

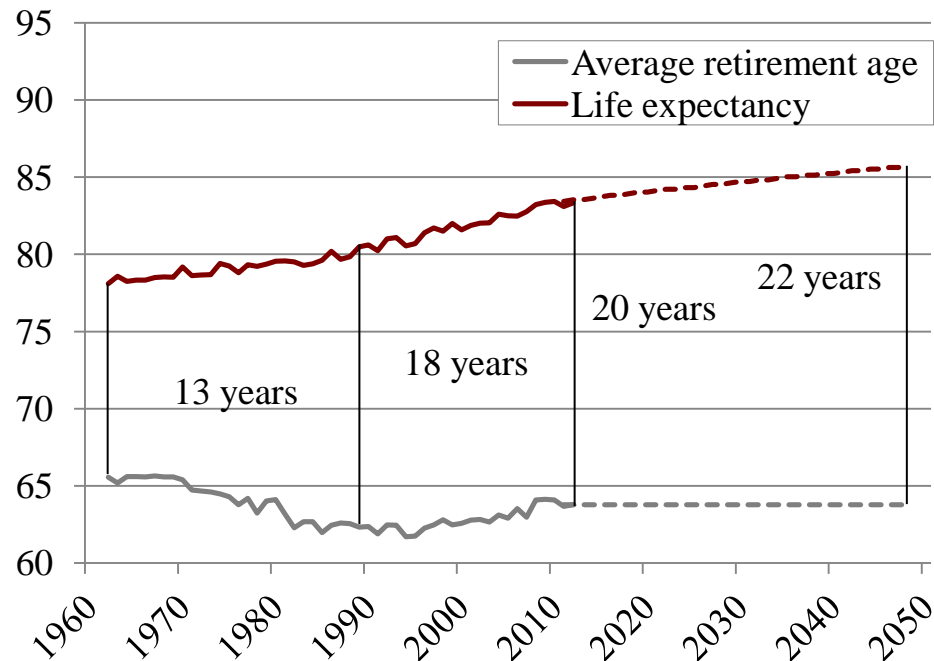
*Falling Short:
The Coming Retirement Crisis
and How to Prevent It*

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National Academy of Social Insurance
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The need for retirement income is growing, due to longer retirement spans...

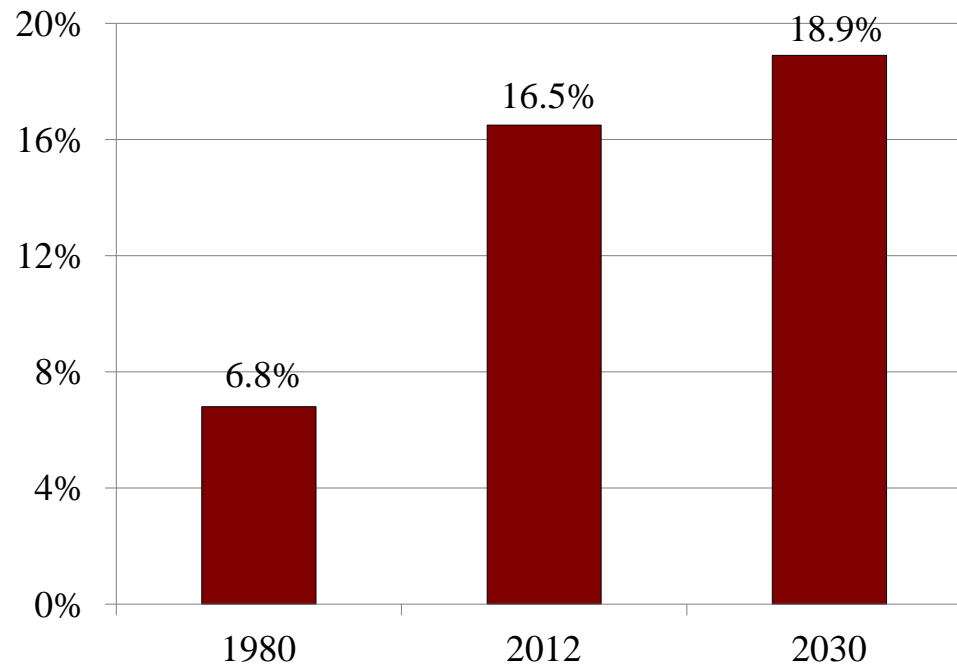
Average Years in Retirement for Men, 1960-2050



Sources: Center for Retirement Research at Boston College estimates from U.S. Census Bureau. *Current Population Survey*, 1962-2012; and U.S. Social Security Administration 2013. *The Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*. Government Printing Office.

...rising health care costs...

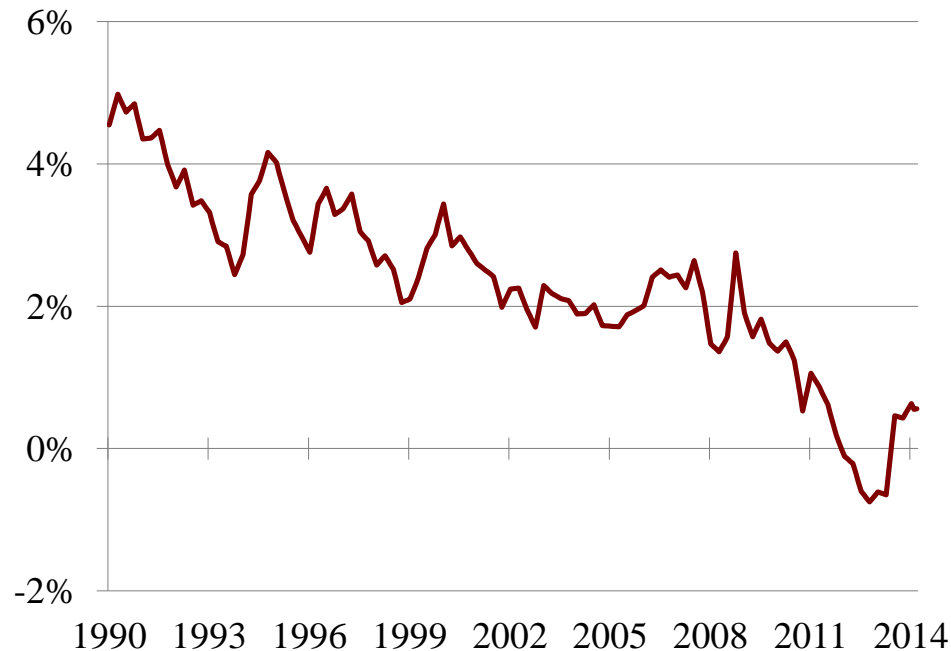
Medicare Part B Premium and Out-of-Pocket Payments as Percent of Average Social Security Benefits, 1980-2030



Source: Centers for Medicare & Medicaid Services, Office of the Actuary. 2012. "SMI Out-of-Pocket Expenses as a Percentage of Illustrative Social Security Benefit."

... and low interest rates.

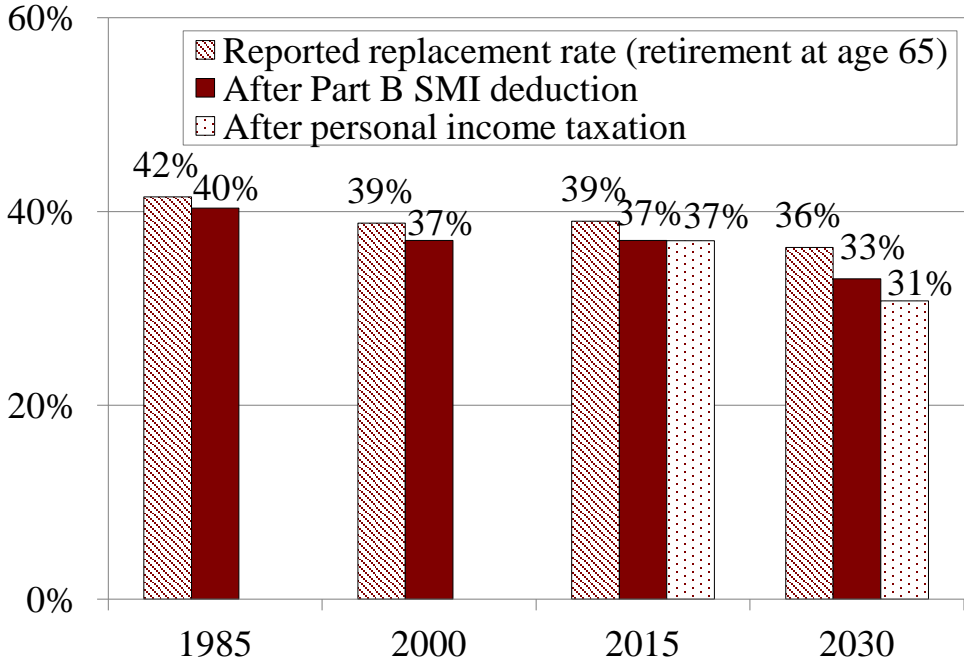
Real Interest Rate, 1990-2014



Sources: U.S. Board of Governors of the Federal Reserve System. 2013. Selected Interest Rates (Daily) – H.15. Available at <http://www.federalreserve.gov/releases/h15/update/default.htm>; Joseph G. Haubrich, George Panache, and Peter Ritchken. 2011. “Inflation Expectations, Real Rates, and Risk Premia: Evidence from Inflation Swaps.” Working Paper 11-07. Federal Reserve Bank of Cleveland; and unpublished estimates from Richard Kopcke.

At the same time, Social Security will replace a smaller share of pre-retirement income.

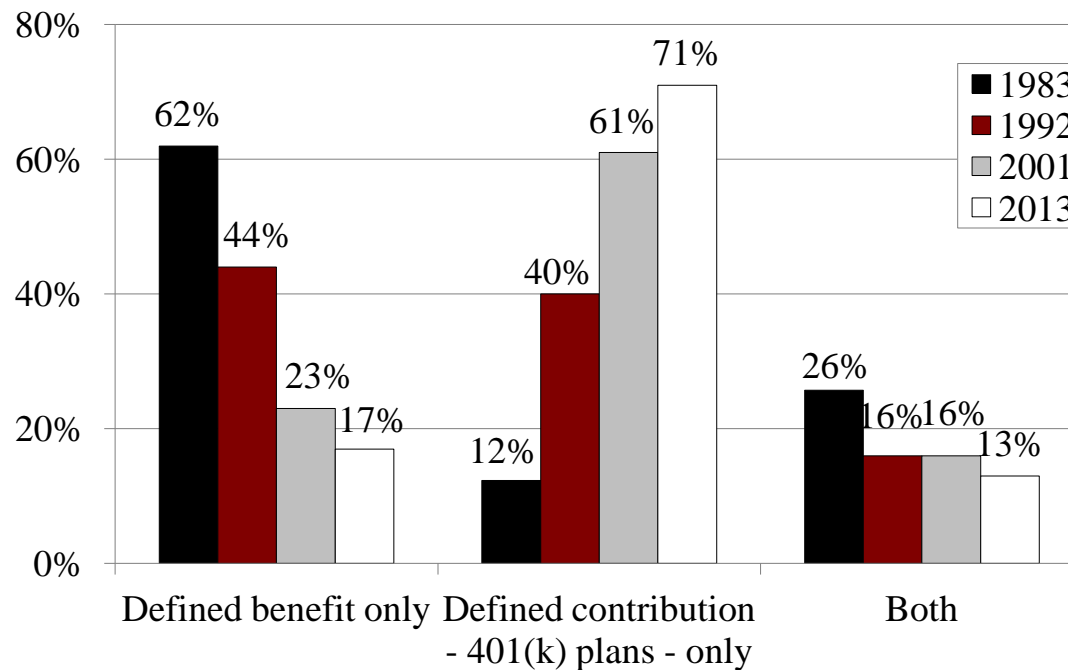
Social Security Replacement Rates for Average Earner Retiring at Age 65, 1985, 2000, 2015, and 2030



Sources: Centers for Medicare and Medicaid Services. 2013. *Annual Report of the Board of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds*. Government Printing Office; and U.S. Social Security Administration. 2013. *The Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*. Government Printing Office.

And employer plans have shifted to 401(k)s.

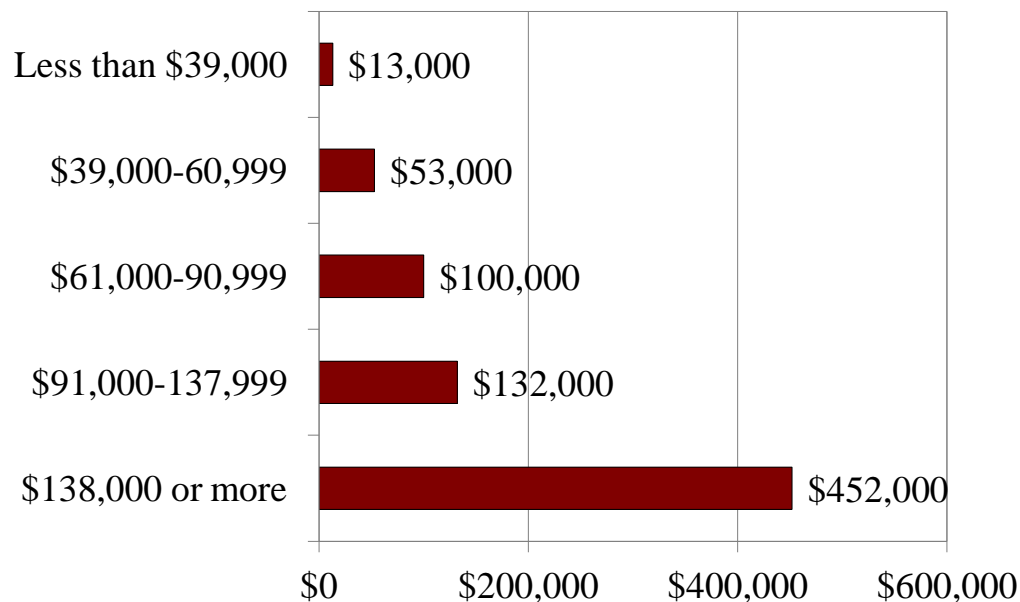
Workers with Pension Coverage by Type of Plan, 1983, 1992, 2001, and 2013



Source: Center for Retirement Research at Boston College calculations based on U.S. Board of Governors of the Federal Reserve System. *Survey of Consumer Finances*, 1983, 1992, 2001, and 2013.

With 401(k)s, individuals often end up with modest balances.

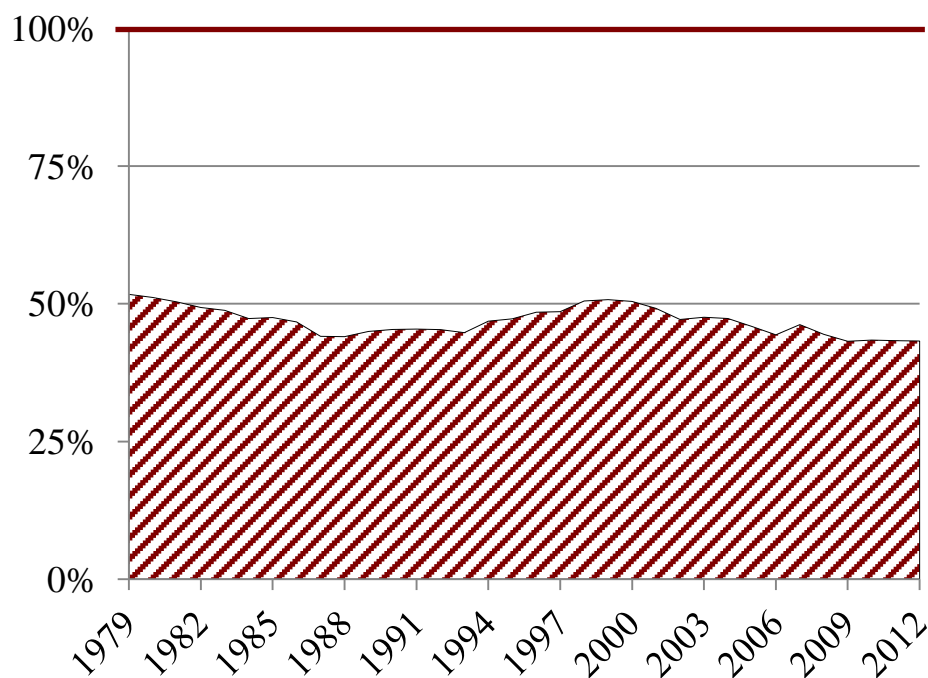
401(k)/IRA Balances for Median Working Household with a 401(k),
Age 55-64, by Income Quintile, 2013



Source: Alicia H. Munnell. 2014. "401(k)/IRA Holdings in 2013: An Update from the SCF." *Issue in Brief* 14-15. Center for Retirement Research at Boston College.

And only about half of private sector workers currently participate in any employer plan.

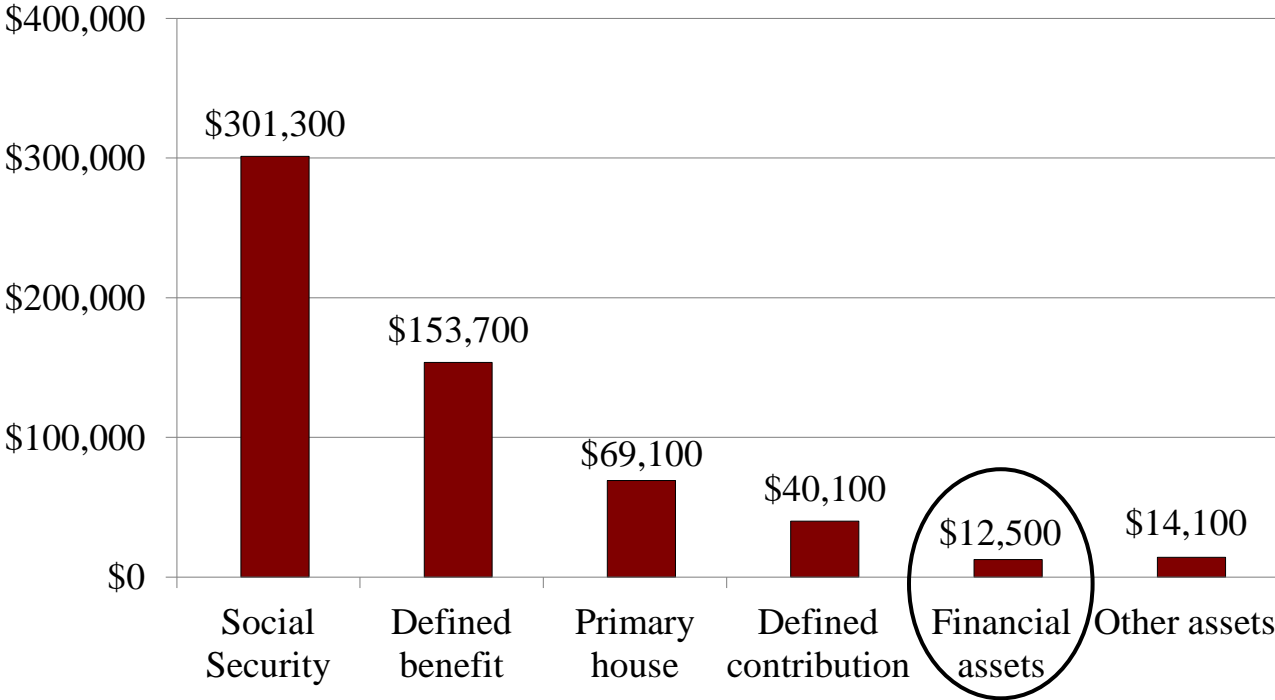
Percent of Private Sector Workers Ages 25-64
Participating in an Employer-Sponsored Pension, 1979-2012



Source: U.S. Census Bureau. *Current Population Survey*, 1979-2012.

The pension shortfall is serious as individuals save little outside of employer plans.

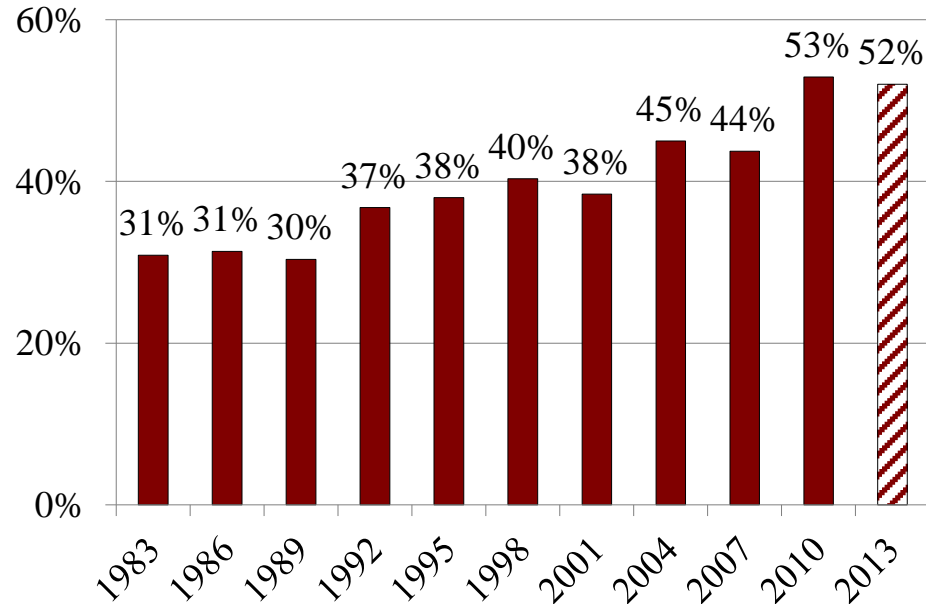
Wealth of Typical Household with Head Age 55-64, 2013



Source: Alicia H. Munnell. 2014. "401(k)/IRA Holdings in 2013: An Update from the SCF." *Issue in Brief* 14-15. Center for Retirement Research at Boston College.

Our metric of retirement risk shows half of workers are falling short.

The National Retirement Risk Index, 1983-2013



Source: Alicia H. Munnell, Wenliang Hou, and Anthony Webb. 2014. "NRRI Update Shows Half Still Falling Short." *Issue in Brief* 14-20. Center for Retirement Research at Boston College.

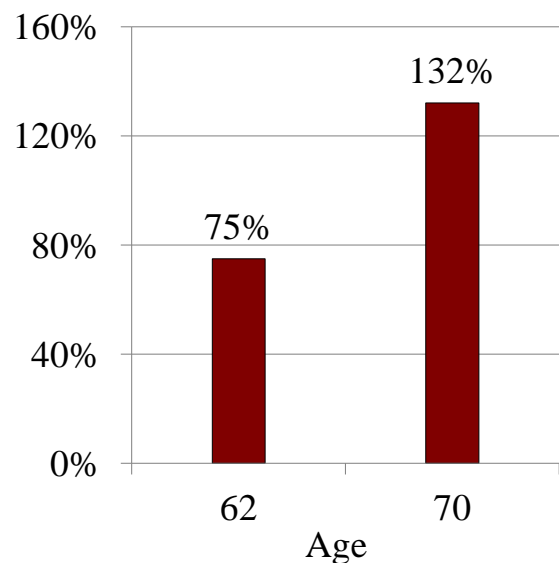
What can we do?

- Solutions are straightforward...
 - Work longer;
 - Save more; and
 - Consider house as a retirement asset.

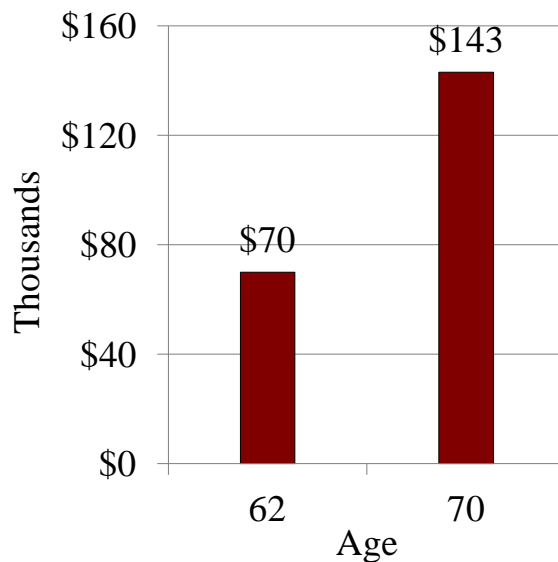
- ...but will require concerted efforts by:
 - Individuals;
 - Employers; and
 - Government.

Working longer has multiple benefits.

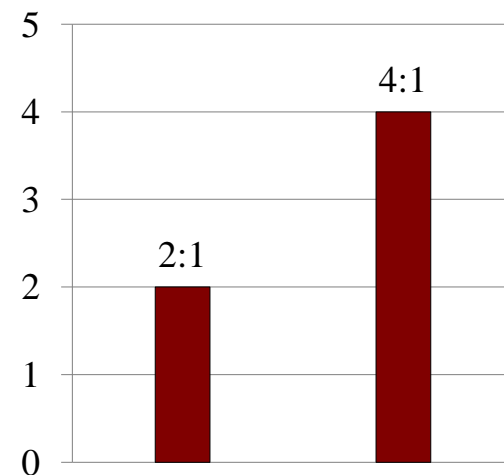
Social Security Benefits Up 76%



401(k) Assets More than Double



Increased Ratio of Working to Retirement Years



Source: Charles D. Ellis, Alicia H. Munnell, and Andrew D. Eschtruth. 2014. *Falling Short: The Coming Retirement Crisis and What to Do About It*. Oxford, UK: Oxford University Press.

Longer worklives make saving for retirement much more manageable.

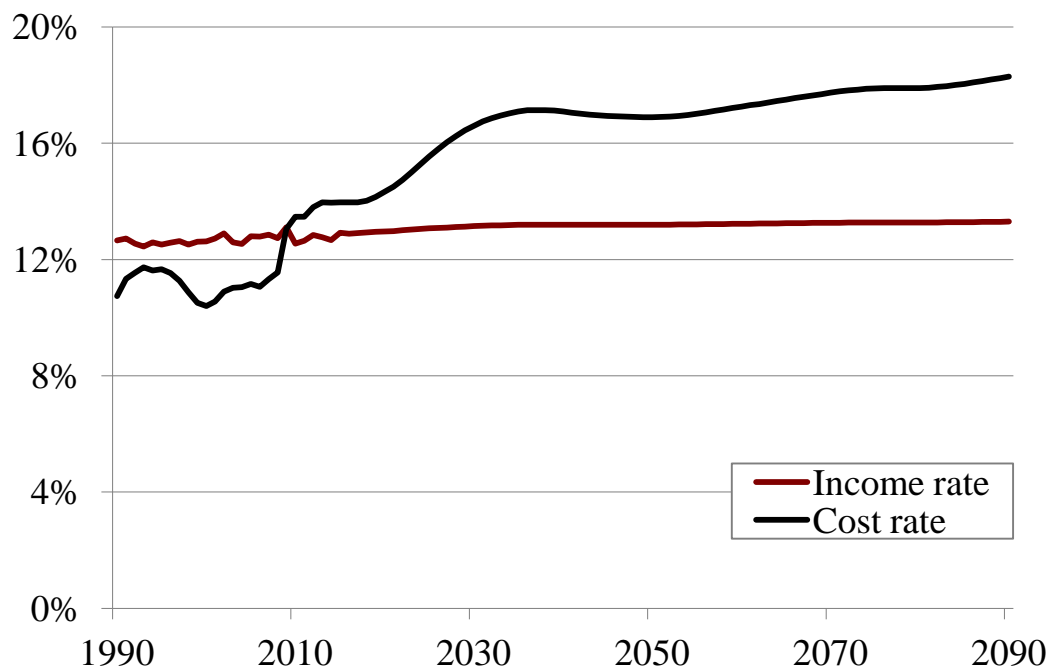
Saving Rate Required for a Medium Earner to Attain a 70-Percent Replacement Rate

Retire at:	Start saving at:		
	25	35	45
62	15%	24%	44%
65	10	15	27
67	7	12	20
70	4	6	10

Source: Alicia H. Munnell, Anthony Webb, and Wenliang Hou. 2014. "How Much Should People Save?" *Issue in Brief* 14-11. Center for Retirement Research at Boston College.

Saving more in Social Security – more revenue would reduce need to cut benefits.

Projected Social Security Income and Cost Rates, as a Percent of Taxable Payroll, 1990-2088

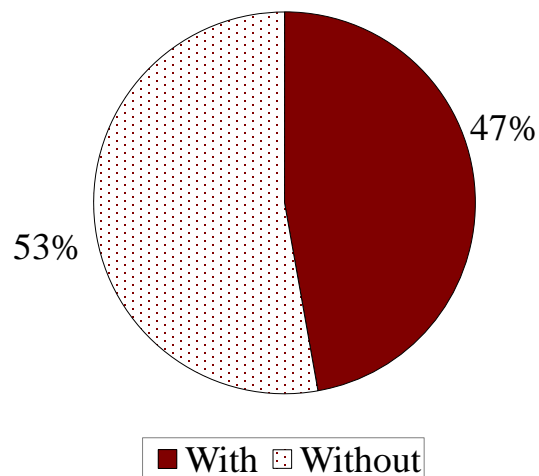


Source: Alicia H. Munnell. 2014. "Social Security's Financial Outlook: The 2014 Update in Perspective." *Issue in Brief* 14-12. Center for Retirement Research at Boston College.

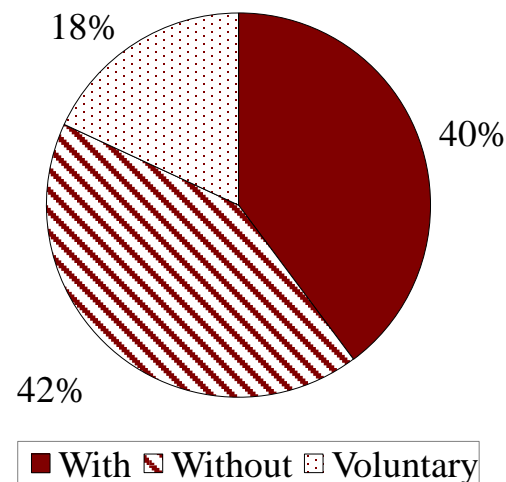
Saving more in 401(k)s – make auto-pilot the default for *everyone*.

Percent of 401(k) Plans with Automatic Enrollment and Automatic Escalation, 2012

Percent of Plans with Automatic Enrollment, 2012



Percent of Automatic Enrollment Plans that Increase Default Deferrals over Time, 2012



Source: Plan Sponsor Council of America. 2013. *56th Annual Survey of Profit Sharing and 401(k) Plans*.

Saving more by covering those with no 401(k). No shortage of ideas here.

- MyRA and AutoIRA (President Obama)
- USA Retirement Funds (Senator Harkin)
- State-based initiatives (e.g., CA Retirement Savings Trust)
- NEST accounts (United Kingdom)

Finally, consider the house as a potential source of retirement income.



Two ways to get money from your house: downsize or take a reverse mortgage.

If you're 65 and own a \$250,000 house:

OPTION

①

DOWNSIZE TO A \$150, 000 HOUSE

YOU WILL:

- **ADD** about \$6,250 to your income, rising with prices.
- **GIVE UP** your current home, to live in a less expensive home.
- **PAY** about 10 percent of the value of your house.
- **KEEP** proceeds from the sale and equity in your new home.

OPTION

②

GET A REVERSE MORTGAGE

YOU WILL:

- **ADD** about \$8,600 to your income, not rising with prices.
- **GIVE UP** equity you can tap as a reserve or leave as a bequest.
- **PAY** about 3.3 percent of the value of your house.
- **KEEP** living in your current home.

Source: Steven A. Sass, Alicia H. Munnell, and Andrew D. Eschtruth. 2014. *Using Your House for Income in Retirement*. Center for Retirement Research at Boston College.

Conclusion

- A changing retirement landscape has shifted risk and responsibility to individuals.
- Improving retirement security should be an urgent concern, as a large percentage of today's workers could fall short.
- The solutions are grounded in simple, time-honored advice: work longer, save more, and consider all assets.
- These solutions can be implemented effectively through our existing retirement systems.