



Discussion of

“How Will Retirement Saving Change by 2050?”

and

“Financial Fragility among Middle-Income Households”

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Two interesting papers on household financial security

Gale, Gelfond, and Fichtner (GGF):

What can we say now about how the Millennials will fare in retirement?

Assessment of how their current situation compares with earlier cohorts

Assessment of how the economic environment they face will be different

Hasler and Lusardi (HL):

What do we know about the financial fragility of middle-income households?

Based on unique survey question developed by Lusardi, Schneider, and Tufano (2011)—could you come up with \$2000 if an unexpected need arose within the next month?

Summary: GGF

Key concrete results:

Millennials lag their earlier counterparts in wealth accumulation at this stage

Millennials less likely to be covered by a DB plan

More speculative but seems right:

Good—Millennials more educated, likely to work longer

Bad—Millennials more likely to be in contingent workforce, lower returns on saving

Unclear:

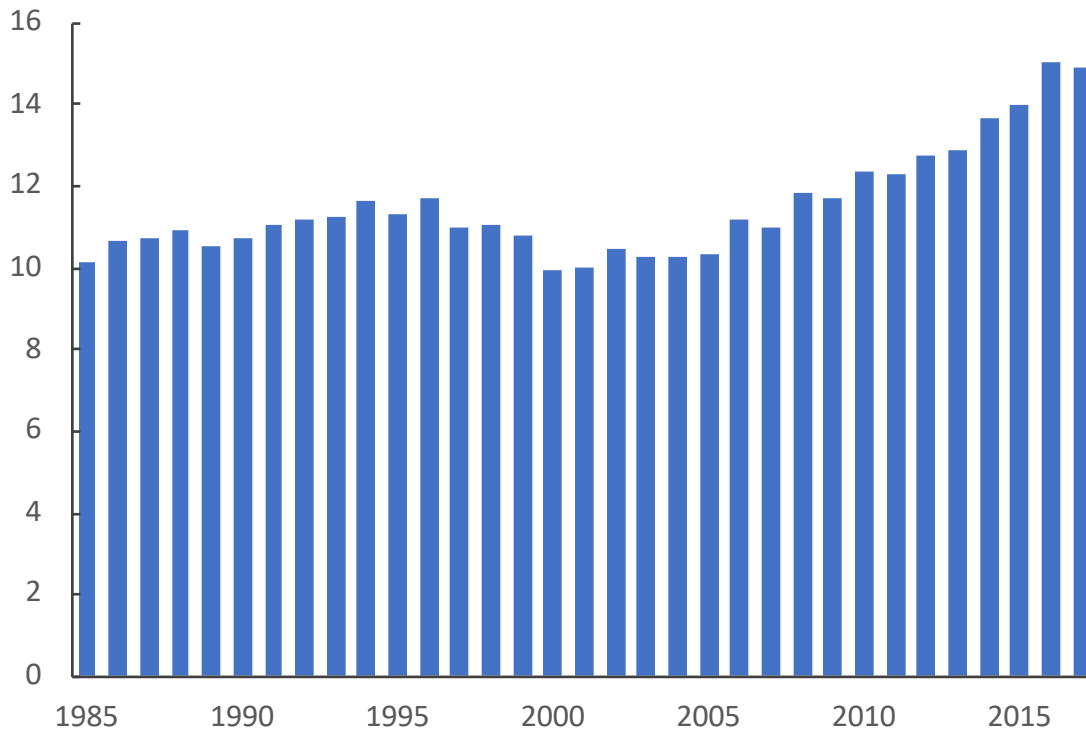
Should we worry about more student debt if a product of more education?

Does lower wage growth make it harder to achieve retirement security by GGF defn?

GGF limited by limitations of data set

Individuals 25-34 Living with Parents

Percent



Source. U.S. Census Bureau

The *Survey of Consumer Finances* is done on a household basis so we are not learning about 25-35 year-olds who haven't formed households

This group has grown over time

Would be interesting to explore the *Panel Study of Income Dynamics* "Transition to Adulthood" module to learn about those still at home

Summary: HL

Interesting focus on middle-income households (income of \$50-100K):

You might think this group has enough income to protect themselves—yet, 20-30% of them are financially fragile

Financial fragility correlated with having children, excess debt, low financial literacy

Good point (especially for 2050) that financial fragility not just indicative of short-term vulnerability—**these households are likely to struggle over longer run**

Financial fragility correlated with difficulty planning retirement

Questions:

Might more children offset lack of financial assets saved for retirement?

Is being able to borrow against illiquid assets really bad for financial security?

Tying the two papers together

They raise **important concerns about household financial security** and how it is likely to evolve as we head toward 2050

OF COURSE—**a lot can change before then**

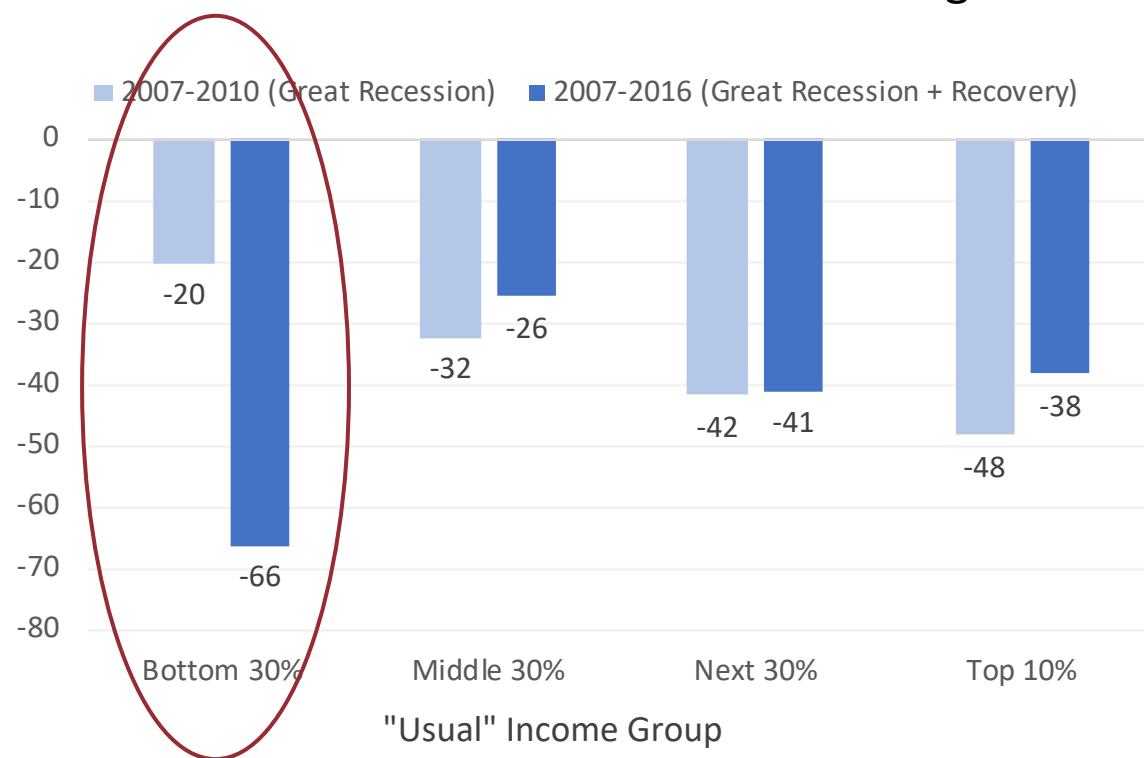
BUT **additional analysis reinforces concerns about Millennials**, particularly those in lower income groups:

Adapt framework used by Dettling, Hsu, and Llanes (2018)—classify households by “usual” income and look at financial progress over time

Use SCF (so earlier caveat about household formation applies)

Finances of young households in all income groups suffered during the recession—with not much recovery since

Percent Change in Real Mean Wealth Since Onset of Recession for Households with Heads Age 25-35



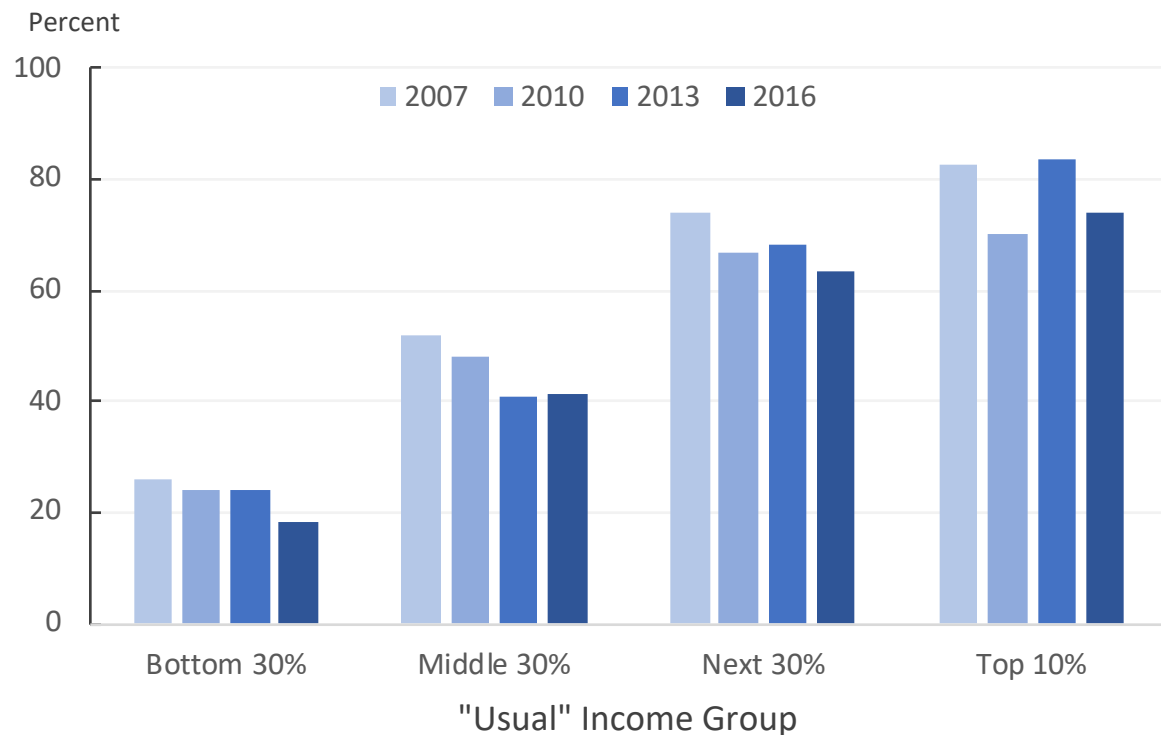
Source: Survey of Consumer Finances; author's calculations

For context—aggregate real wealth per household was **up about 10 percent** between late 2007 and late 2016

Bottom 30 percent of young households doing much worse in 2016 than in 2010!

Why haven't young households participated in the wealth recovery?

Homeownership Rates for Households with Heads Age 25-35

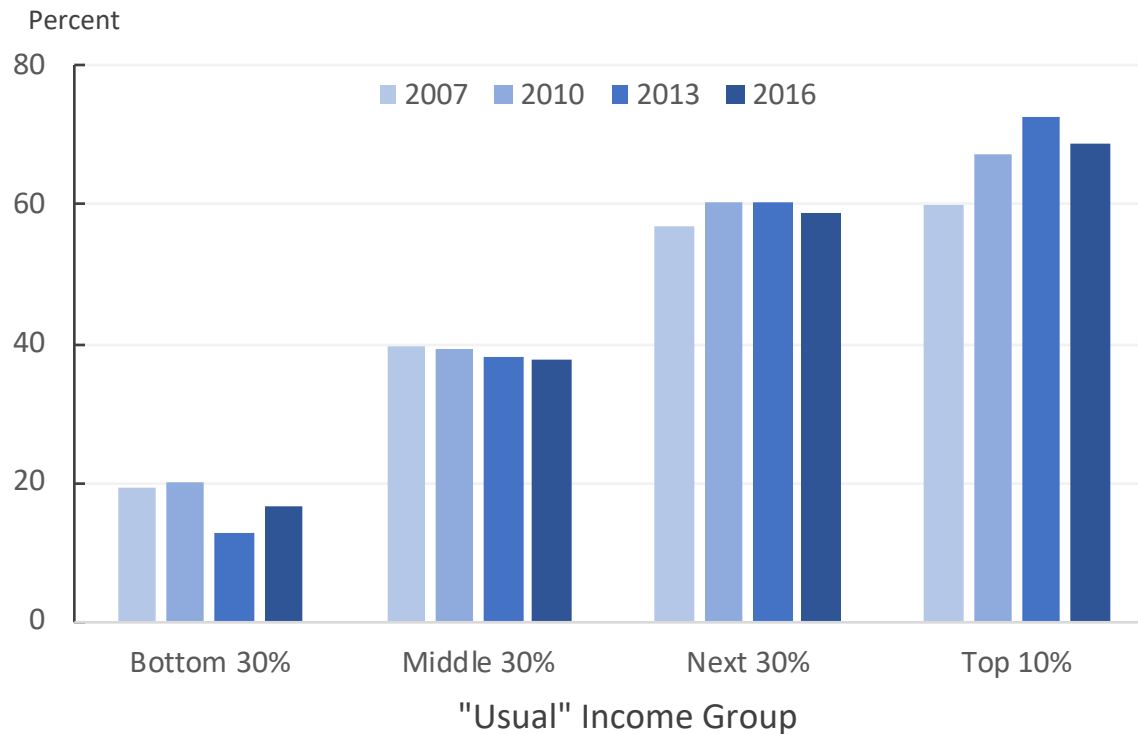


Source: Survey of Consumer Finances; author's calculations

Homeownership rates dropped after the crisis—and **have continued to drop in the lower income groups**—so young households have not benefited from the rebound in home prices

Why haven't young households participated in the wealth recovery?

Share of Households with Heads Age 25-35 with DC Pension Plan at Current Job



Source. Survey of Consumer Finances; author's calculations

Access to 401(k)-type plans
(through which households can participate in the stock market) has never been high for households in the lower half of the income distribution—and is **down on net since the crisis for young lower income households**

Interpretation

More evidence that **recession “scarring” a real concern** for this cohort

Recent trends for lower-income young households worse than for their higher-income counterparts—supports case for thinking about heterogeneity

Importance of asset ownership to wealth patterns:

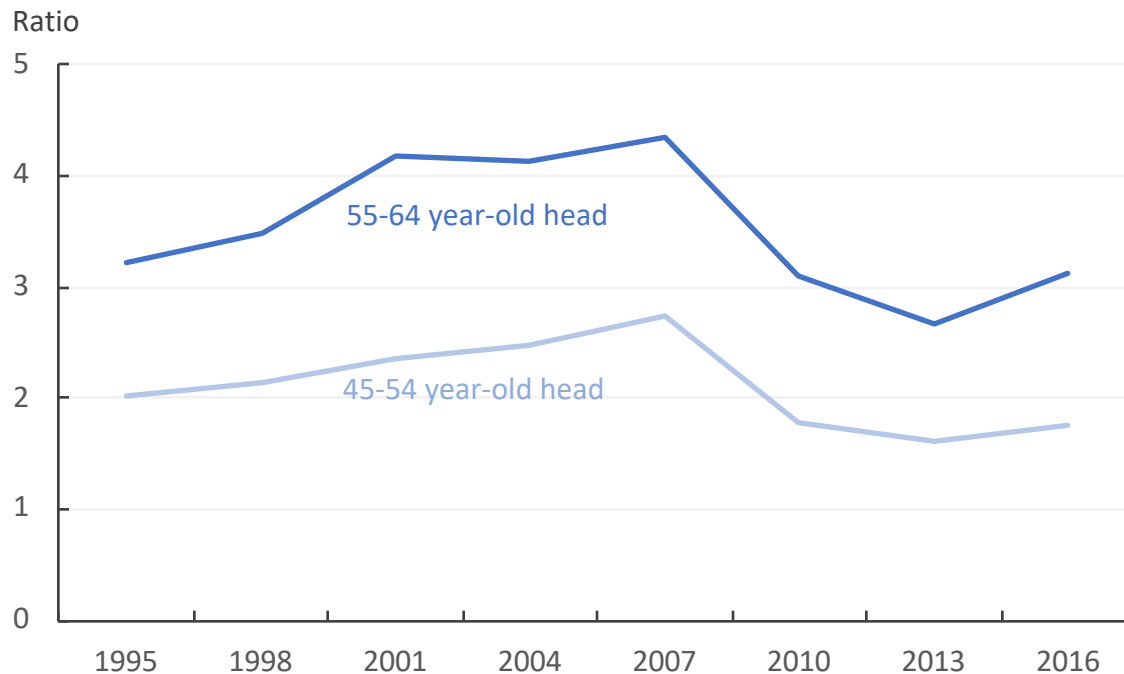
Of course, upsides and downsides to owning risky assets (more to come on this)

But, to the extent that intergenerational transfers help people buy homes, it does reinforce GGF concerns about persistence of wealth disparities by income group

Is **decline in 401(k) access at lower end related to growth in contingent workforce** and thus a precursor of more trouble to come?

But wait—maybe Millennials are just “late to launch” and will make it up?

Median Ratio of Net Worth to "Usual" Income for Households Approaching Retirement



Source. Survey of Consumer Finances; author's calculations

Maybe

But I'd feel better about prospects for this to happen if we weren't observing households in their peak saving years having more trouble building wealth than their earlier counterparts

Policy implications

Maintain/strengthen the **social safety net**

Expand access to **workplace retirement saving programs**

Find **ways for the contingent workforce to access benefits** of the sort provided by traditional employers

Explore **safer ways to own homes**—e.g. mortgages that build equity faster

More **financial education**

Maintain **consumer financial protection**