

Millennials and Retirement Saving

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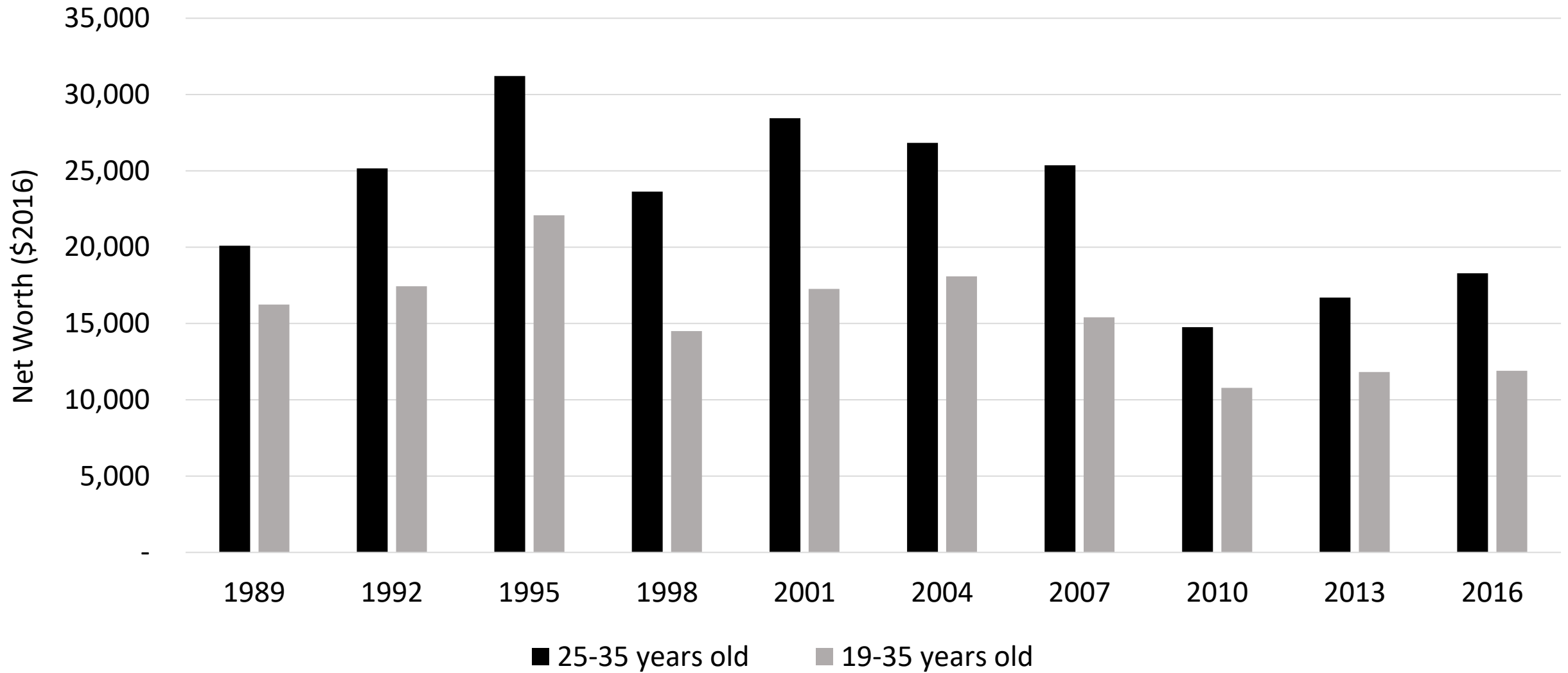
American Economic Association Meetings

San Diego, January 3, 2020

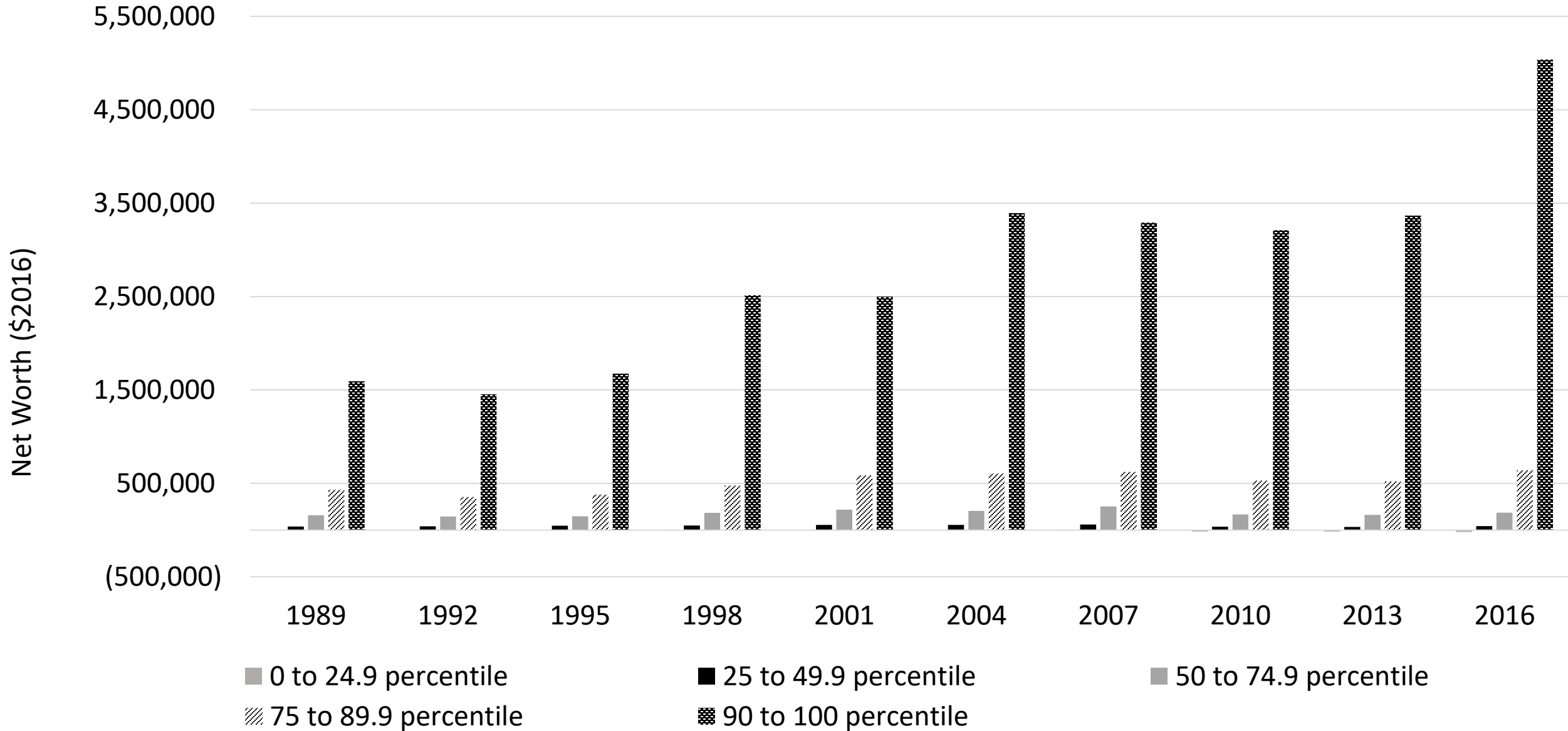
Overview

- Millennial Generation
 - Born between 1981-1996, will be 54-69 years old in 2050
 - Largest generation in history
 - Largest minority representation of any generation in history
- What can we say about how well they will be prepared for retirement?
- Two perspectives – Cross-generational differences in
 - External factors or behavioral patterns
 - Racial and ethnic composition and association with saving behavior

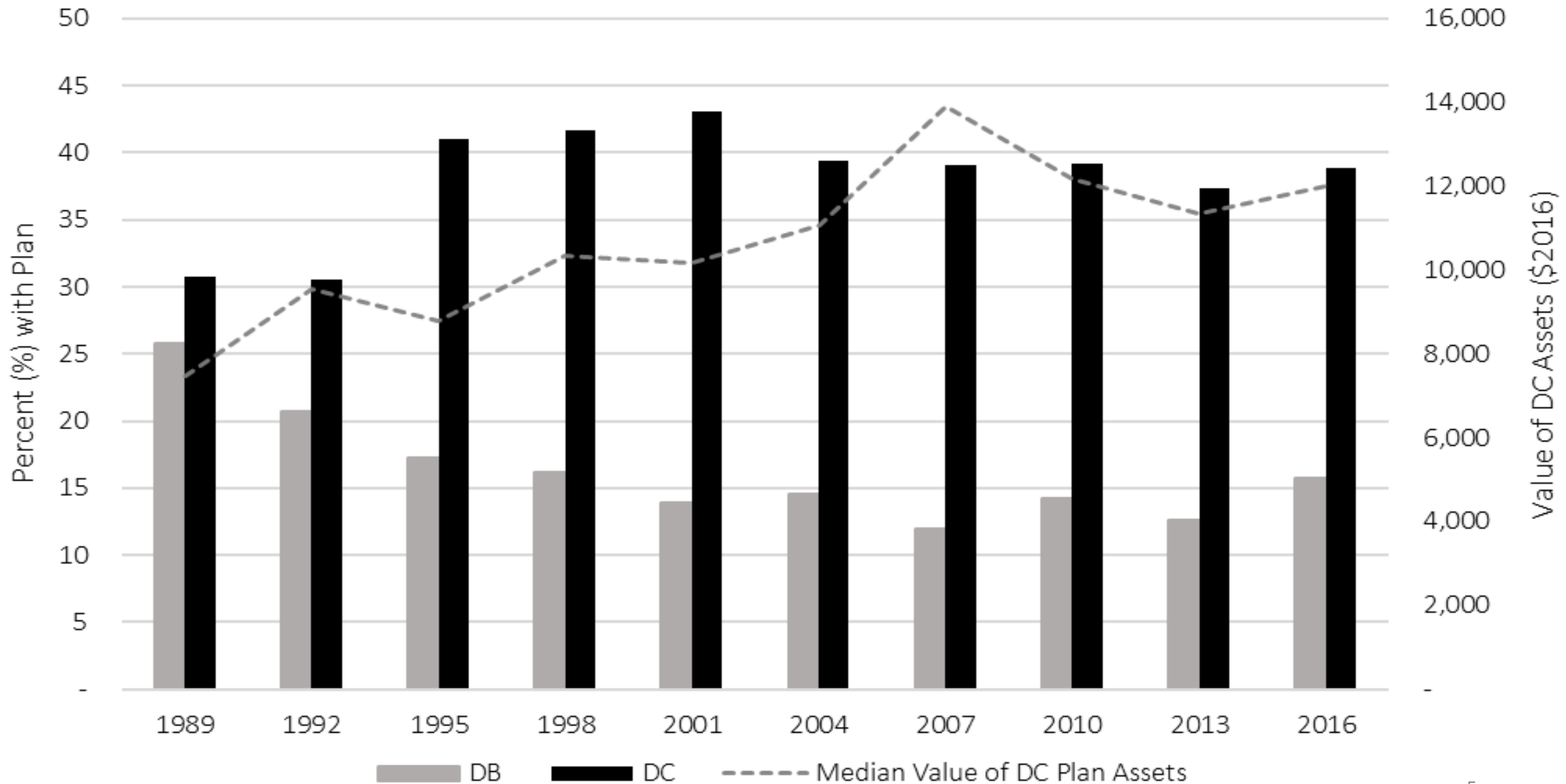
Median Net Worth Among Young Households (1989-2016)



Average Net Worth by Income Group (Ages 25-35)



DB and DC Plan Ownership Among 25 to 35 Cohort (1989-2016)



Source: Board of Governors of the Federal Reserve System. 2017. "Survey of Consumer Finances 2016." Board of Governors of the Federal Reserve System: Washington, DC.

Millennials Relative to Previous Generations

- Advantages
 - More formal education
 - Longer careers
- Disadvantages
 - Early-career labor market
 - The rise of contingent jobs
 - Added risks and responsibilities of DC plans
 - Delayed life decisions – marry, buy home, have kids
 - Longer life spans
 - Fiscal imbalance
 - Lower rates of return?

Racial and Ethnic Composition

- Millennials have the highest proportion of non-white households of any generation
 - 44% of Millennials belong to a non-white minority, compared to 22% of those 65 and older (2015 data)
- The literature shows significant heterogeneity in the adequacy of retirement saving
 - Minorities tend to score less well

Regressions

- Data – 1989-2016 SCF
- Specification: $W = \alpha + \beta X + \gamma R + \varepsilon$
 - W = a measure of wealth
 - X = education, marital status, gender (for singles), income and age categories
 - R = racial/ethnic indicators (black, Hispanic, non-white other)
- Estimated the following ways:
 - Least squares (robust regression) and **Least Absolute Deviation**
 - Every 3rd year 1989-2016 and **pooled (1980-2007, 2010-2016** with year indicators)
 - In **wealth levels** and inverse hyperbolic sine of wealth
- The estimates of γ are not measures of racial discrimination

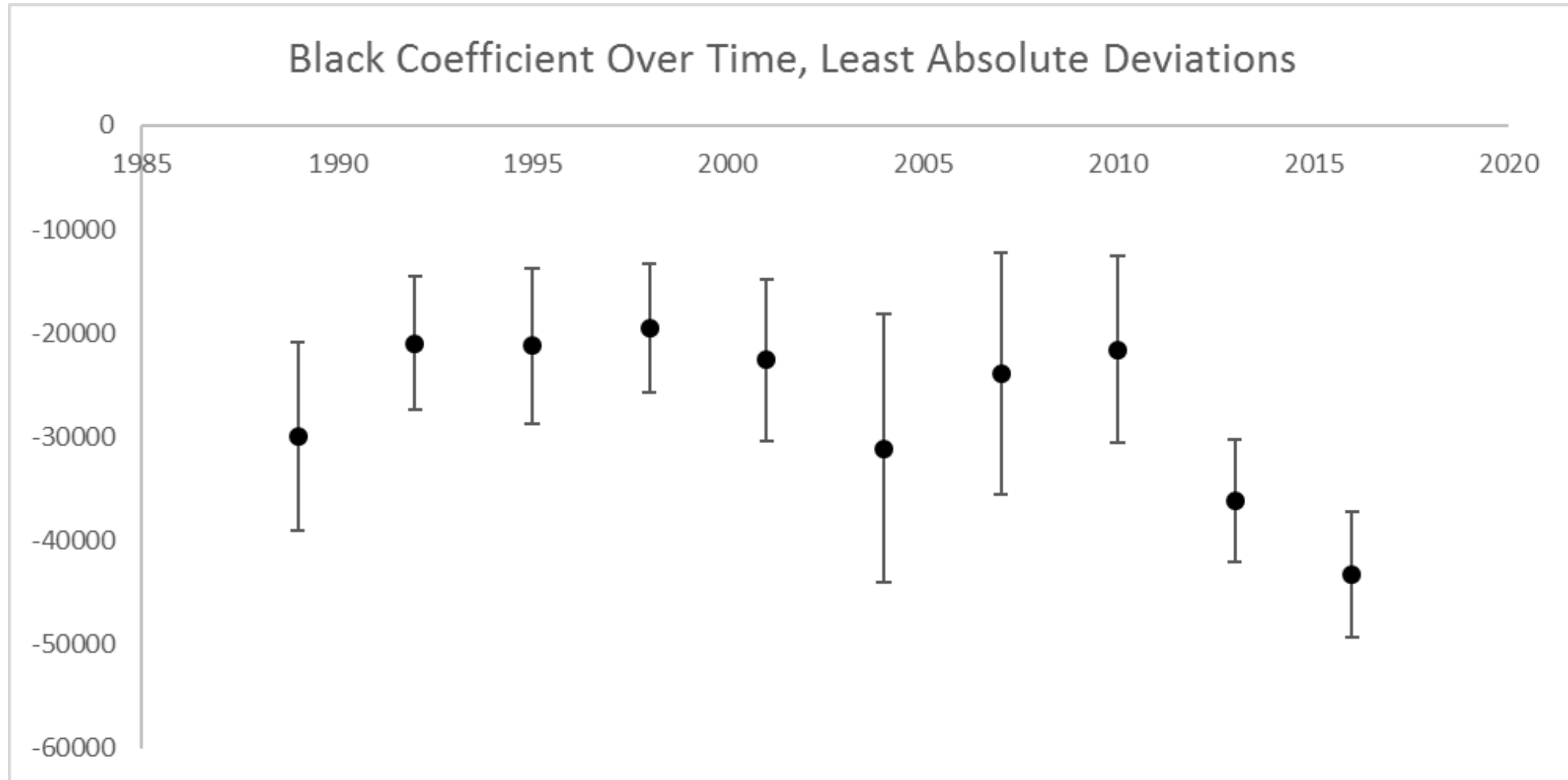
Pooled Net Worth Regressions (Least Absolute Deviations)

	<u>1989-2007</u>	<u>2010-2016</u>
Black	-23,339*** (1,394)	-33,809*** (1,714)
Hispanic	-10,292*** (1,706)	-14,670*** (2,521)
Non-White Other	-18,695*** (2,621)	-17,158*** (5,705)
N	29,031	18,745
Pseudo R-squared	0.161	0.163

Source: Authors' calculations using the Survey of Consumer Finances.

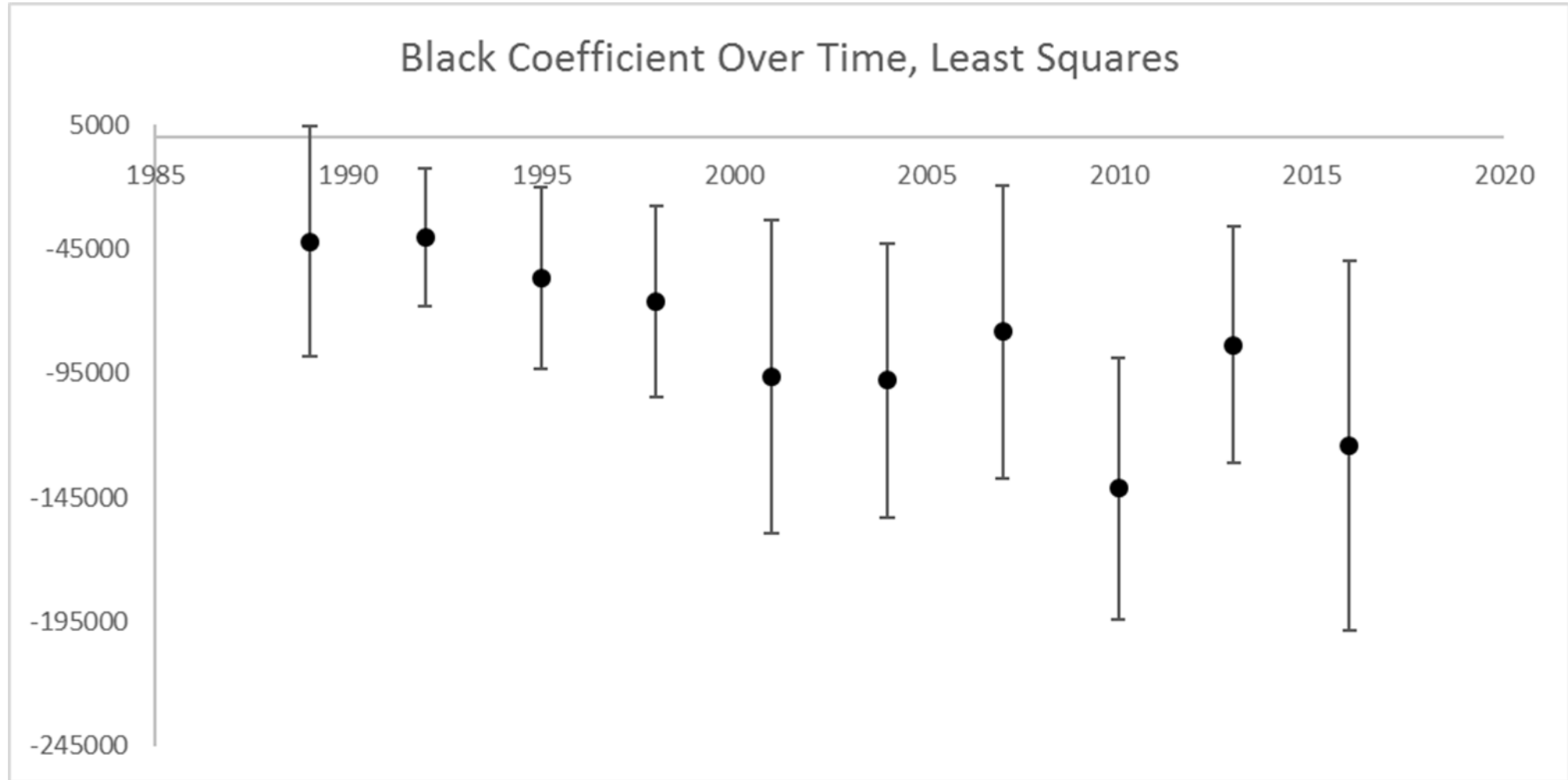
Robust standard errors in parentheses; *** p<0.01, ** p<0.05, * p<0.1

Net Worth Regressions (Least Absolute Deviations)



Net Worth Regressions (Least Squares)

NOTE: DIFFERENT SCALE FROM PREVIOUS GRAPH



Discussion/Conclusion

- Lower wealth accumulation among minorities, especially blacks, controlling for observable factors.
 - Black-white differences may even be growing.
- The experience of being a minority will be different for millennials than for previous generations
 - So, the coefficient on race could change over time
 - On the other hand, wealth differences (controlling for observables) have persisted for a long time.