November 2023

Reexamining Bidenomics' Impact on Americans' Retirement Plans

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Executive Summary

- The average 401(k) retirement savings plan has lost 12.7 percent, about $17,000 during the Biden administration (Q1 2021 through Q3 2023). In aggregate, these losses are approximately $1.0 trillion after accounting for additional investment over that time.
- The value of 401(k)s has been further reduced by 40-year-high inflation, decreasing the purchasing power of the already-depreciated average 401(k) by about $16,200, for a real (inflation-adjusted) loss of about $33,200, or 24.8 percent.
- From Q1 2021 through Q3 2023, the DJIA, NASDAQ, and S&P500 have declined by 12.5 percent, 3.1 percent, and 7.0 percent, respectively, in real terms.
- Pension plans have only increased in nominal terms ($500 billion) from Q1 2021 through Q3 2023 and have fallen in real terms by about $3.3 trillion, or 12.1 percent.
- Bond markets have had a historically negative two-and-a-half-year span, including the worst year since at least 1928. Retirement accounts with greater allocations in bonds have generally seen worse losses than average.
- A typical person nearing retirement who planned on leaving the workforce with $1,000,000 in his or her IRA will need to work an additional decade to fully recoup the real value lost from that IRA over the last two and a half years.

Background

An **October 2022 study** published by the Committee to Unleash Prosperity explained how elevated levels of federal government expenditures and borrowing by the Treasury Department, along with unprecedented action by the Federal Reserve, resulted in 40-year-high inflation, the fastest increase in interest rates in decades, and reduced economic growth. As a result, there were historic losses to Americans' retirement accounts during the first three quarters of 2022. Since then, the average 401(k) has risen approximately 11.2 percent and pension funds have risen approximately 9.8 percent. However, both remain well below their respective levels from the end of 2021. This study extends the previous analysis from October 2022, examining both the nominal as well as the real[1] (inflation-adjusted) change in Americans' 401(k) retirement plans and pension plans during the Biden administration, from the first quarter of 2021 through the third quarter of 2023.

In October 2023, Americans' retirement accounts suffered additional losses which were erased by real gains in the beginning of November 2023. This analysis does not include changes beyond the third quarter of 2023, but an updated study is planned for 2024 which will include the latest quarterly data available, as was the case at the time of this writing.

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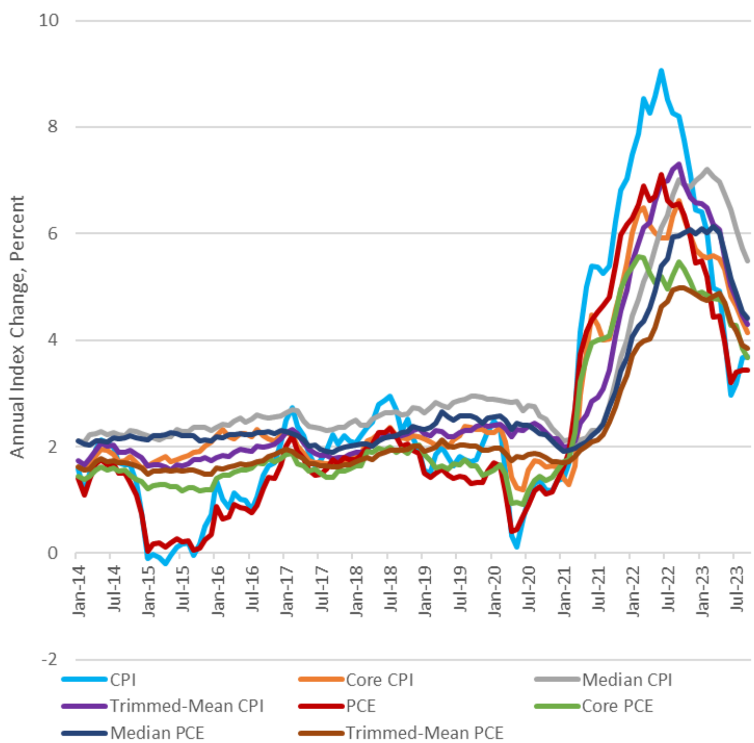
1 Real figures in this study are in Q1-2021 constant dollars. Thus, any inflation-adjusted dollar figures can be compared to the corresponding level from the first quarter of 2021.

Inflation, by every major metric, not only increased rapidly in 2021 and 2022 but also remained elevated throughout the first nine months of 2023 (Figure 1). The consumer price index (CPI) and the personal consumption expenditures (PCE) chained-type price index both rose to the highest level in four decades. Inflation at the end of the third quarter in 2023 remained above its pre-2021 level, pre-pandemic level, as well as any reading from the better part of the previous decade. From the first quarter of 2021 through the third quarter of 2023, prices rose 16.1 percent.[2]

Figure 1



Sources: Bureau of Labor Statistics, Federal Reserve Banks of Cleveland and Dallas

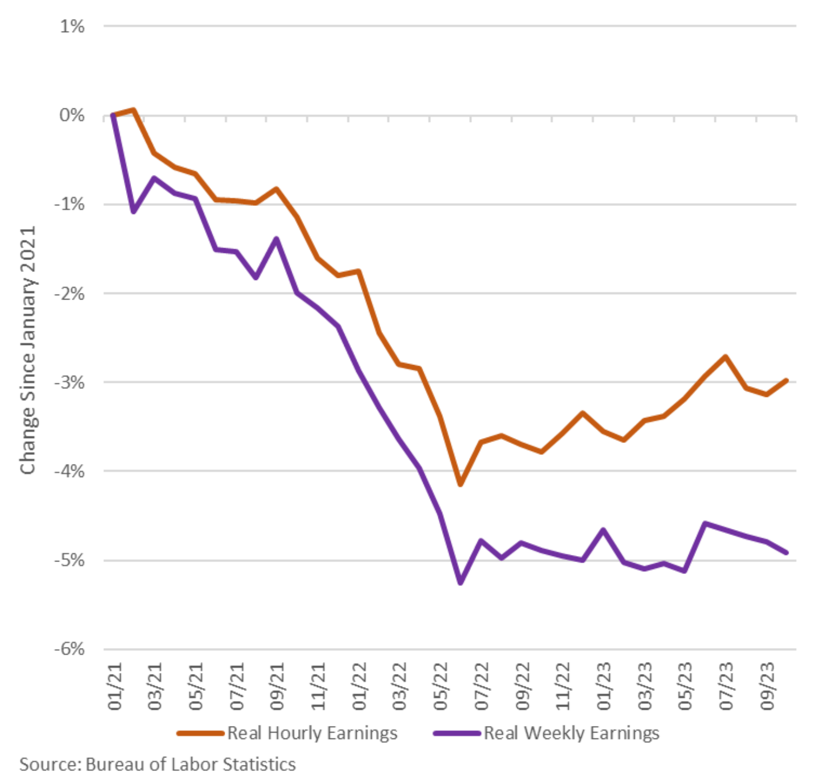
Persistently elevated levels of federal government expenditures, financed by borrowing from the Treasury Department, continue to crowd out the loanable funds market. In the last five quarters, government expenditures have grown faster than consumer expenditures, and in the third quarter of 2023 alone the Treasury Department borrowed $835 billion. This has put upward pressure on interest rates. From the first quarter of 2021 through the end of the third quarter of 2023, the market yield on the 10-year Treasury rose 285 basis points. Over that same period, the average fixed rate on a 30-year mortgage rose 4.14 percentage points. While bond markets have suffered historic losses from rising interest rates, equity markets, on average, have underperformed during such elevated levels of government expenditures and borrowing, with the Dow Jones Industrial Average rising just 1.6 percent from the first quarter of 2021 through the end of the third

2 This study utilizes the R-CPI-E to adjust for inflation instead of the CPI-U because the former is designed to capture price changes for the basket of goods and services purchased by those age 62 and older. Conversely, the more commonly used CPI-U, usually referred to simply as the CPI, is designed to capture price changes for the basket of goods and services purchased by urban consumers. The choice has very little impact on the empirical results of this study because the R-CPI-E has risen 16.05 percent over the period in question while the CPI-U has risen 16.07 percent. The choice of using the R-CPI-E results in marginally conservative estimate.

quarter of 2023. Although the NASDAQ 100 has risen 12.4 percent during that same time, these are only nominal changes. After adjusting for inflation, there are significant losses across Americans' retirement accounts, whether broadly invested in equities or bonds. As a result, many Americans will need to delay retirement until they recoup their losses and can afford a higher cost of living.

Another noteworthy trend from the last two years has been an increase in 401(k) hardship withdrawals. A recent Bank of America report noted a 36 percent annual increase in the number of retirement plans with this type of distribution. Vanguard also noted an increase, with hardship withdrawals in their 401(k) plans hitting a record high. Likewise, Fidelity Investments observed not only more of their clients requesting this type of distribution but also an increase in the number of retirement accounts with loans outstanding. This is unfortunate, but not surprising given the approximately 5 percent decrease in real earnings over the last two and a half years (Figure 2), along with record high credit card debt, record low housing affordability, and more than half of Americans living paycheck to paycheck.

Figure 2



N.B. – Figure 2 includes real weekly earnings losses for October 2023, but this inflation data was not included in the calculations for this study since it is beyond the third quarter of 2023.

Equity and Bond Performance: 2021, 2022, 2023

In the last 96 years from 1928 through 2023, both bonds and equities have each risen separately in roughly four out of five years. (Figure 3) Since these markets tend to have opposite responses to changes in interest rates, it is not surprising that roughly one-third of the years since 1928 have seen positive returns in one market and negative returns in the other. For more than half the years observed, both bonds and equities together saw positive returns. Negative equity returns of more than 15 percent and negative bond returns of more than 5 percent have been very uncommon, but the year 2022 saw both.

Figure 3

N.B. – Figure 3 shows the returns for 2023 from the first through the third quarter.

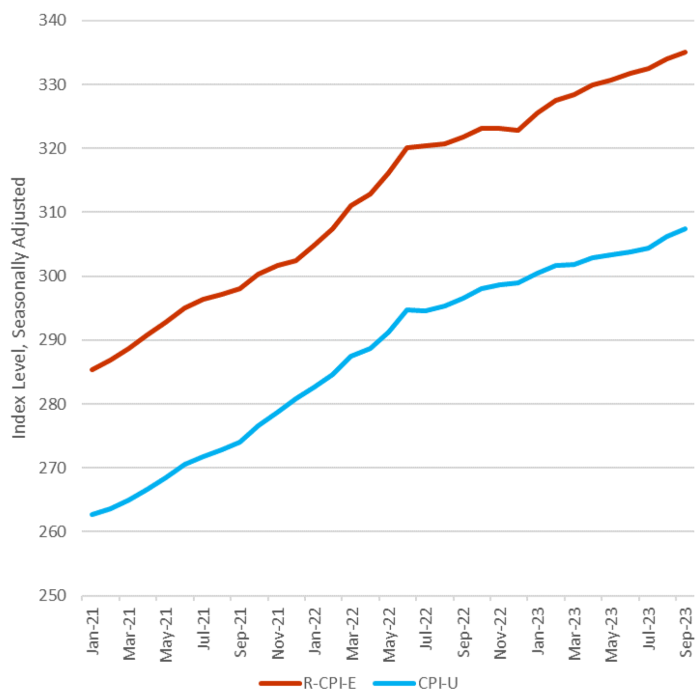
Not only was 2022 the worst year for bonds since at least 1928, but it was worse than any consecutive years of negative returns combined. Additionally, it was the seventh worst year for equities, also since at least 1928. Assuming a portfolio allocated equally between bonds and equities, 2022 had the second worst rate of total investment losses, behind only the Great Depression year of 1931. As savers move closer to retirement, however, they usually shift their portfolios to fixed-income securities. Assuming a portfolio allocation of one-third equities and two-thirds bonds, 2022 had a worse rate of return than even 1931. The same allocation had below-average returns in 2021 and year-to-date 2023. The years 2021, 2022, and 2023 have combined to be a period of unusually poor returns for retirement accounts.

401(k) Plan Estimates

In the first quarter of 2021, there were approximately 60 million 401(k) plan participants whose accounts totaled more than $8 trillion with an average balance of about $133,800. By the end of 2021, 401(k) balances had risen to an aggregate $8.5 trillion, but then declined sharply for the next three quarters to $6.3 trillion. After examining portfolio allocations across various financial firms, it is estimated that 401(k) balances in aggregate recovered to about $7.7 trillion by the end of the third quarter of 2023, a decline of $321 billion since the first quarter of 2021, despite $701 billion in additional investment over those two and a half years. Over the same time, the average 401(k) is estimated to have lost about $17,000, falling from approximately $133,800 to $116,800, a loss of 12.7 percent.

However, this is only the nominal loss and should be adjusted for inflation to determine the change in real value for the average 401(k) plan. Prices faced by retirees have increased sharply since the beginning of 2021, nearly in proportion to the price increases faced by the typical urban consumer across age groups (Figure 4).

Figure 4



Source: Bureau of Labor Statistics

The 16.1 percent increase in prices from the first quarter of 2021 through the third quarter of 2023 has further eroded the value of the average 401(k). This fact is clear after adjusting the three major stock indices for inflation: the DJIA, NASDAQ, and S&P500 have declined by 12.5 percent, 3.1 percent, and 7.0 percent, respectively, in real terms, despite all having positive nominal returns, from the first quarter of 2021 through the third quarter of 2023. The real loss for the average 401(k) over this period is estimated to be 24.8 percent, or $33,200. Assuming proportional losses across 401(k) accounts of different balances, Figure 5 shows the changes in nominal and real value during the Biden administration.

Figure 5

401(k) Value Q1 2021	$100,000	$133,800	$250,000	$1,000,000
Nominal Value Q3 2023	$87,300	$116,800	$218,200	$872,700
Real Value Q3 2023	$75,200	$100,700	$188,000	$752,000
Nominal Loss	-$12,700	-$17,000	-$31,800	-$127,300
Real Loss (24.8 percent)	-$24,800	-$33,200	-$62,000	-$248,000

N.B. – Figures may not sum due to rounding.

For a would-be retiree, losing almost one-quarter of his or her retirement savings in two and a half years likely necessitates delaying retirement. Consider an American who planned on retiring with an Individual Retirement Account (IRA) worth $1,000,000. During the Biden administration's tenure, that account has suffered nominal losses of $127,300 but real losses of nearly $250,000. Given that the median annual income of someone nearing retirement is less than $62,000,[3] the potential retiree will need to work approximately an additional eight years while saving an unrealistic half of his or her pre-tax income to recoup the last two and a half years of losses. In a more realistic scenario, the potential retiree would have to save 30 percent of his or her pre-tax income over an additional 10 years to restore the lost value to his or her IRA, assuming his or her portfolio has better than average returns on investment.

Nevertheless, it is very unlikely that people nearing retirement will be able to save as much as 30 percent of their pre-tax income given today's elevated cost of living relative to wages. Personal savings have declined 31.7 percent, from $1,138 billion in the fourth quarter of 2019 to $777 billion in the third quarter of 2023.[4] The decline is even greater if adjusted for inflation. It seems reasonable that some Americans nearing retirement will choose a lower standard of living than previously planned instead of working for an additional decade to fully rebuild the real value of their IRAs.

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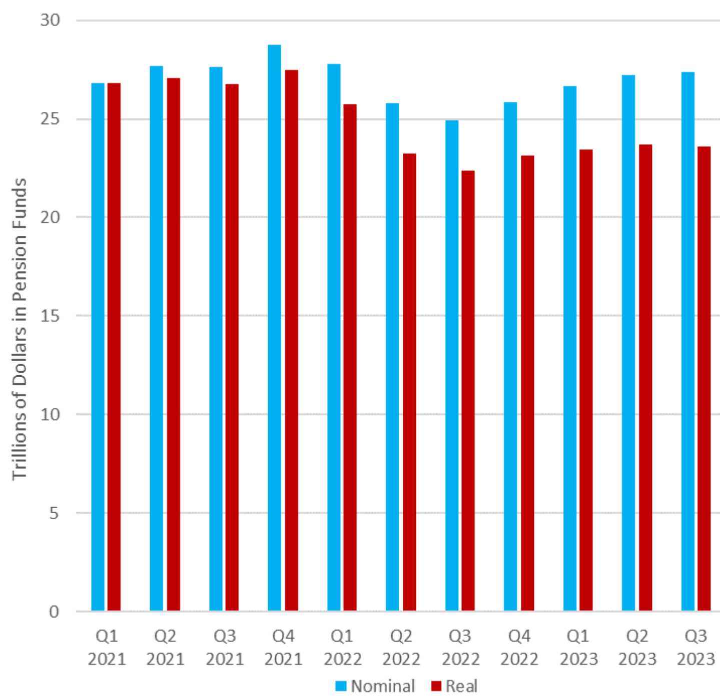
3 According to the Bureau of Labor Statistics, in the third quarter of 2023, the median income of those age 55 to 64 is less than $62,000. Data specific to those age 60 to 62 was not available at the time of this writing.

4 The decline in personal savings is measured from the last quarter before the Covid-19 pandemic for two reasons. First, uncertainty caused households to save a disproportionate amount of their incomes. Second, a series of government transfers resulted in "excess savings" which further increased the personal savings figure. If the change in personal savings is measured from the first quarter of 2021 (the methodology for the retirement accounts in this study), then the decline under the Biden administration would be $3,113 billion, or 80.0 percent.

Pension Plans

Private and public pension plans, both defined-benefit (DB) and defined-contribution (DC), totaled approximately $26.8 trillion in assets in the first quarter of 2021. This balance rose to $28.8 trillion in the fourth quarter of 2021, then fell to $24.9 trillion in the third quarter of 2022. After examining portfolio allocations across various fund managers, it is estimated that pension plans have recovered to approximately $27.4 trillion in the third quarter of 2023, an increase of about $500 billion but below their level at the end of 2021.[5] However, these are nominal figures. In real terms, the balance of pension plans in the third quarter of 2023 was approximately $23.6 trillion (Figure 6). Compared to the first quarter of 2021, that is a loss of $3.3 trillion, or 12.1 percent. This study does not attempt to estimate the losses for the average pension plan.

Figure 6



Sources: Financial Accounts of the United States, Investment Company Institute, Bureau of Labor Statistics; N.B.: real values computed using R-CPI-E

For the millions of Americans who are relying on growth in pension funds to provide an income in retirement, this is troubling news. For DC pension plans, the lower real value will typically result in a lower standard of living for the retiree through lower distributions in retirement. On the other hand, DB pension plans are now faced with fewer assets to pay their retirees a prearranged distribution. If a DB pension plan pays benefits that are inflation adjusted, then the pension plan now must pay larger benefits from smaller assets. Over time, this could threaten the solvency of these pension plans, or quicken the insolvency of those which were already underfunded.

5 Figures may not sum due to rounding.

Policy Implications

While October 2023 is outside the scope of this study, it is worth noting that the current untenable fiscal trajectory of the federal government has continued beyond the third quarter of 2023. The Treasury Department borrowed another $500 billion in October and announced in its Quarterly Refunding that it estimates borrowing $1.6 trillion in just the first half of fiscal year 2024. That is nearly as much as the deficit from the entirety of fiscal year 2023. The current trends in federal government expenditures and receipts indicate that the deficit for fiscal year 2024 will exceed $3 trillion while gross interest payments on the federal debt will exceed $1.5 trillion, having reached $879 billion in the last fiscal year. The increase in interest expenditures is due to not only to the issuance of new debt but also the refinancing of debt previously issued at relatively low interest rates. By the end of the decade, gross interest payments will exceed $2 trillion. Not only are these levels of federal government expenditures unsustainable, but they have also resulted in historic losses for Americans' retirement savings. The Biden administration should immediately begin working with Congress to reduce the federal budget and, thus, borrowing by the Treasury Department. Such reductions are necessary to relieve the upward pressure on both interest rates and inflation rates. Additionally, lower government expenditures will reduce crowding out of private sector activity, increasing economic growth, which is highly correlated with return on investment.

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