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# How Gloomy Is the Retirement Outlook for Millennials?

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# Changes in retirement programs and ongoing economic and social trends raise concerns about the financial security of future retirees

- The increase in Social Security's full retirement age cuts benefits for future retirees
- Private-sector employers have moved away from DB pensions
- Labor supply has been falling among middle-aged men, and earnings have been stagnant for lower- and moderate-income men
- Future retirees will need more money as health care costs and indebtedness rise and as retirees' life expectancy grows

# But other trends are more encouraging

- Women who retire in coming decades will have worked in paid employment longer and earned more than previous generations
- Increases in the national average wage raise Social Security payments for all beneficiaries
- The shrinking gender gap in life expectancy will reduce the share of widows in the older population, who have high poverty rates
- People are working longer than previous generations

# We assess retirement prospects for future generations, focusing on early millennials (born between 1981 and 1985)

- The first part of our analysis uses household survey data from the past five decades to compare employment, earnings, pension coverage, and household wealth at younger ages for several generations
    - Are more recent generations on track to a successful retirement?

- The second part of our analysis uses a dynamic microsimulation to project retirement incomes for future generations

# In the first part of the project, we compare outcomes at particular ages across generations

- We created synthetic birth cohorts by combining info from interviews completed in various years by respondents born in the same period
  - Current Population Survey's Annual Social and Economic Supplement (CPS)
    - Compare outcomes every 5 years, 1966 to 2021
    - 5-year birth cohorts: 1931-35 to 1981-85
    - Youngest cohort was ages 36 to 40 in 2021; oldest was 31 to 35 in 1966 and 86 to 90 in 2021
    - Outcomes: educational attainment, labor force participation, full-time employment, earnings, marriage
  - Survey of Consumer Finances (SCF)
    - Compare outcomes every 6 years, 1989 to 2019
    - 6-year birth cohorts: 1926-31 to 1980-85
    - Outcomes: total net worth, retirement account balances, financial wealth, home equity, debt

# Results from our household survey analysis are mixed

- Many recent trends are discouraging
  - Male labor force participation rates continue to decline before age 55
  - Men’s median wages have been stagnant for decades, although earnings for millennials seem to be growing
  - People born after 1970 are not accumulating wealth faster than those born in the 1960s
  - Great Recession reduced household wealth for nearly a decade
  - Debt levels remain higher than they were two decades ago, especially at older ages
  - Millennials are much less likely to own a home than previous generations
- Other trends are more encouraging
  - Millennial women worked and earned more in their 20s and 30s than now-retired women
  - Labor force participation has risen sharply at older ages
  - Millennial men and women are much more likely to have a four-year college degree
  - Millennials net worth appears to be on same trajectory as previous generations

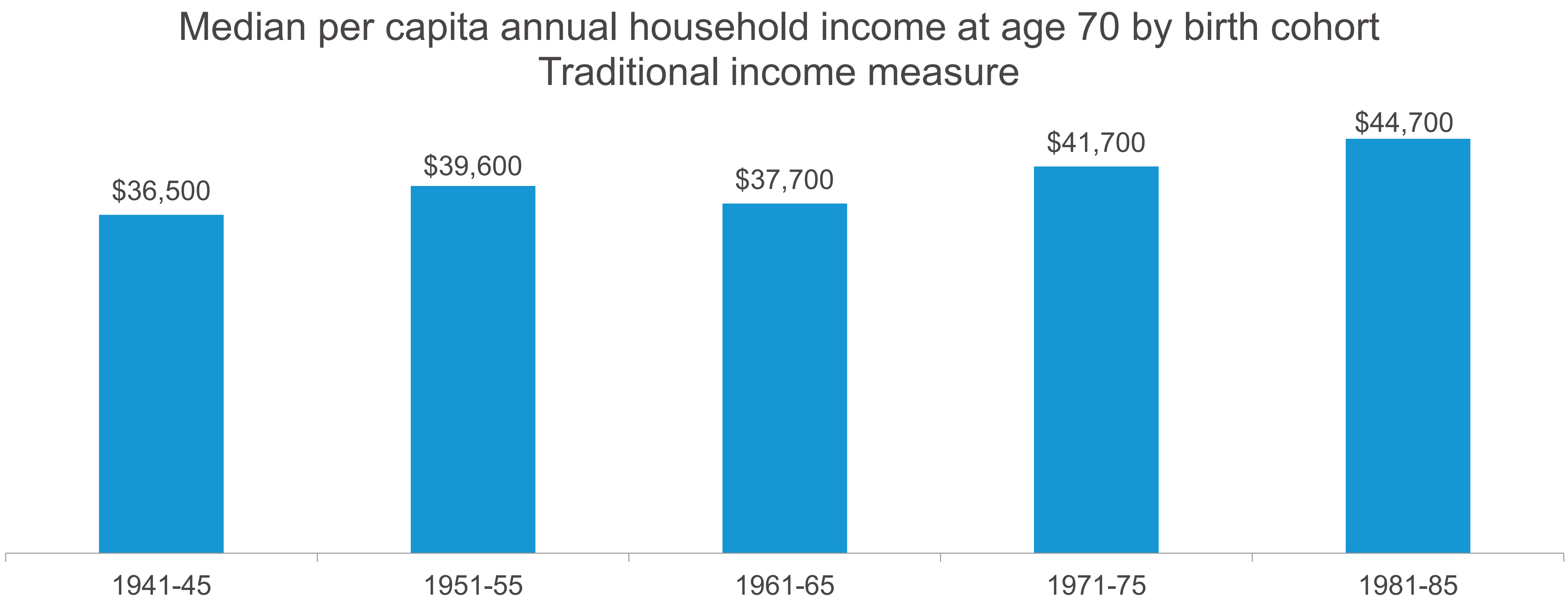
# In the second part of the project, we used Urban's DYNASIM4 model to project future retirement income

- DYNASIM4 starts with a representative sample of individuals and families from the 2004 and 2008 SIPP and ages them year by year
  - Simulates key demographic, economic, and health events
  - Transitions are based on probabilities generated by carefully calibrated equations estimated from household survey data
  - Equations account for differences by sex, education, earnings, and other characteristics
  - Model uses program rules to project Social Security, SSI, Medicare, and Medicaid benefits
  - We generally use the same assumptions as the Social Security and Medicare trustees
  - We assume here that scheduled Social Security benefits will be paid

# DYNASIM4 output

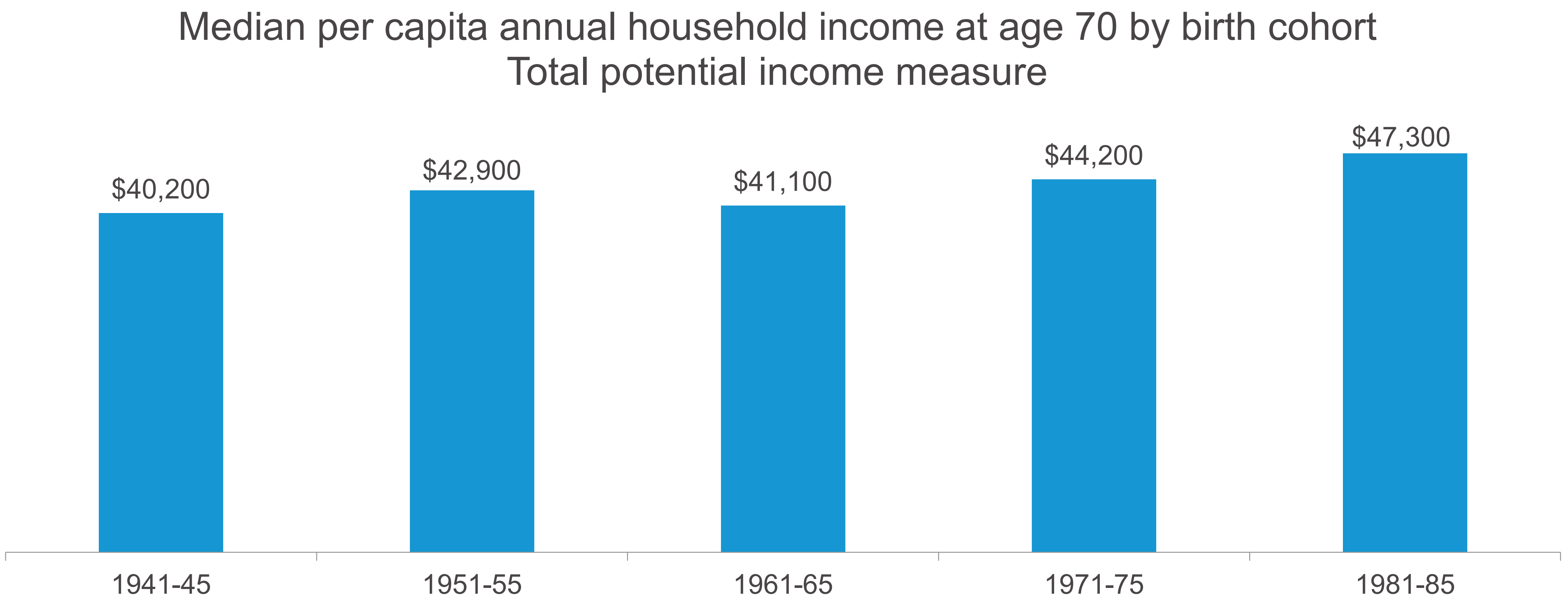
- We projected outcomes for five-year birth cohorts
  - 1941 to 1945 (pre-boomers)
  - 1951 to 1955 (early boomers)
  - 1961 to 1965 (late boomers)
  - 1971 to 1975 (Gen X)
  - 1981 to 1985 (early millennials)
- Compare inflation-adjusted income levels and replacement rates at age 70
  - For married people, we divided family income by two
  - To compute replacement rates, we divided age-70 income by average annual earnings received from ages 50 to 54
- Two measures of annual per capita family income at age 70
  - Traditional income: cash income plus money withdrawn from retirement accounts
  - Total potential income: adds income stream from annuitizing 80% of financial assets

# We project that median per capita family cash income at age 70 will generally increase over time



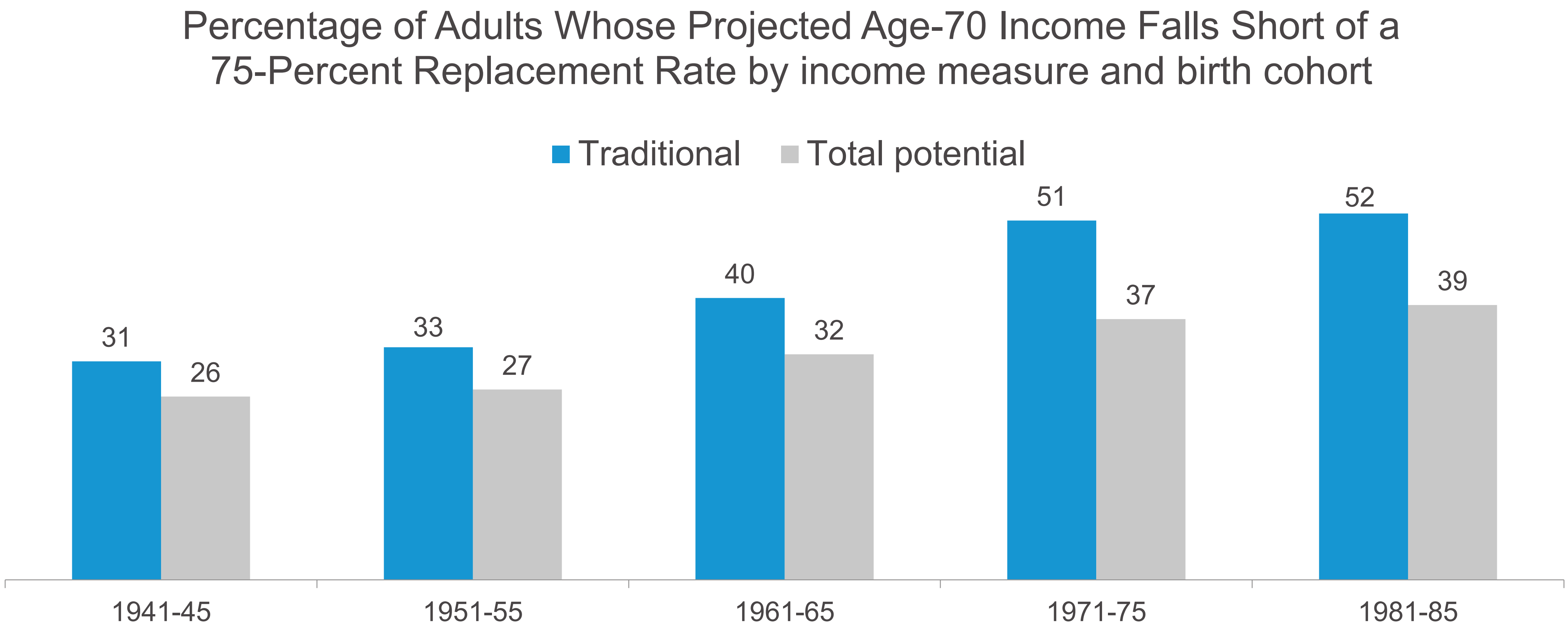

**Source:** Authors' estimates from DYNASIM4.
**Note:** Estimates assume annual real wage growth of 0.81% and are reported in inflation-adjusted 2021 dollars.

# Patterns were similar when we considered the total potential income measure




**Source:** Authors' estimates from DYNASIM4.
**Note:** Estimates assume annual real wage growth of 0.81% and are reported in inflation-adjusted 2021 dollars.

# However, we project that the share of retirees unable to replace at least 75% of their preretirement earnings will increase over time

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# Conclusions

- Our projections do not reveal a looming crisis in retirement preparedness, but many factors affecting millennials' retirement security have yet to play out
- How will stock market returns, interest rates, housing prices, and inflation evolve?
- How will health affect the ability to extend careers?
- How rapidly will future wages grow?
- How will policymakers address Social Security's long-run financing gap?
- How much will out-of-pocket spending on health care and long-term services and supports affect financial security?
- How do outcomes vary across subgroups of the population?