



*Retirements ‘At Risk’:  
The Changing Landscape of  
Retirement in the U.S.*

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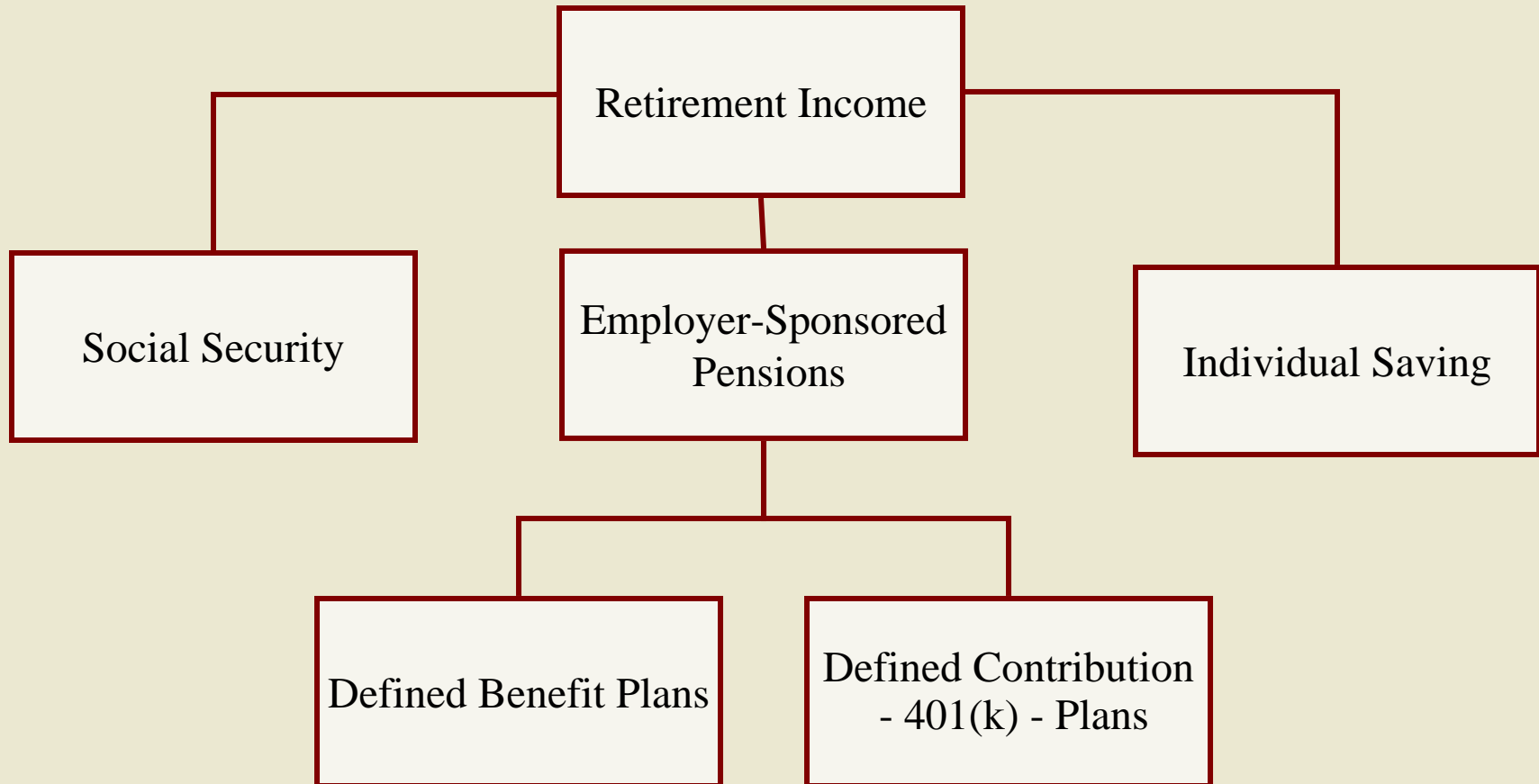
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Boston, MA

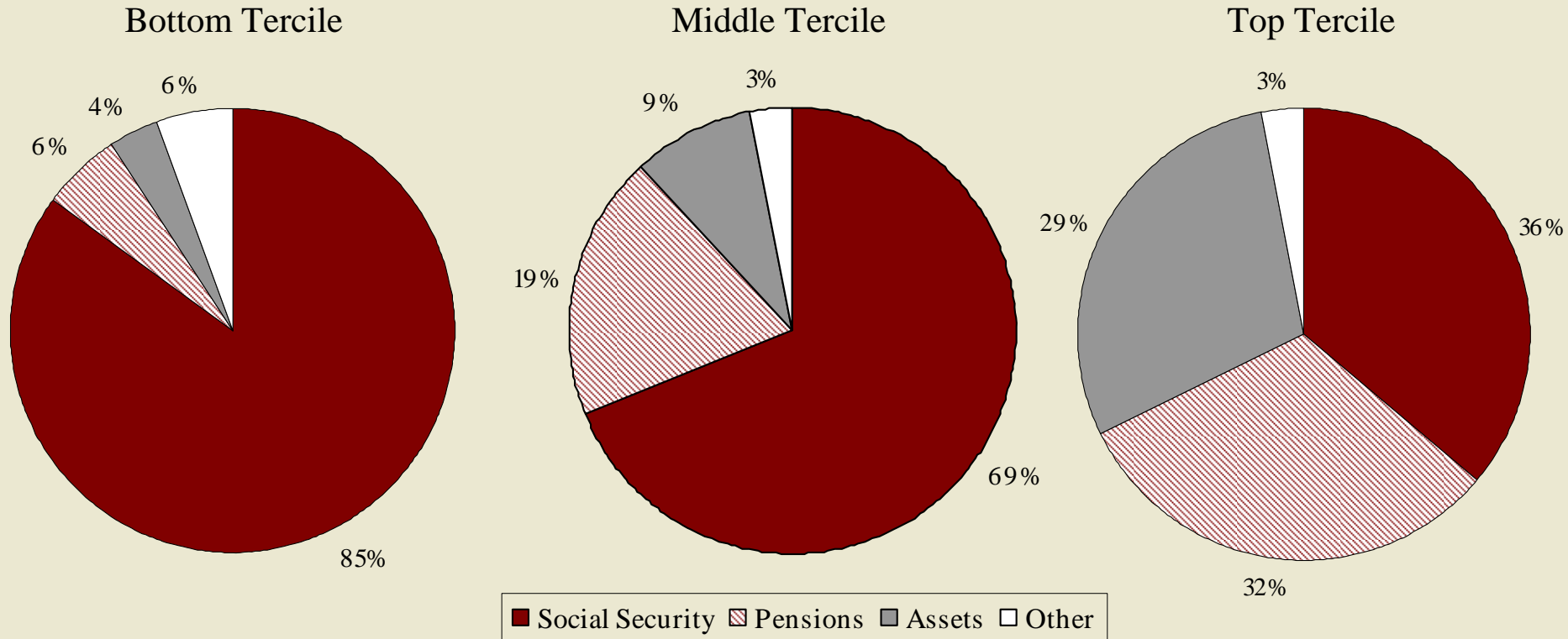
May 6, 2008

# Retirement resources are decreasing.



# Social Security is really important.

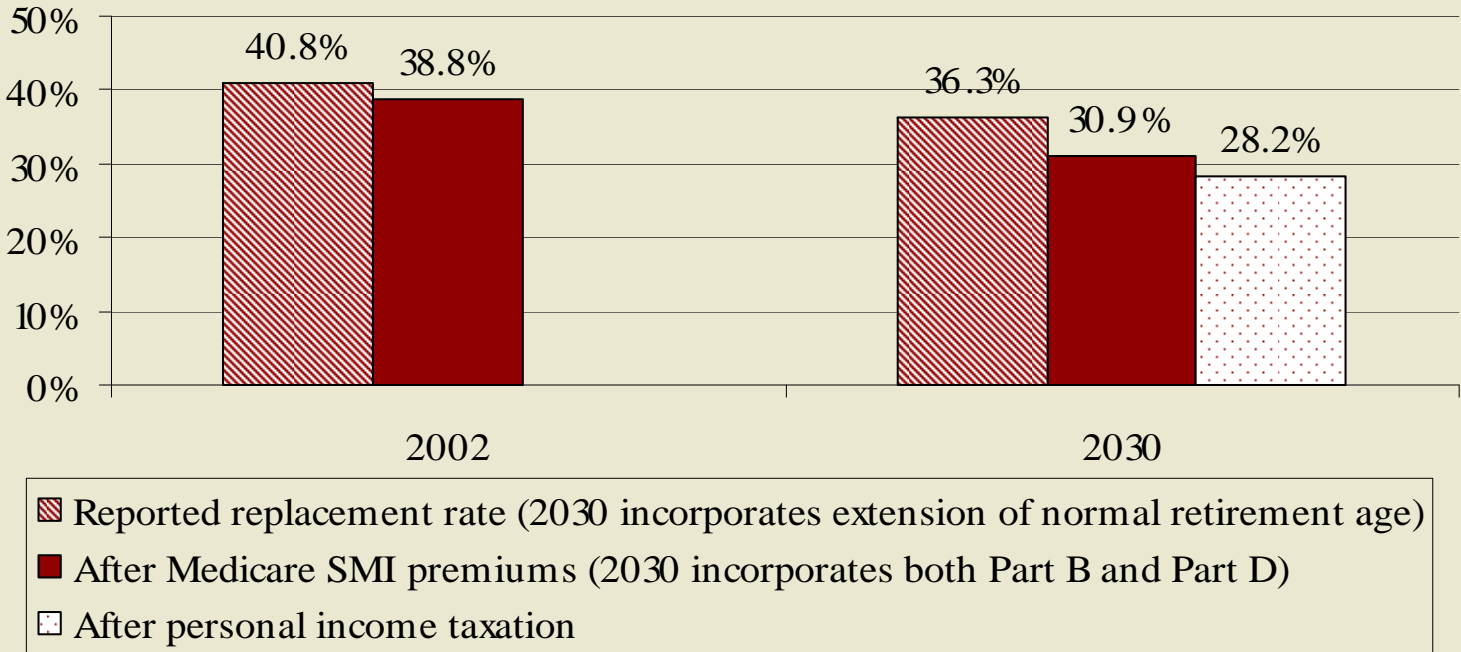
Sources of Non-earned Income for Households by Tercile, Age 65 and Over, 2006



Source: Author's calculations based on the U.S. Bureau of the Census. 2007. *Current Population Survey*. Washington, DC: U.S. Government Printing Office.

# Social Security will replace less pre-retirement income in the future.

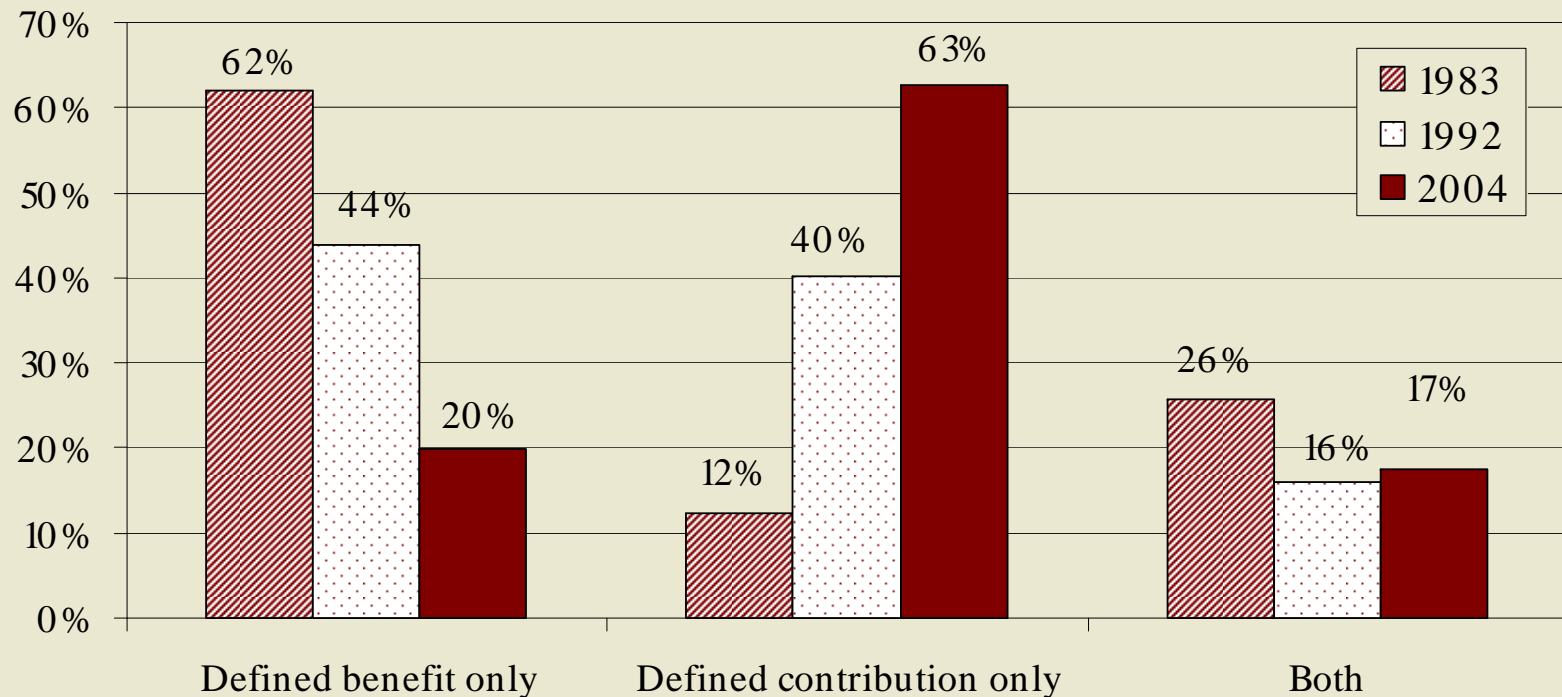
Social Security Replacement Rates for Average Earner Retiring at Age 65, 2002 and 2030



Source: Alicia H. Munnell. 2003. "The Declining Role of Social Security." *Just the Facts on Retirement Issues*. Chestnut Hill, MA: Center for Retirement Research at Boston College, and author's updates

# Pensions have shifted decisively to 401(k)s.

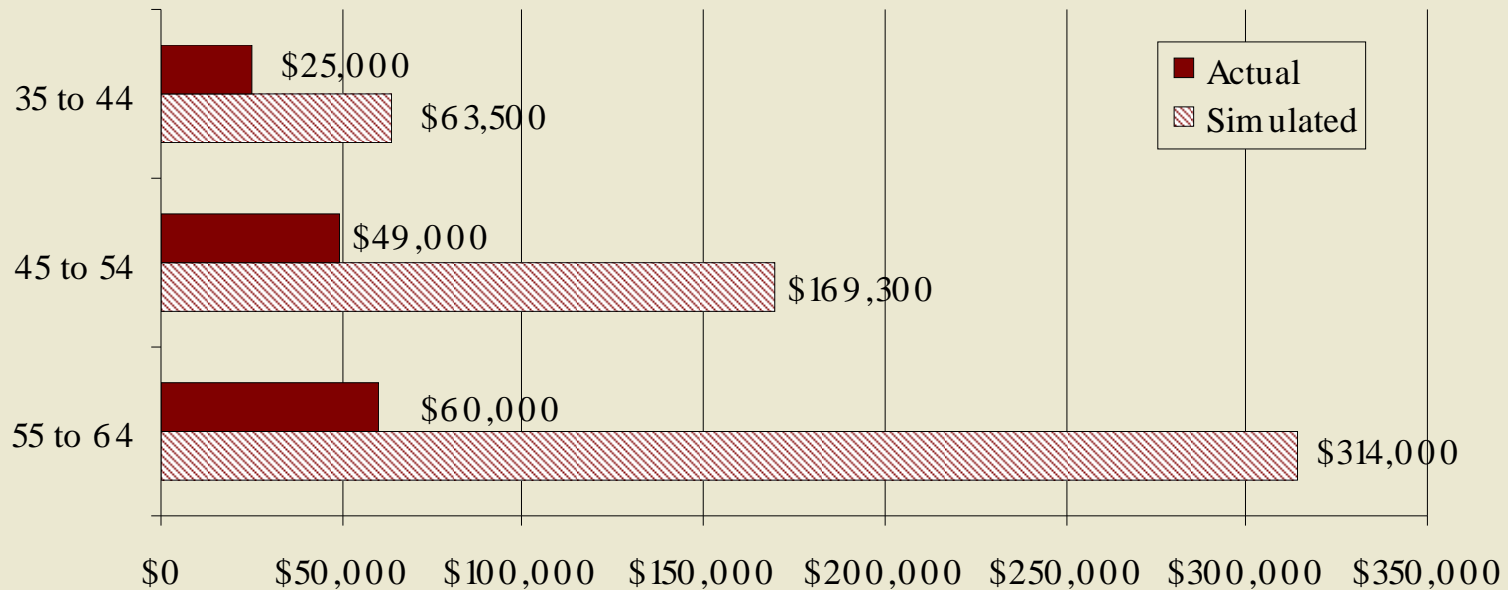
Workers with Pension Coverage by Type of Plan, 1983, 1992, 2004



Source: Author's calculations based on U.S. Board of Governors of the Federal Reserve System. *Survey of Consumer Finances* (various years). Washington, DC.

# In theory, 401(k)s could work well, but to date they have not.

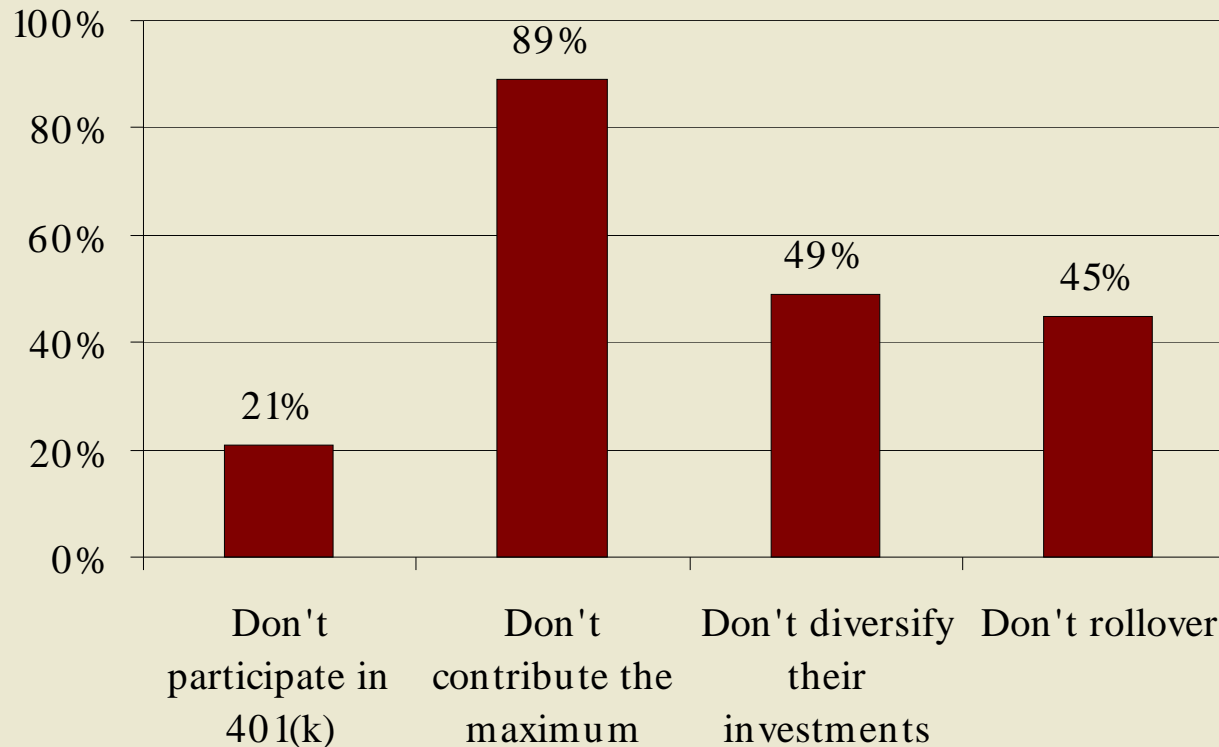
401(k)/IRA Actual and Simulated Accumulations, by Age Group, 2004



Source: Alicia H. Munnell and Annika Sundén. 2006. "401(k) Plans Are Still Coming Up Short." *Issue in Brief* 44. Chestnut Hill, MA: Center for Retirement Research at Boston College.

# People make mistakes at each step along the way.

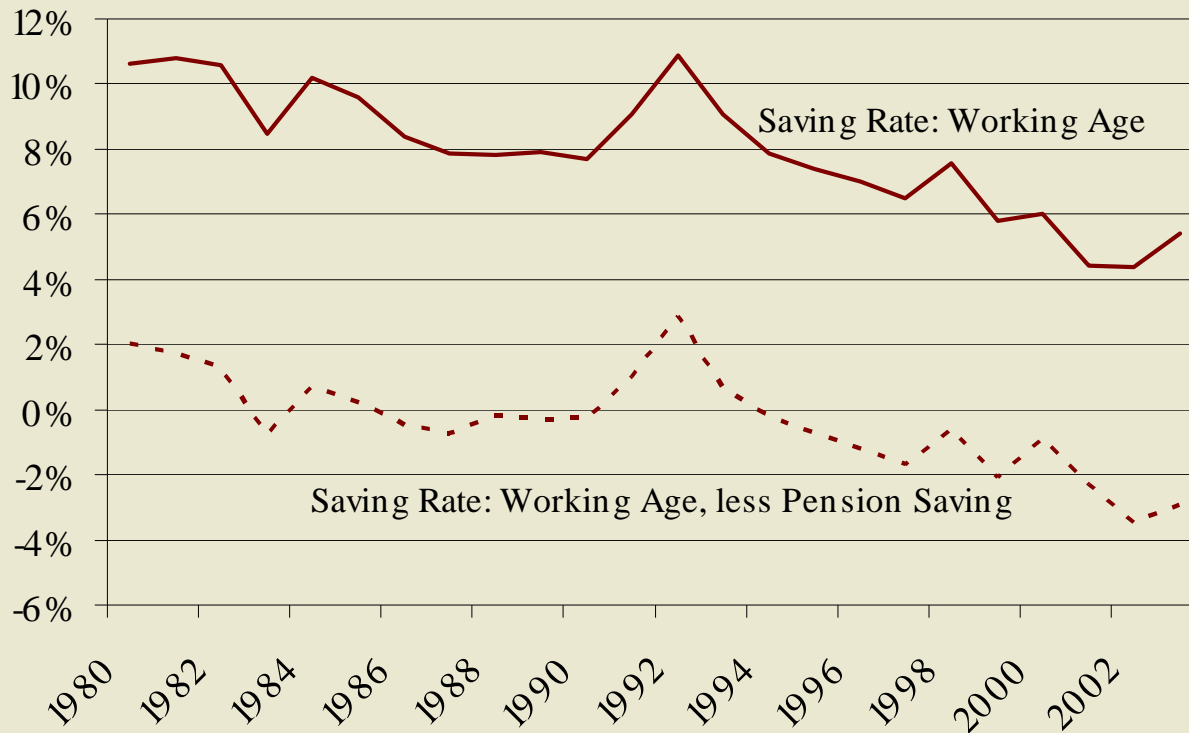
Percent of Individuals, 2004



Sources: Author's calculations based on U.S. Board of Governors of the Federal Reserve System. *Survey of Consumer Finances, 2004*. Washington, DC; and Sarah Holden and Jack Vanderhei. 2005. "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2004." *Issue Brief 285*. Washington, DC: Employee Benefit Research Institute.

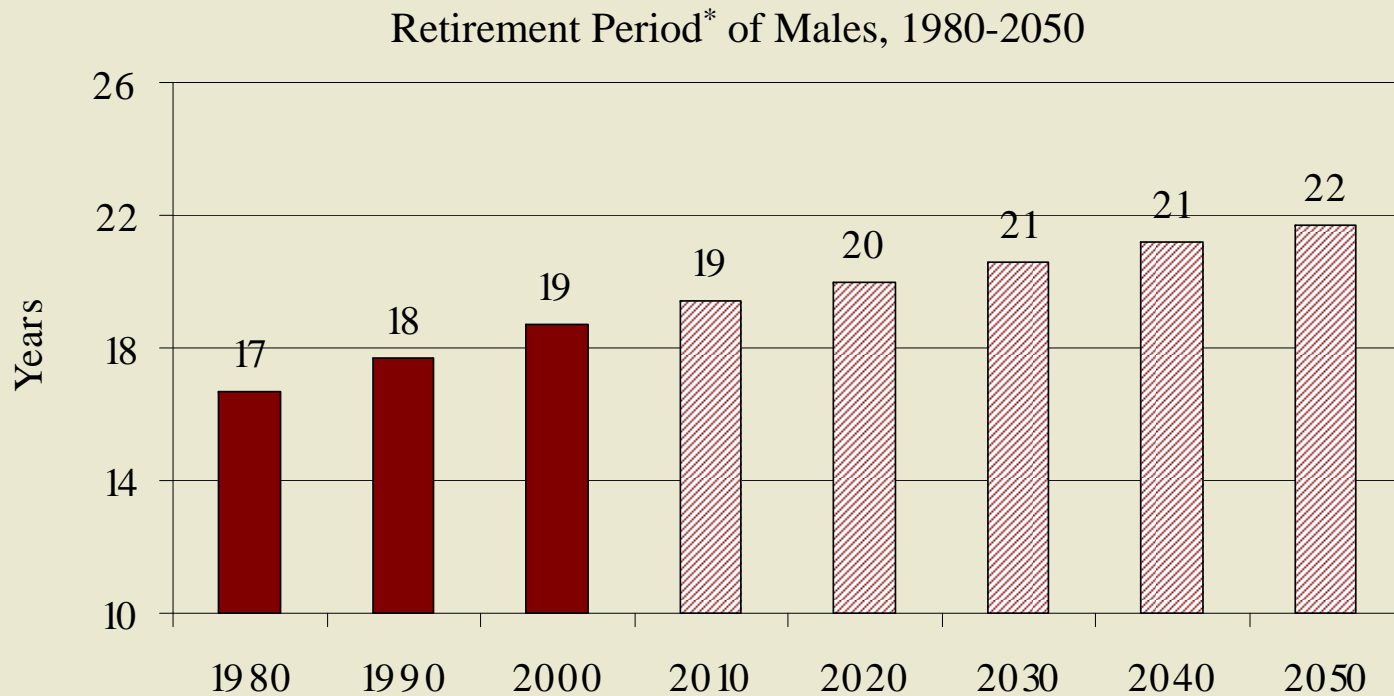
# And outside of 401(k)s, Americans save virtually nothing.

NIPA Personal Saving Rate: Working-Age Population  
with and without Pensions, 1980-2003



Source: Alicia H. Munnell, Francesca Golub-Sass, and Andrew Varani. 2005. "How Much are Workers Saving?" *Issue in Brief* 34. Chestnut Hill, MA: Center for Retirement Research at Boston College.

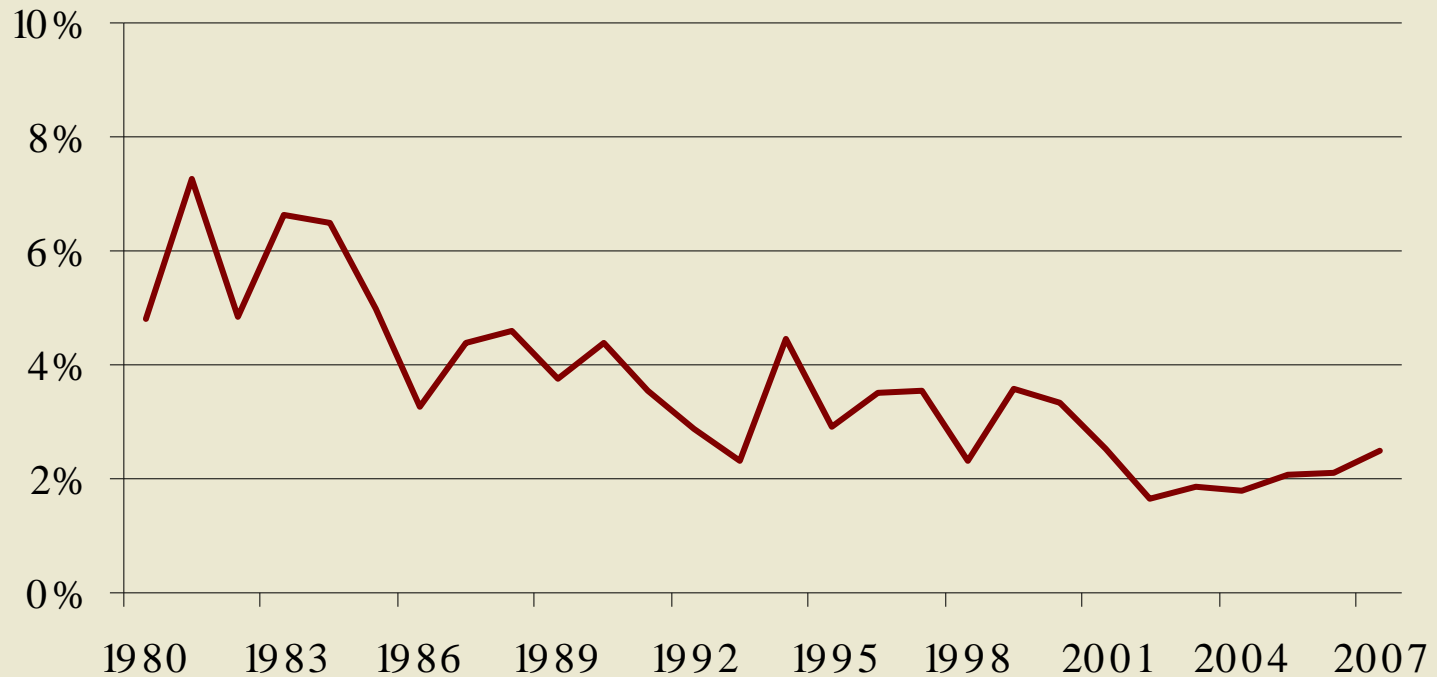
# And people will need more in retirement because retirement periods are increasing...



\*Retirement period is calculated by subtracting the average retirement age from the average mortality age for individuals age 65.  
Sources: U.S. Bureau of Labor Statistics and U.S. Census Bureau. *Current Population Survey*, 1962-2005. Washington, DC; and 2006 *Social Security Trustees Report*. Table VA.4. Washington, DC.

# ...real asset returns have fallen...

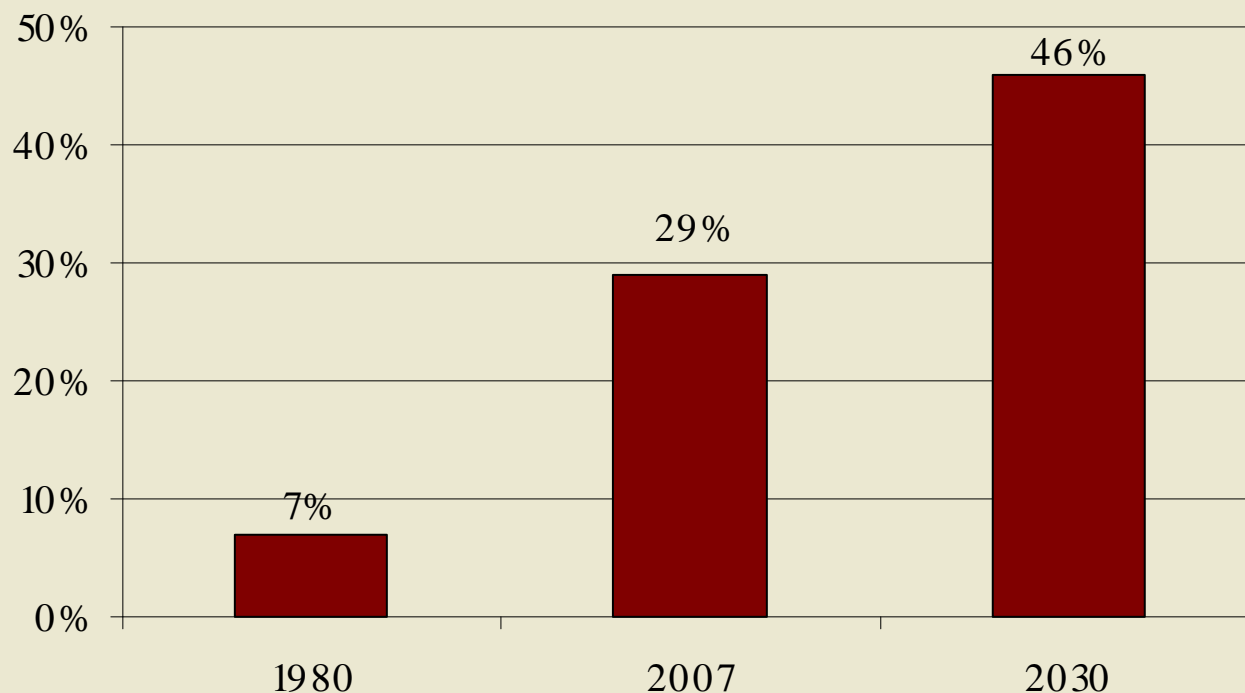
Real Interest Rate, 1980-2007  
(10-year Treasury Bond Yields Less Anticipated Inflation)



Sources: U.S. Department of the Treasury, Bureau of Public Debt. 2007. *10-year Treasury Bond Yields*. Washington, DC; and Federal Reserve Bank of Philadelphia. *Survey of Long-term Inflation Forecasts 2007*. Philadelphia, PA.

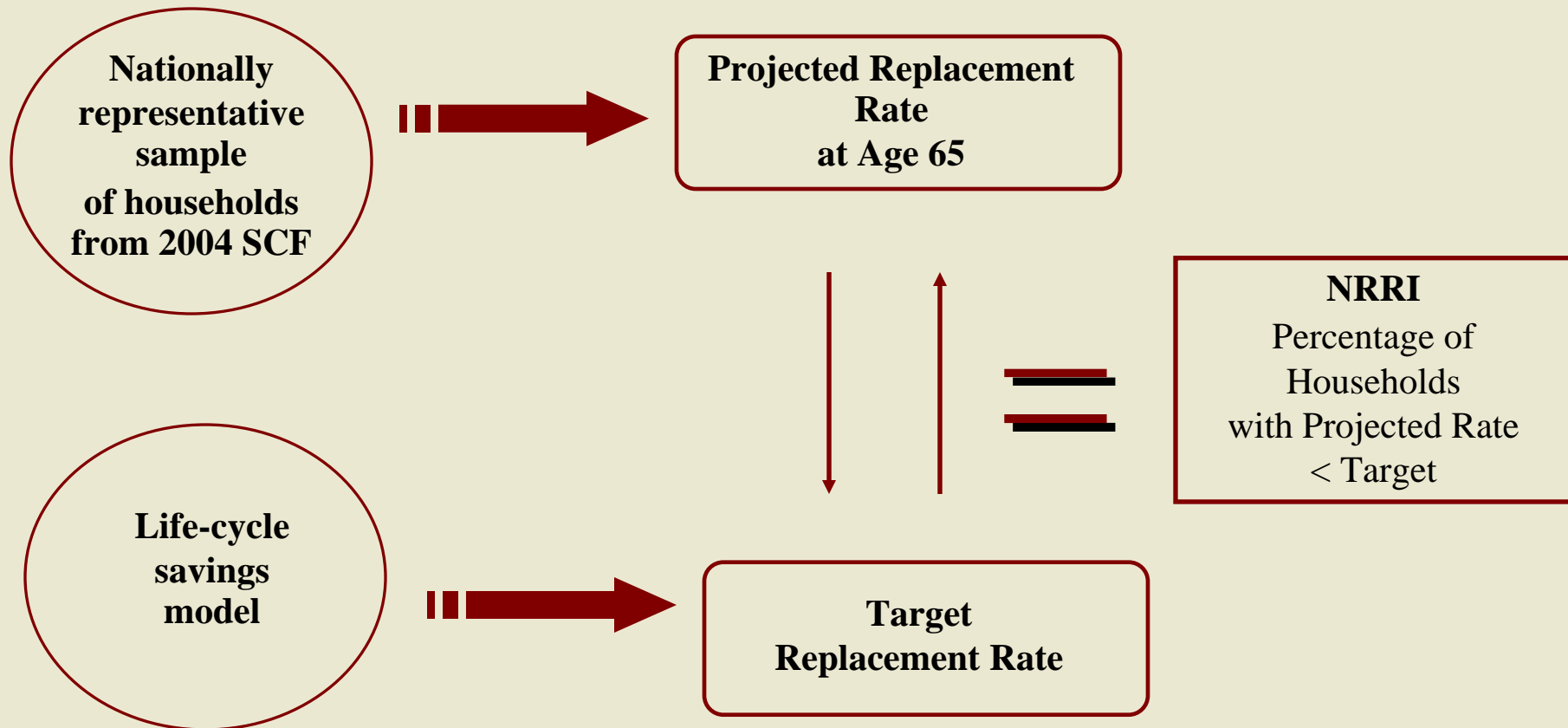
# ...and out-of-pocket health care costs will rise.

Medicare Out-of-Pocket Expenditures as a Percentage of the Average Social Security Benefit, 1980-2030



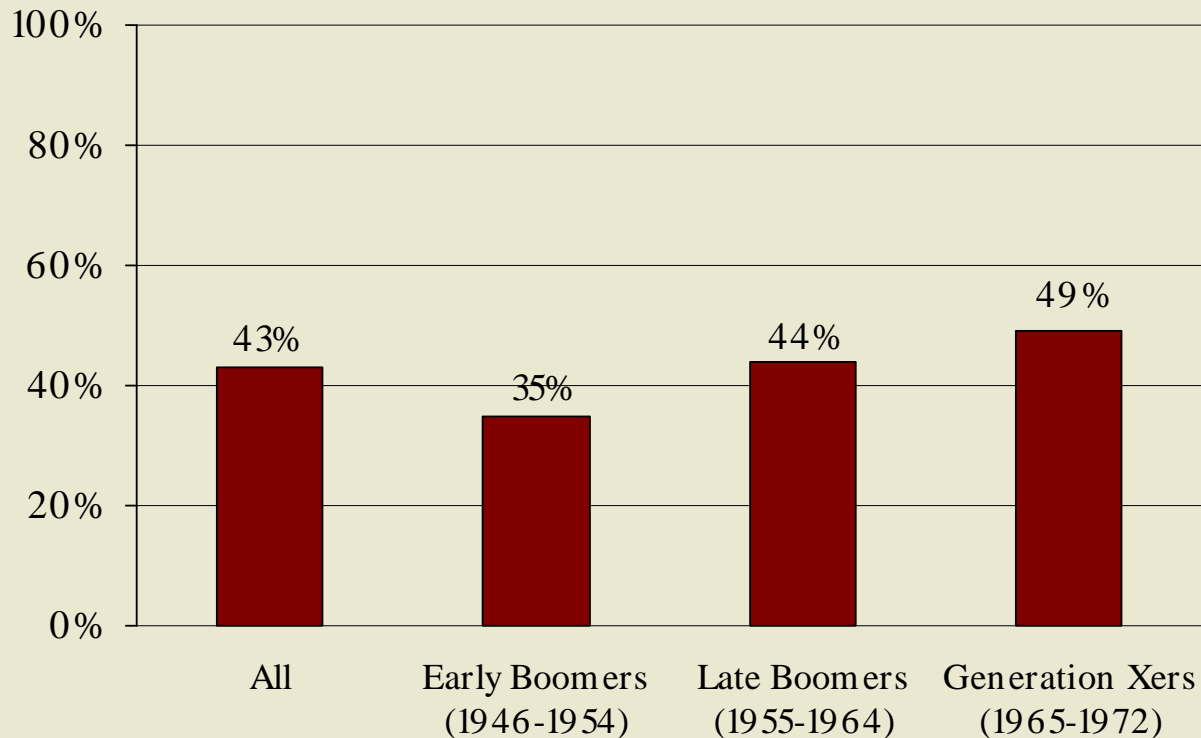
*Source:* Centers for Medicare & Medicaid Services (CMS), Office of the Actuary. 2007. "SMI Out-of-Pocket Expenses as a Percentage of Illustrative Social Security Benefit." Washington, DC.

# National Retirement Risk Index quantifies the impact of the changing landscape.



# Index shows 43 percent of households will be 'at risk.'

Percent of Households Unable to Maintain Pre-Retirement Living Standard, by Birth Cohort



Source: Center for Retirement Research at Boston College. 2006. *Retirements at Risk: A New National Retirement Risk Index*. Chestnut Hill, MA.

# Our latest Index analysis explicitly incorporates rising retiree health costs.

Total Consumption



Original NRRI

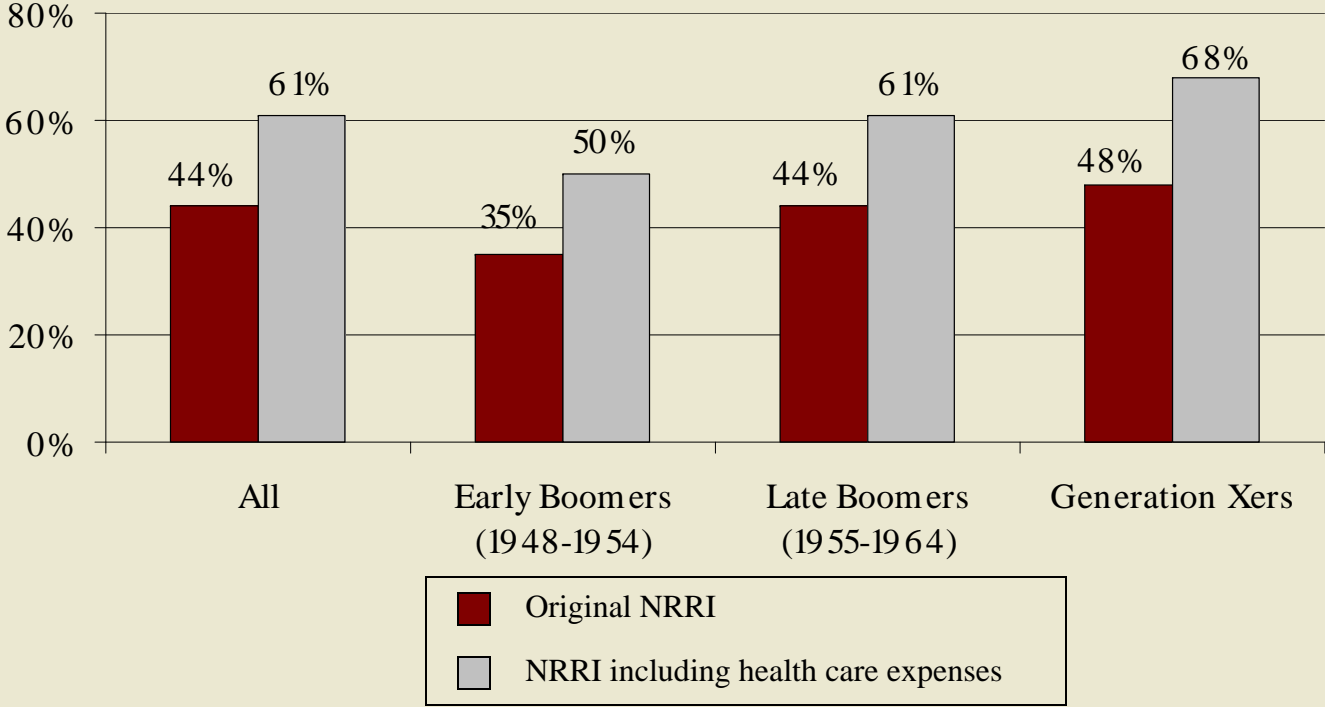
Health Costs and Non-Health Costs Separated



NRRI Including Health Costs Explicitly

# Health costs drive up the percent of households ‘at risk.’

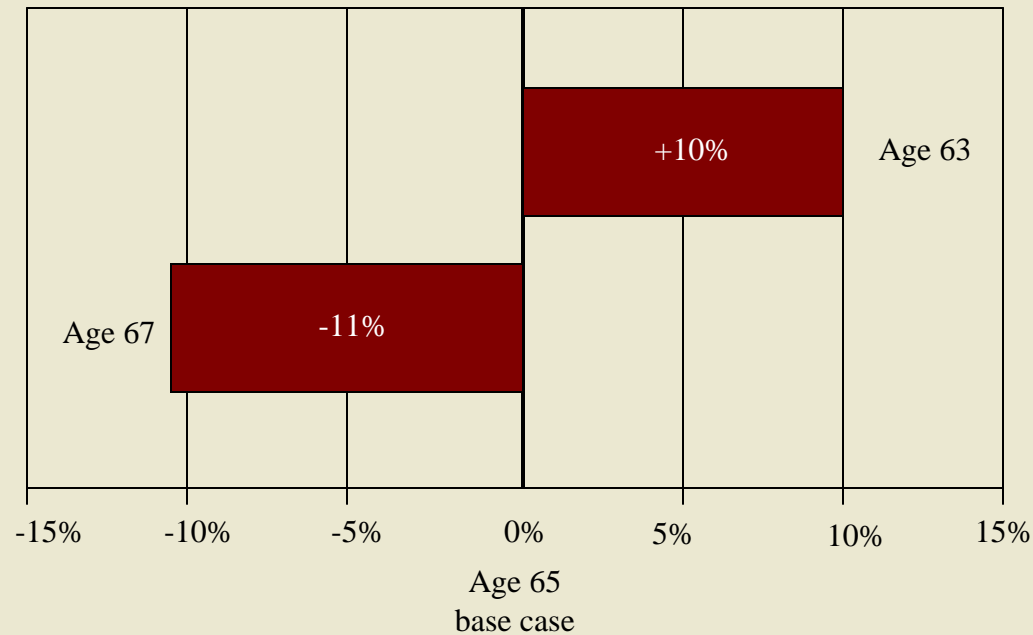
Effect of Health Care on the National Retirement Risk Index, 2006



Source: Alicia Munnell, Mauricio Soto, Anthony Webb, Francesca Golub-Sass, and Dan Muldoon. 2008. "Health Care Costs Drive Up the National Retirement Risk Index." *Issue in Brief* 2008-3. Chestnut Hill, MA: Center for Retirement Research at Boston College.

# A powerful antidote to inadequate retirement income is working longer.

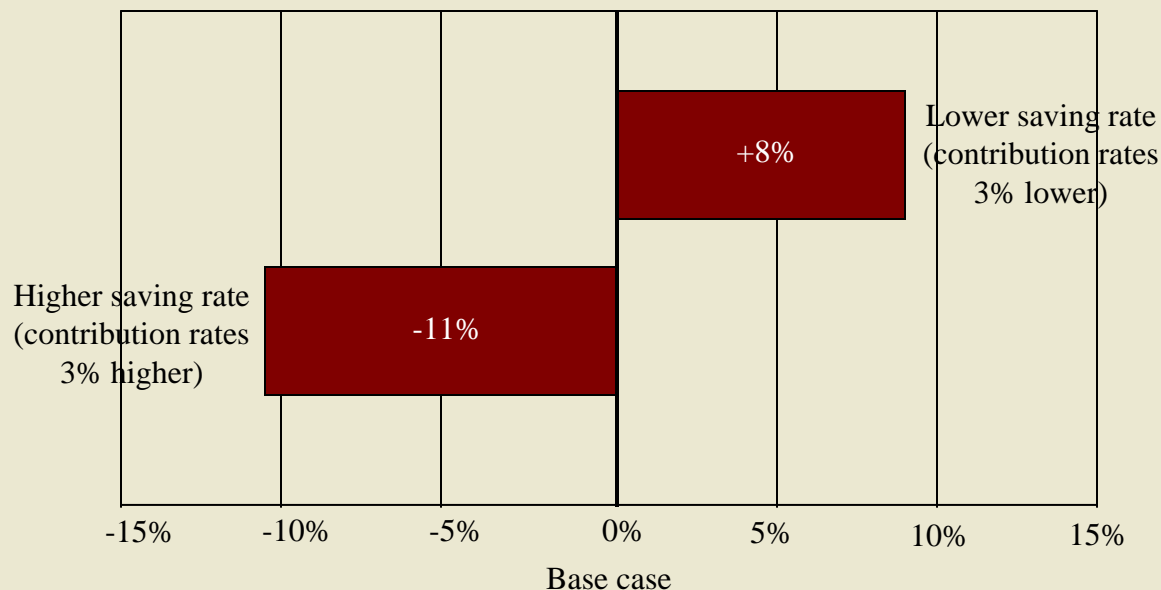
Change in Percent of Households 'At Risk' by Assumed Retirement Age



Source: Center for Retirement Research at Boston College. 2006. *Retirements at Risk: A New National Retirement Risk Index*. Chestnut Hill, MA.

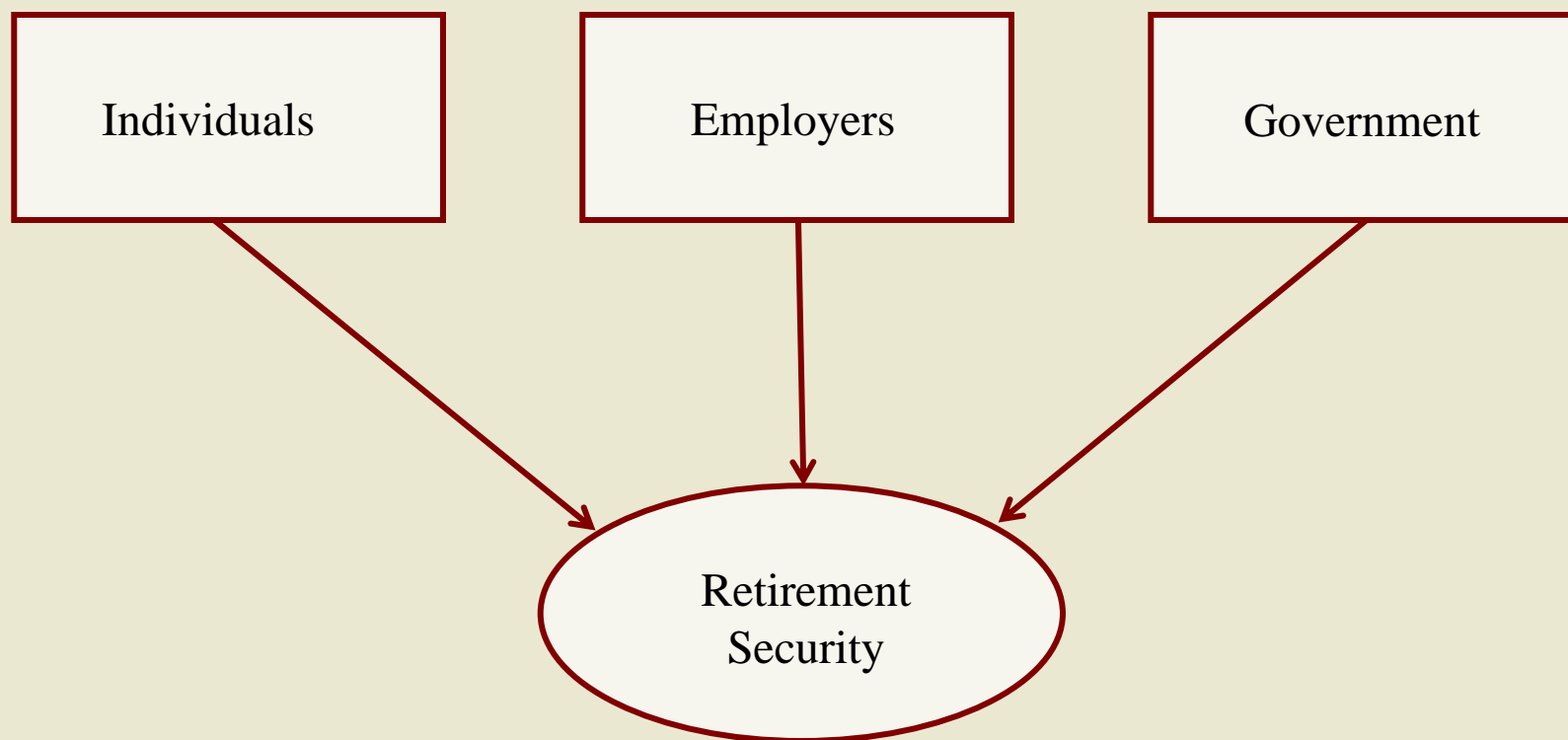
# Saving more early also makes a big difference.

Change in Percent of Generation Xers 'At Risk' by Assumed Saving Rate



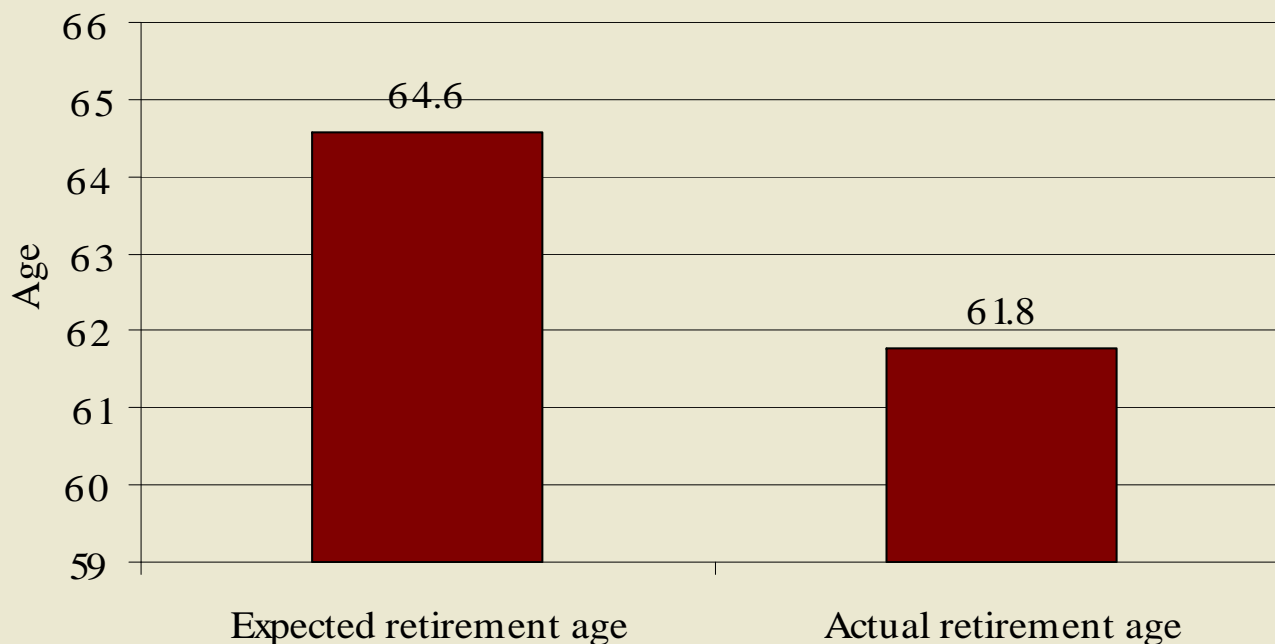
Source: Center for Retirement Research at Boston College. 2006. *Retirements at Risk: A New National Retirement Risk Index*. Chestnut Hill, MA.

# Achieving more work and saving requires a national retirement income policy.



# Individuals need to stick to their plans to work longer.

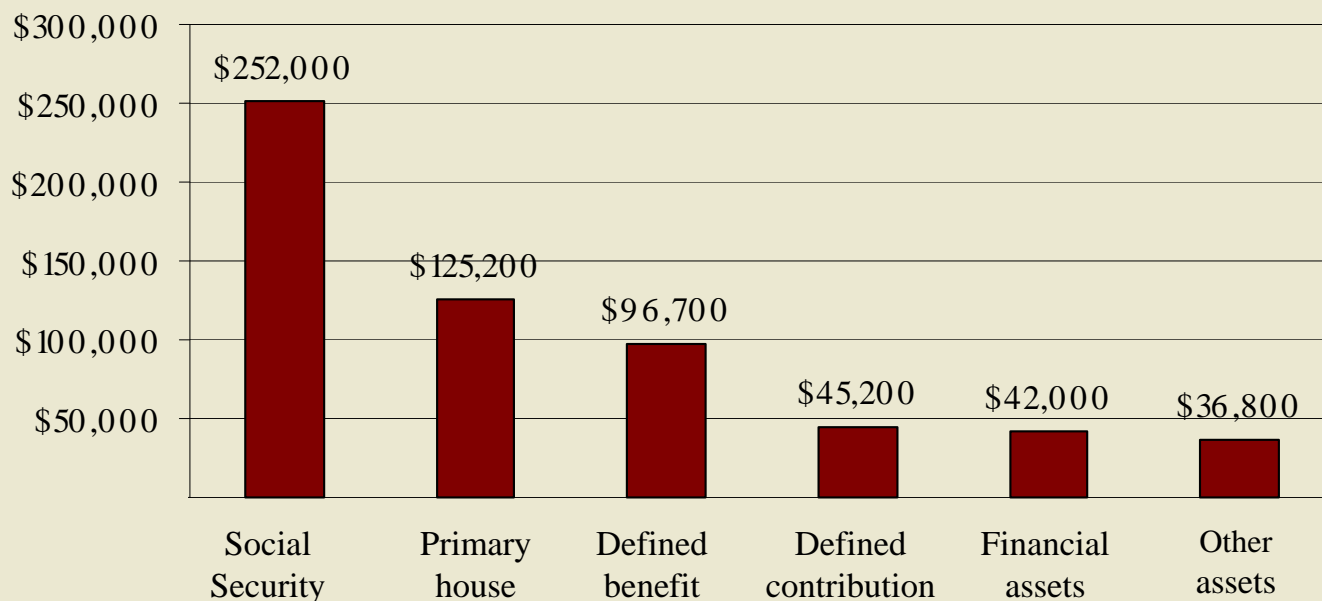
Retirement Confidence Survey, 1994-2007: Average for Expected Retirement Age of Current Workers and Actual Retirement Age of Retirees



Source: Employee Benefit Research Institute. *Retirement Confidence Survey: Summary of Findings 1994-2007*. Washington, DC.

# Individuals need to save more through 401(k)s and IRAs.

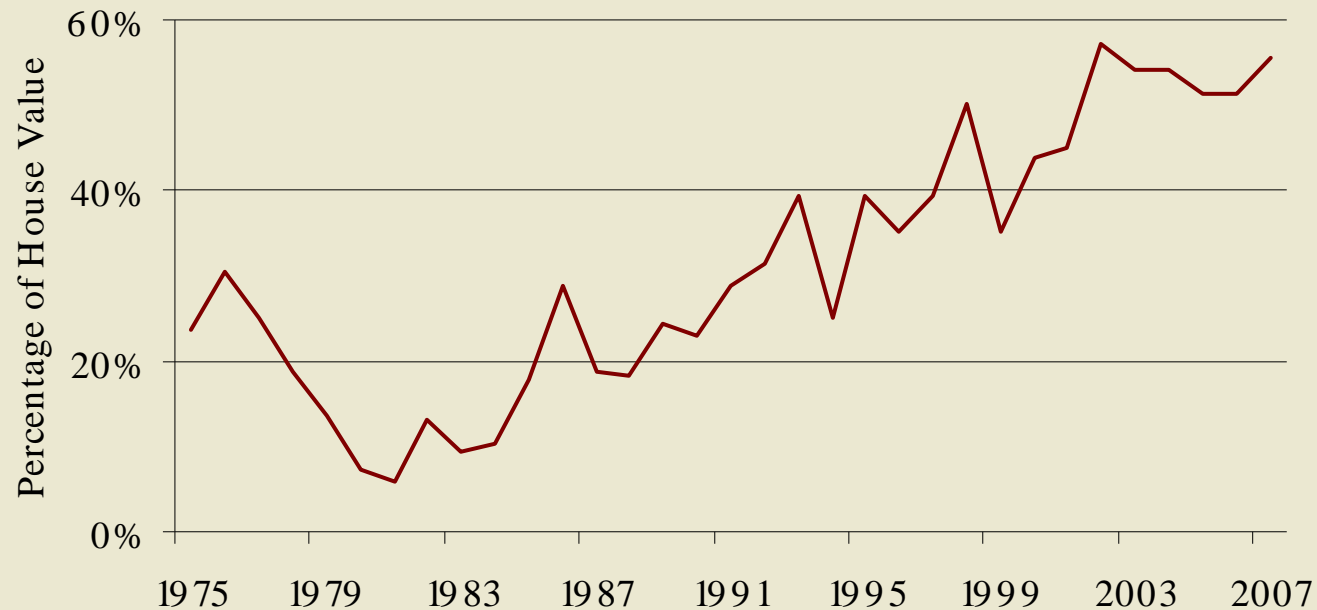
Wealth Holdings of a Typical Household Aged 55-64,  
*2004 Survey of Consumer Finances*



Source: Author's calculations from U.S. Board of Governors of the Federal Reserve System. *Survey of Consumer Finances, 2004*. Washington, DC.

# Individuals may need to tap their home equity in retirement.

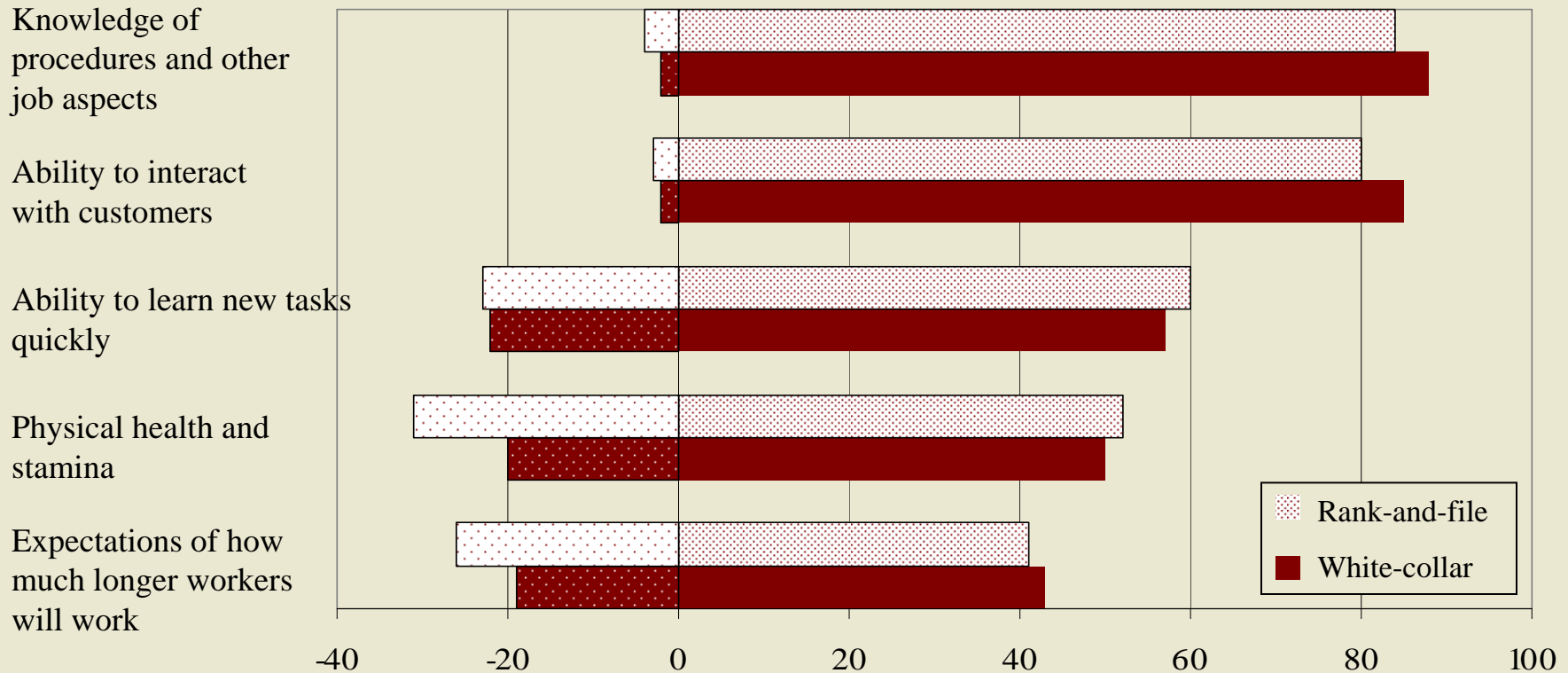
Percentage of House Value That Could Be Borrowed at Age 65, 1975-2007Q3



Sources: Authors' calculations based on Federal Reserve Bank of St. Louis. 2007. "Series: GS10, 10 Year Treasury Constant Maturity Rate;" U.S. Department of Housing and Urban Development. 2007. "Table of Principal Limit Factors;" and AARP. 2007. "Reverse Mortgage Calculator."

# Employers need to revise personnel policies to encourage older workers.

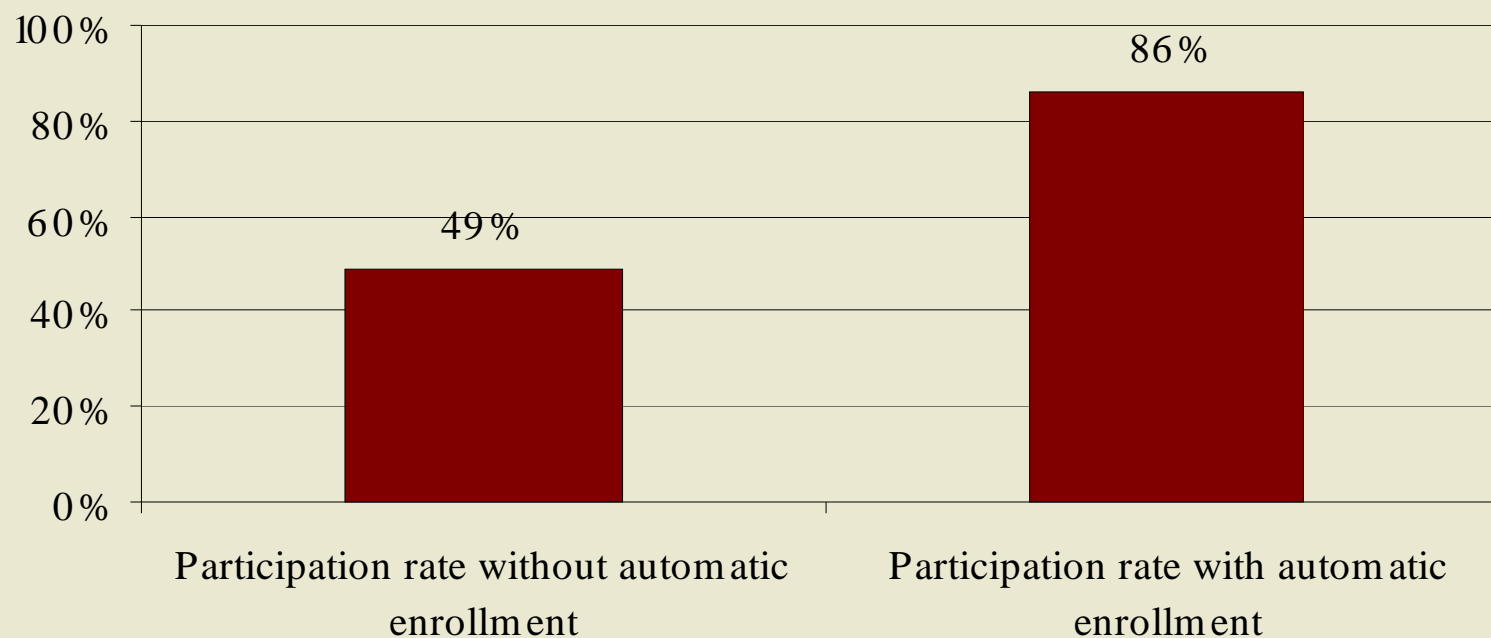
Percent of Employers Citing Positive or Negative Impact of Various Factors on Older Worker Productivity



Source: Alicia H. Munnell, Steven A. Sass, and Mauricio Soto. 2006. "Employer Attitudes Toward Older Workers: Survey Results." *Work Opportunity Issue in Brief 3*. Chestnut Hill, MA: Center for Retirement Research at Boston College.

# Employers need to make 401(k)s more effective through automatic provisions.

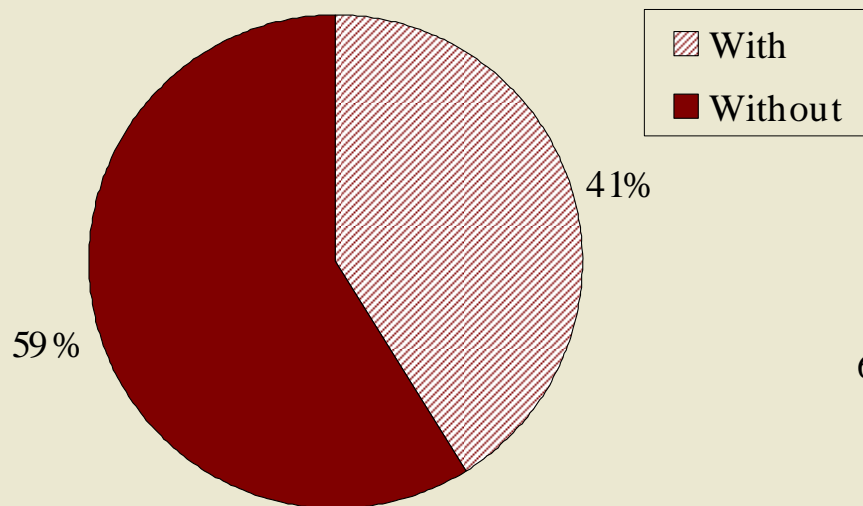
Participation Rate with and without Automatic Enrollment



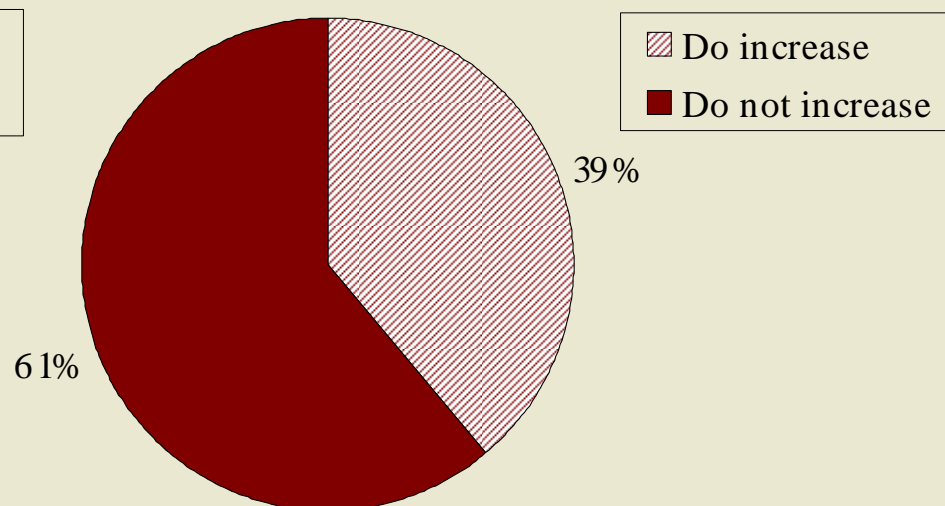
Source: Brigitte C. Madrian and Dennis F. Shea. 2002. "The Power of Suggestion: Inertia in 401(k) Participation and Savings Behavior." *Quarterly Journal of Economics* 116(4).

# Some progress has been made.

Percent of Large Plans with Automatic Enrollment, 2006



Percentage of 401(k) Automatic Enrollment Plans that Increase Default Deferrals over Time, 2006



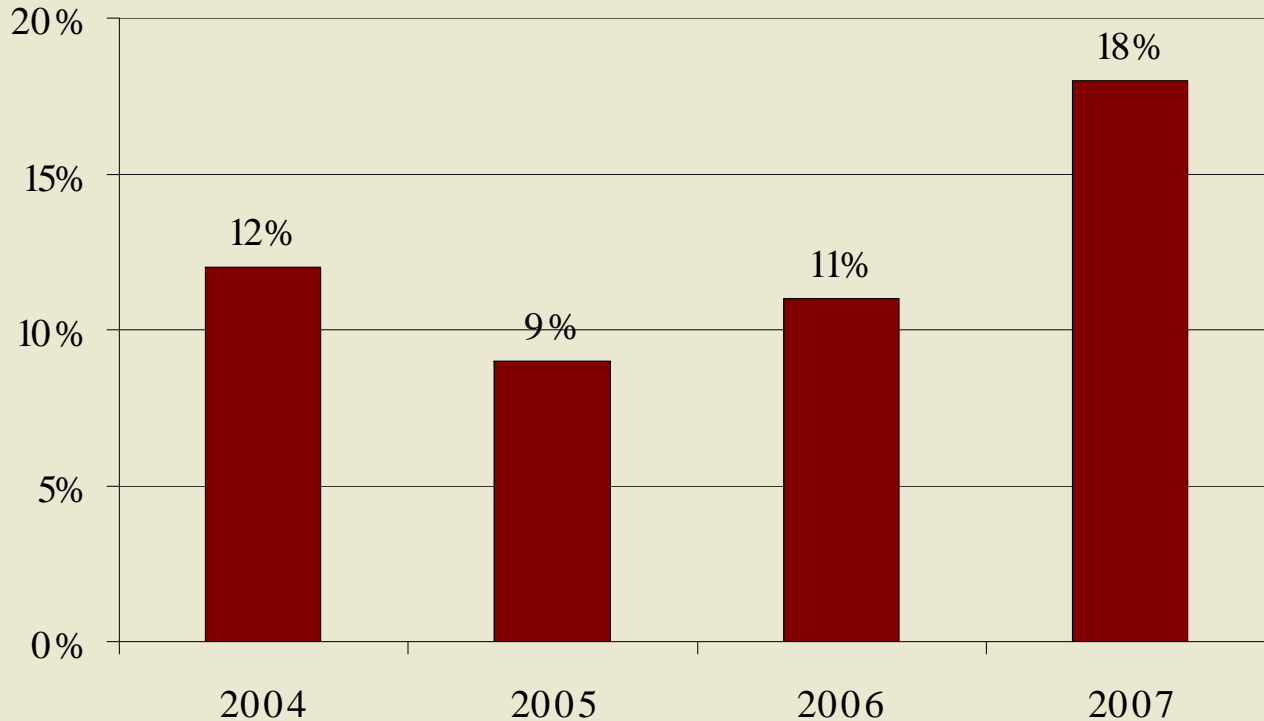
Source: Profit Sharing/401(k) Council of America. 2007. *50<sup>th</sup> Annual Survey of Profit Sharing and 401(k) Plans*. Chicago, IL.

# Pension Protection Act should help.

- Introduced a new safe harbor through automatic enrollment.
- Legitimized automatic increases in deferral rates.
- Shielded sponsors from liability on DOL-sanctioned default investments.
- Preempted state law limits on wage withholding.
- Enabled plan sponsors to “unwind” automatic deferrals within 90 days.

# But a new 401(k) problem has emerged – borrowing as economy turns down.

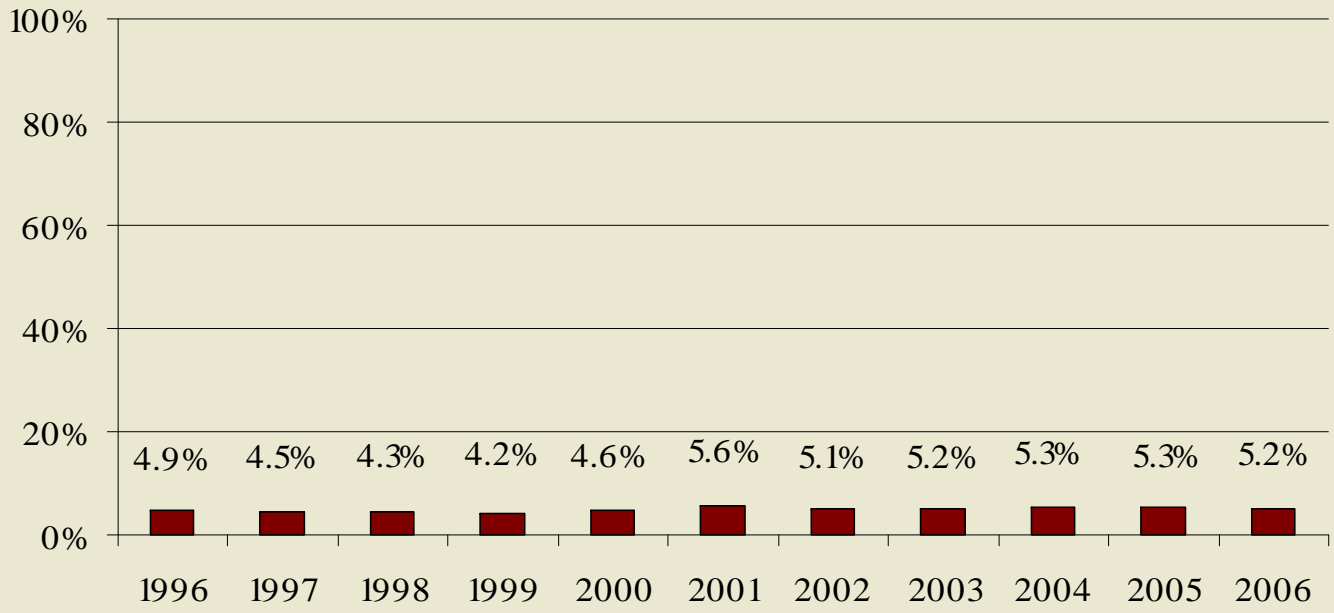
Percent of Retirement Plan Participants Taking a Loan from Their Plan, 2004-2007



Source: Transamerica Center for Retirement Studies. 2008. *9<sup>th</sup> Annual Transamerica Retirement Survey*. Los Angeles, CA.

# And decumulation looms as a disaster – people don't annuitize.

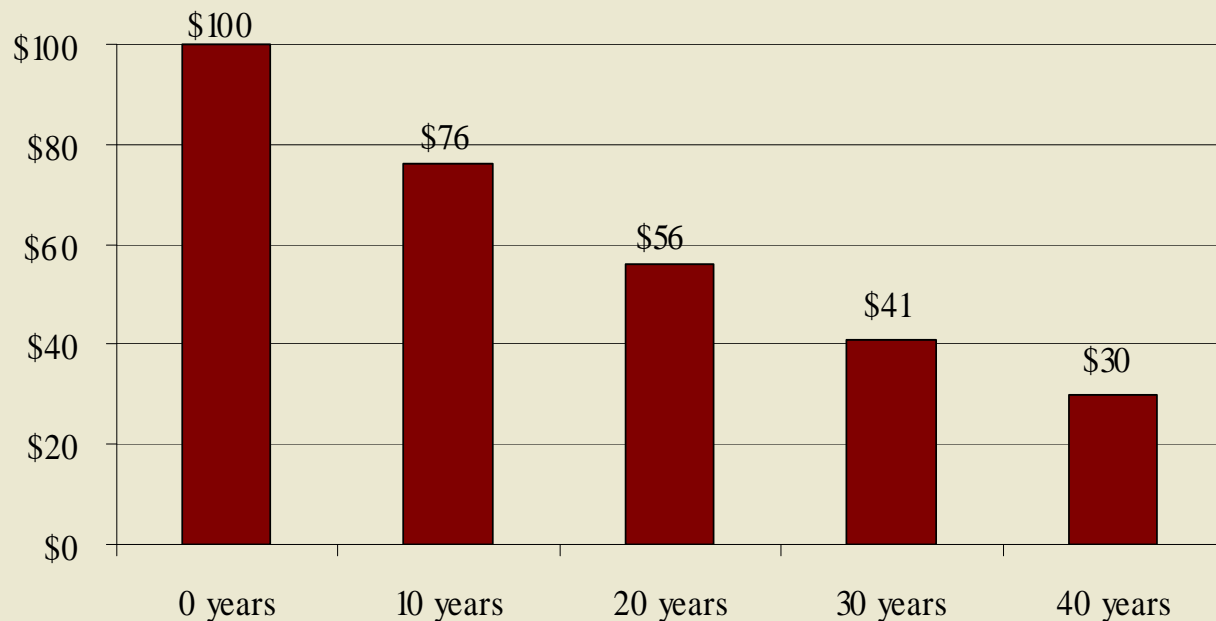
Immediate Annuity Premiums as Percent of Total Annuity Premiums



Source: LIMRA International. 2002. *The 2001 Individual Annuity Market: Sales and Assets*. Windsor, CT; and updates from LIMRA International.

# Government could improve 401(k)s with annuity default and inflation-indexed products.

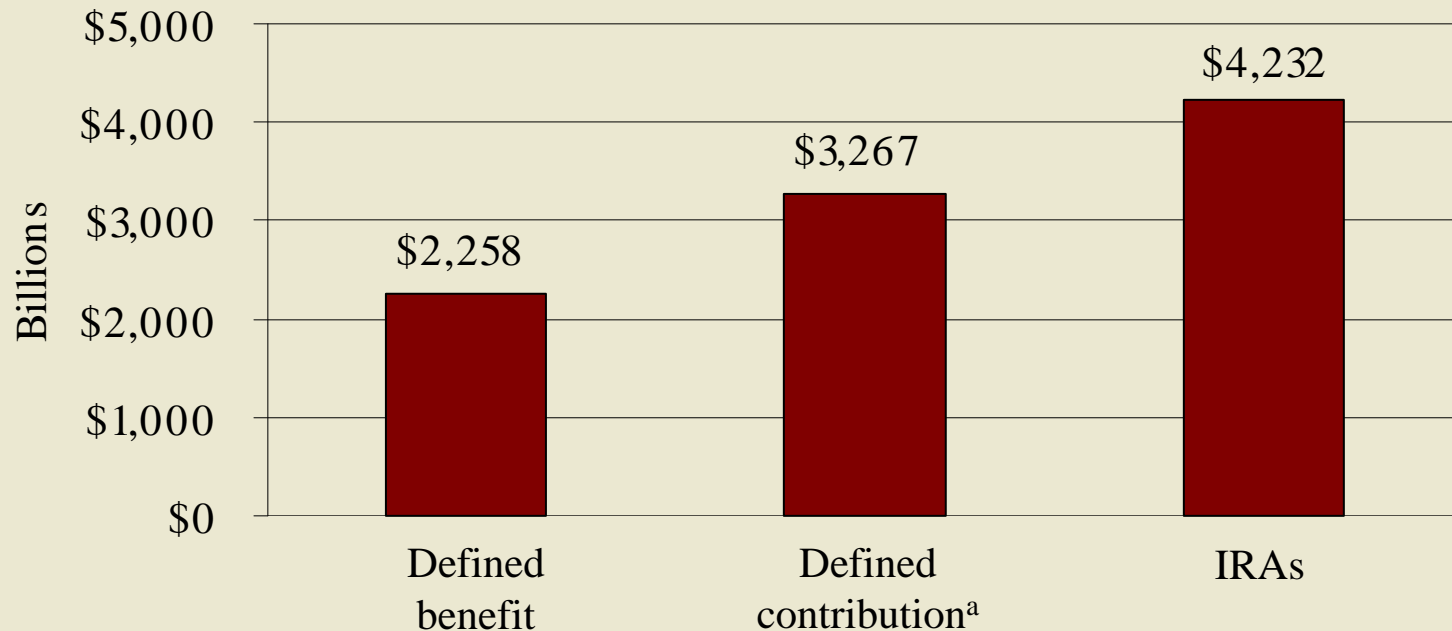
Value of \$100 with 3 Percent Inflation after Specified Number of Years



Source: Author's calculations.

# But government also needs to look at IRAs, where all the money has moved.

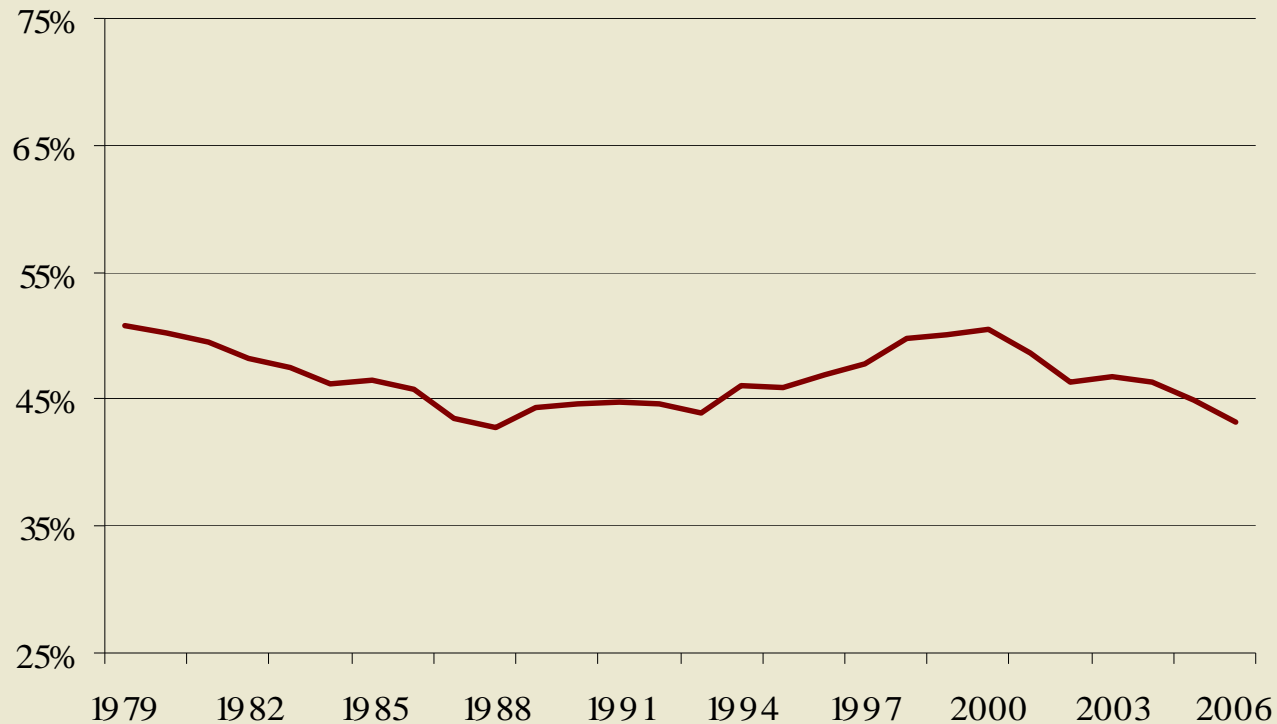
Private Retirement Assets, 2007Q3



<sup>a</sup> The Flow of Funds data for defined contribution plans include assets held in the Federal Thrift Savings Plan.  
Source: U.S. Board of Governors of the Federal Reserve. *Flow of Funds Accounts*, 2007. Washington, DC.

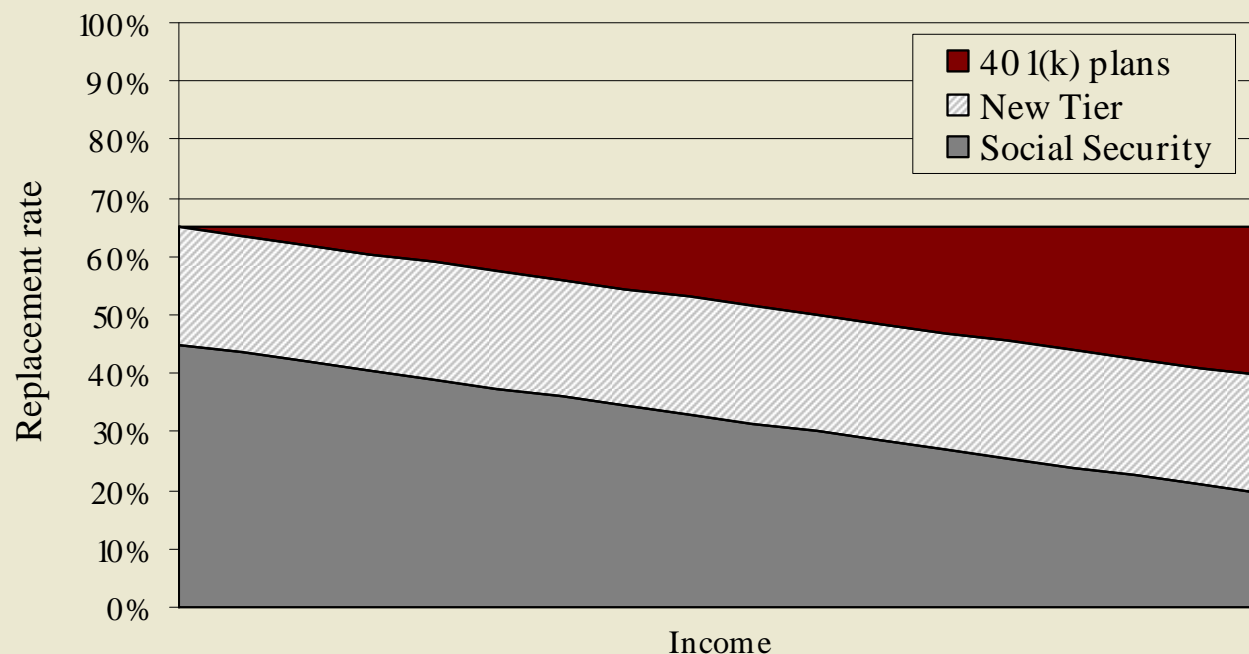
# Government also needs to help Americans save more.

Percent of Private Sector Workers 25-64 Participating in an Employer-Sponsored Pension, 1979-2006



Source: Author's calculations from U.S. Bureau of the Census. *Current Population Survey*, 1980-2007. Washington, DC.

# Government could introduce new tier of funded, privately-managed retirement saving.



Source: Author's illustration.

# Candidates have touched on new tier in current campaign.

## **Senator Clinton:**

- Establish American Retirement Accounts to provide universal access to a plan.
- Match up to \$1,000 with refundable tax credits for low- and middle-income families.

## **Senator Obama:**

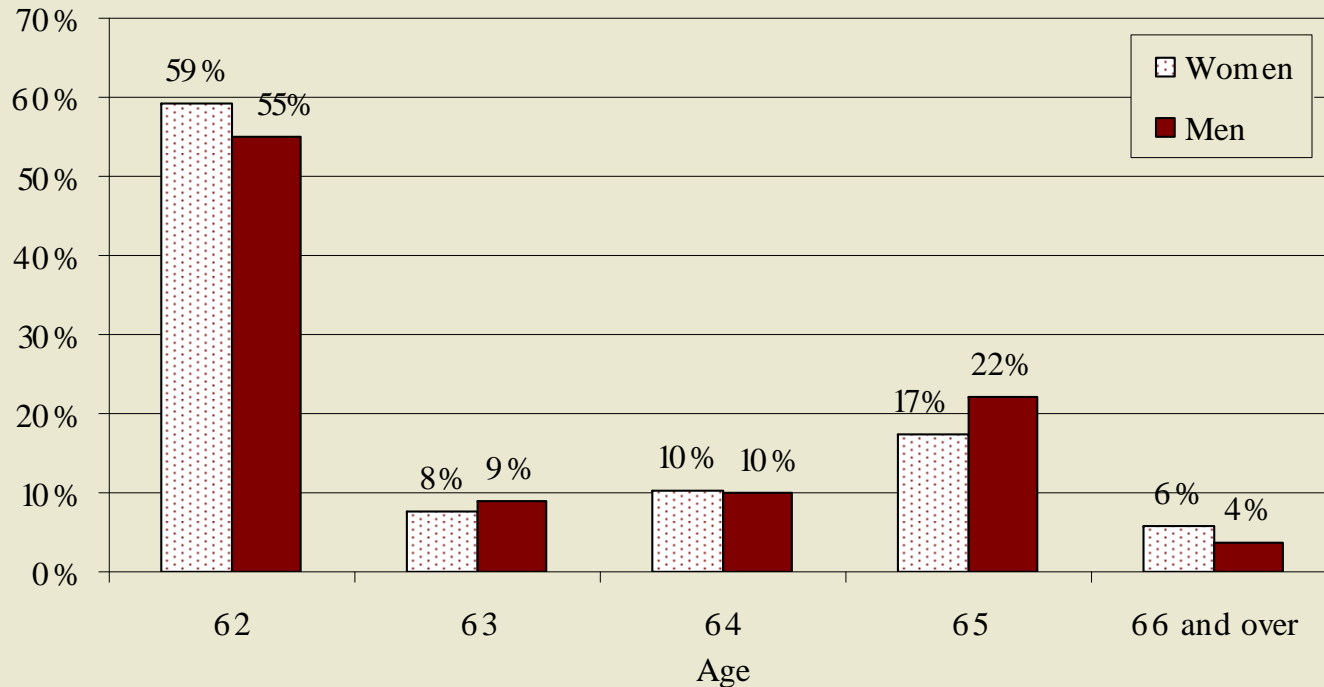
- Require employers without a plan to automatically enroll employees in an IRA.
- Match up to \$500 for low- and middle-income families.

## **Senator McCain:**

- Retain existing tax cuts on capital gains and dividends to promote saving.
- Reform entitlement programs to control spending.

# Finally, government needs to redefine its “age-62” retirement policy.

Percent Distribution by Age of Initial Social Security Benefit Awards, 2005



Source: Author's calculations and U.S. Social Security Administration. 2007. *Annual Statistical Supplement, 2006*. Washington, DC.

# Conclusion

- Retirement income is contracting.
- Retirement needs are expanding.
- NRRI shows many ‘at risk.’
- Solution is working longer and saving more.
- Individuals, employers, and the government need to combine efforts.