talking to your neighbors and coming up with a solution on your own, so that I thought is an interesting tie in. Affordable housing with services, we're getting the promotion of deinstitutionalization because of the cost, in part, but also because of consumer desire. State driven innovation, I'll talk a little bit more about this when we get to the Q and A but I do think that some states are at the forefront of finding ways to do housing and services in a very innovative way. In service coordination, geriatric care management - how do you do it so that folks can stay in their homes? The last thing, major obstacles to an evolving senior housing market what's holding us back...everything on this sheet is holding us back and I would encourage folks to really think about how exactly we're going to develop this national policy It's going to be a tremendous challenge for those folks at the state and local level they're not going to want to give up their control or their ability to innovate for their own state's population. So how do we thread this needle on a national level? And I will stop now and hopefully I'll get to talk more later.

[Background noise]

ANDY PARKER: Hi, my name is Andy Parker, I work with the RAND Corporation For those of you who aren't familiar with it, it's a nonpartisan, nonprofit research organization focused on improving policy decision making. I am actually a behavioral researcher; I study how people make decisions in complex real world decision situations. Over the past...my background is primarily in psychology although I usually operate somewhere in the juncture between psychology and economics which is one of the reasons that I'm here. For the past 15 years or so I've been working with some colleagues looking at decision making skills, what we'll refer to decision making competence and how that differences across individuals. Over the past several years we've really started to focus on age related issues with respect to decision making competences. So to think about...in a nut shell what we do find is that there are remarkable differences across individuals in terms of their ability to make decisions in a way that is reasonable, that takes into account their best interest that isn't subject to a variety of different types of outside influences that aren't working in their best interest. We find that there are interesting age and important age trajectories in this In order to understand that I think it's useful to review some of the basic information about cognitive ability and how that changes throughout the age. Now this has been referred to by a number of people up to this point, for those of you who aren't familiar with it a few basic points about how cognition changes with age. Now I'm going to focus specifically on cognitive abilities and that's a very broad category of things but it's fairly useful to sort of lump that into two broad categories. What we find is that one set of categories of cognitive abilities have to do so called fluid abilities are involve memory and attention and really in many ways have to do with the ability to solve new problems. So you might think of it as sort of cleverness if you like but it's really...it is at its root a very problem solving type set of abilities. What we see with these fluid abilities is that as other people have noted earlier they peak very early, almost distressingly early. When you're in your late teens is probably when you're at the peak of these abilities and you've been losing them ever sense. It’s somewhat sobering, but thankfully it's not the end of the story. Another set of abilities based on knowledge and experienced earned through life time of effort, so called crystalized abilities, do tend to grow throughout the life span plateauing somewhere probably in sort of late middle age. One of the very important things to realize about these two sets of abilities is they do have some degree of ability to compensate for each other and together they probably make up a lot of what we talk about when we talk about intelligence. Now that's the back story to what I'd like to talk about with respect to decision making because that's really my area. When you look at different...now of course just like cognitive ability, decision making is also quite manifold. There are a lot of different situations we find ourselves in, a lot of different skills that make up what we mean by good decision maker and those have their own distinct trajectories that in many ways are reflections of those underlying cognitive abilities because those of course are one of the factors that lead to what makes us a better or worse decision maker. So when we look at decisions that really rely a lot on those sort of basic fluid abilities so let me give you an example of that. I provide you with a number of options, maybe many options, let's call them financial products and they vary systematically on a range of different dimensions. They're different on each of them; some of the dimensions may not...may be more easier to compare to each other and trade off against each other, some of which you understand better than others, they could be different aspects of costs or commitments, they could be you know the expected earnings, different types of aspects of risk. Whatever they are that is precise...and I'm asking you to systematically sort through that information and make a choice. That is precisely the sort of task that we found that older adults are significantly worse at than younger adults. On the other hand...well let me give you another example, a very simple example. There is a sort of well-known set of effects that when we...the way we frame a product or a service or object to be evaluated can have a very powerful effect on the way the people interpret it or how they view it.

Probably the simplest and most powerful example I've seen of this is you know think of yourself the reaction you'd have to ground beef that's labeled 80 percent lean versus 20 percent fat. You recognize that those are exactly the same thing but it's hard not to react to them very differently. Older adults did seem to have a harder time translating between those two and recognizing the equivalence of them, potentially opening them up to greater manipulation based on those sorts of framing effects. On the flip side we had other tests that we looked at that where older adults actually did better so one we've been paying a lot of attention to is the ability to avoid throwing good money after bad. Something called...it's been labeled the sunk cost effect, sunk cost fallacy, it's really the general tendency that we all have to once we've sunk time, money, effort into something to want to continue even if we recognize that this may not be the best course of action, maybe we should be doing something else it's hard to give up and feel like you've wasted that time, money and effort; we all face that. For older adults, they were more resistant to those sorts of considerations, they actually made, when we presented them with...and these were hypothetical situations but when we presented them with those situations they were more willing to let that sunk cost be sunk and just move on. I would argue that that's exactly the type of task or type of problem that they have seen before, may have suffered from it before, may have learned from it and moved on. It's exactly some crystalized kind of knowledge, rules of thumb, experience that they may be able to actually benefit from. So one of the things I wanted to get across here is this idea that we look at older people's decision making as a reflection one sort of a manifestation of cognitive abilities and just like underlying cognitive abilities those decision making abilities are manifolded, had different types of trajectories and it really depends on the type of decision that they're going to be facing. If it's something that they've seen before or we've seen before and we can learn...we can use our experience to make the decisions, relatively speaking that may not be a bad situation. But if it's the type of situation I mentioned before in particular, the one where we have a large number of options that may be unfamiliar, that may be a high stake, that vary a lot of dimensions and we're being asked to think through them very, very sort of systematically, that's the type of task where I think I would be most worried about older adults making their decisions. So from a policy perspective I think those are the situations where decision support may actually be one of the most critical areas.

[Background noise]

JULIE ZISSIMOPOULOS: So these comments on longer work lives draw in part from work with a co-author, Nicole Maestas, published in the Journal of Economic Perspectives. So I want to start with looking at the dramatic changes in labor force participation among older workers. Since 1950 men aged 55 to 64 have made remarkable changes in their labor force participation. The decline that had started ended about in 1990, women made even more remarkable changes to their labor force participation over this time period, nearly doubling their rates of work force involvement. What's also very interesting and you hear a lot about is this increasing rate labor work force participation among women and men age 65 and older starting in about 1990 and have increased up until 2010. So what's interesting to note is that these labor force patterns that we see in the United States are also evidenced in many of the OECD countries. So you can see the trends across this time period moving together, which suggests that underlying all of the forces that may be at play changing the patterns of work force likely ones that are common across several countries. So we find that some of these are likely the increasing education levels of men and women, technology and changes to jobs that are less physically demanding, increased life spans - if you live longer you need to save more to finance more years of consumption in retirements -, and work by women - there's a pretty strong literature that suggests with women in the workforce their husbands delay their retirement because of preferences for joint retirement. So other factors that we often think about pension reform and employment protections are very important but during this time period we think of as secondary forces because these had not yet occurred in the OECD countries. Their pension reform came much later and their unemployment protections still have not changed to eliminate mandatory retirement. So what are we thinking about for the future? There are many forces that suggest and empirical studies that show that older workers will likely continue working longer at least in the more short term future. The education of older workers continues to rise, more women over age 45 are working but we still haven't peaked out where men are at. The social security claiming age of 67 are for cohorts that have not yet retired so the first cohort that will face this was born in 1960. Our life spans continue to increase and these changes and pension plans from defined benefit plans with very strong incentives to retire early to defined contribution plans are now just gaining momentum as new workers have DC plans rather than DB plans. But that said there are many challenges to working late and we've alluded to a few of these, just going to talk about one in particular and note the fact that about one half of older job searchers find work within two years. So there are many reasons why older workers have trouble finding jobs. We talked about a few - skill mismatch, maybe their job search techniques, discrimination; overall we need a better understanding of why individuals are involuntary at the labor force. In panel three we'll talk a little bit about the policy implications and what policy can do so I won't talk about that now but note that work force policies may not be well suited for older workers. And just to end to make the comment that older work improves the financial...longer work life improves the financial security of individuals and families but it also can help address the economic challenges of an aging population. What this graph shows is that in 1990 the ratio of nonworkers to workers was 5 to 10, if the labor work force participation rates going forward to 2030 remain at what they are at 2010 and the ratio of nonworkers to workers will increase to 6.2 to 10 the faded out figure, an increase of 24 percent in this ratio. However, if they continue to increase at the pace that they did in 2000 to 2010 then this ratio of nonworkers to workers will only increase to 5.3 per 10. So this can dramatically affect the economic challenges we face of an aging population. I'm going to end there and now moderate some questions with the panel and then after that open up for a broader discussion from the audience. So I'll try to direct a question to each of our panelists but I hope that all of the panelists feel free to weigh in with their thoughts. The first one I'd like to direct to Andy and it concerns some of the findings in the Federal Reserve Board's recent report. The report found that more than one third of respondents reported that experiencing financial stress in the last year. Could you speak a little bit how might financial stress compound age related cognitive decline?

ANDY PARKER: Sure, I think that when we think of how...well first off I would say that the interaction as I see it would take place one level...what I find probably most compelling is how it interacts at a psychological level, not surprising since I'm a psychologist. But basically work under the assumption that financial stress would result to some degree in psychological stress. We do know some things about what psychological stress does to decision making and I would highlight probably two of these effects as being probably the things that I would focus on first. The first is a very old finding from psychology that as… performance on a wide variety of tasks varies by how much stress someone is under. It turns out that it's an inverted U shaped function so that we tend to be best at some modest level of stress and that's true of whether we're making decisions or trying to identify things from a field or shooting baskets. It's a general finding that at very, very low levels of stress it's frankly hard to engage us when we're not trying very hard.

With a modest level of stress we do a little better but as stress gets higher we rapidly decline again in our abilities and presuming that financial stress in many instances is probably quite highly stressful to individuals I would expect that decision making in many cases would actually decline and that this would probably compound some of the cognitive effects that we're already talking about. The other effect that I would mention is that the...I think it's fairly common for people to recognize that they tend to think and make decisions in a variety of different ways. Sometimes we're thinking really hard and deliberately about things and other times we're just kind of going with you know some of the simple rules of thumb that we've always done and we just kind of driving the same route to work or whatever. And one of the things that has been shown is that under stress people tend to shift more towards those automated types of decision making processes and that, I don't know exactly how that would play out with the aging because as I just described those kind of processes are often in the crystalized cluster of abilities. Maybe there isn't that big of an age effect with that but it's something that actually strikes me as a profoundly important question to be answered.

JULIE ZISSIMOPOULOS: So the next question I'd like to direct to Bill and could you speak a little bit about what are the characteristics of the most financially vulnerable individuals and how have these changed over time particularly post crisis?

WILLIAM EMMONS: Sure, I think we start from the result of financial vulnerability looking at balance sheet indicators and then try to figure out is it that's behind that kind of going along with what Andy was talking about. So when we think of our families whose balance sheets are not well diversified, that have lots of debt, that don't save very much and have low levels of liquid assets for example, those would be indicators and you can see why that would be a problem. The recent episode we just went through, a family that was highly concentrated in housing with lots of debt, didn't have other reserves or especially liquid reserves to be able to deal with any sort of interruption of income results in, of course, a financial catastrophe, which we saw in millions and millions of cases. So I think if you think of that as kind of the profile of financially vulnerable families it seems to us that, that is much more common of younger families, tends to be more common with families with less education and also among historically disadvantaged minority families and it looks like those are almost independent factors so a family that combines any of those maybe has even more of the characteristic financial vulnerability. So we've done some work and we think that probably driving the reason that you see those patterns of financial vulnerability among those types of families is related to really ultimately comes back to human capital and experience so I mean everyone I think probably intuitively thinks that families with lower levels of education as we've talked about don't do as well in terms of putting together their balance sheets; they are financially vulnerable. What about young families? And we find this also for educated young families. We think probably what's going on is it takes time to learn about financial decision making and so that's...makes young families particularly vulnerable again such a turbulent environment that we've just been through. So I think in a sense those characteristics haven't changed, that is what makes a family vulnerable and very much I was of course very gratified by what Governor Stein said you know both because we come from a business school background that diversification is sort of rule number one and the next thing is the financing of your assets and so he really laid a lot of stress on that and I think that would be true no matter what environment you happen to be in.

JULIE ZISSIMOPOULOS: And Alayna I wanted to follow up a little bit about the emerging models of housing that you spoke about and could you speak a little bit about how as a nation how prepared or unprepared we are to accommodate the aging population today and then what you see for how it needs to change in the future?

ALAYNA WALDRUM: I think that we're poorly prepared, nationally, in terms of our housing stock. I think one of the biggest issues has been building housing that is adaptable, that folks can stay in and age in place, building housing that does not cost a fortune to modify for those folks who are nearing retirement and needing to shell out money for a contractor to make some modifications to remain in their homes. There are some reasons for that. What you get a lot of push back on typically when you try to have any type of legislation or changes to building codes that require housing to be what's either called...I forget what AARP's term was, I don't know if it's ‘visit ability’ or something like that, something that makes the house either currently accessible or easily modified to become accessible is that you hear from the building community that the costs are higher to build those types of houses. So it makes it hard to get legislation done, it makes it hard to get voluntary changes made. What I have seen a lot of has been that information sharing among near retirement folks about what changes need to be done to their homes and that may be because I'm here in D.C. where we have an older housing stock that consists mostly of row homes and so folks are sharing information about how they've modified their home to make it accessible, how they...which contractors they've used, tips that they've learned, how to be able to afford to not rent out your basement apartment but to have a live in health care provider. So that's one big issue - I think that we don't have the housing stock that can serve seniors as they age in place. The other thing has been that we have lost an incredibly large number of assisted housing units. So those affordable housing units that folks that may be in...that may be moderate income when they're working but when they stop working and they only have Social Security and nothing else and they need some type of assisted housing whether it's the tax credit program, which serves a slightly higher income level or whether it's something like the Section 202 program which serves folks that typically have 10,000 dollars or less a year in income. We've lost a lot of that housing; a lot of it was built in a time when they were not attractive places but now are. We have a lot of people that have assisted housing you know waterfront because when they built it 30 years ago those were the docks and it was not an attractive or safe neighborhood and they got land cheap and now it's luxury condos and development. So I think you know the amount of assisted housing stock that we've lost is really a huge, huge crisis that we're going to have to deal with.

JULIE ZISSIMOPOULOS: Thank you so we'd like to open it up for questions from the audience and I think we have a few minutes for this. Any questions?

HECTOR ORTIZ: Hello, Hector Ortiz from the Consumer Financial Protection Bureau, one of the things that I found interesting about Bill's presentation was this …we all have this idea that certainly those who are about to retire are somewhat worse off than previous generations but I have never seen that interesting curve before which actually made me think about the issue of intergenerational transfers. It seems that generation that is in the 1940s, their children are those who are in the 1960's and 70's which are certainly doing worse off. I was thinking if you were able to explore if at some point those individuals who are in older generation start dying off if those transfers will improve the wealth of those who are not doing as better from older...you know younger generations.

WILLIAM EMMONS: The first answer is no we can't check that because this is not a panel data set so we can't actually track individual family bequests. But it is true, I think it's fairly consistent over the different waves of surveys that the number of families that receive a bequest of greater than a small amount is pretty limited, I think on the order of 15 to 20 percent of families receiving any bequests. You know I think that's probably not going to be a major factor reversing this; I think it's also the case that of course most bequests… you know it's a small number of families that receive a bequest and it's very concentrated. So if anything you might expect bequests to increase dispersion of wealth across you know a cross section but I don't think, maybe somebody else has done some work, in this area, but I don't think that's likely to be a major reversing factor. The other thing I think to point out too is you know somebody...Ted you made the point as people are living longer and longer you might be 75 before you get your inheritance and that would be maybe unusual but the point is the families...say young families that would most benefit from it are very unlikely to receive an inheritance of any significance. It's mostly going to be middle aged people and maybe even older adults.

JULIE ZISSIMOPOULOS: I just had one comment about that. We've used the health and retirement study to look at bequests and inter-vivos transfers and Bill is correct in that there's sort of a small percentage of families that make these transfers but the overall magnitude is quite substantial. So in 2010 the value of bequests was about 570 billion dollars with inter-vivos transfers so those being given to children while they're alive at about 140 billion. So they are concentrated and I think it does have implications for wealth distribution but they are actually fairly large in value.

WILLIAM EMMONS: So I think this would be a case where I think that you might see it in the mean but not the median.

JULIE ZISSIMOPOULOS: That's right.

WILLIAM EMMONS: So the median family is unlikely to receive much.

JULIE ZISSIMOPOULOS: Yes.

ALAYNA WALDRUM: I would just...I would throw in the point that there's increasing pressure for folks to use their own resources for long term care expenses. I talked about the large share of Medicaid dollars that go towards long term care. Whenever there is entitlement reform discussion there's always a lot of talk about tightening up how people can get into the Medicaid system for paying for long term care costs. So things like right now you can keep your home, which maybe what you leave to your family, to your kids but there's a lot of discussion and also on the Hill about how to make sure that folks that have resources have access to resources use them for their own care before the federal government steps in. The only other thing I'd add is that what you do see a little bit is - and I know somebody is going to talk later about reverse mortgages - is people using the equity in their house that might have been something that was passed down to their children to either do the home modification or to pay for some of the services that they need to stay in place.

[Background noise]

CHARLIE SABENTINO: Hi, I'm Charlie Sabentino [phonetic] with the ABA Commission on Law and Aging, just following up on the comment you just made, I think it is very true that there is an increasing emphasis on people should be responsible for their own long term care and make it hard for them to get on Medicaid. I also thought it was noteworthy in this study that we're given today that for sources of financial stress, for people over 60 it's a quarter to 36 percent of them have significant financial stress paying for health related matters. So that trends is only going to make this picture worse until we figure out a way that is based upon some kind of insurance model that will enable people to have more resources to deal with that significant source of financial stress. So these issues flow directly into long term care policy and the work of the Long Term Care Commission, etcetera.

ALAYNA WALDRUM: So interesting that in the study as well - and I'm going to come back to your part about the health care costs - is that there's the …one of the stress indicators was foreclosure and it was the same for folks that were 60 and older as it was for folks that were 40 to 49. So those two groups had the same level of concern about foreclosure which I think goes to the issue of more and more folks carrying mortgages longer than their parents did or having tapped the equity in their home and having a new mortgage that they're concerned about. So there's that but I would be remiss and not allowed to return to my office if I did not mention the Class Act which was part of ACA and which we had hoped would be a social insurance model to pay for long term care to allow folks to buy in and direct more dollars of their own dollars towards long term care was scrapped and we are now looking at the Long Term Care Commission to come up with some type of magic alternative. Our organization did a study and tried to come up with an alternative, there's nothing else out there right now other than some type of model that allows people to purchase long term care insurance in a way that the private market can't meet the need. So we do have to...I think we have to have that discussion, I think it's going to be painful because it's very hard for folks in their 20's, 30's, 40's or even 50's to think about the idea of taking cash out of pocket and that they need today, and paying for their long term care that they may not need. But I do think that's going to be the type of model that we end up with because the current Medicaid growth rate is not sustainable and we're going to have a really big challenge on our hands.

DAN GORIN: Yeah, Dan Gorin [phonetic] from the Fed. It seems to me that with greater product differentiation, greater economic freedom and technology, people have to make many more decisions than they ever did in the past and to what extent …and that happens in the case of being an employee, not having a union covering collectively a group of people. To what extent do you think that that's leading to these extra decisions making it tougher for people to come out ahead? The more decisions you make invariably you make one wrong one that could be...that could have tremendous consequences. Is there a technological solution to that?

ANDY PARKER: Let me just say I think that's a possible...that's a candidate explanation for some of the cohort differences that maybe you know in an earlier time people had a lot more automatic saving for them...done for them for example.

I would add also that as time goes on these may be decisions that they weren't necessarily expecting to have to make and because of changes in policy or whatever that...or circumstances and often these are decisions that even if they do work they knew they were going to have to make them at some point or suspected they were, they're not something you're making a lot of in the rest of your life and speaking to a lot of this idea of novelty and just not even knowing...you know that lack of flexibility that comes with age, cognitively that comes with age, I think that is a real concern.

ALAYNA WALDRUM: I think around long term care there are so many factors that play and it's at a time of crisis that I think there's even more cognitive impairment than you would normally have not just among the older adult but also their children who are trying to help them make decision. So to the extent there is some type of decision support I think that what we need is some place to go that's a one stop shop for accurate, informative information that families can use and right now that's hard to find, that's hard to find.

ANDY PARKER: And I would follow up with that...oops sorry go ahead.

ANDY PARKER: I was going to say I'd follow...when we talk about supporting decisions I think there's a lot of...I mean one very important aspect is education and training and all of this but there are other strategies too that in terms of how you structure the decision environment in which someone has to make the decision and assorted other things that including taking the decision out of their hands, I mean that's one option. So I think that paying attention to that, what some people would refer to as a decision architecture, is a really important concept.

JULIE ZISSIMOPOULOS: And just one last comment I think this shift from defined benefit, even though it was far from [inaudible] ever to defined contribution has put a lot more responsibility on individuals and we've seen though that there can be semi easy solutions. Literature has shown that people have a hard time if you ask them please sign up for a year defined contribution plan and make your choices of allocations but if you automatically default them into a set of plans then they can always change what their allocation is, it increases the rate of take up substantially. So we have seen from these experiments in the literature that there are some easy solutions that are already working so we have to think broader about other solutions. And I got from our time keeper that we are out of time so I want to just thank the panelists again for your participation.

[Applause]

and I want to thank PJ from the board for organizing so well.

[Silence]