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Retirement in 2070

Ray Boshara

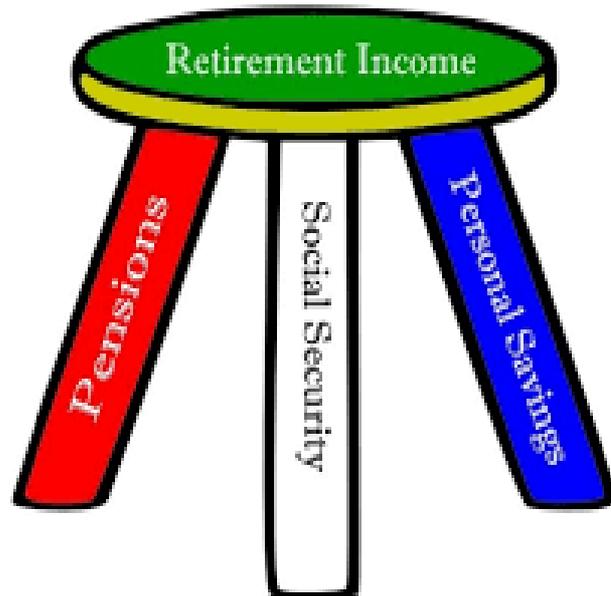
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**These are my own views, and not necessarily the views of the Federal Reserve Bank of St. Louis, Federal Reserve System, or the Board of Governors*

Introduction

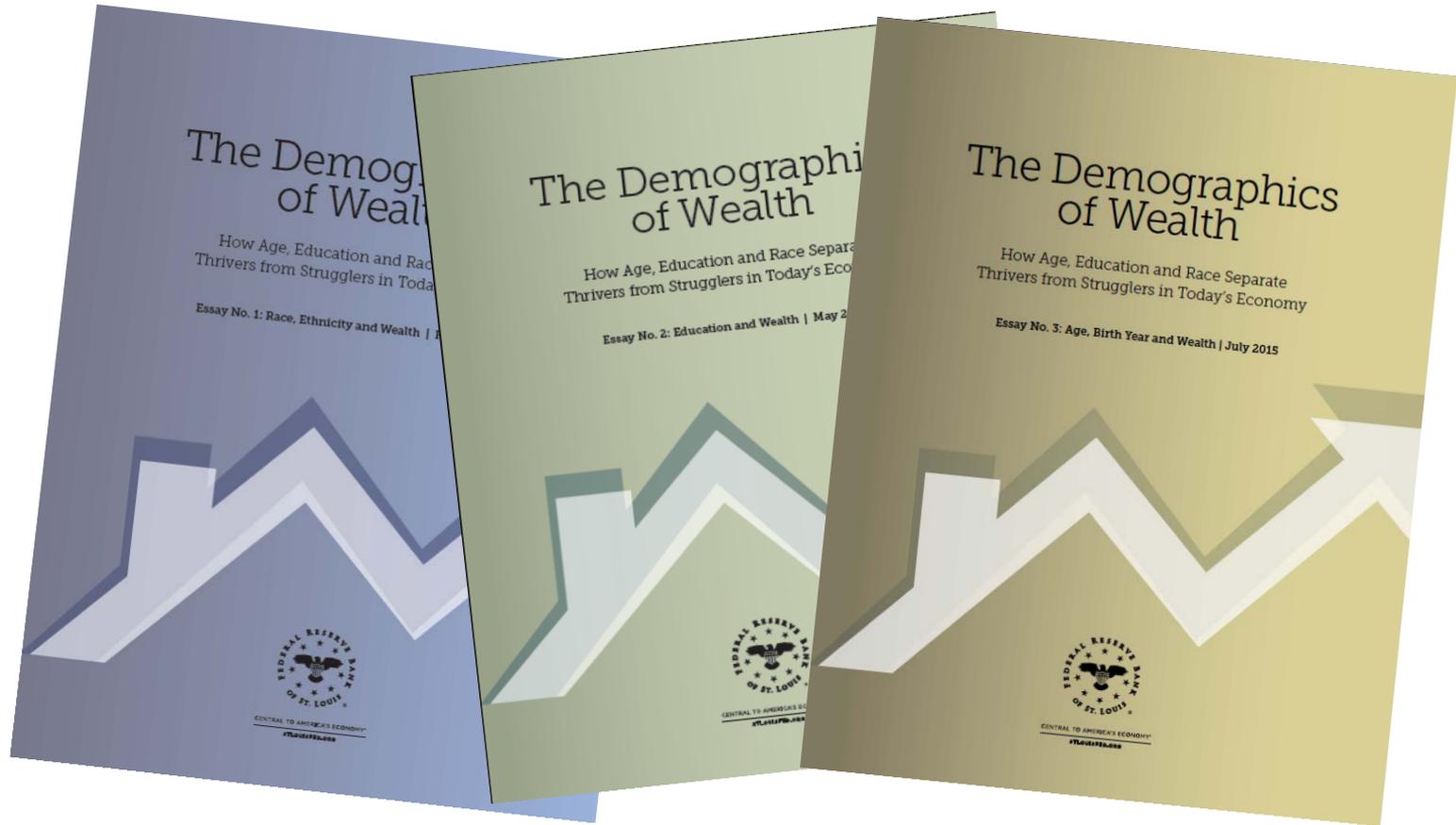
What is Retirement?



Overview of Talk:

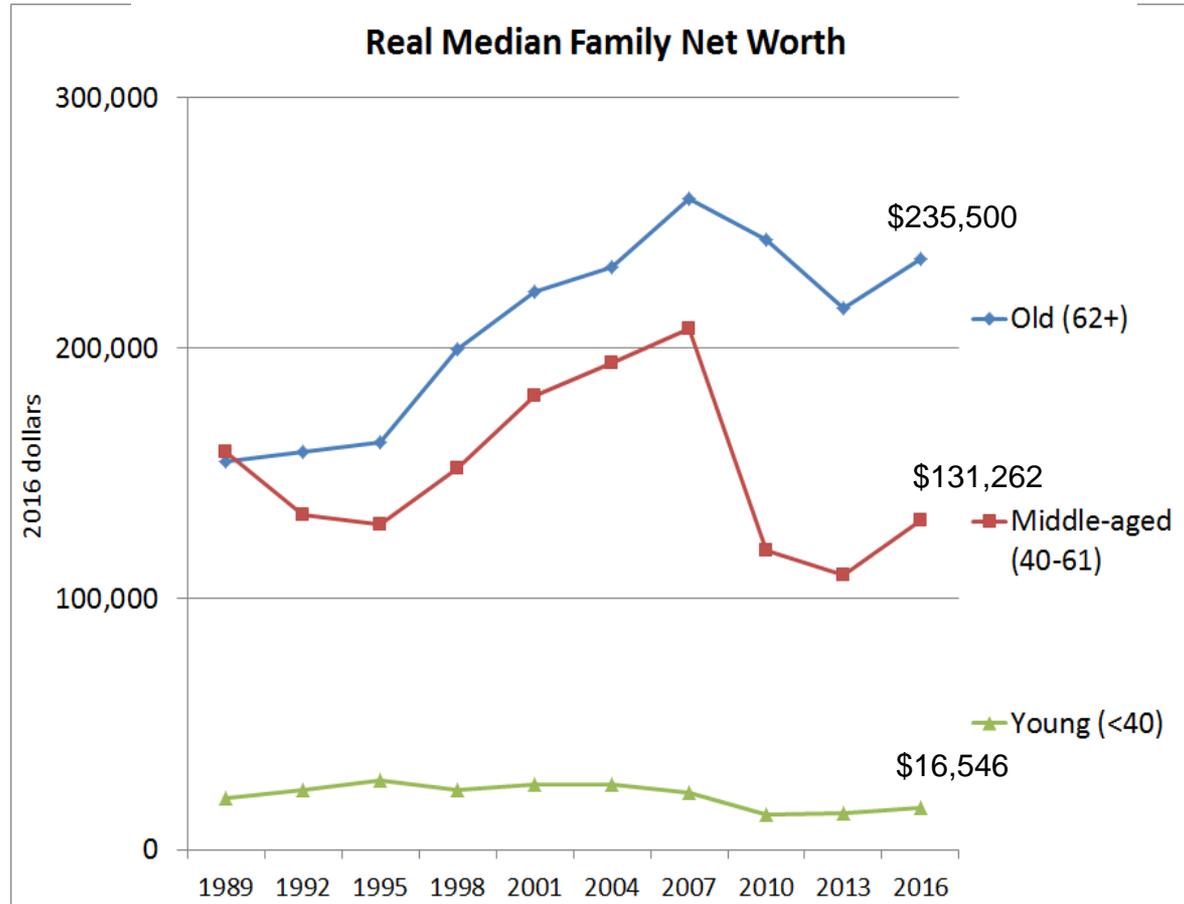
- I. Demographics of wealth and retirement savings
- II. Challenges facing and reforms to the current system
- III. Millennials and retirement: facts and surveys
- IV. Bigger ideas
- V. If retiring in 2070...

The Demographics of Wealth: Thrivers & Strugglers in Today's Economy



Age / Birth Year

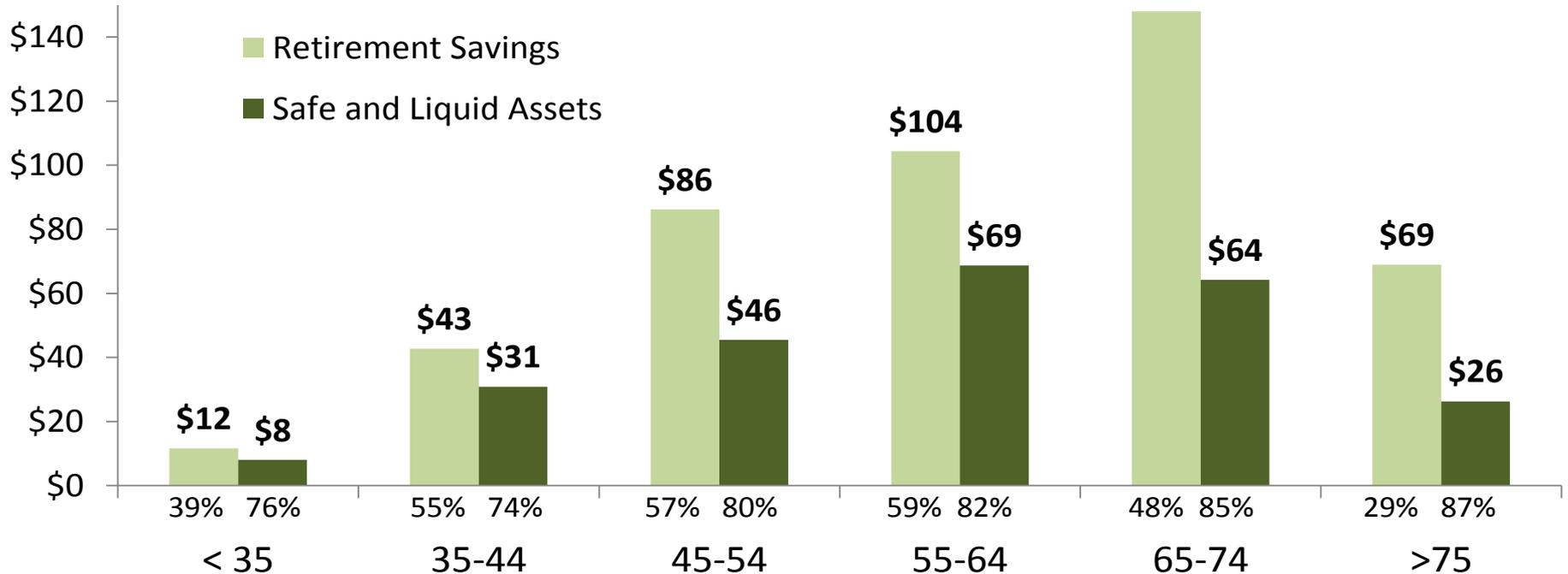
Source: Emmons and Ricketts analysis of 2016 Survey of Consumer Finances of the Federal Reserve Board



Retirement and Liquid Savings – by Age

Median Value of Retirement and Liquid Savings, by Age of Family Head, 2013 SCF Sample

Thousands (Ownership rates below bars)



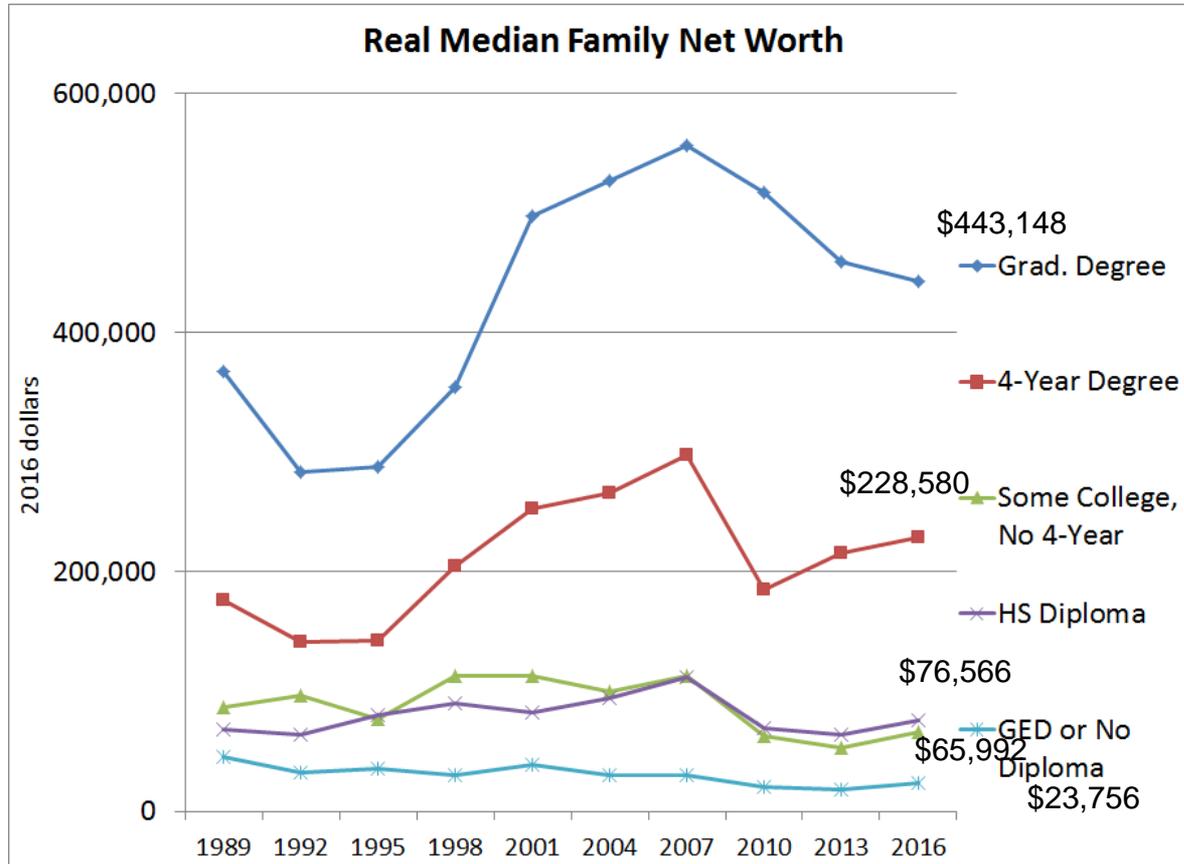
NOTE: All estimates are conditional on ownership. Retirement accounts include IRAs, Keough accounts, and pension accounts which allow withdrawals or loans. Safe and liquid assets include: holdings of checking, savings, money market, and call accounts; holdings of certificates of deposit; and holdings of savings bonds.

SOURCE: Survey of Consumer Finances, Federal Reserve Board of Governors.



Education

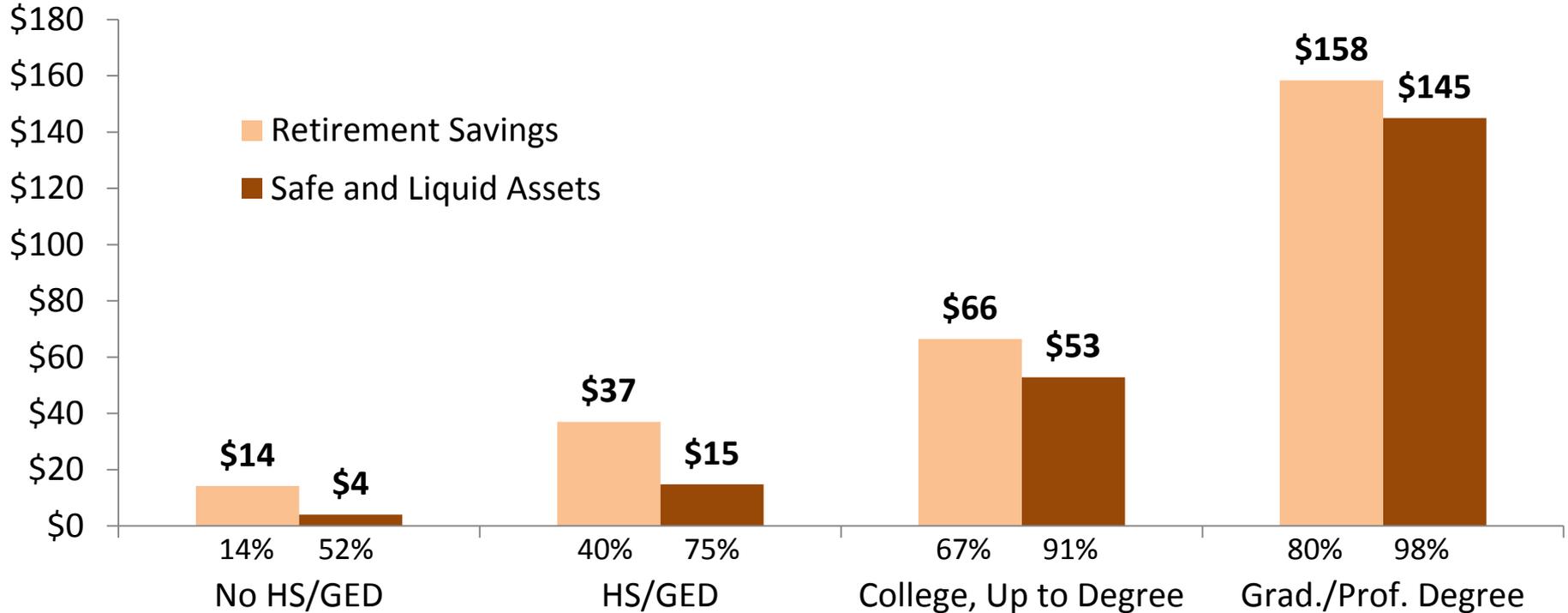
Source: Emmons and Ricketts analysis of 2016 Survey of Consumer Finances of the Federal Reserve Board



Retirement and Liquid Savings – by Education

Median Value of Retirement and Liquid Savings, by Education of Family Head, 2013 SCF Sample

Thousands (Ownership rates below bars)



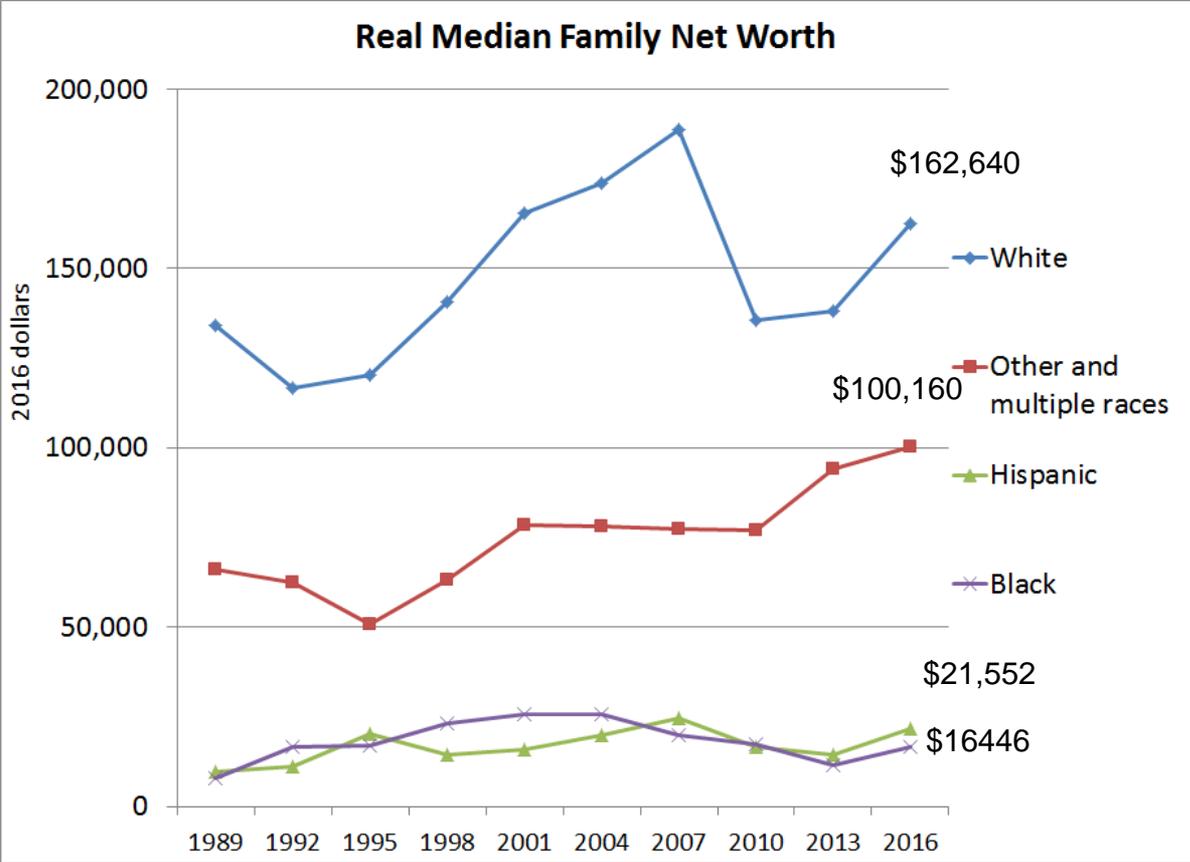
NOTE: All estimates are conditional on ownership. Retirement accounts include IRAs, Keough accounts, and pension accounts which allow withdrawals or loans. Safe and liquid assets include: holdings of checking, savings, money market, and call accounts; holdings of certificates of deposit; and holdings of savings bonds.

SOURCE: Survey of Consumer Finances, Federal Reserve Board of Governors.



Race & Ethnicity

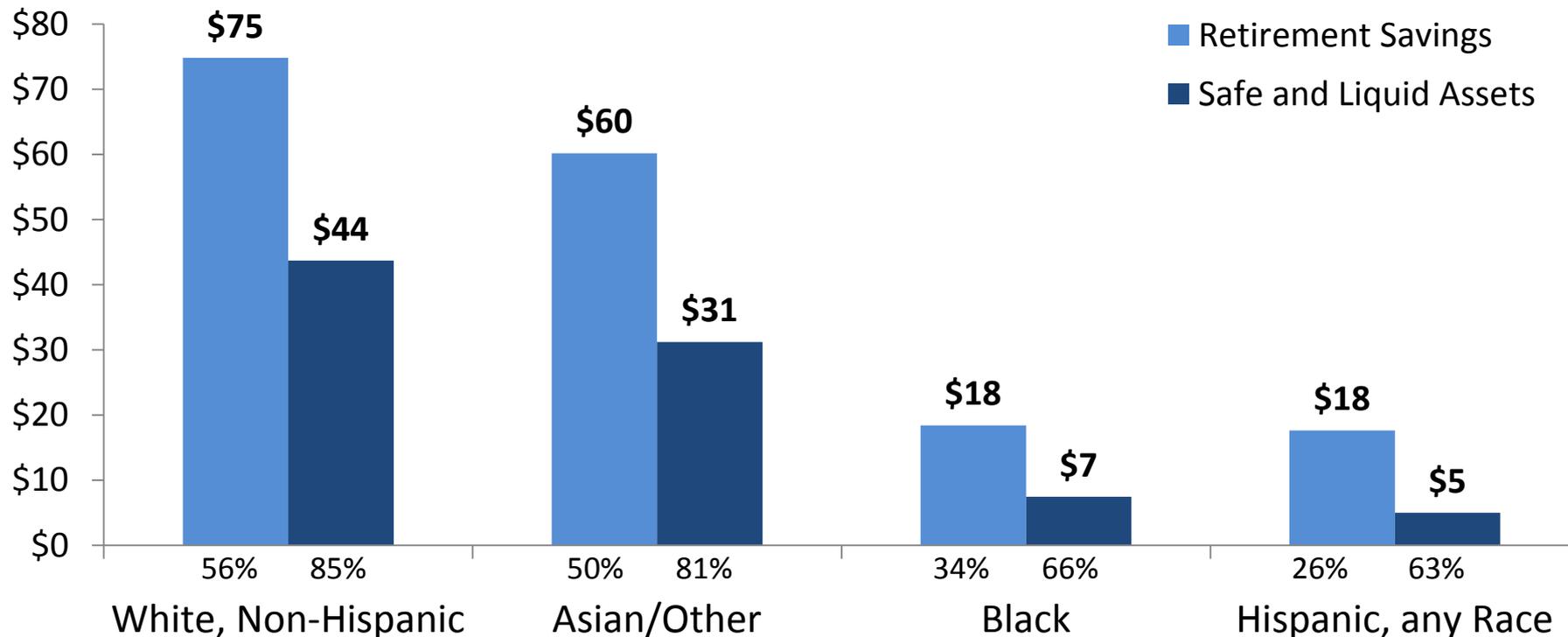
Source: Emmons and Ricketts analysis of 2016 Survey of Consumer Finances of the Federal Reserve Board



Retirement and Liquid Savings – by Race & Ethnicity

Median Value of Retirement and Liquid Savings, by Race of Family Head, 2013 SCF Sample

Thousands (Ownership rates below bars)



NOTE: All estimates are conditional on ownership. Retirement accounts include IRAs, Keough accounts, and pension accounts which allow withdrawals or loans. Safe and liquid assets include: holdings of checking, savings, money market, and call accounts; holdings of certificates of deposit; and holdings of savings bonds.

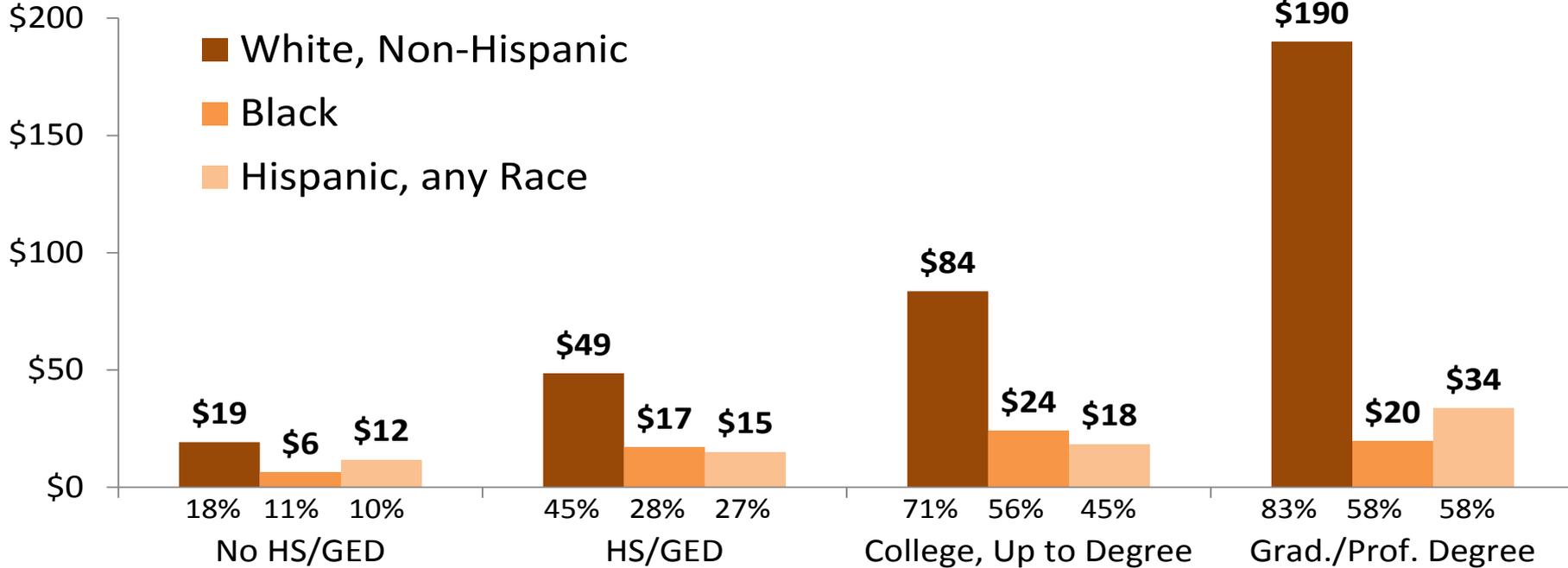
SOURCE: Survey of Consumer Finances, Federal Reserve Board of Governors.



Retirement and Liquid Savings – Race & Ethnicity and Education

Median Value of Retirement Savings, by Race and Education, 2013 SCF Sample

Thousands (Ownership rates below bars)



NOTE: All estimates conditional on ownership. Retirement accounts include IRAs, Keough accounts, and pension accounts which allow withdrawals or loans (such as 401(k) accounts).

SOURCE: Survey of Consumer Finances, Federal Reserve Board of Governors.

Challenges Facing Current System

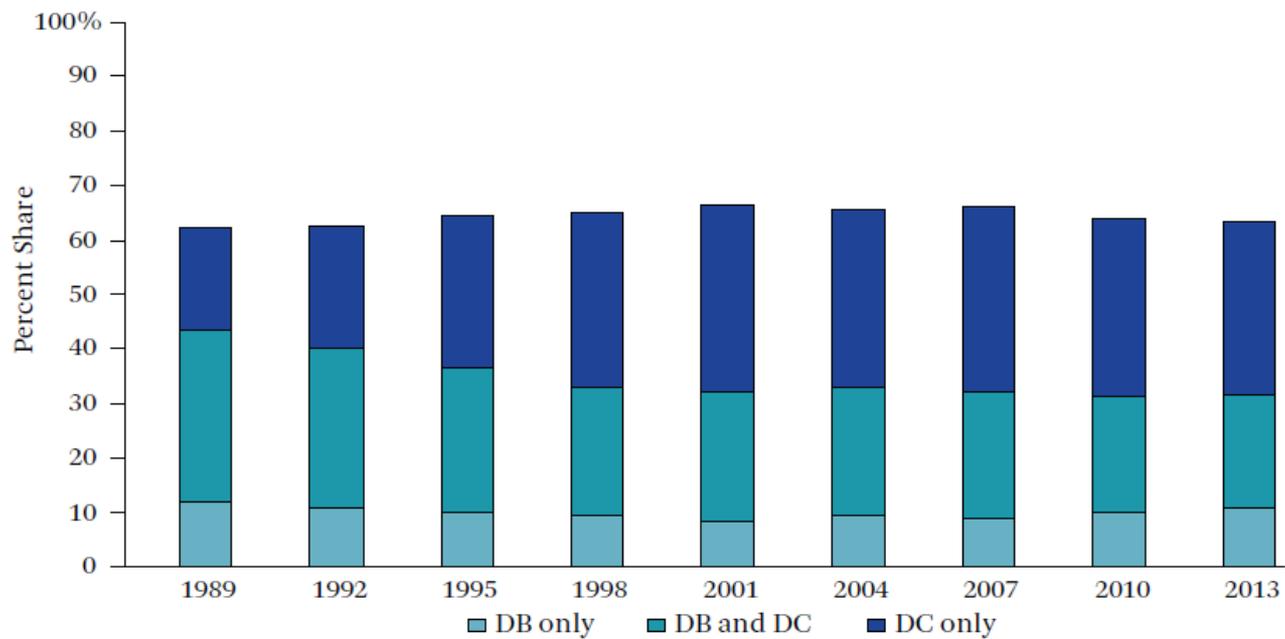
(D. Mitchell, Report from Leadership Forum on Retirement Savings, Sept. 2017; and others)

1. Coverage gap
2. Widespread financial instability
3. Upside-down tax subsidies
4. Increasing longevity
5. Social Security outlays exceeding revenues



Coverage Gap / Transition from Defined Benefit to Defined Contribution System

Figure 3. Aggregate Retirement Plan Participation, All Households



Source: Authors' calculations based on Federal Reserve Board 2014.

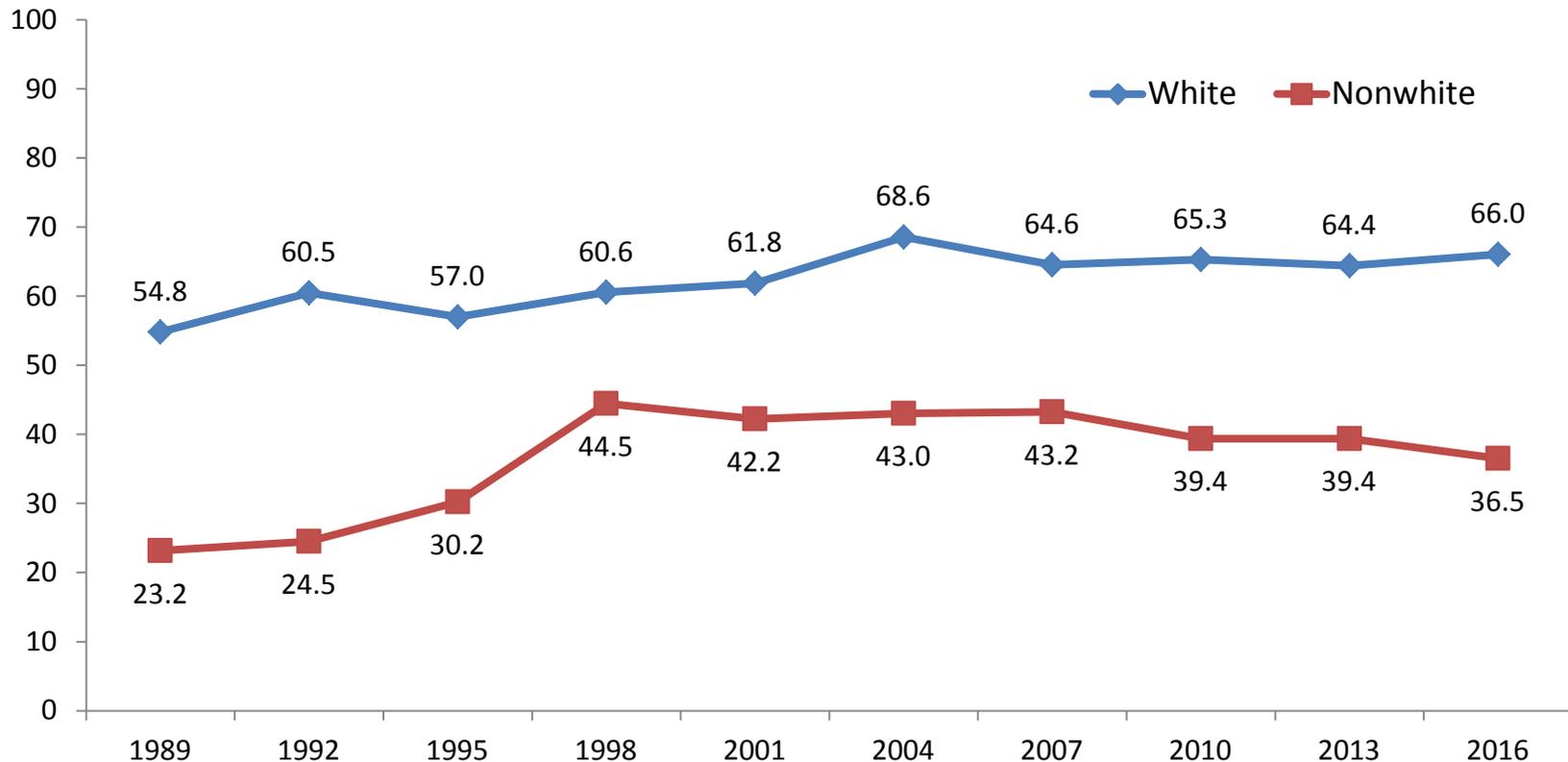
Note: DB coverage includes any traditional pension benefits through a current or past job. DC coverage includes IRA and DC pension coverage from a current or former employer in the PEU or observed holdings of such accounts.

Source: Devlin-Foltz, Henriques, Sabelhaus (2017)

Coverage Gap, Whites v. Non-Whites

Retirement Accounts, Households 55-64, Ownership Rate by Race/Ethnicity

Percent



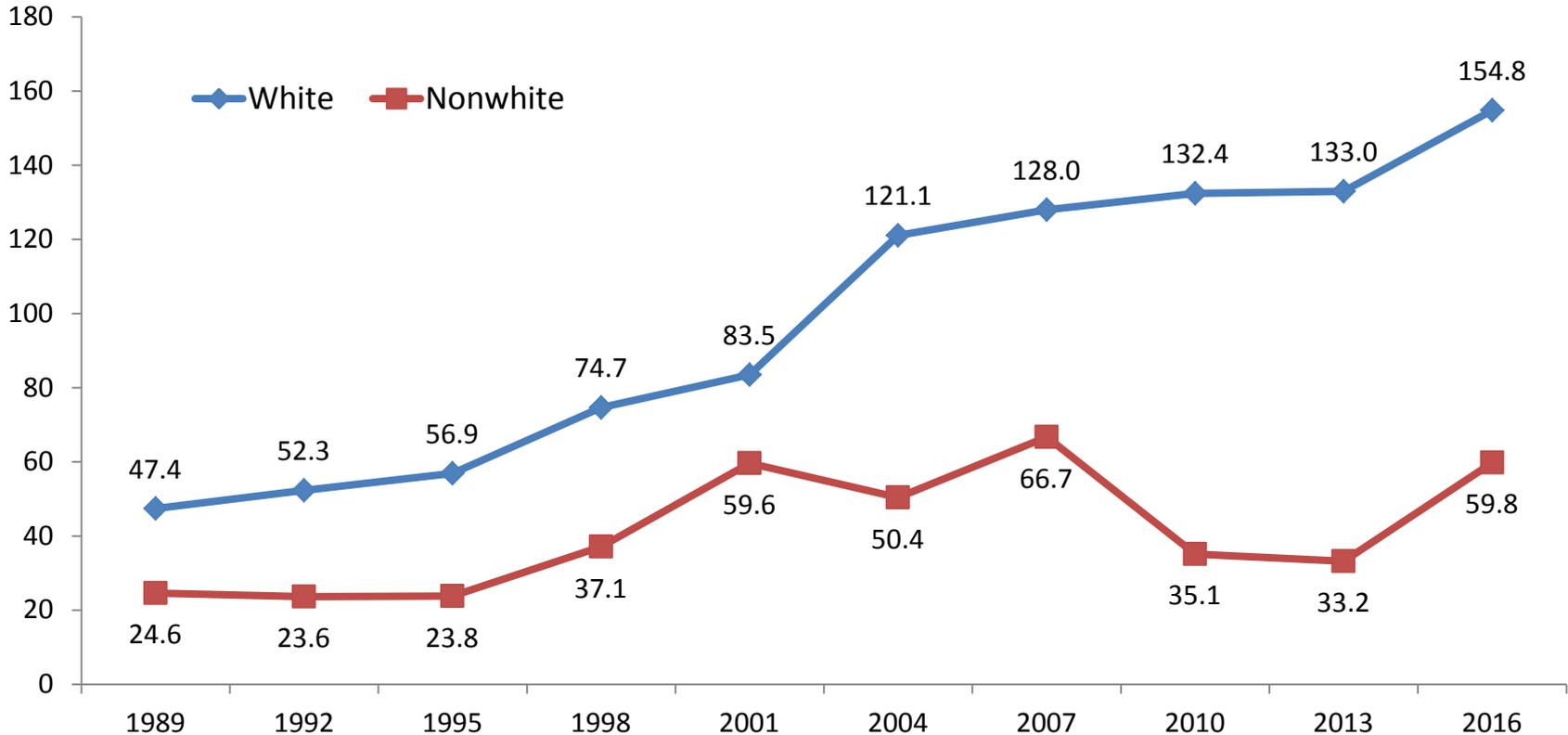
Source: Federal Reserve board of Governors, Survey of Consumer Finances



Financial Gaps, Whites v. Non-Whites

Retirement Accounts, Households 55-64, Median Value by Race/Ethnicity, Conditional on Ownership

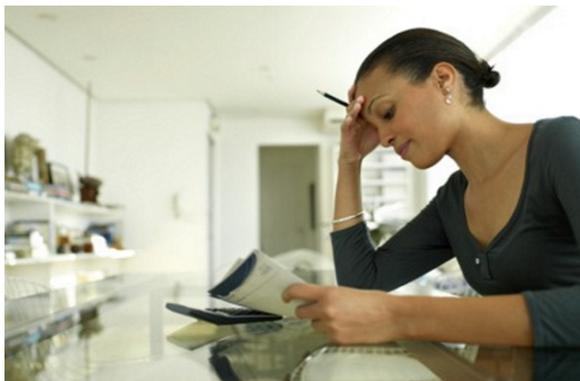
Thousands of 2016 \$



Source: Federal Reserve board of Governors, Survey of Consumer Finances



Widespread Financial Instability



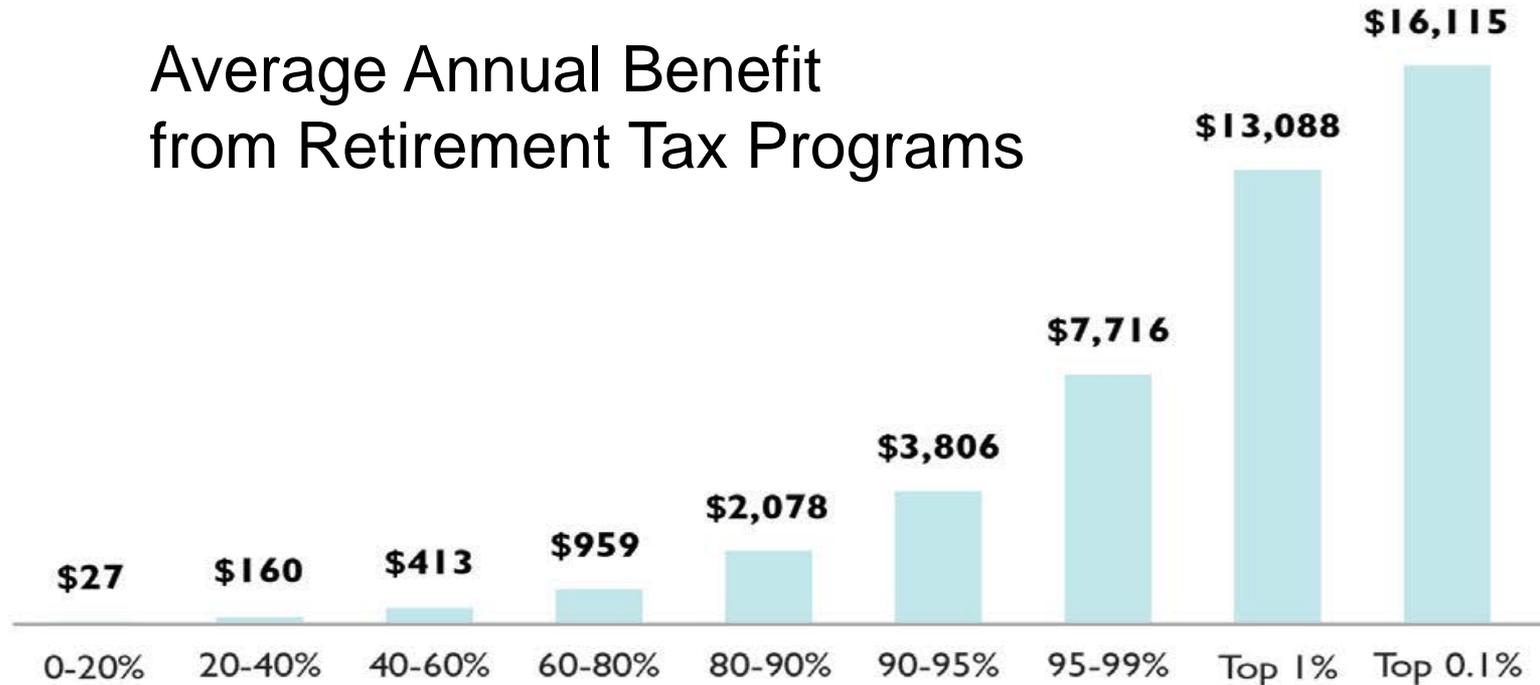
- 57% of Americans are challenged to achieve “financial health” (CFSI, 2015)
- 70% of households are “income-constrained, savings limited, and/or debt-challenged” (Pew, 2015)
- An unexpected expense of \$400 would prompt nearly half of all families to borrow funds, sell something, or simply not pay (Federal Reserve, 2015-2017)
- Families experience volatility five months per year; 42% of families struggle to meet monthly expenses, due in part to growing income and expense volatility (U.S. Financial Diaries, 2016)
- Nearly two-thirds of Americans see money as a “very” or “somewhat” significant source of stress. (APA, 2015)



Upside-Down Tax Incentives for Retirement Savings

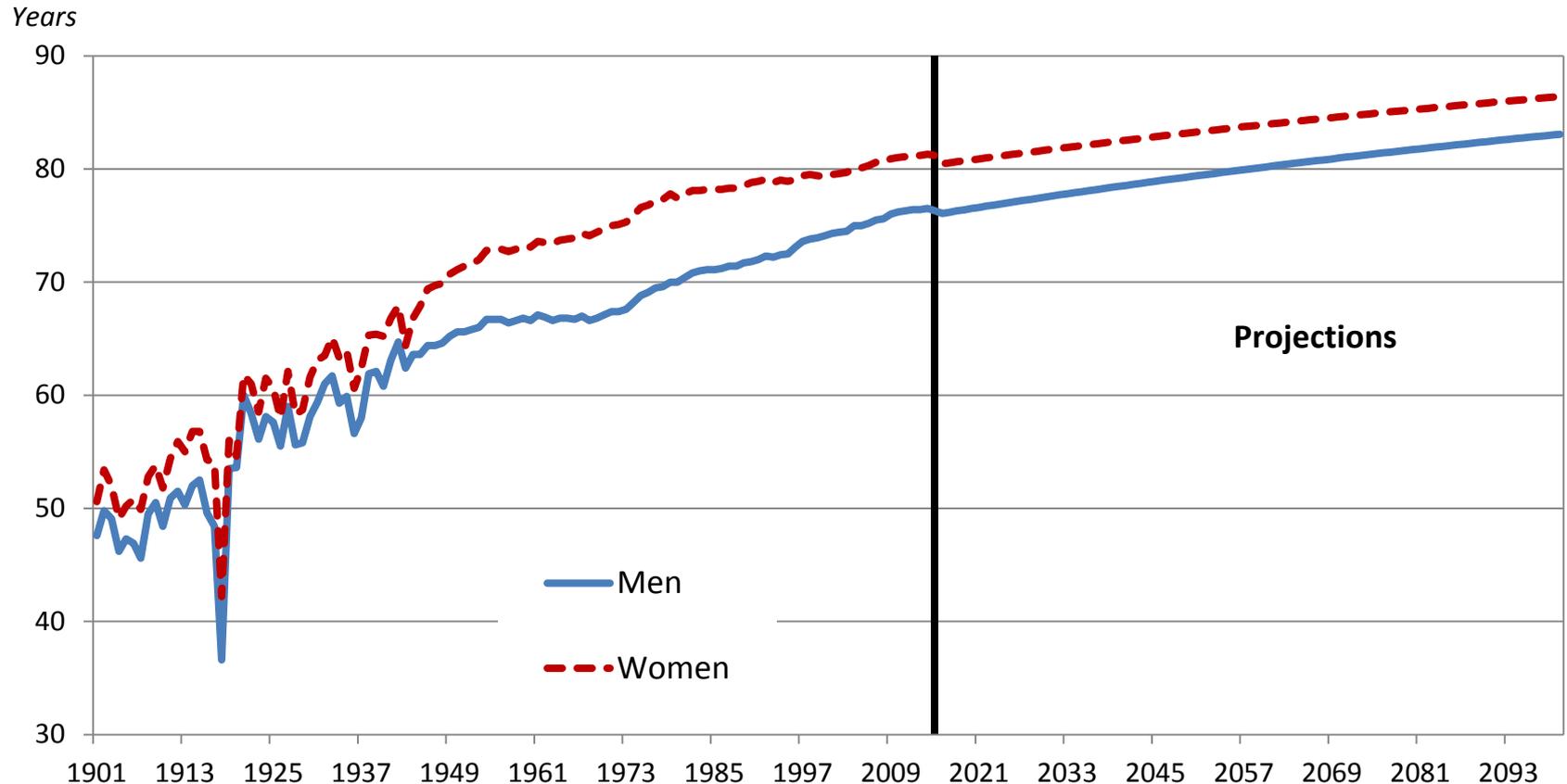
(Urban Institute, 2014)

Average Annual Benefit from Retirement Tax Programs



Longer Lifespans and Retirements Expected

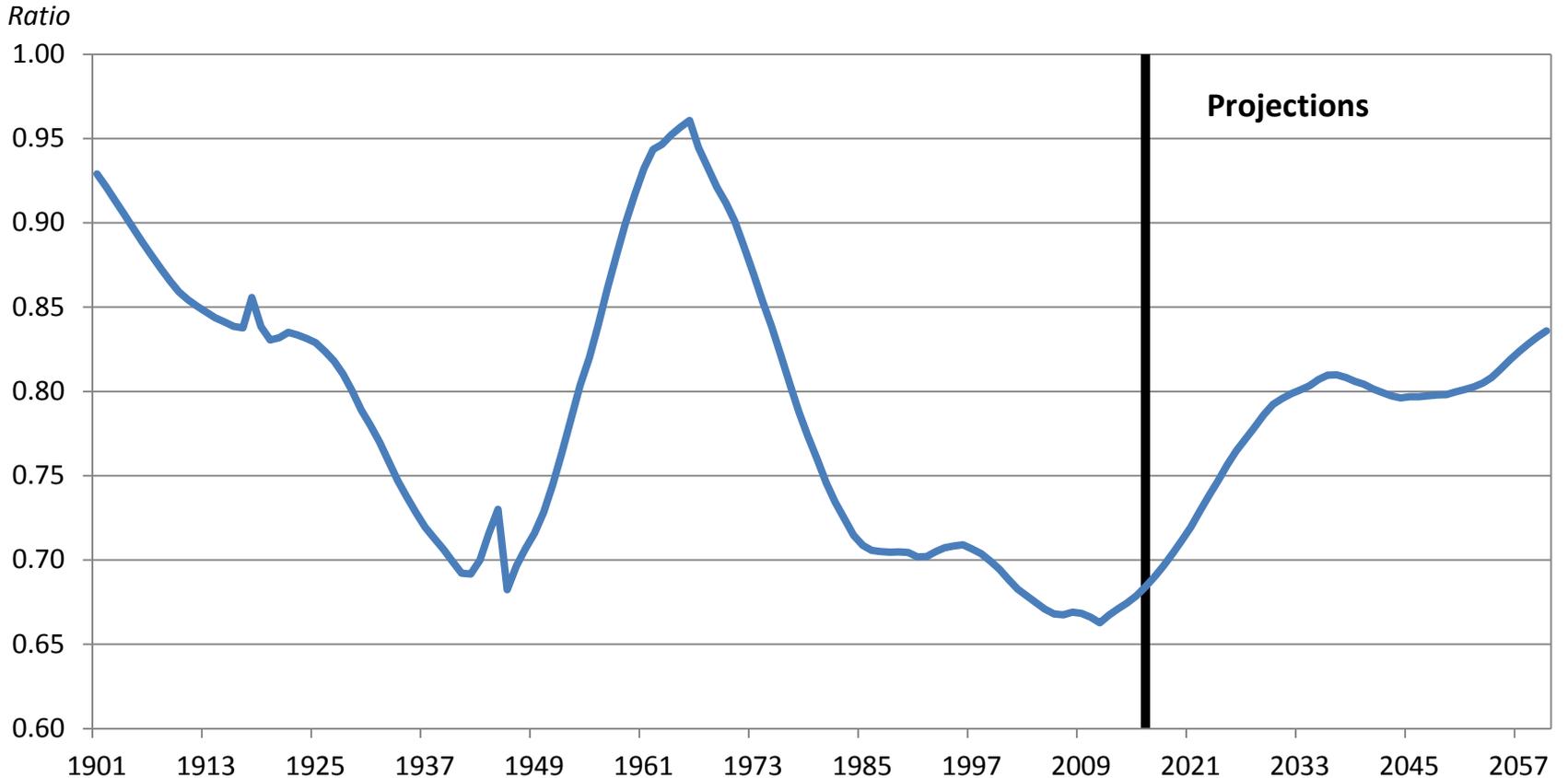
Life Expectancy at Birth, by Gender



Source: National Center for Health Statistics, Projections from Social Security Administration, Bell and Miller (August 2005).

Projected Surge in Dependent-Age Population

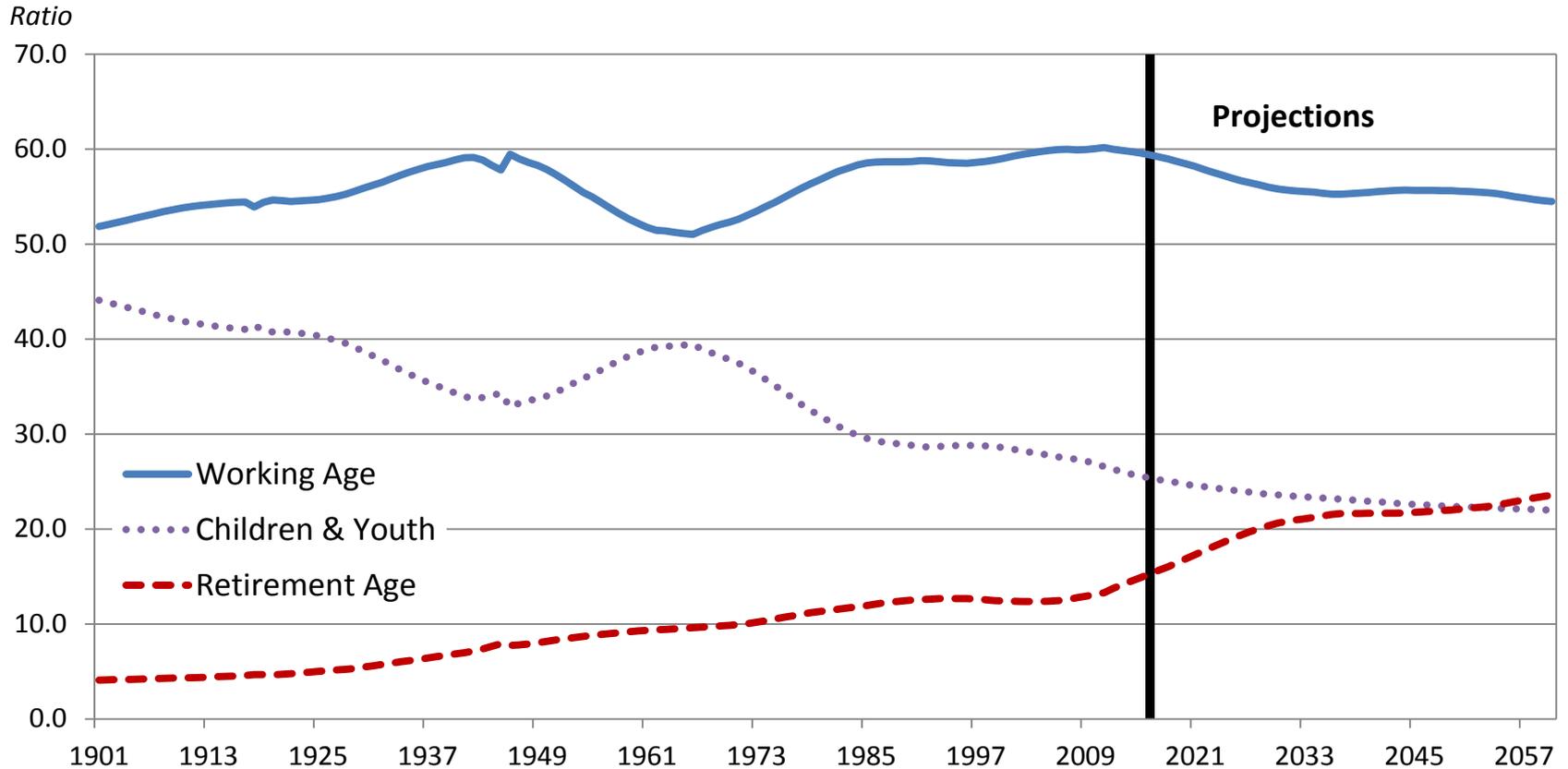
Dependent-Age Population (<20 and 65+) per Prime-Age Person



Source: Census Bureau, Projections as of December 2016.

Projected Surge: Children, Workers, and Retirees

Population Shares, Actual and Projected

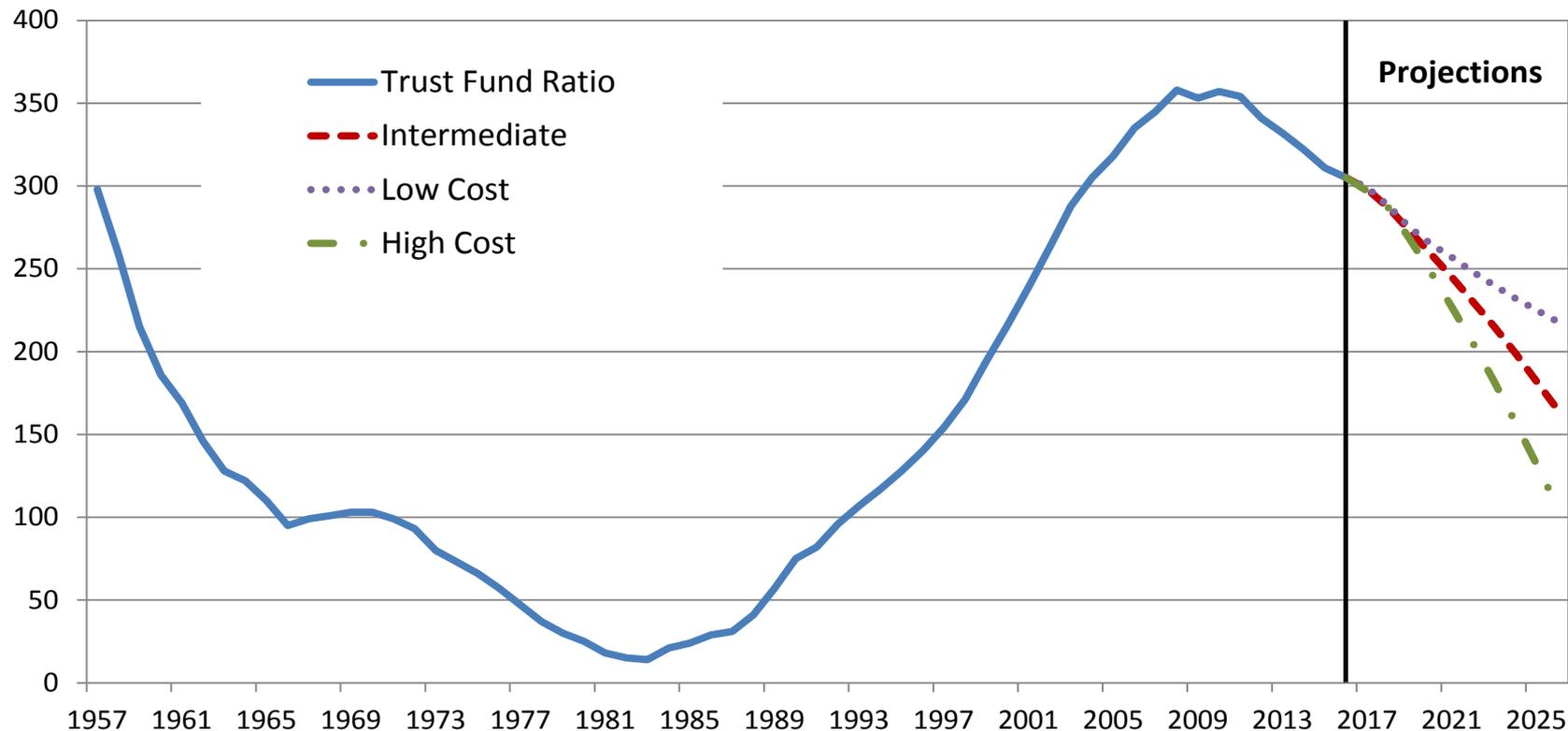


Source: Census Bureau, Projections as of December 2016.

SS Outlays Growing Faster Than Income

Social Security Trust Fund Ratio (Assets as % of Cost)

Percent



Source: Social Security Administration, Projections as of July 2017.

Key Reforms: Current System

(D. Mitchell, Report from Leadership Forum on Retirement Savings, Sept. 2017; and others)

Strengthen the public safety net:

- Health care, food assistance, financial security (EITC, Child Tax Credits, UBI, etc.)
- Social Security
- Medicare, Medicaid and Long-Term Care

“On our present course, spending on entitlements will eventually consume almost all revenues if no policies are changed.” – Tim McBride, Health Economist, Washington University in St. Louis, 2017

Promote savings among families and through employers:

- Automatic enrollment with opt-out
- State plans
- “Side Car” accounts
- Embedded annuities
- Refundable Savers Credit / Retirement savings subsidies



Retirement in 2070: Facts and Perceptions

Review/Facts:

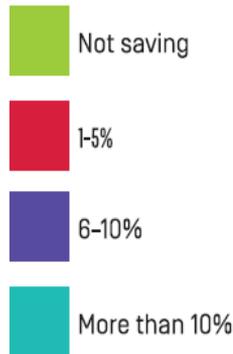
- Worrisome wealth trends among young, less educated, and non-white
- 61% of those 35 or younger have no retirement savings; those with retirement savings have \$12,000
- Coverage gaps
- Widespread financial insecurity
- Declining birthrates and family formation
- Social Security shortfall or depletion, and diminishing buying power of SS benefits
- Unsustainability of Medicare, Medicaid and entitlement funding

Surveys:

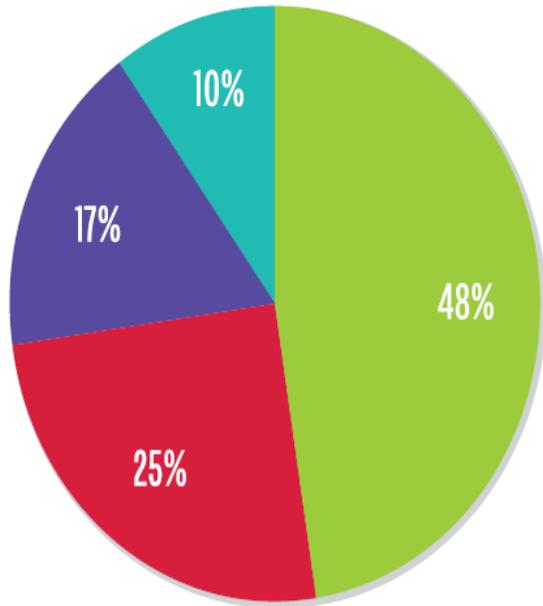
- 81% of Millennial workers are concerned that Social Security “will not be there” for them (Transamerica Center, 2014)
- 51% expect to receive no benefit at all (Pew, 2014)
- More Millennials believe in UFOs (46%) than in Social Security’s future (28%) (Peterson, 1996)

Millennials and Retirement Savings

Percent of Millennials Saving Indicated Portion of Income for Retirement, 2014



Source: Wells Fargo, "Eight in Ten Millennials Say Great Recession Taught Them to Save 'Now,'" Wells Fargo Survey Finds," News Release, June 10, 2014; and Wells Fargo, "2014 Wells Fargo Millennial Study," 2014.



- 66% of Millennials expect their primary source of income to be self-funded (Transamerica Center, 2014)
- Employed Millennials offered a retirement plan at work were labeled “super savers” because they saved earlier and more than previous generations (Transamerica Center, 2014)
- 85% of Millennials say they already have or will have enough resources to “lead the kind of life they want (Pew, 2014)
- Millennials perceive their financial prospects to be favorable even in the face of evidence to the contrary (Pew, 2014)

Bigger Ideas

- Retirement savings accounts at birth for everyone – Roth at Birth, KidSave, Baby Bonds, Aspire Act, etc.
- Reduce cumulative disadvantage via a cradle-to-grave “life-course perspective” focused on health, education, employment and financial capability (Morrow-Howell & Sherraden, 2015)
- Allow workers who take time off to care for dependent children or parents to continue to accrue Social Security and Medicaid benefits.
- Re-imagine / re-orient the social contract towards young?
- Leverage the sharing economy; reduce the need for private wealth
- Redefine success, retirement, and the American Dream

If Retiring in 2070...

- Build wealth – start early, and diversify assets and risk
- Keep debts low and tied to income-producing assets
- Build education and skills early, and throughout life; achieve a wealth-education-wealth virtuous cycle
- Expect to work longer, engage in “productive aging”
- Promote financial, health and retirement security for all Americans