Retirement Prospects for Millennials: What Is the Early Prognosis?

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Retirement financing in the United States has changed significantly over the past five decades. Social Security and private sector pension coverage expanded in the 1950s and 1960s but then contracted in later decades. Benefit formula changes in the 1970s reduced later payouts, and the 1983 Social Security amendments began raising the program's Full Retirement Age in 2000, essentially cutting benefits. Over the last 30 years, private sector employers have been steadily moving away from defined benefit (DB) pensions to defined contribution (DC) retirement plans that shift much of the responsibility for retirement saving from employers to employees, reducing retirement wealth for many workers. Since about 1990, many employers have also been cutting or eliminating retiree health benefits, raising families' out-of-pocket health care burden in later life. Moreover, recent economic trends such as stagnating wages, long-term unemployment, declining saving rates, and increasing debt – more of which is being carried into retirement – also shape wealth accumulation and retirement saving. Declining homeownership and mounting debt are especially concerning for the future retirement well-being of Generation Xers and Millennials.

Some previous studies evaluating retirement prospects for current and future retirees have concluded that younger cohorts are at greater risk than older generations of being unable to maintain their living standard in retirement. Other observers, however, point to more promising trends, such as the increasing earnings of women, that might mitigate retirement risks. How later generations will fare in a changing retirement environment – one with higher life expectancy, potentially less generous Social Security benefits, and more reliance on "do-it-yourself" private retirement plans – will depend largely on their preferences and attitudes toward saving.

This report used recent historical survey data and a dynamic microsimulation model to assess retirement prospects for future generations, with a special focus on the Millennial generation. Because retirement outcomes depend on how much people earned and saved when they were younger, much of our analysis compared trends in employment, earnings, pension coverage, and wealth during working ages across cohorts. Working-age outcomes that have already occurred factor into the retirement income projections generated by our microsimulation model. Although Millennials generally include those born between 1980 and 2000, we excluded from our analysis people born after 1990, because their labor market experience is too thin to draw firm conclusions about their long-term earnings potential and capacity to save for retirement.

Methods

We used household survey data from the *Current Population Survey*'s (CPS) Annual Social and Economic (ASEC) supplement and the *Survey of Consumer Finances* (SCF) spanning many decades to examine long-term trends in demographic and economic outcomes. Although the surveys do not follow the same households over time, we were able to create synthetic cohorts by combining information from interviews completed in various years by respondents born in the same period and comparing aggregate outcomes across cohorts at various ages. With CPS/ASEC data from 1966-2016, we created synthetic five-year cohorts for the birth years 1941-1945 through 1986-1990. Members of our youngest cohort were ages 26-30 in 2016, and members of our oldest cohort were ages 21-25 in 1966. We used CPS/ASEC data to examine trends in educational attainment, labor force participation, marriage rates, homeownership rates, and, for full-time workers, median earnings and participation rates in employer-sponsored retirement accounts. With SCF data from 1983-2013, we created synthetic six-year cohorts for the birth years 1928-1933 through 1976-1981. Members of our youngest SCF cohort were ages 32-37 in 2013, and members of our oldest cohort were ages 56-61 in 1983. We used SCF data to examine trends in household wealth.

To project retirement incomes for Baby Boomers, Gen Xers, and Millennials, we used DYNASIM4, a dynamic microsimulation model designed to analyze the long-run distributional consequences of retirement and aging issues. The model starts with a representative sample of individuals and families and ages them year by year, simulating key demographic, economic, and health events. For example, DYNASIM4 projects that, each year, some people in the sample get married, have a child, or find a job. The model projects that other people become divorced or widowed, stop working, begin collecting Social Security, become disabled, or die. These transitions are based on probabilities generated by carefully calibrated equations estimated from nationally representative household survey data. The equations account for important differences in how likely various experiences are, depending on gender, education, earnings, and other characteristics. Other equations in DYNASIM4 project annual earnings, savings, and home values. The model uses program rules – combined with projections of lifetime earnings, disability status, and household income and wealth – to project Social Security retirement, disability benefits, and Medicaid coverage. For consistency with Social Security's projections

about system finances, we generally use the same assumptions as the Social Security and Medicare trustees.

Selected Results

Our results suggest that Millennials' retirement security will be shaped by many of the same forces that are already beginning to buffet the financial security of current retirees, including the erosion of traditional DB pension plans and rising debt levels. So far, outcomes for Millennials are not dramatically worse than those for previous recent cohorts, although the steady generational improvement in economic status that defined American society in the middle of the 20th century appears to have ended, at least for now. Men's labor force participation rates continue to decline before age 55 and their median wage remains stagnant. Gen X and Millennial women are earning more than the Boomers did, but Millennials are not earning more than Gen Xers. In terms of household wealth, people born after 1970 are not accumulating wealth any faster than those born in the 1960s, reversing the generational growth experienced by earlier cohorts, and Millennials are less likely to own a home than earlier generations. However, the collapse in home prices and the stock market in the late 2000s complicate these generational comparisons. The most encouraging development for Millennials is the growth in college graduation rates, which raises their future earnings potential.

Our projections show that median, age-70 income will be higher for Millennials than previous generations, but a greater share may experience falling living standards when they stop working. Using a measure of retirement income that includes payouts that could be collected from an actuarially fair annuity valued at 80 percent of a retiree's financial assets and retirement accounts, we find that 41 percent of 70-year-olds born between 1976 and 1985 would be unable to replace at least 75 percent of the inflation-adjusted average annual earnings they and their spouse received from ages 50-54. By comparison, replacement rates at age 70 would likely fall short of the 75-percent threshold for 38 percent of those born between 1966-1975 and 33 percent of those born between 1956-1965, 1946-1955, and 1936-1945. These projections are sensitive to our assumption about future wage growth.