

# Income Prospects for Coming Generations of Retirees

Richard W. Johnson  
Program on Retirement Policy  
Urban Institute

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## How Will Boomers Fare in Retirement?

- Use DYNASIM<sub>3</sub>, the Urban Institute's dynamic microsimulation model
- Project incomes at age 70 for three birth cohorts
  - Pre-Boomers, born 1931-35, turned age 70 in 2001-05
  - Early Boomers, born 1946-50, turn age 70 in 2016-20
  - Late Boomers, born 1961-65, turn age 70 in 2031-35
- All financial amounts are measured in inflation-adjusted 2010 dollars
- Those who survive to age 70 are generally wealthier than those who die earlier

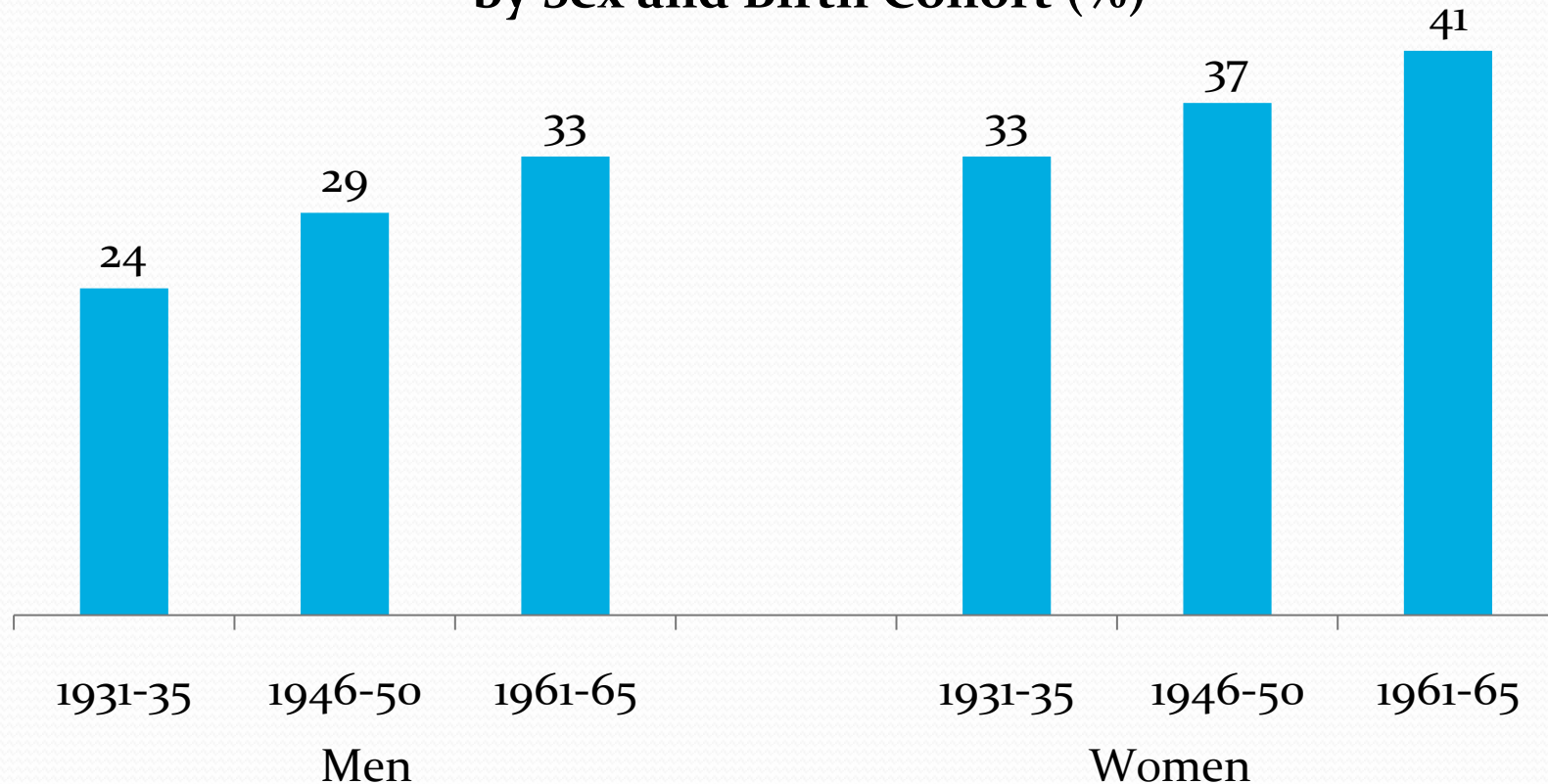
# Outline



- How are demographic characteristics shifting?
- How are employment and earnings changing during working lives?
- How will retirement security evolve?
- Conclusions

# As We Live Longer, Our Retirement Savings Will Have to Go Further

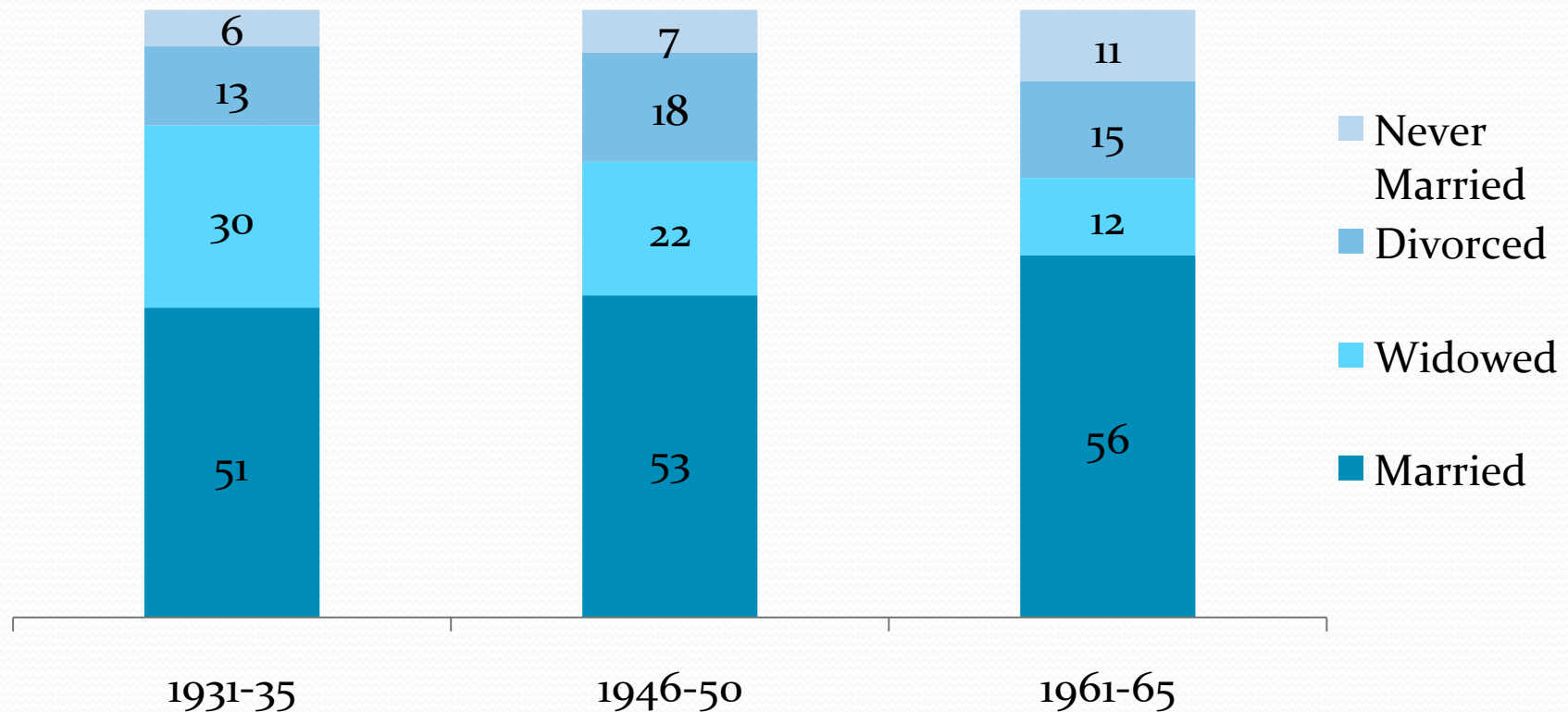
Probability that 70-Year-Olds Will Survive to Age 90,  
by Sex and Birth Cohort (%)



Source: Unpublished life tables from SSA's Office of the Chief Actuary (2012).

# The Shrinking Gender Gap in Longevity Will Reduce the Share of Widows in the Retired Population

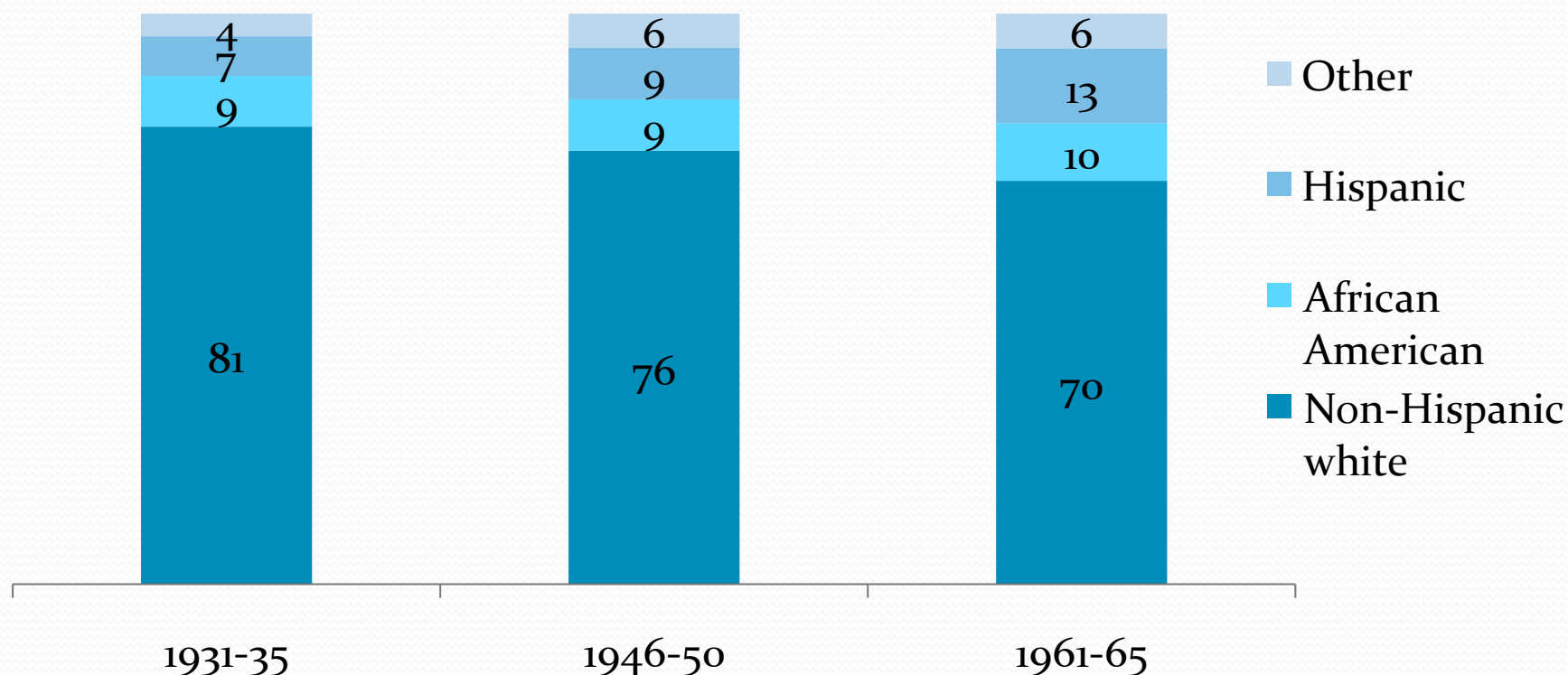
Women's Marital Status at Age 70, by Birth Cohort (%)



Source: Favreault, Johnson, Smith, and Zedlewski (2012).

# The Older Population Is Becoming More Racially and Ethnically Diverse

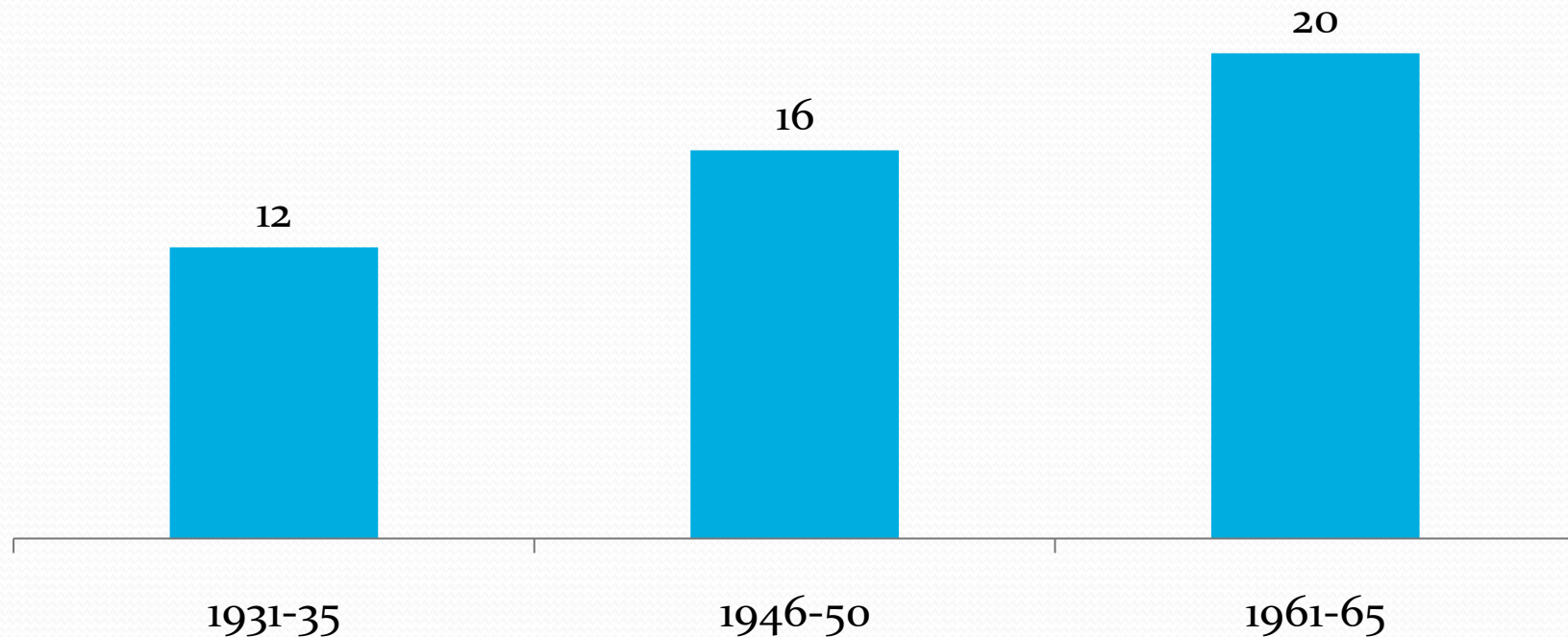
Race and Ethnicity at Age 70, by Birth Cohort (%)



Source: Favreault, Johnson, Smith, and Zedlewski (2012).

# The Share of Retirees Born Outside the U.S. Is Growing

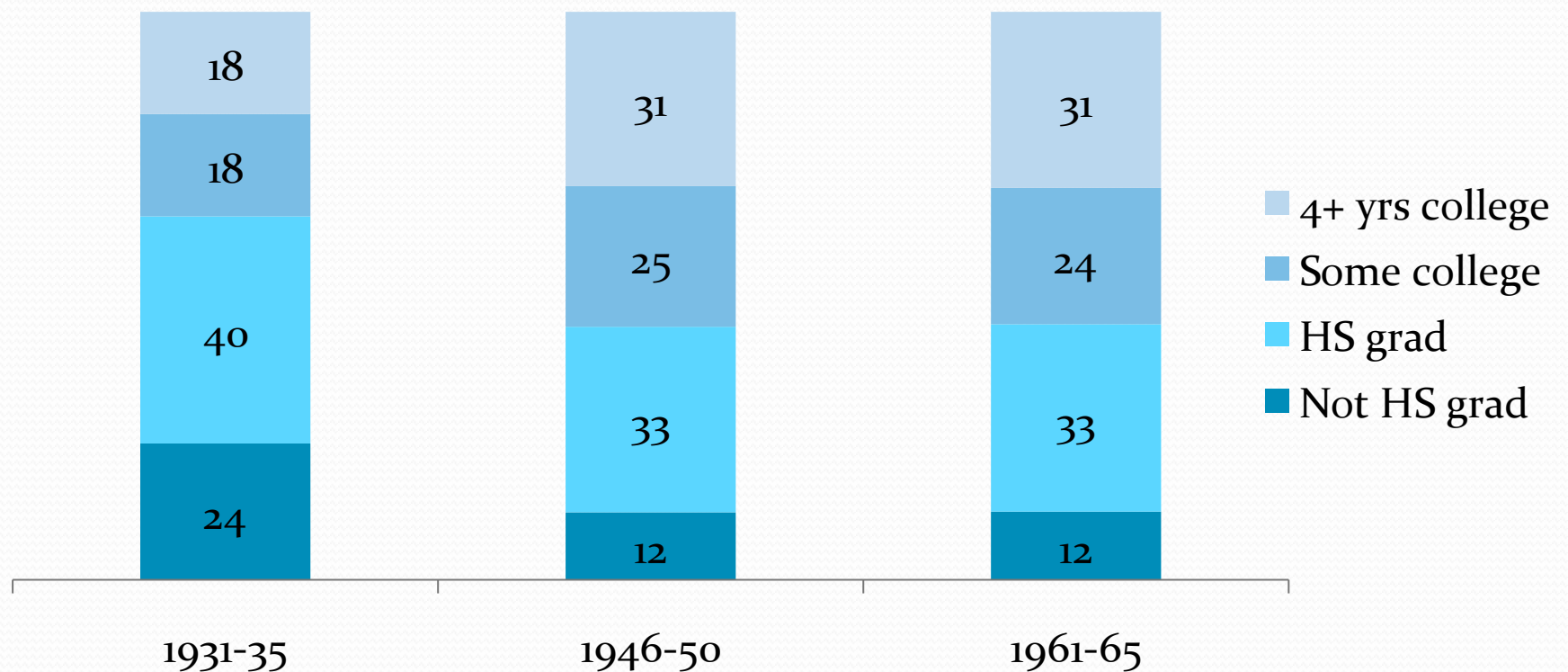
Percentage of Adults Age 70 Born Outside the U.S.,  
by Birth Cohort



Source: Favreault, Johnson, Smith, and Zedlewski (2012).

# Boomer Retirees Will Be Much Better Educated than their Predecessors

Educational Attainment at Age 70, by Birth Cohort (%)

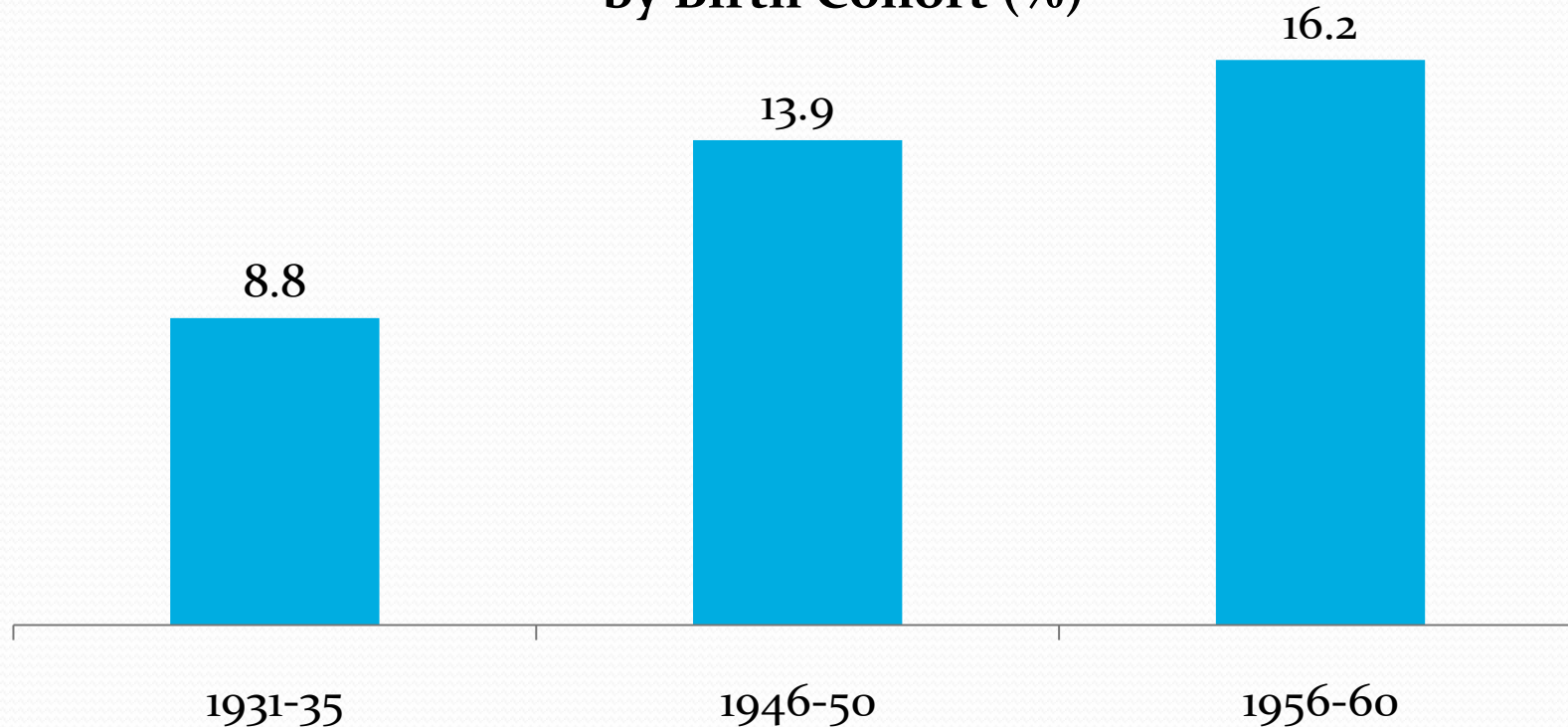


Source: Favreault, Johnson, Smith, and Zedlewski (2012).



# Growing Childlessness May Increase Demand for Paid Home Care

Percentage of Women Ages 40 to 44 without Children,  
by Birth Cohort (%)



Source: National Center for Health Statistics (2012).

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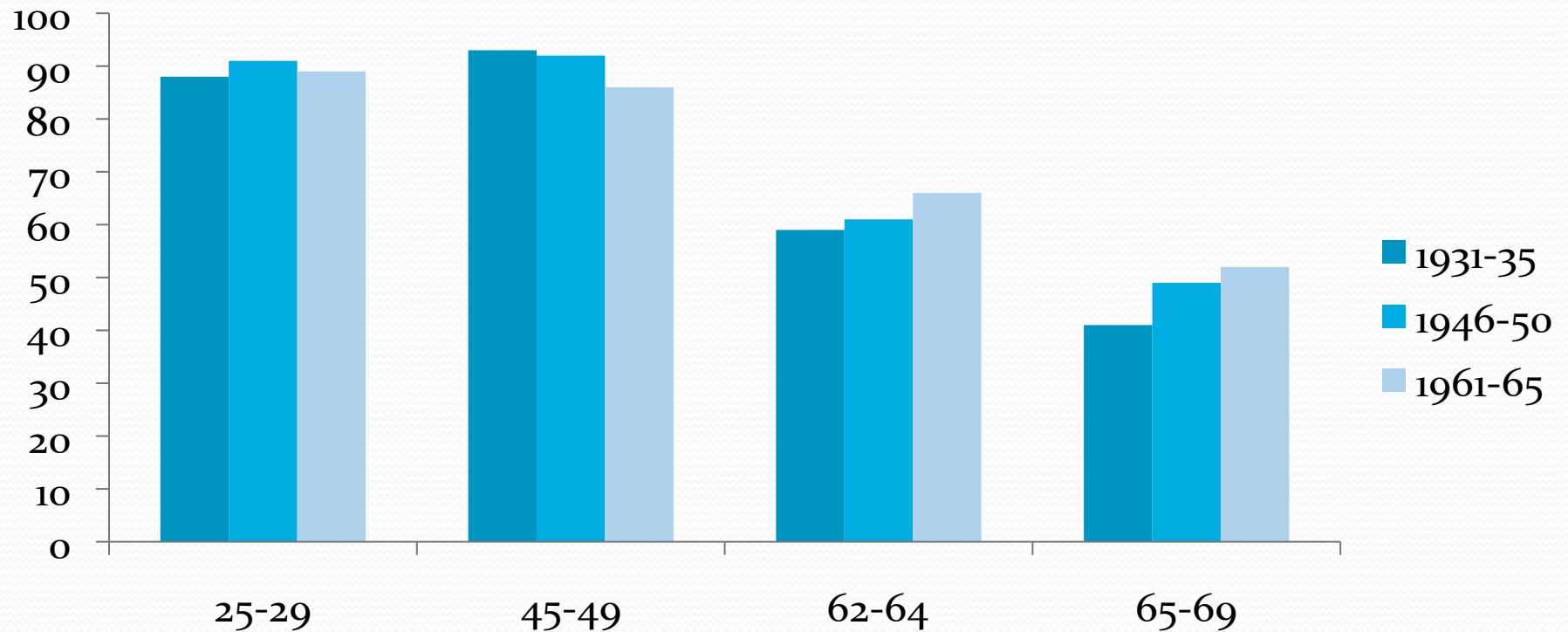
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# Boomer Men Are Delaying Retirement, but Rising Disability Reduces Late Boomer Employment in Midlife

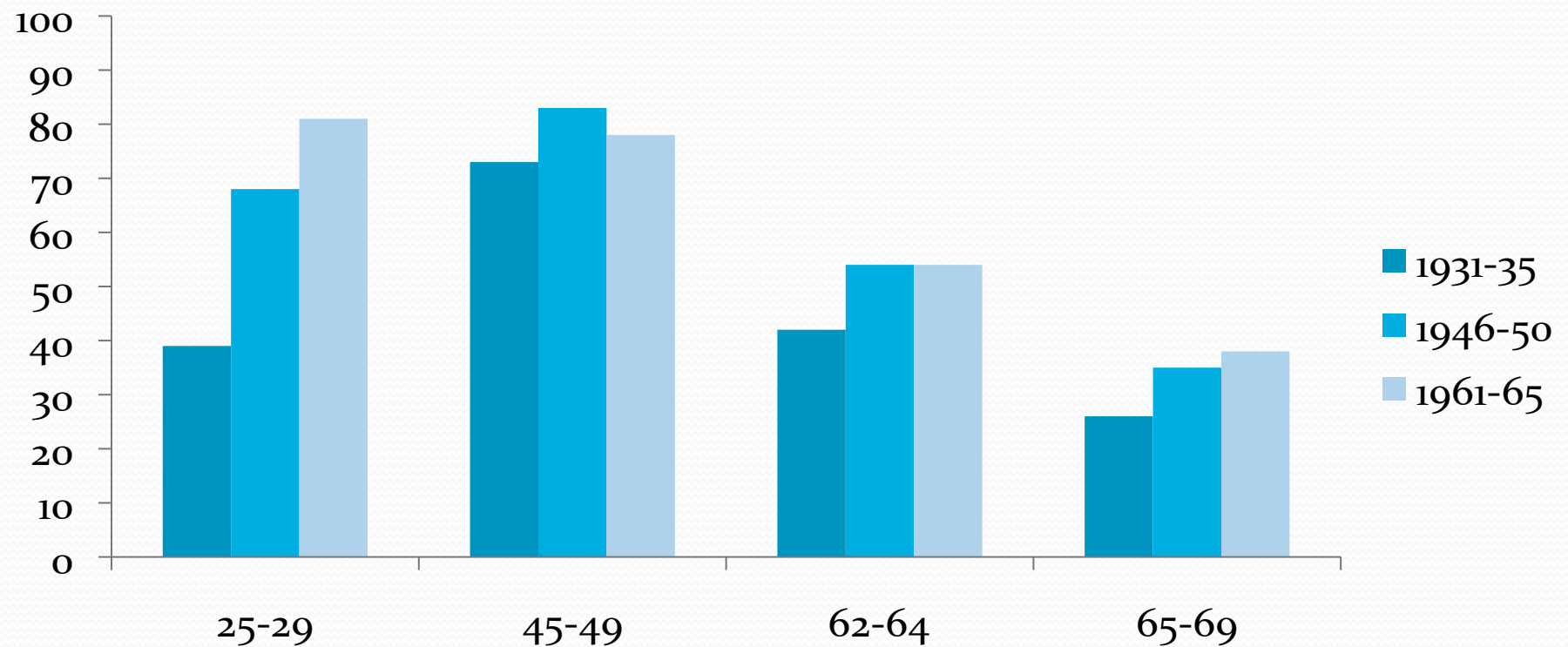
Employment Rates by Age & Birth Cohort, Men (%)



Source: Favreault, Johnson, Smith, and Zedlewski (2012).

# Boomer Women Are Working More, but Late Boomers Are Dropping Out in Midlife

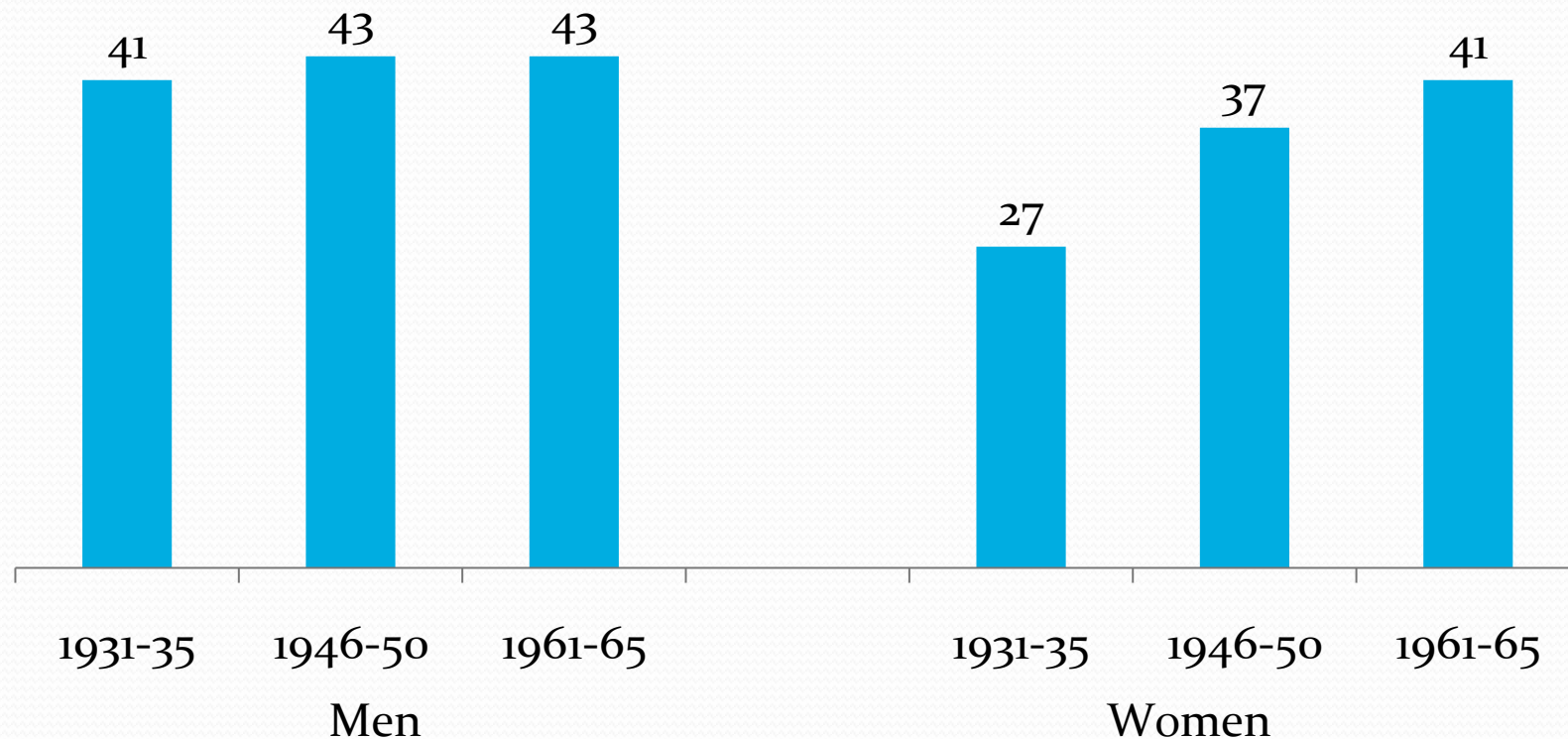
Employment Rates by Age & Birth Cohort, Women (%)



Source: Favreault, Johnson, Smith, and Zedlewski (2012).

# As Employment Rates Rise, Boomer Women Will Spend Many More Years in the Workforce

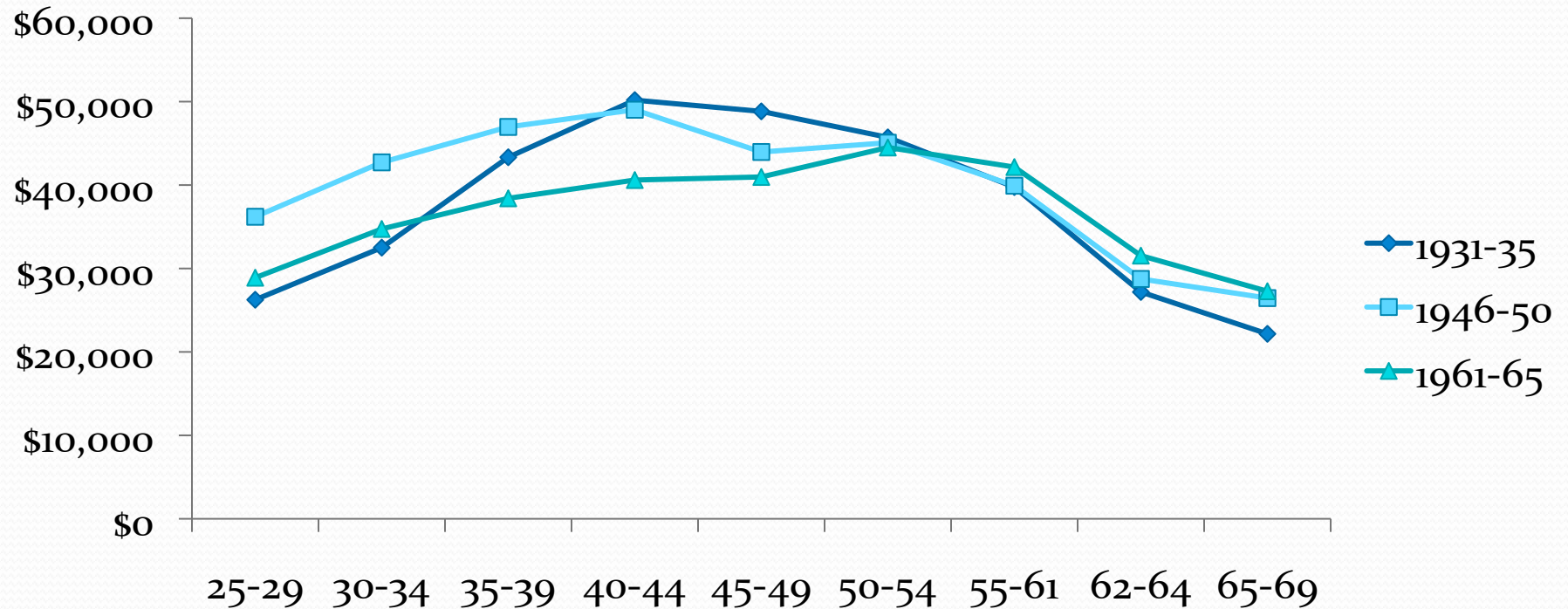
Median Number of Years Employed by Age 70, by Birth Cohort(%)



Source: Favreault, Johnson, Smith, and Zedlewski (2012).

# For Much of Their Lives, Late Boomer Men Earn Less Than Earlier Generations

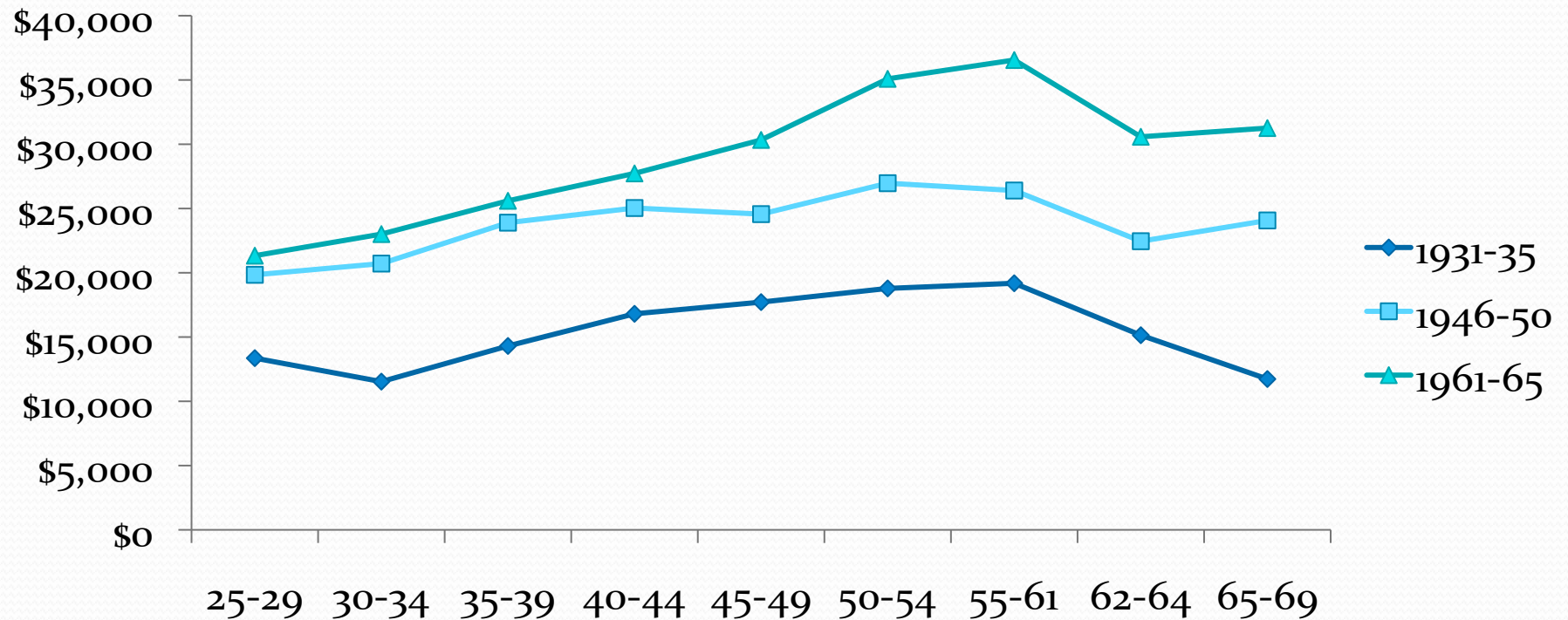
Median Annual Earnings for Employed Men,  
by Birth Cohort (\$2010)



Source: Favreault, Johnson, Smith, and Zedlewski (2012).

# Boomer Women Earn Substantially More than Pre-Boomers Throughout Their Careers

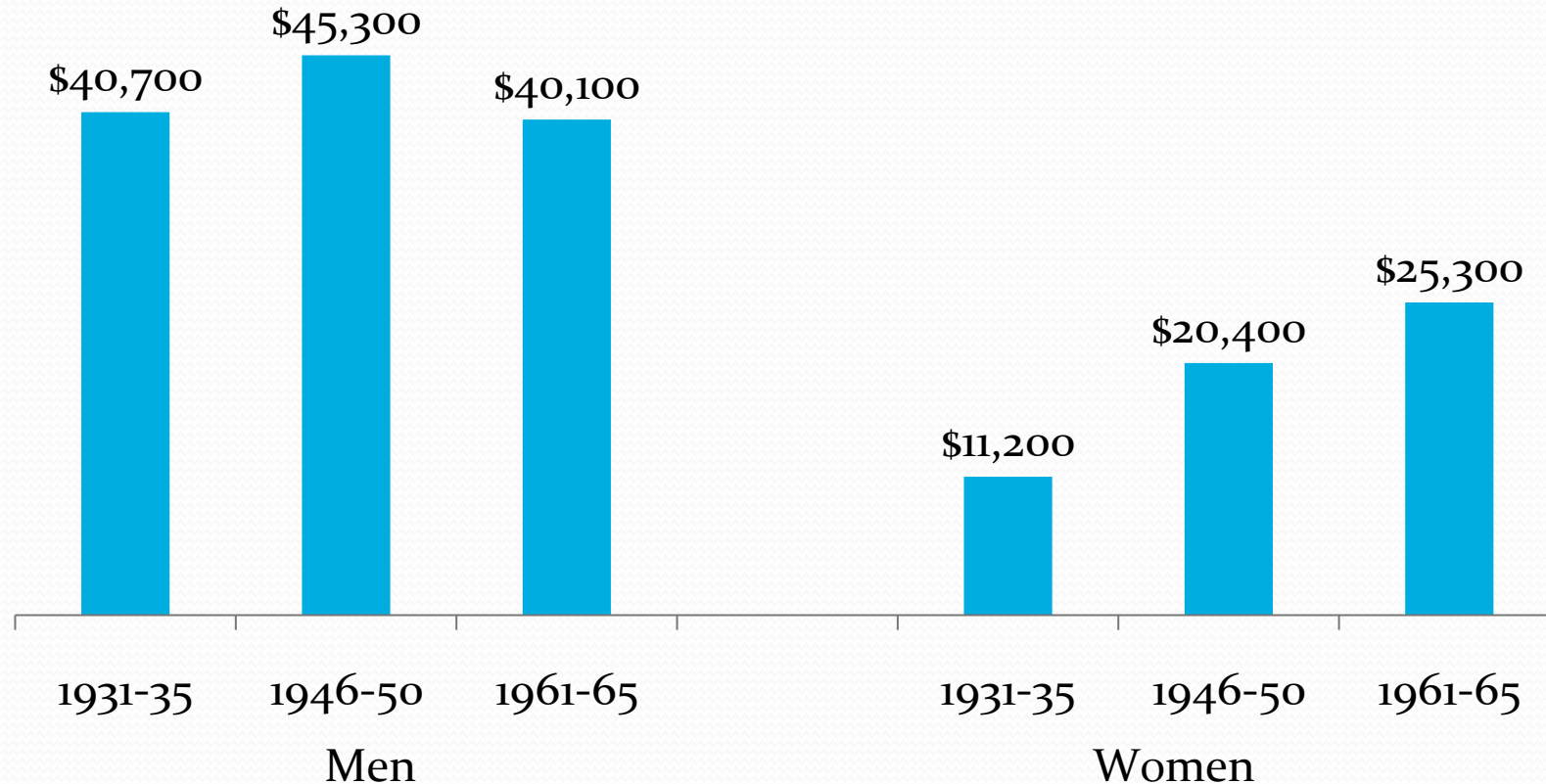
Median Annual Earnings for Employed Women, by Birth Cohort (\$2010)



Source: Favreault, Johnson, Smith, and Zedlewski (2012).

# Women's Lifetime Earnings Have Increased Dramatically, but Men's Earnings Have Stagnated

Median Annual Lifetime Earnings (\$2010)

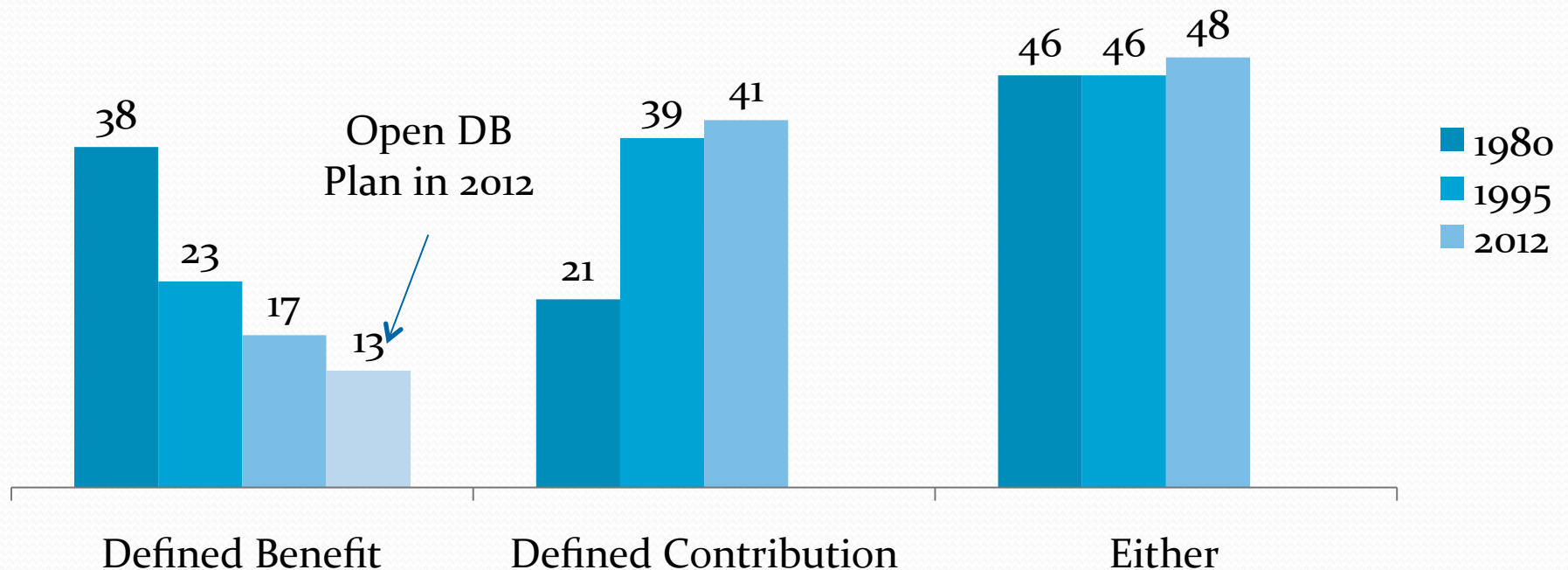


Source: Favreault, Johnson, Smith, and Zedlewski (2012).



# Traditional Pension Coverage Has Eroded

Percent of Private-Sector Wage and Salary Workers with Employer-Sponsored Retirement Plans, by Year and Plan Type



Source: Pension and Welfare Benefits Administration (2001); Bureau of Labor Statistics (2012).

# Outline

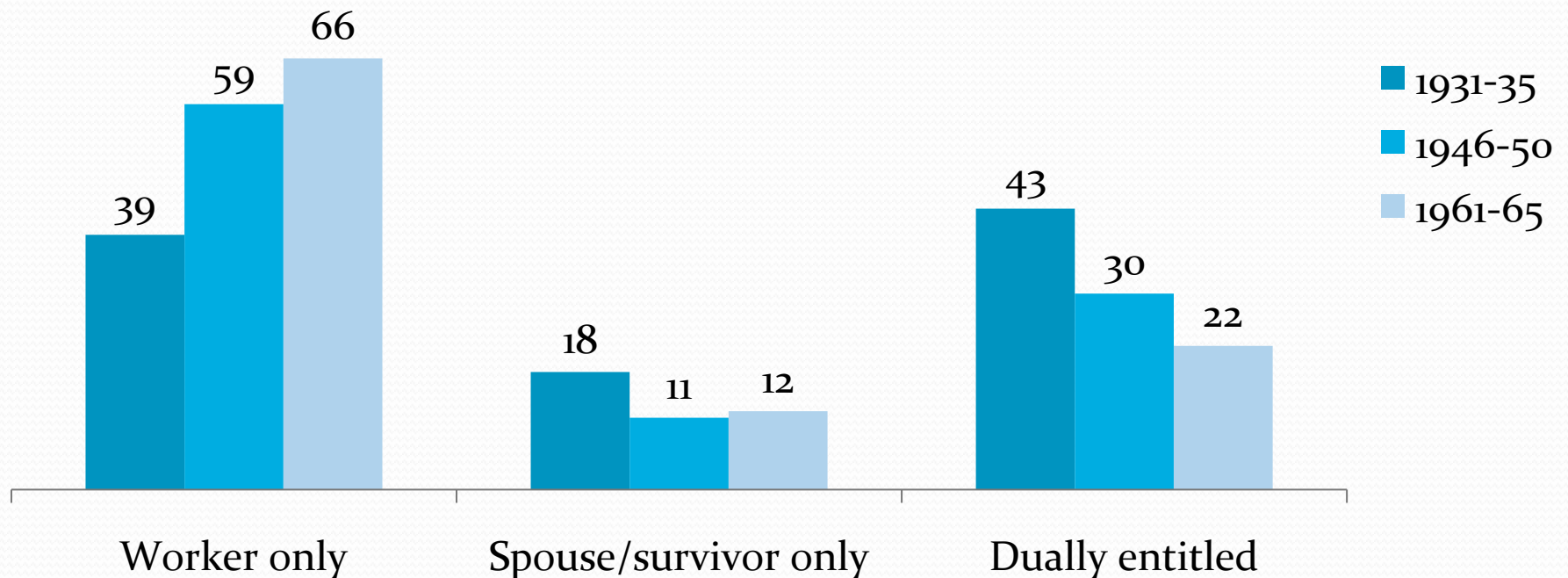
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# As Boomer Women Earn More, Many Will Receive Social Security in Their Own Names

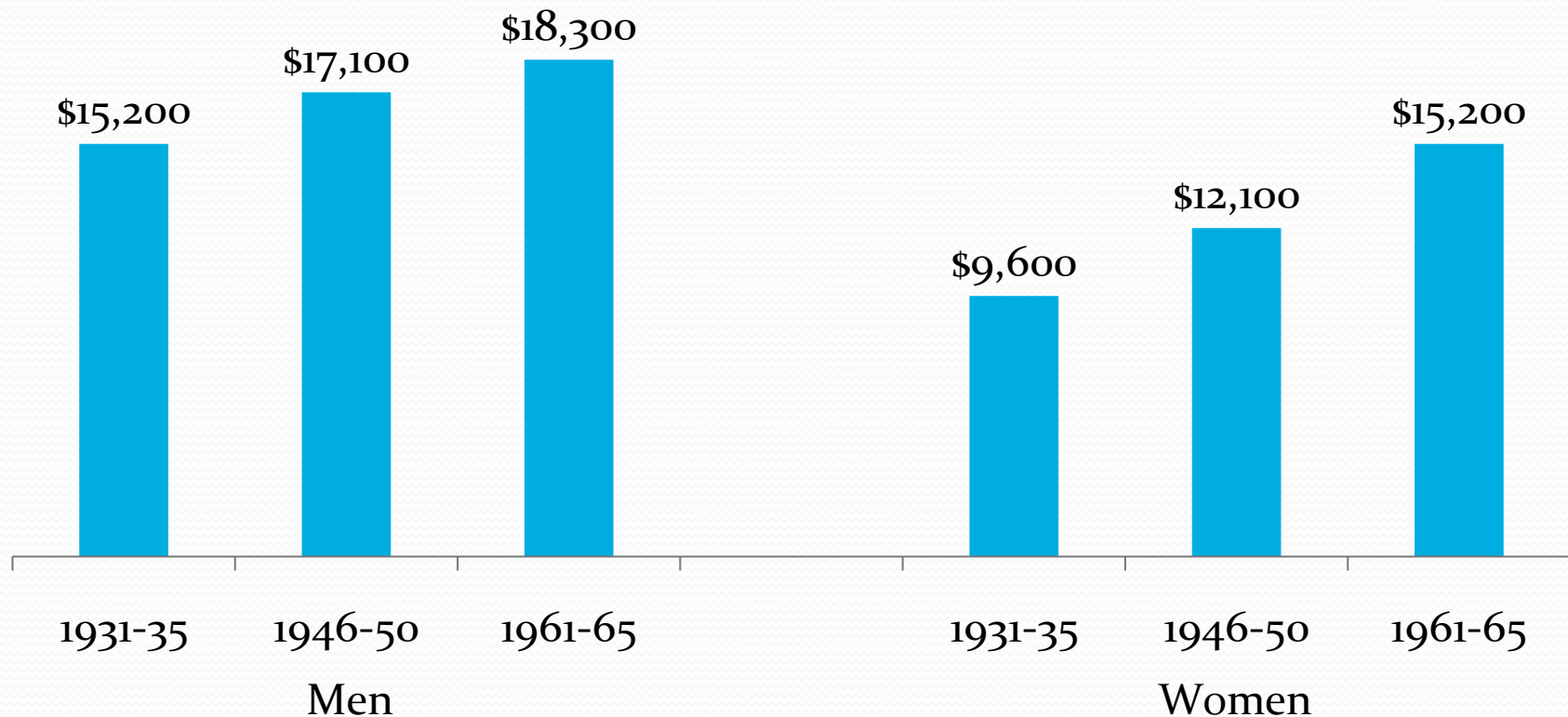
**Social Security Benefit Type at Age 70 for Female Beneficiaries, by Birth Cohort (%)**



Source: Favreault, Johnson, Smith, and Zedlewski (2012).

## For Women, Late Boomers' Own Inflation-Adjusted Social Security Benefits Will Exceed those for Pre Boomers by 58%

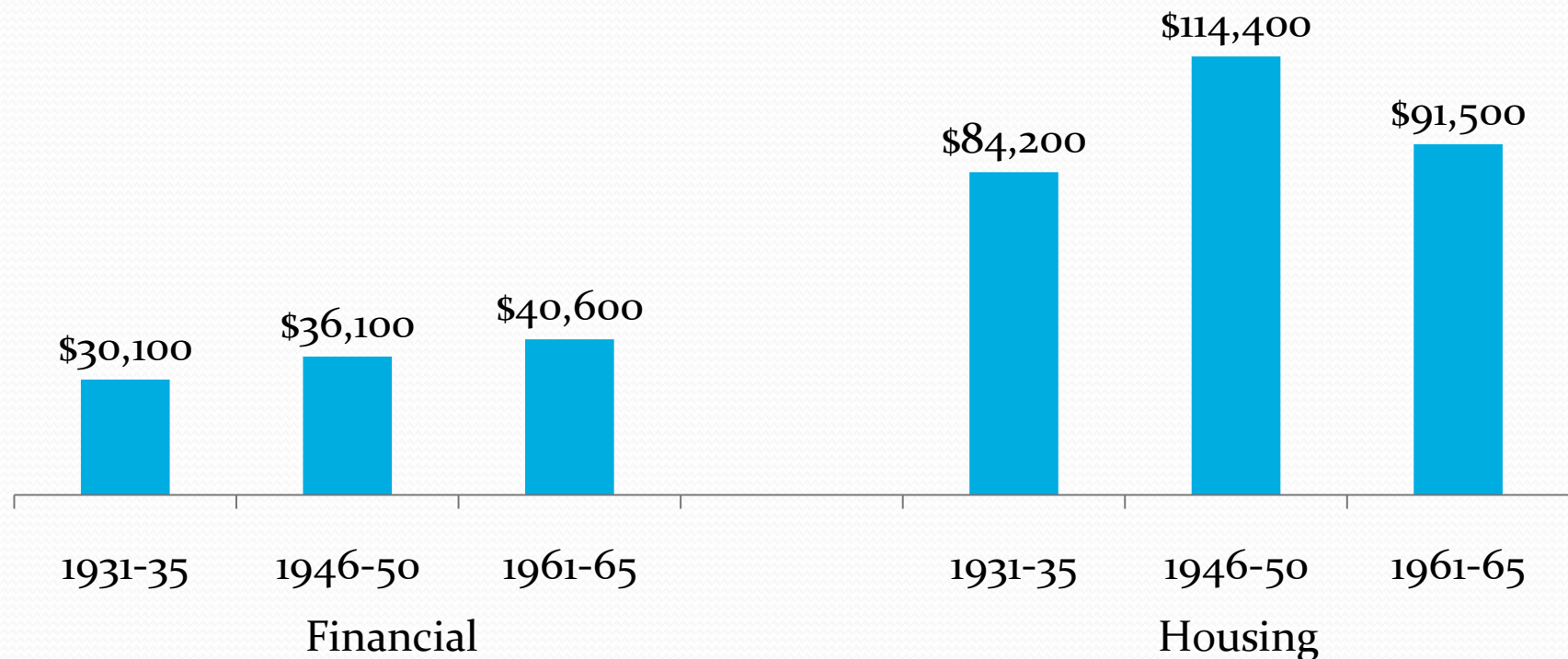
Median Own Annual Social Security Income at Age 70,  
by Sex and Birth Cohort (\$2010)



Source: Favreault, Johnson, Smith, and Zedlewski (2012).

# Financial Wealth Grows across the Three Cohorts, but Housing Wealth Dips for Late Boomers

Median Per Capita Wealth among Owners at Age 70,  
by Birth Cohort (\$2010)



Source: Favreault, Johnson, Smith, and Zedlewski (2012).

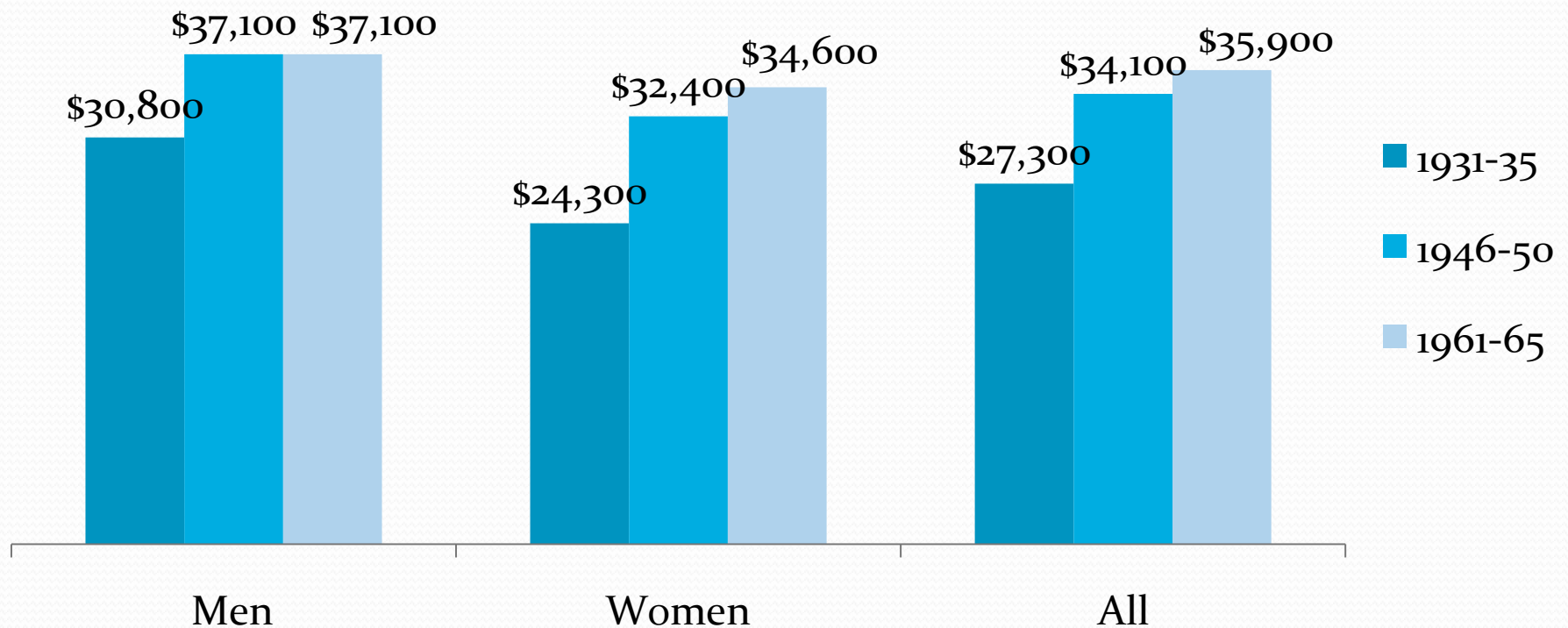


## Will Boomers Have Enough to Retire Comfortably?

- We consider two alternative income measures
  - Traditional measure counts cash income, including income from financial assets and money withdrawn
  - The alternative counts income generated by annuitizing 80% of retirement and financial assets, plus cash income
  - Neither measure counts housing wealth
- Replacement rates compare age-70 income to earnings at ages 50-54
  - Computed for each income measure
  - Living standards fall in retirement for those who cannot replace 75% of earnings

# When We Account for Retirement Wealth, Retirement Incomes Will Rise for Boomers

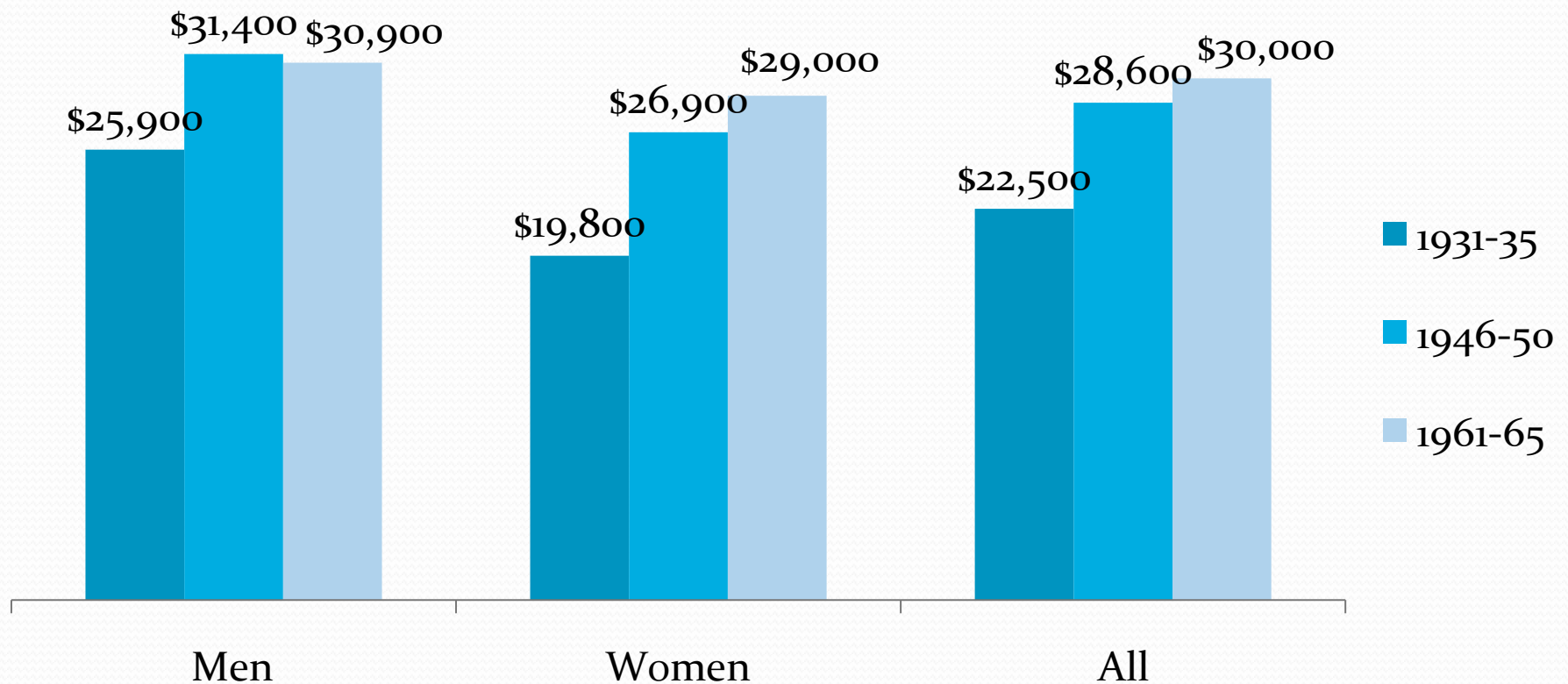
**Median Annual Per Capita Family Income (Annuitized Measure) at Age 70, by Birth Cohort (\$2010)**



Source: Favreault, Johnson, Smith, and Zedlewski (2012).

# Under the Traditional Measure, Retirement Incomes Remain Flat for Late-Boomer Men

Median Annual Per Capita Family Income (Traditional Measure) at Age 70, by Birth Cohort (\$2010)

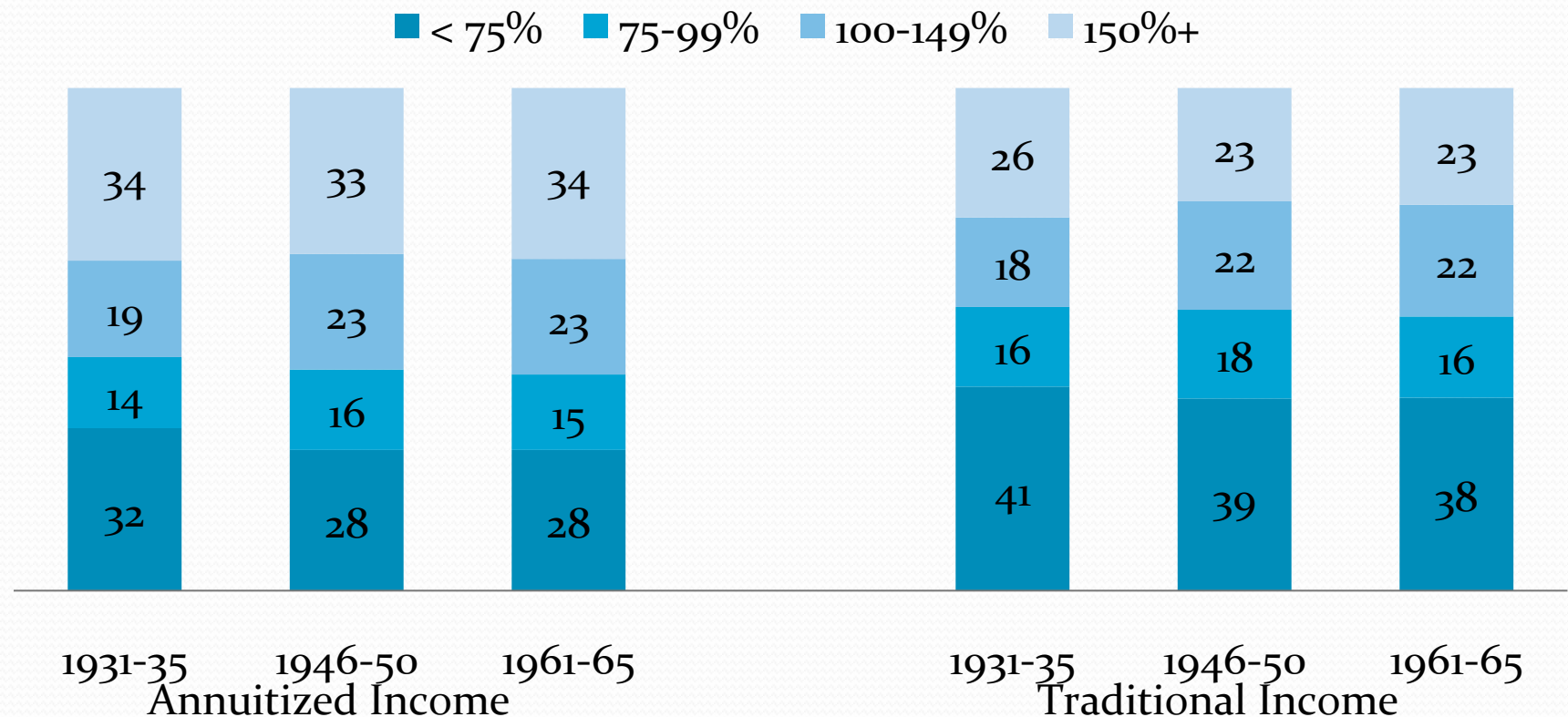


Source: Favreault, Johnson, Smith, and Zedlewski (2012).



# The Boomers Appear No More Likely Than Pre-Boomers to Have Inadequate Retirement Incomes

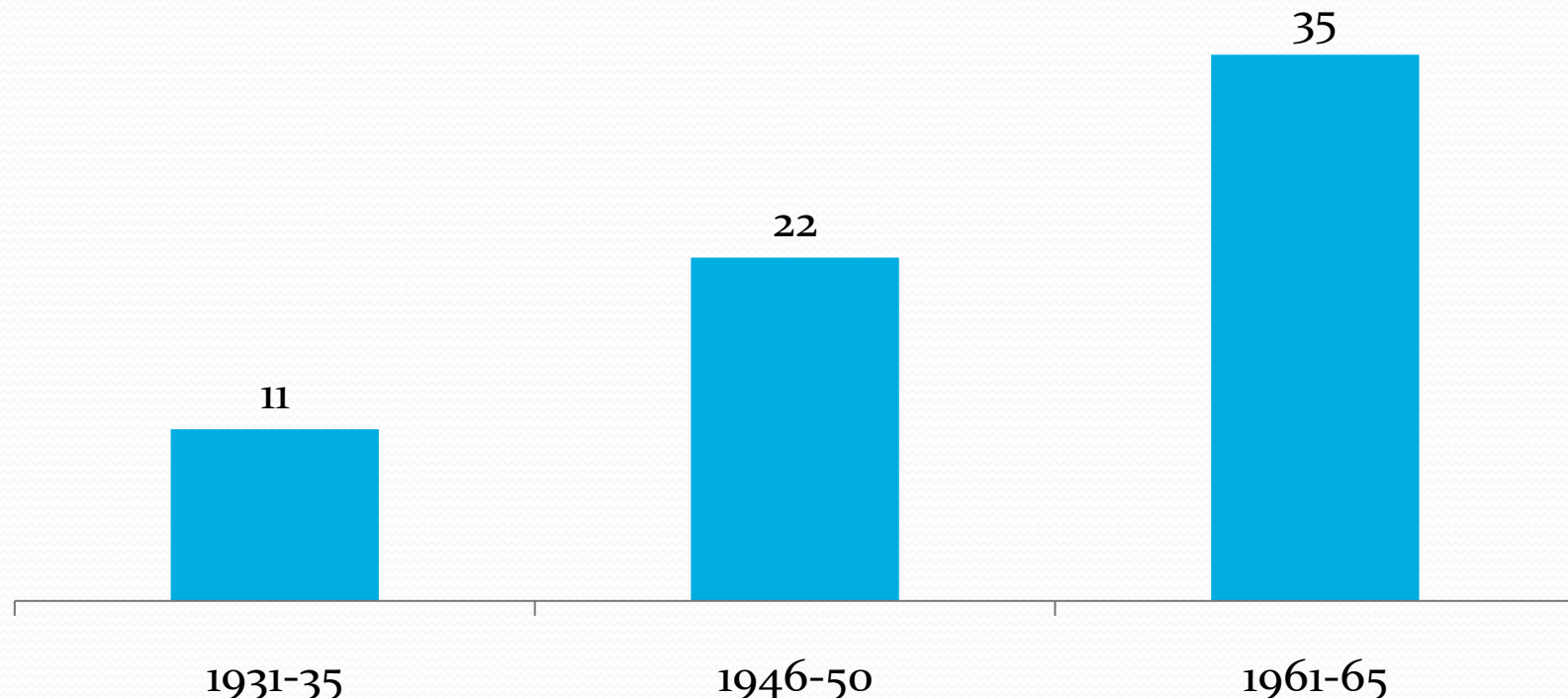
Distribution of Replacement Rates at Age 70,  
Based on Age 50-54 Earnings (%)



Source: Favreault, Johnson, Smith, and Zedlewski (2012).

## But Retirees Will Fall Further behind Workers When the Boomers Turn 70

Percentage of Adults Age 70 with Per Capita Incomes  
(Annuitized Measure) below 25% of Average Annual Wage,  
by Birth Cohort



Source: Favreault, Johnson, Smith, and Zedlewski (2012).

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## Our Projections Do Not Reveal a Sharp Decline in Retirement Income Security

- The growth in boomer women's employment and earnings will boost retirement incomes
  - Majority of boomer women will earn their own Social Security and receive higher benefits than in the past
  - More will have their own pensions, retirement accounts
  - These trends offset stagnation in men's earnings
  - Challenges remain for widowed, divorced, never married
- But about 1 in 4 retired boomers will not be able to replace three-quarters of their earnings unless they spend down retirement wealth
  - Nearly 1 in 3 will struggle even if they spend down



## Challenges and Uncertainty Persist

- Shift to DC plans exposes more to uncertain investment returns
  - How much will stocks and bonds earn?
  - Will workers fully participate in these plans?
- How long will boomers work?
  - Job loss at older ages could derail retirement plans
- Will retired Boomers dip into their housing wealth?
- How fast will health care and long-term care spending increase?
- Will Congress cut Social Security and Medicare?
  - What will be the impact on beneficiaries?



## Policy Implications

- Many Boomers will continue to rely primarily on Social Security
  - Especially those with limited education, those never married, those widowed or divorced
  - Restoring the system's financial health is crucial
- We need to encourage work at older ages
- A significant share of boomers will reach age 70 with very little retirement wealth
  - bolster SSI, Social Security's minimum benefits
- Transforming retirement wealth into lifetime income will be key