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for Social Policy and Management

Brandeis University

Nest Egg for Retirement? The Realities of Asset Holdings for Older Adults

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Presentation Outline

- Background on Retirement Security
- Data and Measures
- Estimates of Asset Holdings for Older Adults
- Racial Wealth Gap
- Conclusions & Discussion
- Policy Options

Background on Retirement Security

- Three-legged stool of retirement security: Social Security, pensions, and household savings
- Social Security is the only secure leg for many
 - 32% of single and couple households 65+ get 90% or more of total income (SSA)
 - 42% for African-Americans, 44% for Latinos
- In 2009, 59.1% of employees (25-59) offered retirement plan, 49.5% participate (Butrica 2010)
 - Disparities in pension access by race
 - Older workers somewhat more likely to have access
- Poverty for Older Americans (AoA, HHS)
 - 9.0% official level, 15.9% Supplemental Poverty Measure (SPM)
 - Highest poverty among single Latinas (40.8%) & single African American women (30.7%)
- This paper will focus on the third leg of retirement security: household savings

Data & Measures

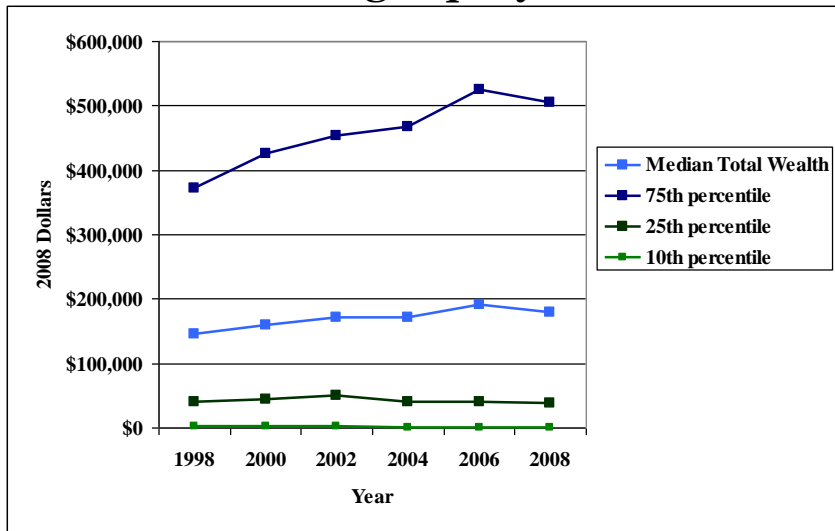
- Health and Retirement Study
 - National survey of older Americans 51+
- Longitudinal study established in 1992
 - 1998-2008
- Sample Population
 - 51+ U.S. population
 - Pre-retirees 51-56 at baseline (1942-47 cohort)
- Non-Pension Wealth
 - Total financial wealth including home equity
 - Financial assets

Measuring Wealth: Household Retirement Resources

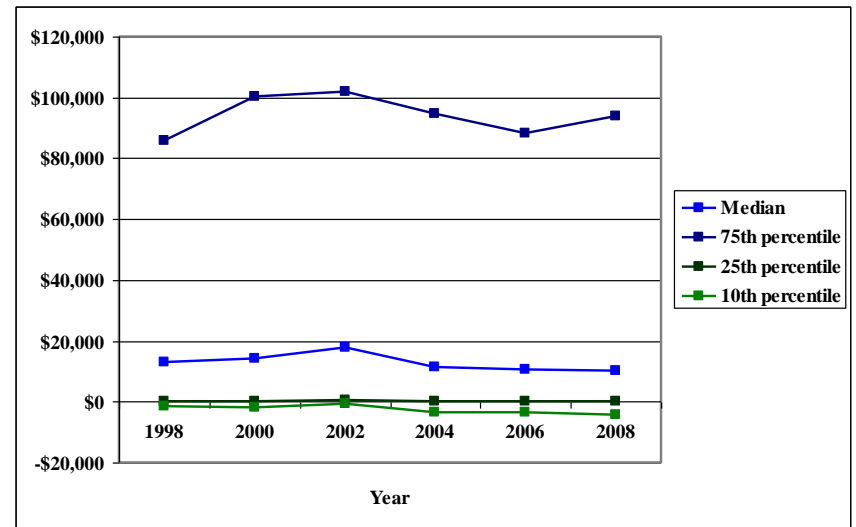
- Financial assets are just one piece of total retirement security/resources
- Definition of wealth and resources important
- Social Security largest retirement asset, followed by defined benefit (DB) pensions
 - Haveman et al. (2006) calculate Social Security makes up 46% of total wealth of newly retired workers (NBS)
 - Home equity and DB pensions each 14%, financial wealth & property wealth 24%
 - Munnell et al. (2012) find Social Security is 44% of total wealth for typical household (SCF)
 - Home 20%, DB pensions 18%, financial assets 4%
 - Love et al. (2007) estimate Social Security is 18% of aggregate wealth, financial wealth & wages 15% each
 - Figure includes expected future earnings & social programs
 - Social Security is 58% for poor, financial wealth -11%

Financial Wealth with Home Equity Compared to Financial Assets 51+ Population

Wealth Including Equity:



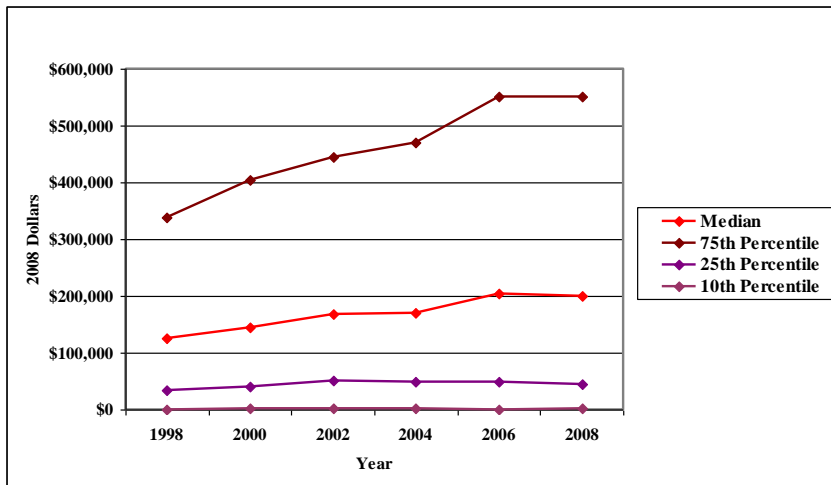
Financial Assets:



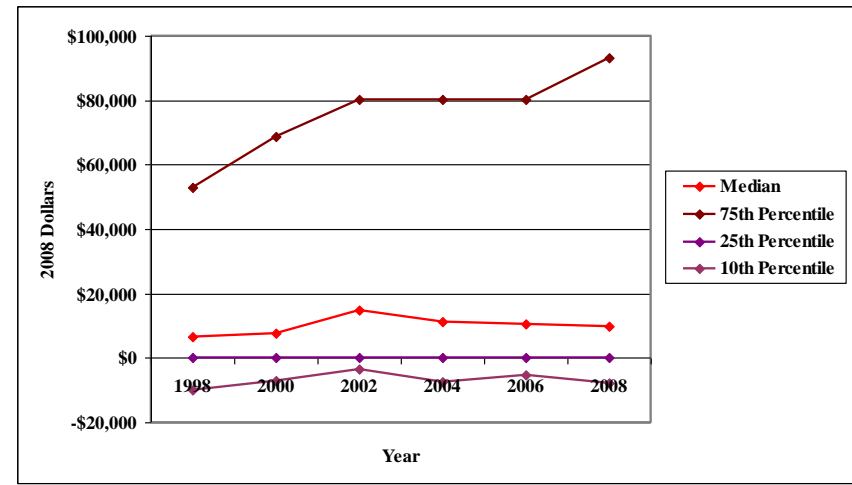
- Median wealth with equity (2008): \$179,800
 - Median new home price in U.S. (2008): \$232,100
 - Home ownership: 80% for 65+, 68% overall in U.S. in 2008
- Median financial assets (2008): \$10,000
 - 75th percentile at least 5 times the median throughout decade

Financial Wealth with Home Equity Compared to Financial Assets: Pre-Retiree Cohort 51-56 in 1998

Wealth Including Equity:



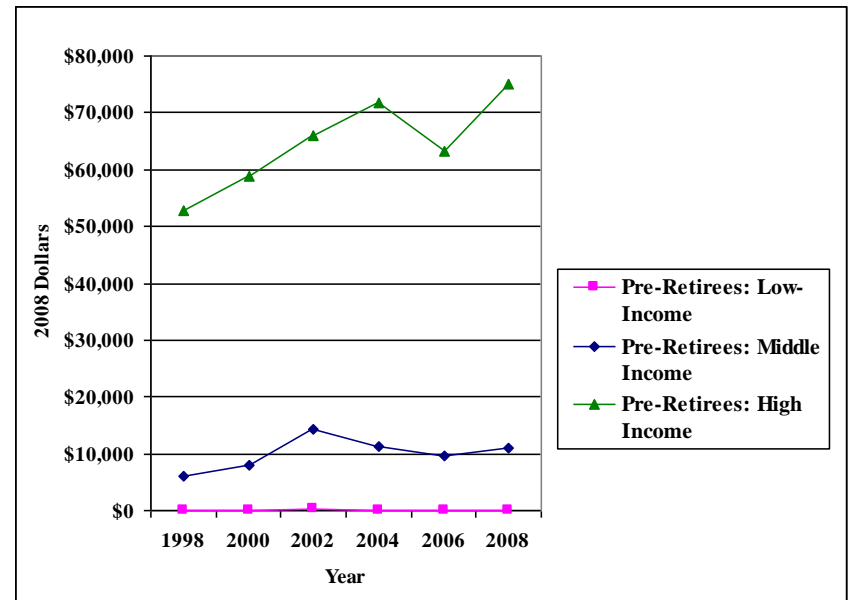
Financial Assets:



- Median wealth with equity (2008): \$201,000
- Median financial assets (2008): \$10,000
 - One quarter of households have no financial assets
 - One in 10 have at least \$7,800 in debt with no financial assets
 - With IRAs and business assets median in 2008: \$40,000

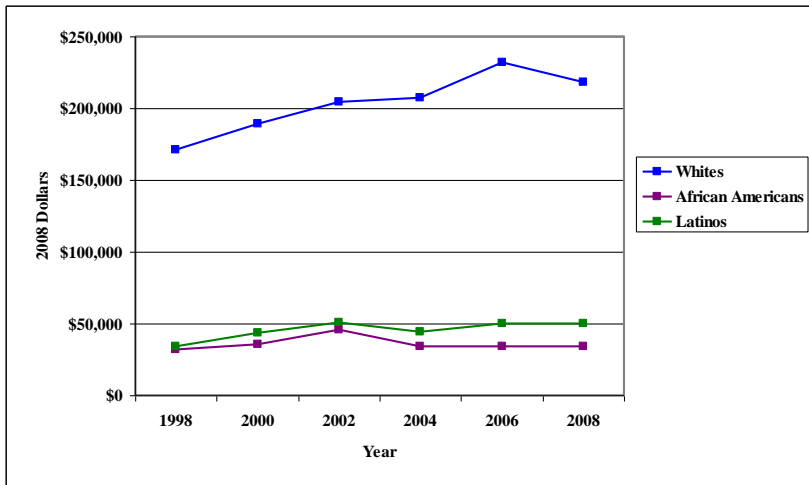
Median Financial Assets of Pre-Retirees by Baseline Income Group

- Low-income: $\leq \$42,800$
- High Income $> \$92,500$
- High income have substantially greater median financial assets (\$75,000) than middle income (\$11,000) or low-income (\$100) in 2008
- High and middle income pre-retirees see some gains in decade (\$22,000 and \$5,000 respectively).

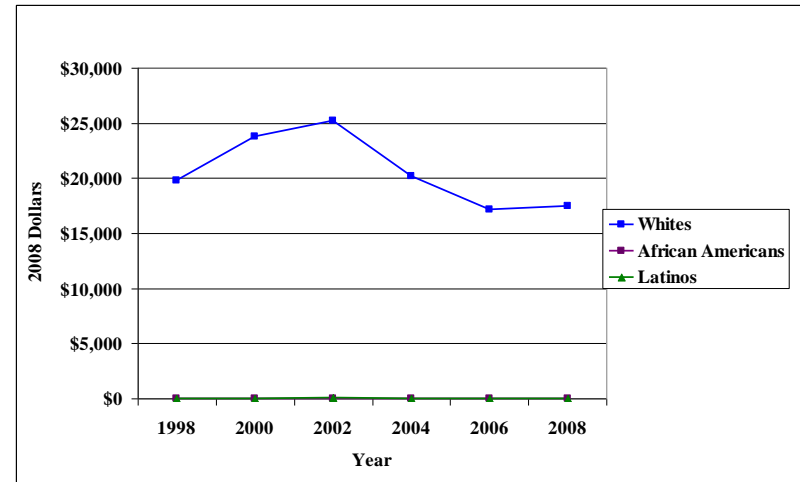


Racial Wealth Gap Among the U.S. 51+ Population, 1998-2008

Wealth Including Equity:



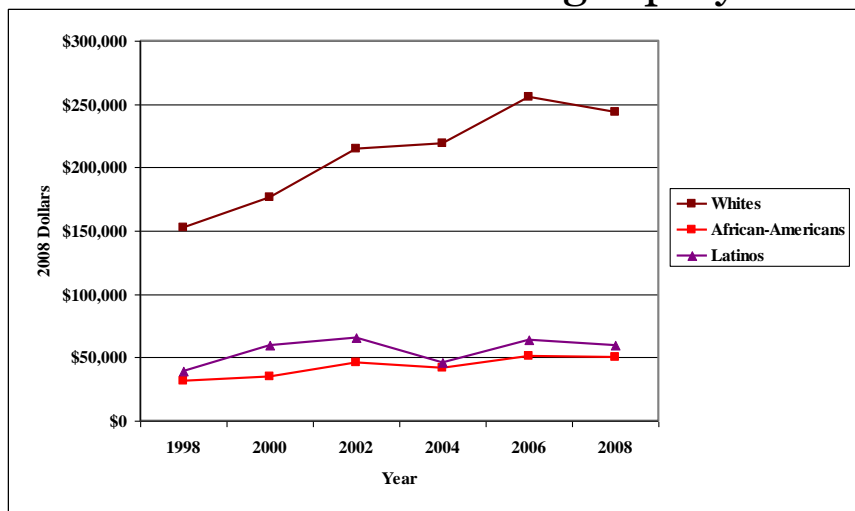
Financial Assets:



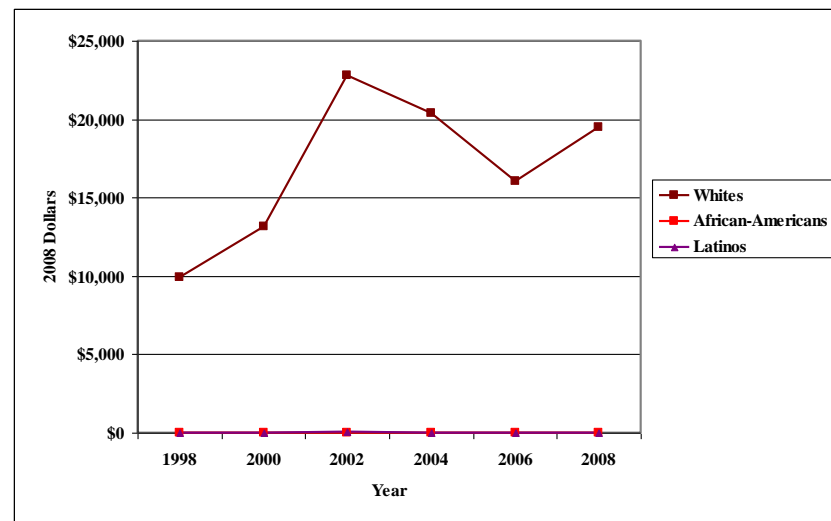
- Wealth gap in 2008: \$184,000 for African-Americans, \$168,000 for Latinos
- Median financial assets for African-American and Latino older Americans: \$0; whites: \$17,500

Racial Wealth Gap Among Pre-Retirees, 1998-2008

Financial Wealth Including Equity:



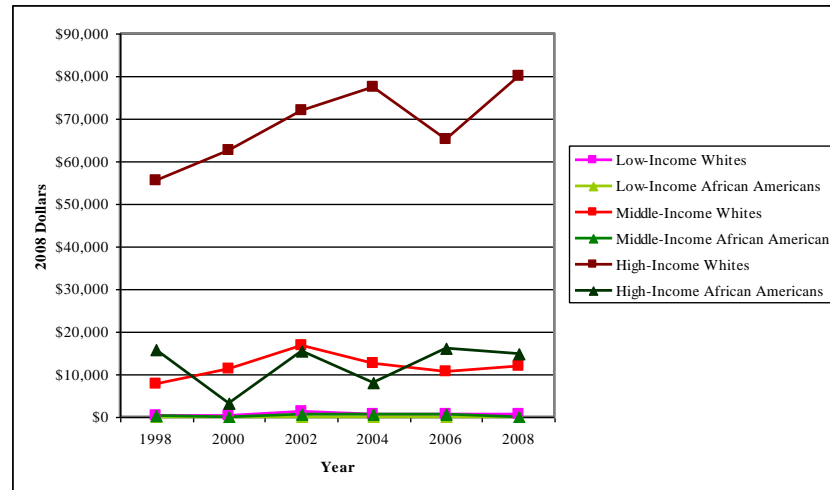
Financial Assets:



- Median wealth with equity (2008) for whites (\$243,600) is \$193,000 greater than African-American median (\$50,600). Latino wealth is \$60,000.
- As pre-retirees approach retirement, growth in financial assets for whites over decade almost doubling to \$19,500, yet remain at \$0 for households of color.

Racial Wealth Gap Persists Among Pre-Retirees Among Households with Similar Baseline Incomes

Median Financial Assets of Pre-Retirees (51-56 in 1998) By Race & Baseline Income:



- High-income whites have substantially more financial assets than all other groups (\$80,000 in 2008)
- High-income African-Americans and middle-income whites have roughly similar assets
 - \$15,000 and \$12,000 respectively in 2008
- All other groups have negligible assets



Conclusion & Discussion

- Household financial assets are very low, even for pre-retiree households at the “peak” of lifetime savings
 - Most household wealth is in the form of home equity
- Wealth distribution is highly skewed
- Racial Wealth Gap is significant for total wealth and financial assets among older adults
 - Disparities in pensions worsen retirement picture for households of color

Policy Options

- **Protect and Bolster Social Security**
 - Remove cap on contributions
 - New Special Minimum Benefit
 - Enhance COLA to reflect seniors' expenses
 - Increase range of income replaced at 90% of AIME
- **Enhance Pension Coverage**
 - Automatic IRA
 - USA Retirement Funds
- **Flexible Work Options**
 - Additional earnings and delaying retirement, if possible, can be important for security
- **Enhance Savings Opportunities**
 - Current asset building policies disproportionately benefit better off: home mortgage interest deduction, DC pensions
 - Financial Literacy - Asset allocation may be less important than working longer, spending less



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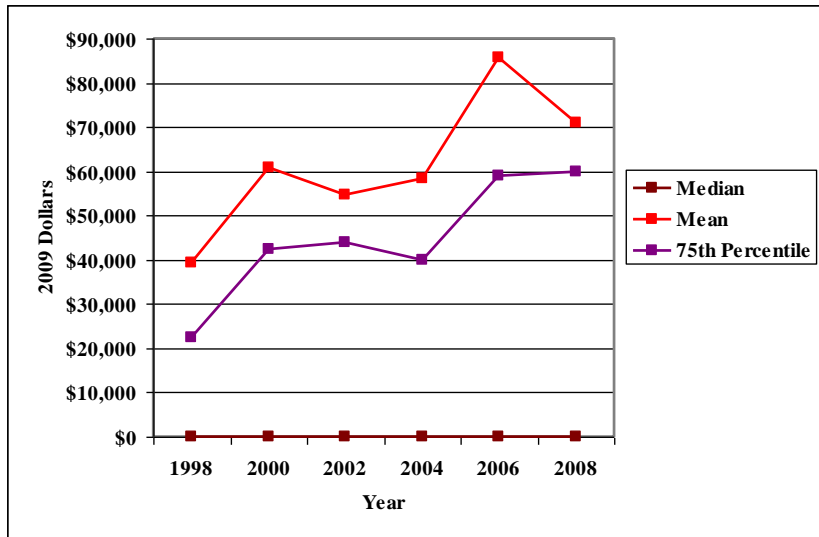
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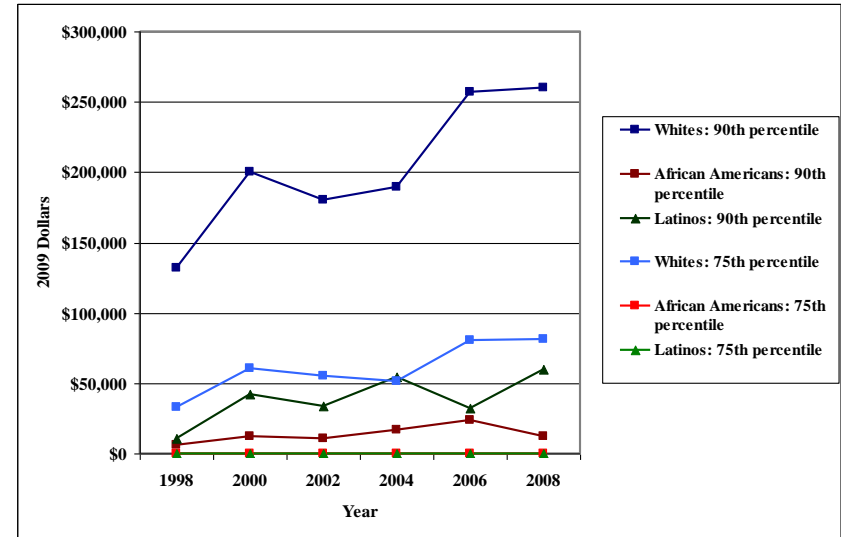
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IRA Savings Values for Pre-Retirees

IRA Savings among All Pre-Retirees:



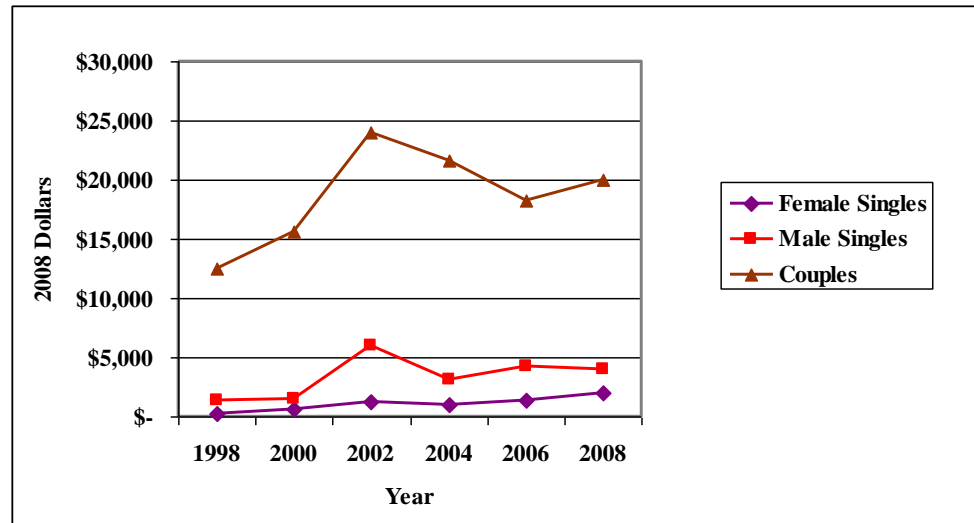
IRA Savings by Race/Ethnicity:



- Over half of households have no savings in IRAs
- Over $\frac{3}{4}$ of African-American and Latino households have no savings in IRAs
- IRAs highly skewed with 1 in 4 holding \$60,000 and 1 in 10 households holding at least \$230,000 in IRAs

Gender Wealth Gap: Particularly Important in Retirement Years

Median Financial Assets of Pre-Retirees (51-56 in 1998)
By Couple Status & Gender:



- In 2008, median couple pre-retiree household had \$20,000 in financial assets
 - \$1,000 for female singles
 - \$4,000 for male singles
- Gender gap particularly important in later years as women have fewer pension resources and are more likely to be single
 - Sex ratio of 132 women to 100 men in 65+ population