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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.

Median per capita annual household income at age 70 by birth cohort
Traditional income measure

<table>
<thead>
<tr>
<th>Birth Cohort</th>
<th>Income (2021 dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1941-45</td>
<td>$36,500</td>
</tr>
<tr>
<td>1951-55</td>
<td>$39,600</td>
</tr>
<tr>
<td>1961-65</td>
<td>$37,700</td>
</tr>
<tr>
<td>1971-75</td>
<td>$41,700</td>
</tr>
<tr>
<td>1981-85</td>
<td>$44,700</td>
</tr>
</tbody>
</table>

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.

Median per capita annual household income at age 70 by birth cohort
Total potential income measure

<table>
<thead>
<tr>
<th>Birth Cohort</th>
<th>Income ($, 2021)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1941-45</td>
<td>$40,200</td>
</tr>
<tr>
<td>1951-55</td>
<td>$42,900</td>
</tr>
<tr>
<td>1961-65</td>
<td>$41,100</td>
</tr>
<tr>
<td>1971-75</td>
<td>$44,200</td>
</tr>
<tr>
<td>1981-85</td>
<td>$47,300</td>
</tr>
</tbody>
</table>

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.

### Percentage of Adults Whose Projected Age-70 Income Falls Short of a 75-Percent Replacement Rate by income measure and birth cohort

- **Traditional**
- **Total potential**

<table>
<thead>
<tr>
<th>Birth Cohort</th>
<th>Traditional</th>
<th>Total potential</th>
</tr>
</thead>
<tbody>
<tr>
<td>1941-45</td>
<td>31</td>
<td>26</td>
</tr>
<tr>
<td>1951-55</td>
<td>33</td>
<td>27</td>
</tr>
<tr>
<td>1961-65</td>
<td>40</td>
<td>32</td>
</tr>
<tr>
<td>1971-75</td>
<td>51</td>
<td>37</td>
</tr>
<tr>
<td>1981-85</td>
<td>52</td>
<td>39</td>
</tr>
</tbody>
</table>

**Source:** Authors’ estimates from DYNASIM4.

**Note:** Estimates assume annual real wage growth of 0.81%.
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?