

# Retirement Income: Views on Strengthening U.S. Retirement Security

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# Overview

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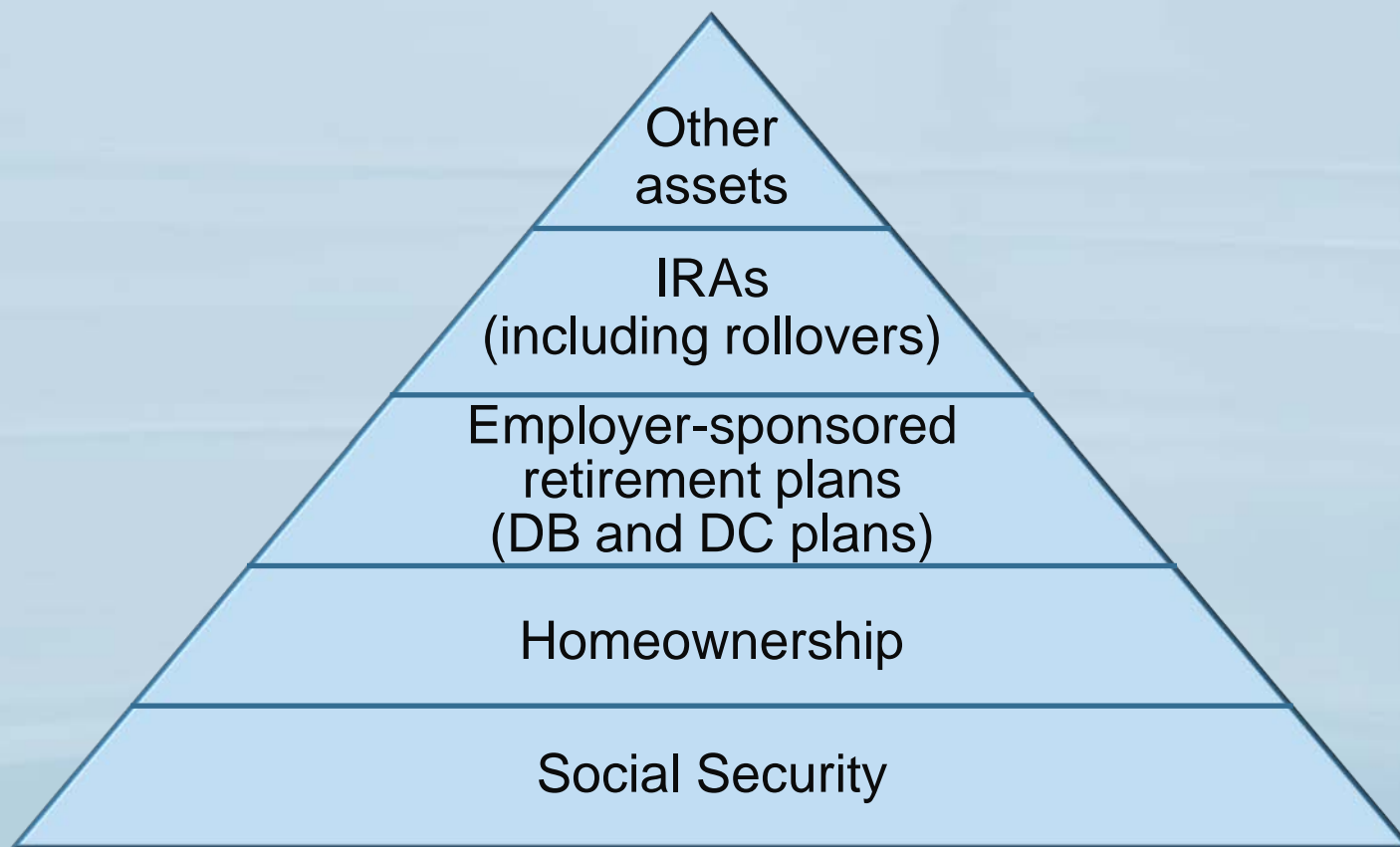
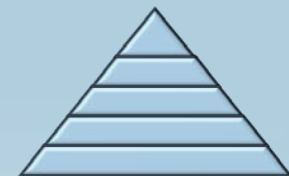
- Americans' Retirement Preparedness—Where Are We Now?
- What Can Individuals Do to Increase Their Retirement Security?
- How Have DC Plans Innovated to Respond to Participants' Needs?
- How Can the U.S. Retirement System Be Improved Upon?
- Appendix
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# Americans' Retirement Preparedness— Where Are We Now?

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- Americans' resources for retirement are best thought of as a retirement resource pyramid.
- Social Security is the strong and wide base for that pyramid and provides high replacement rates for lower lifetime earning households.
- Assets earmarked for retirement have grown, and about eight in 10 near-retiree households have retirement accumulations.
- The retirement resource pyramid varies across households (see the appendix).
- Snapshots of retirement plan coverage miss the big picture.

# A Retirement Resource Pyramid

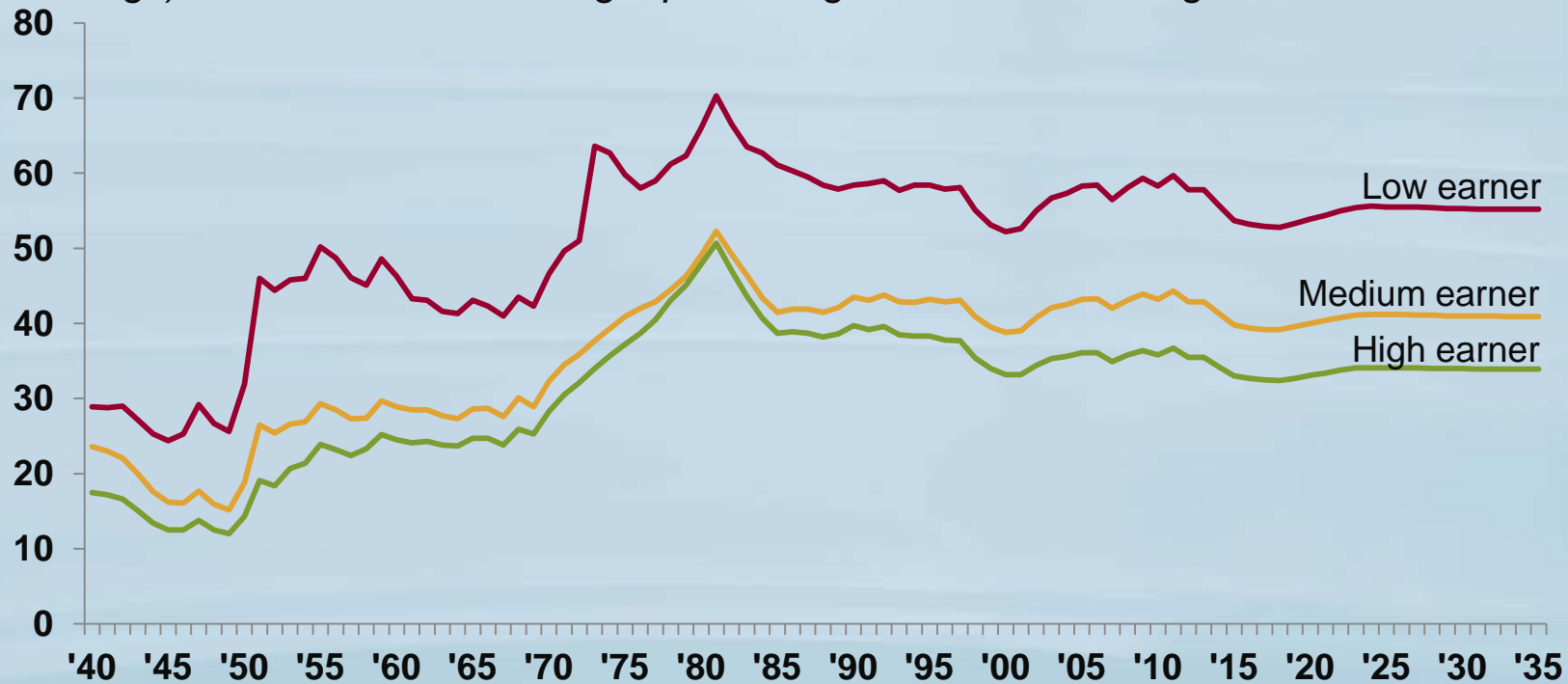


Source: Investment Company Institute; see Brady, Burham, and Holden, *The Success of the U.S. Retirement System* (December 2012)

# Social Security Benefits Have Grown More Generous over Time



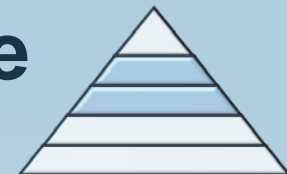
*Estimates of replacement rates (first year benefits relative to average indexed earnings) at normal retirement age; percentage of lifetime earnings; 1940–2035*



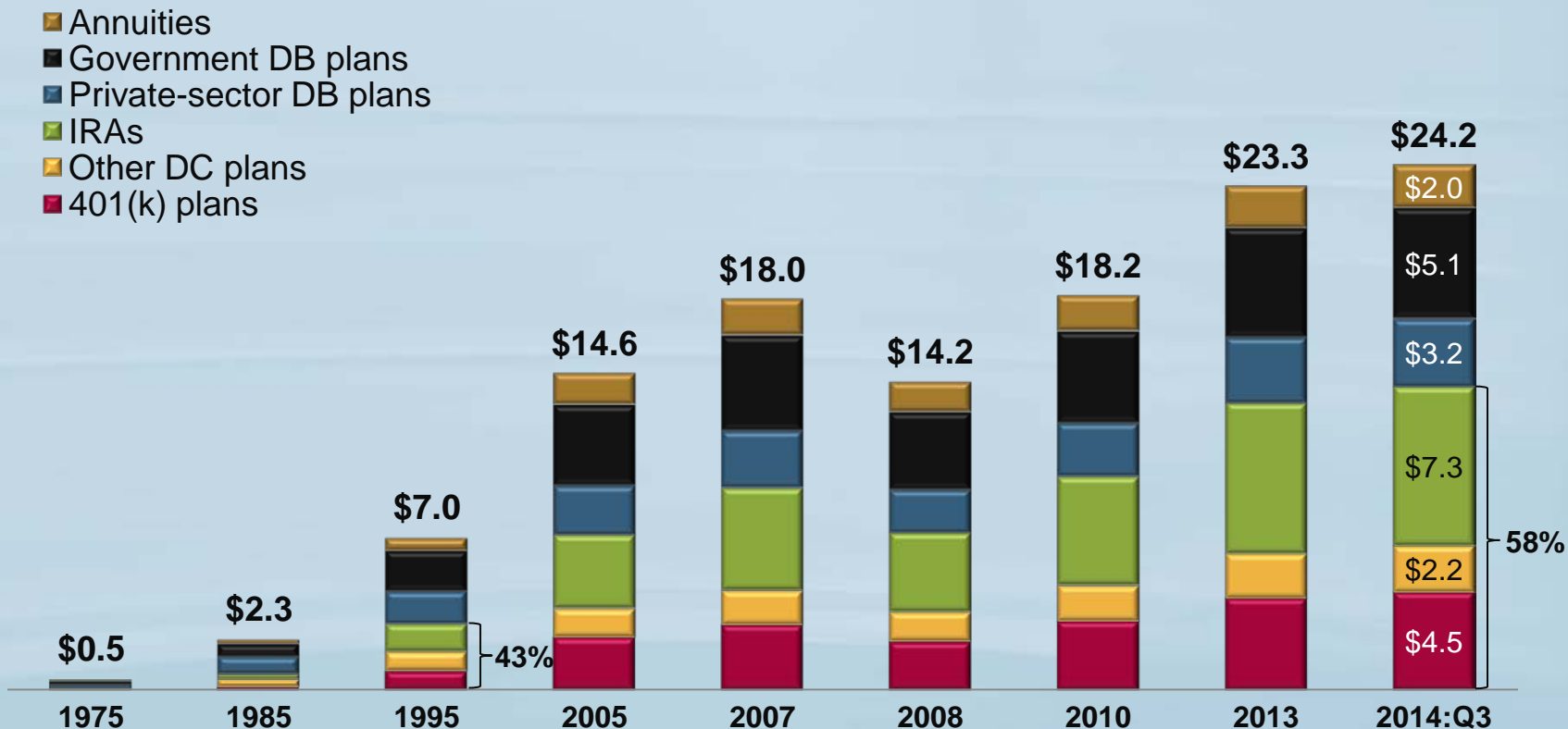
Note: Low, medium, and high earner refer to scaled earnings that reflect patterns of work and earnings for hypothetical workers over the course of a career. Projections assume no change in current policy.

Source: Social Security Administration, Office of the Chief Actuary; see Brady, Burham, and Holden, *The Success of the U.S. Retirement System* (December 2012)

# Assets Earmarked for Retirement Have Grown



*Trillions of dollars, end of period, selected dates*



Note: For definitions of plan categories and a complete list of data sources, see Tables 1 and 5 in “The U.S. Retirement Market, Third Quarter 2014.” Some data are estimated.

Source: Investment Company Institute, “The U.S. Retirement Market, Third Quarter 2014” (December 2014)

# Share of Near-Retirees with Retirement Accumulations Steady, but the Composition Has Shifted



Percentage of households with a working head aged 55 to 64, 1989–2013

- Retirement assets (DC + IRA) only
- Both DB benefits and retirement assets
- DB benefits only



Median retirement assets (DC + IRA), 2013 dollars:

Year	1989	1992	1995	1998	2001	2004	2007	2010	2013
Value	\$43,382	\$55,242	\$45,536	\$64,328	\$70,914	\$103,707	\$121,262	\$112,528	\$110,000

Source: ICI tabulations of the Federal Reserve Board Survey of Consumer Finances

# Snapshots of Retirement Plan Coverage Miss the Big Picture

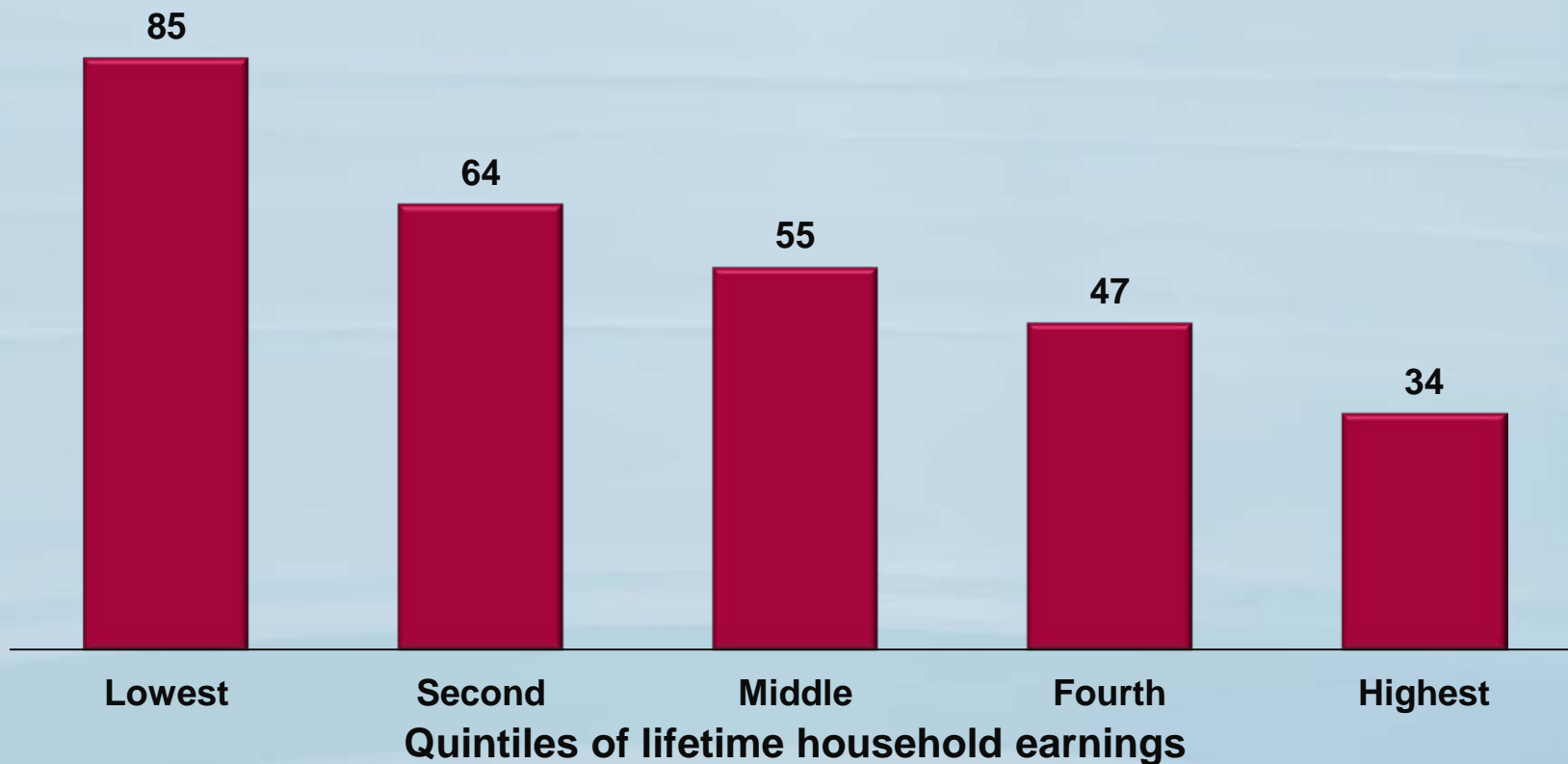
- Tax data indicate that the household survey data understate access to employer-sponsored retirement plans. Surveys of business establishments also produce higher coverage statistics.
- That said, workforce coverage at a single point in time is the wrong measure.
- Reflecting the design of Social Security, the focus on retirement saving tends to increase with income.
- There also is a life-cycle to savings goals, and focus on retirement saving tends to rise with age.
- Most workers focused on saving for retirement have access to a retirement plan at work.
- As a result, most workers accumulate retirement assets or retirement benefits by the time they reach retirement (slide 6).



# Social Security Benefit Formula Is Highly Progressive



*2014 CBO estimates of mean first-year benefits relative to average inflation-indexed earnings by lifetime household earnings, 1950s birth cohort, percent*



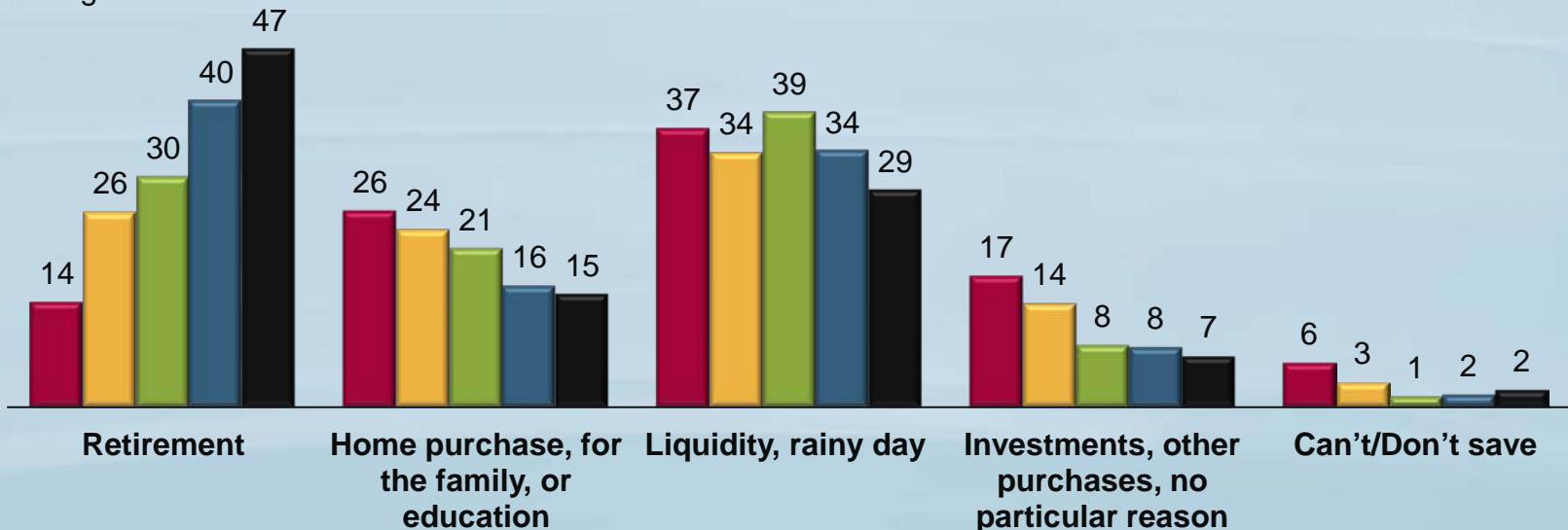
Source: Congressional Budget Office, *The 2014 Long-Term Projections for Social Security: Additional Information* (December 2014)

# Retirement Saving Focus Complements Social Security and Rises with Income

*Household's main focus of household saving; percentage of households by household income; 2013*

## Household income quintile

- Lowest
- Second
- Middle
- Fourth
- Highest



Note: Components may not add to 100 percent within each household income group because of rounding.

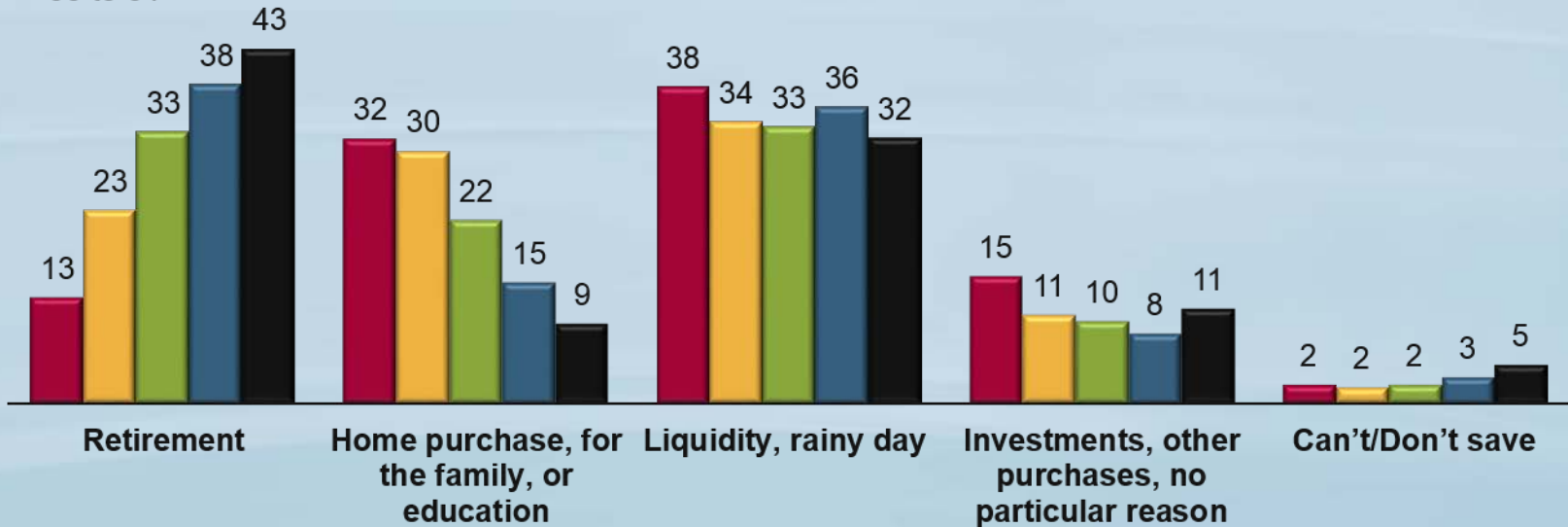
Source: Investment Company Institute tabulations of the Federal Reserve Board Survey of Consumer Finances; see Brady and Bogdan, "Supplemental Tables: Who Gets Retirement Plans and Why," *ICI Research Perspective* (October 2014)

# Younger Households Focus on Education, Family, Home; Older Households Focus on Retirement

*Household's main focus of household saving; percentage of households by age of household head; 2013*

## Age of household head

- 21 to 29
- 30 to 39
- 40 to 44
- 45 to 54
- 55 to 64

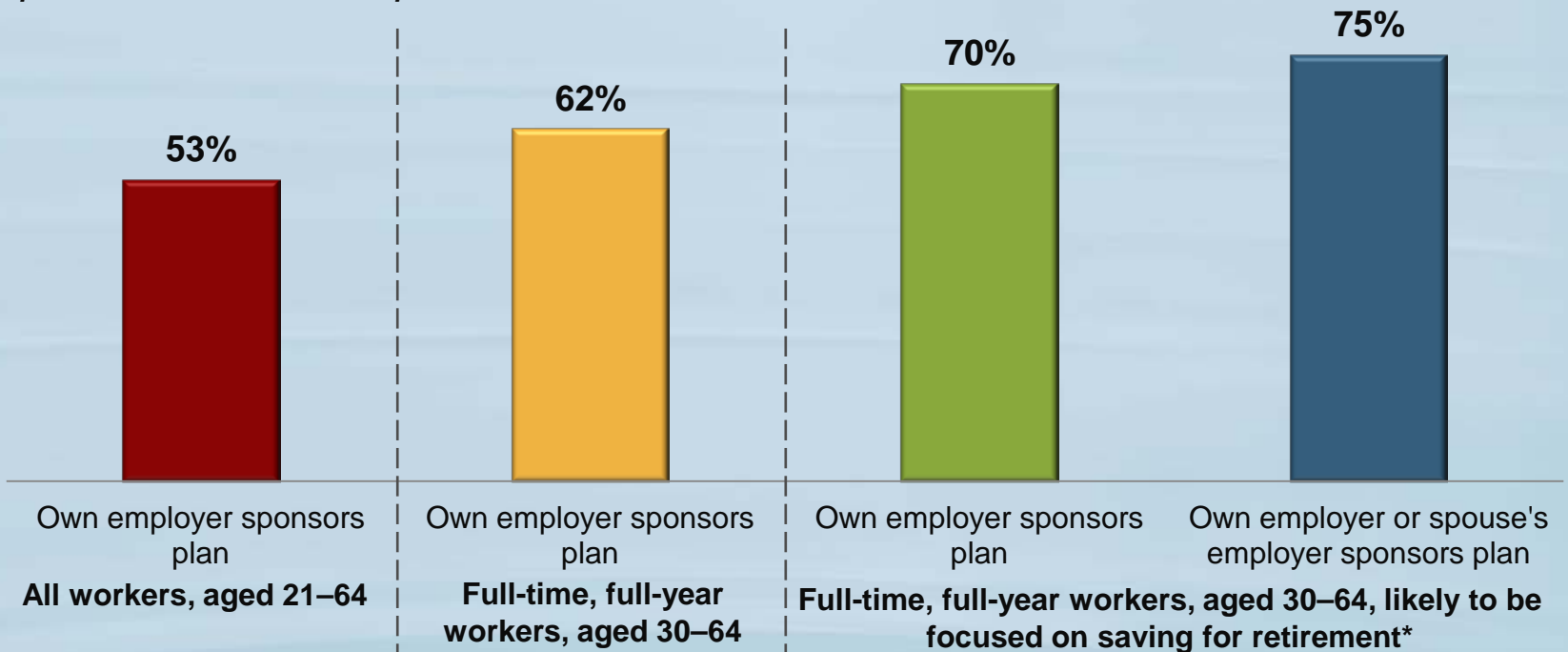


Note: Components may not add to 100 percent within each age group because of rounding.

Source: Investment Company Institute tabulations of the Federal Reserve Board Survey of Consumer Finances; see Brady and Bogdan, "Supplemental Tables: Who Gets Retirement Plans and Why," *ICI Research Perspective* (October 2014)

# Workers Who Need, Want Retirement Savings Are Likely to Have Plan Coverage

*Percentage of private-sector wage and salary workers with access to employer-sponsored retirement plans, 2013*



\*Full-time, full-year workers who earn \$45,000 or more and are aged 30 to 64, or earn \$25,000 to \$44,999 and are aged 45 to 64. Among full-time, full-year workers aged 35 to 44, \$25,000 represents the top earnings of the 20th percentile of annual earnings, while \$45,000 represents the top earnings for the 50th percentile of annual earnings.

Source: Investment Company Institute tabulations of March 2014 Current Population Survey; see Brady and Bogdan, "Who Gets Retirement Plans and Why, 2013," *ICI Research Perspective* (October 2014)

# What Can Individuals Do to Increase Their Retirement Security?

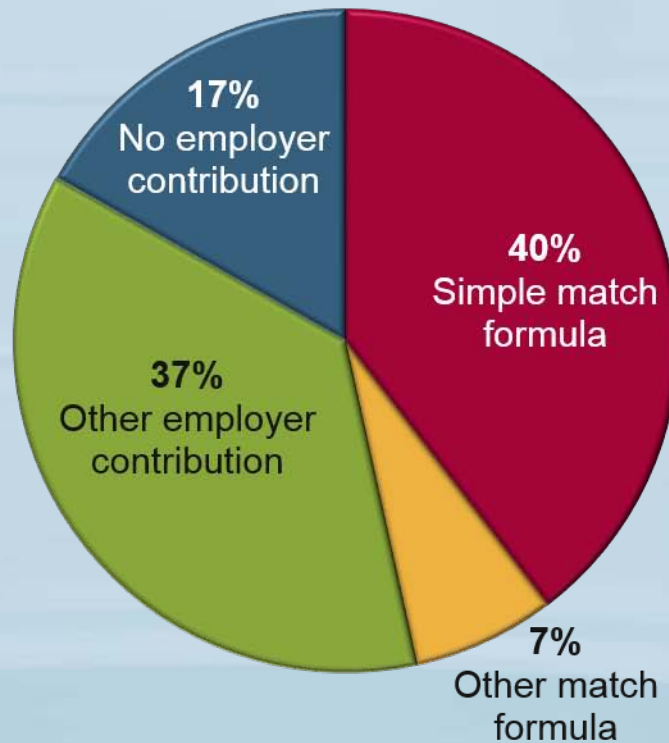
- Realize, there is no one-size-fits all solution.
- Work longer, which would
  - Delay Social Security claiming to increase the benefit;
  - Increase retirement accumulations; and
  - Reduce number of years to fund in retirement.
- Evaluate and adjust saving/consumption to
  - Pay down the mortgage;
  - Build 401(k) plan accounts and IRAs; and
  - Manage all layers of the retirement resource pyramid.
- Survey results show that households make adjustments as circumstances change (see the appendix).

# How Have DC Plans Innovated to Respond to Participants' Needs?

- Plans provide educational materials; participant disclosures; websites; and online calculators.
- Plan sponsors encourage contributions through employer contributions.
- Plans offer a comprehensive array of investment options, to cover
  - Risk versus return;
  - Do-it-yourselfers versus target date funds;
  - Access to advice; and managed account programs.
- Many plans have automatic enrollment, often with automatic increase.

# Four out of Five Plan Sponsors Make Contributions to Their 401(k) Plans

*Percentage of plans, 2012*



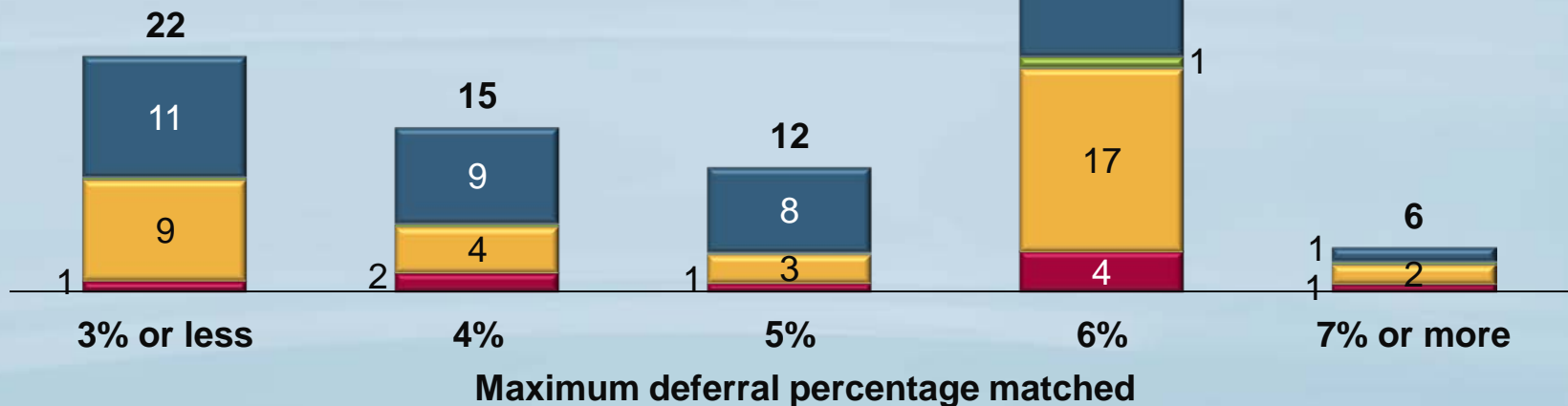
Note: For definitions see Exhibit 2.2 in the report. Components do not add to 100 percent because of rounding.  
Source: BrightScope Defined Contribution Plan Database; see BrightScope and Investment Company Institute, *The BrightScope/ICI Defined Contribution Plan Profile: A Close Look at 401(k) Plans* (December 2014)

# Employers Use a Variety of Simple Match Formulas

*Percentage of plans with simple match formulas, 2012*

## Percentage of deferral matched

- 100% [46% of plans]
- 75% [2% of plans]
- 50% [35% of plans]
- 25% [8% of plans]

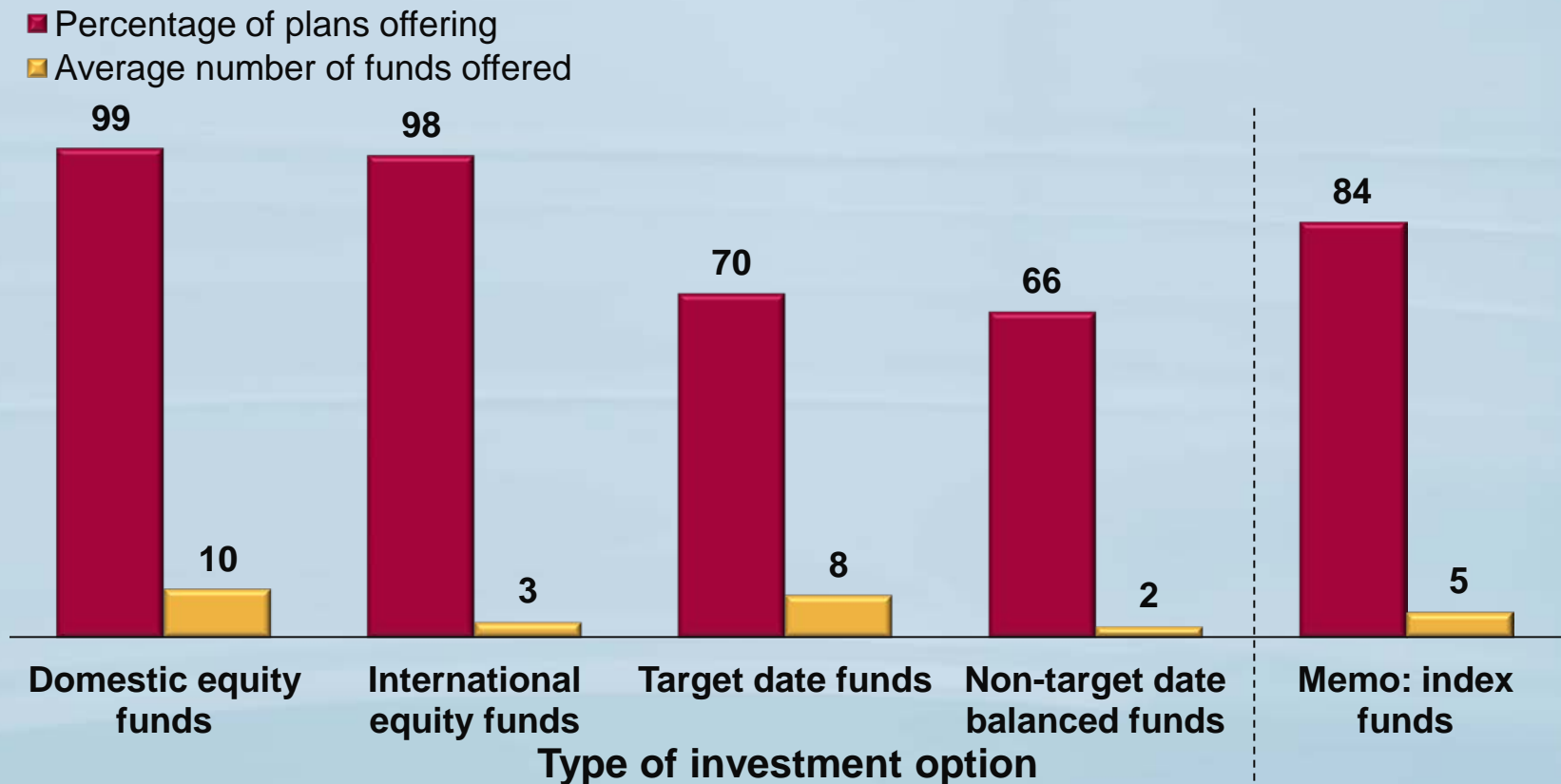


Note: Components do not add to the totals or overall to 100 percent because "other" has been omitted.

Source: BrightScope Defined Contribution Plan Database; see BrightScope and Investment Company Institute, *The BrightScope/ICI Defined Contribution Plan Profile: A Close Look at 401(k) Plans* (December 2014)



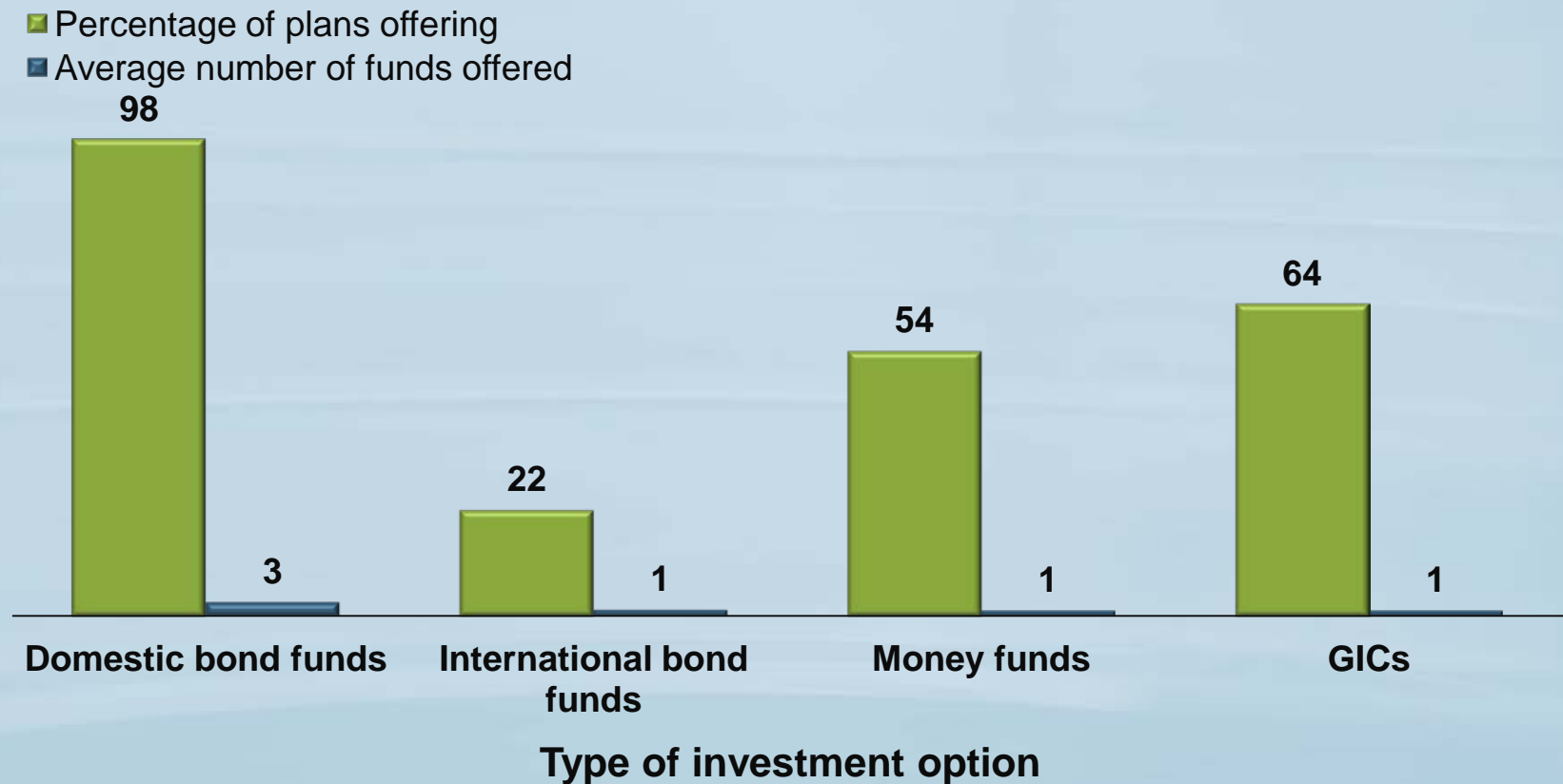
# 401(k) Participants Are Offered Many Equity/Mixed Investment Choices



Note: Funds include mutual funds, collective investment trusts, separate accounts, and other pooled investment products.

Source: BrightScope Defined Contribution Plan Database; see BrightScope and Investment Company Institute, *The BrightScope/ICI Defined Contribution Plan Profile: A Close Look at 401(k) Plans* (December 2014)

# 401(k) Participants Also Have Access to Fixed-Income Investment Choices

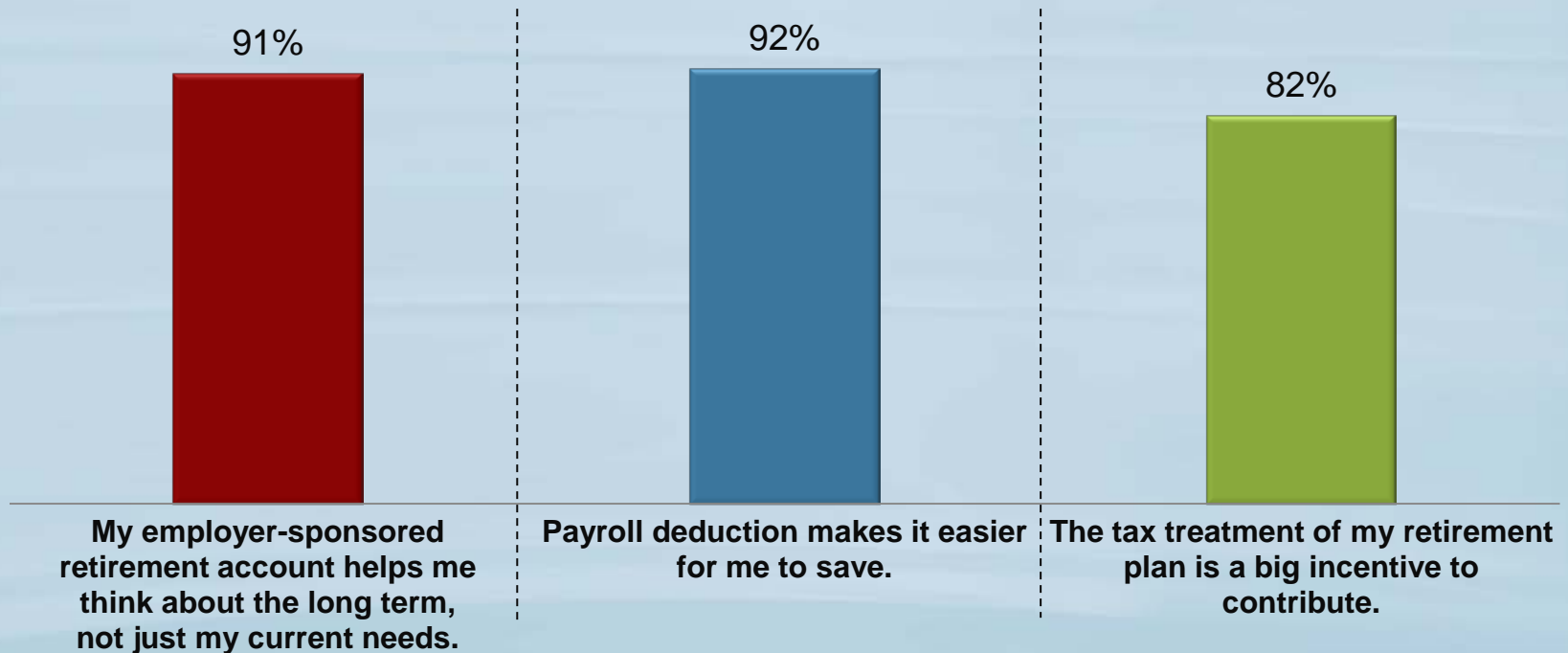


Note: Funds include mutual funds, collective investment trusts, separate accounts, and other pooled investment products.

Source: BrightScope Defined Contribution Plan Database; see BrightScope and Investment Company Institute, *The BrightScope/ICI Defined Contribution Plan Profile: A Close Look at 401(k) Plans* (December 2014)

# DC Plan Savers Appreciate DC Account Savings Features

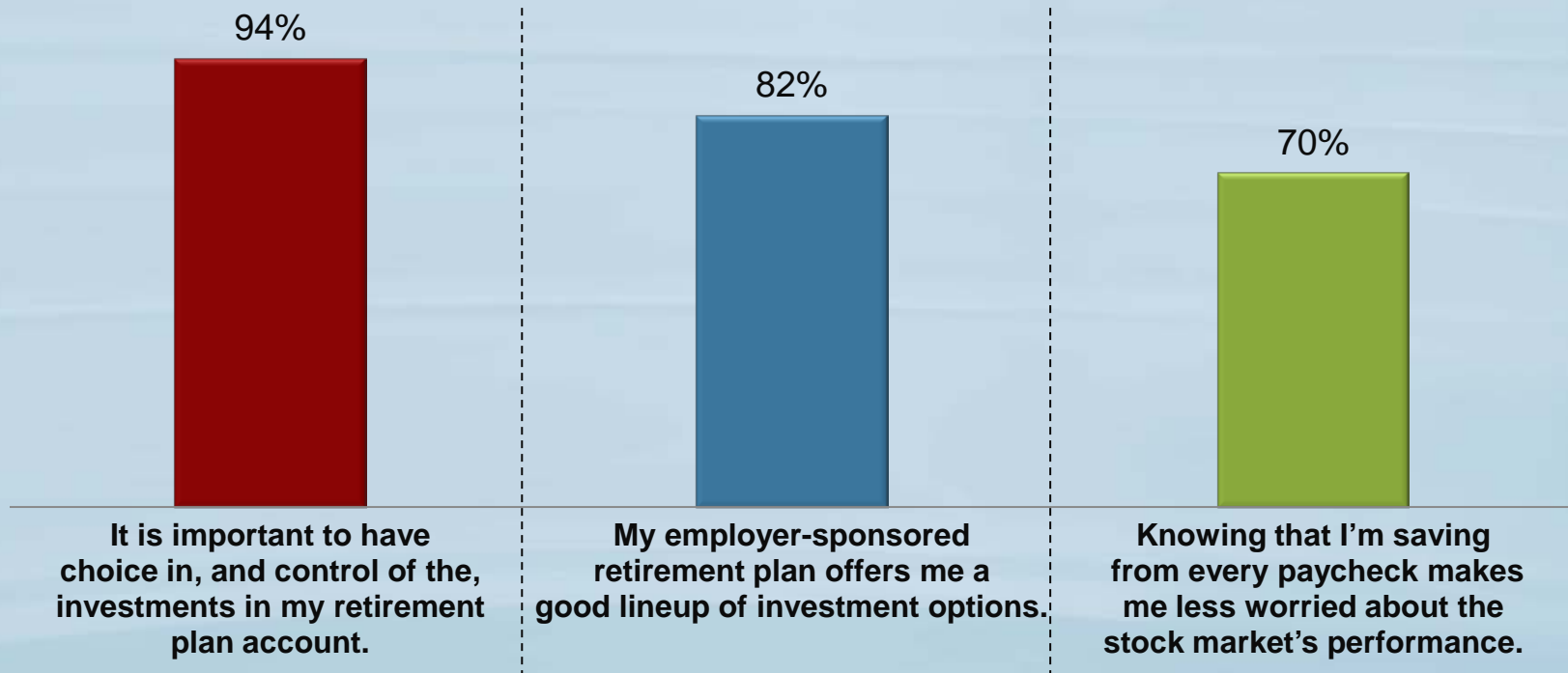
Percentage of DC-owning households agreeing with each statement, fall 2014



Note: Figure reports the percentage of DC-owning households who “strongly agreed” or “somewhat agreed” with the statement.  
Source: ICI tabulation of GfK KnowledgePanel® OmniWeb survey data (fall 2014); see Schrass, Holden, and Bogdan “American Views on Defined Contribution Plan Saving,” *ICI Research Report* (January 2015)

# DC Plan Savers Appreciate DC Account Investment Features

Percentage of DC-owning households agreeing with each statement, fall 2014



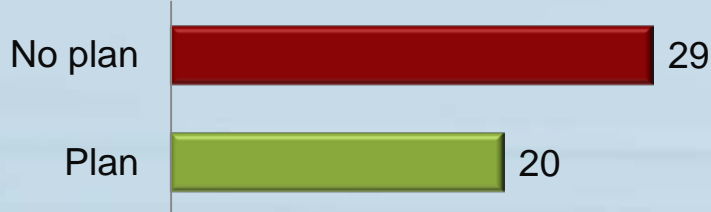
Note: Figure reports the percentage of DC-owning households who “strongly agreed” or “somewhat agreed” with the statement.  
Source: ICI tabulation of GfK KnowledgePanel® OmniWeb survey data (fall 2014); see Schrass, Holden, and Bogdan “American Views on Defined Contribution Plan Saving,” *ICI Research Report* (January 2015)

# How Can the U.S. Retirement System Be Improved Upon?

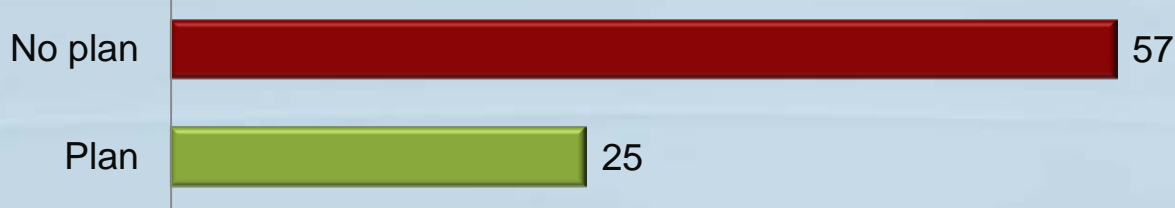
- Social Security needs to be put on sound financial footing.
- Many workers are planning on future DB plan payments, but DB plans need to be put on sound financial footing (see the appendix).
- The key to building on the current voluntary retirement plan system is to facilitate coverage at small employers (see the appendix), and the challenge is their work forces tend to be younger, lower-income, and less than fully engaged in the workforce.
- Workers' awareness of IRAs needs to be increased.
- DC plans and IRAs rely on individuals to usher assets to/through retirement, but individuals must choose wisely.
  - We need to foster plan designs that encourage participant education and preserve flexibility, but make clear the paths to successful outcomes.
  - We need to preserve the tax treatment of the U.S. retirement system.

# Whether You Are Offered a Retirement Plan Depends on Who Your Coworkers Are

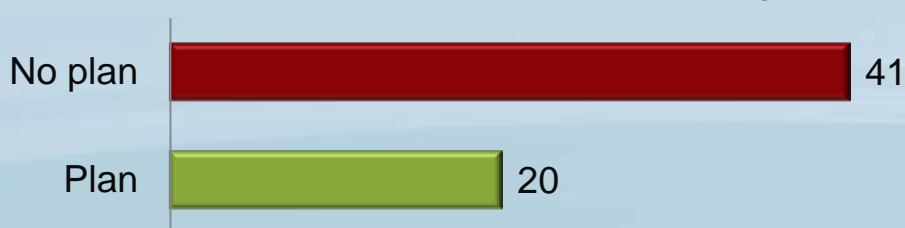
## Younger (percentage of employees aged 29 or younger)



## Lower-earning (percentage of employees earning \$27,000 or less)



## Less attached to workforce (percentage of employees *not* full-time, full-year)

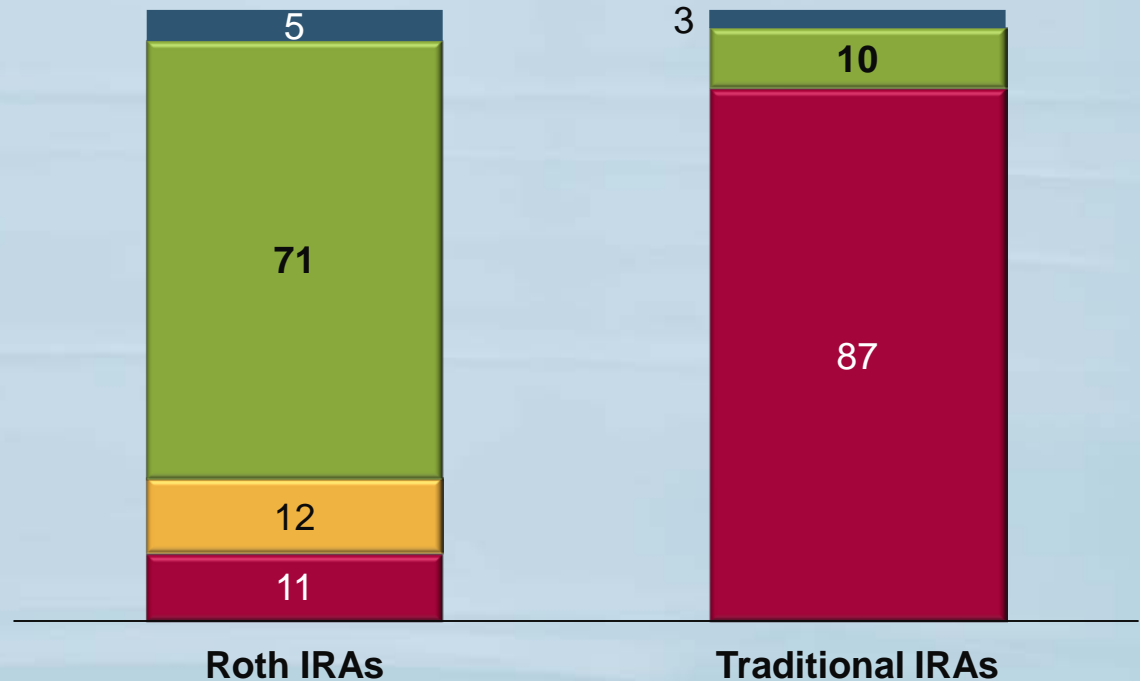


Source: Investment Company Institute tabulations of March 2014 Current Population Survey; see Brady and Bogdan, "Who Gets Retirement Plans and Why, 2013," *ICI Research Perspective* (October 2014)

# New Roth IRAs Often Are Opened with Contributions, New Traditional IRAs Often Are Opened with Rollovers

Percentage of new IRAs opened in 2012 by type of IRA

- Combination of activities
- Contribution only
- Conversion only
- Rollover only



Note: New IRAs are accounts that did not exist in the IRA Investor Database in 2011 and were opened by one of the paths indicated in 2012. The calculation excludes IRAs that changed financial services firms. The samples are 0.2 million new Roth IRA investors aged 18 or older at year-end 2012 and 0.7 million new traditional IRA investors aged 25 to 74 at year-end 2012. Components may not add to 100 percent because of rounding. Source: The IRA Investor Database™; see Holden and Schrass, "The IRA Investor Profile: Roth IRA Investors' Activity, 2007–2012," *ICI Research Report* (June 2014)

# Large Majorities of Americans Want to Keep DC Plan Tax Features

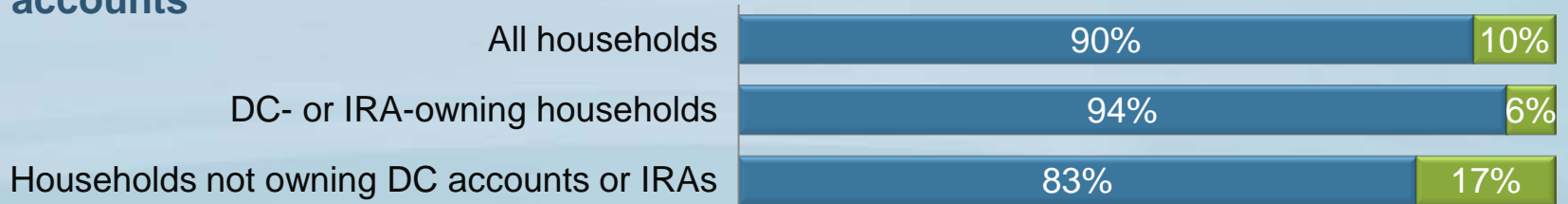
Percentage of U.S. households agreeing or disagreeing, fall 2014

■ Disagree ■ Agree

## The government should take away the tax advantages of DC accounts



## The government should reduce the amount that individuals can contribute to DC accounts



Source: ICI tabulation of GfK KnowledgePanel® OmniWeb survey data (fall 2014); see Schrass, Holden, and Bogdan “American Views on Defined Contribution Plan Saving,” *ICI Research Report* (January 2015)

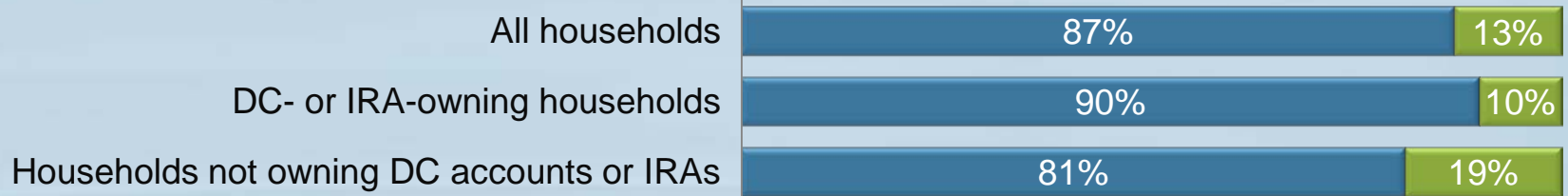


# Large Majorities of Americans Want to Keep DC Plan Investment Features

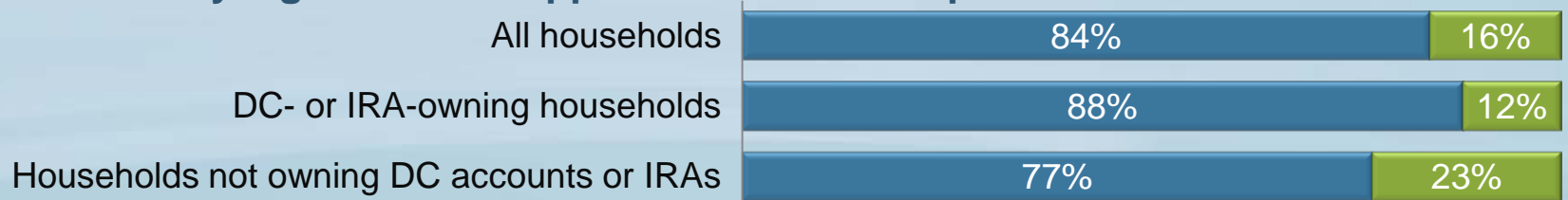
Percentage of U.S. households agreeing or disagreeing, fall 2014

■ Disagree ■ Agree

## The government should not allow individuals to make their own investment decisions in DC accounts



## The government should invest all retirement accounts in an investment option selected by a government-appointed board of experts



Source: ICI tabulation of GfK KnowledgePanel® OmniWeb survey data (fall 2014); see Schrass, Holden, and Bogdan “American Views on Defined Contribution Plan Saving,” *ICI Research Report* (January 2015)

# Appendix

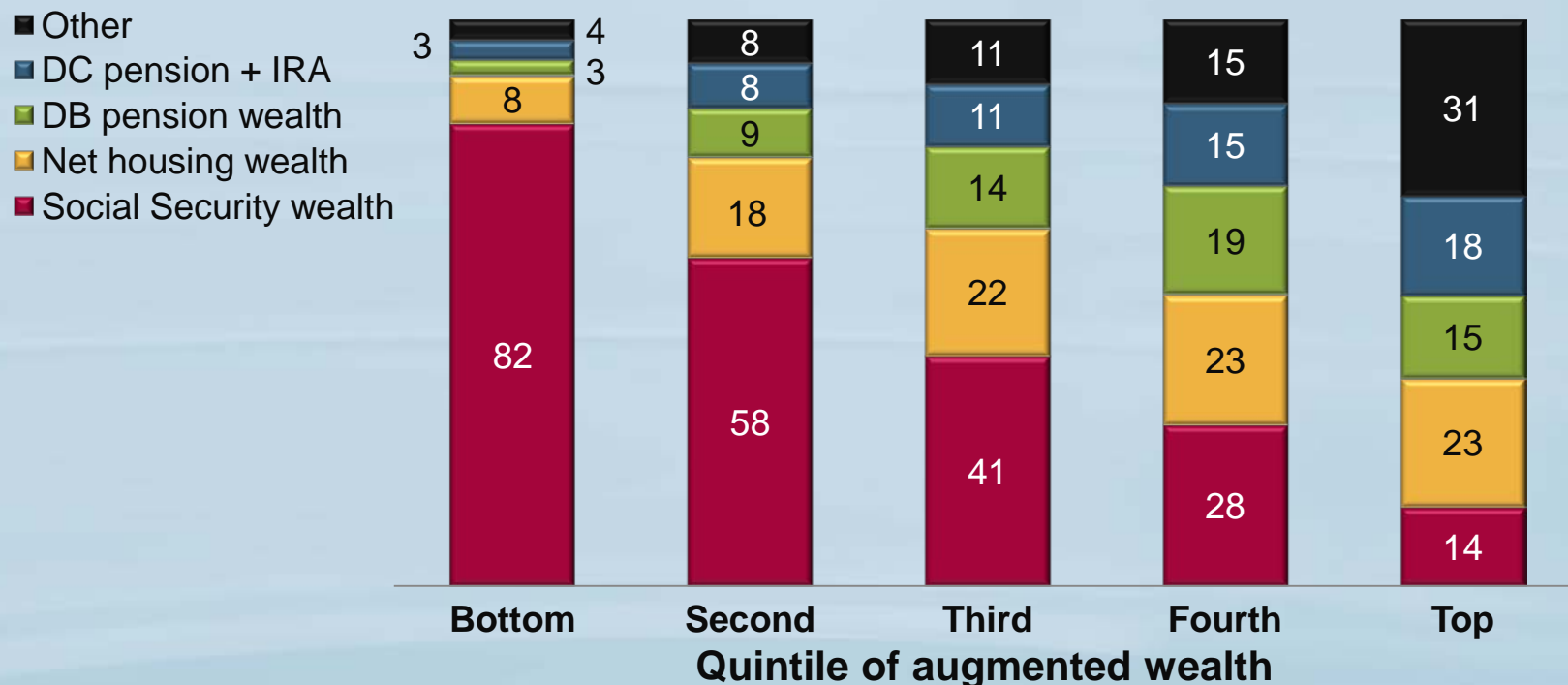
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- The Retirement Resource Pyramid Varies Across Households
- Over Longer Term, More Retirees Receive More Pension Income Today
- Households Adjust Their Retirement Date as Circumstances Change
- Households Adjust Their Regular Saving as Circumstances Change
- U.S. Retirement Assets and Unfunded Pension Liabilities
- Key to Increasing Coverage Is Small Employers

# The Retirement Resource Pyramid Varies Across Households



*Percentage of wealth by wealth quintile for households with at least one member born between 1948 and 1953; balance sheet in 2006*

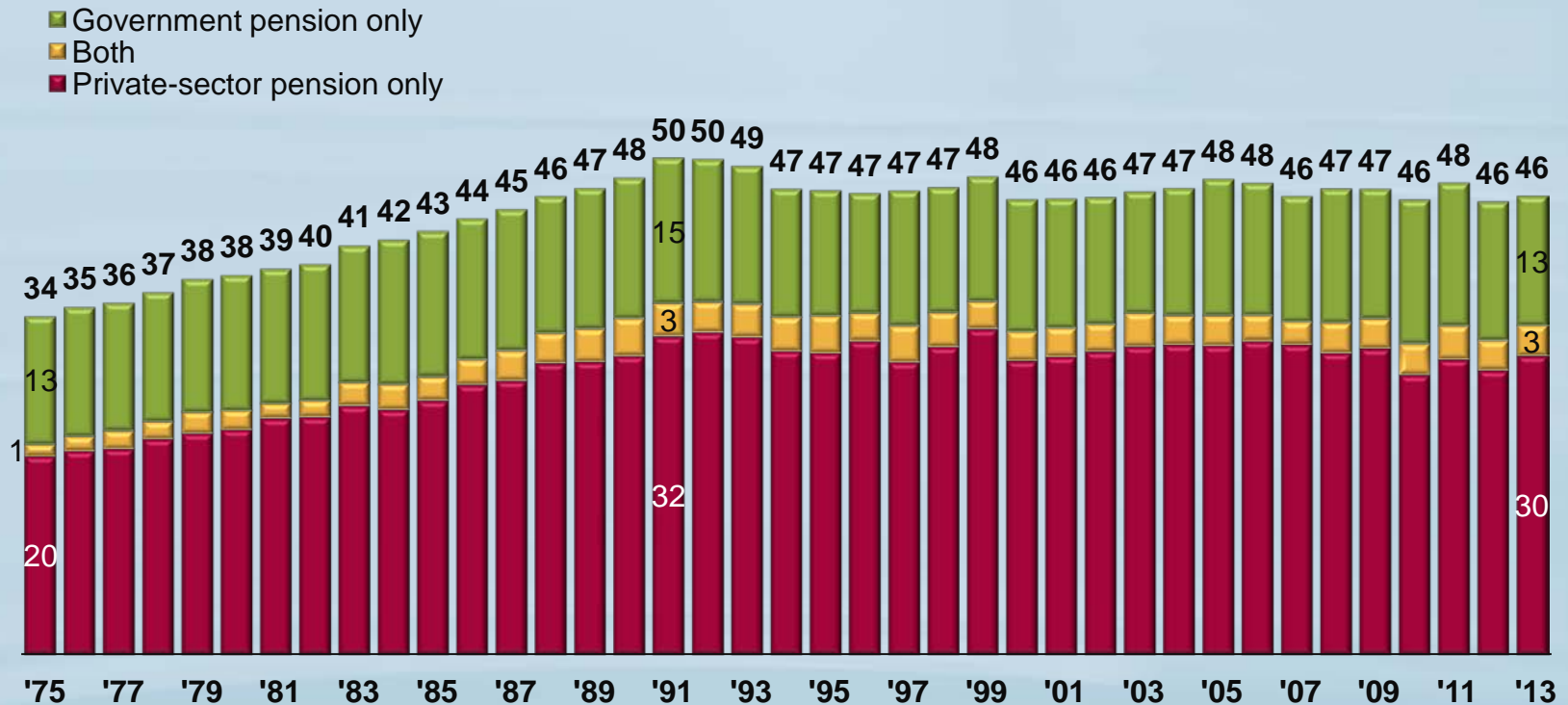


Note: Households with the top and bottom 1 percent of wealth are excluded. Social Security wealth is estimated as the present discounted value (PDV) of the stream of Social Security benefits. Net housing wealth is the value of the home less mortgages. DB pension wealth is estimated as the PDV of the stream of DB benefits. Retirement assets include DC plan assets (401(k), 403(b), 457, thrift, and other DC plans) and IRAs (traditional, Roth, SEP, SAR-SEP, and SIMPLE). DB pension and retirement assets are derived from work in both the private-sector and the government sector.

Source: Investment Company Institute tabulation derived from Gustman, Steinmeier, and Tabatabai (2009) using Health and Retirement Study (HRS) data

# Over Longer Term, More Retirees Receive More Pension Income Today

Percentage of retirees\* with type of pension income, 1975–2013



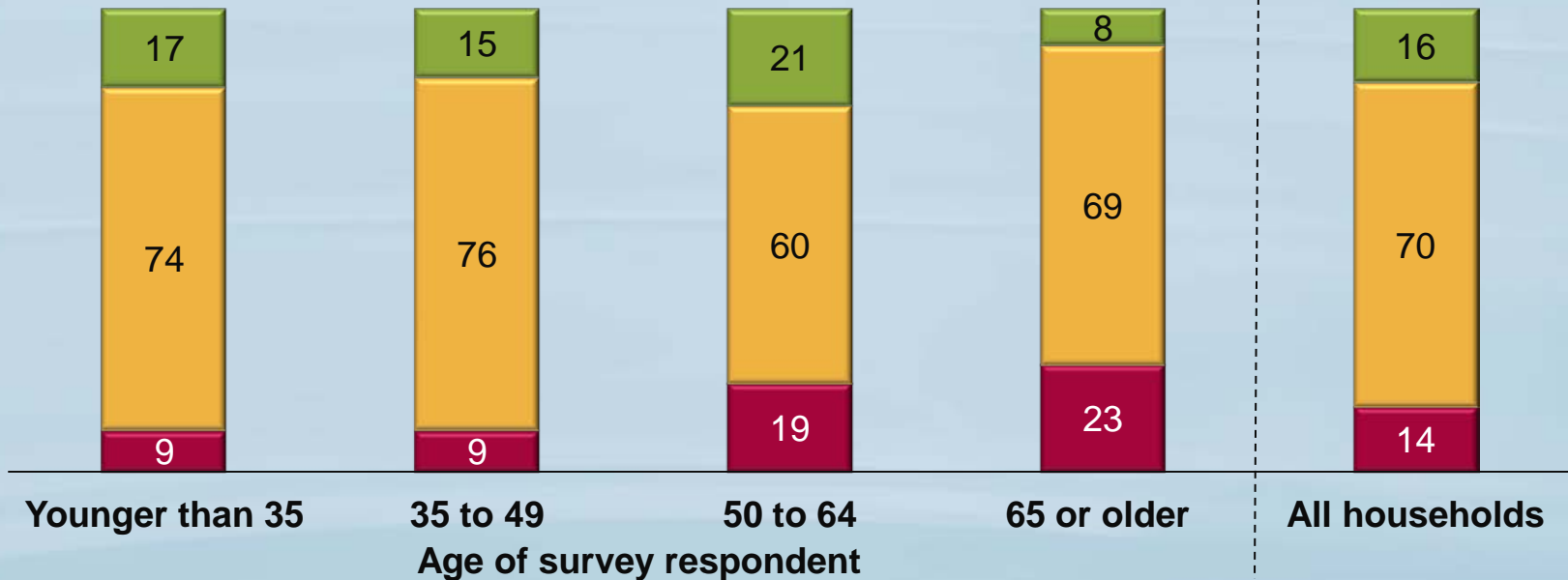
\*Individuals aged 65 or older with nonzero income and not working; for married couples, neither the individual nor the spouse was working. Sample excludes the highest 1 percent and lowest 1 percent of the income distribution.

Source: ICI tabulations of the March Current Population Survey; see Brady and Bogdan, "A Look at Private-Sector Retirement Plan Income After ERISA, 2013," *ICI Research Perspective* (October 2014)

# Households Adjust Their Retirement Date as Circumstances Change

Percentage of U.S. households that took the action indicated by age, fall 2010

- Took early retirement or lowered expected retirement age
- Made no change in retirement plans
- Delayed taking retirement or increased expected retirement age

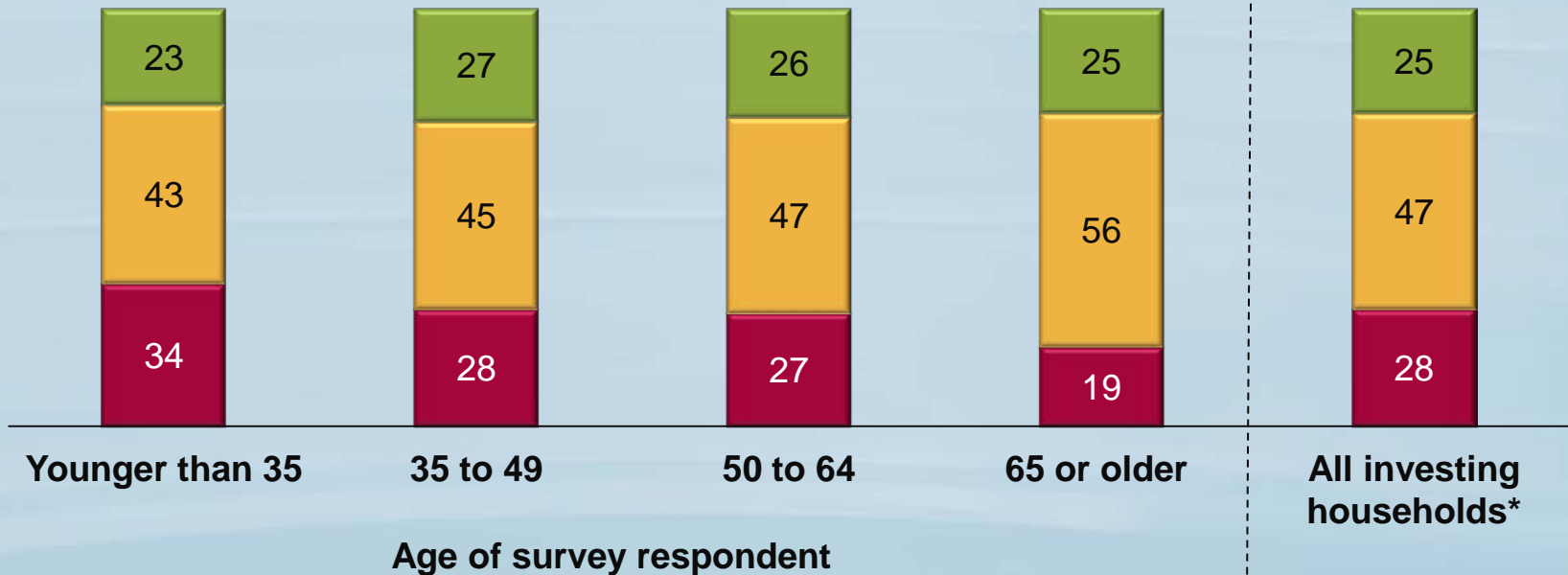


Source: ICI tabulations of GfK OmniTel survey data (November and December 2010); see Holden, Bass, and Reid, "Commitment to Retirement Security: Investor Attitudes and Actions," *ICI Research Report* (January 2011)

# Households Adjust Their Regular Saving as Circumstances Change

Percentage of U.S. households owning financial investments\* that took the action indicated by age, fall 2010

- Increased regular saving amount
- Made no change in regular saving amount
- Decreased regular saving amount

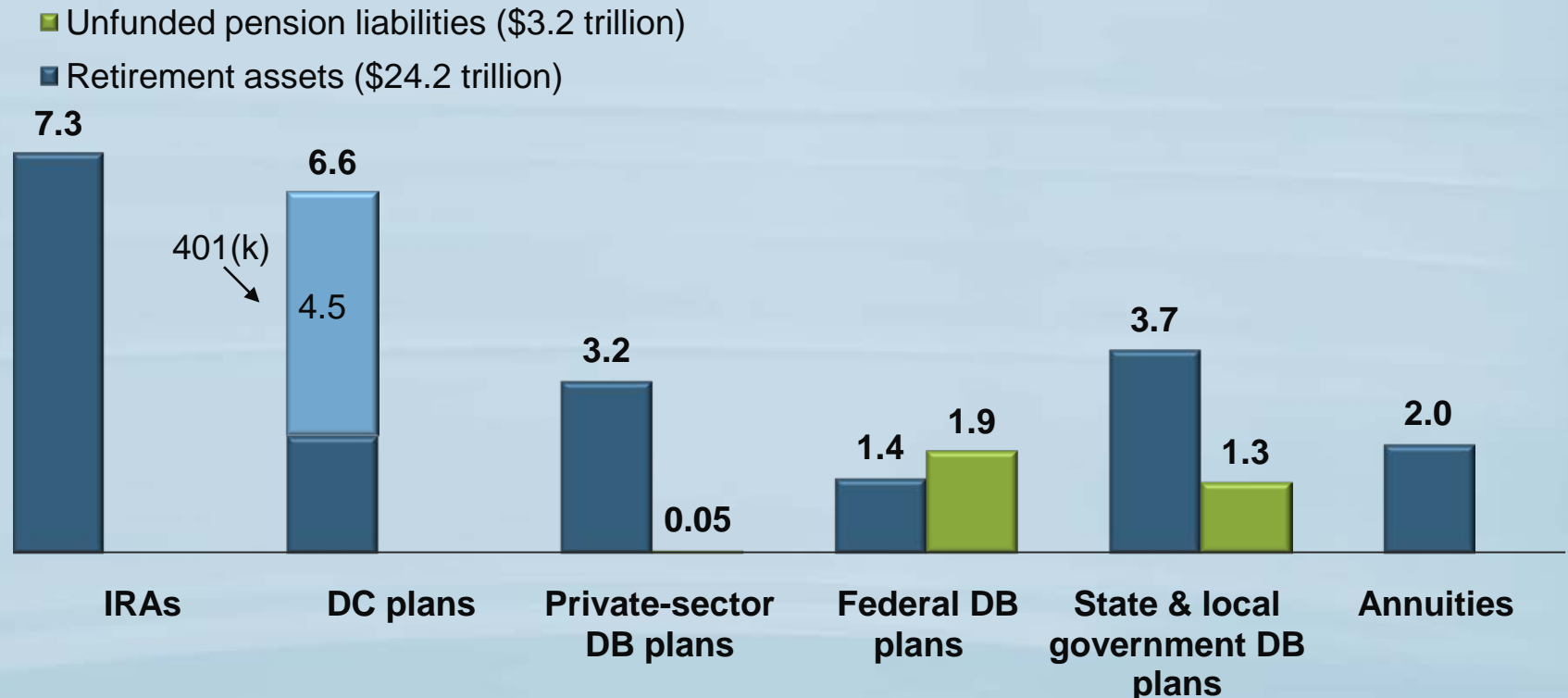


\* Households owning financial investments include households owning DC accounts, IRAs, or other financial assets (e.g., stocks, bonds, mutual funds, variable annuities).

Source: ICI tabulations of GfK OmniTel survey data (November and December 2010); see Holden, Bass, and Reid, "Commitment to Retirement Security: Investor Attitudes and Actions," *ICI Research Report* (January 2011)

# U.S. Retirement Assets and Unfunded Pension Liabilities

Trillions of dollars, end of period, 2014:Q3

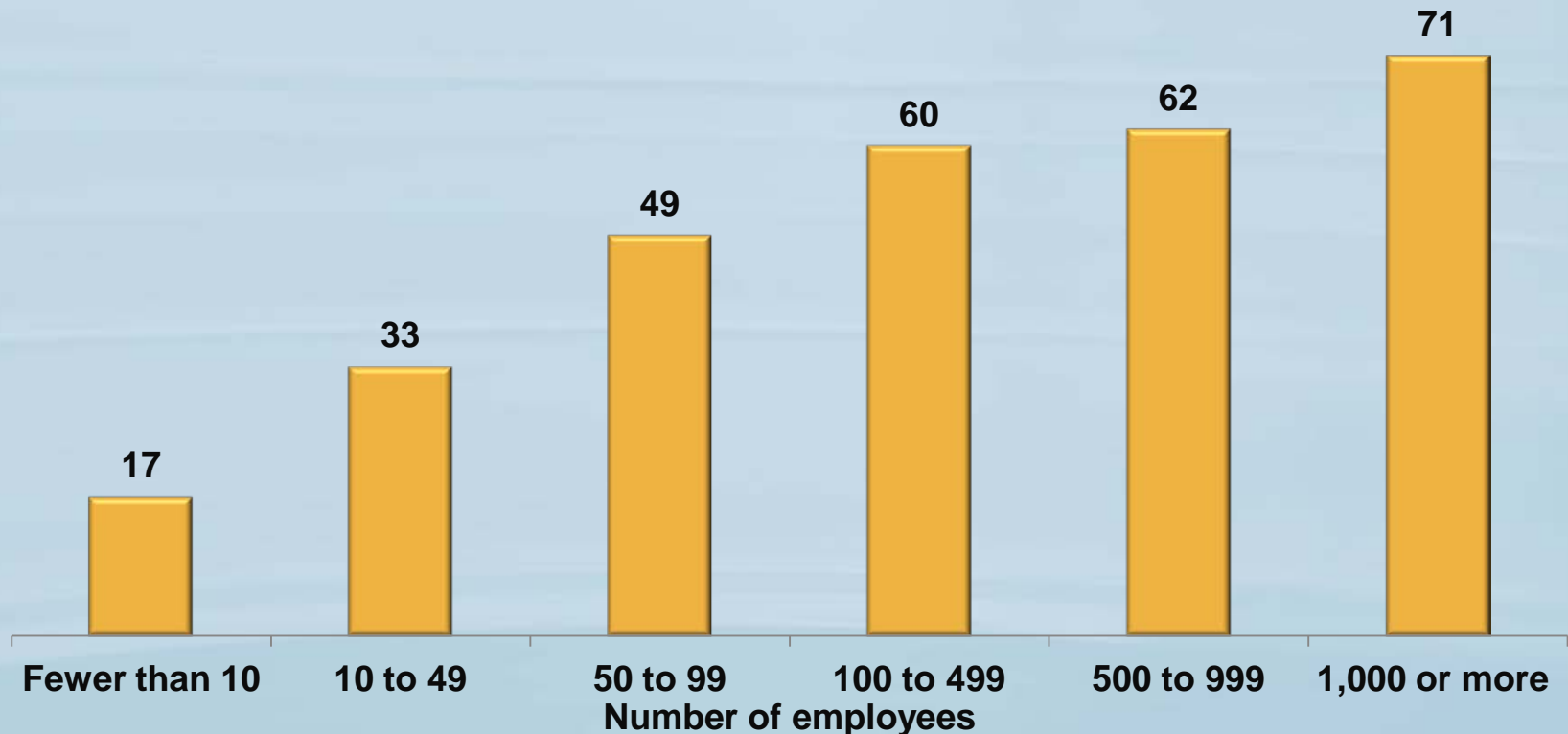


Note: For definitions of plan categories and a complete list of data sources, see Tables 1 and 5 in "The U.S. Retirement Market, Third Quarter 2014." Some data are estimated.

Sources: Investment Company Institute, "The U.S. Retirement Market, Third Quarter 2014" (December 2014) and U.S. Federal Reserve Board (December 2014)

# Key to Increasing Coverage Is Small Employers

*Percentage of private-sector wage and salary workers aged 21 to 64 whose employer sponsors a retirement plan, by employer size, 2013*



Source: Investment Company Institute tabulations of March 2014 Current Population Survey; see Brady and Bogdan, "Who Gets Retirement Plans and Why, 2013," *ICI Research Perspective* (October 2014)



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