Pew report shows decline in retirement security for most Americans

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18 May 2013

On Thursday, the Economic Mobility Project of the Pew Charitable Trusts released a new report documenting an important aspect of the growing social crisis in the United States. The study, titled "Retirement Security Across Generations: Are Americans Prepared for Their Golden Years?", provides a glimpse into the precarious situation facing those who are approaching retirement age.

Among the many significant findings in the study is that Americans born after 1955 carry more debt than have previous generations, and that this age group faces a severe decline in living standards upon retirement.

The study examines retirement security for different age groups, or cohorts, using data from the Federal Reserve's Survey of Consumer Finances and the Panel Study of Income Dynamics, conducted at the University of Michigan. The five age cohorts in the study are defined as follows:

The "Depression babies" were born between 1926 and 1935 and are 78 to 87 years old; "War babies" were born between 1936 and 1945 and are 68 to 77 years old; "Early boomers" were born between 1946 and 1955 and are 58 to 67 years old; "Late boomers" were born between 1956 and 1965 and are 48 to 57 years old. "Gen-Xers" were born between 1966 and 1975 and are 38 to 47 years old.

For purposes of comparing the age cohorts, the authors of the study used the median net worth. Considering the median, the two younger cohorts, the late boomers and Gen-Xers, do not have adequate resources for retirement and will thus likely face downward mobility on reaching retirement age.

The so-called Gen-Xers have lost 45 percent of their wealth—or an average of $33,000— since the economic downturn began in 2007, the study said. Gen-Xers tend to have more debt than other cohorts as well, including credit card and student loan debt.

Only the age cohort of Americans born between 1946 and 1955 is well-positioned for retirement, on average at least. These so-called early boomers tend to have more financial assets and greater home equity than the two preceding cohorts, people born between 1926 and 1935 and those born between 1936 and 1945.

The study compared the financial position of different cohorts at different times in their lives and found that Gen-Xers had higher net worth than late boomers when members of both groups were in their 30s and 40s. Neither group had as much wealth as the prior cohort, the early boomers, had in their 30s and 40s. Although the Gen-Xers had more wealth in their 30s and 40s than the previous cohort, the study notes that Gen-Xers' net worth in their 30s and 40s was measured shortly after the peak of the housing boom. Even so, neither the Gen-Xers nor the late boomers had the wealth of early boomers when they were in their 30s and 40s, which reflects the declining social position of broad layers of the population during the last several decades.

Financial advisors typically suggest planning to replace a minimum of 70 percent of one's current income with the savings and investments set aside for retirement. In other words, a worker should save for retirement at a rate that will yield a retirement income that is 70 percent of his or her income while working.

The Pew study predicts that late baby boomers will be able to replace only 60 percent of their working incomes in retirement, while Americans born between 1966 and 1975, the Gen-Xers, will be able to replace only half of their pre-retirement income.

The study also predicted increasing wealth inequality with each successive age cohort as they approached retirement.

A major factor in the diminished financial position of many Americans in the youngest two age cohorts is the continued downward pressure of housing prices. For most US households, the home is the single largest asset. Other factors that disparately affect the younger cohorts are high unemployment, rising health care costs and the decline of traditional employer-provided pension plans, which has shifted the burden of saving for retirement onto workers themselves.

Half of American workers have no employer-backed retirement plans. At the same time, four out of five private-sector workers with employer-backed plans have only defined contribution accounts, such as 401(k) and IRA accounts, as opposed to pension plans which pay a defined benefit.

The study's conclusion contains a dire warning: "The evidence strongly suggests that early boomers may be the last generation on track to exceed the wealth of the cohorts that came before them and to enjoy a secure retirement."

Release of the Pew study comes at a time of political agreement within the ruling elite about the need to drastically reduce or eliminate core social guarantees including Social Security, Medicaid and Medicare.

Whatever the exact dimensions of the cuts to these programs, it is increasingly clear that a secure retirement will become unavailable to broad sections of the US population.