Issue Brief
Financial Asset Inequality and Its Implications for Retirement Security
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September 2019
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ACKNOWLEDGEMENTS

The authors are grateful for the comments, advice, and assistance provided by a number of individuals including: Nicole Dascenzo, Dan Doonan, Kelly Kenneally, and Monique Morrissey. The views in this report and any errors and omissions are those of the authors’ alone.
EXECUTIVE SUMMARY

The United States faces a growing retirement savings crisis. Many working Americans have no retirement savings and even among those who are saving, most are not saving enough to maintain their current standard of living in retirement. Many studies of retirement savings have examined the lack of savings among working Americans. Another way to look at the problem is to consider who does own financial assets, which include assets for retirement.

In 2006, the Government Accountability Office (GAO) released a report examining the ownership of financial assets within the Baby Boomer generation. Financial assets consist of nontangible assets such as savings accounts, stocks, and bonds. GAO found that the top 50 percent of Baby Boomers by net wealth owned 97 percent of that generation’s financial assets. Furthermore, the top 25 percent owned 86 percent of assets; the top 10 percent owned 68 percent; and the top 5 percent owned 52 percent of financial assets.

This issue brief reproduces the GAO’s methodology using more recent data and finds that financial asset inequality has increased over time. Moreover, using 2016 data, this issue brief finds a similarly skewed ownership of financial assets among the Millennial and Generation X cohorts. This is especially troubling because these households face an increasing retirement savings burden due to the decline of pensions in the private sector and longer life expectancy. The persistent concentration of financial assets among the wealthy, combined with anemic retirement savings among most households, poses a significant economic threat to the retirement security of many working Americans.

This new research finds:

• Financial asset inequality has increased significantly among Baby Boomers since 2004.
  - The share of Baby Boomer financial assets owned by the wealthiest 5 percent of households in this generation grew from 52 percent in 2004 to 60 percent in 2016.
  - Over the same time period, the share of financial assets owned by the top 10 percent of Baby Boomer households grew from 68 percent to 75 percent, and the share owned by the top 25 percent grew from 86 percent to 91 percent.
  - The share of assets owned by the bottom 50 percent of Baby Boomer households shrank from 3 percent in 2004 to under 2 percent in 2016.

• Financial asset inequality appears to be growing worse across generations. Generation X and Millennials appear to have reached comparable degrees of financial asset concentration among the wealthiest households as Baby Boomers, at younger ages.
  - In 2016, Generation X was about 4 years younger on average than Baby Boomers in 2004. Yet the top 25 percent of Generation X households owned 87 percent of financial assets in 2016, compared to 86 percent for their Baby Boomer counterparts in 2004.
  - Millennials in 2016 reached a comparable degree of financial asset concentration as Baby Boomers in 2004 -- 85 percent versus 86 percent owned by the wealthiest 25 percent of their cohort – two full decades earlier in their lifecycle.

• Financial asset inequality is exacerbated by regressive tax incentives for retirement savings and unequal access to employer-provided retirement plans.

NIRS recommends three well-established public policy proposals as starting points to improve retirement security for working Americans:

2. Support state efforts to establish state-facilitated retirement savings plans in order to facilitate asset building among the roughly half of U.S. private sector workers who lack access to a workplace retirement plan.
3. Promote and improve the federal Saver’s Credit to help build the retirement savings of low-income households.
BACKGROUND

In July 2006, the Government Accountability Office (GAO) published a report titled Retirement of Baby Boomers is Unlikely to Precipitate Dramatic Decline in Market Returns, but Broader Risks Threaten Retirement Security.² The purpose of the report was to consider the likelihood of a meltdown in financial markets caused by Baby Boomers selling their financial assets to finance their retirement.³ GAO concluded that this was extremely unlikely. One of the reasons the GAO reached that conclusion was because the ownership of financial assets among Baby Boomers was highly concentrated at the top of the wealth spectrum.

Using data from the 2004 Survey of Consumer Finances (SCF), GAO found that the top 50 percent of Baby Boomers by net wealth owned 97 percent of all financial assets among that generation. Furthermore, GAO found that the top 25 percent of Baby Boomers by net wealth owned 86 percent of assets; the top 10 percent owned 68 percent of assets; and the top 5 percent owned more than half (52 percent) of all financial assets among that generation. The high net wealth individuals who own the majority of financial assets are unlikely to need to sell their assets to finance their retirement. This is one reason GAO concluded that the retirement of the Baby Boomers was unlikely to precipitate a market meltdown.

The highly skewed ownership of financial assets has important implications for retirement security. Social Security benefits are the primary source of retirement income for the majority of Americans.⁴ However, Social Security is meant to act as a floor to keep retirees out of poverty and is not meant to replace a majority of pre-retirement earnings for most workers. Therefore, retirees also need income from other sources to pay for basic living expenses and, hopefully, maintain their pre-retirement standard of living. This income replacement may take the form of a defined benefit pension, but the share of households with pensions has declined steadily. Thus, households are more reliant than ever on private financial wealth to supplement Social Security.

In addition to regular savings accounts, about half of working age households have savings in defined contribution plans and Individual Retirement Accounts (IRAs) in the form of stocks, bonds, and other financial assets. Wealthier households also hold significant financial wealth outside of retirement accounts. Although retirement savings and overall financial assets among American households have grown steadily in aggregate terms,⁵ the impact on the retirement security of working Americans depends on how this wealth is distributed among households. Unfortunately, the following evidence indicates that the build-up in financial wealth has benefited a relatively small share of households.

BABY BOOMER FINANCIAL ASSETS OVER TIME

GAO’s report used data from the 2004 SCF. This issue brief reproduces their analysis using data from the 2010 and 2016 SCF surveys. The analysis of the 2010 and 2016 data shows that as the Baby Boomer generation has aged, the ownership of financial assets within this generational cohort has grown more skewed.

The share of Baby Boomer financial assets owned by the top 5 percent of households in this generation, ranked by net worth, grew from 52 percent in 2004 to 60 percent in 2016. Over the same time period, the share of financial assets owned by the top 10 percent of Baby Boomer households grew from 68 percent to 75 percent, and the share owned by the top 25 percent grew from 86 percent to 91 percent. The share of assets owned by the bottom 50 percent of Baby Boomer households shrank from a dismal 3 percent in 2004 to less than 2 percent in 2016.

The overall concentration of financial assets among Baby Boomers reflects increased wealth inequality in the U.S. since the 1980s.⁶ It is also likely that lifecycle effects contributed to the increase in the degree of concentration within the Baby Boomer cohort over this period. That is, as the Baby Boomer owners of financial assets have gotten older, they have had more time to accumulate financial assets through work and savings and for those assets to grow through investment returns.
Figure 1: Distribution of Baby Boomer Financial Assets, by Wealth Percentiles - 2004

Source: GAO analysis of 2004 Survey of Consumer Finances

Figure 2: Distribution of Baby Boomer Financial Assets, by Wealth Percentiles - 2010

Figure 3: Distribution of Baby Boomer Financial Assets, by Wealth Percentiles - 2016
The unequal ownership of financial assets among Baby Boomers has increased over time. When thinking about the future, this raises a question: Do other generations experience this same unequal distribution of financial assets? To answer this question, NIRS used data from the 2016 SCF to analyze the ownership of financial assets among the Millennial and Generation X generational cohorts. This analysis finds that the unequal distribution of financial assets among Millennials and Generation X is similar to that of Baby Boomers, especially after accounting for lifecycle effects. In fact, Generation X and Millennials appear to have reached comparable degrees of financial asset concentration as Baby Boomers at younger ages.

Figure 4: Distribution of Generation X Financial Assets, by Wealth Percentiles - 2016

The concentration of financial wealth among Generation X households in 2016 was nearly identical to that of Baby Boomers in 2004 and 2010. In 2016, Generation X was roughly 4 years younger on average than Baby Boomers in 2004. Even so, the top 25 percent of Generation X households owned a slightly larger share of financial assets in 2016 compared to their Baby Boomer counterparts in 2004: 87 percent versus 86 percent.
Millennials in 2016 reached a comparable degree of financial asset concentration as Baby Boomers in 2004 -- 85 percent versus 86 percent owned by the wealthiest 25 percent of households in their cohort. This is remarkable because in 2016, Millennials were two decades younger on average than Baby Boomers in 2004. Given that wealth at the top tends to compound over time, the financial asset gap among Millennials can be expected to surpass that of older cohorts as they get closer to retirement.

This issue brief echoes a growing body of research on rising income and wealth inequality over time and across generations. For example, GAO recently released a study that found that income and wealth inequality among households age 55 and older increased significantly between 1989 and 2016.

The above findings indicate that, absent significant policy interventions, income and wealth inequality among older households will intensify in the coming decades. This is concerning given that younger generations will need to depend on private retirement wealth to a greater degree than previous generations.
FACTORS CONTRIBUTING TO UNEQUAL OWNERSHIP

It should surprise no one that high net worth individuals own more financial assets than those with lower net worth. By definition, high net worth individuals own more assets, have less debt, or both, than lower net worth individuals. This issue brief shows, however, just how concentrated financial assets are. This skewed distribution of financial assets is rooted in the explosion of inequality in both income and wealth over the past four decades. Unfortunately, changes in our retirement infrastructure may be contributing as well, both through regressive tax policies and unequal access to retirement programs. This matters because roughly one-third of household financial assets are held in retirement accounts.9

Each pillar of our retirement savings infrastructure has features that either amplify the impact of inequality on retirement security or mitigate it. For instance, Social Security provides critical retirement income for a large majority of Americans. The program has a progressive benefit structure that helps lower-income Americans retire above the poverty line and helps retirees keep up with generational improvements in the standard of living. However, the Social Security tax structure has become increasingly regressive over time. The cap on earnings subject to Social Security payroll taxes, known as the tax max, has failed to keep up with increasing earnings inequality.10 Even though the share of workers with earnings above the tax max has remained relatively stable for decades at about six percent, the system captures a smaller and smaller share of U.S. earnings every year.11 The Congressional Budget Office (CBO) states that in 2016 83 percent of covered earnings fell under the tax max.12 CBO projects that number will decline to 79 percent over the coming decades as the incomes of high earners grow.

Most Americans pay 6.2 percent of all of their wages and salaries towards Social Security, which is matched by their employers. However, someone who earns twice as much as the Social Security wage base, i.e., $265,800 in 2019, stopped paying into Social Security in July and has an effective tax rate of 3.1 percent. While benefits are similarly capped, the fact that a growing share of earnings is effectively invisible to Social Security makes the system less and less progressive over time.

Meanwhile, tax incentives for retirement savings disproportionately benefit high income households.13 According to the Tax Policy Center, the federal government was projected to lose over $250 billion in tax revenue in 2019 to various retirement savings exemptions.14 The overwhelming majority of money saved through these tax incentives will go to Americans in the top fifth of the income distribution.15 These tax incentives, often along with the responsibility of paying for retirement income, get transferred from employers to workers when firms decide to move from defined benefit plans to defined contribution plans. This skews the distribution of tax benefits even more because higher-income earners are more likely to contribute to defined contribution plans, contribute at a higher rate, and have higher marginal income tax rates.

There is evidence that current tax incentives for retirement have a limited effect in terms of increasing savings and merely allow high earners to shelter more of their wealth from income taxes.16 The primary tax advantage for high earners derives from the income tax that would otherwise be owed on the internal buildup of investment earnings, which can be avoided through contributions to retirement plans. Many working households owe payroll but not income tax, so this avoidance of taxes on investment earnings does little to benefit them.

Another problem that contributes to financial asset inequality is the fact that a large majority of American workers are either not saving at all for retirement, or not saving enough—and the lack of retirement plan access is largely to blame.

Research has consistently shown that workers are more likely to save for retirement if they are offered a savings plan through their employer, such as a 401(k).17 Most IRA accounts simply contain rollover amounts from previous employer-provided plans.18 It is much easier to accumulate financial assets if you are contributing from every paycheck via your employer and even more so if your employer offers a contribution match. Thus, participation rates are nearly universally high when workers have access.19 Unfortunately, growing inequality in private sector access to workplace retirement plans contributes to the unequal ownership of financial assets.
In a 2015 research paper, researchers at the Federal Reserve Board of Governors examined the question “is the U.S. retirement system contributing to rising wealth inequality?” They found that, taken as a whole, retirement wealth is less concentrated than non-retirement wealth, so the retirement savings system actually helps to offset the increasing concentration at the top of non-retirement wealth. However, they also cautioned that the shift from primarily defined benefit plans to primarily defined contribution plans may be weakening that offsetting effect.

The Fed researchers note the importance of plan access for retirement savings. “Participation in employment-related retirement plans is always and everywhere very positively correlated with income,” but “the historical differences in retirement plan coverage by income have widened in recent years.” While overall retirement plan participation has declined in recent years, it has declined more for younger households and lower-income households. When considering why lower-income workers are seeing a decline in plan participation, the Fed researchers note “declines in offers [to participate] for the lower half of the income distribution seem to be responsible.” As long as access to a retirement plan remains weak for the lower half of the income distribution, the unequal distribution of financial asset ownership will continue.

**PUBLIC POLICY IMPLICATIONS**

As this issue brief has shown, there are a number of structural forces contributing to the highly unequal ownership of financial assets. However, there are at least three well-established public policy proposals that policymakers could implement to begin to improve the retirement savings prospects of lower-income workers who do not own very many (or any) financial assets.

**First, the President and Congress could strengthen Social Security.** This critical program is vitally important for the many working Americans for whom Social Security income will constitute the majority of their income in retirement. As stated above, though, the Social Security tax max (or earnings cap) means that the rising share of income earned by those at the very top is not subject to Social Security payroll taxes. The amount of untaxed covered earnings will continue to grow in the years ahead. Eliminating the earnings cap would increase revenues for the program, which would help to improve the Social Security trust fund’s funding shortfall. These increased revenues could also finance improvements to the program, such as more generous benefits for lifetime lower-income earners and earnings credits for those who take time out of the workforce to provide caregiving.

**Second, states can play an important role by creating state-facilitated retirement savings plans for those who are not offered a plan through their employer.** This will provide a meaningful wealth-building opportunity for workers who lack access to employer-sponsored plans. Ten states so far have established retirement savings plans for workers without a plan. These plans vary in their design from auto-IRAs to multiple employer plans to retirement plan marketplaces. After just two years of operation, Oregon workers are accumulating $2.5 million per month through the state’s auto-IRA program. Several other states, including California and Illinois, are close behind in implementation. Additionally, nearly thirty other states have seen legislation introduced to establish similar plans. Improving plan access, especially for lower-income workers, is critical to improving retirement savings and ultimately reducing the disparities in financial asset ownership.

**Finally, the federal government could act to improve and promote the federal Saver’s Credit.** Congress enacted the Saver’s Credit in 2001 for lower-income taxpayers. The credit reduces income tax liability by 10-50 percent of the first $2,000 in contributions to a qualified retirement account, depending on income and tax filing status. For single filers in the 2019 tax year, a credit of 50 percent is available for individuals with incomes up to $19,250 AGI (Adjusted Gross Income), 20 percent for AGI between $19,251 and $20,750, and 10 percent for AGI between $20,751 and $32,000. For married couples who file jointly, these income limits are doubled. The rapid phase-out at low income levels and lack of refundability restrict the credit’s effectiveness. The average credit in 2014 was only $174, and the cost to the federal government was miniscule compared to the tax expenditures that subsidize the savings of higher-income earners through 401(k) tax provisions.
Expanding the Saver’s Credit by increasing income limits and credit rates and making the credit refundable would increase incentives for lower-income workers to save for retirement and increase their account balances. State-sponsored retirement savings programs could educate members about the Saver’s Credit and encourage direct deposit of the tax credit into savers’ retirement accounts. In addition, creating a system for depositing the credit directly into retirement savings accounts would help bolster account accumulations.

CONCLUSION

The heavily skewed ownership of financial assets has persisted over time and across generations, with negative implications for retirement security. With fewer private employers offering defined benefit pensions, many working Americans are forced to rely more on their savings to supplement their Social Security benefits and finance a secure retirement. However, if a small share of households owns the vast majority of financial assets and the majority owns little to none, then most working Americans will struggle to maintain their standard of living in retirement. Policymakers should consider whether the current retirement savings system is well-designed to promote retirement security for all Americans.


3. The financial assets considered in the GAO report and this issue brief include assets specifically for retirement as well as non-retirement financial assets.


5. For data on aggregate household financial and retirement assets, see the Federal Reserve’s quarterly report, “Z.1 Financial Accounts of the United States.”


9. Authors’ analysis of 2016 SCF.

10. The tax max was set at $132,900 in 2019.


ENDNOTES (CTD.)

21. This offsetting effect has much to do with Social Security and its progressive benefit structure.
23. Ibid.
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The National Institute on Retirement Security is a non-profit research and education organization established to contribute to informed policymaking by fostering a deep understanding of the value of retirement security to employees, employers, and the economy as a whole.

Our Vision

Through our activities, NIRS seeks to encourage the development of public policies that enhance retirement security in America. Our vision is one of a retirement system that simultaneously meets the needs of employers, employees, and the public interest. That is, one where:

• employers can offer affordable, high quality retirement benefits that help them achieve their human resources goals;

• employees can count on a secure source of retirement income that enables them to maintain a decent living standard after a lifetime of work; and

• the public interest is well-served by retirement systems that are managed in ways that promote fiscal responsibility, economic growth, and responsible stewardship of retirement assets.

Our Approach

• High-quality research that informs the public debate on retirement policy. The research program focuses on the role and value of defined benefit pension plans for employers, employees, and the public at large. We also conduct research on policy approaches and other innovative strategies to expand broad based retirement security.

• Education programs that disseminate our research findings broadly. NIRS disseminates its research findings to the public, policy makers, and the media by distributing reports, conducting briefings, and participating in conferences and other public forums.

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