Wealth Inequality and Retirement Preparedness: A Cross-Cohort Perspective

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Pension Research Council Symposium
April 28, 2022

The analysis and conclusions set forth are those of the authors and do not necessarily reflect the views of the Brookings Institution or its funders or indicate concurrence by other members of the research staff or the Board of Governors of the Federal Reserve System.
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+/- % 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

Horizontal gap shows relative position:
Someone at 55th percentile of 1940s cohort has same wealth as someone at 70th percentile of 1930s cohort

1950s cohort behind 1930s at low wealth levels, relative rank gap around -5

1940s tracks 1930s at low wealth

Reference Cohort Cumulative Percent

Comparison Cohort Percentile
Age 60, Wealth = Net Worth + DB + SSW

Adding SSW improves ranks for 1940s and 1950s relative to 1930s at age 60.

Social Security becoming relatively more important for Baby Boom cohorts, particularly for bottom third of distribution.
At age 40, reference cohort shifts to 1950s

1960s cohort tracks for bottom wealth quartile

1970s relative rank gap of -5 to -10 over much of distribution
Age 40, Wealth = Net Worth + DB + SSW

Adding SSW has modest impact on ranks for 1960s relative to 1950s at age 40

(Again) Social Security continues to be important for Gen Xers
Age 40, Wealth = Net Worth + DB + Payable SSW

Payable scenario pushes 1960s and 1970s down relative, especially at bottom, facing larger lifetime benefit cuts

Relative rank gaps ≈8-10 ppt in 2nd quartile of wealth distribution
=> (e.g.) 40th percentile of 1970s = 32th percentile of mid-Boomers
SSW dominates other forms of wealth, and whether that is Payable matters for relative wealth. But Base wealth is a more important component of total wealth compared to lower percentiles.

Relative declines in Base wealth for most comparison cohorts
$0

$100,000

$200,000

$300,000

$400,000

$500,000

$600,000

$700,000

1950s 1960s 1970s 1940s 1950s 1960s 1930s 1940s 1950s

Net Worth Plus DB Benefits
Payable Social Security Benefits
Scheduled but not Payable Social Security Benefits

SSW less than half total wealth

Payable versus Scheduled matters most for relative shortfalls.
90th Percentile of Cross-Cohort Wealth Distributions

SSW is small portion of total wealth

Younger cohorts surpassing reference cohorts
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

At age 50, reference cohort shifts to 1940s

1950s cohort tracks 1940s within a few rank points

1960s cohort has relative rank gap of -5 to -10 over much of distribution
**Age 50, Wealth = Net Worth + DB + SSW**

- **1940s (Reference)**
- **1950s**
- **1960s**

Adding SSW has little impact on ranks for 1950s. But has larger impact on 1960s relative to 1940s, so Social Security even more important for late Boomers.
**75th Percentile of Cross-Cohort Wealth Distributions**

At 75th percentile, the younger ages/cohorts are about even with reference cohort.
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?