

# Wealth Inequality and Retirement Preparedness: A Cross-Cohort Perspective

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# Retirement Preparedness

- Retirement preparedness a debatable concept
  - Income and consumption relative to working years?
  - Use deviations from calibrated life-cycle model?
- Approach here: compare and contrast wealth distributions across birth cohorts at same ages
  - Relative rank distributions
  - Percentile point comparisons

# Wealth Concepts

- “Base” wealth
  - Survey of Consumer Finances (SCF) net worth
  - **ADDS** present value of future DB benefits
- “Comprehensive” wealth adds Social Security
  - Net present value of future benefits minus taxes
  - Scheduled benefits or Payable (24% cut in 2034)
- Data set is individual level, with married couples each getting half of the total household wealth

# Two Comparisons

Q: Where would a person at percentile  $x$  of their wealth distribution have been in a prior cohort?

- **Relative Rank Distributions**

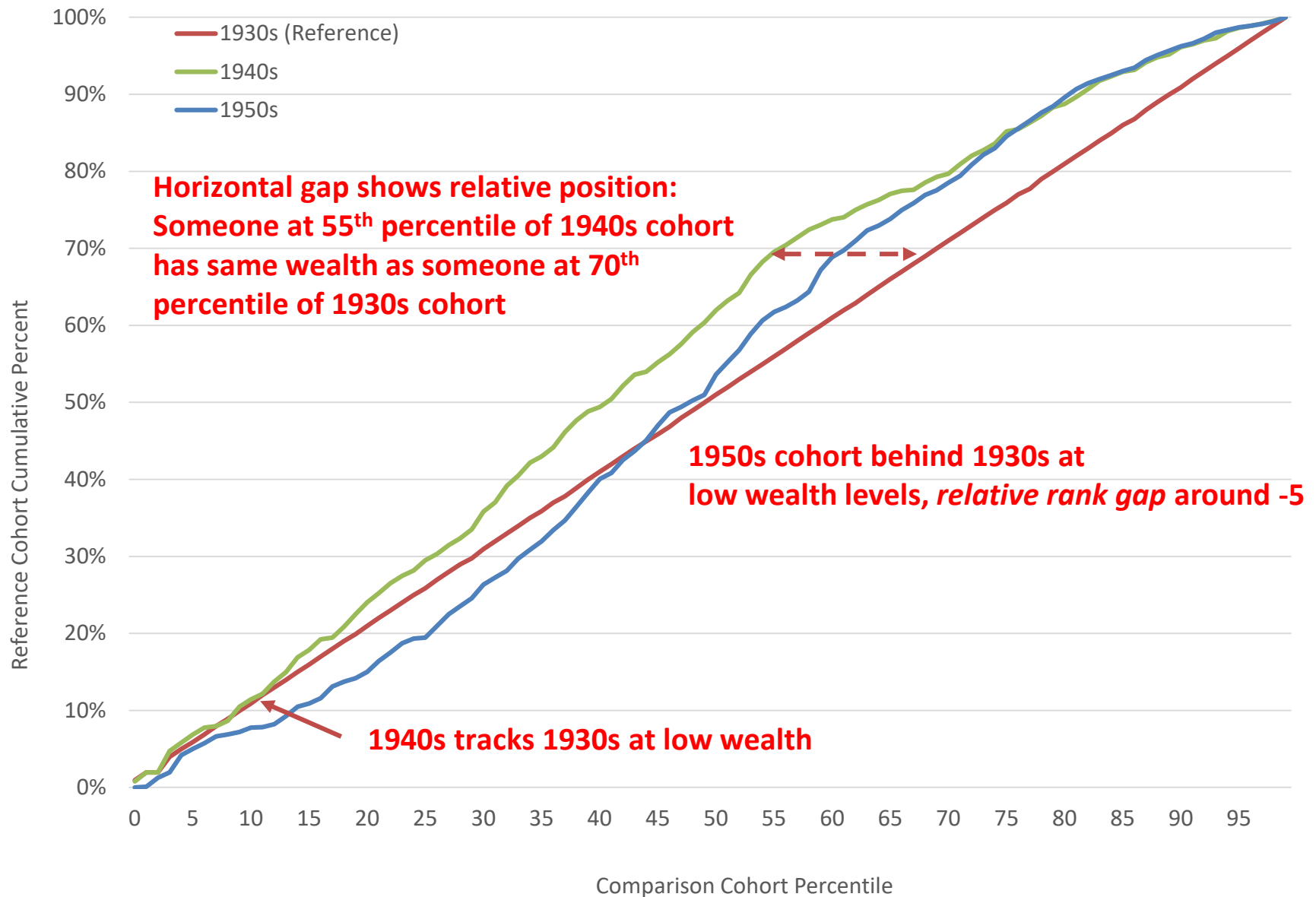
- If  $x\%$  of today's retirees at/above "adequate" map that into  $x\pm\%$  for subsequent cohort

Q: What is the difference in wealth levels across cohorts at a given percentile of the distribution?

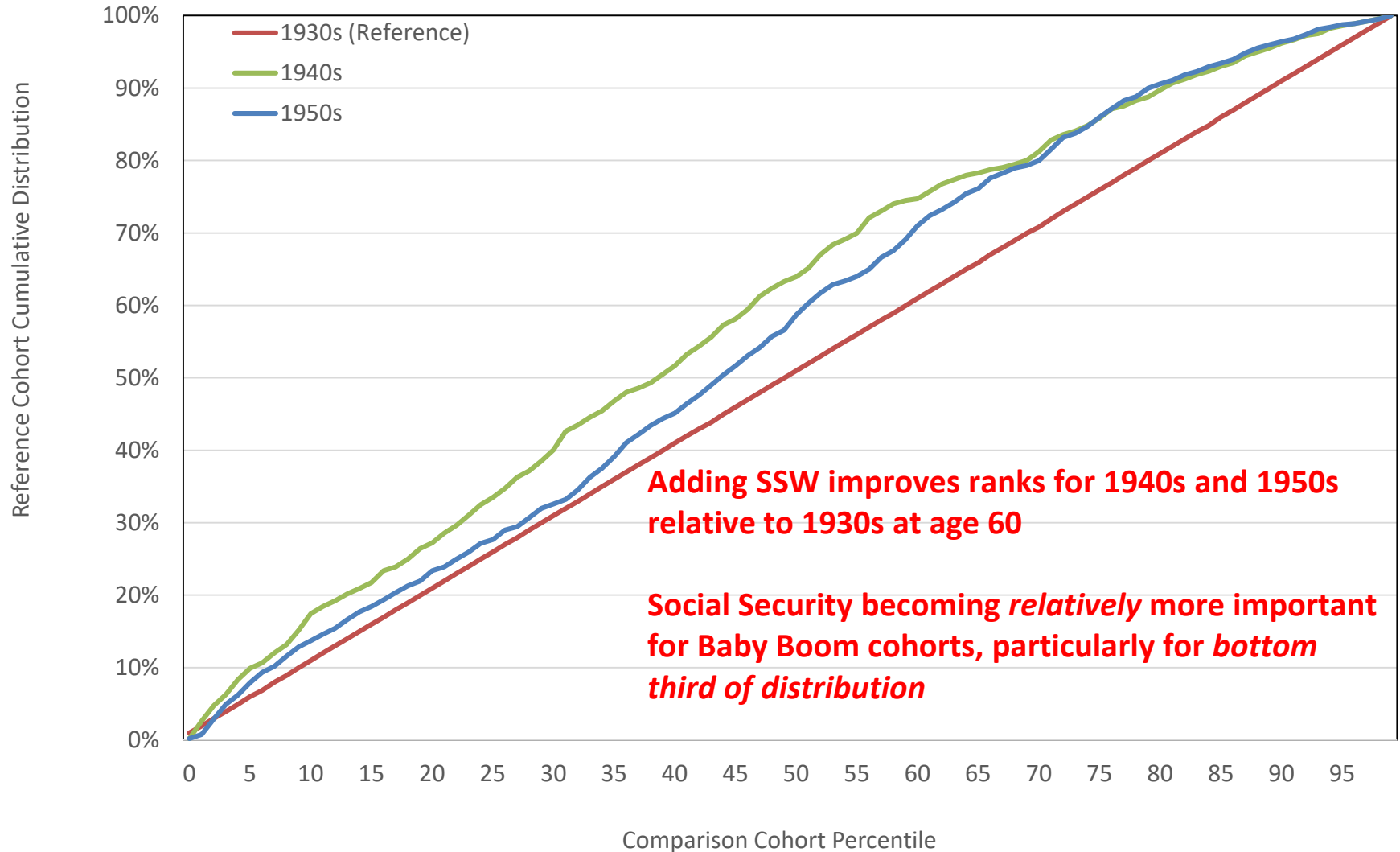
- **Percentile Point Comparisons**

- Looking at points in wealth distribution allows us split comprehensive wealth to see effects of components
- Base, Payable Scheduled (but not Payable) SSW

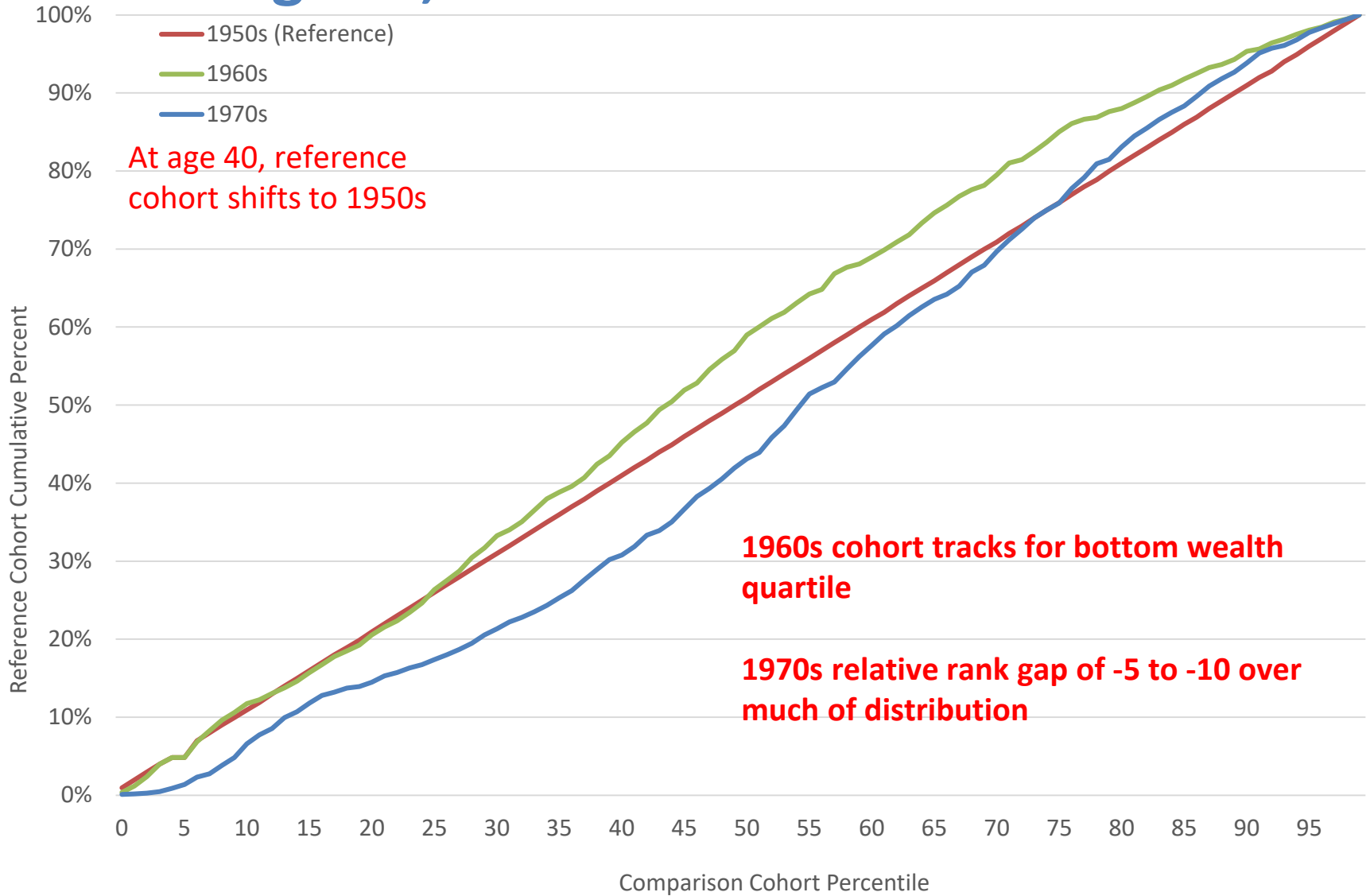
# Age 60, Wealth = Net Worth + DB



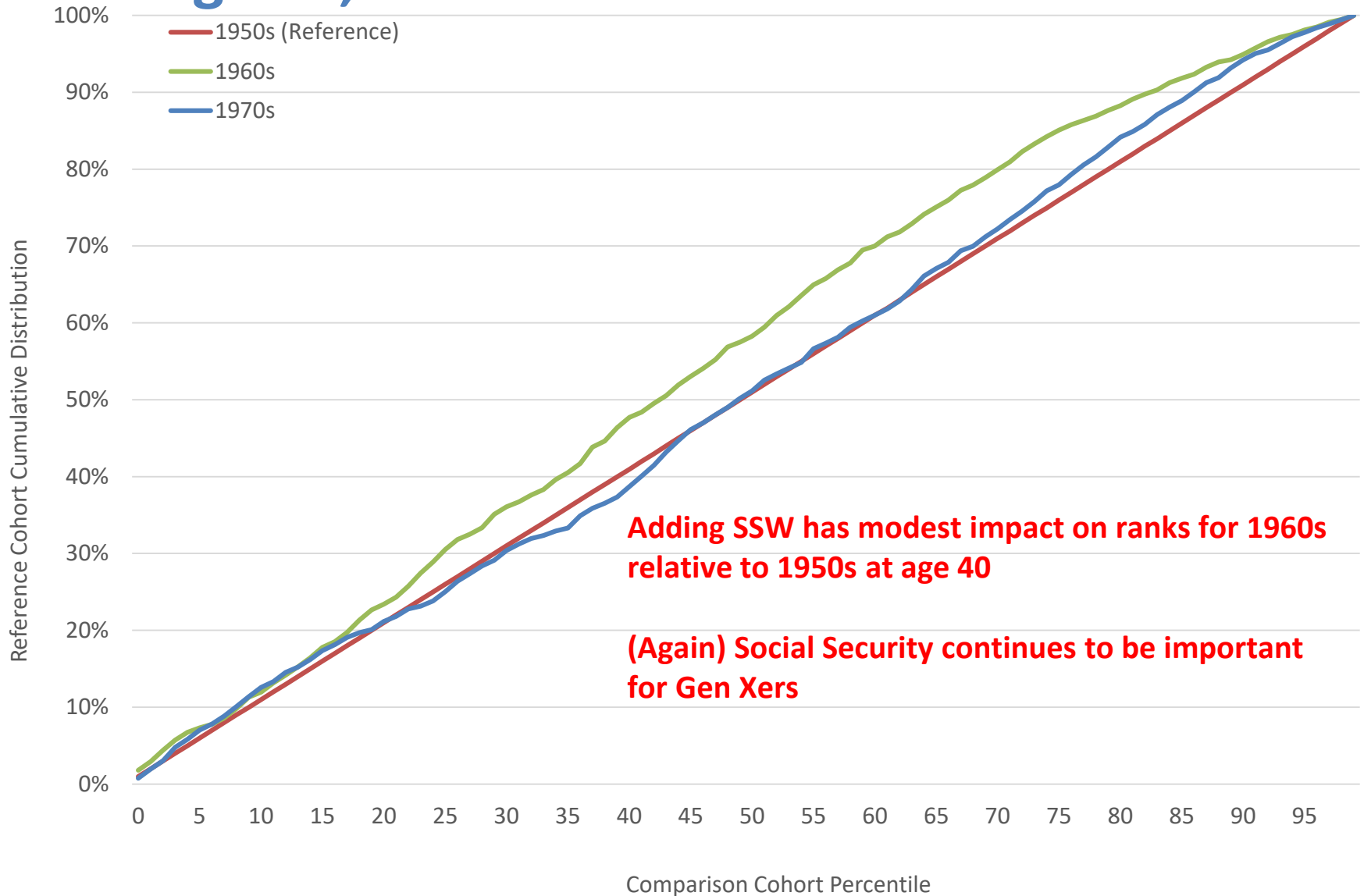
# Age 60, Wealth = Net Worth + DB + SSW



# Age 40, Wealth = Net Worth + DB

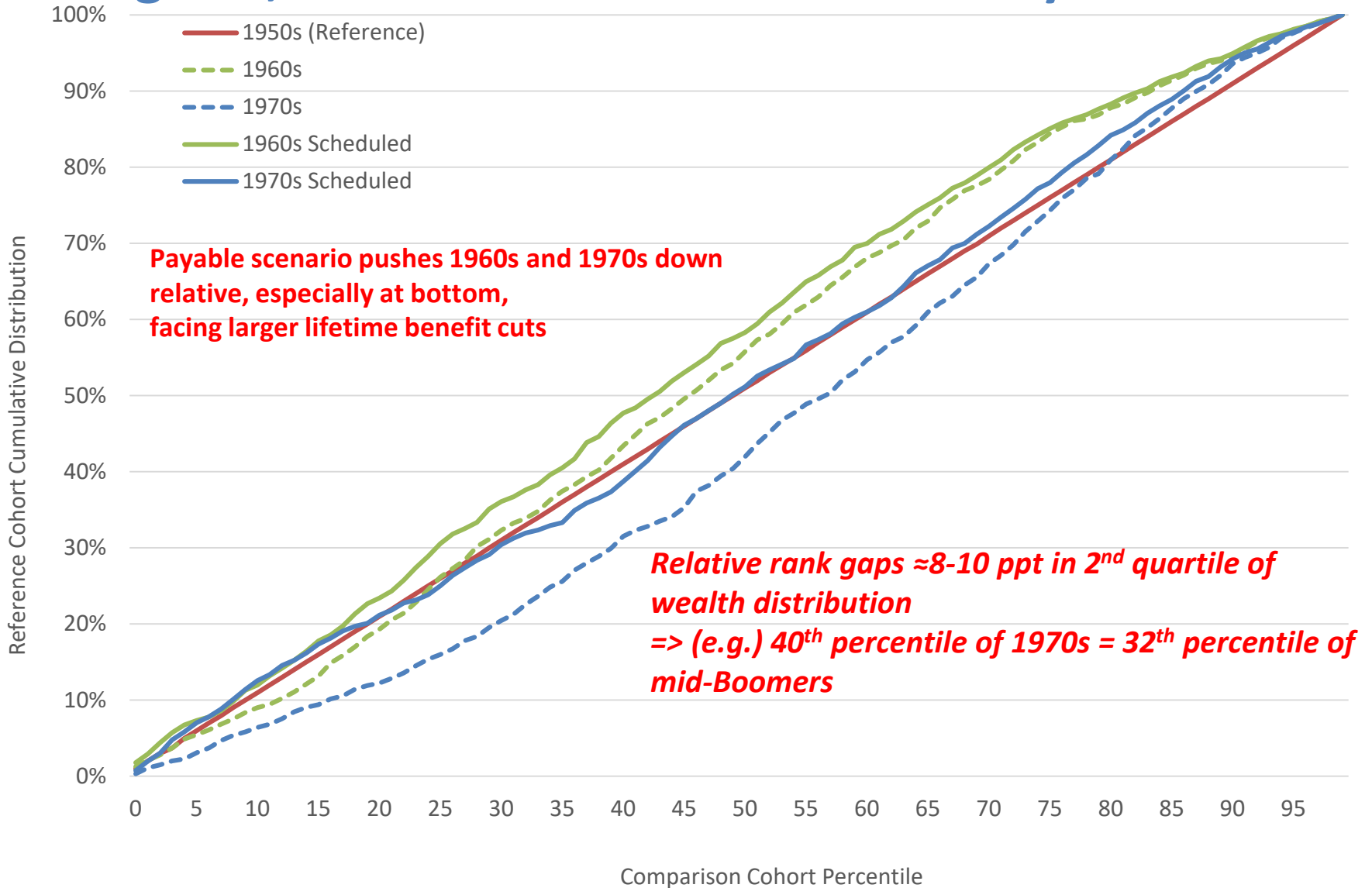


# Age 40, Wealth = Net Worth + DB + SSW

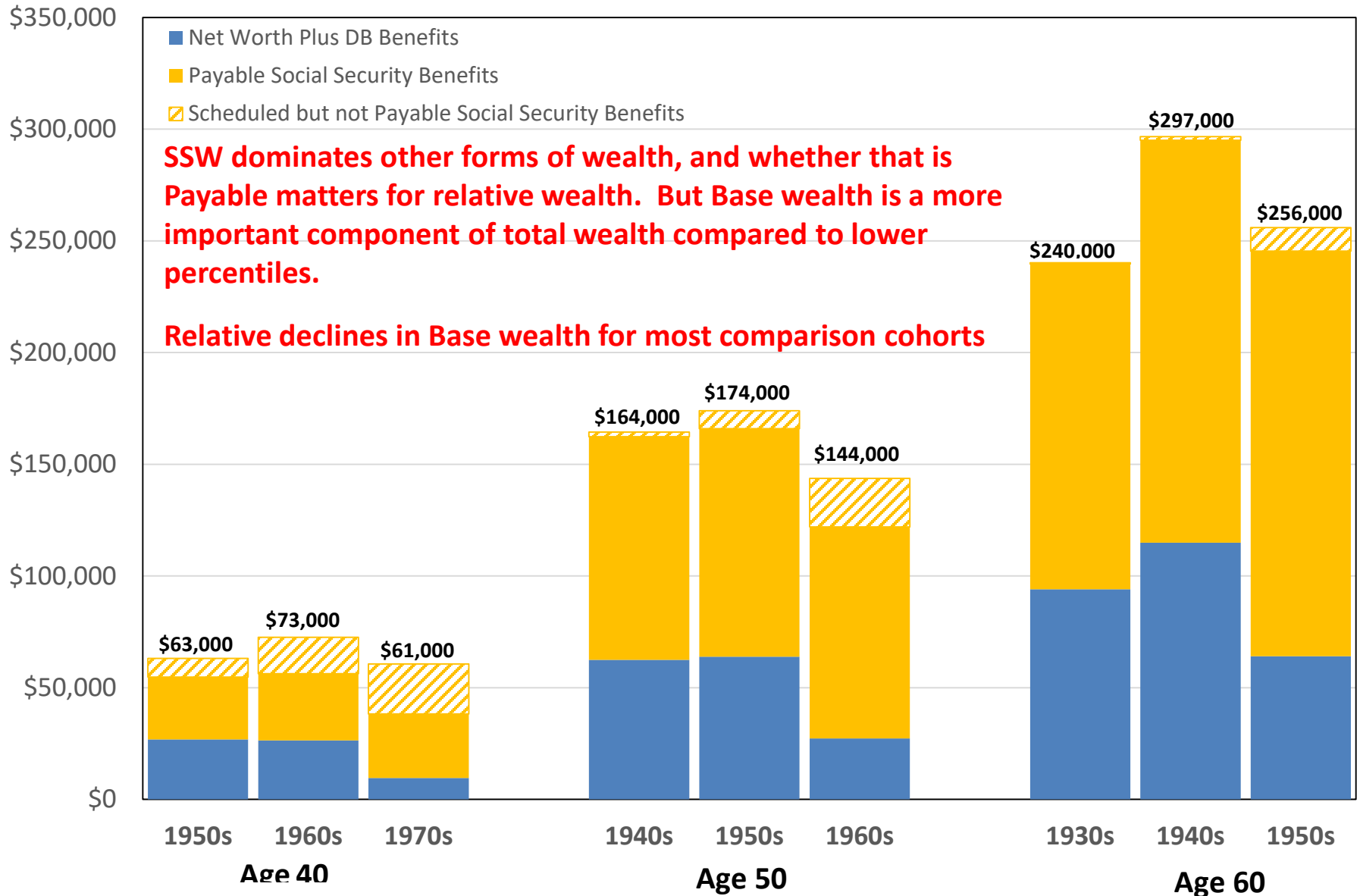




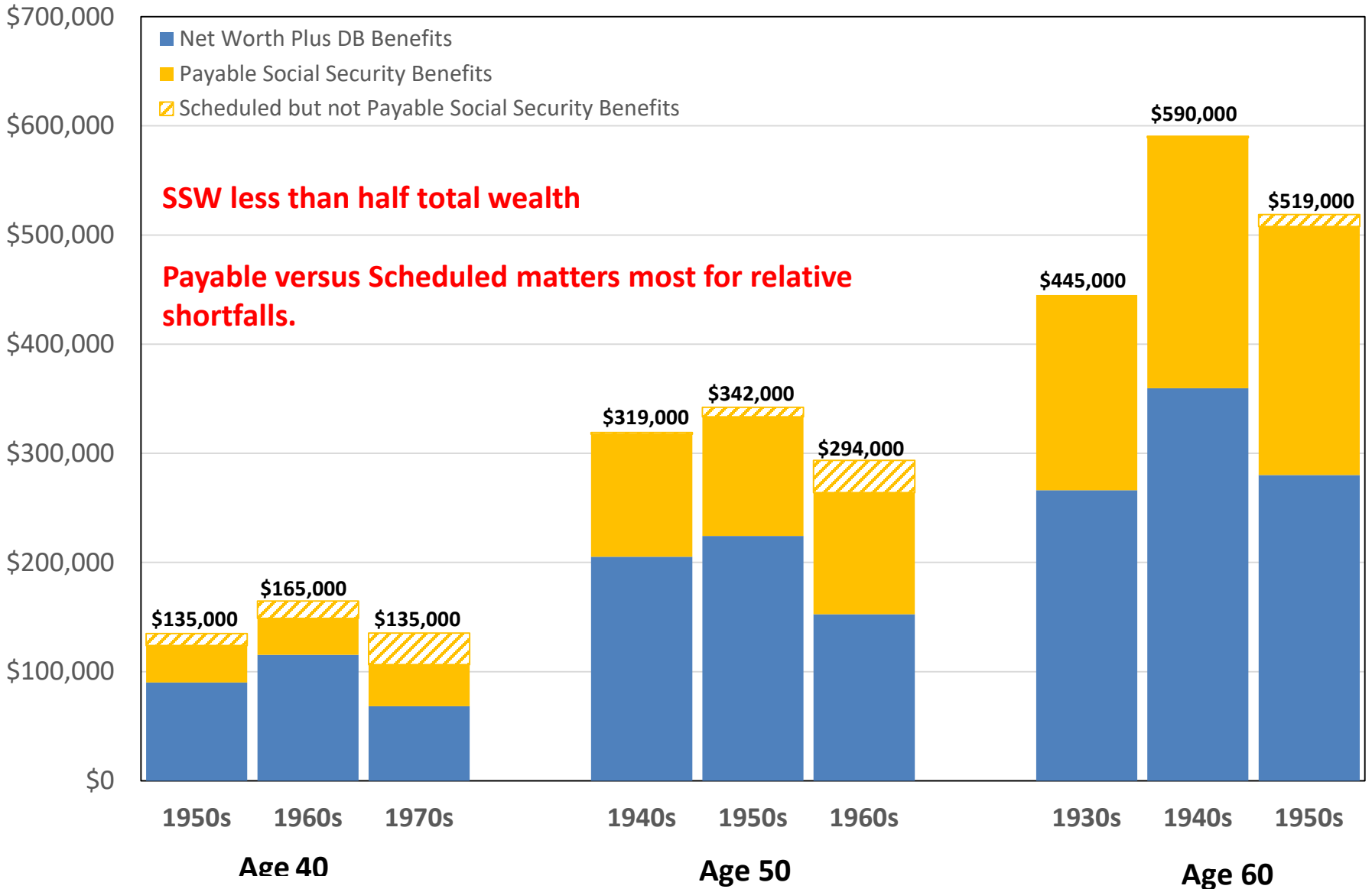
# Age 40, Wealth = Net Worth + DB + Payable SSW



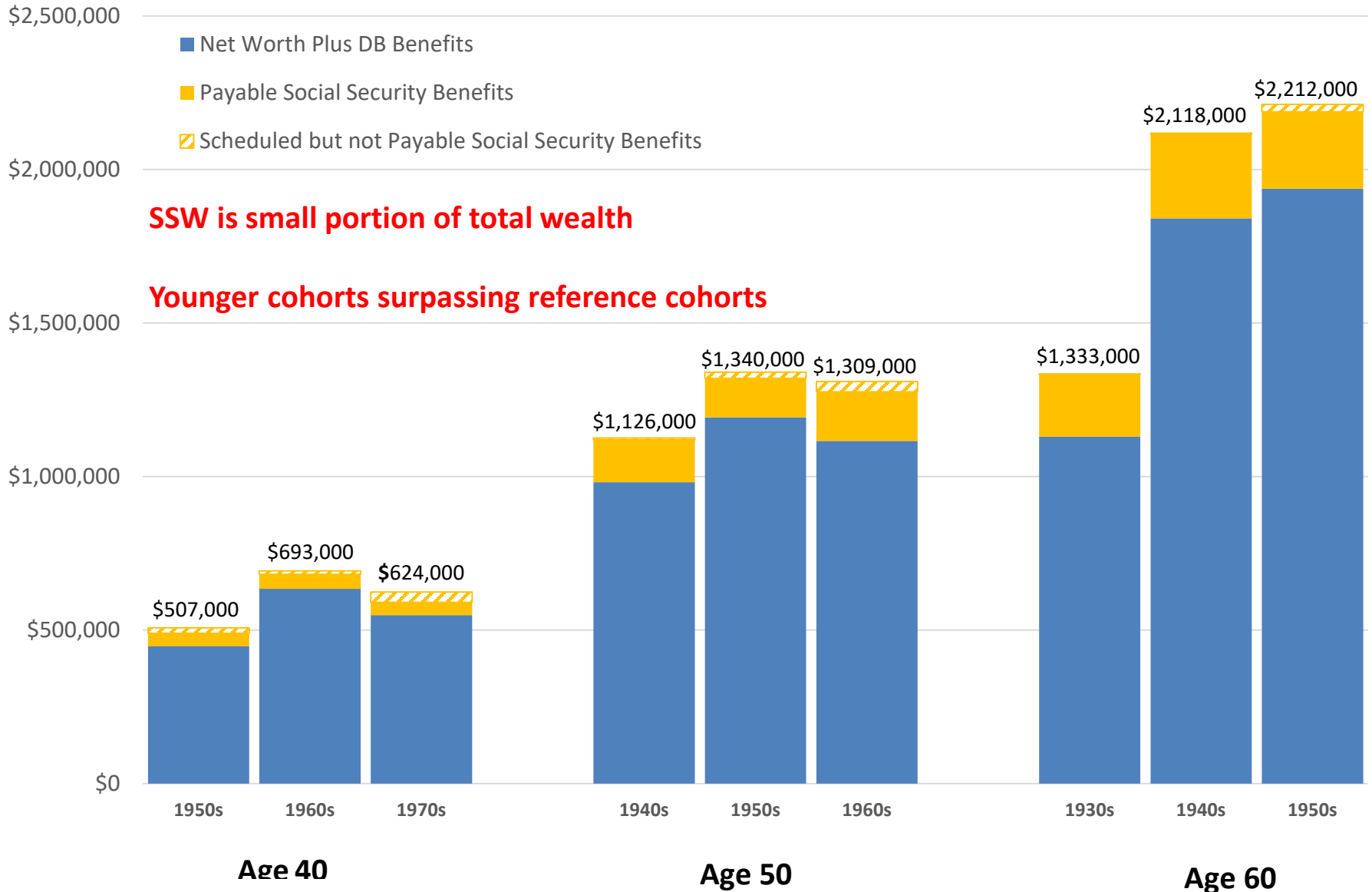
# 25<sup>th</sup> Percentile of Cross-Cohort Wealth Distributions



# 50<sup>th</sup> Percentile of Cross-Cohort Wealth Distributions



# 90<sup>th</sup> Percentile of Cross-Cohort Wealth Distributions



# Conclusions

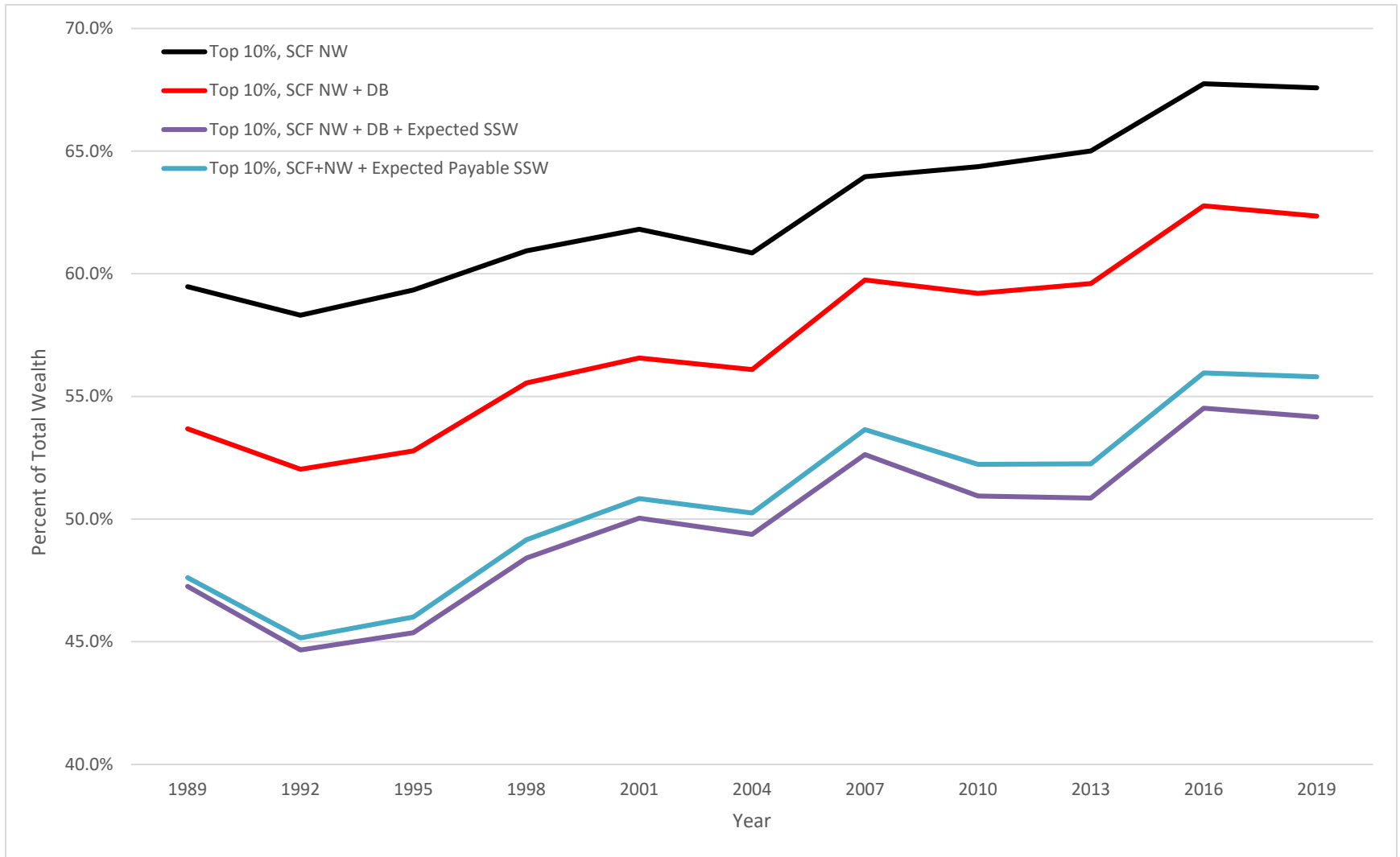
- Backdrop of rising wealth inequality implied, we should be concerned about future retirees
  - But which cohorts?
  - How many in each cohort?
  - How large are shortfalls?
- What does a few rank points really mean?
  - Worry about 20% of today's retirees, 25% in future?
- *Relative* wealth distributions provide guidance
  - Low wealth individuals beginning in mid-late Boomer cohorts (modestly) trailing predecessors at same age
  - Gen-X gaps larger, over more of wealth distribution
  - Social Security solvency is key at low wealth levels

# Thanks!

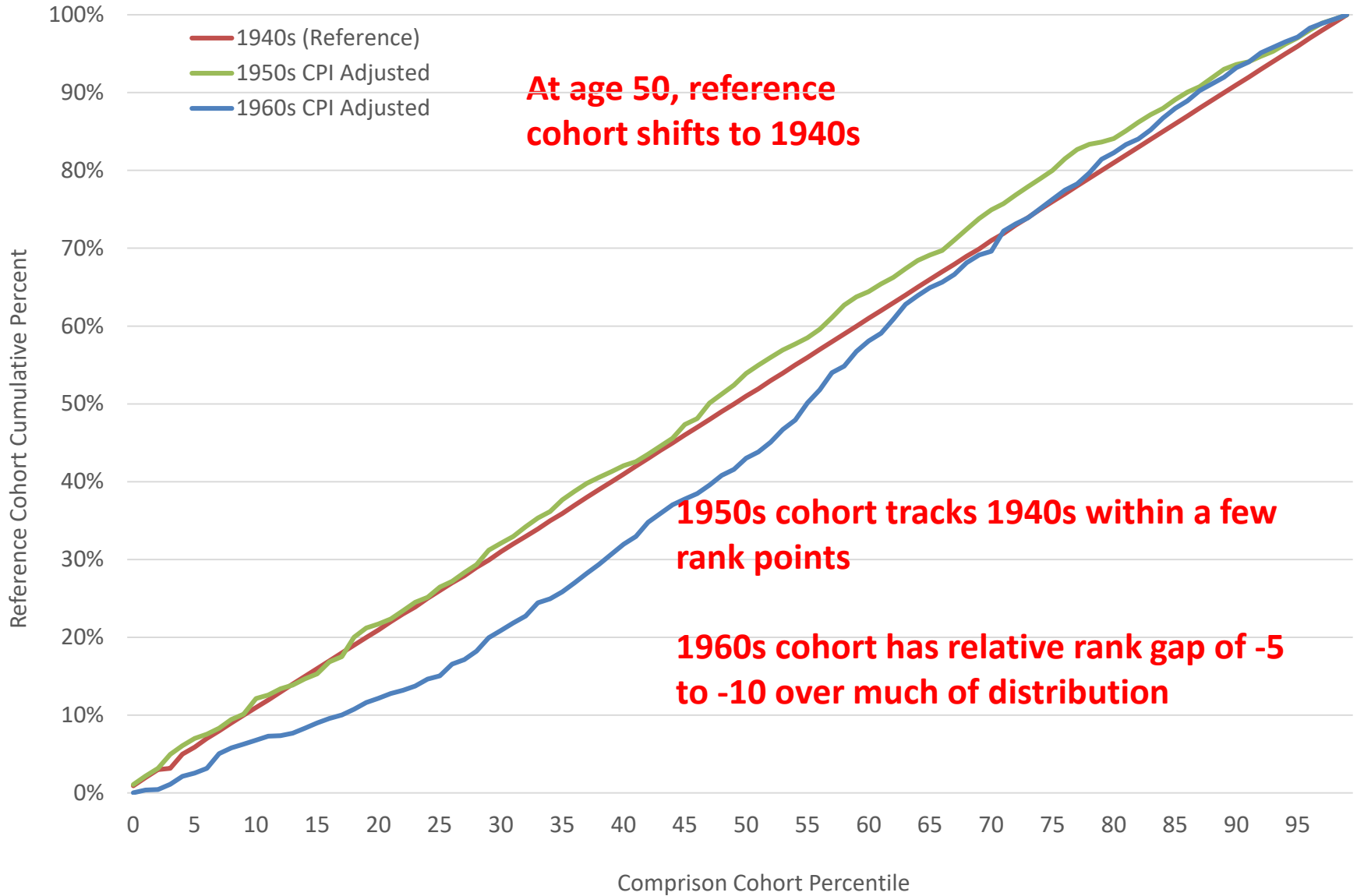
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# Adding retirement benefits lower top shares, trends unaffected

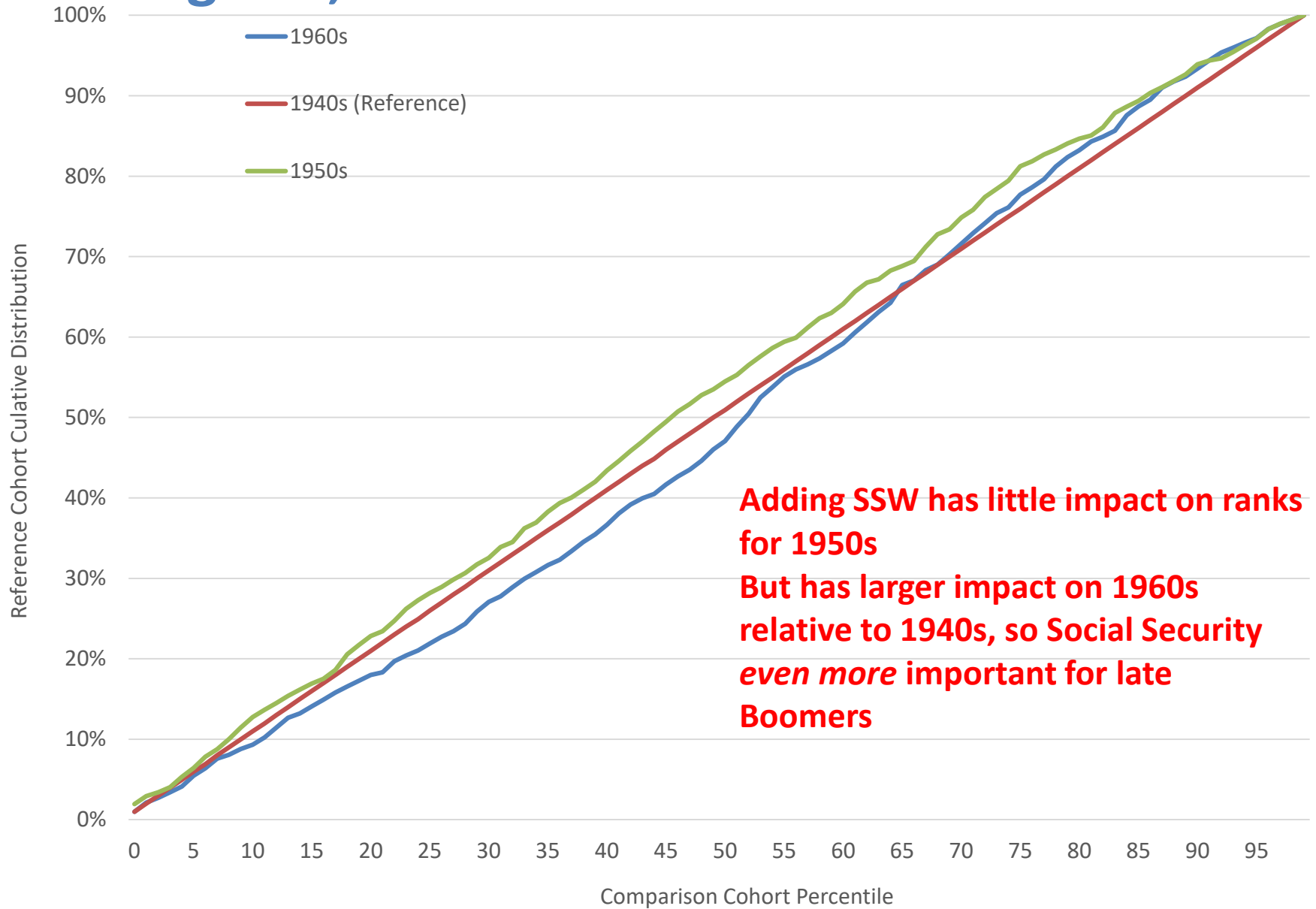


# Age 50: Wealth = Net Worth + DB

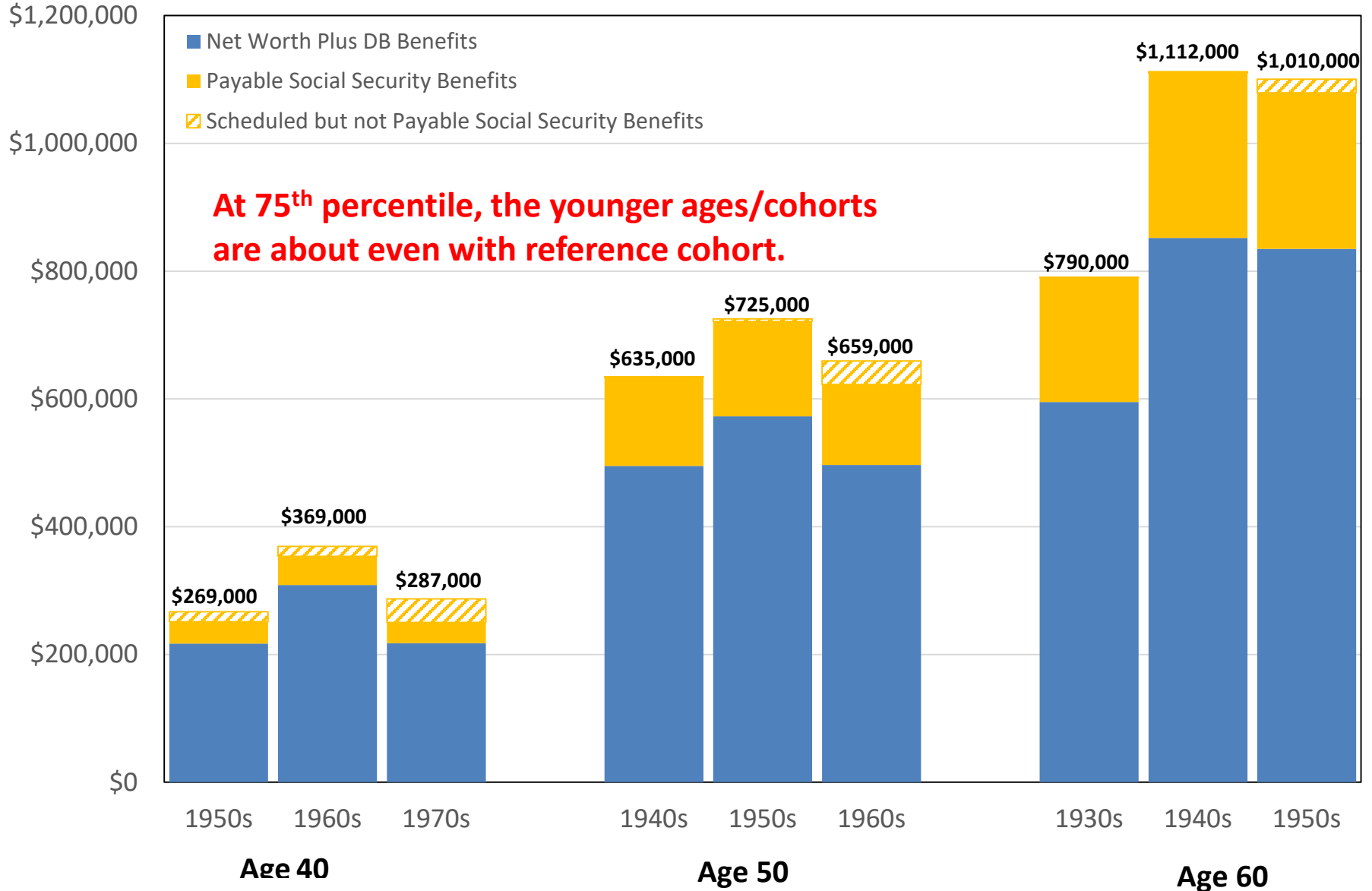




# Age 50, Wealth = Net Worth + DB + SSW



# 75<sup>th</sup> Percentile of Cross-Cohort Wealth Distributions



# Caveats

- Issues with our previous paper still there...
  - Earnings profiles rough, need more heterogeneity
  - No Social Security disability benefits
  - No marital transitions, couple wealth divided by two
  - Discount rate debatable (but making young people wealthier also => shortfalls worse?)
- And we added some new issues...
  - How to “stack” wealth components at percentiles?
  - Any way to make inferences about (say) 1970s relative to 1930s at (say) age 40? Relative => transitive?