Millennials and Retirement Saving

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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)

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
  In wealth levels and inverse hyperbolic sine of wealth

• The estimates of \( \gamma \) are not measures of racial discrimination
Pooled Net Worth Regressions (Least Absolute Deviations)

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Black</td>
<td>-23,339***</td>
<td>-33,809***</td>
</tr>
<tr>
<td></td>
<td>(1,394)</td>
<td>(1,714)</td>
</tr>
<tr>
<td>Hispanic</td>
<td>-10,292***</td>
<td>-14,670***</td>
</tr>
<tr>
<td></td>
<td>(1,706)</td>
<td>(2,521)</td>
</tr>
<tr>
<td>Non-White</td>
<td>-18,695***</td>
<td>-17,158***</td>
</tr>
<tr>
<td>Other</td>
<td>-29,031</td>
<td>18,745</td>
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<tr>
<td>Pseudo R-squared</td>
<td>0.161</td>
<td>0.163</td>
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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)

Black Coefficient Over Time, Least Absolute Deviations

[Graph showing black coefficients over time with error bars]
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.