NATIONAL ACADEMY OF•SOCIAL INSURANCE

UNCHARTED WATERS: PAYING BENEFITS FROM INDIVIDUAL ACCOUNTS IN FEDERAL RETIREMENT POLICY

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Fact Sheet #1: Financial Demographics

Social Security: Social Security is the nearly universal retirement program for Americans, with about 92 percent of people aged 65 and over receiving benefits.
A worker can collect early retirement benefits at age 62, and full benefits at age 65 and six months. The age for full benefits is gradually increasing and will reach age 67 for those born in 1960 or later.

The *maximum* benefit for a worker retiring in January 2005 is $1,939 a month. The *average* benefit in January 2005 is:

- $955 a month for all retired workers
- $1,574 a month for a married couple over age 65
- $920 a month for a widow or widower over age 65
- $895 a month for a disabled worker
- $1,497 a month for a disabled worker, spouse, and one or more children
- $1,979 a month for a widowed mother and two children

Beneficiaries in 2002 included 37.7 million people over the age of 62. About 65 percent of all beneficiaries age 65 and older (in 2002) depended on Social Security for more than half of their total income.

Among beneficiaries age 65 and older, Social Security is the only source of income for:

- 20 percent of all beneficiaries
- 41 percent of Hispanics
- 40 percent of African-Americans
- 29 percent of unmarried women
- 28 percent of Asian and Pacific Islanders

Pensions: About 50 percent of couples and a third of unmarried people aged 65 and over receive pension income.

About half of workers in the private sector are covered by pension plans. However, the nature of these plans has shifted dramatically over the past 30 years. In the 1960s and 1970s, the standard plan was one in which the worker received a monthly amount at retirement linked to salary and the length of time on the job. This is called a defined-benefit pension because the individual knows in advance the amount of his or her pension. In these plans, the employer is responsible for making pension investments. Federal laws protect most of these pensions, just as federal law guarantees bank deposits up to $100,000. If the employer fails, or cannot make its pension commitments, the federal Pension Benefit Guaranty Corporation (PBGC) takes over the plan and makes payments. The current PBGC maximum guarantee is $45,000 a year. About 40 million retirees and workers are in defined benefit plans protected by the PBGC.

Since the 1980s, pension coverage has shifted significantly to plans, such as 401(k) plans, where the worker makes a contribution and the employer typically matches it. These are called defined-contribution plans. In these plans, workers have more choices about whether to participate and how much to contribute; they can take the accounts with them when they change jobs; and they have more choices about when and how to withdraw the money. At the same time, workers take on more responsibility for financing the plans and bearing the investment risk that employers bear in defined-benefit plans.

Today, about half of all U.S. families own a tax-favored retirement account. The median value (half have more and half have less) of the accumulated balances in those accounts was $29,000 in 2001. For the 59 percent of families headed by someone aged 55 to 64 who have such accounts, the median value was about $55,000.

Unbanked Americans: Many Americans lack experience with financial institutions. This lack of financial experience merits attention in the design of a new individual account system. The size of the "unbanked" population – those who do not have a checking or savings account with a bank or credit union – is estimated to be between 10 and 20 percent of all U.S. families. Low-income and minority families are most likely to be without a connection to a financial institution.

Individual development account programs have offered financial education and matched savings to low-income workers. The savings are earmarked for specific purposes, such as higher education, purchase of a first home, or starting a business. Conditions that appear to foster successful saving include: (a) access to a savings plan; (b) matching funds; (c) financial education; (d) ease of saving through direct deposit and default participation; (e) clear saving targets and expectations; and (f) restrictions on withdrawals.

Source: Reno, Virginia P., Michael J. Graetz, Kenneth S. Apfel, Joni Lavery, and Catherine Hill (eds.), (2005). *Uncharted Waters: Paying Benefits from Individual Accounts in Federal Retirement Policy,* Study Panel Final Report, Washington, DC: National Academy of Social Insurance, January; and the Social Security Administration (www.ssa.gov).

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