



New Insights on the Finances of Americans Support Need for Financial Wellness Programs

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The Society of Actuaries is partnering with the Social Security Administration to support research conducted by the Center for Economic and Social Research at the University of Southern California.

Introduction

The 2015 new study “How Americans Manage Their Finances”¹ provides insights into financial management and at all ages. The study provides insights into use of financial products, debt, financial stresses, and planning for the future by age group. This article offers a few highlights from the study and my views about the implications for employers and employee benefits.

Methodology

The “How Americans Manage their Finances” uses the Understanding Americans Study (UAS) panel. This panel represents the American public and is not slanted to any particular wealth level. This data is also available for further research. For more information, see <https://uasdata.usc.edu>.

Insights into Money Management and Planning

When asked about how hard it would be for them to pay an unexpected expense of \$1,000, less than 1/3 of respondents said they could easily pay this expense. One in seven could easily pay for an unexpected expense of \$5,000 and one in ten could easily pay for an unexpected expense of \$10,000. (See Tables 84, 86, 88)



Half the respondents (52%) said they had no investments, and 21% said their investments were professionally managed. Of the balance, 26% managed their investment themselves and 2% used family and friends. Funds in a 401(k) plan would be professionally managed. (See Table 49)

Only 3% of respondents had professional help with everyday money management in the last year. 80% said they did not need help and 13% had help from family or friends. (See Table 43)

The vast majority of the respondents (91%) had bank accounts and 9% were unbanked. (See Table 15) The unbanked are more likely to be low income and minority than the banked. The study also provides insights into use of alternative financial services, such as cash advances on credit cards and payday loans. 16% used cash advances on their credit cards in the last three years and 9% have used payday loans in the last year. (See Tables 25 and 26)

Of the subgroup who responded to questions about retirement planning, 41% said they had enough money to retire, 34% said they did not, and 25% had not done a calculation. At ages 60-69, 59% said of the respondents said they had enough money to retire, 21% said they did not, and 20% said they had not done the calculation. (See Table 56)

Financial Stresses, Shocks and Unexpected Expenses

Financial stresses affect productivity and workplace performance. The study asked respondents whether their household had experienced financial stress in the last three years. 56% said they had experienced no major financial stress in the last three years. At ages 18-39 the biggest issues were losing a job and/or having hours reduced (28%), having a significant health issue (12%), and providing help to family members or family members losing job (8%). Results varied greatly by age. Some highlights for ages 40 and higher are shown in Exhibit I. (See Table 71)

Exhibit I

Financial Stresses Over Last Three Years by Age

Results for Selected Stresses and Ages

Values shown are %

Note: Total group includes ages 18 and up

Type of Stress	All	Ages 40-49	Ages 60-69	Age 70+
Experienced no stress	56	51	67	72
Lost job or had work hours reduced	21	23	11	0
Having significant health issue	12	16	12	8
Providing help to family members or family member losing job	8	9	8	6
Losing spouse/partner	1	2	1	5
Having unpaid taxes	4	5	3	3
Had mortgage balance higher than property value	3	6	1	0

See Table 71 of the paper for more details

The study also explores how people managed the shock and whether they got help from others, borrowed, withdrew from savings, cut expenses, or did not pay the amount owed. In the age 40-49 age range, the largest group (60%) cut expenses, 28% withdrew from savings, and 26% got help from others. 14% borrowed using a credit card, 10% borrowed using payday lending, and 16% did not pay the expense owed. (See Table 72)

Debt

The study indicated that many of the homeowner respondents have mortgage debt, including about half of those in their 60s and a third of those over age 70. The study reports that 23% of respondents with mortgages have refinanced in the last three years. (See Table 2 and Table 8).

Younger and middle aged respondents are more likely than the oldest respondents to carry credit card debt. More than one-half of respondents who are credit card users carry monthly balances. (Table 23)

For 15% of adults, student loan debt for themselves or their children may persist well into middle age.

Implications for employers

The study provides a landscape of the situation. I believe that the data suggest that there are a number of opportunities to help employees manage their money more successfully.

- For the unbanked, a first priority should be to help them establish a reasonable connection with the financial system.
- For the underbanked, a first priority should be to help them avoid using the alternative financial system.
- There are a variety of issues where financial wellness and education would be a big help such as budgeting, saving, retirement planning, risk management, planning for shocks, and use the financial system well.
- Many individuals do not have an adequate emergency fund and to make matters worse, they may have substantial debt. Helping employees work on these issues would be important.
- A credit union can be a valuable employee benefit.
- Access to a financial wellness program that helps people make better decisions about mortgages and other credit would be very valuable to some people.
- There are clear opportunities to improve retirement and financial planning.

Note: the study also offers a lot of detail on other financial issues. It focuses on debt and credit and is a good supplement to data on employee benefits.

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¹ “How Americans Manage Their Finances”, Working Paper Number 2015-020, CESR-Schaeffer Working Paper Series, University of Southern California, authored by Leandro Carvalho, Arie Kapteyn and Htay-Way Saw.

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