



Typical Wealth Held by Those at the Verge of Retirement

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A great way to assess how well adults have accumulated wealth is to look at their finances in the years shortly before they retire. Here, we show wealth among households with an adult age 57–61 in 2004, using the Health and Retirement Study. We examine financial assets, home equity, retirement accounts, vehicles, property, and businesses as well as the present value of individuals' future Social Security and pension benefits.¹ We show mean per adult holdings for the middle quintile of the wealth distribution (wealth for married or partnered couples is divided by two).

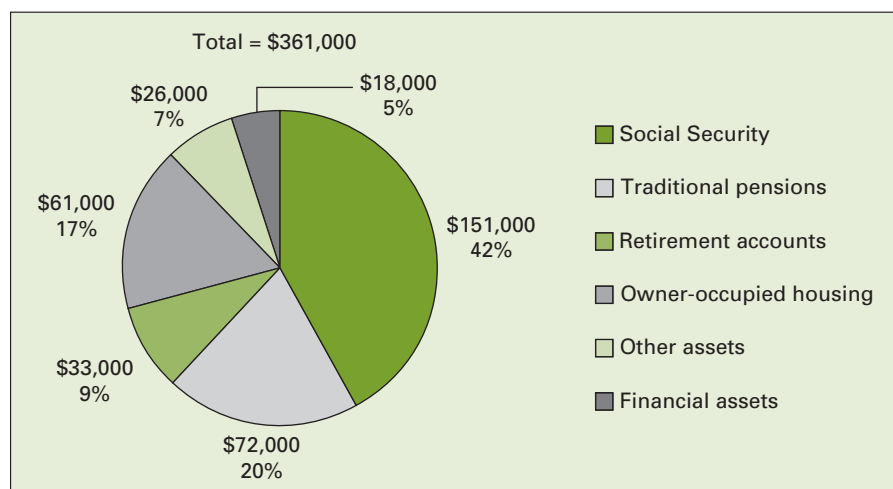
Social Security and traditional pension benefits comprise a substantial share of wealth for typical near-retiree households (figure 1). Middle-quintile households have \$151,000 in Social Security wealth per adult and \$72,000 in pension wealth per adult. Together, Social Security and pensions account for nearly two-thirds of their \$361,000 in total wealth.

At \$61,000 per adult, owner-occupied housing is the next largest source of wealth for middle-quintile

households. Retirement accounts, including individual retirement accounts and defined-contribution (DC) pensions, such as 401(k) plans, are \$33,000 per adult. While DC plans have largely replaced traditional pensions for many younger workers in the private sector, traditional pensions are still the more important source of wealth for middle-quintile households near retirement today, as well as many public-sector workers.² Middle-quintile households have \$26,000 per adult in other assets, including vehicles, vacation homes, other property, and businesses. Holdings of financial wealth—bank accounts, CDs, stocks, bonds, and mutual funds—are just \$18,000 per adult for typical households, about 5 percent of their total wealth.

This wealth snapshot highlights the extraordinary importance of Social Security, traditional pensions, and owner-occupied housing for typical near-retiree households today. Together, these assets comprise nearly four-fifths of wealth for middle quintile households on the verge of retirement.

FIGURE 1. Mean Wealth Per Adult for Middle-Quintile Households with an Adult Age 57–61, 2004



Source: Author's calculations from the 2004 Health and Retirement Study.

Notes: Social Security and pension wealth are based on administrative earnings histories and employer-provided plan information. Financial assets include bank accounts, CDs, stocks, bonds, and mutual funds. Other assets include other real estate, businesses, and other savings net of nonhousing debt.

Notes

1. We define Social Security and traditional pension wealth as the expected present value of future benefits based on earnings through 2004. We use administrative earnings records, mortality assumptions from the Social Security Board of Trustees, and a 3 percent real discount rate to calculate Social Security wealth. We use employer-provided plan descriptions, self-reported earnings, and the same mortality and discount rate assumptions to calculate pension wealth. Pension wealth does not include wealth accumulated at jobs that began after 1998. Social Security and pension wealth are imputed for those respondents without administrative earnings records or pension plan descriptions.
2. However among all households with an adult age 57–61, average traditional pension wealth is only 10 percent higher than average DC wealth. The difference is much larger for the middle quintile because DC wealth is more highly concentrated at the top of the wealth distribution.