

**Are Households  
Financially  
Prepared for  
Retirement?**

**DRAFT WITH PRELIMINARY RESULTS –  
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# Are households financially prepared for retirement?

The answer to this question is crucial for the design of Social Security and for other public policies related to saving and work at older ages

The question is an old one, but:

- The answer may have changed over time, given financial crises, recessions, swings in asset prices, evolving private pensions, income inequality, etc.
- The answer varies across households, and policymakers should understand those differences

The PSID offers some advantages in answering this question, and we focus on PSID data while providing some comparative information from the SCF

# Today's presentation includes:

The PSID

The Evolution of Family Wealth During the Past 20 Years

Family Wealth for Different Groups

Calculations of Preparedness for Retirement

# The PSID

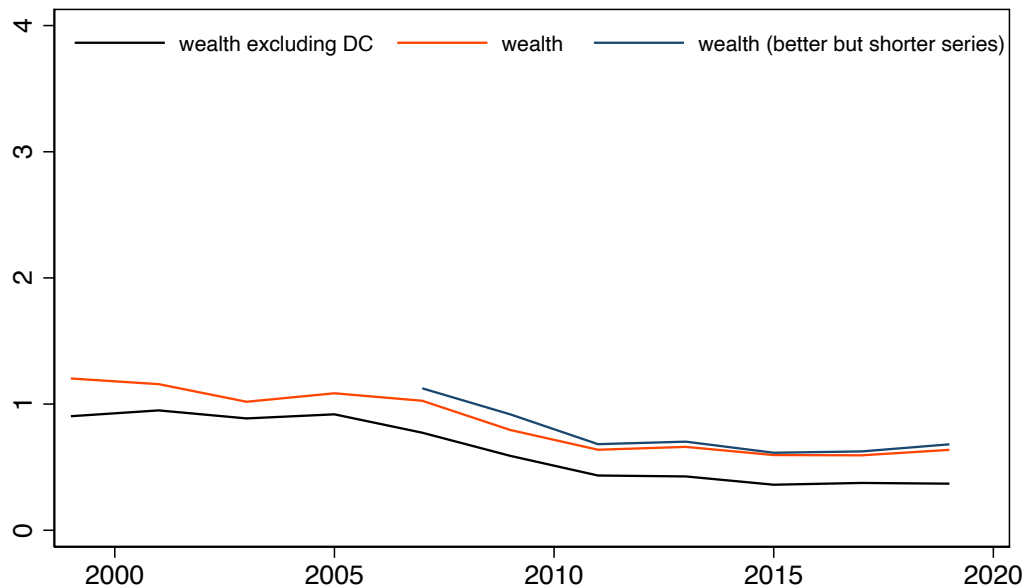
# Data about families' finances in the PSID

- Panel data on income, employment, demographics, wealth, and consumption (data available through 2019 wave)
- Many families: roughly 7000 to 8000 total in recent waves, of which roughly 1500 to 2000 are families with wealth data in their 40s and roughly 1200 to 1500 are families with wealth data in their 50s
- Poverty sample has significant numbers of minority-headed families
- We use weights to make the calculations representative

# Standard PSID wealth measures exclude defined-contribution pensions, but such wealth can be included

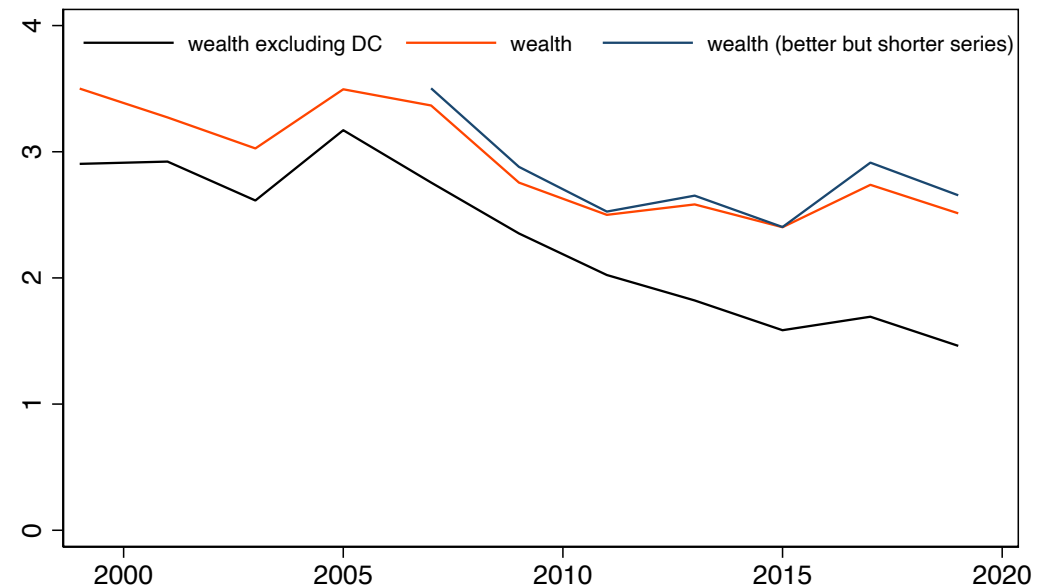
[see [Cooper, Dynan, and Rhodenheiser \(2019\)](#)]

50th Percentile of Nonhousing Wealth Relative to Income  
Families with Head 50-59



Full sample with weights; better wealth series has imputations for people with missing DC data.

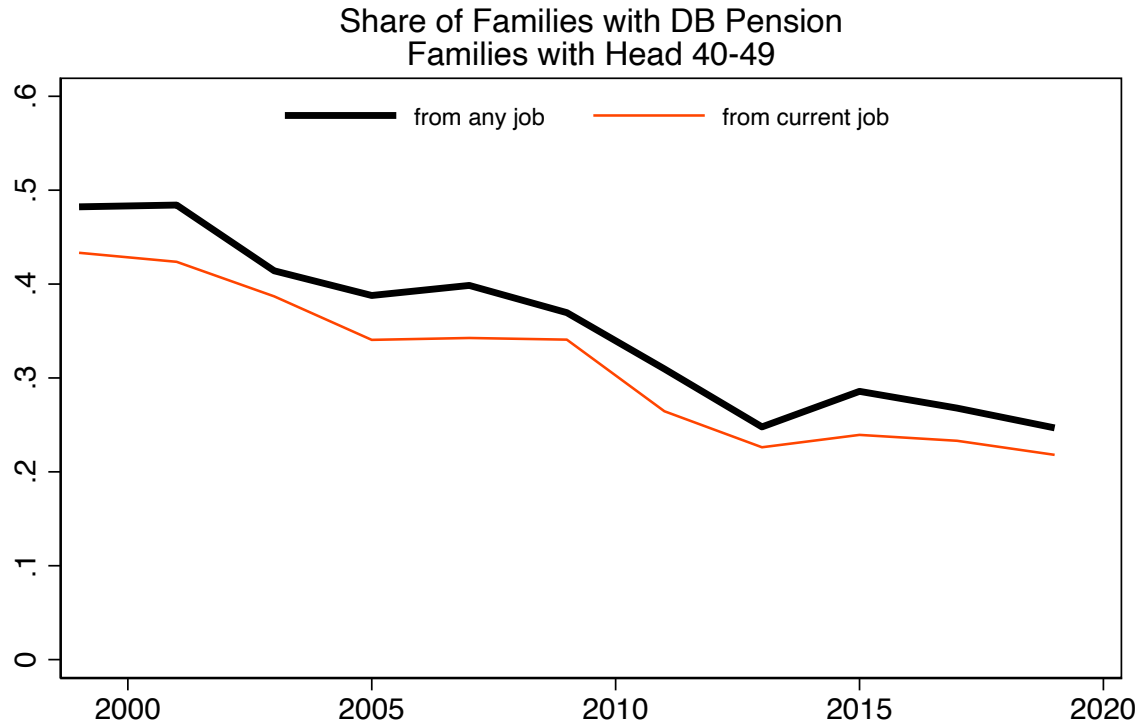
75th Percentile of Nonhousing Wealth Relative to Income  
Families with Head 50-59



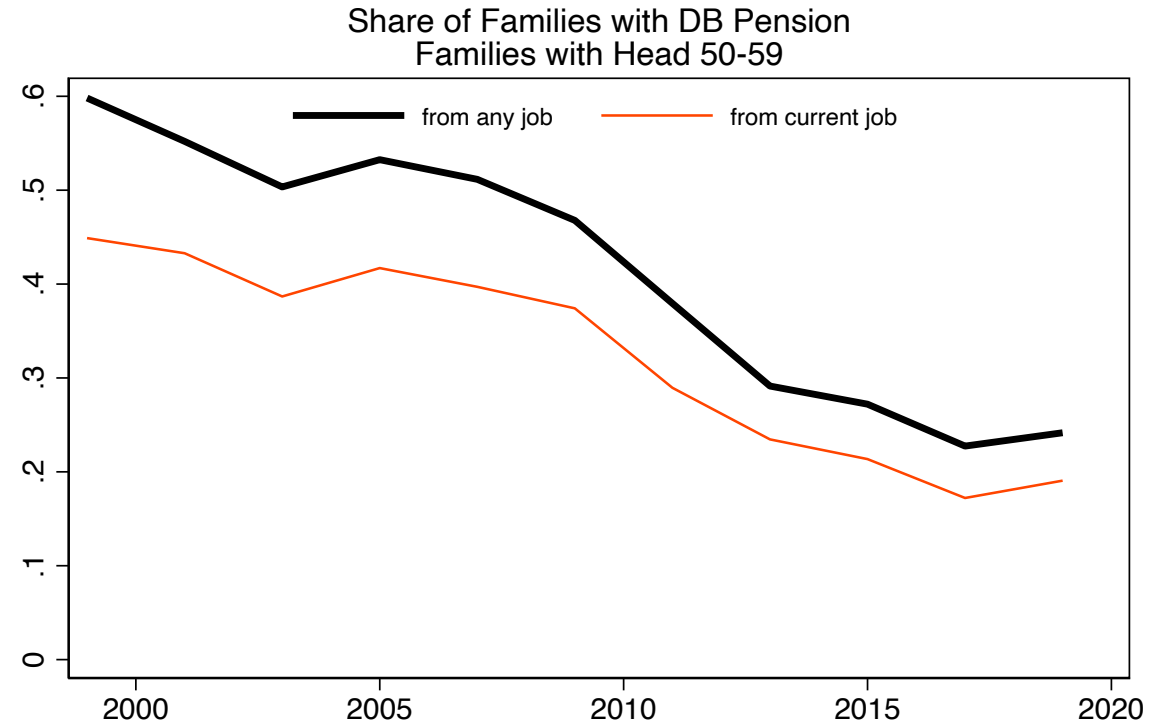
Full sample with weights; better wealth series has imputations for people with missing DC data.

# The Evolution of Family Wealth During the Past 20 Years

# Defined-benefit pensions have diminished sharply ...



Full sample with weights; includes DB pensions for head and spouse.

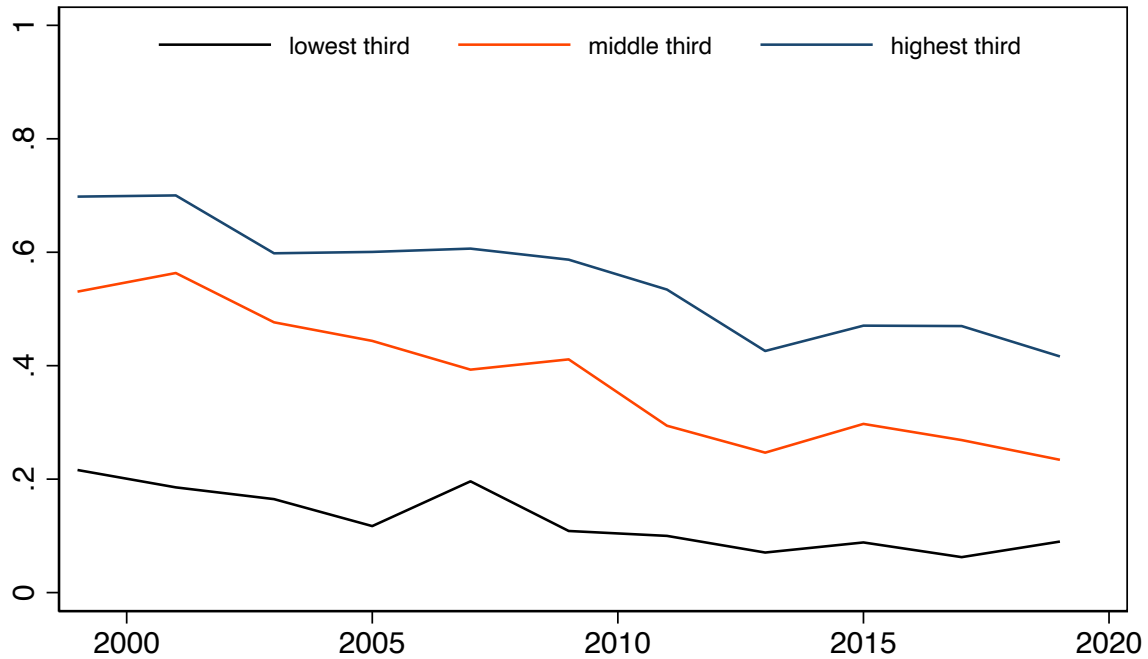


Full sample with weights; includes DB pensions for head and spouse.



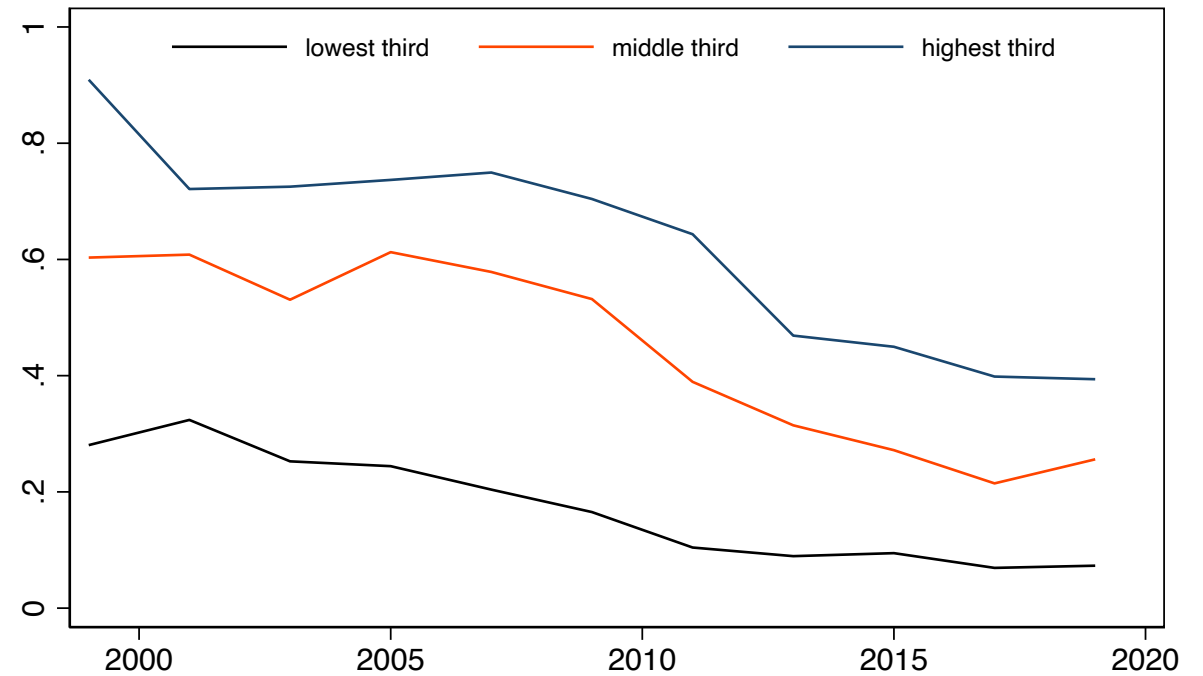
# ... across the income distribution

By Income: Share of Families with DB Pension(s)  
Families with Head 40-49



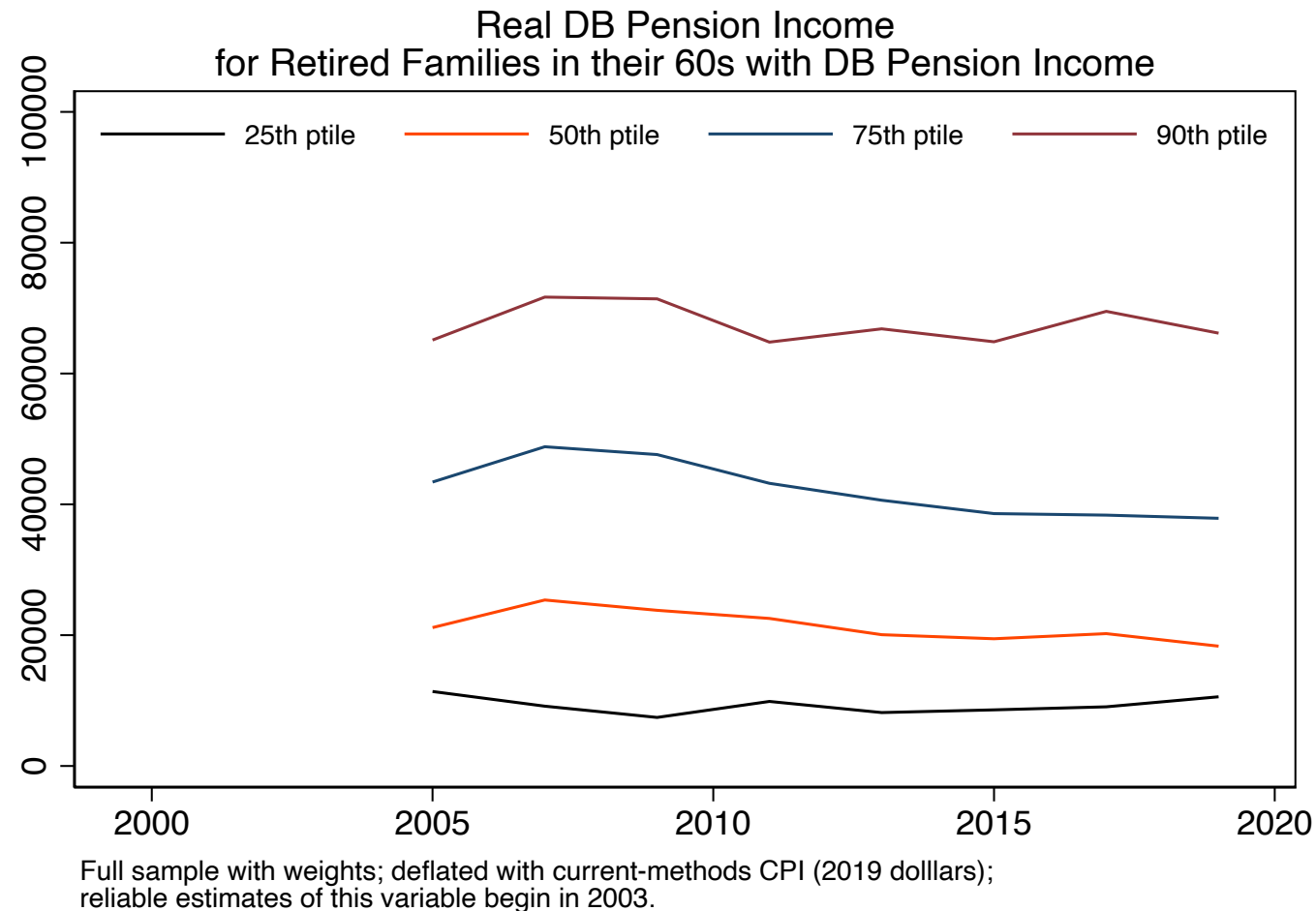
Full sample with weights; DB pensions for head and spouse, current and past jobs.

By Income: Share of Families with DB Pension(s)  
Families with Head 50-59



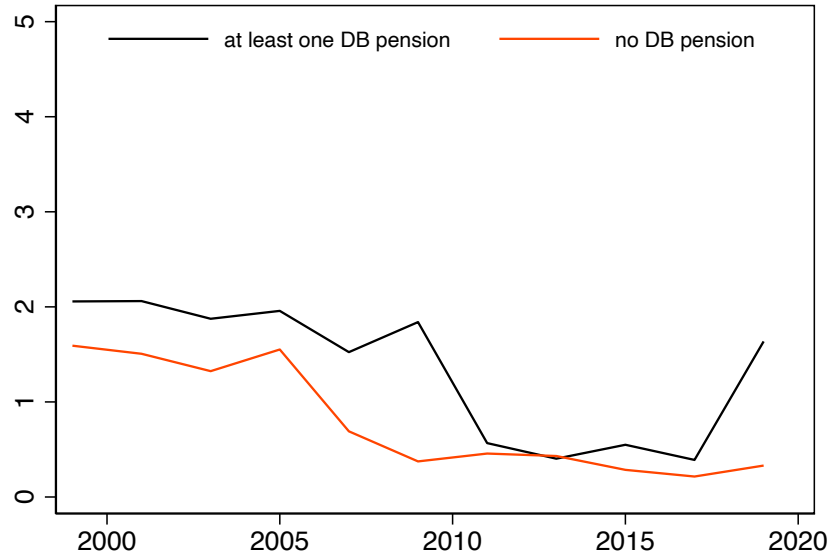
Full sample with weights; DB pensions for head and spouse, current and past jobs.

# DB pensions traditionally have provided significant retirement income



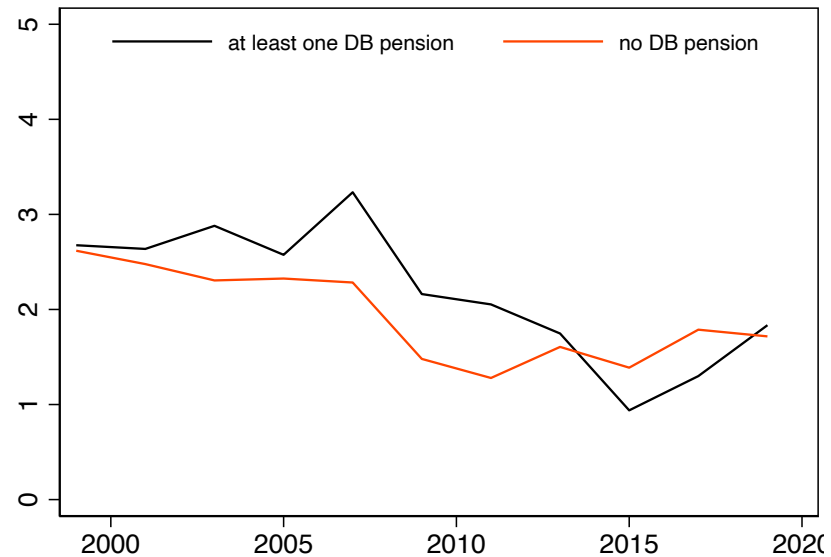
# Families without DB pensions do not save more

Income Tercile 1  
By Whether Family Has DB: Median Wealth-to-Income  
Families with Head 50-59



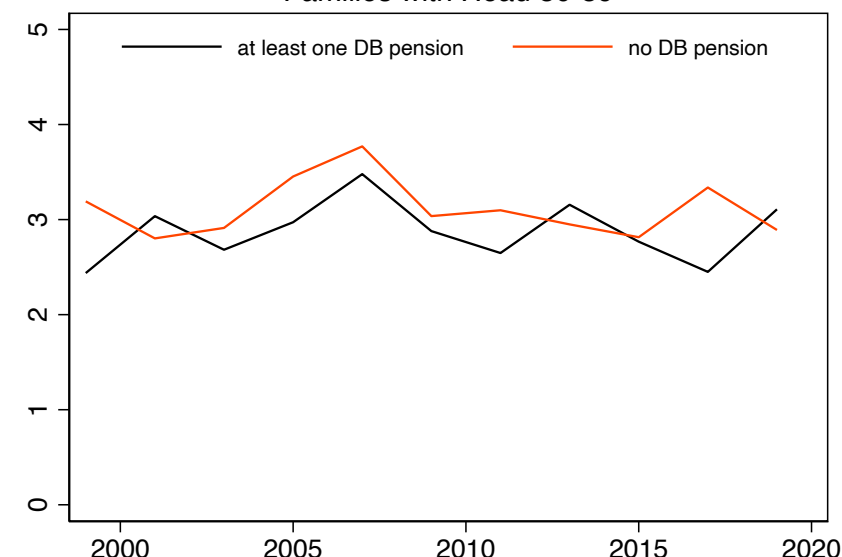
Full sample with weights; terciles based on previous year money income.

Income Tercile 2  
By Whether Family Has DB: Median Wealth-to-Income  
Families with Head 50-59



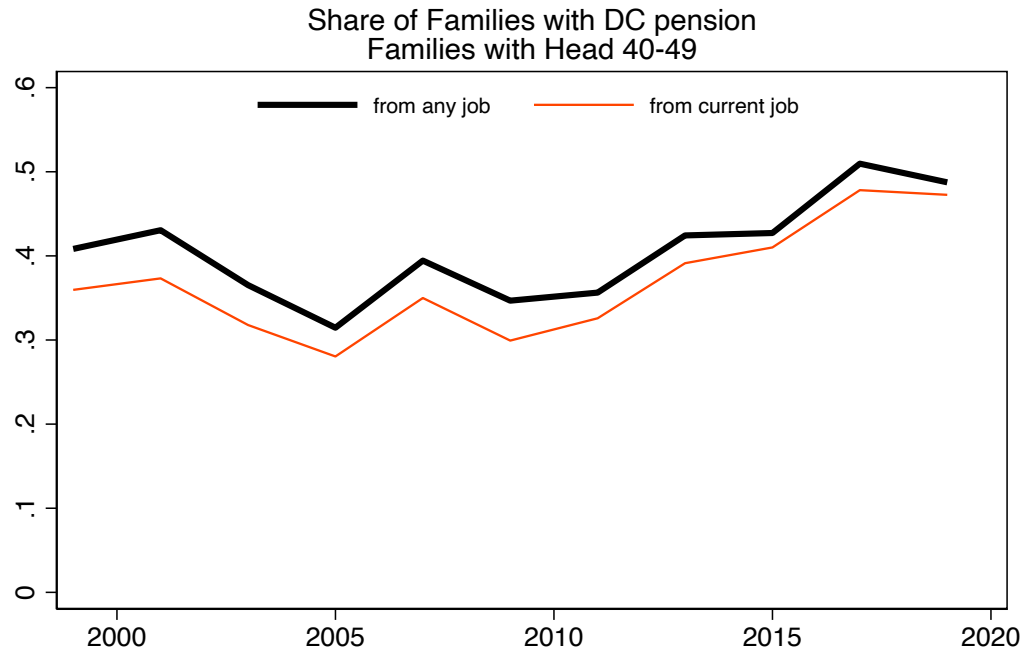
Full sample with weights; terciles based on previous year money income.

Income Tercile 3  
By Whether Family Has DB: Median Wealth-to-Income  
Families with Head 50-59

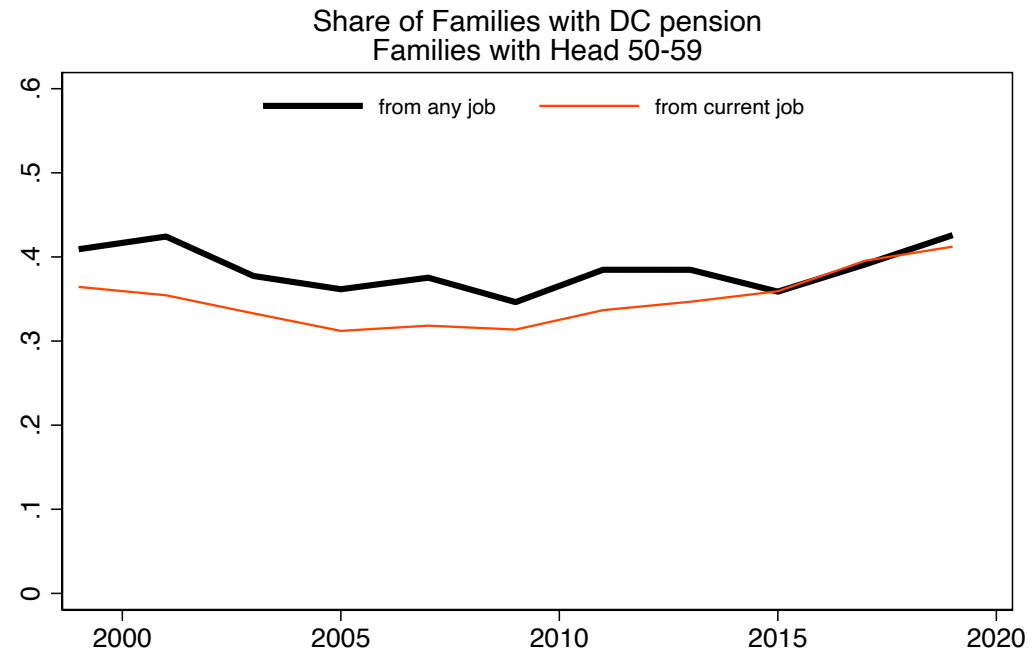


Full sample with weights; terciles based on previous year money income.

# Defined-contribution pensions have not expanded very much in the 2000s

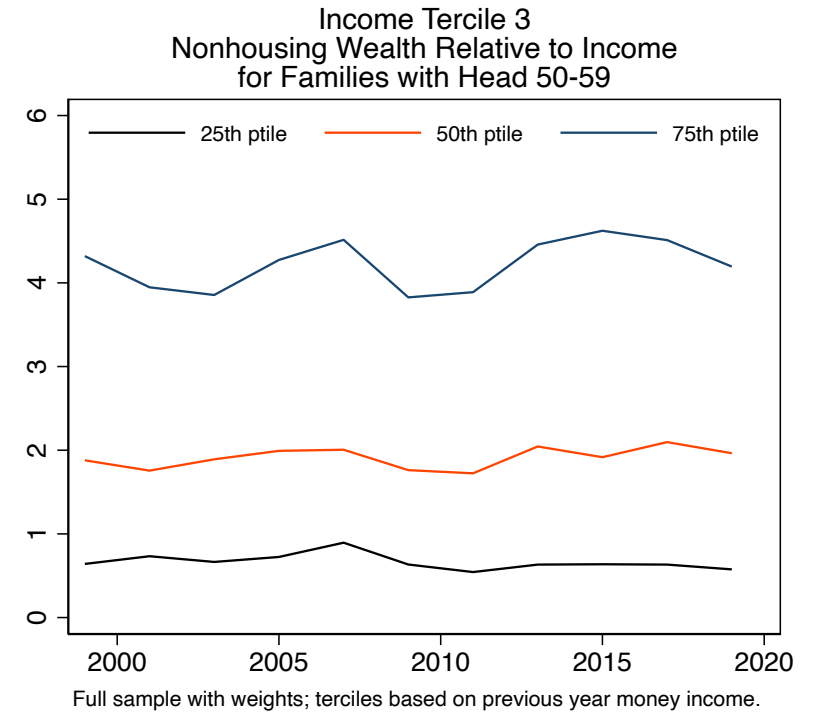
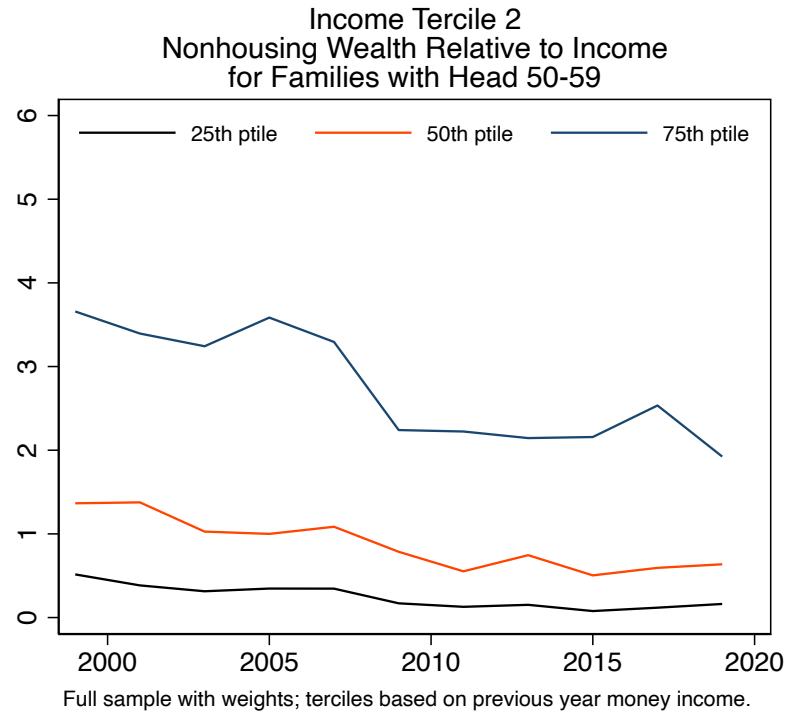
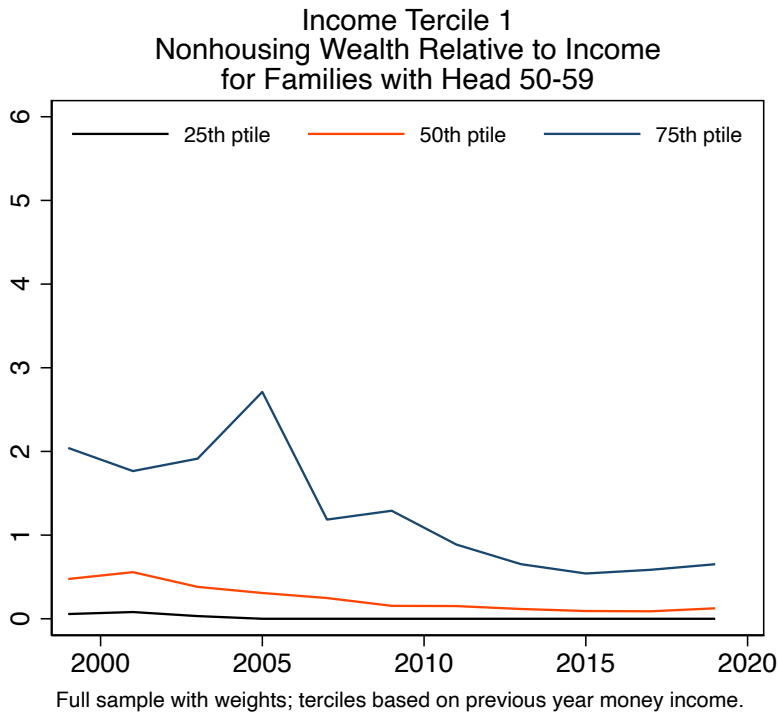


Full sample with weights; includes DB pensions for head and spouse.

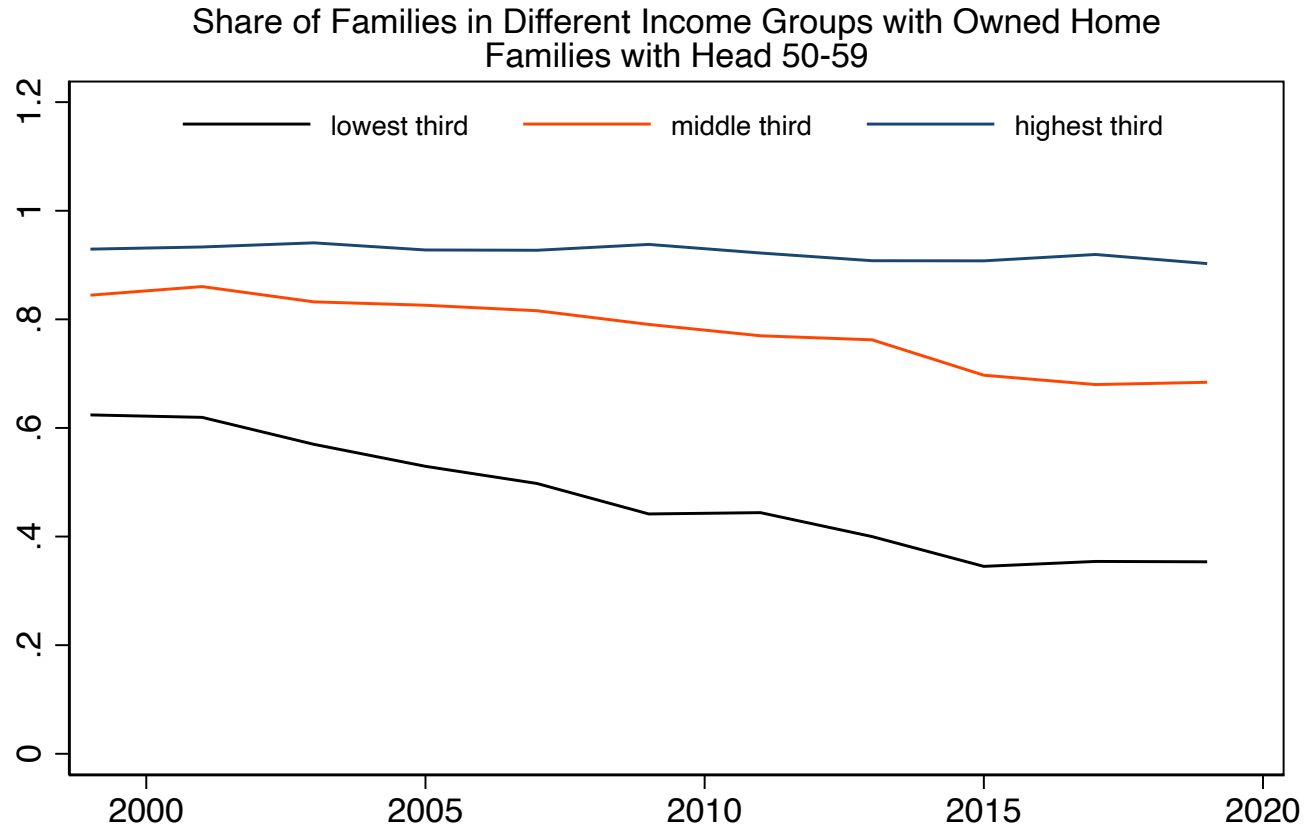


Full sample with weights; includes DB pensions for head and spouse.

# Nonhousing wealth has declined relative to income for lower- and middle-income families

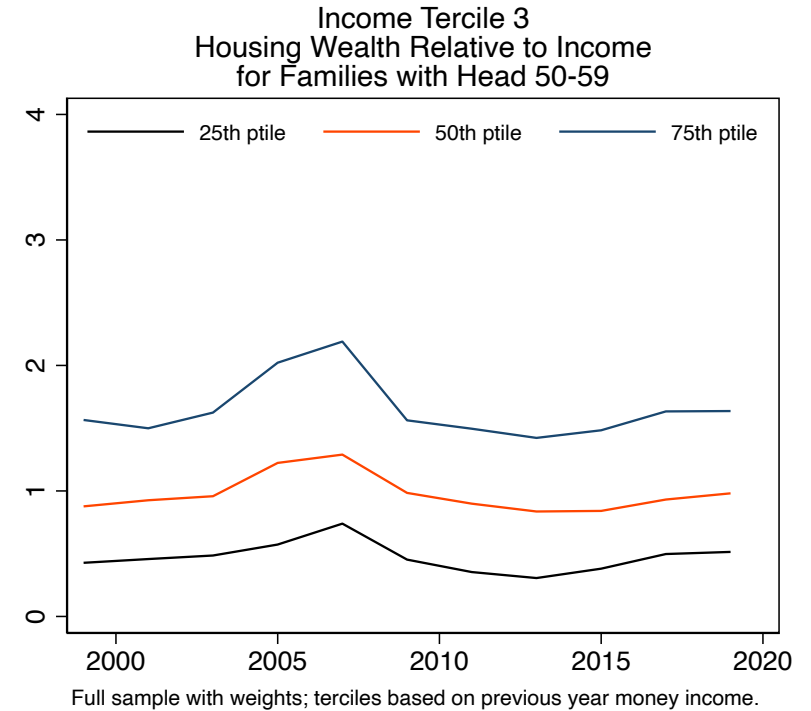
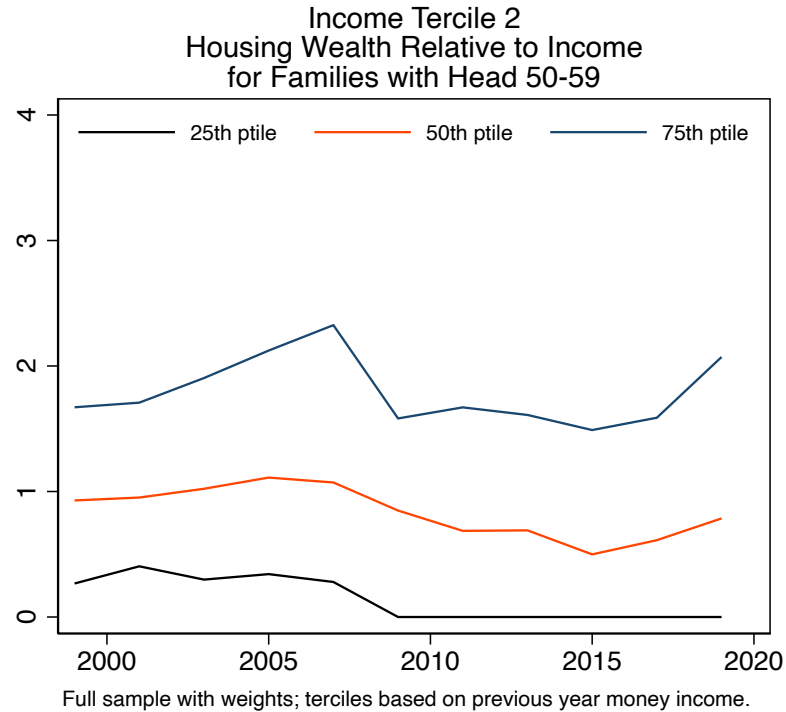
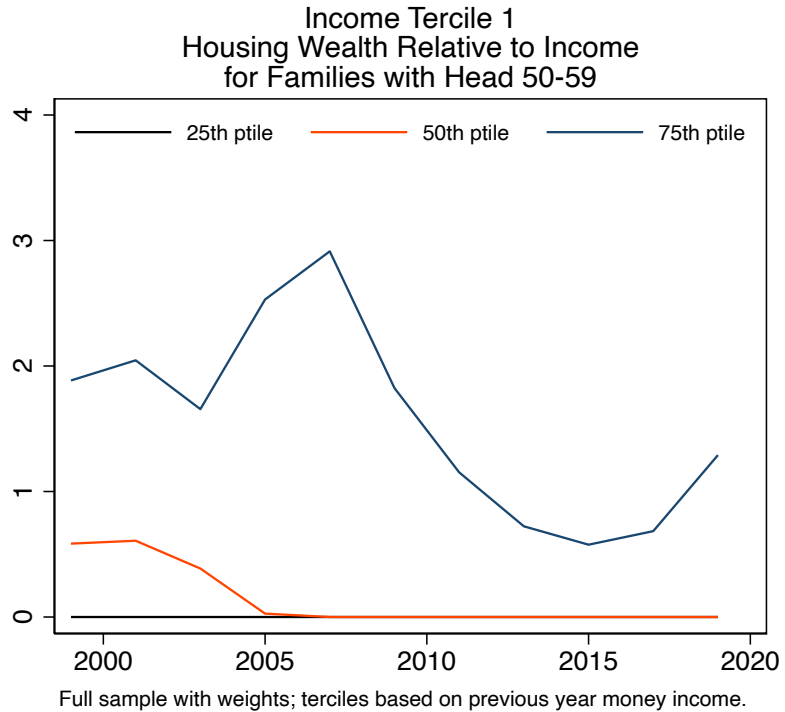


# Homeownership has fallen for lower- and middle-income families ...

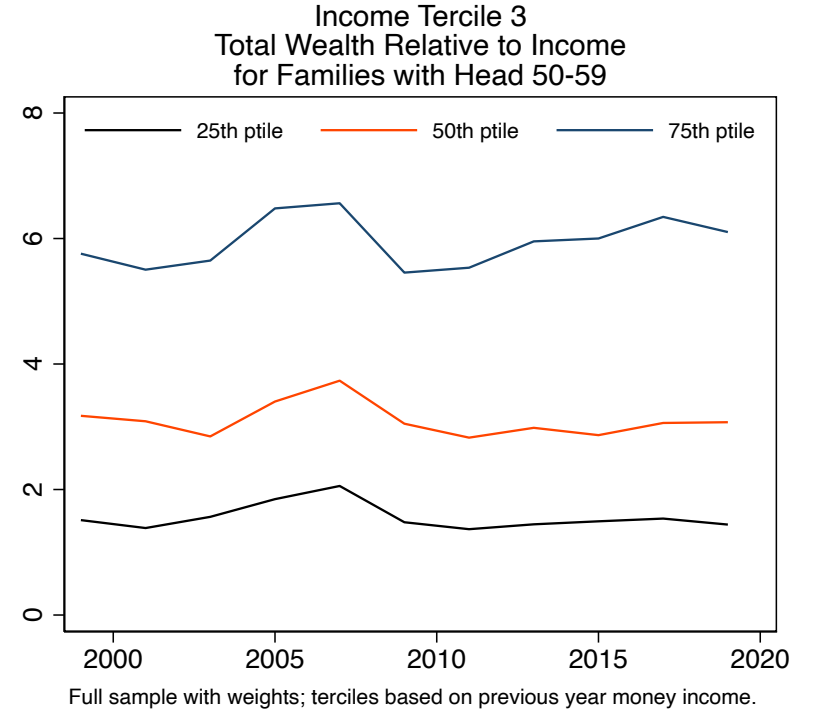
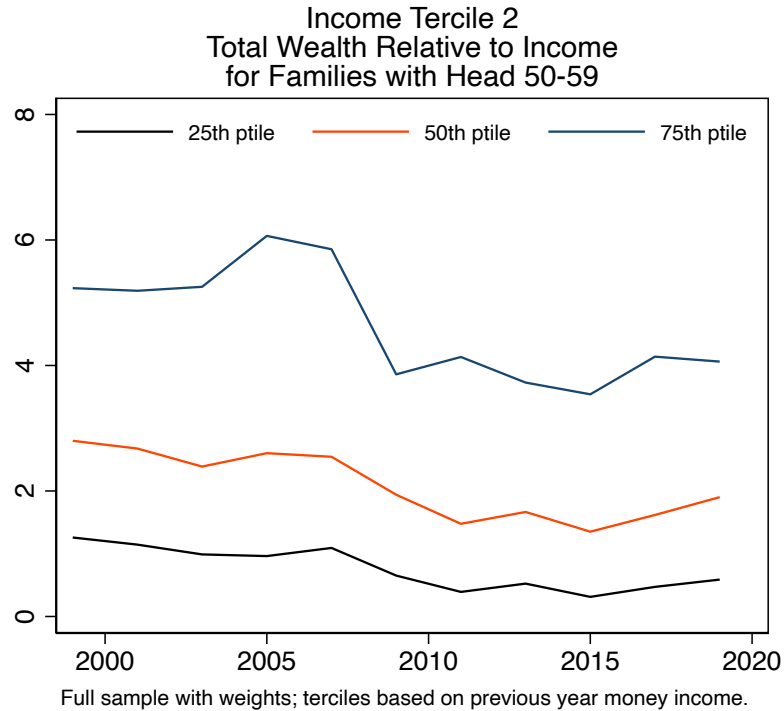
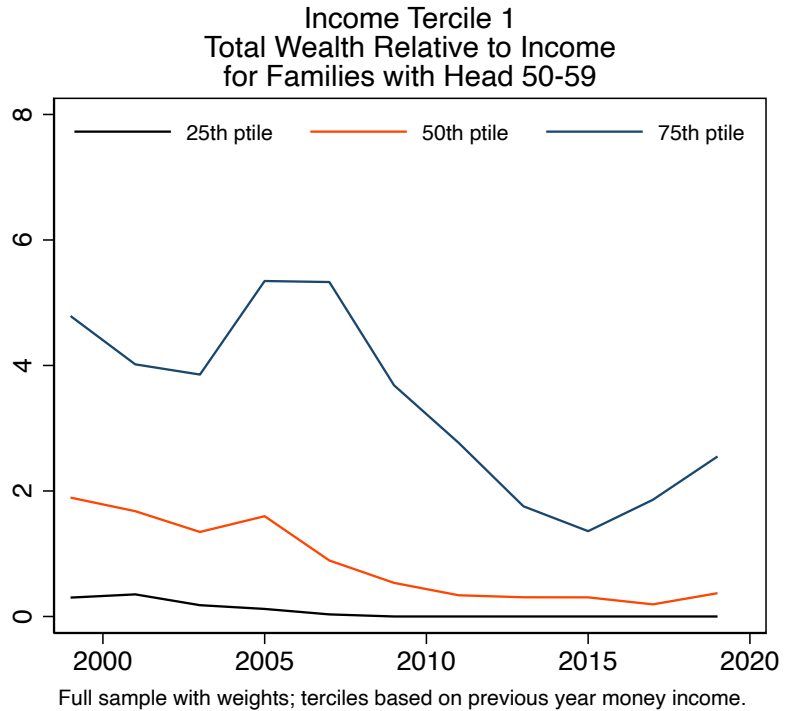


Full sample with weights.

# ... and housing wealth has fallen for lower-income families

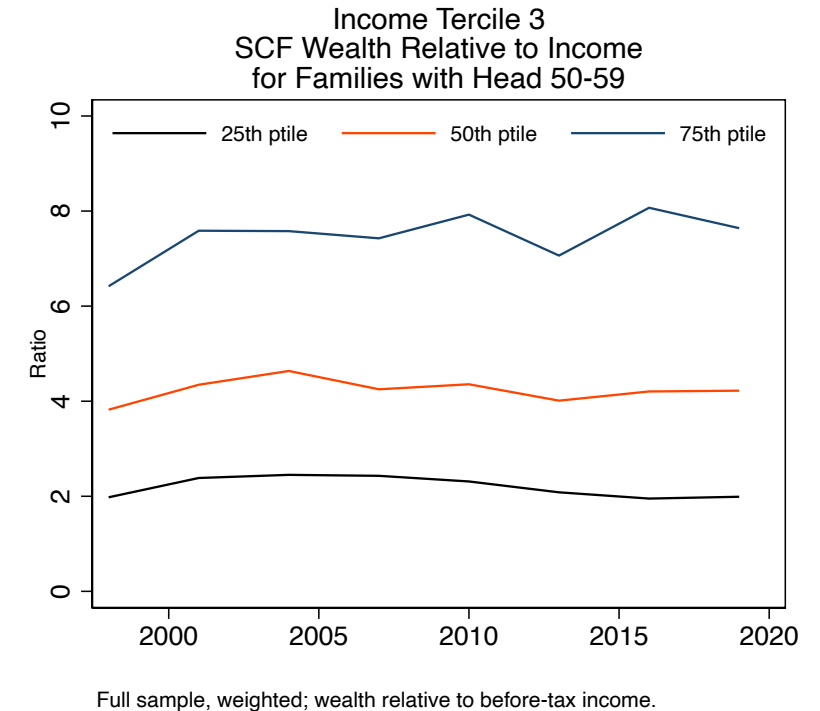
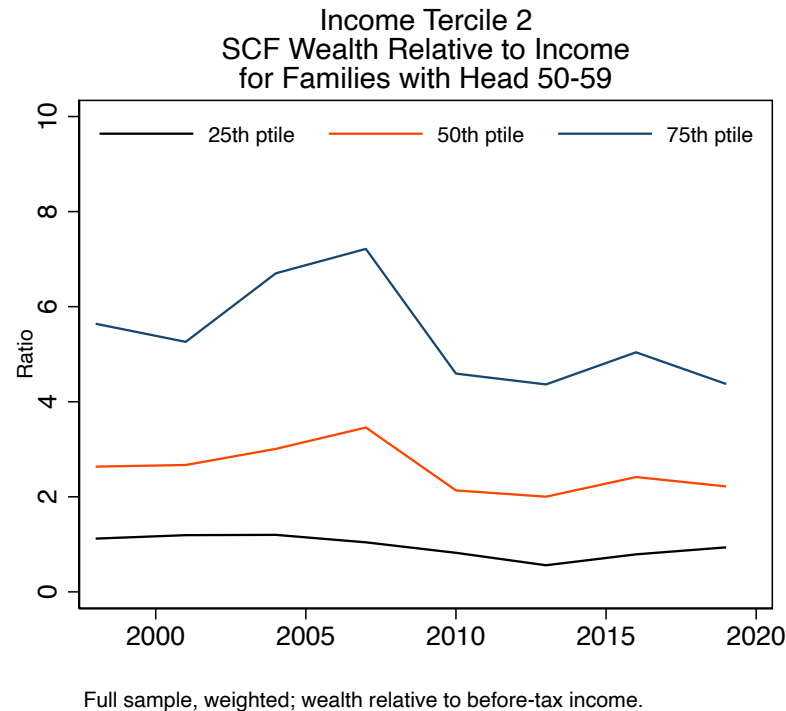
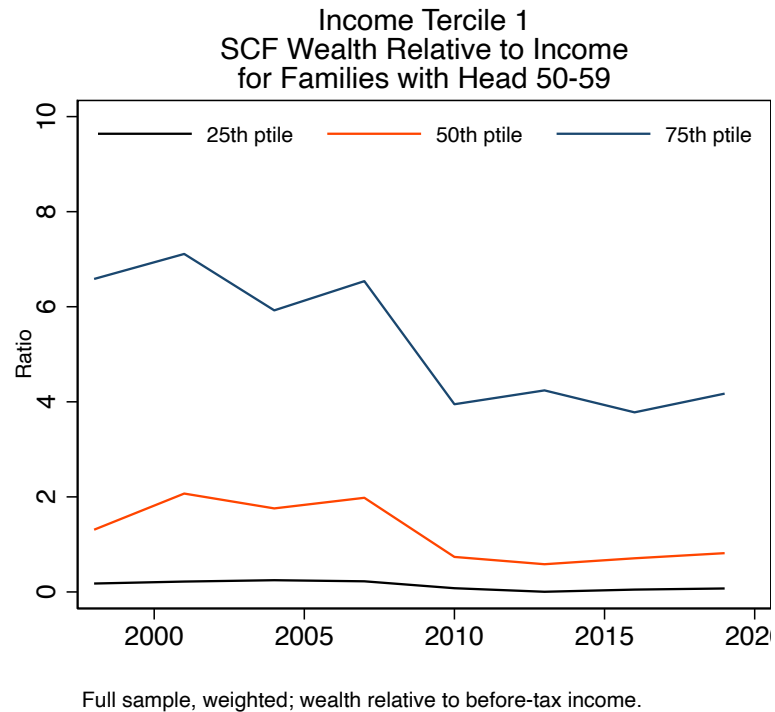


# Total wealth has declined relative to income for lower- and middle-income families



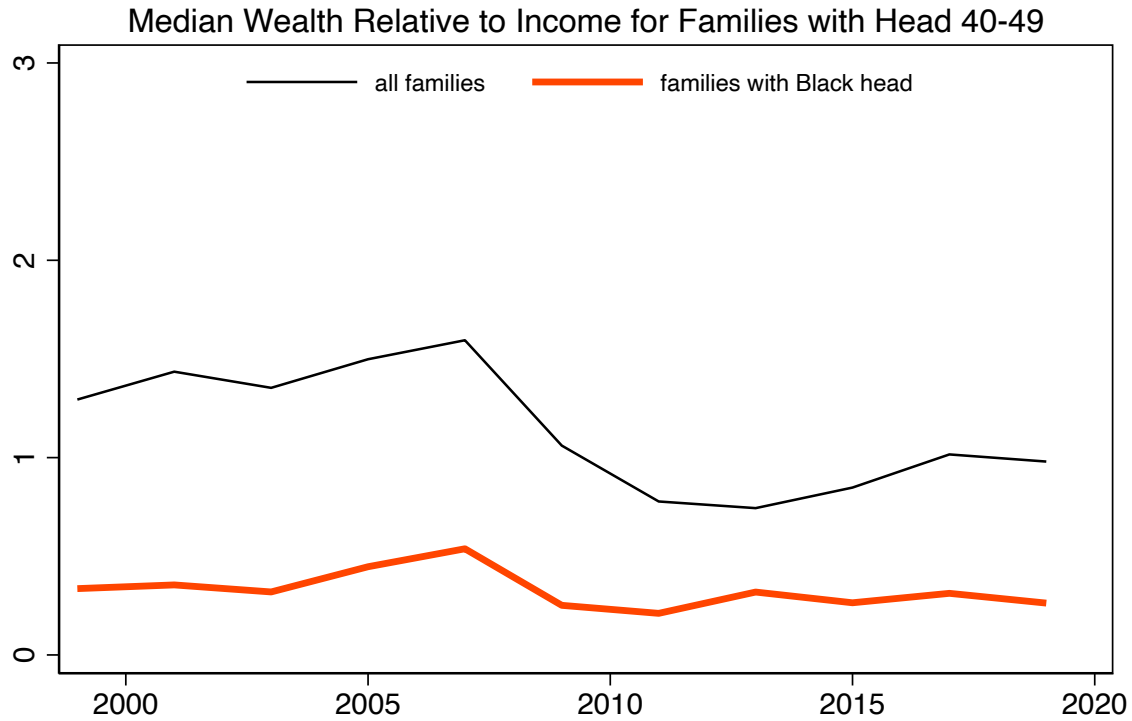


# Levels of wealth in the SCF are a bit higher relative to income but patterns over time are similar

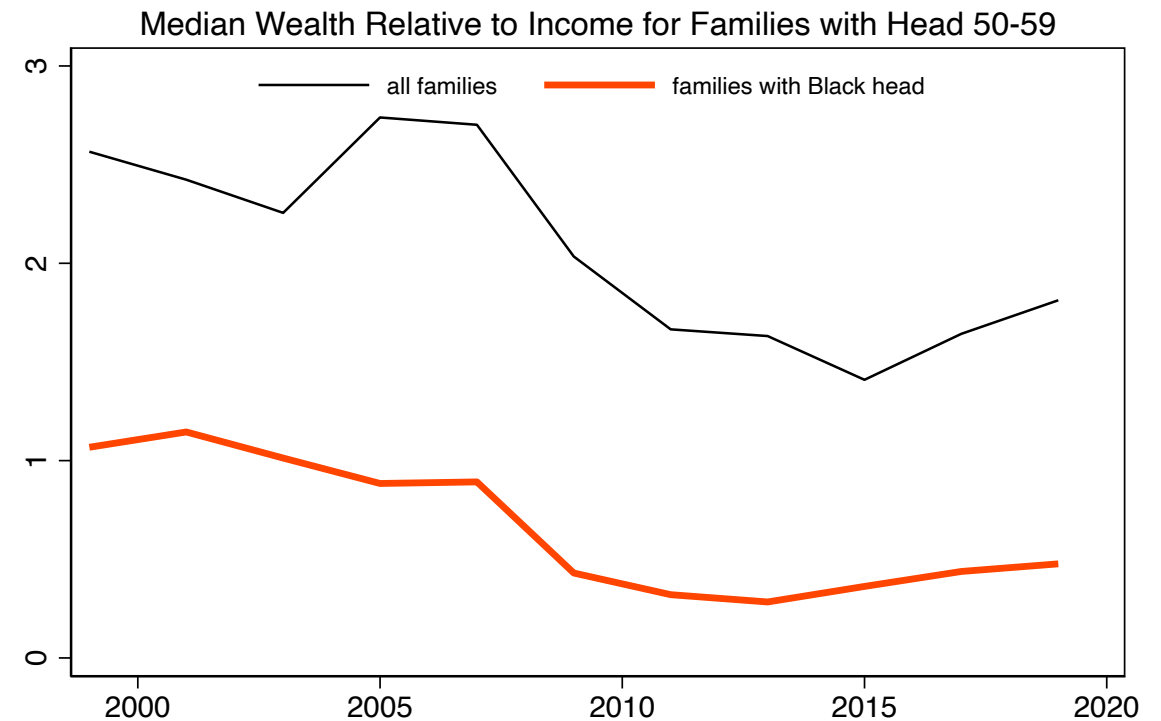


# Family Wealth for Different Groups

# Total wealth for families with Black heads has declined

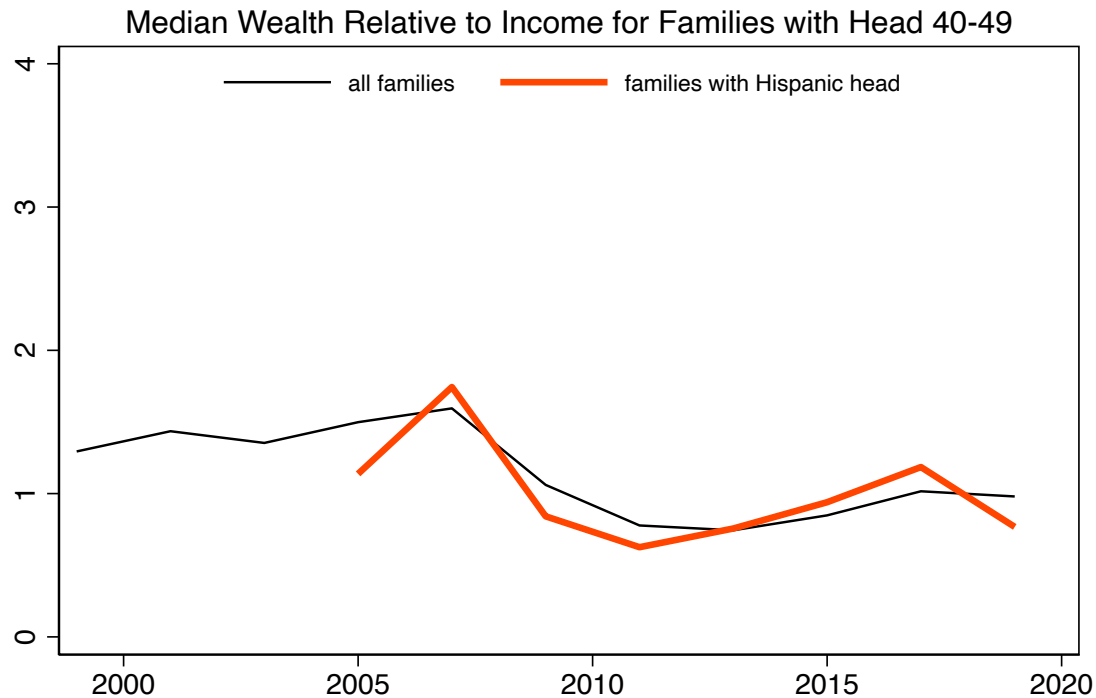


Full sample with weights; Wealth relative to average money income in t-1 and t-3.

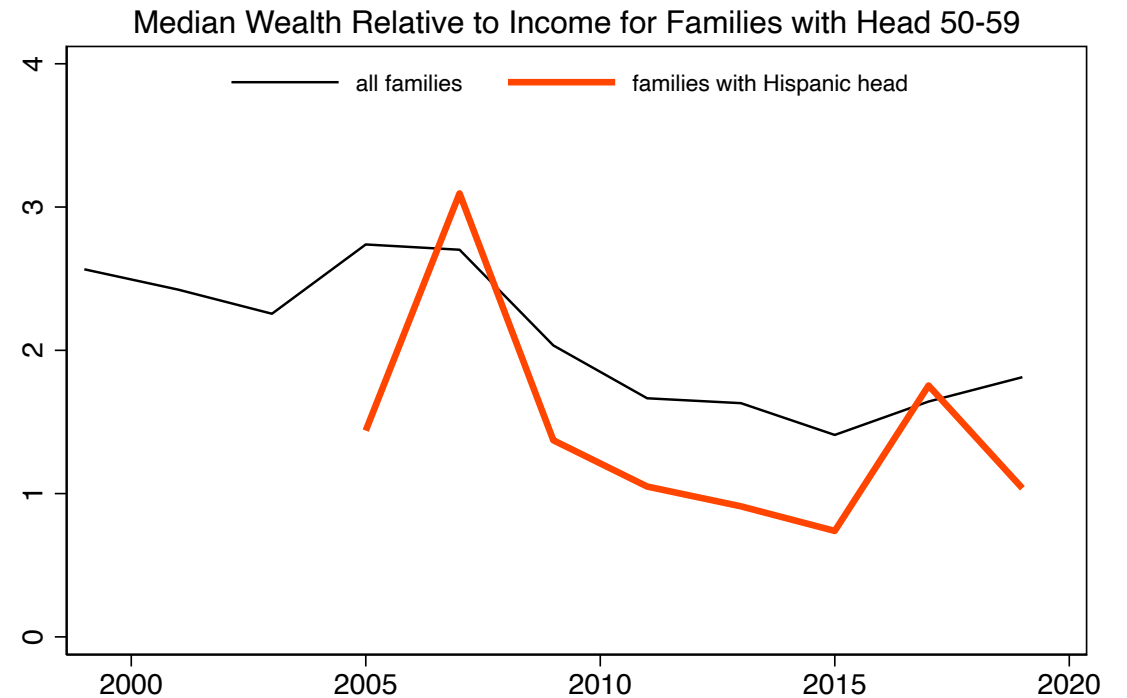


Full sample with weights; Wealth relative to average money income in t-1 and t-3.

# Total wealth for families with Hispanic heads has declined

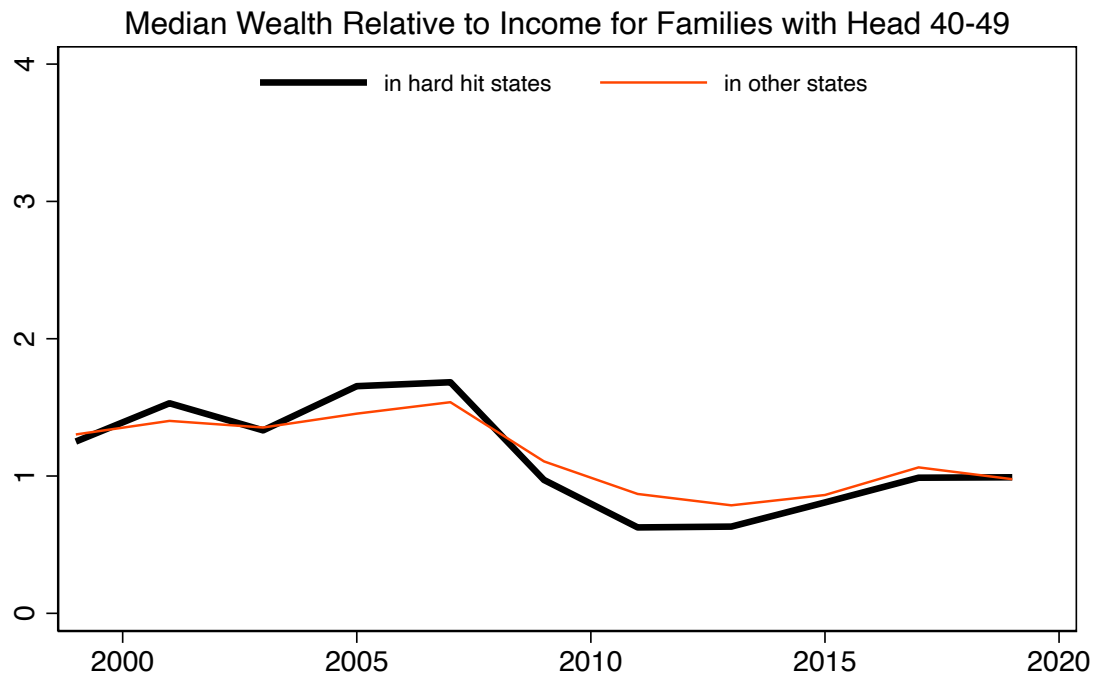


Full sample with weights; Wealth relative to average money income in t-1 and t-3.

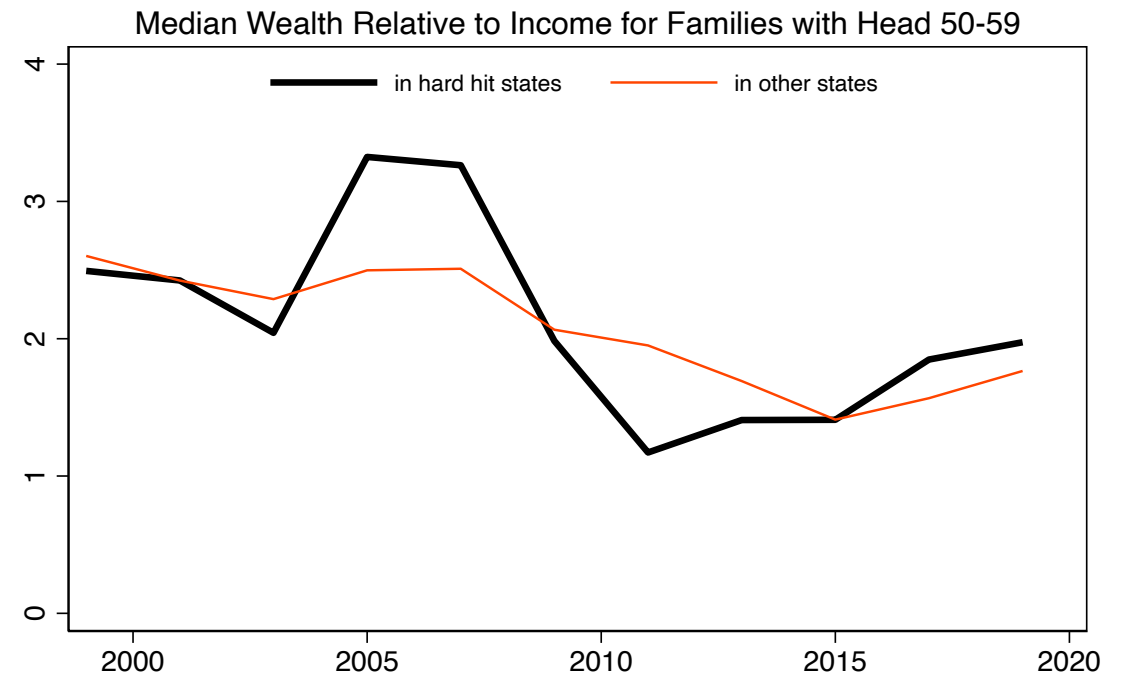


Full sample with weights; Wealth relative to average money income in t-1 and t-3.

# Total wealth for families in states hard hit by the Great Recession has been volatile but ends close to total wealth for households in other states

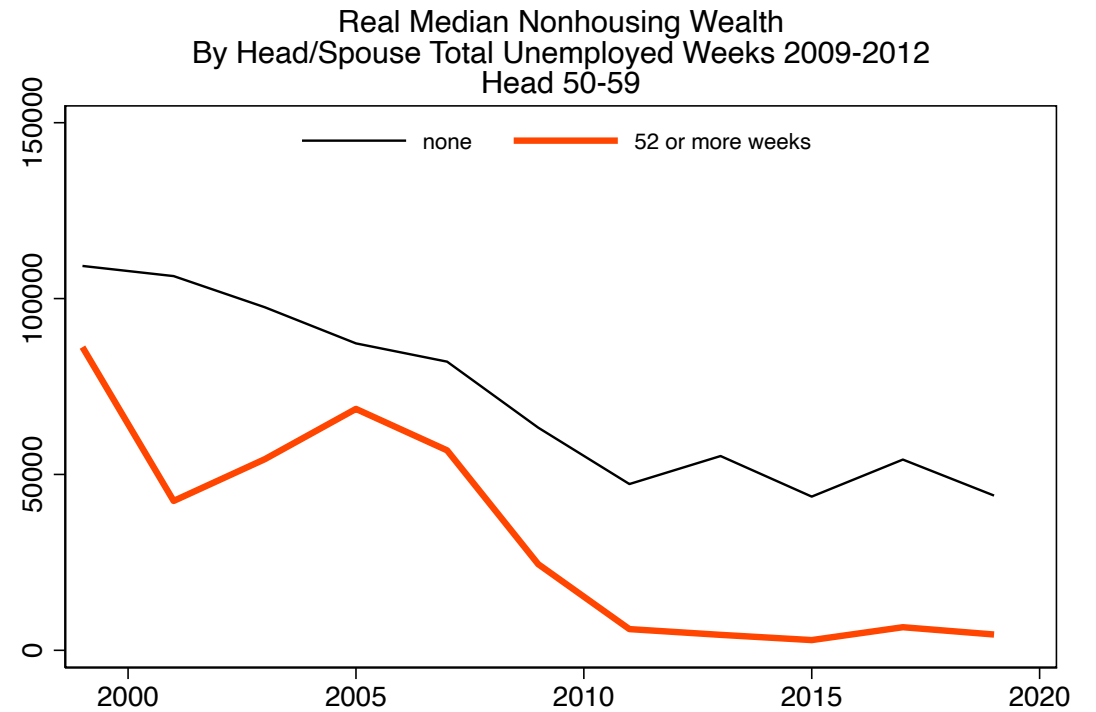
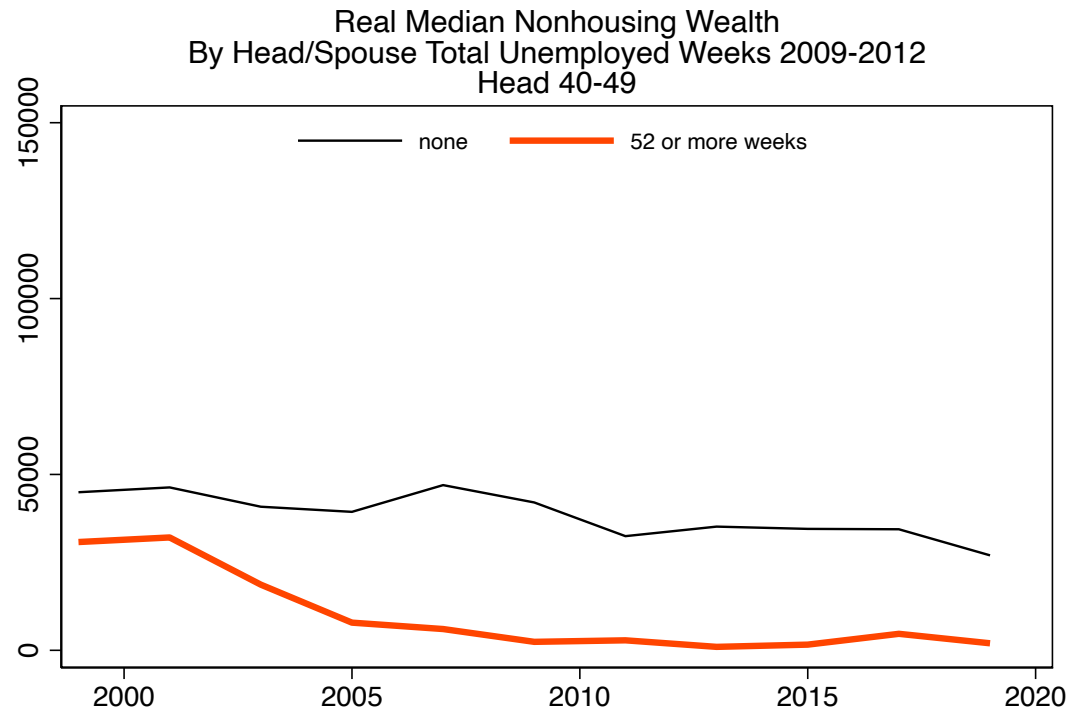


10 hardest hit states in terms of GR unemployment: NV, MI, FL, AL, CA, AZ, NC, OR, RI, IL;  
Wealth relative to average money income in t-1 and t-3.



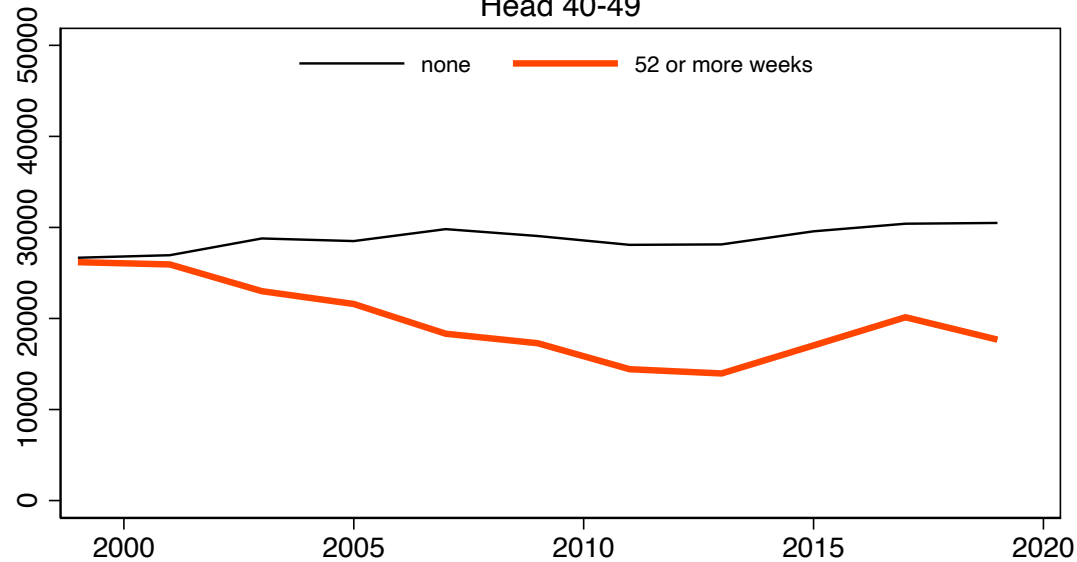
10 hardest hit states in terms of GR unemployment: NV, MI, FL, AL, CA, AZ, NC, OR, RI, IL;  
Wealth relative to average money income in t-1 and t-3.

# Families who experienced prolonged job loss during the Great Recession show lasting scars in their wealth



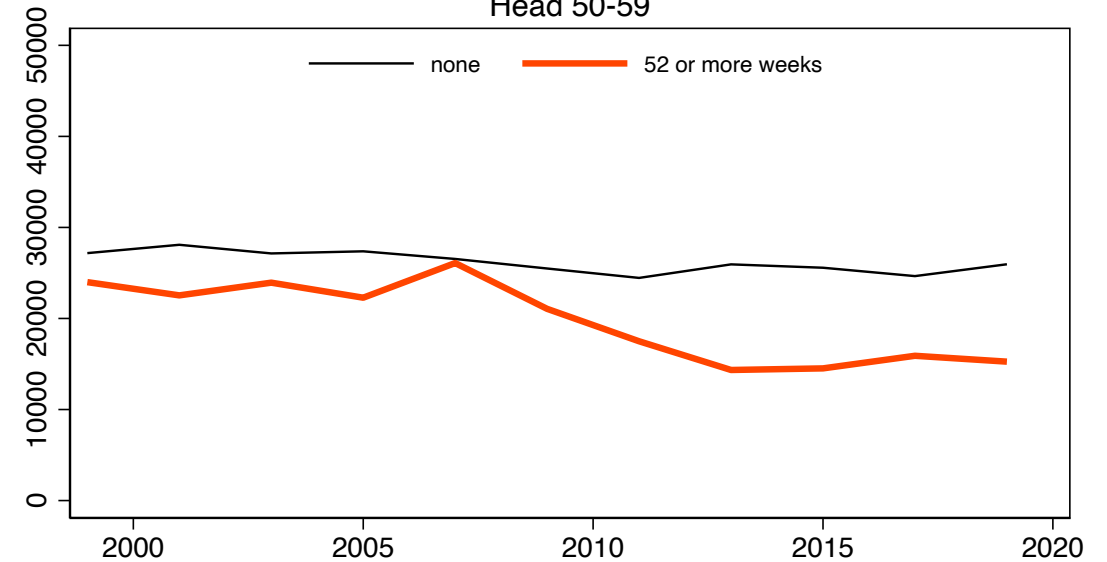
# Families who experienced prolonged job loss during the Great Recession show lasting scars in their consumption

Real Median Nonhousing Consumption  
By Head/Spouse Total Unemployed Weeks 2009-2012  
Head 40-49



Nonhousing consumption includes food, out-of-pocket medical, utilities, vehicle lease and loan, vehicle downpayments, other vehicle expenses, gasoline, parking, other transportation, education, and childcare.

Real Median Nonhousing Consumption  
By Head/Spouse Total Unemployed Weeks 2009-2012  
Head 50-59

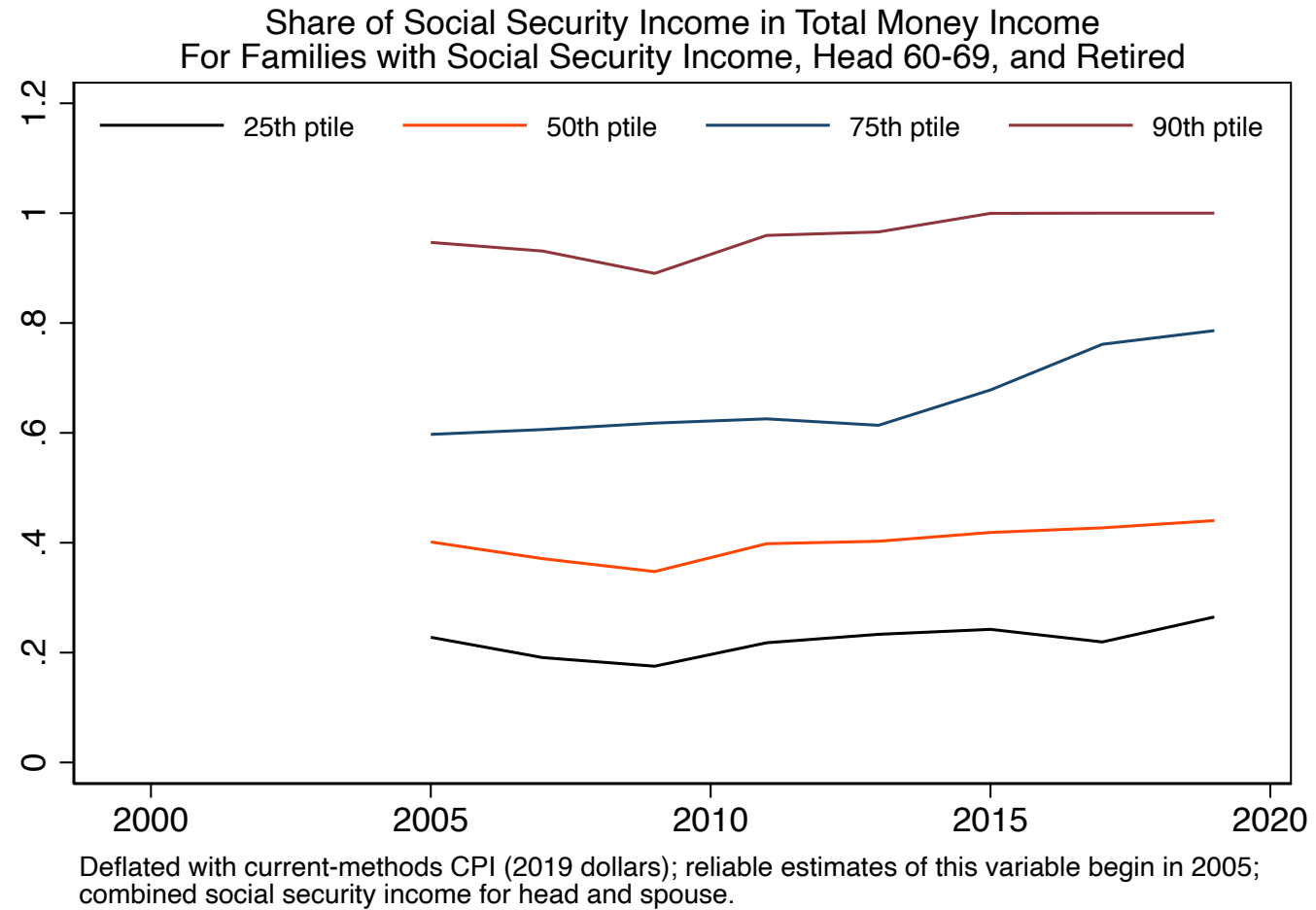


Nonhousing consumption includes food, out-of-pocket medical, utilities, vehicle lease and loan, vehicle downpayments, other vehicle expenses, gasoline, parking, other transportation, education, and childcare.

# Calculations of Preparedness for Retirement



# Social Security provides significant retirement income



# Future calculations and current calculations

The PSID includes sufficient detail on income over time to allow for a reasonable estimate of Social Security wealth and a rough estimate of defined benefit pension wealth for each family

Combining those estimates with the data on financial wealth, we will be able to estimate retirement-income replacement rates for each family

For now, we have done some rough calculations of replacement rates to give a sense of preparedness for retirement

# Rough calculations of retirement-income replacement rates for families in their 50s

Numerator for each family is the sum of:

an estimate of the family's future annual withdrawal from wealth (for now, equal to  $0.04 * [\text{financial wealth plus housing wealth}]$ )

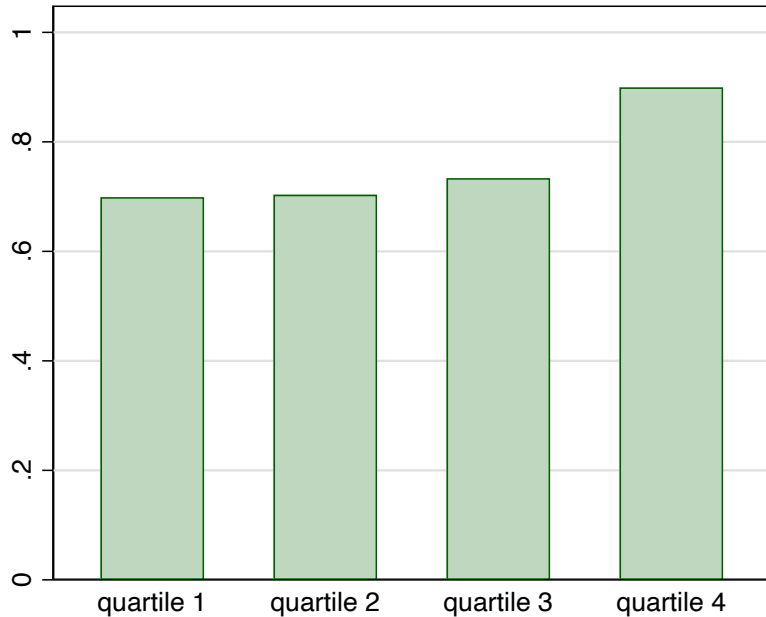
an estimate of the family's future annual DB pension income (for now, if they have a DB pension, a random draw from the distribution of DB pension income in their income tercile)

an estimate of the family's future annual Social Security income (for now, based on CBO's estimate of SS replacement rates—exhibit 11 of [this](#) report)

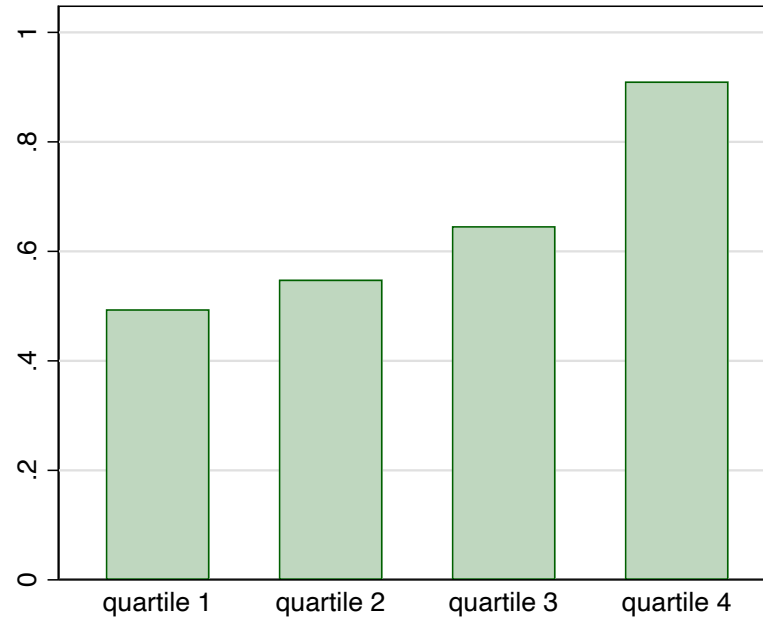
Denominator for each family is its average income thus far in their 50s

# Rough guesses of retirement-income replacement rates for families in their 50s

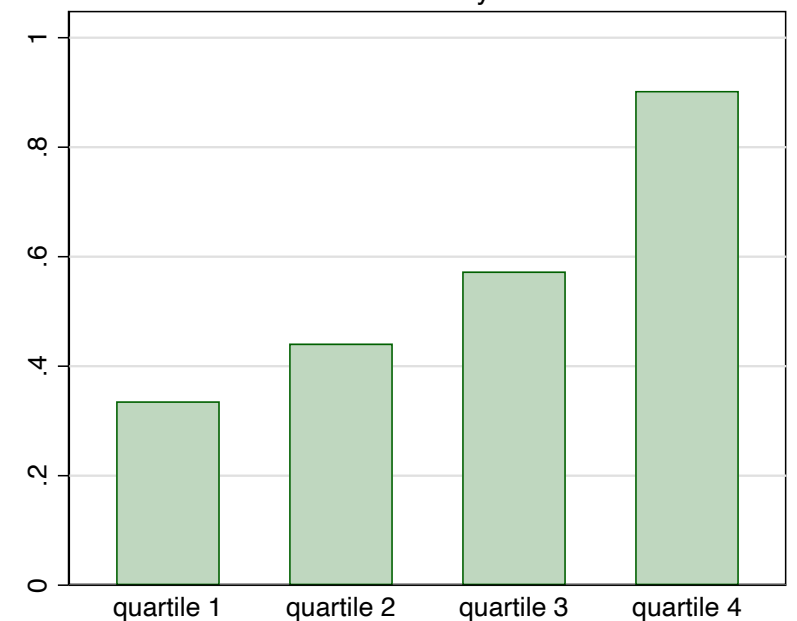
Income Tercile 1  
Estimate of Median Retirement Income Replacement Rates for Families Currently in their 50s



Income Tercile 2  
Estimate of Median Retirement Income Replacement Rates for Families Currently in their 50s



Income Tercile 3  
Estimate of Median Retirement Income Replacement Rates for Families Currently in their 50s



# Conclusion

# Many households on the cusp of retirement will be dependent on Social Security benefits

During the past two decades, wealth has declined relative to income ...

- ... for many lower- and middle-income families

- ... for many families with Black or Hispanic heads

- ... for many families who experienced prolonged job loss in the Great Recession

Also, defined benefit pensions have diminished sharply across the income distribution

**Therefore**, many families—especially in the lower- and middle parts of the income distribution—will be even more dependent on Social Security benefits than before

# Even with current-law Social Security benefits, many households are not financially prepared for retirement

Based on current rough estimates, retirement-income replacement rates appear to be under 60 percent for many middle- and upper-income families in their 50s

**Therefore**, any future reduction in Social Security benefits—even if concentrated among higher-income families—could significantly constrain consumption in retirement unless offset by higher private saving

# Future work

Use more of the information in the PSID to generate more accurate estimates of retirement-income replacement rates and estimates of consumption replacement rates for each family

Examine how consumption in retirement has changed over time (possibly showing increasing or decreasing hardship)

Incorporate 2021 data when it becomes available (should be interesting!)