

# On the margins of mainstream finance: Alternative financial service use among retirees in the United States

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## Executive summary

This paper examines alternative financial service use among retirees over the age of 60 using the Federal Reserve Board's 2023 Survey of Household Economics and Decisionmaking. Alternative financial services (AFS) are financial products provided outside traditional, federally insured banks and credit unions, including payday loans, check cashing, pawnshops, and auto-title loans. They often serve low-to-moderate-income households or those with limited credit access, but they typically feature higher fees and interest rates than mainstream banking. In 2023, 9% of retirees were underbanked—maintaining bank accounts yet using AFS such as money orders, check cashing, and payday loans.

Underbanked retirees were more likely to have lower incomes (52% had annual household income under \$50,000 compared with 32% of all retirees), to be Black or Hispanic (a combined 40% compared with 21%), and to be younger (53% aged 60–69 compared with 44%). The majority of underbanked retirees (83%) utilized only one type of AFS in 2023, predominantly money orders (56%) and check-cashing services (48%). Among lower-income underbanked retirees, 21% used multiple types of AFS, compared with 13% of higher-income counterparts (earning \$50,000 and above).

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Among the most financially vulnerable underbanked retirees—those with lower incomes (approximately 1 million<sup>1</sup> Americans), using multiple AFS, and lacking savings and assets—there are signs of meaningful financial strain, representing approximately 2% of all retirees. The relationship between savings and perceived financial security is striking: Only 31% of underbanked retirees without savings and assets reported feeling financially secure, compared with 76% of those with savings and assets. However, fully assessing the financial impact of AFS use requires data on how frequently individuals use these services, and such frequency data don't currently exist. This paper advocates for improved data collection to distinguish between sporadic and chronic AFS use, which is essential for identifying retirees most at risk and designing appropriate interventions.

## Introduction

This report examines alternative financial service (AFS) use among retirees using the Federal Reserve Board's 2023 Survey of Household Economics and Decisionmaking (SHED). SHED explores financial circumstances and prospects for American households, including banking status and financial service utilization patterns. In 2023, 80% of adults over age 18 were “fully banked,” meaning they maintained bank accounts without utilizing AFS, which are financial services provided outside of traditional banking institutions.<sup>2</sup> An additional 14% of households maintained bank accounts yet utilized at least one of five types of AFS (money orders, check-cashing services, payday loans, pawnshop loans, and tax refund advances), thereby classified as “underbanked.” The remaining 6% lacked bank accounts entirely, identified as “unbanked,”<sup>3</sup> with most utilizing at least one AFS. AFS use is potentially problematic because it often involves substantial transaction costs.<sup>4</sup>

This paper focuses on AFS use among retired adults age 60 and older with bank accounts, hereinafter referred to as “underbanked retirees,” who constituted 9% of all retirees in 2023. Underbanked retirees are an unexplored area in existing research.

### TYPES OF ALTERNATIVE FINANCIAL SERVICES

- **Money orders** are prepaid payment instruments that don't require bank accounts.
- **Check cashing** is the service of converting a check to cash outside a traditional financial institution.
- **Payday loans**, also known as cash advances, are small-dollar, short-term, unsecured loans that borrowers promise to repay out of their next paycheck.
- **Pawnshop loans** are a type of secured loan where a borrower provides physical collateral in exchange for cash.
- **Tax refund advances** are short-term loans offered by tax preparers based on an individual's expected tax refund.

SHED doesn't include data on frequency of AFS use and motivating factors. This prevents examining the financial consequences of AFS use, particularly for underbanked retirees who utilized only one type of AFS during the survey year. This paper advocates for enhanced data collection methodologies to accurately assess the financial vulnerabilities associated with AFS use.

The first section outlines the demographics of underbanked retirees. The next section analyzes AFS use among underbanked retirees. The final section explores their self-perceptions of financial security.

### Demographics of underbanked retirees

In 2023, 9% of retirees were underbanked. Compared with the general retiree population, underbanked retirees more frequently had lower incomes (52% had incomes under \$50,000 compared with 32% of all retirees), were Black or Hispanic (a combined 40% compared with 21%), and were younger (53% were aged 60–69 compared with 44%) (Figure 1).

1 This estimate is derived by applying retirement rate data from the Federal Reserve Board's 2023 Survey of Household Economics and Decisionmaking to the 60+ population figure reported by the U.S. Census Bureau. As of 2023, the U.S. population aged 60 and older was approximately 78.9 million, and applying a conservative estimated retirement rate of 60%–65% for this age group yields approximately 47–51 million retirees aged 60 and older. Two percent of this range equals approximately 940,000 to 1 million individuals.

2 Source: Federal Reserve Board (FRB) 2023 Survey of Household Economics and Decisionmaking (SHED), published in 2024.

3 Other alternative financial services exist, including car title lenders and rent-to-own stores, but they're not captured by SHED. All the author's calculations and tabulations used the SHED report.

4 For example, interest on payday loans can reach as high as 30%. Source: Consumer Financial Protection Bureau, “What are the costs and fees for a payday loan?” [consumerfinance.gov](https://consumerfinance.gov)

**FIGURE 1. DEMOGRAPHICS OF UNDERBANKED RETIREES COMPARED WITH ALL RETIREES**

		All retirees	Underbanked retirees
<b>Income</b>	Lower-income (under \$50,000)	32%	52%
	Higher-income (\$50,000 and above)	68%	48%
<b>Race</b>	Asian	4%	1%
	Black	11%	24%
	Hispanic	10%	16%
	White	73%	56%
	Other	2%	3%
<b>Age</b>	60–69	44%	53%
	70–79	43%	37%
	80+	13%	10%
<b>Gender</b>	Male	45%	48%
	Female	55%	52%

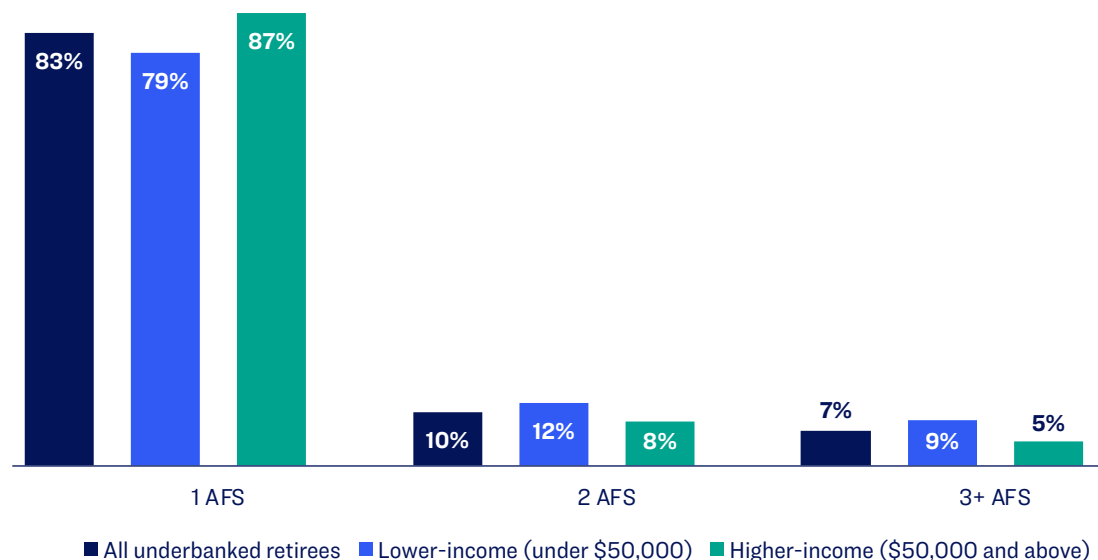
Source: Author’s calculations of the Federal Reserve Board 2023 Survey of Household Economics and Decisionmaking (SHED).

Note: All statistics are weighted.

### Alternative financial service use

Most underbanked retirees utilized only one type of AFS (83%) in 2023, while 10% used two types, and 7% used three or more AFS (Figure 2). Lower-income underbanked retirees were more likely than their higher-income peers to utilize multiple AFS (21% compared with 13%).

**FIGURE 2. NUMBER OF ALTERNATIVE FINANCIAL SERVICES (AFS) USED BY UNDERBANKED RETIREES BY INCOME, 2023**



Source: Author’s calculations using the Federal Reserve Board 2023 Survey of Household Economics and Decisionmaking (SHED).

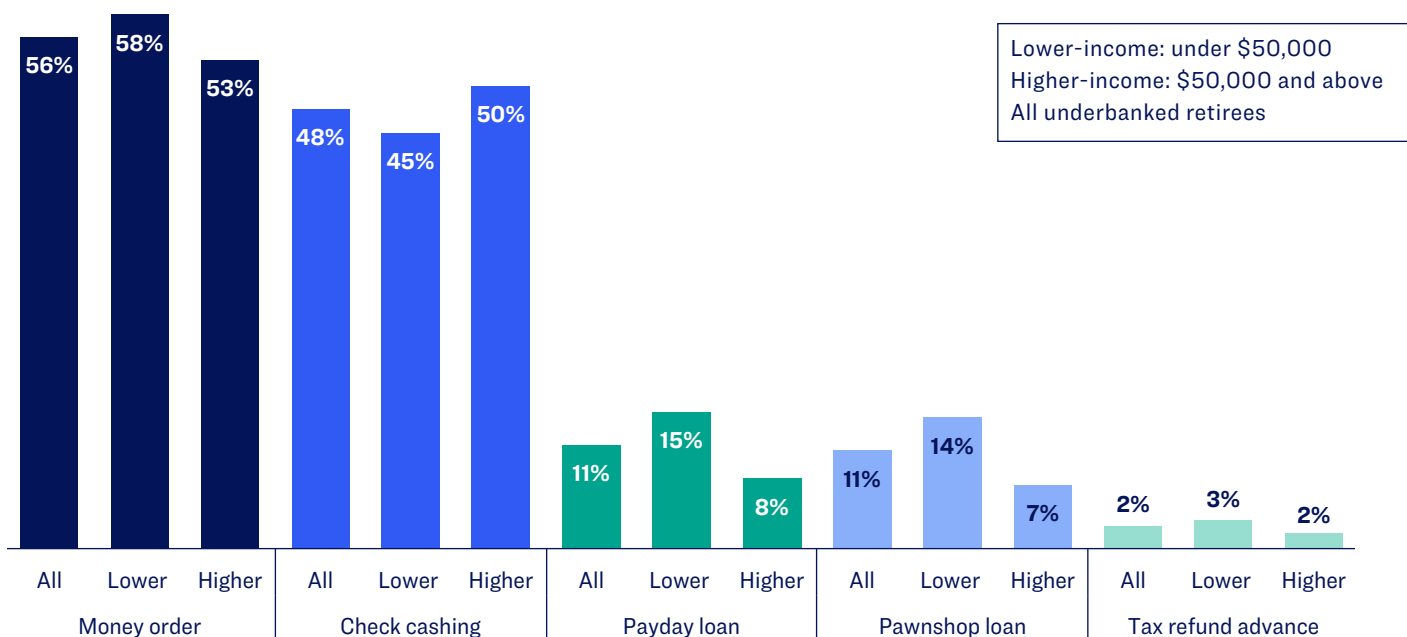
Note: All statistics are weighted. The difference between lower-income and higher-income underbanked retirees in their use of one AFS is statistically significant at the 10% level.

Money orders (56%) and check-cashing services (48%) were by far the most frequently utilized AFS (Figure 3). This is true among higher- and lower-income underbanked retirees.

Additionally, payday loan and pawnshop loan utilization were more common among the lower-income cohort (15% and 14%, respectively), compared with higher-income underbanked retirees (8% and 7%, respectively).

SHED identifies which AFS an individual uses but doesn't collect data on the frequency of use—a gap that limits understanding of the financial impact of these behaviors.

**FIGURE 3. AFS USED BY UNDERBANKED RETIREES BY INCOME AND TYPE, 2023**



Source: Author's calculations using the Federal Reserve Board 2023 Survey of Household Economics and Decisionmaking (SHED).  
 Note: All statistics are weighted. The difference between underbanked retirees who have lower income and use payday and pawnshop loans compared with underbanked retirees with higher income and use those same loans is statistically significant at the 5% level.  
 Financial well-being

### Financial well-being

SHED captured respondents' subjective assessments of financial well-being by asking if they were "doing okay financially." Two-thirds of underbanked retirees felt they were doing okay financially in 2023 (Figure 4). In contrast, 85% of fully banked retirees reported they were doing okay financially. Analysis by income reveals that 80% of higher-income underbanked retirees were doing okay financially—a figure close to that of fully banked retirees—compared with only 52% of lower-income underbanked retirees who reported they were doing okay financially.

Additionally, 79% of underbanked retirees reported having any savings and assets, including retirement savings.<sup>5</sup> In comparison, 92% of fully banked retirees had savings and assets. Higher-income underbanked retirees compared

favorably to fully banked retirees in this regard as well—92% reported having savings and assets. However, only 65% of lower-income underbanked retirees had savings and assets.

5 Underbanked retirees with savings and assets responded "yes" to at least one of the following questions in the 2023 SHED survey: Do you currently have each of the following types of savings or assets? (1) Retirement savings account, such as a 401(k) plan through an employer, IRA, or Roth IRA; (2) Pension with a defined benefit through an employer that will pay a monthly amount in retirement; (3) Stocks, bonds, ETFs, or mutual funds held outside a retirement account; (4) Savings account, money market account, or certificate of deposit (CD); (5) Cash value in a life insurance policy; (6) Business or real estate investment (other than your primary residence).

**FIGURE 4. UNDERBANKED RETIREES’ PERCEPTIONS OF FINANCIAL SECURITY AND SAVINGS AND ASSETS BY INCOME LEVEL, 2023**

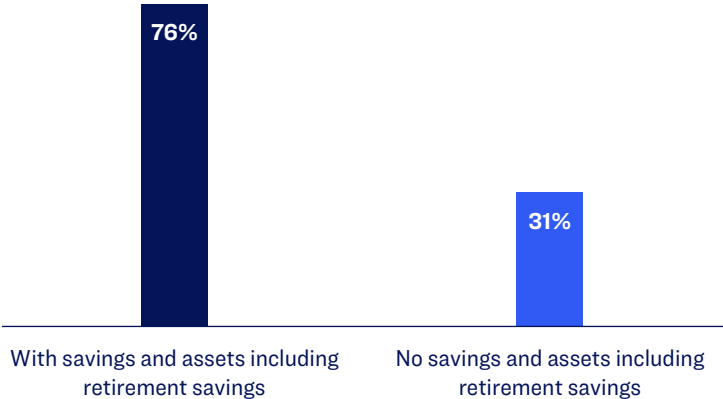
	% okay financially	% have savings and assets
All underbanked retirees	66%	79%
Lower-income (under \$50,000)	52%	65%
Higher-income (\$50,000 and above)	80%	92%

Source: Author’s calculations using the Federal Reserve Board 2023 Survey of Household Economics and Decisionmaking (SHED).

Note: All statistics are weighted. The difference between underbanked retirees who have lower income compared with those with higher income who report they are “doing okay financially” is statistically significant at the 5% level. In addition, the difference between underbanked retirees who have lower income compared with those with higher income who report they have any savings and assets is statistically significant at the 5% level.

Self-perceptions of financial well-being among underbanked retirees appear strongly related to accumulation of savings and assets. Among underbanked retirees with any savings and assets, 76% felt they were doing okay financially, compared with only 31% of underbanked retirees without savings and assets (Figure 5).

**FIGURE 5. UNDERBANKED RETIREES WHO REPORTED THEY WERE “DOING OKAY FINANCIALLY” BY SAVINGS AND ASSETS INCLUDING RETIREMENT SAVINGS, 2023**



Source: Author’s calculations using the Federal Reserve Board 2023 Survey of Household Economics and Decisionmaking (SHED).

Note: All statistics are weighted. There is a statistically significant difference at the 5% level between the percentage of underbanked retirees who reported they were “doing okay financially” and have savings and assets compared with those who reported they were doing okay financially without savings and assets.

## Discussion

Assessing the impact of AFS use among underbanked retirees remains challenging without data on transaction frequency throughout the year. Even if the population most directly affected who may be navigating retirement with lower incomes represents a relatively small share of all older Americans—approximately 1 million people—the financial circumstances of this group suggest concentrated vulnerability that warrants attention.

Among underbanked retirees who utilized at least one AFS in 2023, 52% had incomes below \$50,000. These represented approximately 5% of all retirees. Notably, underbanked retirees are disproportionately younger, with 53% aged 60–69, suggesting that some may be early or involuntary retirees who haven't yet fully transitioned into stable retirement income streams, potentially making AFS reliance more consequential.

Within this group, 21% utilized multiple AFS (about 1% of all retirees)—combining money orders and check-cashing services, with some also utilizing payday loans, pawnshop loans, or tax refund advances. These instances of multiple service use could have likely indicated economic strain, where high transaction costs may have substantially eroded already-limited resources. At the same time, this could be an issue among the 79% of underbanked retirees with lower incomes who utilized only one type of AFS regularly (on a monthly basis, for example).

Underbanked retirees' perceived financial wellness and savings behaviors from the SHED survey provided additional context.

Nearly half (48%) of lower-income underbanked retirees reported financial insecurity, representing 2% of all retirees. Among these retirees, 43% lacked any savings or assets. If these individuals utilized AFS on a regular basis, this behavior could have represented a significant drain on limited financial resources. Without frequency data, however, the magnitude of the impact is uncertain.

Occasional money order use differs substantially from habitual reliance on multiple services. Without frequency data, distinguishing between marginal inconvenience and chronic financial instability—a distinction essential for targeting appropriate interventions—remains difficult.

For the relatively small number of older Americans who may be navigating retirement with lower incomes, limited savings, and reliance on alternative financial services, the stakes of chronic AFS use are real—even if the full magnitude remains difficult to measure with existing data. This paper advocates for enhanced data collection methodologies. Surveys must collect frequency data regarding AFS usage to accurately assess financial vulnerability and differentiate between occasional and chronic reliance patterns. For example, a simple follow-up question asking how many times in the past 12 months a respondent used each AFS type could help distinguish between a retiree who occasionally purchases a money order and one who depends on multiple high-cost services month after month, which is a distinction essential for identifying those most at risk and designing appropriate interventions.

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## About the author

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