Responding to COVID-19: Retirement Prospects for Boomers, Generation X, and Millennials

Tuesday, May 19, 2020
2:00 pm EDT
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How might this recession affect Social Security beneficiaries?

- **Causing seniors to claim retirement benefits earlier than planned**
- Permanently lowering benefits for people turning 60 this year (+ other benefit/tax impacts)
- Accelerating the depletion of the trust fund reserves
Millions of older Americans have lost their jobs

- ADP data show that between the middle of February and the middle of April, 22% of workers aged 60 or older lost their jobs (Cajner et al. 2020)

- In data from the Nielsen Homescan panel, between January and early April, the share of nonparticipants who are retired jumped by 7 percentage points (Coibion, Gorodnichenko, and Weber 2020)

  - In the same data, 28% of people who transitioned from employed to out of the labor force said they had retired (Coibion, Gorodnichenko, and Weber 2020)

  - Those numbers imply an additional 1.3 million retirees through April 6

- People often respond to negative income shocks by claiming Social Security
OASI claims jumped during and immediately after the Great Recession

Note: Gray area denotes recession declared by NBER. Data are measured annually in December. Source: Social Security Administration.
This looks far worse than the Great Recession

Employment-to-population ratio of Americans aged 62+

Note: Gray areas denote recessions declared by NBER. Source: Current Population Survey.
Early claiming hurts seniors

• By definition, anyone claiming because of an income loss is claiming at an earlier age than they had planned

• For every year earlier that someone claims, their monthly benefit is permanently reduced by up to 8% (depending on age)

• If the coronavirus recession causes earlier claims, it threatens future retirement security

• Underlines the importance of boosting savings so that seniors don’t need to respond to income loss in this manner
How might this recession affect Social Security beneficiaries?

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- **Permanently lowering benefits for people turning 60 this year (+ other benefit/tax impacts)**

- Accelerating the depletion of the trust fund reserves
**Wage indexing**

- An individual's Social Security retirement benefit is based on their lifetime earnings.

- Those earnings are adjusted for changing wages by multiplying each year's nominal earnings by the ratio of the average wage index in the year the worker turns 60 to the AWI in the year when the earnings occurred.

- A depressed AWI in 2020 would mean that each dollar earned *during the entire career* of someone turning 60 this year would earn them fewer dollars in Social Security OASI benefits.

- The first step in calculating each year's AWI is taking the ratio:

  \[
  \text{Aggregate payroll earnings during the year} \div \text{Workers who received W-2s during the year}
  \]

- Aggregate earnings will fall as people lose jobs and hours, and raises are put on hold; but denominator is unlikely to be significantly changed, lowering 2020’s AWI and thereby the benefits of anyone turning 60 this year.
Lower AWI could significantly lower benefits

• Biggs (2020) models the effects of earnings coming in 15% lower than forecast in 2020, 10% lower in 2021, 5% lower in 2022, and returning to projected levels in 2023

• He finds that this would lower Social Security benefits for a stylized worker turning 60 this year by about 14%
  • True for stylized workers across the whole range of lifetime earnings

• A representative medium-wage worker would see the present discounted value of their lifetime benefits fall by just over $70,000

• Congress can legislate a fix
The recession will have other near-term impacts

For example:

• Taxable maximum earnings change each year according to the change in the AWI (Whitman and Shoffner 2011); a fall in the AWI would therefore lower the taxable maximum

• Weak demand may lower inflation so that there is no COLA in 2020
  • Would be only the fourth year without a COLA since automatic COLAs introduced in 1975 (Munnell 2020)
How might this recession affect Social Security beneficiaries?

- Causing seniors to claim retirement benefits earlier than planned
- Permanently lowering benefits for people turning 60 this year (+ other benefit/tax impacts)
- **Accelerating the depletion of the trust fund reserves**
A recession could accelerate the depletion of the Social Security trust funds

- Social Security is funded through payroll taxes, interest on bonds held by trust fund, and taxation of benefits

- All three sources threatened by a recession

- Meanwhile, more claims would modestly raise costs in the near term

- Before the Great Recession had set in, the Social Security trustees projected that reserves in the OASI trust fund would be exhausted in 2042; by 2012, that date had moved up to 2035

- Future course of this recession uncertain, but Nicko Gladstone and I found that if we suffered another Great Recession, OASI trust fund reserves would be depleted in 2029
  - Even somewhat milder scenarios are similarly bleak
Reserves in the OASI trust fund under scenario of another Great Recession
Cumulative contributions to change in OASI trust fund balance through the end of 2029

Note: Reduced revenue includes the effects of lower payroll tax revenue, lower interest rates, and reduced taxation of benefits. Additional claiming costs reflect seniors claiming earlier than planned because of the recession. Increased mortality reflects deaths of seniors from coronavirus and a consequent drop in OASI beneficiaries.
References


Abigail Zapote

Executive Director
Latinos for a Secure Retirement
Our mission is to safeguard the economic security of those dependent, now or in the future, on Social Security, and ensure equitable access to the Older Americans Act services. With the ultimately goal to protect and improve the economic security of disadvantaged and at-risk Hispanic populations of the United States.
401(K)'s Affected By Volatile Markets & Financial Security of Account Holders

<table>
<thead>
<tr>
<th>Account Type</th>
<th>4Q 2019 Average Balance</th>
<th>1Q 2020 Average Balance</th>
<th>Average Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>401(k)</td>
<td>$112,300</td>
<td>$91,400</td>
<td>$20,900 (19%)</td>
</tr>
<tr>
<td>IRA</td>
<td>$115,400</td>
<td>$98,900</td>
<td>$16,500 (14%)</td>
</tr>
</tbody>
</table>

Data Source: Fidelity.

- Stopping contributions
- Employers cutting back on 401(k) matches
- Risk tolerance depending on age
- Early distributions
- Taking advantage of market dips

Latinos for a Secure Retirement
CARES ACT
POLICY
IMPLICATION ON
RETIREMENT

Elimination of 10% Early Withdrawal Penalty

Increase in the Retirement Plan Loan Amount – From $50,000 to $100,000 for 2020.

2020 Required Minimum Distributions (RMDs) Waived for Retirement Accounts
DECLINING 401(K)'S & RETIREMENT PROSPECTS PER GENERATIONAL COHORT

CURRENT RETIREES
HIGH MARKET LOSSES

NEARING RETIREMENT
WILL CATCH UP CONTRIBUTIONS BE POSSIBLE

GEN-X
LOSS OF PEAK EARNING YEARS

MILLENNIALS
DEPLETE SAVINGS

GEN-Z
JOBS?

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POLICY SOLUTIONS TO INCREASE RETIREMENT PROSPECTS FOR ALL GENERATIONAL COHORTS

- Social Security Expansion
- Caregiver Credit
- Paid Family Leave
- Pathway to Legalization for Undocumented Communities
- Accessible & Affordable Healthcare
- State Sponsored Retirement Plans

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INEQUITY IMPACTS ON RETIREMENT SECURITY

Undocumented Communities of Color Queer Community New Citizens
Low-income Elders Middle Class Elders Upper Class Elders Citizens

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Tyler Bond
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Access to Pensions Has Declined

Percentage of Private-Sector Wage and Salary Workers Participating in an Employment-Based Retirement Plan, by Plan Type, 1979–2017

# Median Household Net Worth by Retirement Income Source

<table>
<thead>
<tr>
<th>All Households by Retirement Income Sources</th>
<th>Median SS Amount</th>
<th>Median DB Amount</th>
<th>Median DC Amount</th>
<th>Median Total Household Income</th>
<th>Median Net Worth (Excluding Retirement Assets)</th>
</tr>
</thead>
<tbody>
<tr>
<td>SS Income Only</td>
<td>$16,680</td>
<td>$0</td>
<td>$0</td>
<td>$24,284</td>
<td>$80,405</td>
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<tr>
<td>DB and SS</td>
<td>19,320</td>
<td>12,000</td>
<td>0</td>
<td>38,532</td>
<td>108,690</td>
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<td>DC and SS</td>
<td>24,408</td>
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<td>7,500</td>
<td>43,884</td>
<td>301,870</td>
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<tr>
<td>SS, DB and DC</td>
<td>25,680</td>
<td>19,260</td>
<td>6,754</td>
<td>60,024</td>
<td>319,050</td>
</tr>
</tbody>
</table>

Source: Tyler Bond and Frank Porell, *Examining the Nest Egg*, National Institute on Retirement Security
Public Plan Assets Recovered from the Last Recession

Source: NASRA, Public Pension Assets, Q4 2019
Michigan SERS: Unfunded Liabilities Grew Over Time

Source: Tyler Bond and Dan Doonan, Enduring Challenges, National Institute on Retirement Security
Michigan SERS: Taxpayer Contributions Rising

Michigan SERS: Employer Contribution and Funded Status

Source: Tyler Bond and Dan Doonan, *Enduring Challenges*, National Institute on Retirement Security
Figure 3: Distribution of Baby Boomer Financial Assets, by Wealth Percentiles - 2016

Percentage of financial assets owned

- Bottom 50% of households by net wealth: 2%
- Top 50% of households by net worth: 98%

Percentage of financial assets owned

- Top 25%: 91%
- Top 10%: 75%
- Top 5%: 60%

Source: Tyler Bond and Nari Rhee, Financial Asset Inequality, National Institute on Retirement Security
Millennial Financial Asset Ownership - 2016

Figure 5: Distribution of Millennial Financial Assets, by Wealth Percentiles - 2016

Source: Tyler Bond and Nari Rhee, Financial Asset Inequality, National Institute on Retirement Security
QUESTIONS FROM THE AUDIENCE

Please submit questions in the Q&A box.
Thank you for joining today’s discussion.