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SCHWARTZ CENTER FOR ECONOMIC POLICY ANALYSIS
POLICYNOTE

40% OF OLDER WORKERS AND THEIR SPOUSES WILL EXPERIENCE DOWNWARD MOBILITY IN RETIREMENT

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ELEVATOR PITCH

Inadequate retirement accounts will cause 8.5 million middle-class older workers and their spouses – people who earn over twice the official poverty line of $23,340 (if single) or $31,260 (if coupled) – to be downwardly mobile, falling into poverty or near poverty in their old age.

KEY FINDINGS

- Two in five - or 40% - of older workers and their spouses will be downwardly mobile in retirement.
- If workers ages 50-60 retire at age 62, 8.5 million people are projected to fall below twice the Federal Poverty Level, with retirement incomes below $23,340 for singles and $31,260 for couples.
- 2.6 million of 8.5 downwardly mobile workers and their spouses will have incomes below the poverty level – $11,670 for an individual and $15,730 for a two-person household.
- A typical single worker in the middle 40% of earners (earning $25,000-$64,000) can expect an annual income of $18,000 if they retire at age 62, the most common age of retirement.
- Couples in the middle 40% of earnings (earning $44,000-$105,000) can expect an annual income of $29,500 if workers retire at age 62.

Table 1: Projected Downward Mobility in Retirement of Individuals in Older, Working Households

Sources: Authors' calculation using the 2014 Survey of Income and Program Participation.
Notes: The sample comprises workers ages 50-60 in 2014 and their spouses or partners. They are considered to be downwardly mobile if their household labor market earnings exceed 200% of the Federal Poverty Level (FPL),[1] but their household is projected to have income below 200% of FPL in retirement at age 62.

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PROJECTING DOWNWARD MOBILITY

Older workers - ages 50-60 and their spouses – are projected to be downwardly mobile in retirement if their household income is currently more than twice the Federal Poverty Level (more than $23,340 for a single individual, and more than $31,260 for a couple in 2014), but is projected to be less than twice the Federal Poverty Level in retirement.

This study treats claiming benefits as synonymous with retirement.[2] The projection assumes that workers retire at age 62 because more than half of workers claim benefits at that age.[3] Because working longer is often touted as a solution to the retirement savings crisis, we test the sensitivity of our findings to an alternative assumption that workers retire at age 65 (less than 10 percent retire after that age).

We assume that households contribute to their retirement plans until retirement and earn returns on their retirement savings and other financial assets. At retirement, households use their retirement and non-retirement financial wealth to purchase an inflation-indexed lifetime income. The appendix explains the projection's assumptions in detail.

8.5 MILLION MIDDLE-CLASS OLDER WORKERS ARE PROJECTED TO EXPERIENCE DOWNWARD MOBILITY IN RETIREMENT

We project two in five older workers and their spouses will be downwardly mobile in retirement. If workers currently ages 50-60 retire at age 62, 8.5 million people – or 40 percent of these workers and their spouses - are projected to become downwardly mobile, with incomes falling below twice the Federal Poverty Level ($23,340 for a single individual, and $31,260 for a couple) when they retire. Of these, 2.6 million will have incomes of less than the poverty level, or $11,670 for an individual and $15,730 for a two-person household.

Table 2: Projected Downward Mobility of Older Working Households in Retirement

Threshold	Assumed Retirement Age	Individuals (million)	Share
Poor	62	2.6	8%
	65	1.2	4%
Near Poor	62	8.5	40%
	65	5.0	19%

Source: Authors' calculation using the 2014 Survey of Income and Program Participation.
Notes: The sample comprises workers ages 50-60 in 2014 and their spouses or partners. They are considered to be downwardly mobile if their household labor market earnings exceed the given threshold, but their household is projected to have income below the threshold in retirement. Numbers of individuals are rounded to the nearest 50,000 and percentages to the nearest percentage point.

DOWNWARD MOBILITY IS CAUSED BY INADEQUATE RETIREMENT SAVINGS

If older workers retire at age 62, couples in the middle 40 percent of the income distribution will receive on average $29,500 in retirement income. Of this total, the largest share comes from Social Security, which contributes $23,000. In contrast, income from defined contribution (DC) and defined benefit (DB) retirement plans average $4,000 and $1,500, respectively, reflecting low levels of coverage and small account balances. Only 17 percent[4] of these couples own non-retirement financial assets, such as money market accounts, CDs, government securities, municipal and corporate bonds, stocks, or annuities. Averaged over all households in the middle 40 percent, yearly income from these sources is a mere $1,000 (Table 3).

Table 3: Projected Annual Retirement Income of Coupled Households Ages 50-60

Income Source	% with income	Income if retiring at 62	Income if retiring at 65
All sources	100%	$29,500	$38,000
Social Security	100%	$23,000	$29,500
DC Savings	66%	$4,000	$5,500
DB Pension	18%	$1,500	$2,000
Financial Assets	17%	$1,000	$1,000

Source: Authors' calculation using the 2014 Survey of Income and Program Participation
Notes: Dollar amounts are means (in 2014 dollars) for the middle 40 percent of earning households (coupled households earning $44,000-$105,000) rounded to the nearest $500. Means are not conditional on having income source. Percentages are rounded to the nearest percentage point.

WORKING LONGER WILL NOT PREVENT DOWNWARD MOBILITY

Due to poor health and lack of employment opportunities, many older workers are unable to delay retirement. However, even if workers delay retirement until age 65, 5 million people will be downwardly mobile and 1.2 million will fall below the Federal Poverty Level. Delaying couples' retirement to age 65 increases their projected average annual retirement income by just $8,500, to $38,000. Of the additional $8,500, $6,000 comes from Social Security, $500 from DB pensions, and $1,500 from DC pensions (Table 3). Working longer may help some, but it is not the solution to the retirement savings crisis.

SINGLE HOUSEHOLDS ARE EVEN WORSE OFF

We project the retirement income of single older workers because single households are a large (24 percent) and growing share of older households. Rising divorce rates among older couples often cause the less wealthy partner to be left in a precarious financial situation.

Single older workers in the middle 40 percent of earners will receive on average $18,500 in retirement income, $14,000 of which will come from Social Security. An additional $3,000 is expected from DC pensions, $1,000 from DB pensions and $500 from financial assets. Delaying retirement from age 62 to age 65 provides an additional $6,500 in retirement income, of which most ($4,000) comes from Social Security (Table 4).

Table 4: Projected Annual Retirement Income of Single Workers Ages 50-60

Income Source	% with income	Income if retiring at 62	Income if retiring at 65
All sources	100%	$18,500	$25,000
Social Security	100%	$14,000	$18,000
DC Savings	55%	$3,000	$5,000
DB Pension	12%	$1,000	$1,500
Financial Assets	11%	$500	$500

Source: Authors' calculation using the 2014 Survey of Income and Program Participation
Notes: Dollar amounts are means (in 2014 dollars) for the middle 40 percent of earning households (coupled households earning $44,000-$105,000) rounded to the nearest $500. Means are not conditional on having income source. Percentages are rounded to the nearest percentage point.

POLICY RECOMMENDATIONS

Insufficient savings in DC plans and low coverage by DB plans are among the main drivers of the projected downward mobility of today's older workers and their households. Working longer, tested here by delaying the assumed retirement age from 62 to 65, will still leave many people with insufficient income. Moreover, for many workers, delaying retirement is not possible. Some cannot handle the physical demands of work at older ages,[5] and some who can work have difficulty finding jobs offering decent pay. Workers forced to delay retirement due to inadequate savings will lose deserved retirement time, and some may die before they retire.

All workers deserve a dignified, financially secure retirement after a lifetime of work. Policymakers should strengthen Social Security – the most effective vehicle for preventing old-age poverty. But we also need a strong second tier.

Only 65 percent of workers nearing retirement have any retirement wealth (an IRA or 401(k) balance or a defined benefit pension from a current or past job), and the median balance of those with IRA or 401(k) plans is $92,000, which will provide a lifetime income of a mere $300 a month.[5] Guaranteed Retirement Accounts (GRAs) are individual accounts requiring employers and employees to contribute with a fair and effective refundable tax credit provided by the government. GRAs provide a safe, effective vehicle for workers to accumulate personal retirement savings over their working lives.[7]

ENDNOTES

1. The Federal Poverty Level for a single-person household in 2014 was $11,670, and $15,730 for a two-person household.
2. Labor market outcomes for those who work after claiming are typically modest and decline rapidly with age.
3. Munnell and Chen (2015).
4. Financial Assets do not include bank savings accounts. Although bank savings accounts are widespread, their balances are too low to alter retirement income.
5. Johnson (2017).
6. Ghilarducci, Papadopoulos, and Webb (2017).
7. Ghilarducci and James (2018).
8. Clingman and Burkhalter (2017).

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APPENDIX

This brief uses Wave 1 the 2014 Survey of Income and Program Participation (SIPP) and the supplemental questions in the Social Security module. Workers' individual retirement incomes are projected and summed into households. Retirement income is the sum of income from Social Security (including spousal benefits), defined benefit (DB) pensions, annuitized defined contribution (DC) savings, and annuitized wealth from other financial assets.

For households with two workers ages 50-60, for our age 62 scenario, we assume each spouse retires at age 62, project each spouse's income to that age, and sum. For our age 65 scenario, if the younger worker is age 62 or younger at this point, we use their projected retirement income for age 62. If the younger worker is ages 63-65, they receive their projected retirement income at that age. For spouses who have already retired, we take their current reported incomes from each income source. Only heads of household and their spouse (if any) are included as part of a household, and if there are multiple households living together they are treated as separate observations.

Because this survey only asks respondents to report their earnings from the most recent year, we must construct profiles of career earnings for each worker. The Social Security Administration constructs scaled earnings factors for ages 21-64, and we use these factors to construct age-earnings profiles for each worker.[8] The 35 highest-earning years in these synthetic age-earnings profiles are then used to project Social Security income in retirement.

We consider all DB plans from current and previous jobs to project DB pension income in retirement. For pensions from current jobs, we assume the worker stays at their current job until retirement, and receives benefits equal to 1.5 percent of the average of their last five years of earnings at the job (using the synthetic age-earnings profiles) per year of job tenure. For pensions from past jobs, we assume the same accrual rate of 1.5 percent. For the purposes of determining earnings when transitioning out of past jobs, workers are assumed to have left past jobs at the same age and same nominal pay as their starting pay on their current job.

A worker's DC savings is the sum of the balances in their savings in 401(k), 401(k)-equivalent accounts, and IRA savings, from current and past jobs. We project income post-retirement from retirement savings with generous assumptions: (1) workers earn a 4.5 percent real return on investments net of fees; (2) workers contribute 6 percent of earnings to their 401(k) with an employer match of 3 percent; and (3) workers purchase an inflation-indexed annuity when they retire. Although people rarely purchase an inflation-indexed annuity, it provides a higher income than commonly used drawdown strategies and is the only financial product that provides an inflation-indexed lifetime income. Thus, the assumption yields a conservative estimate of the share of households financially unprepared for retirement. We assume August 2017 annuity rates.

We make similar generous assumptions for income from other financial assets. A worker's financial assets include the value of money market accounts, CDs, government securities, municipal and corporate bonds, stocks, and equity in annuities. We assume workers earn a 4.5 percent real return on their investments, and purchase an inflation-indexed annuity when they retire.

We report the mean retirement income separately for the middle 40 percent of single earners (earning $25,000-$64,000) and for coupled households (earning $44,000 to $105,000). This provides estimates that are close to the median while allowing for individual components of retirement income to be additive.

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