

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

Tuesday, May 19, 2020

2:00 pm EDT

NATIONAL
ACADEMY
OF • SOCIAL
INSURANCE

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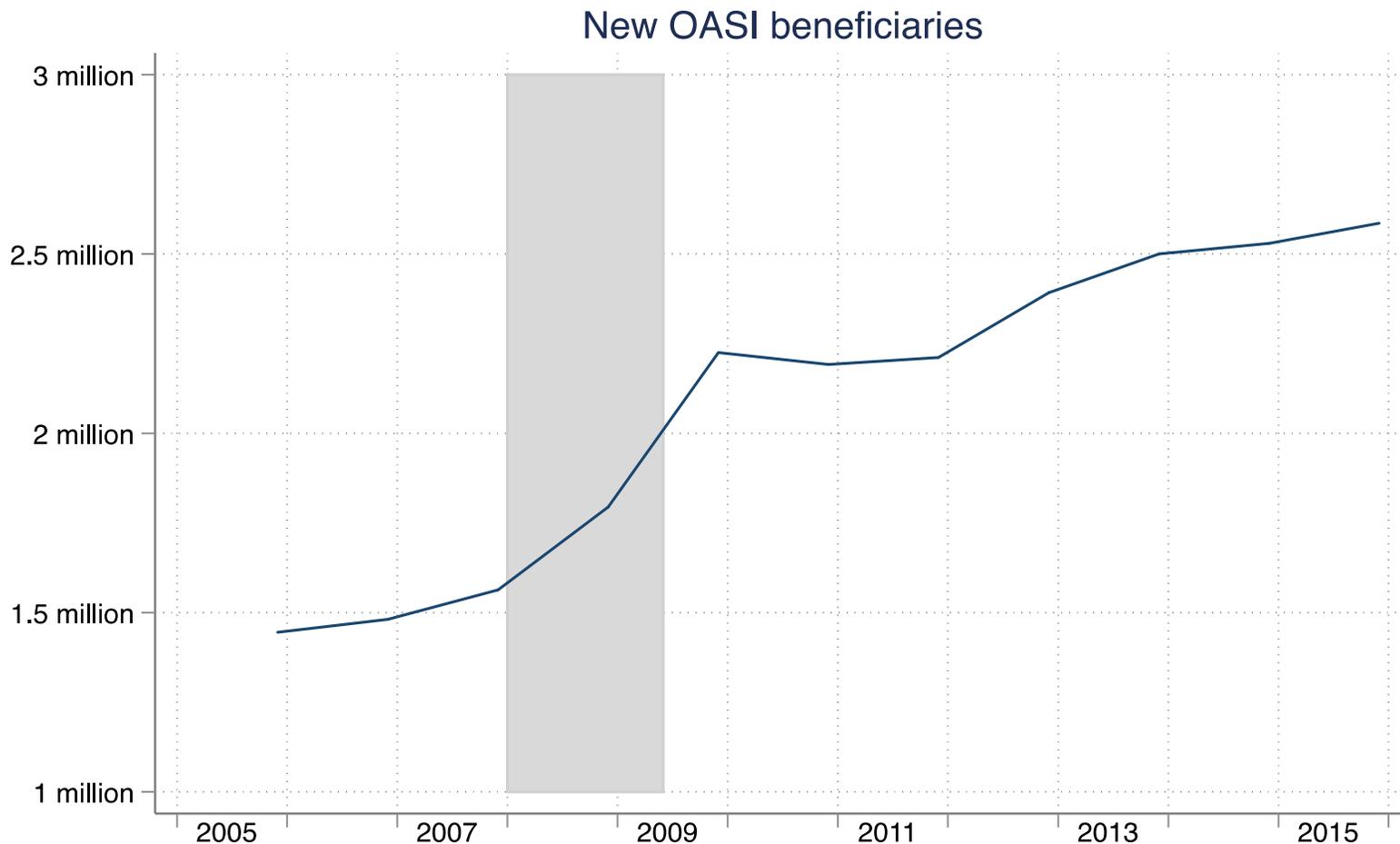
How might this recession affect Social Security beneficiaries?

- **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

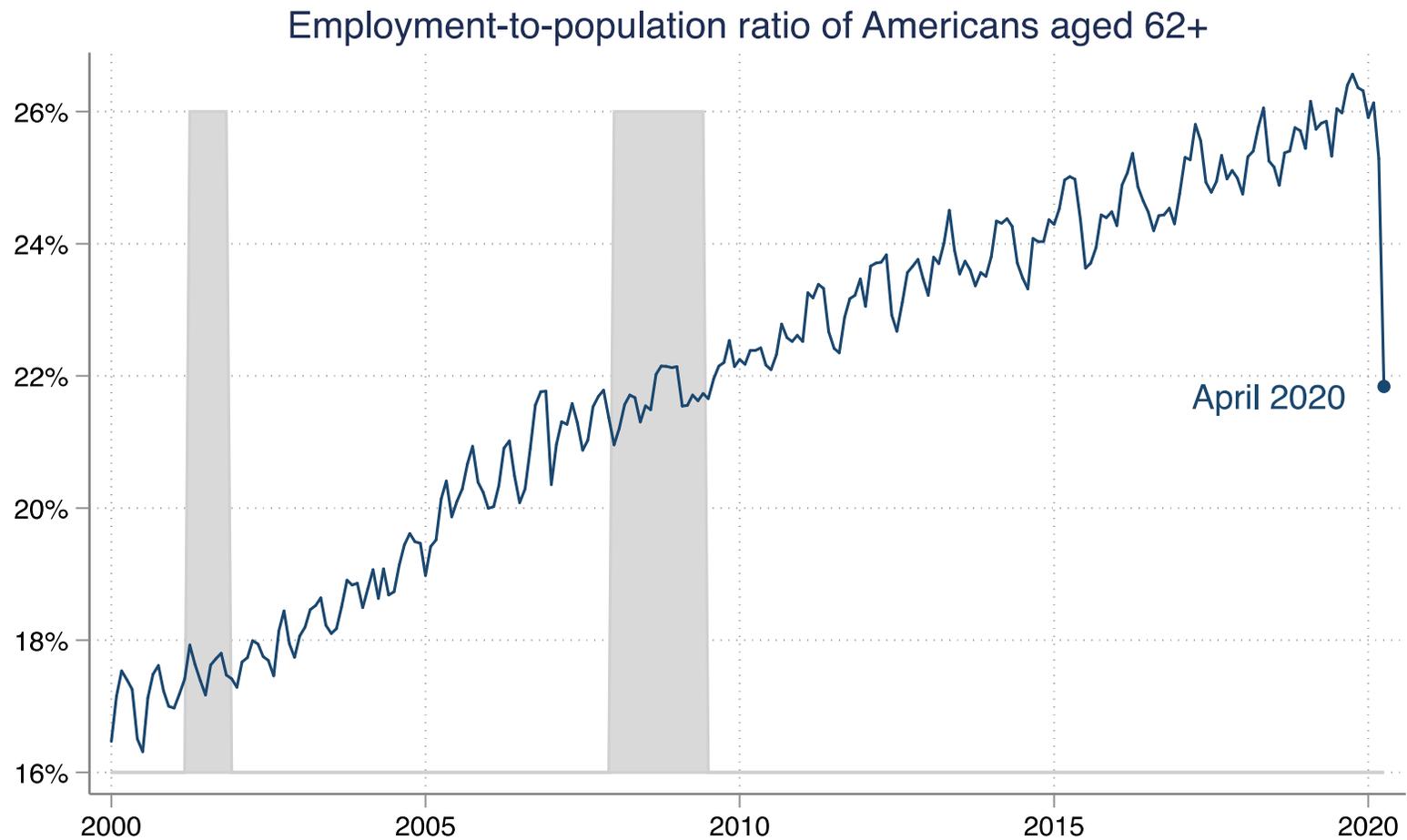
- ADP data show that between the middle of February and the middle of April, 22% of workers aged 60 or older lost their jobs (Cajner et al. 2020)
- In data from the Nielsen Homescan panel, between January and early April, the share of nonparticipants who are retired jumped by 7 percentage points (Coibion, 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



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

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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:

$$\frac{\text{Aggregate payroll earnings during the year}}{\text{Workers who received W-2s during the year}}$$

- 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)

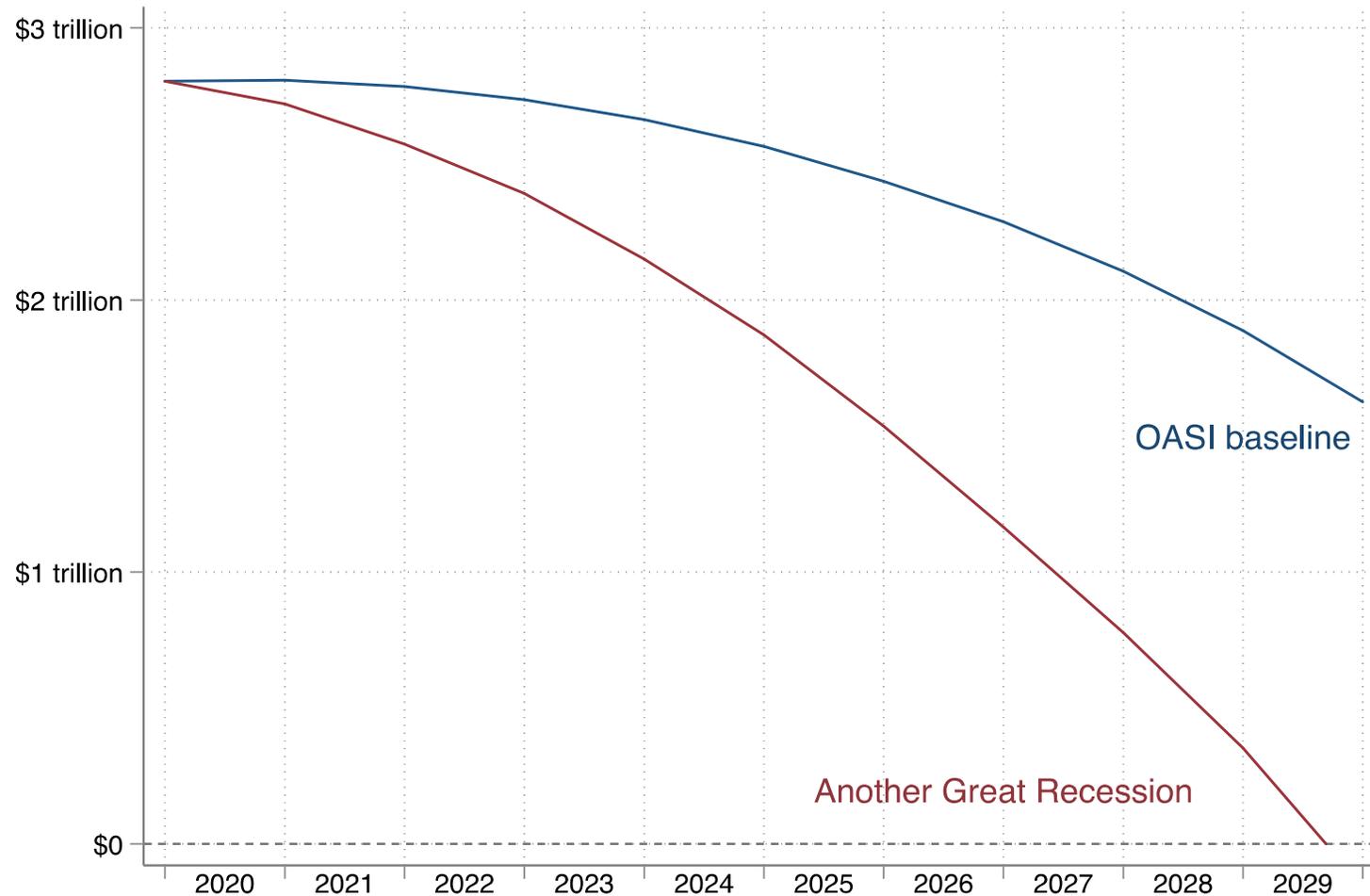
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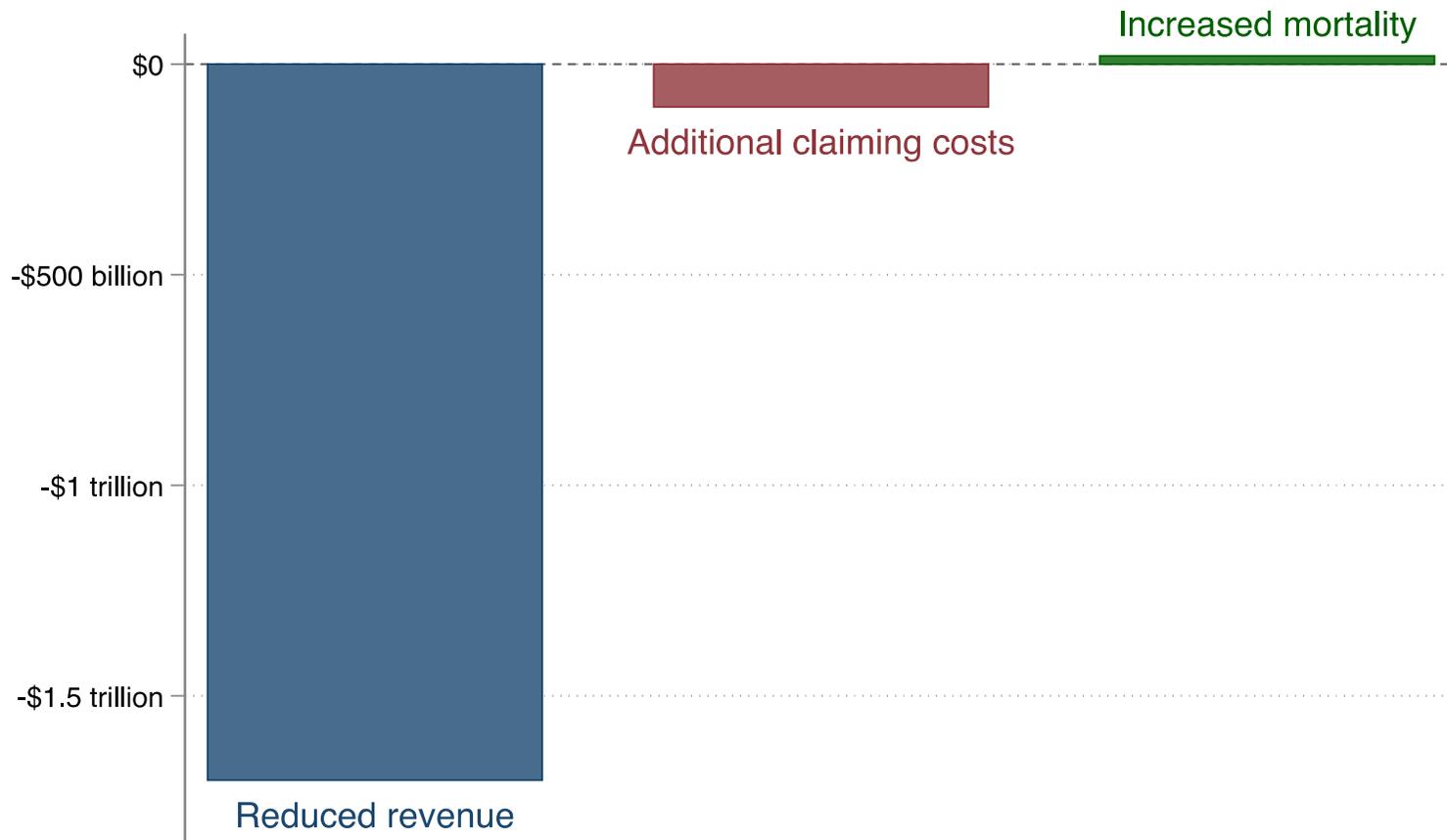
A recession could accelerate the depletion of the Social Security trust funds

- 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

- Biggs, Andrew G., “How the Coronavirus Could Permanently Cut Near-Retirees’ Social Security Benefits,” Pension Research Council Working Paper No. 2020-6, 2020.
- Cajner, Tomaz, Leland D. Crane, Ryan A. Decker, John Grigsby, Adrian Hamins-Puertolas, Erik Hurst, Christopher Kurz, and Ahu Yildirmaz, “The U.S. Labor Market During the Beginning of the Pandemic Recession,” Becker Friedman Institute Working Paper No. 2020-58, 2020.
- Coibion, Olivier, Yuriy Gorodnichenko, and Michael Weber, “Labor Markets During the COVID-19 Crisis: A Preliminary View,” NBER Working Paper No. 27017, 2020.
- Munnell, Alicia, “Social Security’s Financial Outlook: The 2020 Update in Perspective,” Center for Retirement Research Issue Brief No. 20-7, 2020.
- Whitman, Kevin and Dave Shoffner, “The Evolution of Social Security’s Taxable Maximum,” Social Security Administration Policy Brief No. 2011-02, 2011.

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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

Account Type	4Q 2019 Average Balance	1Q 2020 Average Balance	Average Loss
401(k)	\$112,300	\$91,400	\$20,900 (19%)
IRA	\$115,400	\$98,900	\$16,500 (14%)

DATA SOURCE: FIDELITY.



Stopping contributions



Employers cutting back on 401(k) matches



Risk tolerance depending on age



Early distributions



Taking advantage of market dips

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?

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**

INEQUITY IMPACTS ON RETIREMENT SECURITY

Undocumented

Communities
of Color

Queer
Community

New Citizens

Low-income
Elders

Middle Class
Elders

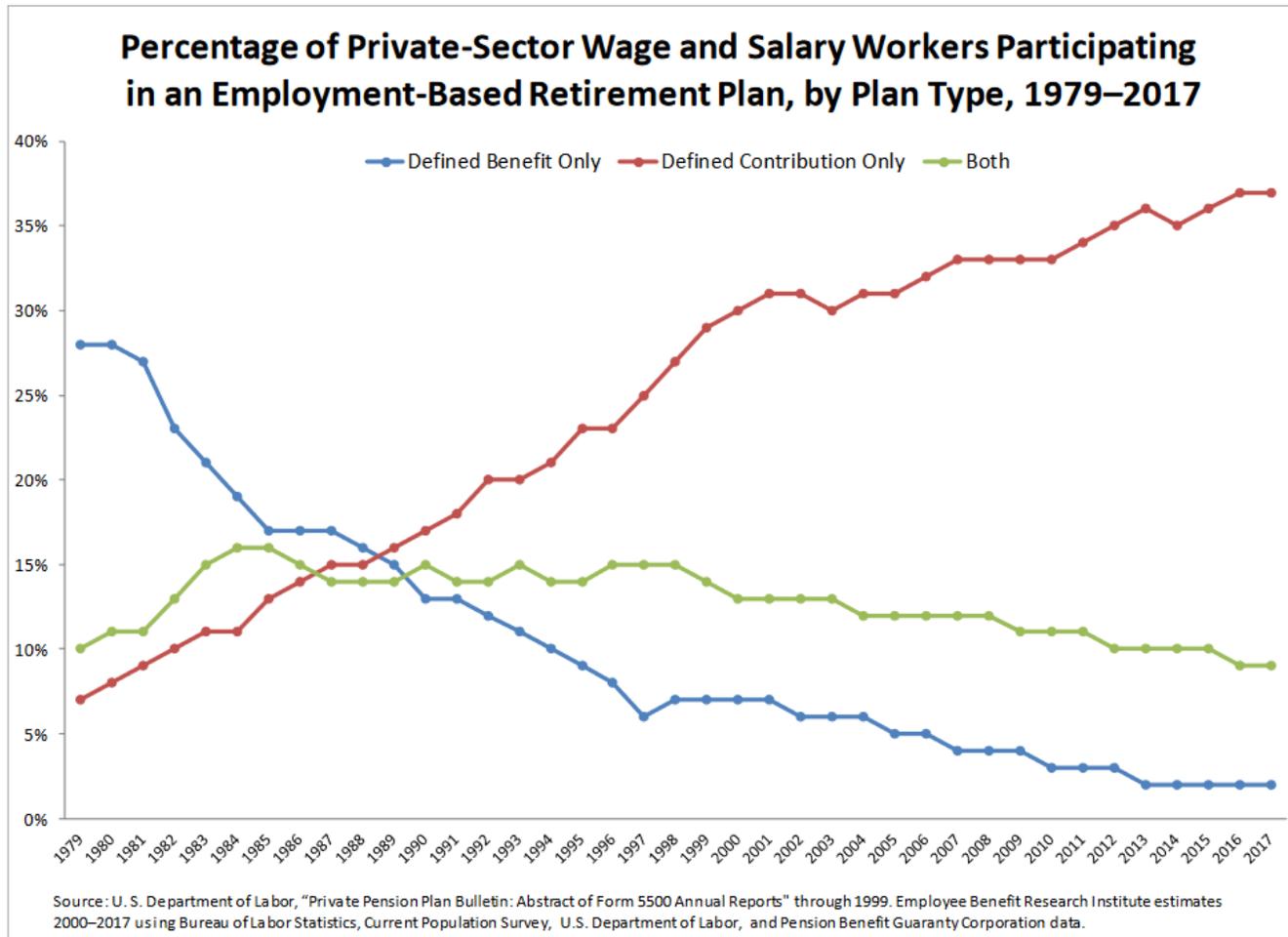
Upper Class
Elders

Citizens

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Access to Pensions Has Declined

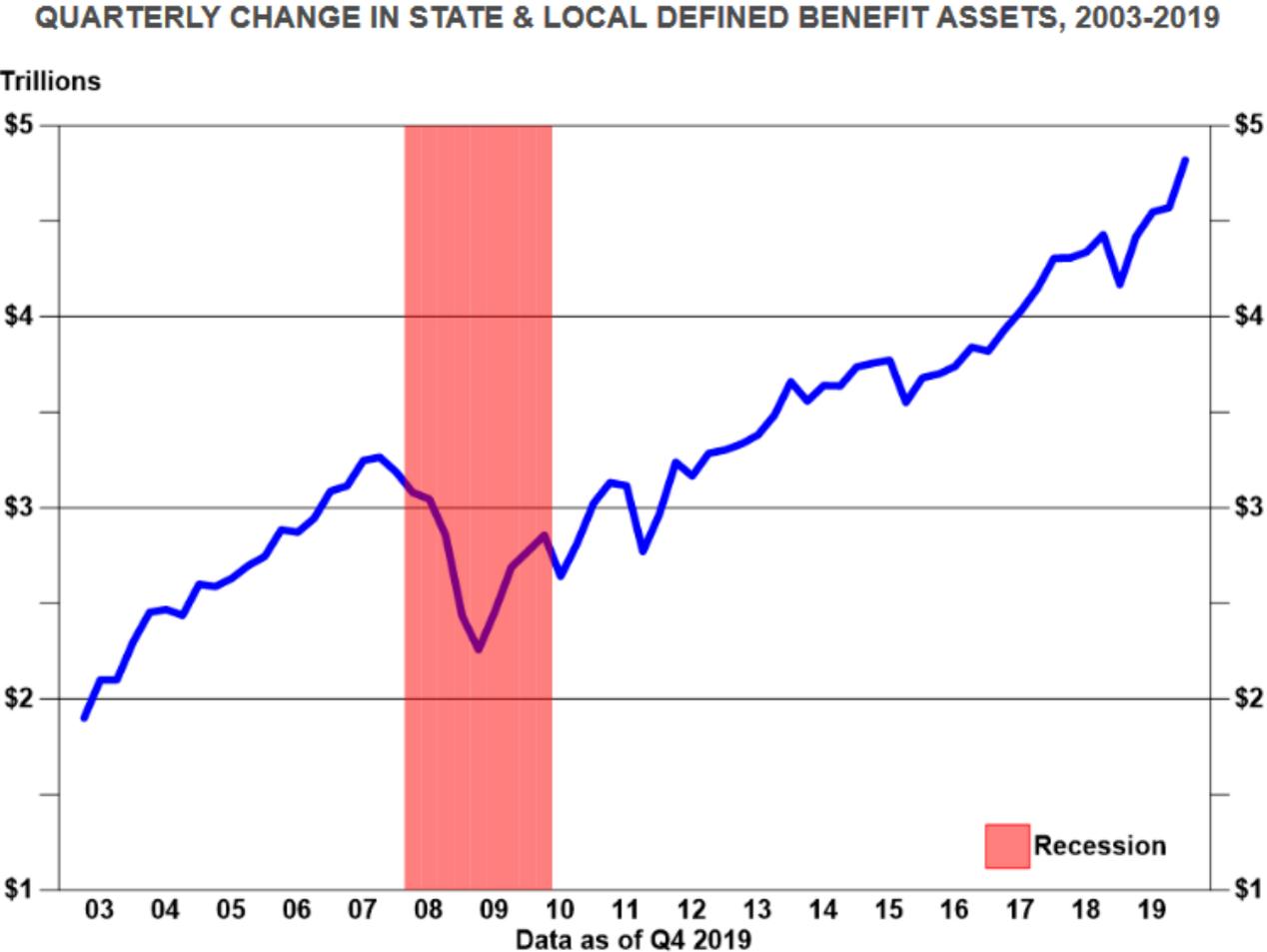


Median Household Net Worth by Retirement Income Source

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

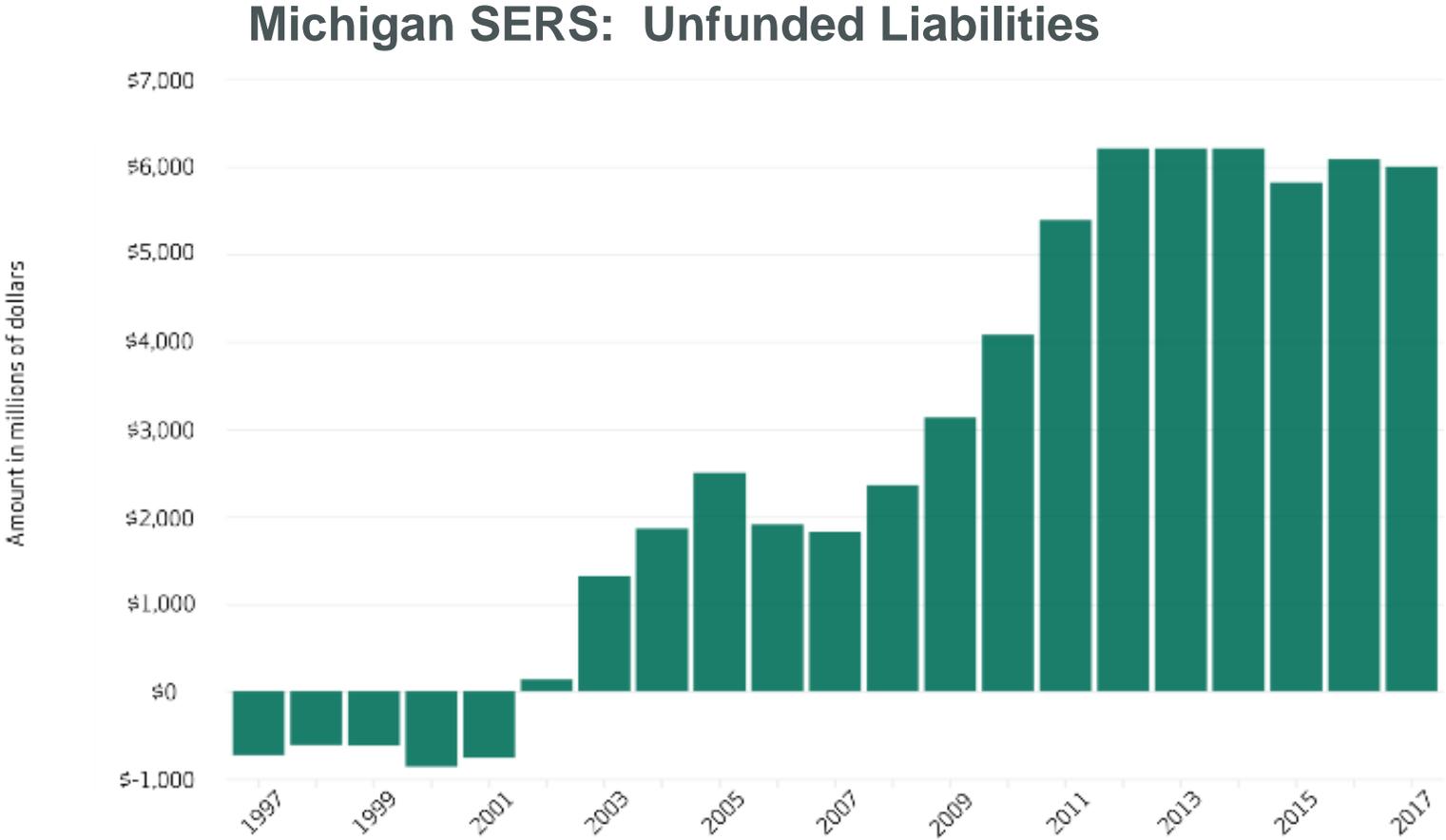
Source: Tyler Bond and Frank Porell, *Examining the Nest Egg*, National Institute on Retirement Security

Public Plan Assets Recovered from the Last Recession



Source: NASRA, Public Pension Assets, Q4 2019

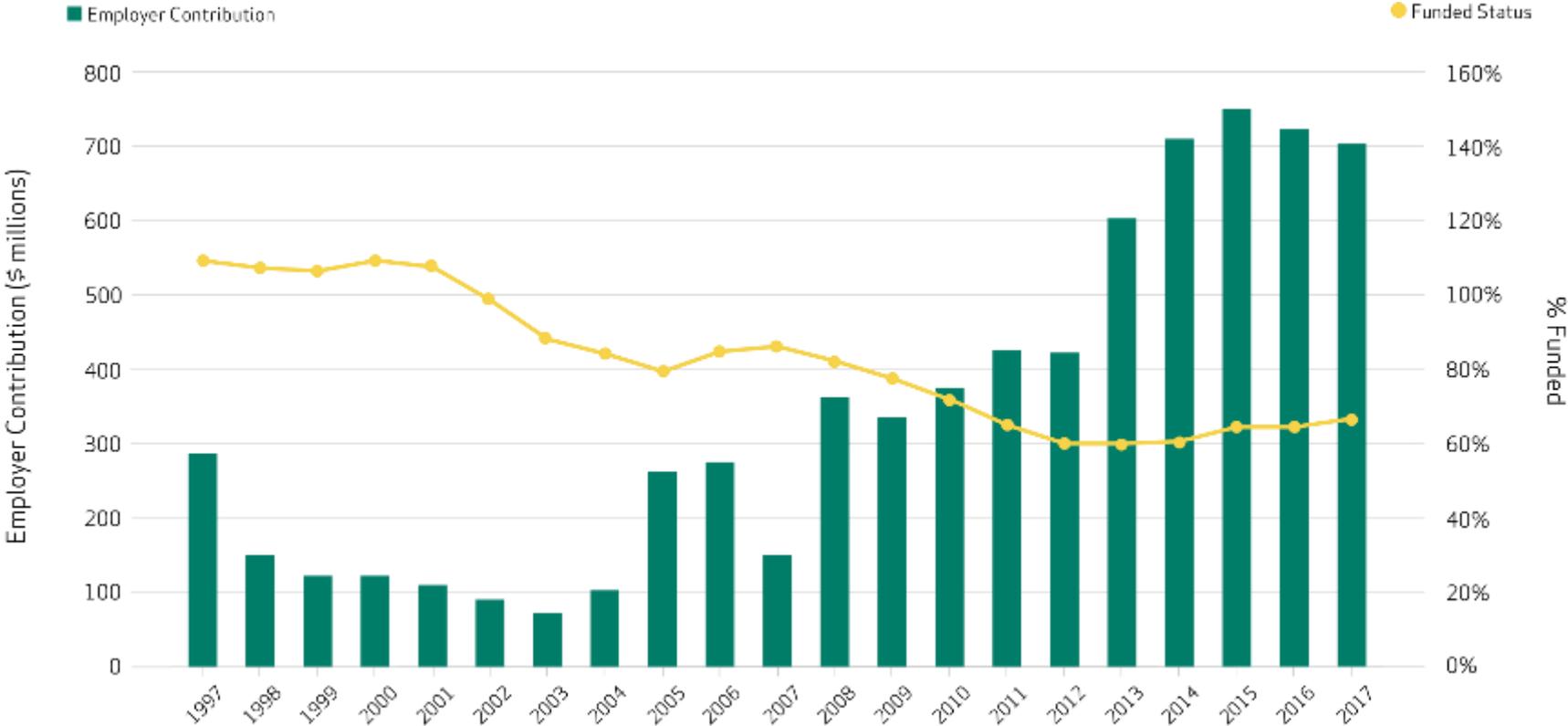
Michigan SERS: Unfunded Liabilities Grew Over Time



Source: Tyler Bond and Dan Doonan, *Enduring Challenges*, National Institute on Retirement Security

Michigan SERS: Taxpayer Contributions Rising

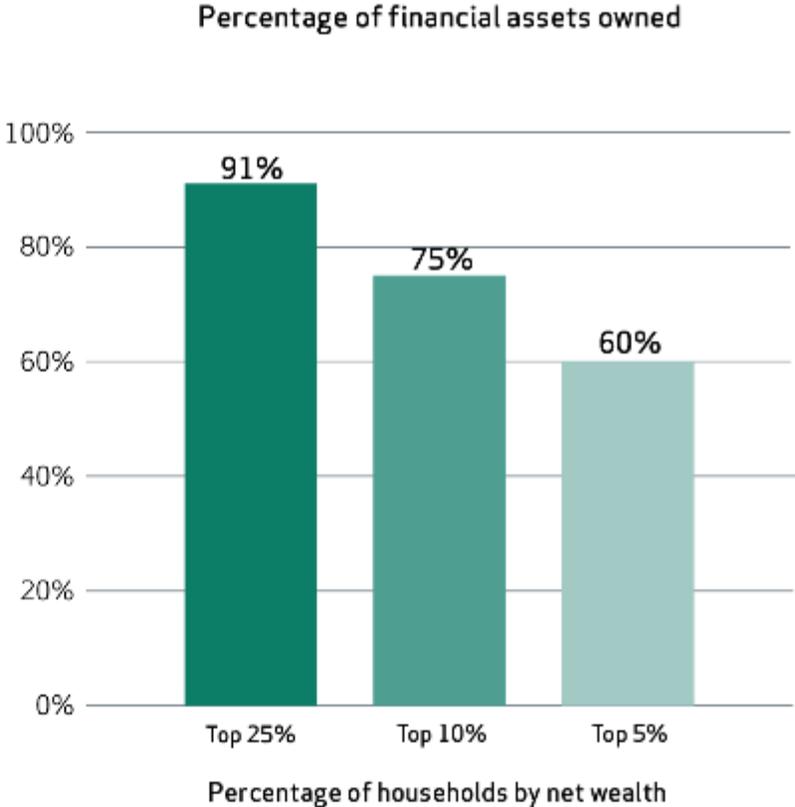
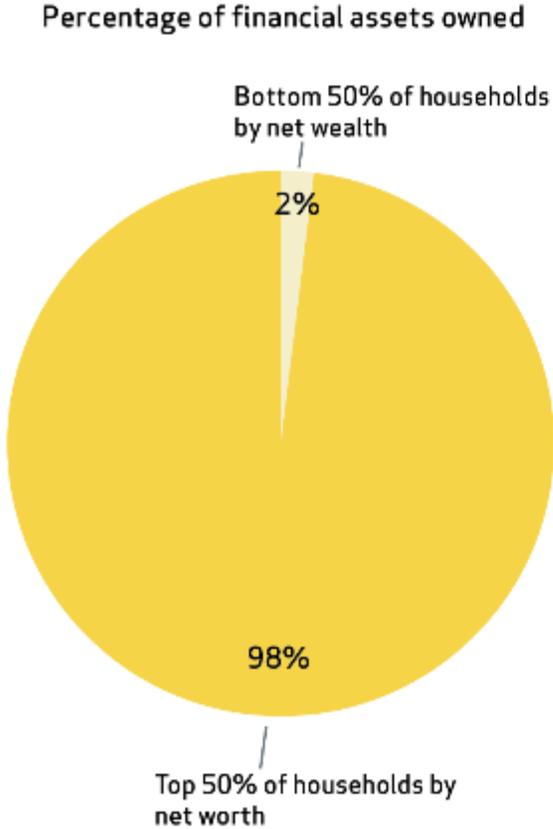
Michigan SERS: Employer Contribution and Funded Status



Source: Tyler Bond and Dan Doonan, *Enduring Challenges*, National Institute on Retirement Security

Baby Boomer Financial Asset Ownership - 2016

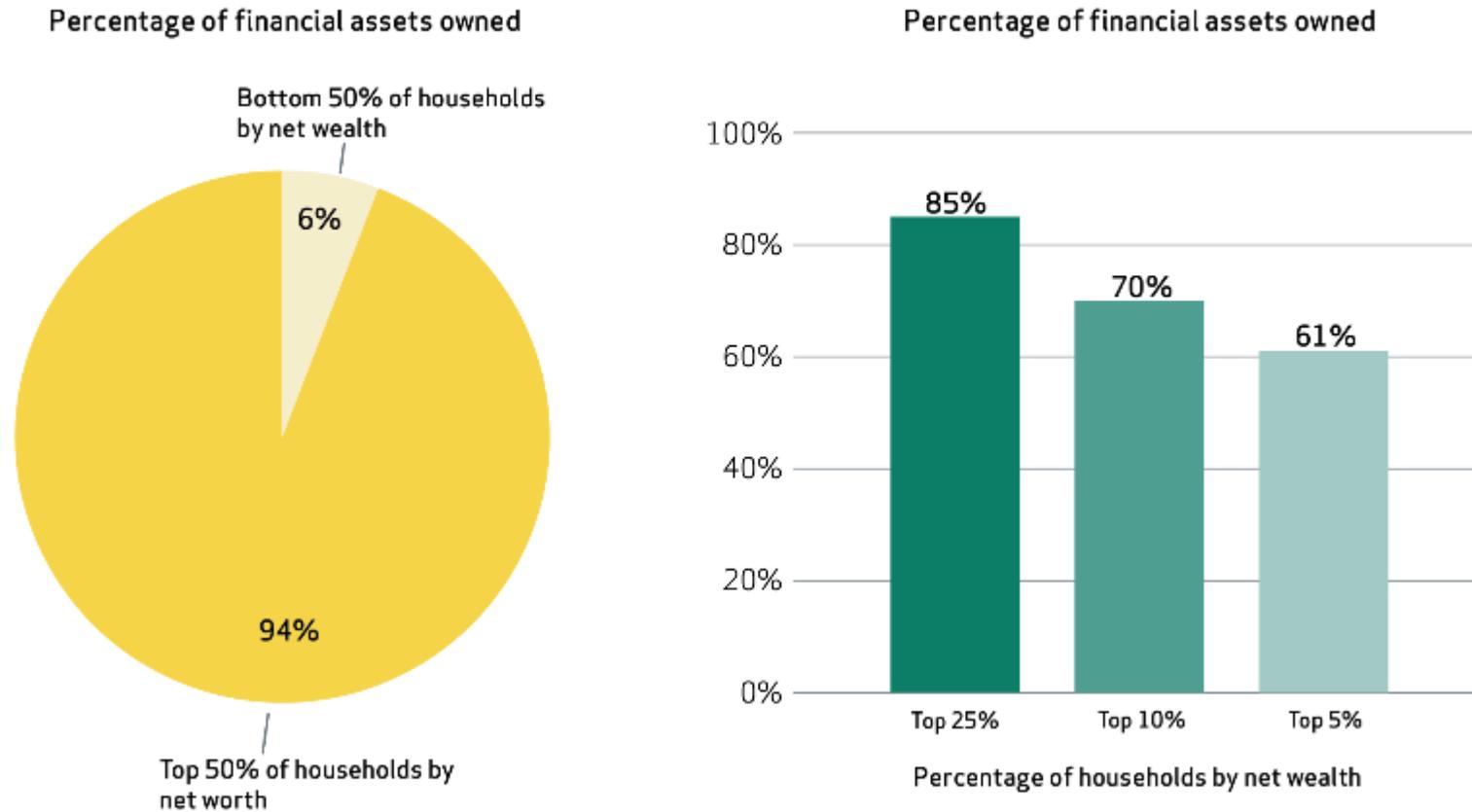
Figure 3: **Distribution of Baby Boomer Financial Assets, by Wealth Percentiles - 2016**



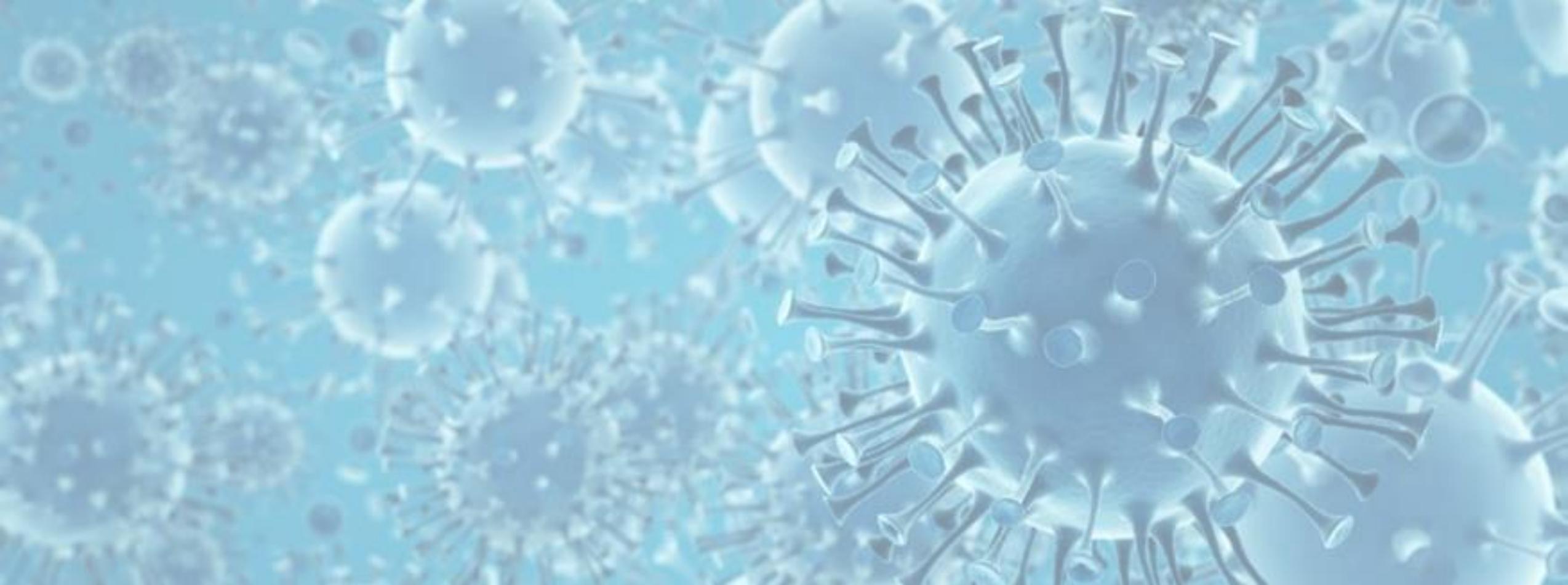
Source: Tyler Bond and Nari Rhee, *Financial Asset Inequality*, National Institute on Retirement Security

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.



CAMPAIGN FOR SOCIAL INSURANCE

JUNE 23, 2020 - SEPTEMBER 23, 2020

NATIONAL
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