

When I'm 64 (or Thereabouts): Changes in Income from Middle Age to Old Age

Peter Brady and Steven Bass

This research was conducted as part of the Statistics of Income (SOI) Joint Research Program. Working paper is available [here](#). Views presented are those of the authors and do not necessarily represent the views of the Internal Revenue Service or the views of the Investment Company Institute or its members. We thank Kevin Pierce for his assistance with this project.

32nd Colloquium on Pensions and Retirement Research
IPRA sponsored online session
3 December 2024

Goal of Research: Measure Income Changes Near Retirement

- Two questions
 - How does spendable income change from middle age through old age?
 - How does income composition change from middle age through old age?

Motivation for Research: Proposals to Overhaul the US Retirement System

- Components of US retirement system
 - Social Security
 - Employer plans and IRAs
- Proposals typically based on concerns about the current system
 - Adequacy (low “replacement rates”)
 - Overreliance on Social Security
- Provide a baseline assessment of the retirement system to inform the policy debate

Unique Data and an Innovative Method Used to Assess the US Retirement System

- Use administrative tax data
 - Accurate measure of retiree income
 - Large representative sample
- Use 18-year panel to track changes in income
 - Follow one birth-year cohort from age 55 to age 72
 - Before age 62 – Social Security early claiming age
 - After age 70 – end of Social Security delayed retirement credits
 - After age 70½ – required minimum distributions (RMDs) from retirement account

Our Findings at Odds with Perception of a Failed System

- Spendable income
 - Typical individual replaces more than 90% of their late 50s spendable income
 - Those with lowest age 55-59 income have the highest replacement rates
- Income composition
 - Most rely on a combination of Social Security and income from retirement plans
 - 75% receive (non-Social-Security) retirement income directly or through a spouse
 - How much income you have in your 50s determines your income composition in your 70s

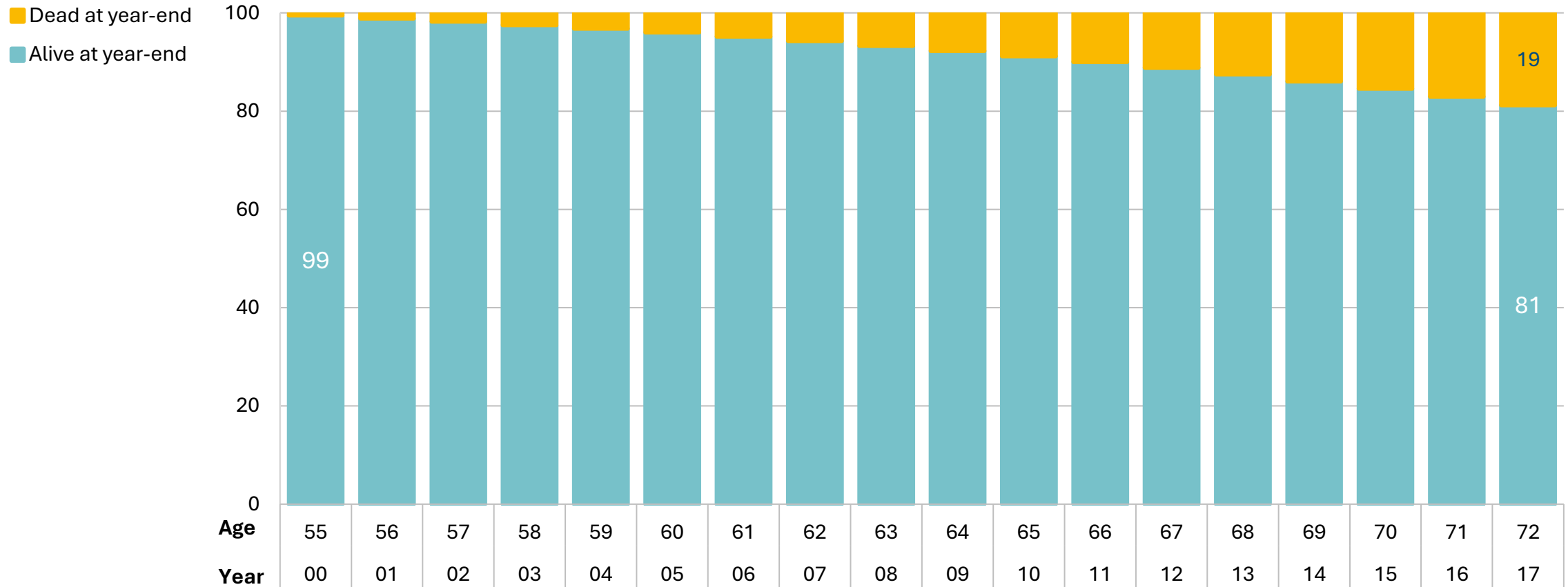
Plan for Today

- Data and Income measure
- Changes in spendable income
- Composition of income

Data And Income Measure

Panel Consists of Individuals Born in 1945 Who Survive to Age 72

Share of population born in 1945 and alive on January 1, 2000 (percentage)



Components of Total Income

Labor+SS+Retire

- Labor
 - Wages, salary, tips, etc.
 - Self-employment
 - Unemployment compensation
- Social Security
- Retirement
 - IRA distributions
 - Pensions and annuities

Other Income

- Taxable interest
- Dividends & tax-exempt interest
- Gains/losses
- Business/farm/rents, royalties, etc.
- Net alimony & other

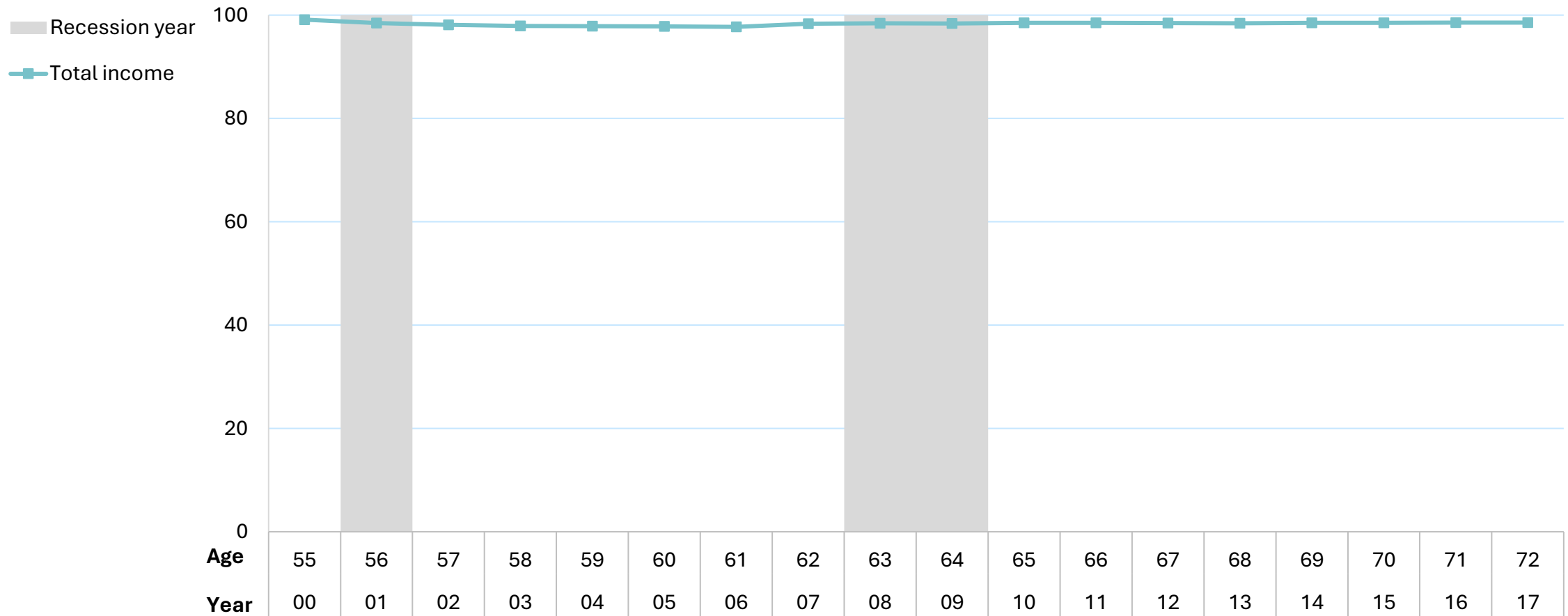
Income Measure Excludes Welfare Benefits

- Tax data exclude means-tested benefits (both cash and in-kind)
 - This includes Supplemental Security Income for the aged (similar to Australian Age Pension)
- Implication
 - Income may be underestimated for those with extremely low income
- Note: Social Security benefits are not welfare payments
 - Contributory pension
 - Not means tested

Changes in Spendable Income

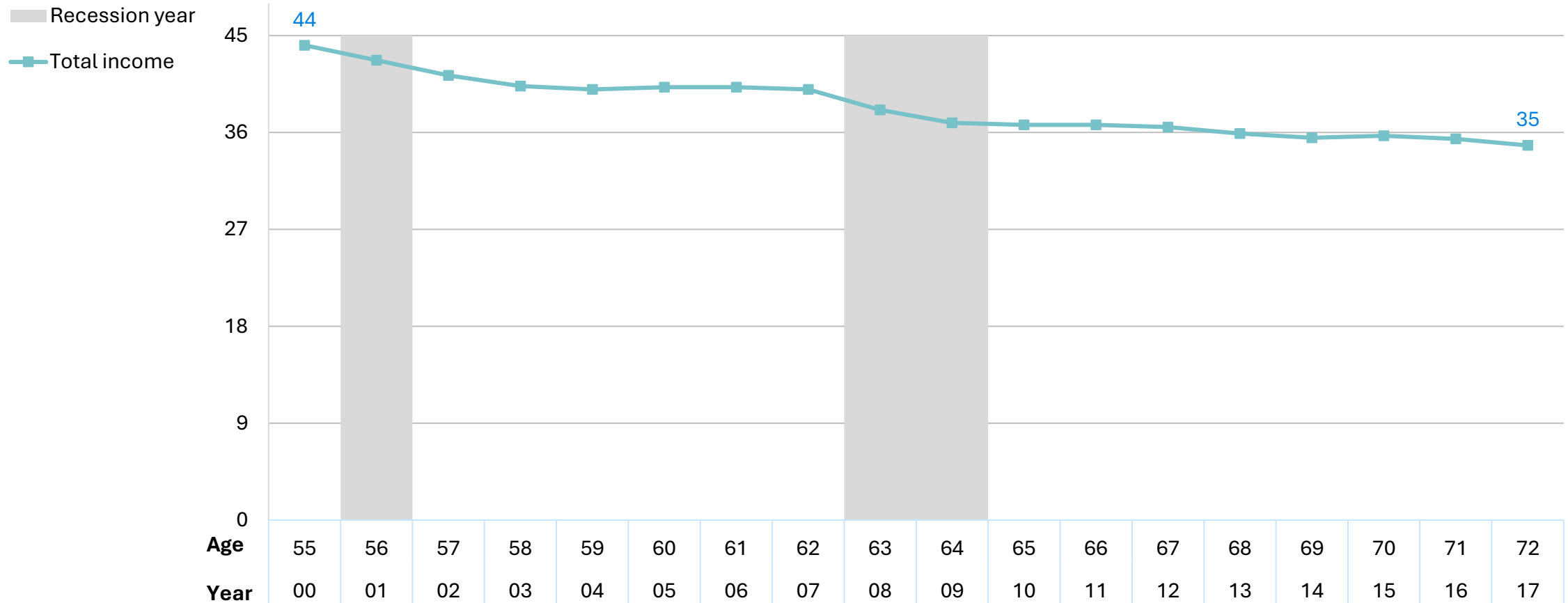
Most Have Income at All Ages

Share of the panel with own or spouse non-zero total income (percentage)



Median Total Income Declines by Nearly \$10,000

Median per capita inflation-indexed total income among those with total income, constant 2017 dollars (thousands)

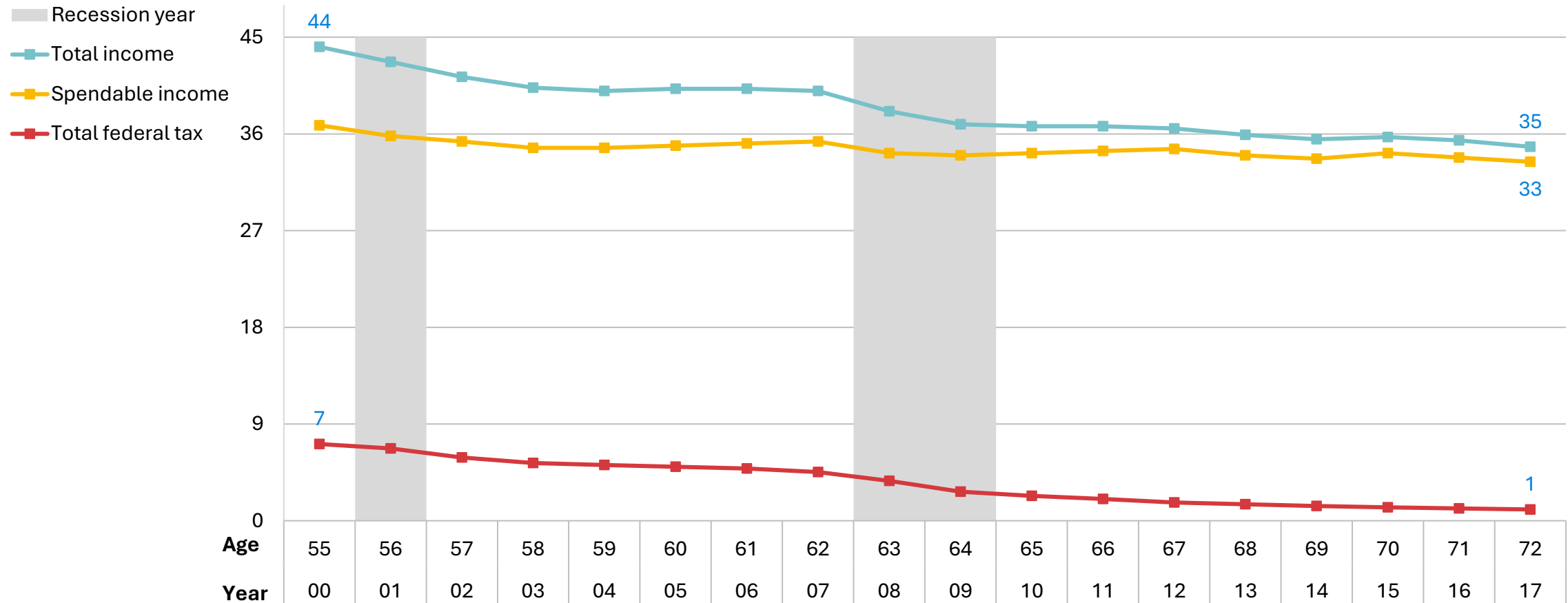


Spendable Income Is a Better Measure of Well-Being

- Spendable income is akin to “take-home pay”
 - Income available to spend after savings and taxes
- Total income measure already excludes retirement contributions
- Spendable income = total income – payroll taxes – federal income taxes

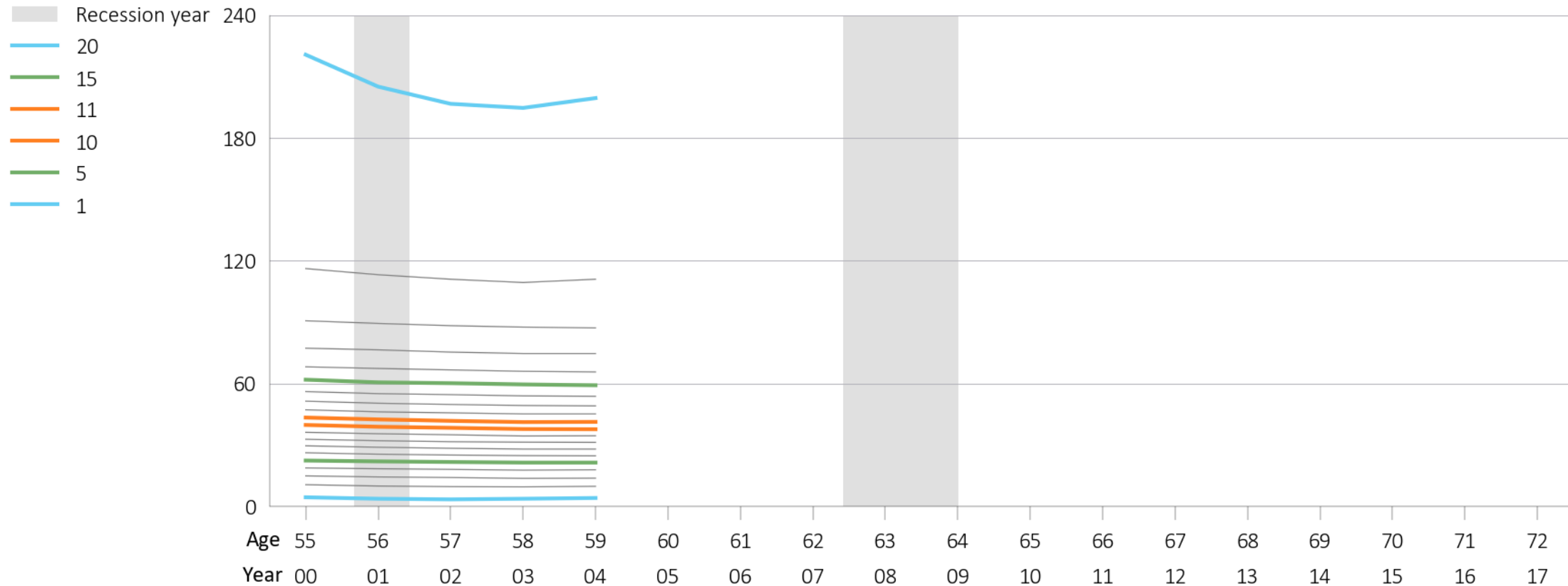
Median Spendable Income Declines by Less than \$4,000

Median per capita inflation-indexed income among those with total income, constant 2017 dollars (thousands)



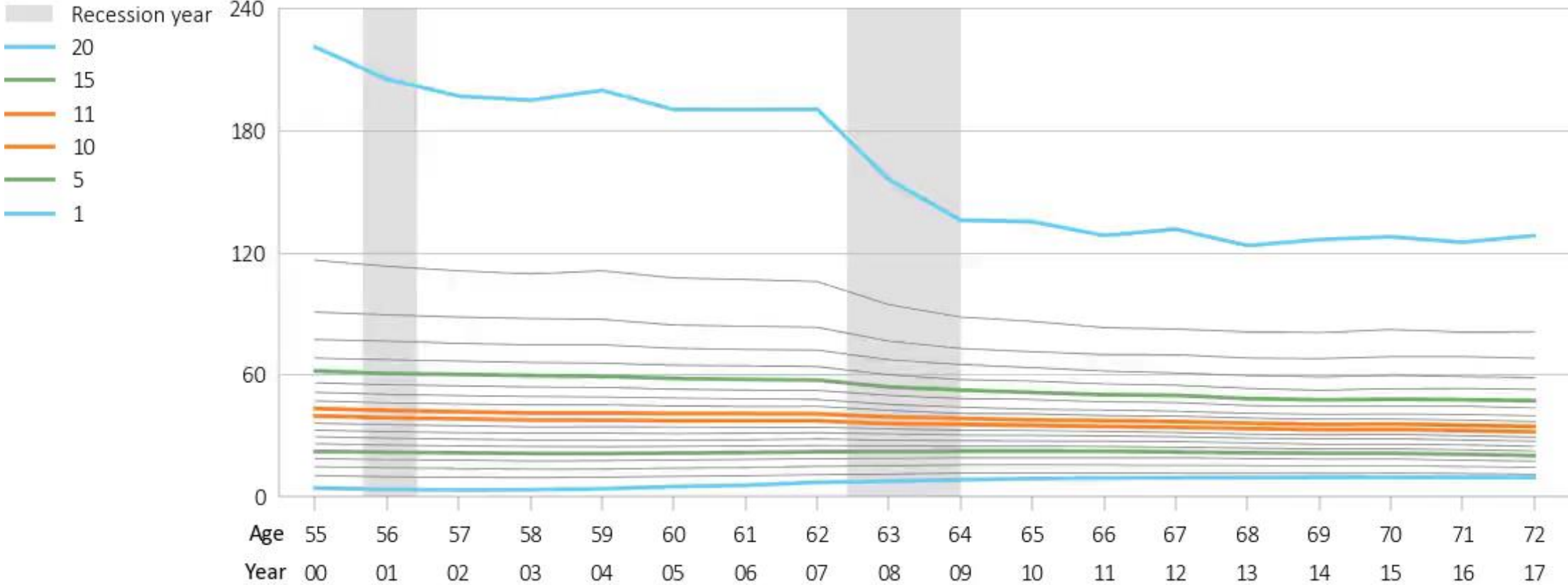
We Rank Individuals by Average Age 55–59 Total Income

Median per capita inflation-indexed total income by ventile of age 55–59 income, constant 2017 dollars (thousands)



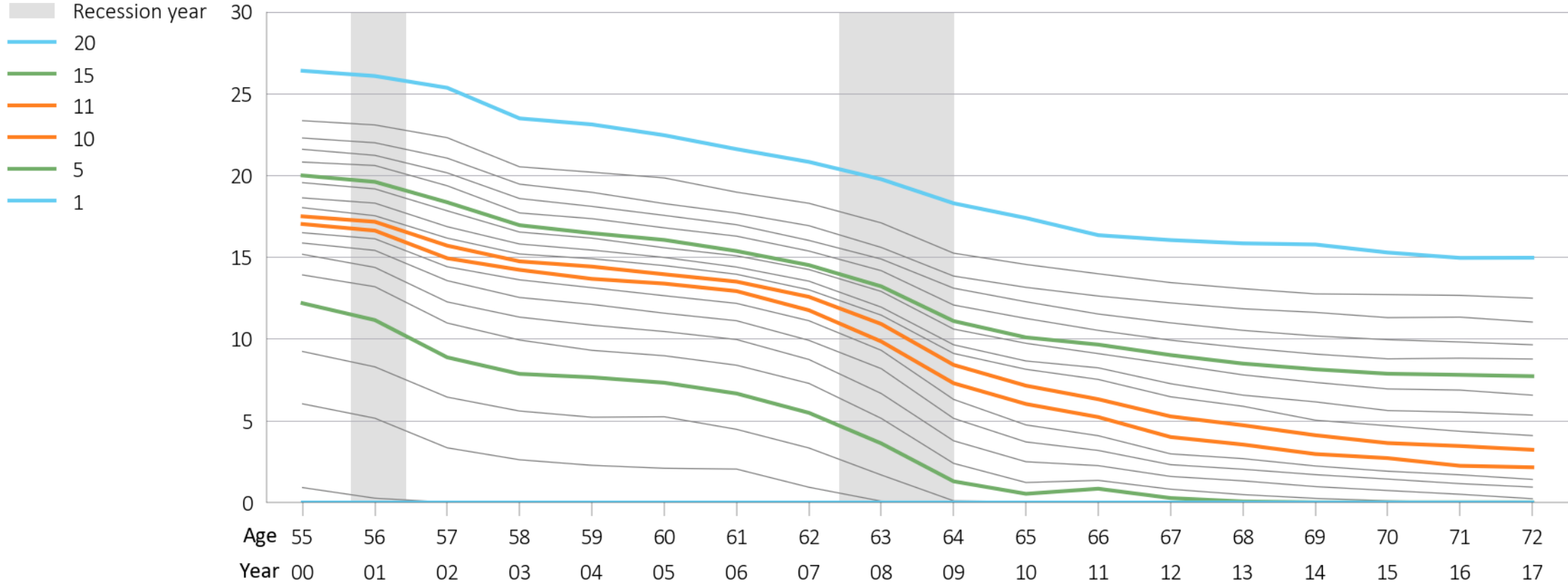
Total Income Falls the Most For Highest Income Ventiles

Median per capita inflation-indexed total income by ventile of age 55–59 income, constant 2017 dollars (thousands)



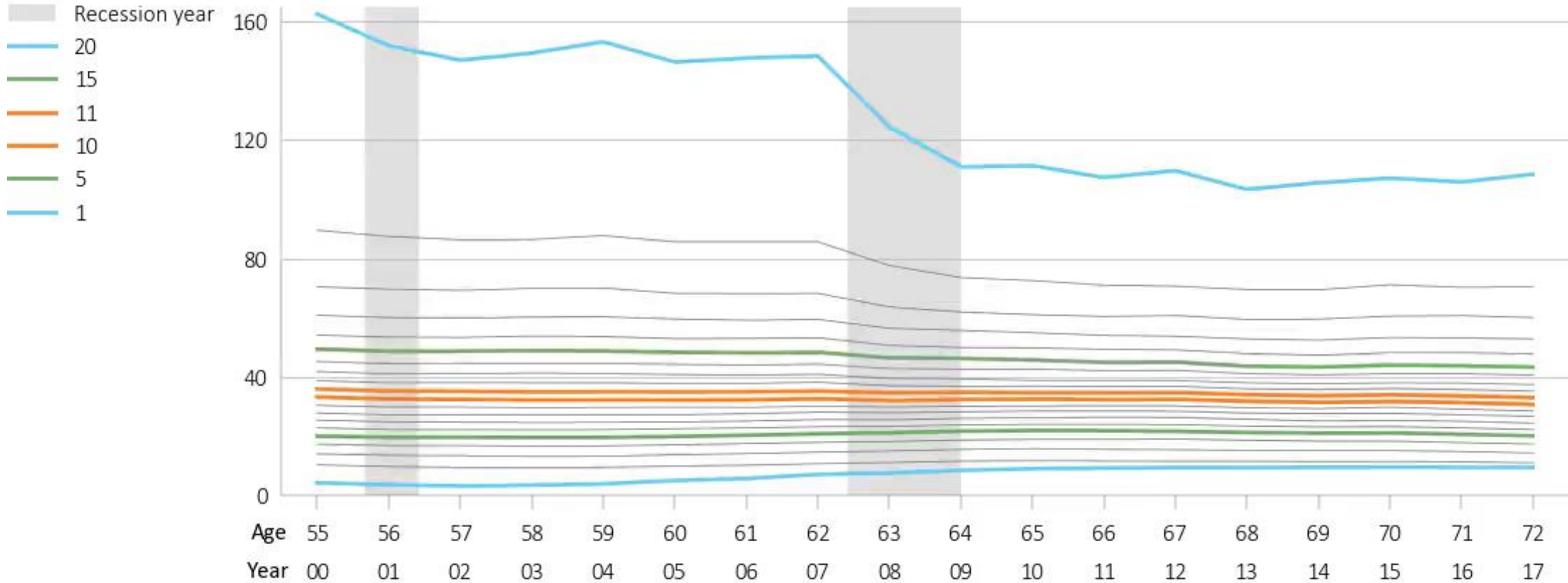
Middle Income Have Largest Declines in Tax Rates

Median effective total federal tax rates (total federal taxes divided by total income) by ventile of age 55–59 income (percentage)



Spendable Income Flatter, but Still Declines Most at the Top

Median per capita inflation-indexed spendable income by ventile of age 55–59 income, constant 2017 dollars (thousands)



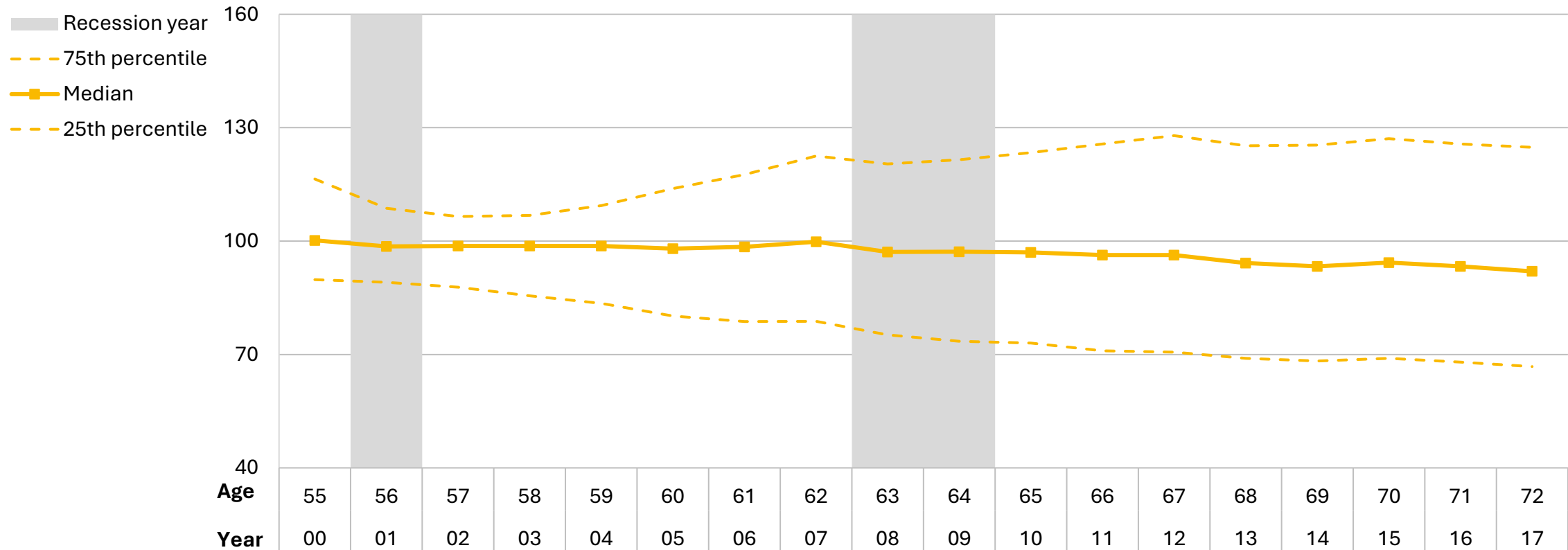
Calculate Replacement Rates of Spendable Income

- Calculate for each individual
- Replacement Rate =

$$\frac{\text{Spendable income at age } t \text{ (from 55 through 72)}}{\text{Average spendable income from age 55 through age 59}}$$

Typical Replacement Rate More Than 90 Percent

Spensible income replacement rates* (percentage)

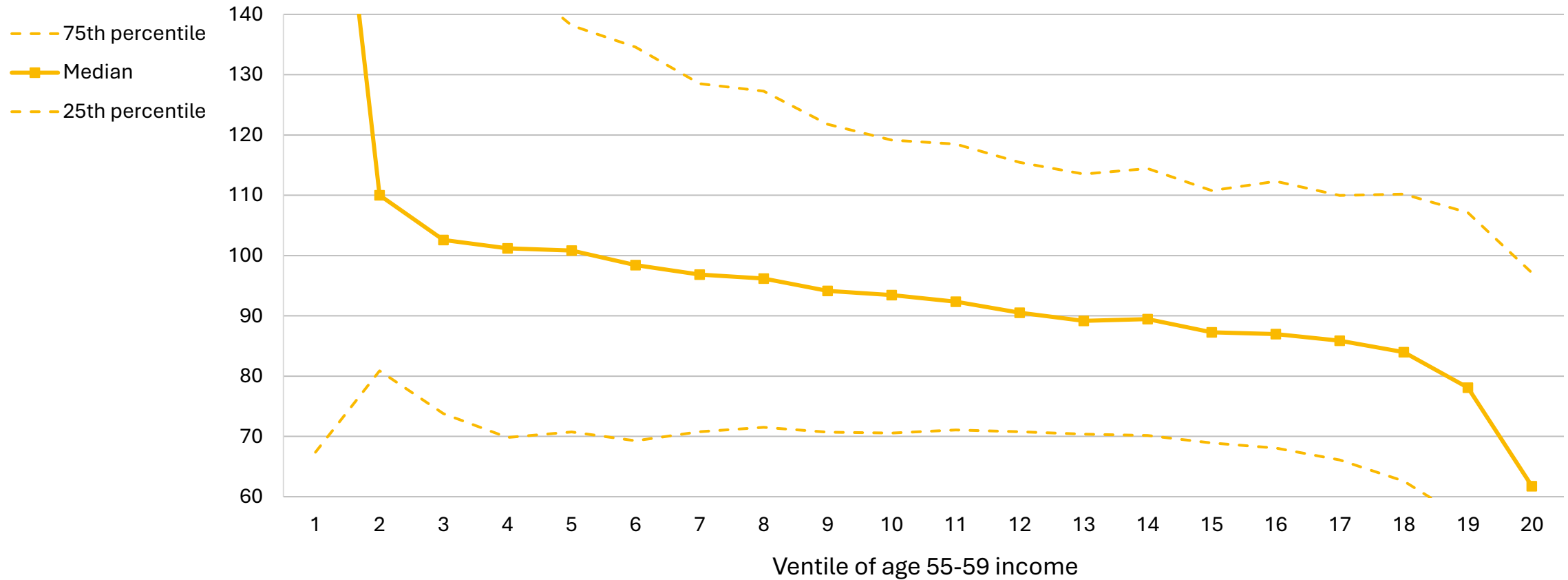


*Per capita inflation-indexed spendable income divided by per capita inflation-indexed spendable income averaged from age 55 to age 59



Distribution of Replacement Rates at Age 72

Median spendable income replacement rates* at age 72 (percentage)



*Per capita inflation-indexed spendable income divided by per capita inflation-indexed spendable income averaged from age 55 to age 59

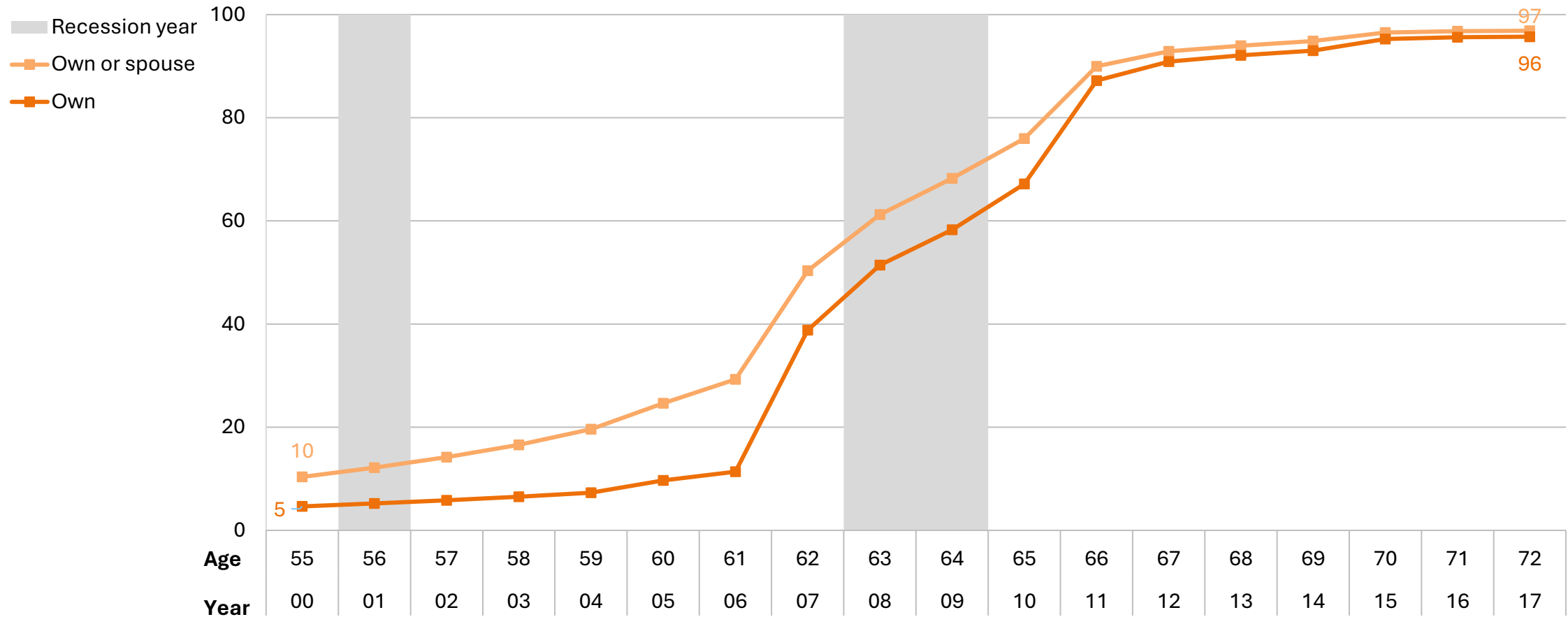
Summary: Changes in Spendable Income

- Spendable income falls by less than total income from age 55 to age 72
- Typical individual replaces more than 90 percent of their late 50s spendable income
- Those with lowest age 55-59 income have the highest replacement rates

Composition of Income

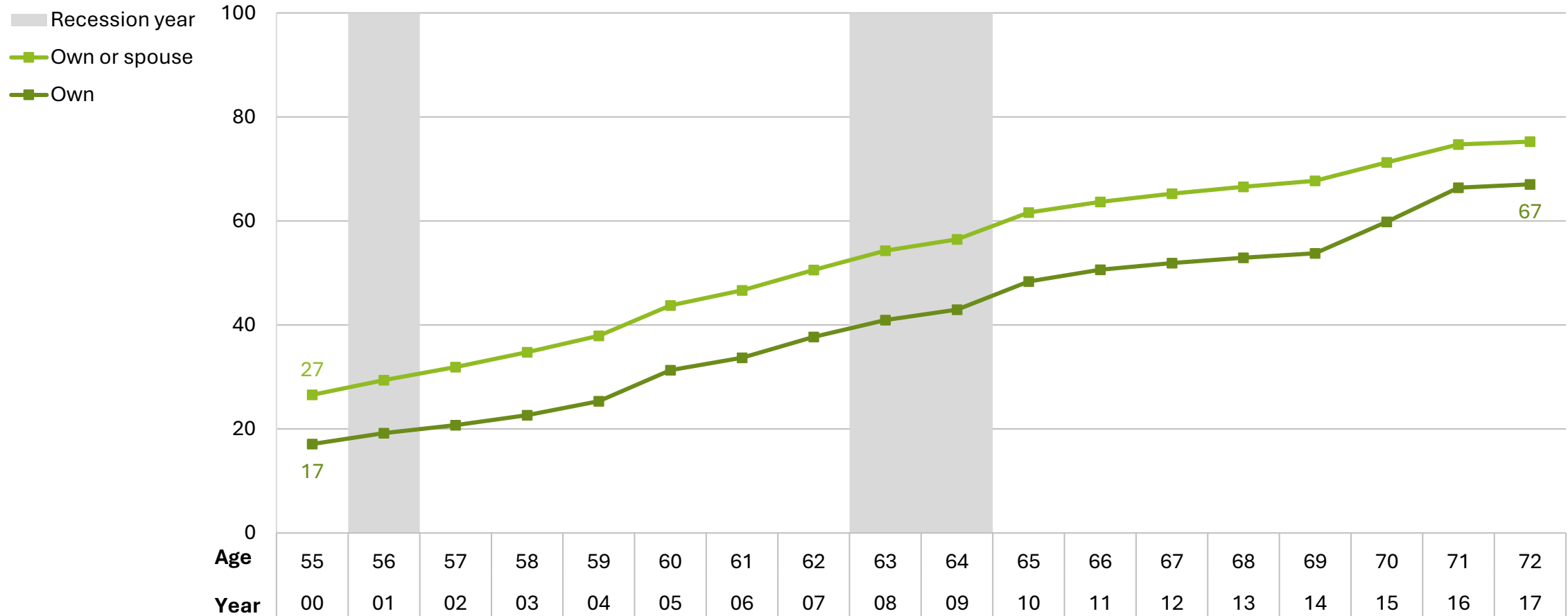
Claiming of Social Security Increases Rapidly After Age 61

Share of the panel with Social Security income (percentage)



By Age 72, Three-Quarters Have Income from Employer Plans and IRAs

Share of the panel with retirement income* (percentage)



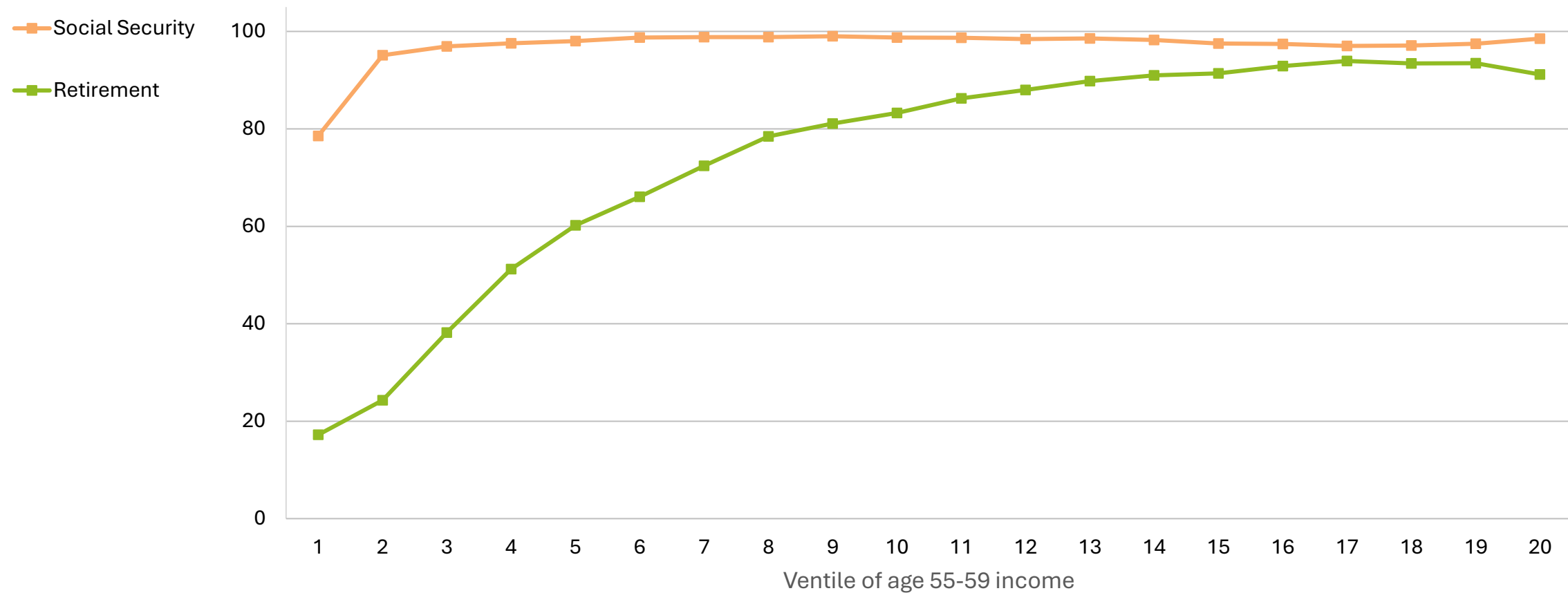
*Income from pensions, annuities, and IRAs



Income Composition at Age 72 by Age 55-59 Income ...

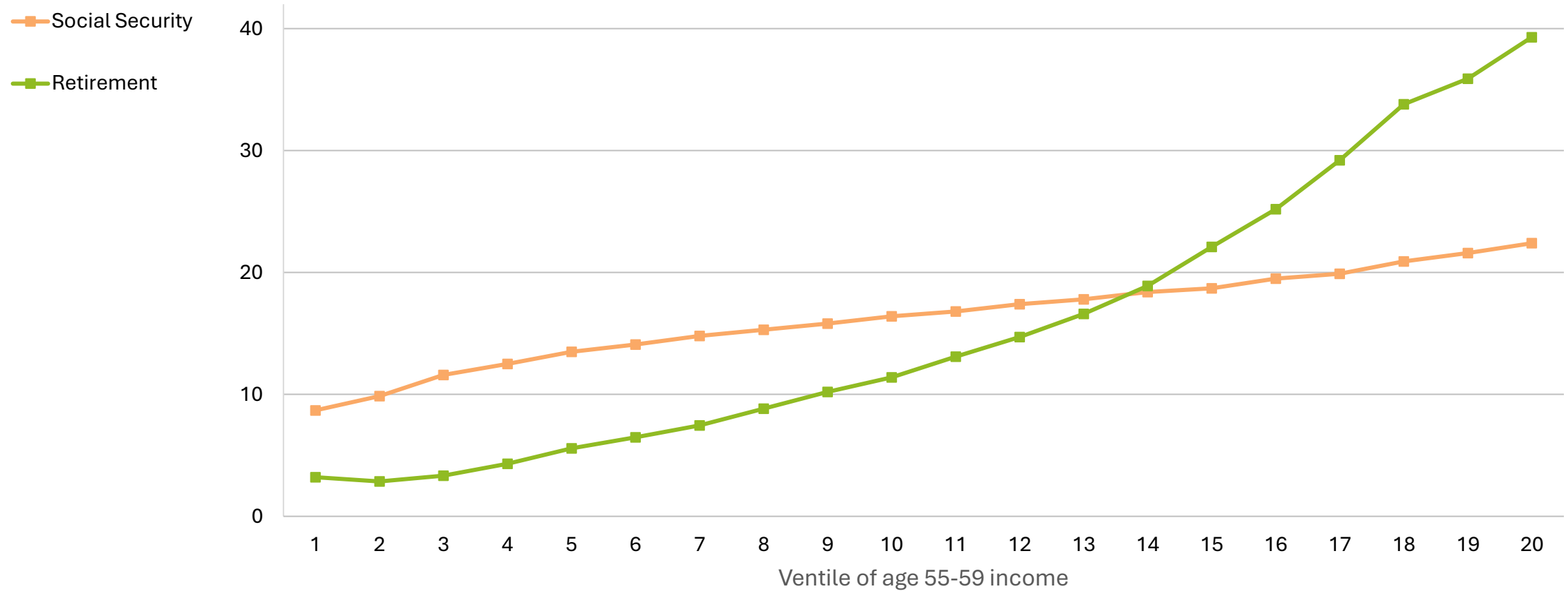
Incidence of Retirement Income at Age 72 Increases Sharply with Age 55-59 Income

Share of the panel with income (own or spouse) at age 72 by ventile of age 55-59 income (percentage)



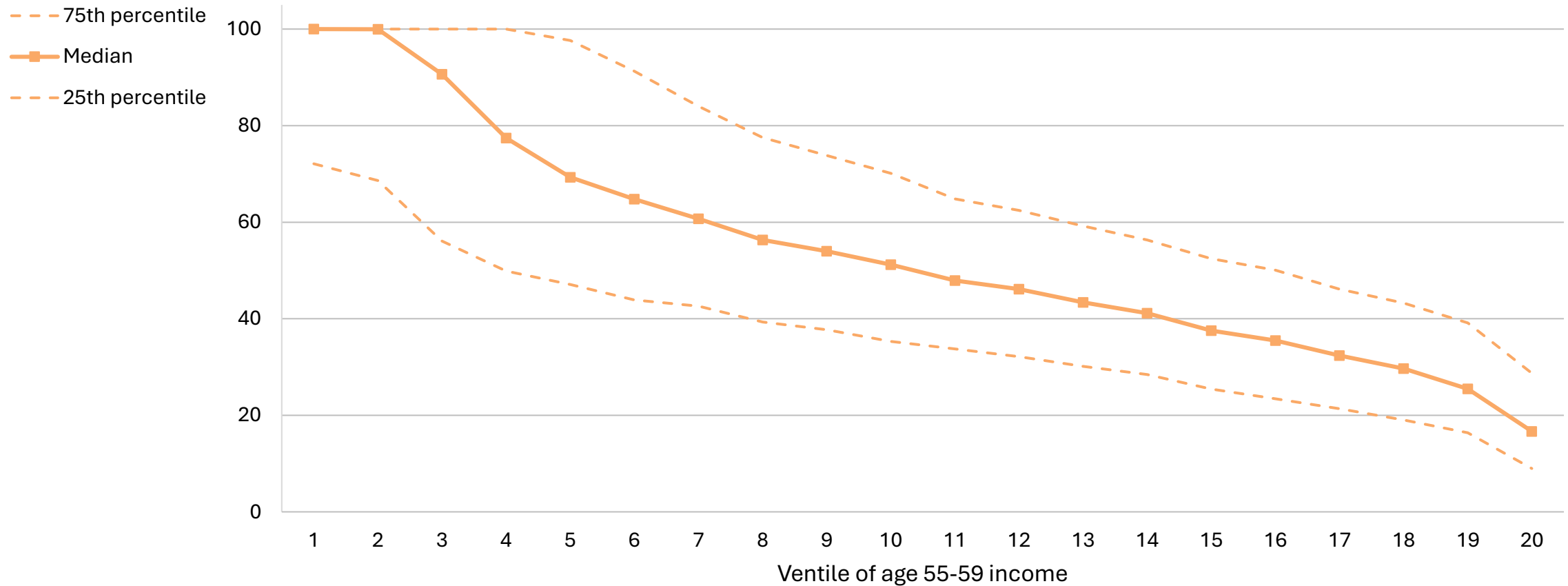
At Age 72, Retirement Income Varies More with Age 55-59 Income than Social Security Income

Median per capita income from source at age 72, 2017 dollars (thousands)



Share of Total Income From Social Security at Age 72

Social Security share of total income at age 72 (percentage)



Summary: Composition of Income

- Composition of income at age 72 varies with age 55–59 income
- Other than low income, most have income from retirement plans
- Typical individual aged 72 gets less than half of their income from Social Security

Our Findings at Odds with Perception of a Failed System

- Income composition
 - Most rely on a combination of Social Security and income from retirement plans
 - 75 percent receive (non-Social-Security) retirement income directly or through a spouse
- Spendable income
 - Typical individual replaces more than 90 percent of their late 50s spendable income
 - Despite relying more on Social Security, lowest income have the highest replacement rates