



# The Complementary Roles of Social Security and Private Savings

*“What Vision of Retirement Income Security Will Guide Policy?”*

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# A Complementary Approach

- **Social Security and private saving**
  - Both are critical sources of individual and family wealth
  - But they are not an either-or option
  
- **Social Security is not a saving system**
  - It provides insurance against financial ruin due to disability, death, and old age
  
- **Private saving is not an insurance system**
  - Assets are liquid and difficult to replace if lost or consumed

# Future Challenges

- **The fiscal challenges facing Social Security are well-known**
  
- **Its successes are often forgotten**
  - **Significant reduction in elderly poverty**
  - **Critical source of income for women, minorities, and dependent children**
  
- **Social Security itself is not perfect, and should be modernized to avoid shortfall**
  - **Modest changes could set Social Security on a strong path**





# *Is the American system of private saving a success?*

# Grading the Private Saving System

- **Even before the financial meltdown, significant problems**
  - **Personal savings rates near zero**
  - **Incentives to save go to those who need it the least**
  - **Most households save too little to meet retirement needs**
- **The employer-based system is faltering**
  - **Only about 50% of the private-sector workforce has a plan at work at any point**
    - **Lower for low- and moderate-income workers**
  - **401(k)s shift more (too much) risk and responsibility to workers**
  - **Uncertainty over whether to save, how much to save, how to invest**

# Improving the Current System

- **Goal #1: More private savings for retirement, especially by those outside the employer system**
  - **Even LMI workers will save when given proper incentives**
  - **Need: familiar product, increased incentives, simple design, widespread availability**
- **Inadequate Solutions**
  - **Auto-IRA and Auto-Enrollment plans**
    - **Increase participation, but do not go far enough in addressing income adequacy**
- **One Solution: America's IRA**
  - **Available to any worker without an employer-provided plan**
  - **Structured like other IRAs but with real financial incentives for lower-income workers and few choices**
    - **\$1000 "starter" contribution**
    - **For workers earning <\$50,000, government matching contributions to reward saving and build account balances quickly**



# Improving the Current System

- **Goal #2: Protect against outliving private assets in retirement**
  - Life annuities meet this need but the private market is undeveloped
  - Few 401(k) plans offer annuities and few savers appreciate their benefits
  
- **One Solution: Security Plus Annuities**
  - Available in the first year of receiving Social Security benefits
  - An inflation-adjusted annuity (up to \$100,000 in purchase amount) to supplement Social Security
  - Private sector providers selected through a competitive-bid process
  - Annuity payments included each month in Social Security checks



# Example

- Jason makes, on average, \$20,000 per year, and has never had an employer plan
  - He saves 3% of his income for 4 out of every 5 years in an America's IRA
  - He receives the starter contribution plus a 100% government-funded match
  - His account is worth \$133,000 (nominally) at normal retirement age
- Jason uses his America's IRA to buy a Security Plus Annuity, significantly supplementing his retirement income
  - After converting his America's IRA to an annuity, Jason receives nearly \$500 dollars per month
  - This income, along with Social Security, gives Jason close to an 80% replacement income





# Can we do more to make the American system of private saving a success?

- **Let's not waste a crisis.**
  
- **The financial meltdown provides the impetus for bolder action.**
  - **Loss of confidence in investing**
  - **Whither 401(k)s?**
  - **The regulatory moment for the financial services industry**
    - **Will we bandage the 1930s framework?**
    - **Or will we create the regulatory system needed for the 21<sup>st</sup> century?**



# Seizing the Reform Moment

- **Financial regulatory reform must not only be about Wall Street, but also about Main Street:**
  - **Better savings options**
    - Improved 401(k) plans and IRAs
    - Better tax policy through government matching contributions
  - **Better investment options**
    - Financial engineering for safer, simpler products
    - Equity products with a floor/principal guarantee?
  - **Better access to saving products and services**
    - More accessible points of entry
    - Tax Time





# Retirement Income Security: The IFS Vision

- **Both Social Security AND private saving are essential**
- **Social Security - the critical baseline income in retirement. Fiscal challenges are modest and solvable**
- **Private saving - essential for supplemental income, but the American system for saving needs significant improvement**