No Rest for The Weary: Measuring the Changing Distribution of Retirement Wealth in The United States

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1. Research Question

- Have retirement wealth-building institutions exacerbated wealth accumulation inequalities for the average American working household?

2. Motivation

- To understand how retirement wealth accumulation has changed, particularly given past government efforts to cut social insurance programs in favor of individual financial accounts.

- Previous research has underappreciated the contributions of social insurance to retirement wealth and therefore underestimate declines in US wealth over time.

3. Data and Methodology

- Data
  - Health and Retirement Study (HRS) 1992-2016
  - Survey of Consumer Finances (SCF) 1992-2022

- Sample
  - Households with a member aged 51 – 56

- Methods
  - We compare medians (and means) of net wealth, as well as of specific wealth categories, over time for Piketty's wealth groups and by race/ethnicity.
  - We include the present value of expected Social Security benefits in our HRS wealth estimates.

4. Results

Wealth outside of Social Security mostly declined for all but the top 10%

Table 1: Change in median between 1992 and 2016, by wealth distribution			
Type of Asset/Debt	Bottom 50%	Middle 40%	Top 10%
Primary Residence net of mortgage debt	-61,900	-9,600	121,000
Social Security	-57,000	-3,300	9,400
Retirement Savings and Benefits (DC, DB, IRA)	-42,200	-1,700	198,000
Other sources of wealth and debt	-3,500	12,800	552,600
Net Wealth	-164,600	-1,800	881,000

Source: Authors calculations using 1992 and 2016 HRS data and 2020 RAND-HRS longitudinal data.
Note: All amounts are calculated in 2016 USD. Cutoffs points for wealth groups are defined based on their net wealth and marital status. For single households the cutoffs are $361,00 (50th pct.) and $1,031,100 (90th pct.) in 1992 and $233,700 (50th pct.) and $943,500 (90th pct.) in 2016. For couples, the cutoffs are $678,100 (50th pct.) and $1,465,500 (90th pct) in 1992, and $559,100 (50th pct.) and $2,004,800 (90th pct) in 2016. Stock and bond categories represent direct ownership (i.e., outside of 401(k)-type plans and IRAs). Household sampling weights.

Home equity is low and eroded significantly for all but the top 10%

Table 2: Median wealth levels in 2016, by wealth distribution			
Type of Asset/Debt	Bottom 50%	Middle 40%	Top 10%
Primary Residence net of mortgage debt	$0	$128,000	$305,000
Social Security	$188,300	$300,500	$311,800
Retirement Savings and Benefits (DC, DB, IRA)	$0	$200,000	$764,700
Other sources of wealth and debt	$5,000	$23,000	$67,000
Net Wealth	$265,700	$865,400	$2,690,400

Source: Authors calculations using 1992 and 2016 HRS data and 2020 RAND-HRS longitudinal data.
Note: All amounts are calculated in 2016 USD. Cutoffs points for wealth groups are defined based on their net wealth and marital status. For single households the cutoffs are $361,00 (50th pct.) and $1,031,100 (90th pct.) in 1992 and $233,700 (50th pct.) and $943,500 (90th pct.) in 2016. For couples, the cutoffs are $678,100 (50th pct.) and $1,465,500 (90th pct) in 1992, and $559,100 (50th pct.) and $2,004,800 (90th pct) in 2016. Stock and bond categories represent direct ownership (i.e., outside of 401(k)-type plans and IRAs). Household sampling weights. Numbers highlighted in red indicate wealth categories that decreased between 1992 to 2016.

Social Security is a major contributor to wealth for everyone except the top 10%

Table 3: Share of each asset type of net wealth in 2016, by wealth distribution			
Type of Asset/Debt	Bottom 50%	Middle 40%	Top 10%
Primary Residence net of mortgage debt	12.4%	18.5%	11.7%
Social Security	74.6%	32.5%	9.3%
Retirement Savings and Benefits (DC, DB, IRA)	9.0%	30.4%	28.7%
Business (net), Stocks, and Bonds	0.9%	7.0%	26.6%
Checkings/Savings Accounts and Other Savings	1.7%	4.3%	5.3%

Source: Authors calculations using 1992 and 2016 HRS data and 2020 RAND-HRS longitudinal data.
Note: Cutoffs points for wealth groups are defined based on their net wealth and marital status. For single households the cutoffs are $233,700 (50th pct.) and $943,500 (90th pct.) in 2016. For couples, $559,100 (50th pct.) and $2,004,800 (90th pct) in 2016. Stock and bond categories represent direct ownership (i.e., outside of 401(k)-type plans and IRAs). Household sampling weights.

Wealth building outside of Social Security failed white, Black, and Hispanic households

Table 4: Change in median between 1992 and 2016, by race and ethnicity				
Type of Asset/Debt	White non-Hispanic	Black non-Hispanic	Hispanic	Other
Primary Residence net of mortgage debt	-24,600	-34,400	-41,300	16,400
Social Security	200	35,100	44,100	24,700
Retirement Savings and Benefits (DC, DB, IRA)	-41,100	-69,200	-55,000	20,600
Other sources of wealth and debt	-77,500	-72,500	-23,000	142,900
Net Wealth	-143,000	-141,000	-75,200	204,600

Source: Authors calculations using 1992 and 2016 HRS data and 2020 RAND-HRS longitudinal data.
Note: All amounts are calculated in 2016 USD. Race and ethnicity are determined on individual bases before applying household sampling weights. All amounts are in 2016 dollars

Social Security is an important component to wealth across race and ethnicity

Table 5: Median wealth levels in 2016, by race and ethnicity				
Type of Asset/Debt	White non-Hispanic	Black non-Hispanic	Hispanic	Other
Primary Residence net of mortgage debt	$70,000	$0	$0	$80,000
Social Security	$253,900	$211,200	$204,600	$237,800
Retirement Savings and Benefits (DC, DB, IRA)	$60,000	$5,000	$0	$55,000
Other sources of wealth and debt	$15,000	$5,000	$4,000	$13,500
Net Wealth	$558,700	$326,400	$339,700	$731,400

Source: Authors calculations using 1992 and 2016 HRS data and 2020 RAND-HRS longitudinal data.
Note: All amounts are calculated in 2016 USD. Race and ethnicity are determined on individual bases before applying household sampling weights. All amounts are in 2016 dollars. Numbers highlighted in red indicate wealth categories that decreased between 1992 to 2016.

Social Security wealth helps to reduce racial disparities in retirement wealth

Table 6: Share of each asset type of net wealth in 2016, by race/ethnicity				
Type of Asset/Debt	White non-Hispanic	Black non-Hispanic	Hispanic	Other
Primary Residence net of mortgage debt	14.6%	13.3%	12.1%	17.4%
Social Security	28.6%	44.6%	38.4%	28.2%
Retirement Savings and Benefits (DC, DB, IRA)	27.8%	23.2%	14.7%	27.6%
Business (net), Stocks, and Bonds	15.1%	7.7%	14.2	10.4%
Checkings/Savings Accounts and Other Savings	4.9%	2.7%	2.1%	4.3%

Source: Authors calculations using 1992 and 2016 HRS data and 2020 RAND-HRS longitudinal data.
Note: Cutoffs points for wealth groups are defined based on their net wealth and marital status. For single households the cutoffs are $233,700 (50th pct.) and $943,500 (90th pct.) in 2016. For couples, $559,100 (50th pct.) and $2,004,800 (90th pct) in 2016. Stock and bond categories represent direct ownership (i.e., outside of 401(k)-type plans and IRAs). Household sampling weights.

5. Discussion

- Both low- and middle-wage workers miss out on the four major institutions that contribute to retirement wealth accumulation:
    - (1) Unions, voluntary employer retirement plans, and Social Security;
    - (2) Tax and regulation policies that affect mortgages and retirement savings;
    - (3) Individual and idiosyncratic saving behaviors and bequests;
    - (4) Rates of return on sources of wealth.

- Housing security is a growing issue for elders since home equity has been eroded – perhaps by HELOCS and late in life mortgages.

- The role of unions in retirement wealth is underappreciated.

6. Policy Recommendations

- Move from a voluntary to mandatory system, subsidize low-wage workers' savings, and implement automatic enrollment.

- Strengthen and expand Social Security and work-based retirement plans.

7. Further Research

- Regression analysis to identify race and job instability as an independent factor in wealth accumulation

- Add effects of tax expenditures

- Explore why Social Security increased just for top 10%

Thank You