

Trends in Retirement Income Adequacy: Evidence from IRS Tax Data

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Key Findings and Policy Implications

This paper examines trends in retirement income across the 1930-1941 birth cohorts using a 5% random sample from IRS tax data, or about 22.6 million person-years observations. The paper finds that:

- The pre-tax income of people at age 70 rose from 2000 to 2011 across the entire income distribution. It rose from \$30,710 to \$33,908 at the median, from \$15,341 to \$17,225 at the 25th percentile, and from \$51,360 to \$56,522 at the 75th percentile. The growth rate was 10.5% at the 10th percentile, 12.3% at the 25th percentile, 10.4% at the median, 10.1% at the 75th percentile, and 8.7% at the 90th percentile. The pattern for after-tax income is very similar.
- The changes in income at age 80 are substantially different. From 2010 to 2016, pre-tax income at age 80 rose 8.4% at the 75th percentile, only 5.0% at the median, and fell by 0.8% at the 25th percentile. The fanning out of outcomes is even more pronounced at the extremes: a 12.2% increase at the 90th percentile and a 6.6% decline at the 10th percentile.
- The portion of households completely dependent on Social Security rose from 18.2 to 19.2 percent at age 70, and from 22.9 to 24.2 percent at age 80, over the respective study periods analyzed.
- The fraction of tax units that receive a positive amount of pension income (either in the form of a defined benefit payout or a defined contribution withdrawal) at a given age has remained nearly flat across calendar years. Averaging calendar years together, 56% of 65 year olds, 65% of 70 year olds, 69% of 75 year olds, 69% of 80 year olds, and 68% of 85 year olds receive at least some pension income.

These findings help to understand the broader financial circumstances of households at older ages, including both Social Security and other income. It excludes resources that may not appear in tax records. Overall, the picture that is painted is one where income replacement rates have not worsened over time for households at or above the median but have deteriorated for households below the median.

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