Retirement News Highlights

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Why do late boomers have less retirement wealth than earlier cohorts?

WHAT'S THE OUTLOOK FOR GENERATION X AND MILLENNIALS?

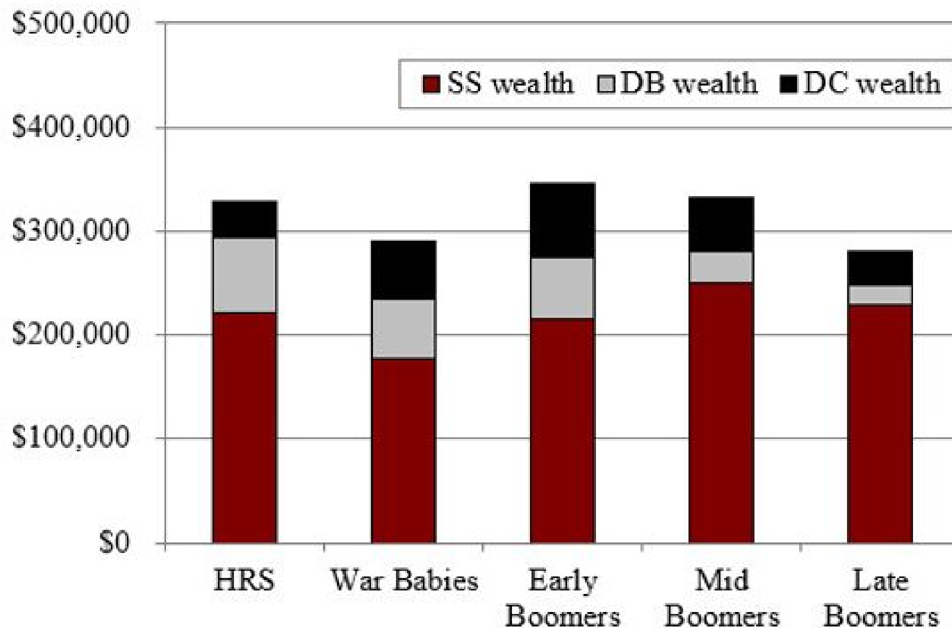
By Alicia H. Munnell
MarketWatch
May 23, 2023

Late boomers have low levels of wealth regardless of how it is defined — total wealth, retirement wealth, or 401(k)/IRA wealth.

A decline in some wealth components had been expected as a result of the rise in Social Security's Full Retirement Age, the shift from defined benefit (DB) to defined contribution (DC) plans, and a drop in housing values during the Great Recession. But increasing DC balances were predicted to offset the gap, since late boomers were the first generation where workers could have spent their whole career covered by a 401(k) plan.

That did not happen; average DC wealth for those in the middle quintile dropped from $52,300 for Mid Boomers to $32,700 for Late Boomers (see Figure 1). In fact, declines occurred across all but the top quintile.

Figure 1. *Retirement Assets at Ages 51-56 for Households in the Middle Wealth Quintile, by Type of Asset and Cohort, 2020 Dollars*



Source: Anqi Chen, Alicia H. Munnell, and Laura D. Quinby. 2023. "Why Do Late Boomers Have So Little Wealth and How Will Early Gen-Xers Fare? Working Paper 2023-6. Center for Retirement Research at Boston College.

My colleagues and I have just completed a study to figure out why late boomers have so little retirement wealth and what the patterns imply for early Generation X and subsequent cohorts. We used a decomposition technique that sorts out the contribution from various sources. The findings indicated that two major factors were at play — a change in the composition of households and a weakening for late boomers of the link between work and wealth accumulation.

This is not a tale of the deteriorating status of Black and Hispanic households; indeed, the wealth of nonwhite households has increased relative to their white counterparts. But Black and Hispanic households still have less wealth than white households, so when they increase as a share of the total households, average cohort wealth will decline. Similarly, a decline in the percentage of households married or with a college degree will bring down the average. For total wealth and retirement wealth, the changing demographics accounted for 24% to 29% of the total decline.

The rest was attributable to shifting coefficients — the most important of which was the weakened link between work and wealth. This pattern is fully consistent with data from other surveys which show late boomers, who were in their 40s at the time, were hit hard by the Great Recession and never recovered. Even late boomers who had a job after the Great Recession earned less, were less likely to participate in a 401(k) plan, and accumulated fewer assets in those plans. Work, for late boomers, simply did not produce the boost to wealth accumulation that it had for previous cohorts.

This finding is potentially good news for the wealth holdings of future generations. While the demographic/education shifts will continue to bring down the average, these factors were not the major source of the decline. The big change was the weakening of the link between work and wealth

accumulation for the late boomers as a result of the Great Recession. To the extent that the decline in wealth is a Great Recession story, some of the downward pressure on wealth holdings should abate.

Let's hope we're right.

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Pensions Are 'Along for the Ride' When Private Equity Managers Slip Up

PRIVATE EQUITY CONTRACTS LEAVE INVESTORS WITH FEW OPTIONS SHOULD BAD HEADLINES EMERGE ABOUT ONE OF THEIR MANAGERS.

By Justin Mitchell
FUNDfire
May 23, 2023

Some public pensions are struggling to respond to controversies in their private equity managers' portfolios, given the restrictive nature of agreements that institutional investors sign with their fund managers.

The issue has come to the fore most recently in the alleged use of child labor by portfolio companies in two separate private equity funds – and institutional investors, also known as limited partners or LPs in private equity funds, have found themselves hamstrung in what they can publicly discuss.

Last year, Packers Sanitation Services, owned by private equity giant Blackstone Group, was fined $1.5 million for employing children, triggering concern from many investors, including the U.S.' two largest public pensions, the California Public Employees' Retirement System and the California State Teachers' Retirement System. Blackstone is also one of the Los Angeles Fire and Police Pension Systems' private equity managers.

FundFire sought information from the Los Angeles pensions, called LAFPP, which in turn sought advice from Blackstone on what they could communicate publicly.

"The reporter is basically casting a wide net to dozens of LPs to see if they can get people to comment," a Blackstone staffer responded. "Most LPs we have heard from are simply not replying (or just noting they don't have exposure to the particular fund and leaving it at that)."

Blackstone also apparently provided LAFPP with information to present at a forthcoming board meeting and wished them luck.

Some information about public pensions' alternative investments is exempt from disclosure under California state law. The "strict guidelines" faced by LAFPP staff are unclear, but most likely refer to confidentiality provisions in the contracts governing the relationship between a private equity manager, known as a general partner, or GP, and its LPs.

Managers and investors keep these limited partners agreements, or LPAs, under tight wraps. The financial blog Naked Capitalism has collected a trove going back almost two decades, which includes several Blackstone LPAs.

A Blackstone LPA from 2005 requires LPs to "maintain the confidentiality of any information which is, to the knowledge of [the LP] non-public information regarding the [GP] and the Partnership." A Blackstone spokesperson did not confirm whether or not its LPAs still include this clause.

The 2005 Blackstone LP agreement also requires LPs to oppose any attempt to access non-public information through Freedom of Information Act, or FOIA, requests, and to alert the GP when it receives them.

When an LP invests in a private fund, they are surrendering almost all control over that investment, said J.J. Jelincic, a former investment officer and board member at the California public employees' pension.

"The truth of the matter is, once you give the money to the GP, you're along for the ride," he said.

"We can talk to the GP and say 'Hey, this is a problem for us, you ought to fix it,' but we have no power to force them to."

Another Blackstone investor, the New York State Common Retirement Fund, said it did engage Blackstone on this topic. On March 8, State Comptroller Thomas DiNapoli sent a letter to Co-founder and CEO Stephen Schwarzman, President Jonathan Gray and Senior Managing Director Joseph Baratta requesting a plan for preventing these violations from recurring. Schwarzman responded with two letters and fund staff have had "frank and productive" meetings with Blackstone, a DiNapoli spokesperson said, but declined to provide Schwarzman's letters.

Blackstone sent FundFire a list of remedial actions Packers has taken following the settlement, including additional identity theft training, extensive internal reviews, a new CEO, unannounced facility inspections and an external compliance review, among others. Blackstone also stressed that its communications with LAFPP were routine.

Public pensions also face problems when conducting FOIA requests.

In February, the New York Times reported that Hearthside Food Solutions, a food packaging company owned by Charlesbank Capital Partners and Partners Group, had employed migrant children.

When asked about its outreach to Charlesbank on the issue, the San Antonio Fire and Police Pension Fund, or SAFPPF, a Texas pension invested in the fund that owns Hearthside, initiated a FOIA request for any documents covering its communications with the firm.

While it did identify three investor updates from Charlesbank that fit FundFire's requests for information on the child labor reports, SAFPPF opposed releasing them because they contained "information that could constitute trade secrets, commercial or financial information, the release of which would cause substantial competitive harm," according to a response letter.

SAFPPF also alerted Charlesbank to the query and gave the manager the opportunity to argue against FundFire's request. In a letter, SAFPPF advised the private equity firm that it had the right to claim an exception to the state's public information disclosure law and suggested several "commonly raised exceptions" the firm could use.

In his own letter to Attorney General Ken Paxton, Charlesbank General Counsel and Chief Compliance Officer Jerome McCluskey repeated the claims of confidentiality but also insinuated the Times allegations were false and said that releasing the materials could harm Hearthside's bottom line.

"Hearthside is concerned about the possible perpetuation of unproven allegations amongst its stakeholders," the letter says. "The media attention has caused an increase in Hearthside's cost of capital and a [diminution] in the value of Hearthside's outstanding loans (which trade on the open

market). For these reasons, the release of the correspondence would cause substantial harm to Hearthside's competitive position."

When asked about this arrangement, SAFPPF's general counsel said the pension handles all requests for information under Texas's public information law, which states that "governmental bodies are not required to answer questions." Charlesbank did not respond to a request for comment.

Pensions are afraid they will get shut out of future investments if they question their GPs, said Jeffrey Hooke, a senior lecturer at Johns Hopkins University and author of the book The Myth of Private Equity.

"They're afraid of getting blacklisted as a troublemaker," he said.

Getting shut out of future funds is a primary reason for investors accepting "unsatisfying terms" in private equity investments, according to a survey from a recent paper by Will Clayton, a law professor at Brigham Young University.

Clayton also identifies "bargaining inefficiencies" – that is, the tendency for LPs to accept unfavorable terms with their GPs – as a pernicious issue in private equity, but one difficult to explain due to the dearth of public information about the asset class. Much of his research into the industry has come from "common wisdom," media articles, plus his own interviews and surveys, he added.

"This is the best we can do to try to get at what's happening in this industry because we don't have publicly available data to look at," he said.

Before the Securities and Exchange Commission begins more aggressively regulating private funds, it ought to take more time to learn about what really causes LPs to accept poor terms when making private equity investments, Clayton added.

"What I encourage the SEC to do is to view this not as … one point in time where they should attempt to fix all of the problems in one fell swoop, but view it as a continuing process," he said.

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Retirement Confidence Plummeted in 2023, EBRI Study Shows

Among current U.S. workers, retirement confidence fell by 9 percentage points, the largest drop since a 10-point slide in 2009.

Reported by PAUL MULHOLLAND
PLANSPONSOR
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The 2023 Retirement Confidence Survey published by the Employee Benefit Research Institute found that retirement confidence fell by a degree not seen since 2009.

In 2022, EBRI found that 73% of workers were very or somewhat confident that they would have enough money to live comfortably through their retirement. For 2023, that number declined to 64%. This is the largest drop that EBRI has documented since 2009, when it fell to 54% from 64%.

The gap was much smaller among retirees, falling to 73% in 2023 from 77% in 2022.

The survey featured a sample of 1,320 workers and 1,217 retirees, totaling 2,537 respondents. The sample was collected between January 5 and February 2 and was weighted by age, sex, caregiving status, income and race.

The survey included an oversample of caregivers, who made up 944 of the 2,537 respondents. The targeted analysis on this group will be published in late June, according to Craig Copeland, EBRI's director of wealth benefits research. The survey is weighted by caregiver status so that the oversample does not bias the results.

Among workers who are not confident in their ability to retire, 40% cite inadequate savings and 29% cite inflation and the cost of living as reasons for their concern. For retirees, these figures are nearly reversed: Among retirees not confident in their ability to live comfortably through retirement, 42% cited inflation and 25% cited inadequate savings.

Inflation and the general state of the economy haunt both retirees and workers, particularly inflation. Among workers, 86% are very or somewhat worried that inflation will stay high for another year, and 76% of retirees say the same. Other concerns are evident from the 80% of workers who say they are somewhat or very worried about a recession, further increases in interest rates and dramatic policy reforms to the retirement system.

The fears of a recession are accompanied by a lack of faith in the public equity market, as 74% of workers reported worrying about the volatility of the stock market. Among those workers who reported making changes to their retirement savings habits, 16% said they turned to more conservative investments, an increase from 9% in 2022.

Respondents were also surveyed on their understanding of certain investment menu options; 67% of workers said they understood managed accounts somewhat or very well, 58% said the same for income funds, 56% for TDFs and 48% for ESG funds.

Copeland clarifies that this is self-reported data, and respondents were not actually quizzed on their understanding, nor were they asked if they have ever had the opportunity to invest in these funds, so low understanding for some investments, such as ESG funds, might be mediated by their availability. Copeland says he is concerned about the low understanding of TDFs, or target-date funds, which are one of the more common default investments in 401(k) plans and "near universal" in defined contribution plans overall.

Retirement security has also attracted the interest of some legislators. The Social Security Caregiver Credit Act of 2023, introduced by Senator Chris Murphy, D-Connecticut, would calculate Social Security earnings for caregivers without an income as if they had made half the national average income for that month, for a maximum of 60 months.

Murphy's bill covers caregivers who are caring for dependent relatives aged 12 or younger. However, the EBRI survey addressed caregivers who are caring for an adult, such as an elderly parent, and not ordinary day-to-day parenting.

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Half of Households at Risk of Lower Living Standards in Retirement

By Ted Godbout

American Society of Pension Professionals & Actuaries

MAY 22, 2023

Retirement readiness remains a major challenge for many of today's working-age households that may need to save more and/or work longer to improve their prospects for a secure retirement.

That's according to the Center for Retirement Research's newly released National Retirement Risk Index (NRRI), which measures the percentage of working-age households that are "at-risk" of being unable to maintain their pre-retirement standard of living in retirement.

The NRRI is constructed with data from the Federal Reserve's Survey of Consumer Finances (SCF). The exercise involves comparing households' projected replacement rates—retirement income as a percentage of pre-retirement income—with target rates that would allow them to maintain their living standard.

Despite recent improvements in the Index's methodology, the overall level and time pattern of at-risk households remains roughly the same, the report notes.

"After recalculating the NRRI using the most updated methodology, the bottom line from our previous studies still holds—about half of today's households will not have enough retirement income to maintain their pre-retirement standard of living, even if they work to age 65 and annuitize all their financial assets, including the receipts from a reverse mortgage on their homes," researchers Yimeng Yin, Anqi Chen and Alicia Munnell write.

Moreover, the pattern continues to follow closely with the health of the economy. In this case, the Index increased substantially from 2007 to 2010 during the Great Recession, and then declined from 2013 to 2019 as the economy experienced low unemployment, rising wages, strong stock market growth and rising housing prices. "These improvements were modest due to some countervailing longer-term trends—such as the gradual rise in Social Security's Full Retirement Age (FRA) and the continued decline of interest rates—which made it more difficult for households to achieve retirement readiness," the researchers further observe.

Demographic Patterns

In addition to the time pattern, the NRRI patterns by age, income, and wealth are also generally consistent with previous results.

Age. For instance, the 2004 NRRI shows a large discrepancy in retirement readiness by age group, which reflects the significant changes in the retirement landscape, such as the shift of coverage from DB to DC plans, rising life expectancy, and the increase in the FRA. As the trends for these underlying factors stabilized over time and their impact fully materialized, the age discrepancy in the NRRI has narrowed. In 2004, 49% of those in the age 30-39 age group were estimated to be at risk, while 32% of those in the 50-59 age group were at risk. In 2019, however, the age 30-39 group remained at 49%, but the 50-59 age group rose to 46% estimated to be at risk.

Income. Not surprisingly, households' retirement preparedness in all income groups was heavily affected by the Great Recession. And while the middle and the highest thirds saw significant improvement from 2010-2019 due to housing and equity prices rebounding, households in the bottom third saw virtually no improvement as they are less likely to own a house and participate in DC plans, and have few financial assets, the report notes.

Meanwhile, the rise in wage growth for lower-income workers was good news generally, as it improves their current standard of living, but at the same time, also leads to lower projected Social Security replacement rates due to the progressive benefit formula, the researchers explain. Similarly, the

increase in the FRA also has a large impact on low-income households, who depend almost entirely on Social Security for retirement income.

Wealth. As one might expect, when viewed by wealth, households' retirement preparedness generally shows a similar pattern. The discrepancy between the top and bottom wealth groups, though, is much larger than those by income, suggesting that wealth inequality is more severe than income inequality, the researchers observe. In this case, 73% of households in the lower-wealth group were at risk in 2019, compared to only 28% of households in the higher-wealth group.
"The robustness of the results confirms the retirement saving issue faced by today's working-age households, and that we need to fix our retirement system so that employer plan coverage is universal," Yin, Chen and Munnell suggest in concluding observations. "Only with continuous coverage will workers be able to accumulate adequate resources to maintain their standard of living in retirement."

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