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
Real Median Family Net Worth

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

- **Old (62+)**: $235,500
- **Middle-aged (40-61)**: $131,262
- **Young (<40)**: $16,546
## Median Value of Retirement and Liquid Savings, by Age of Family Head, 2013 SCF Sample

**Thousands (Ownership rates below bars)**

<table>
<thead>
<tr>
<th>Age Range</th>
<th>Retirement Savings</th>
<th>Safe and Liquid Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 35</td>
<td><strong>$12</strong></td>
<td><strong>8%</strong></td>
</tr>
<tr>
<td>35-44</td>
<td>$43</td>
<td><strong>31%</strong></td>
</tr>
<tr>
<td>45-54</td>
<td><strong>$86</strong></td>
<td><strong>46%</strong></td>
</tr>
<tr>
<td>55-64</td>
<td><strong>$104</strong></td>
<td><strong>$69</strong></td>
</tr>
<tr>
<td>65-74</td>
<td><strong>$148</strong></td>
<td><strong>$64</strong></td>
</tr>
<tr>
<td>&gt; 75</td>
<td><strong>$69</strong></td>
<td><strong>$26</strong></td>
</tr>
</tbody>
</table>

**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

Real Median Family Net Worth

- Grad. Degree: $443,148
- 4-Year Degree: $228,580
- Some College, No 4-Year: $76,566
- HS Diploma: $65,992
- GED or No Diploma: $23,756

2016 dollars

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

**Thousands (Ownership rates below bars)**

<table>
<thead>
<tr>
<th>Education Level</th>
<th>Retirement Savings</th>
<th>Safe and Liquid Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>No HS/GED (14%)</td>
<td>$14</td>
<td>$4</td>
</tr>
<tr>
<td>HS/GED (52%)</td>
<td>$37</td>
<td>$15</td>
</tr>
<tr>
<td>College, Up to Degree (67%)</td>
<td>$66</td>
<td>$53</td>
</tr>
<tr>
<td>Grad./Prof. Degree (80%)</td>
<td>$158</td>
<td>$145</td>
</tr>
</tbody>
</table>

**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

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

<table>
<thead>
<tr>
<th>Income Range</th>
<th>Average Annual Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-20%</td>
<td>$27</td>
</tr>
<tr>
<td>20-40%</td>
<td>$160</td>
</tr>
<tr>
<td>40-60%</td>
<td>$413</td>
</tr>
<tr>
<td>60-80%</td>
<td>$959</td>
</tr>
<tr>
<td>80-90%</td>
<td>$2,078</td>
</tr>
<tr>
<td>90-95%</td>
<td>$3,806</td>
</tr>
<tr>
<td>95-99%</td>
<td>$7,716</td>
</tr>
<tr>
<td>Top 1%</td>
<td>$13,088</td>
</tr>
<tr>
<td>Top 0.1%</td>
<td>$16,115</td>
</tr>
</tbody>
</table>
Longer Lifespans and Retirements Expected

Life Expectancy at Birth, by Gender

Years

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

Ratio

Source: Census Bureau, Projections as of December 2016.
SS Outlays Growing Faster Than Income

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

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

- 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