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"Catch-Up Contributions"
An Equitable and Affordable Solution to the Retirement Savings Crisis

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The United States Faces a Retirement Savings Crisis

- Over half of working age households will be unable to maintain their standard of living in retirement (Munnell, Hou, and Webb, 2014).

Low-Earners Over Age 50 Face Even Greater Challenges

- Often don't have access to a retirement plan.
- Those with access to a plan would have to save impossibly large amounts to get back on track.
- Working longer is often not an option.

Our Policy Innovation - Social Security "Catch-Up" Contributions

- Default workers into additional Social Security contributions of 3.1% of salary, starting at age 50.
- No additional employer contribution.
- Earnings in Social Security earnings record get a 50% bonus.
  - Worker making $50,000 is credited with $75,000 instead of $50,000.
  - Worker making $200,000 is credited with $190,800 instead of $127,200.
- AIME, PIA, etc. calculated in the usual way.

What Catch-Up Contributions Can Accomplish

Can

- Exploit the progressivity of the benefit formula to target low-wage workers.
- Be broadly actuarially neutral.
- Benefit everyone.
- Exploit greater salience of retirement to older workers.

Cannot

- Get households to adequate replacement rates – we still need to work on the second tier.
- Eliminate poverty – we still need to work on the social safety net.

Low-Earners Get Larger Percentage-Point Increases in Replacement Rates

	Lifetime Earnings				
	Very low	Low	Medium	High	Maximum
Existing benefits	775	1,012	1,660	2,214	2,695
Additional benefits	66	119	255	199	345
Benefits with catch-up contributions	841	1,131	1,915	2,413	3,040
Existing replacement rate	83.8%	60.8%	45.0%	37.4%	29.5%
Addition to replacement rate	7.2%	7.2%	6.9%	3.4%	3.8%
Replacement rate with catch-up contributions	91.0%	68.0%	51.9%	40.8%	33.3%
PIA segment	32	32	32	15	15
Average wage-indexed earnings	925	1,665	3,689	5,921	9,126

Source: Authors' calculations.
Notes: All dollar amounts in 2015 dollars. Replacement rate denominators are average wage-indexed earnings.

Low Earners Get Higher Rates of Return

Pattern holds, even after adjusting for socioeconomic mortality differentials.

	Lifetime earnings				
1965 birth cohort	Very low	Low	Medium	High	Maximum
Men	3.97%	3.96%	3.89%	0.03%	0.20%
Women	4.86%	4.85%	4.78%	1.03%	1.22%

Source: Authors' calculations.

Factoring-In Longevity Insurance, Most Would Be Willing To Pay More than 3.1% of Salary

Tax rate at which single men would be indifferent between participating and not participating.

	Lifetime Earnings				
	Very low	Low	Medium	High	Maximum
Rate of return = 3%					
Men					
Risk tolerant (CRRA = 2)	3.92%	5.15%	5.83%	2.99%	3.29%
Risk averse (CRRA = 5)	4.50%	6.27%	7.77%	4.09%	4.60%
Women					
Risk tolerant (CRRA = 2)	4.63%	5.76%	6.43%	3.26%	3.56%
Risk averse (CRRA = 5)	5.11%	6.81%	8.37%	4.35%	4.85%

Source: Authors' calculations.

DYNASIM Modeling Shows Modest Effect on Share of Households in, or Near, Poverty

Impact of Reform on Share of Elderly Below 200% of FPL

	Year	2015	2025	2035	2045	2055	2065
Men	Current law	24.1%	23.2%	22.6%	22.0%	19.4%	16.5%
	Reform	24.1%	22.7%	21.5%	20.5%	17.6%	15.0%
	Difference	0.0%	-0.5%	-1.1%	-1.5%	-1.8%	-1.5%
Women	Current law	32.0%	25.5%	23.8%	22.6%	20.1%	17.1%
	Reform	32.0%	25.2%	22.7%	20.9%	18.2%	15.2%
	Difference	0.0%	-0.3%	-1.1%	-1.7%	-1.9%	-1.9%
Less than High School	Current law	55.1%	51.0%	49.4%	47.5%	42.4%	37.3%
	Reform	55.1%	50.7%	48.2%	45.3%	40.1%	35.3%
	Difference	0.0%	-0.3%	-1.2%	-2.2%	-2.3%	-2.0%
Some College	Current law	21.6%	18.2%	17.9%	18.3%	17.4%	14.6%
	Reform	21.6%	17.8%	16.6%	16.4%	15.3%	12.8%
	Difference	0.0%	-0.4%	-1.3%	-1.9%	-2.1%	-1.8%

Source: Urban Institute calculations based on DYNASIM Model.

Conclusion

- It works!
  - All household types are better off participating.
  - It targets low-earners
  - It doesn't increase the actuarial deficit.
  - It doesn't suffer from the risk of adverse selection associated with allowing people to purchase additional benefits at retirement.
- Should it be a mandate? A mandate...
  - Eliminates risk that intended beneficiaries might not participate.
  - Would be within the social insurance tradition.
  - But a political cost - contributions would be perceived as a tax, not as the purchase of valuable benefits.

Thank you

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