Forum on Financial Experiences of Older Adults
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Forum on Financial Experiences of Older Adults: Welcoming Remarks

GOVERNOR JEREMY STEIN: Anna, thank you, thank you very much. So on behalf of the Federal Reserve, I just wanted to welcome everybody, and thank you for joining us here today. The event here today is a culmination of conversations and of work that I know many of you have been involved with in one way or another on the important topic of the financial experiences of older adults. And to go along with it as you've seen, we're also releasing today a report that the Division of Consumer and Community Affairs has taken the lead on that uses survey evidence to answer a series of questions about how older adults use financial products, how they make financial decisions, where they turn to for advice, and so forth. So some of you may have seen the report already. Those of you haven't, it's an extremely interesting and useful piece of work, and I recommend it to you strongly, although I have to say in reading it, I did notice one devastating methodological flaw in the research. According to the definition of older adults that they use in this survey, I discovered that I'm one. I think many of you guys may actually be older adults, too, which strikes me as highly unscientific. The other thing I noticed, they - a little bit of a problem - they cited sort of approvingly a paper, a research paper written by a group of four co-authors, one of them is John Driscoll here at the Fed. I don't know if John is here. OK. Well, this paper is basically looking at cognitive capacity and financial decision making, and it comes to the conclusion that, you know, on the other hand, when you're younger, that's a good thing because, like, your brain works better. When you're older, you have a little bit more experience, and the experience is helpful. So there's sort of an optimum point, and it turns out that you are at your best making financial decisions when you're precisely 53 years old. After that, it's sort of just goes downhill. Also a little problematic. I wouldn't recommended that you read this paper and then immediately go to the website and try to figure out the average age of an FOMC member, but in any case. Anyways, once you get past all of that, it's, again, it's a very, very interesting report. There's a lot of good stuff in there. In reading it, I guess the broad theme that I found very interesting was the juxtaposition of really kind of important big picture macroeconomic issues with drilling down on kind of very microeconomic things or micro-sociological things in some ways about financial decision making. You know, you guys are all, obviously, aware of the very big issues associated with aging population, both in the US and in many other countries, and the implication that this demographic trend has for a variety of big things. Just to take a few examples. Think about the US fiscal picture over the coming decades and the extent to which it's dominated by Medicare, Social Security, which in turn is largely driven by demographics. Hear a lot of about immigration reform. Again, if you think about what's a lot of the impetus behind immigration reform is what can immigration do to help with some of these demographic issues. A little closer to home for us here at the Federal Reserve, we hear very often how, you know, our low interest rate policies, even as they're helping the economy, helping the job market recover, are difficult for retirees who live on a fixed income and who may be getting a lot of their income from a CD or a savings account or something like that. And the point I just wanted to make is these macro issues often beg for kind of peeling it back a little bit and doing a bit more in the way of a micro analysis. To take the last one, the issue of retirees on fixed income and what interest rates do to them, you know, again, we all hear this a lot. I've been asked this question a number of times, and often your first response is, yeah, well, of course, if somebody's portfolio, retirement portfolio is entirely composed of money held in a bank account or in short-term CD's, it's going to be problematic, but, of course, if they have a more diversified portfolio, and they're in the equity market, well, to the extent that our policies are strengthening the economy as a whole, and you've seen how the stock market has done very well, well, then, you know, things are going to be better because everybody's going to share in some sense in the rising tide, and that makes it a little bit easier for us to feel like the policy's benefiting everybody. So more general way to say the same thing is just policies, macroeconomic policies in general, are likely to have fewer adverse redistributional consequences, and, hence, more likely to raise welfare as a whole when people use financial products effectively to kind of diversify and share risks. That's a sort of basic, a basic proposition. Well, you know, what are the facts? What are the actual facts about what people do? As the report notes, and, of course, this is kind of a well-known fact, a very significant fraction of older adults don't seem to be invested in the stock market at all. OK. I mean, depends what you look at, whether you count retirement or non-retirement assets, but, you know, numbers like fifty percent would not be out of line. And, you know, this is something that economists have sort of puzzled over for quite a while given that, you know, the basic evidence is that over long horizons, the stock market has turned out to be a pretty good investment relative to the risk involved. So at least having some of your assets in the stock market would seem to make sense, and people have analyzed this thing. And, of course, some of the determinates, you can get data, survey data or other data to look at who participates in the stock market and who doesn't, and some of it, you know, the usual suspects show up. So people with higher income, higher wealth more likely to participate in the stock market. People with higher education more likely to participate in the stock market. But even among kind of, you know, well-to-do and well-educated groups, there's a significant fraction of folks who just don't participate in the stock market, and you might ask yourself, you know, why is that. Maybe one possibility, they're really doing the right thing. These, there's a set of people who are just very, very risk adverse, and for them, it's just not worth the risk. They’re doing the optimal economic decision given their risk aversion. That'll be sort of at least kind of comforting because they're making kind of the right decision, you know, knowing their own preferences. Maybe. An alternative story, which I think is a little bit maybe less sanguine but probably more realistic is that people just don't make optimal decisions even about really, really important things. You know, maybe because as the report suggests, they don't have access to or don't use high-quality advice, or they get the wrong kinds of advice, and, again, the survey evidence in the report suggests that a very large fraction of people basically are sort of trying to do it themselves. Trying to do it themselves. Actually, this really resonated with me. I did some research about ten years ago on the very similar topic on the question of who participates in the stock market and what are the determinates of who participates in the stock market, and we had access also to survey data. This was something called a health and retirement survey done out of the University of Michigan. It had a survey of, I think, 7,500, 8,000 households. They were also older adults. They were, I think, an average age of about 56, and we had information on what they did and a bunch of demographic variables. And one of the very interesting things we found, which is you control for all the obvious economic variables, health, I mean, I'm sorry. Income, wealth, education, and so forth, and above and beyond that, here's a couple variables that had a very strong influence on the yes or no question of are you invested in the stock market. OK. We had some social questions. Do you talk to your neighbors? Do you go to church? We weren’t particularly focused on church as a religious thing. These were sort of the variables that were, you know, telling us about the extent to which people interacted socially. Very, very strong effects. People who are more social, who are more interactive with other people on these measures, had a very significant, like, eight percentage points. This is against a baseline of around fifty. Eight percentage points more likely to be a stock market investor if you sort of got out of the house a little bit. And, moreover, that effect was much more pronounced in states like New Jersey and Connecticut where there was a high density of people invested in the stock market. Being social in Louisiana or Alabama where the density of people invested in the stock market is low to begin with doesn't have much of an effect because presumably the people you're interacting with are also not stock market investors. So, you know, there's much more sociology in some sense than economics, but, you know, it has a little bit the feel of here's this hugely important financial decision. Very consequential as to whether to, your lifetime wealth accumulation, and the answer often seems to boil down to do you have a buddy to tell you how to do it, and if the answer is yes, maybe you do, and if the answer is no, maybe you don't. So what should one take from something like this? You know, on the one hand, maybe it's a little bit discouraging from the perspective of economic theory because people aren't behaving the way economic theory tells them they should behave. On the other hand, if you're in the business of actually trying to help people make better financial decisions, I mean, it's cause to feel like there's a job to be done because it suggests that, you know, there's the scope to make big improvements and because small changes seem to make, you know, who you talk to, who you bump into, where you get advice from has the potential to really make a difference. So this is all just a kind of long winded and roundabout way of saying that the kind of work that this session, that this forum focuses on is really sort of extremely important, is extremely important stuff. And, again, not just from the microeconomic perspective of having individuals make better financial decisions, but I think it basically allows macroeconomic policymakers to face a better set of tradeoffs. In other words, the extent that people have financial portfolios that are well diversified, that they share risks effectively, then when we do something that we think helps, benefits the macro economy, we can have a better sense that that's likely to benefit a larger fraction of the individual people who participate in the economy and less likely to have redistributional consequences. So, again, very, very important, and just wanted to thank all of you again. Hope you have an interesting and productive afternoon. Thanks very, thanks very much.

[Applause]