

Finding Three: There Is Expected to be Considerable Dispersion in Retirement Outcomes with Lower Income Workers Much More Likely to Experience Shortfalls

Authors

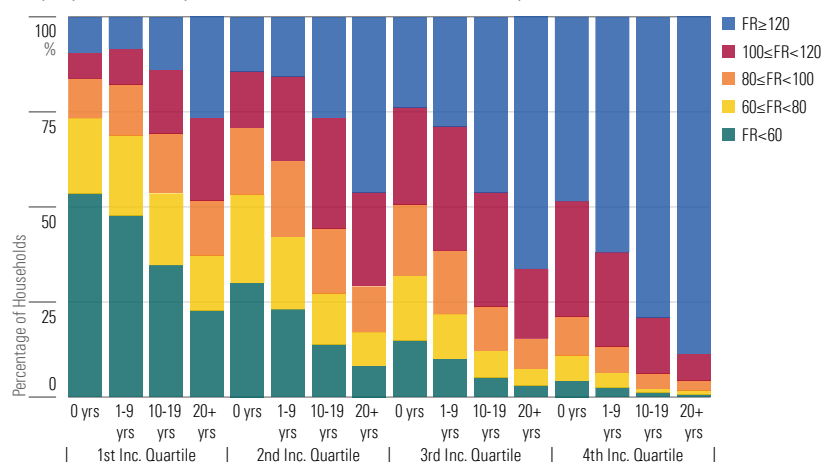
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Finding Three Summary

- In our study,¹ we reviewed retirement funding ratios for Gen Xers, Millennials and Gen Z across income quartiles and the number of years of future participation in a DC plan. Our income quartiles are based on the average indexed monthly earnings² calculated for each household member as part of the Model's estimation of Social Security benefits.
- The results indicate that workers in the first two income quartiles are much more likely to run short of money in retirement. Namely, over 80% of households in the first income quartile with 0 years of future participation in a DC plan are projected to run short of money in retirement.
- However, retirement deficits are notably lower when household members are simulated to participate in a DC plan for 10 or more years. For example, only about 52% of the households in the first income quartile experienced retirement shortfalls when participating in a DC plan for 20 or more years.

Exhibit 3: Percentage of Gen Z, Millennials, and Gen X with Retirement Funding Ratio Less than Displayed Value by Number of Years of Future Participation in a DC Plan and Income Quartiles



Source: "FR" refers to the retirement funding ratio. Authors' calculations using v1.0 of the Morningstar Model of US Retirement Outcomes. Household data is from the 2022 Survey of Consumer Finances. This analysis is based on household members aged 20 years and over. Household members are assumed to retire at 65 and claim Social Security upon retirement. Portfolio returns are from Morningstar Investment Management. Refer to the main study for more information: <https://www.morningstar.com/business/insights/research/retirement-crisis-401k>.

¹ Refer to the main study: <https://www.morningstar.com/business/insights/research/retirement-crisis-401k>

² Average indexed monthly earnings refer to a worker's average earnings, adjusted to account for differences in the standard of living over time.

Social Security benefits are typically calculated using average indexed monthly earnings. Refer to <https://www.ssa.gov/oact/cola/Benefits.html>

Commentary on Findings

- ✗ The Model calculates both standard expenses (which exclude long-term services and supports costs) and LTSS expenses. Focusing on lower income workers, the Model generally projects smaller standard expenses as our expense module explicitly incorporates a household's income level when simulating expenses.³ Nonetheless, lower income workers are still projected to run short of money in retirement primarily due to stochastic LTSS expenses.
- ✗ There is not a significant impact on retirement adequacy for higher income workers because they typically have sufficient assets to cover the costs.
- ✗ The Secure 2.0 Act of 2022 introduced the Saver's Match program, which will begin in 2027. The new program will offer a 50% match on the first \$2,000 of retirement savings contributions for lower income individuals who qualify. The Saver's Match may go a long way in addressing retirement adequacy for certain lower income workers.

Disclosures

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³ Note that age and marital status are also factored in.