

The Retirement Savings Crisis: Is It Worse Than We Think?

Media and Interested Parties Webinar

June 20, 2013

11:00 a.m. ET



**NATIONAL INSTITUTE ON
Retirement Security**

Reliable Research. Sensible Solutions.

Agenda

- Welcome and Introductions
- Report Overview
- Detailed Findings
- Conclusions
- Q&A



Speakers



- Nari Rhee, PhD
 - Report Author
 - Manager of Research, NIRS



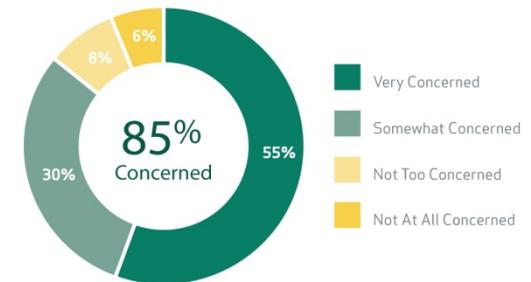
- Diane Oakley
 - Executive Director, NIRS



Why This Study?

- Americans have high retirement anxiety.
- \$19.5 trillion in U.S. Retirement Assets in 2012.*
- Are working households on track to maintain standard of living in retirement?
- After 2008 financial crisis, experts increased retirement saving recommendations, began offering benchmarks gauging progress towards maintaining retirement living standards.

Most Americans Concerned About Retirement, 55% Very Concerned



Source: NIRS 2013 Opinion Research



* Investment Company Institute, 2013, "The U.S. Retirement Market."

Methodology

- Analysis of 2010 Survey of Consumer Finances (SCF) summary file from U.S. Federal Reserve
 - workplace retirement plan trends, retirement participation rates, retirement account balances, and balance-to-income ratios
 - compare assets to conservative retirement savings benchmarks from financial industry
- Universe: working-age households (families)
 - defined as head of household age 25-64
 - “near-retirement” subset defined as age 55-64



Primary Findings



- 38.3 million working-age households (45%) do not have any retirement account assets.
- Near-retirement households: \$12,000 median DC/IRA balance, a third have nothing saved, a third saved less than 1 times income.
- Estimated retirement savings gap for working-age households with at least one earner: from \$14T based on retirement account balances, down to \$6.8T based on net worth.



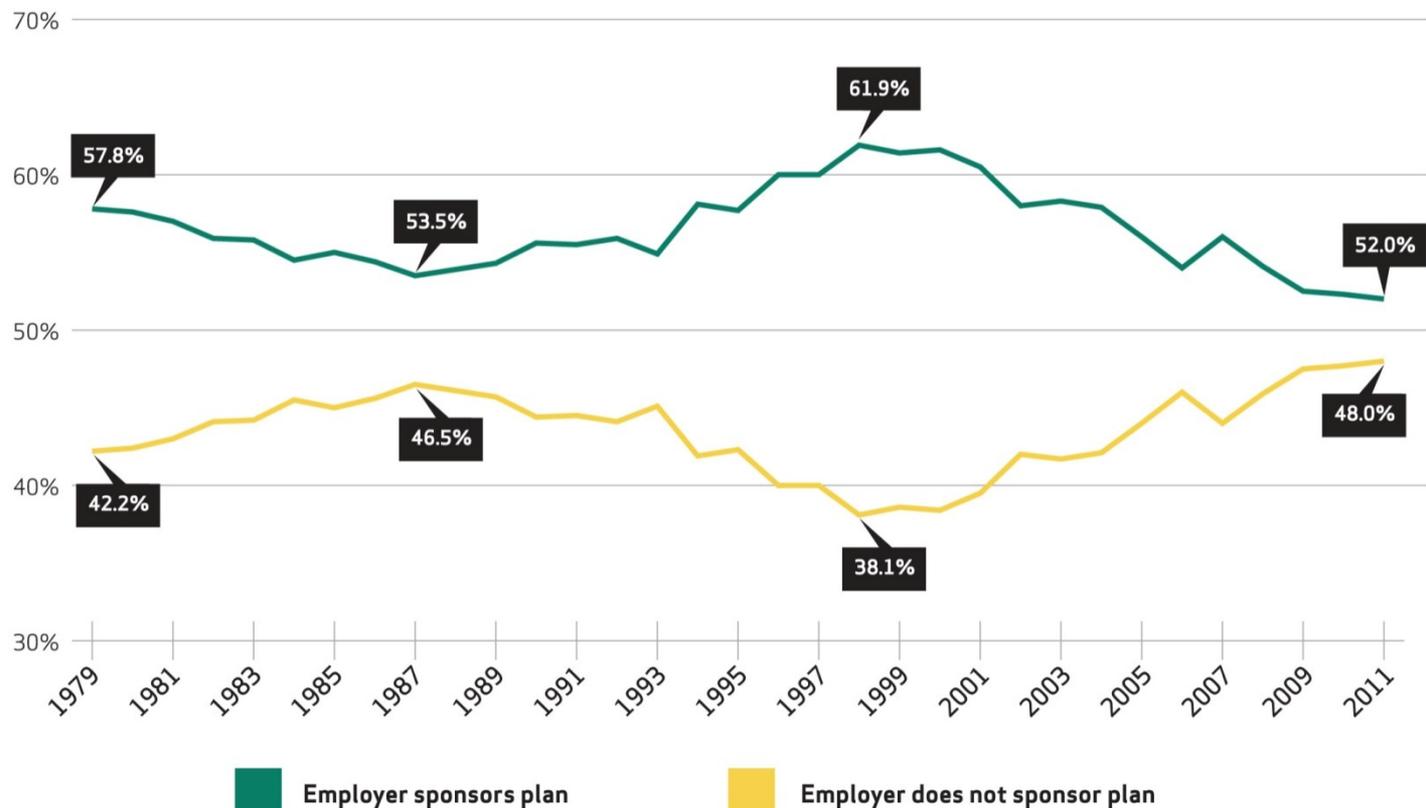
I. Lower Coverage, Less Security: Employer-sponsored Retirement Plans

- Workplace retirement plan access **lowest since 1979**.
- Share of covered households in only a Defined Contribution (DC) plan grew from **27%** in 1988 to **58%** in 2010.
- Households age 55 to 64 are the **last cohort** with a majority of households covered by a workplace plan having a DB pension.



Only Half of Private Sector Employees Have Access to Workplace Retirement Benefits – the Lowest Share Since 1979

Private sector wage and salary workers age 25-64 by employer retirement plan sponsorship, 1979-2011

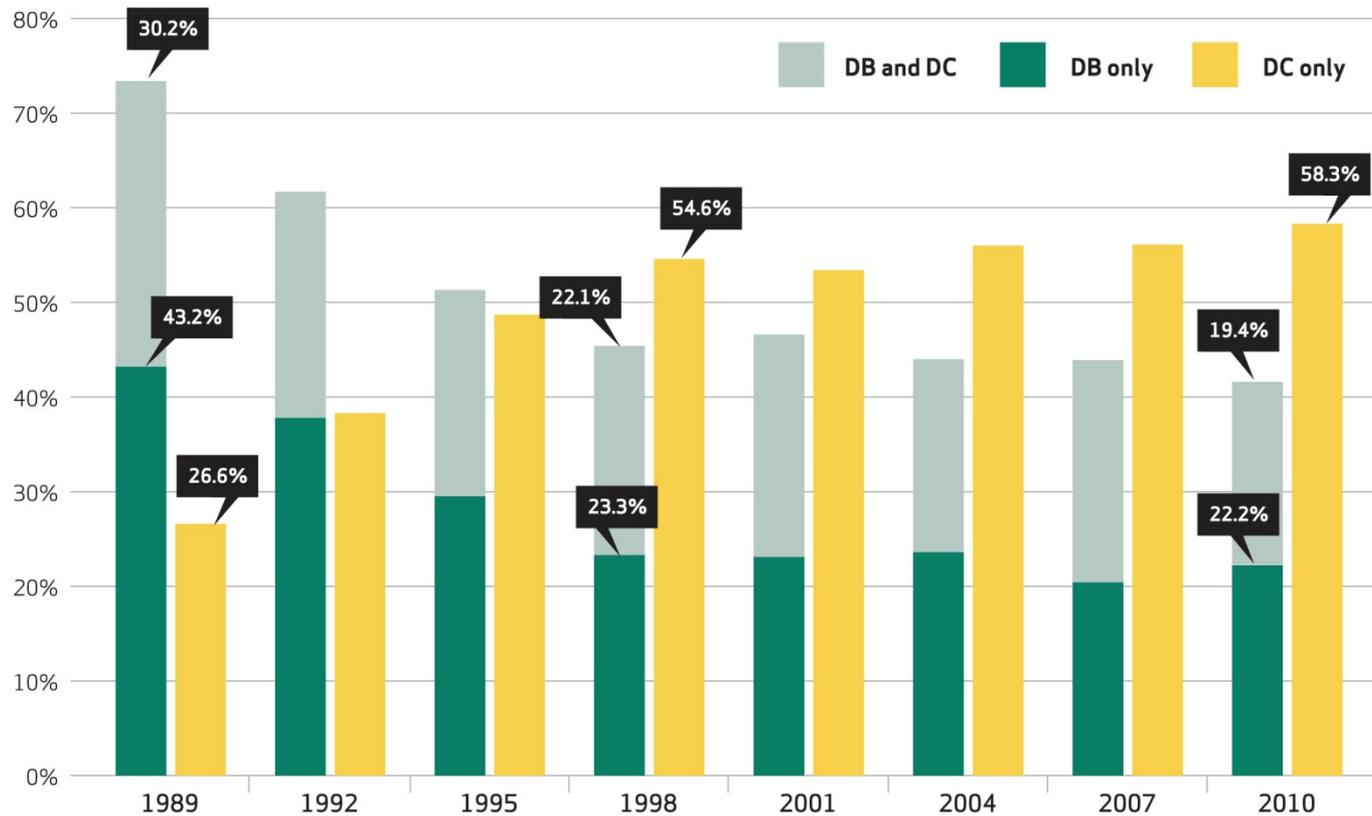


Source: Author's analysis of CPS Annual Social and Economic Supplement (ASEC), various years.



Three out of Five Households Covered by a Workplace Retirement Plan Have Only a 401(k) Type Benefit

Defined-benefit (DB) and defined-contribution (DC) plan participation among households covered by an employer-sponsored retirement plan, 1989-2010

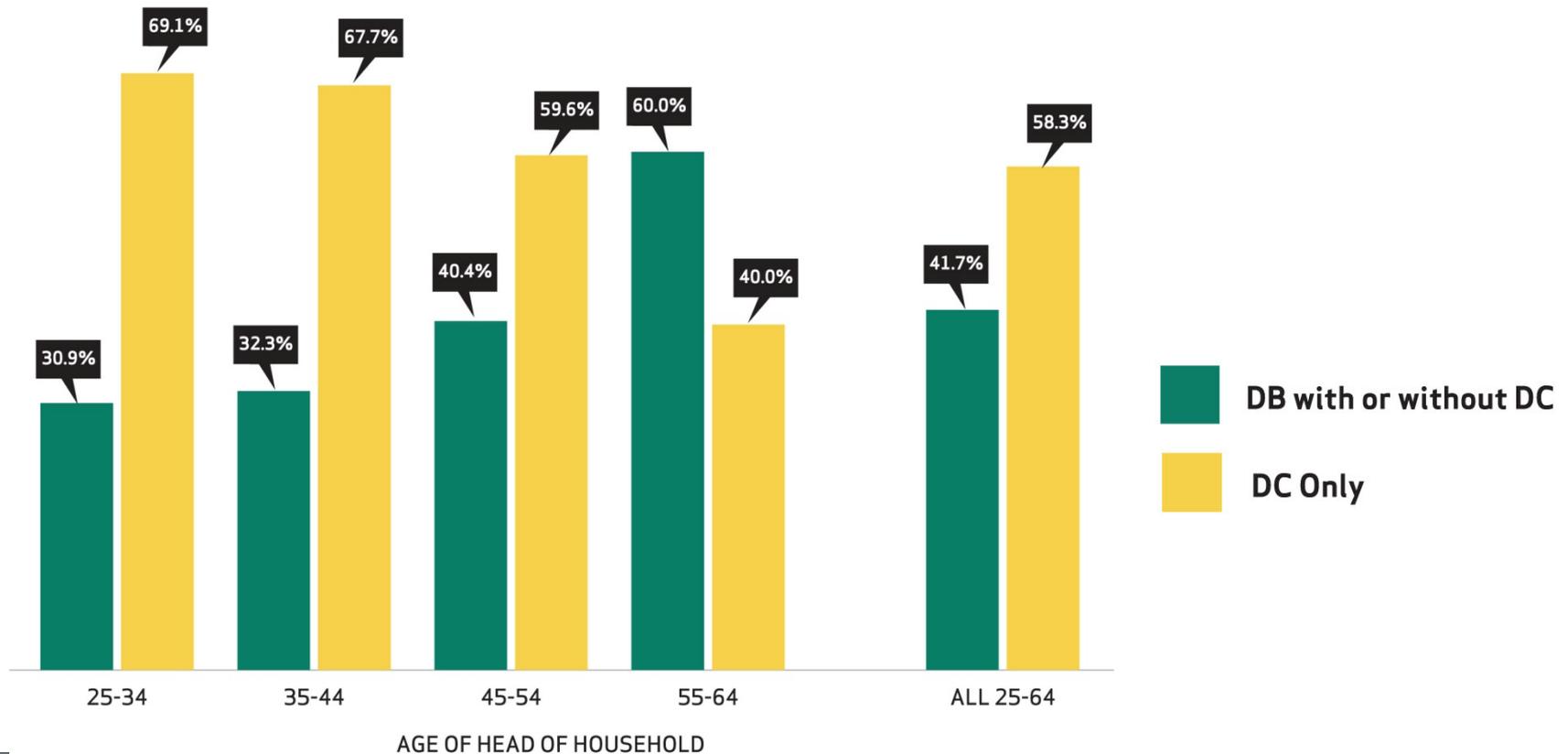


Source: Author's analysis of 2010 SCF. Universe is households with heads age 25-64 in which the head or spouse is covered by a retirement plan through their current job.



Young Households Half as Likely as Near-Retirement Households to have DB Pension

DB and DC plan participation among households covered by an employer-sponsored retirement plan, by age of head of household, 2010



Source: Author's analysis of 2010 SCF. Universe is households with heads age 25-64 in which the head or spouse is covered by a retirement plan through their current job.



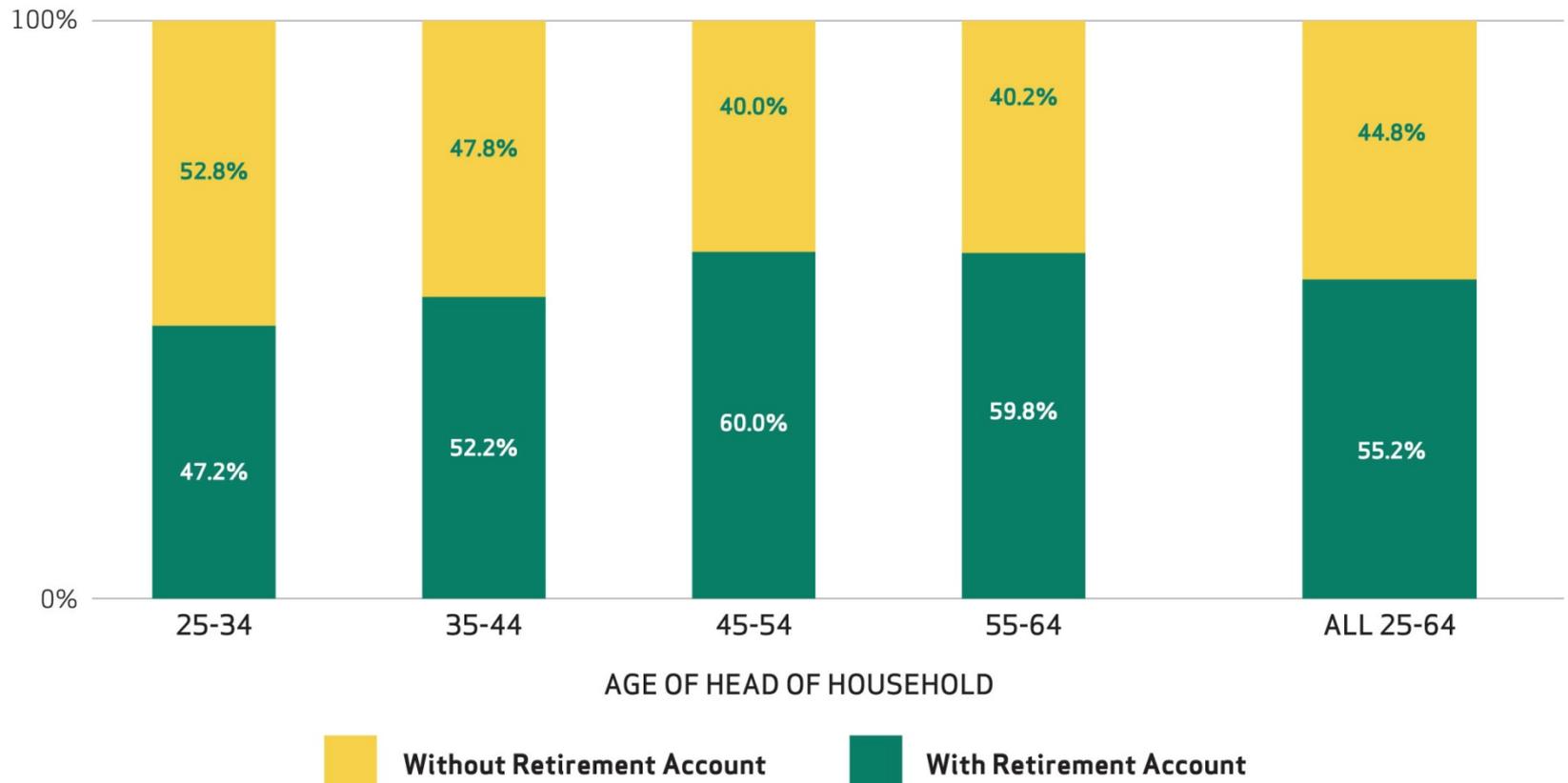
II. Marked Disparities: Retirement Account Ownership

- **45 percent** of working-age households (38.3 million) have no retirement account assets.
- **Nearly 9 out of 10** households in the top income quartile have retirement accounts, compared to only **1 out of 4** households in the lowest income quartile.
- Households with retirement accounts have **higher incomes** than households without retirement accounts.



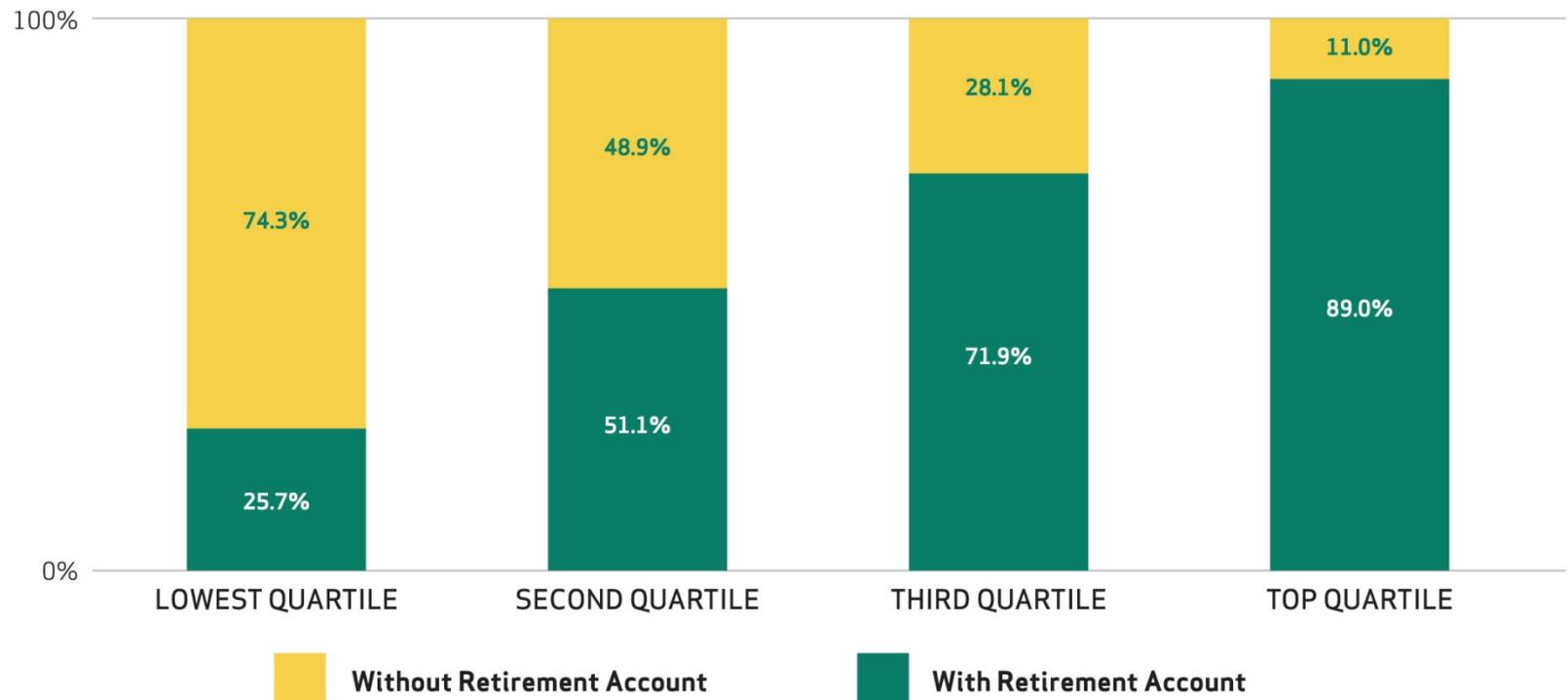
Nearly 45 Percent of All Working-Age Households Do Not Own Assets in a Retirement Account

Household retirement account ownership
by age of head of household, 2010



Retirement Account Ownership is Disproportionately Concentrated Among Higher-Income Households

Retirement account ownership status by household income quartile, 2010



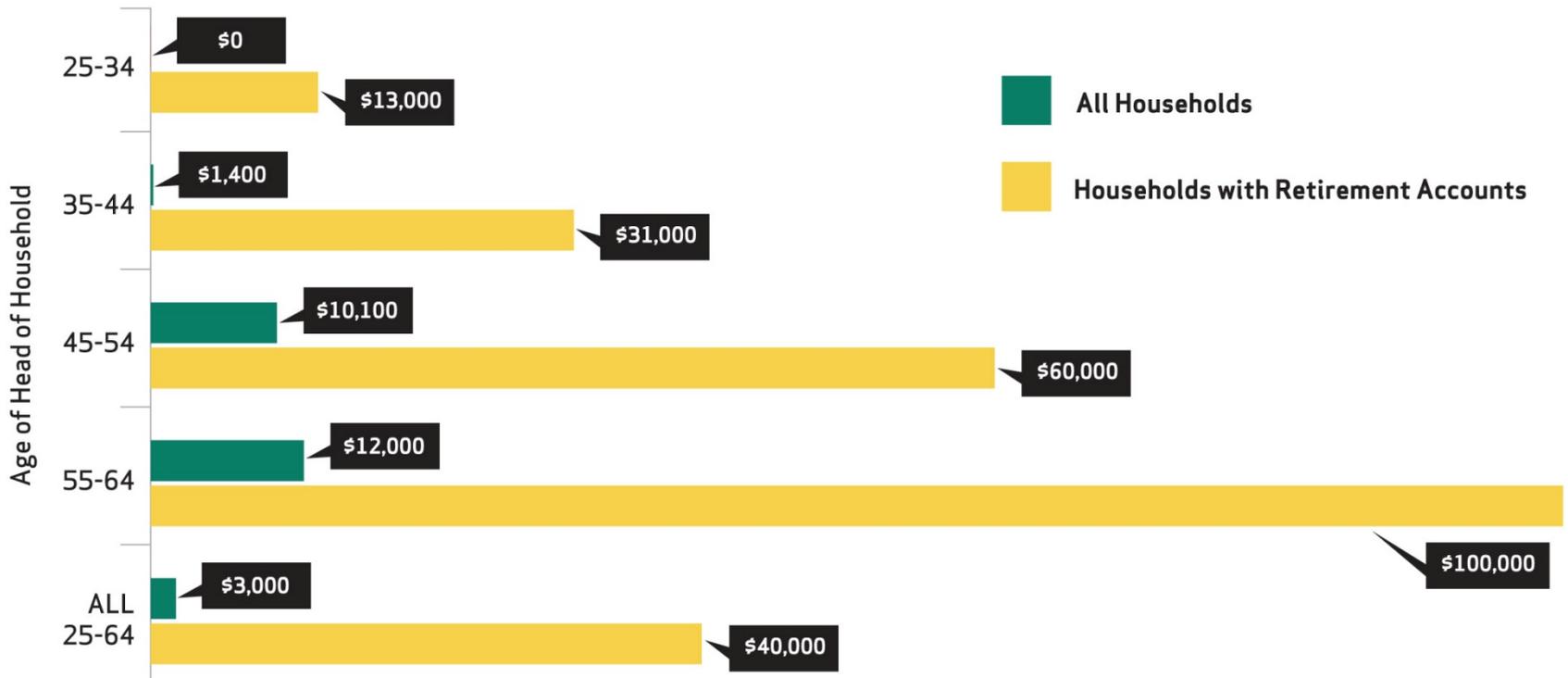
III. Inadequate Retirement Account Balances

- Median balance for households with accounts: **\$40,000** for working-age, **\$100,000** for near-retirement.
- Median balance counting all households: **\$3,000** working-age, **\$12,000** near-retirement.
- Working-age households with at least one earner: **4 out of 5** have account balances less than one times their income.



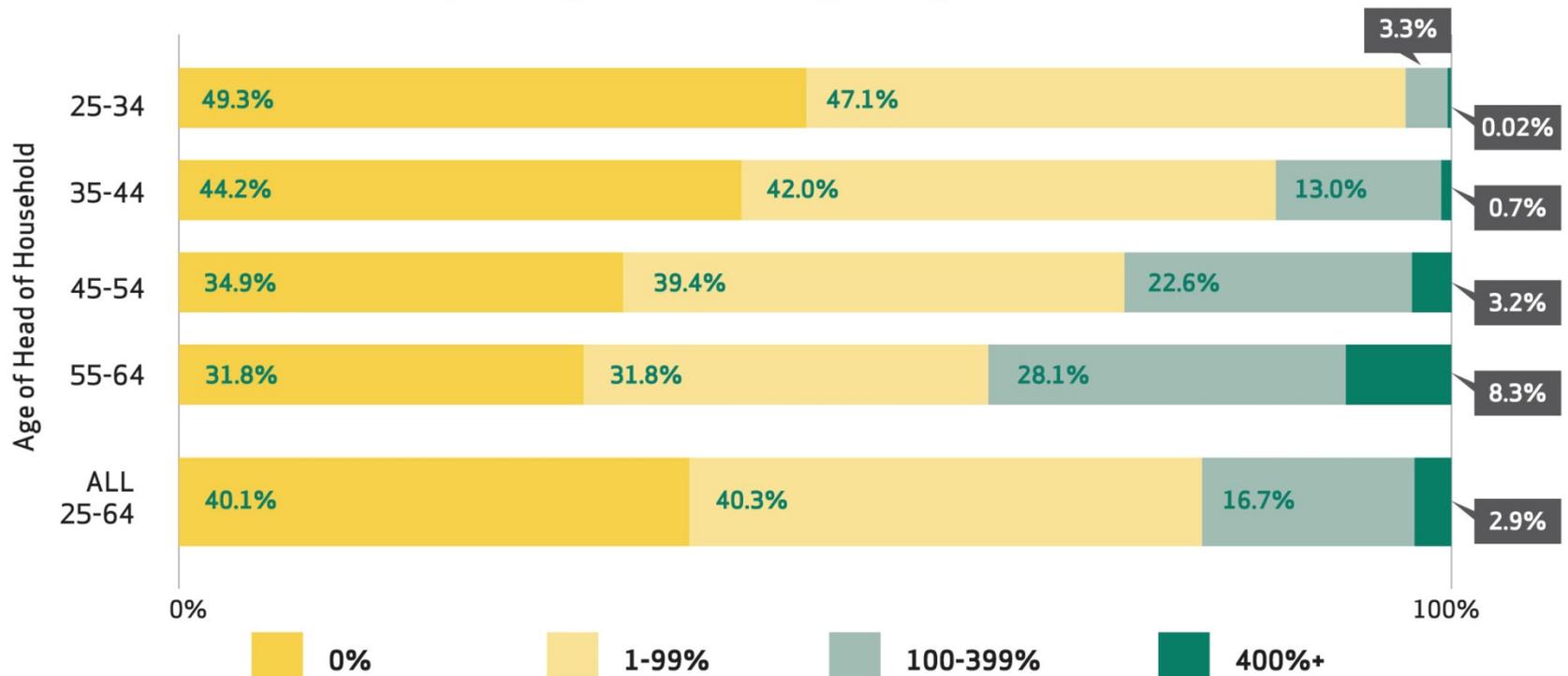
Typical Working-Age Household Has Only \$3,000 in Retirement Account Assets; Typical Near-Retirement Household Has Only \$12,000

Median retirement account balance, households with retirement accounts vs. all households, 2010



Four out of Five Working Households Have Retirement Savings Less than One Times Their Annual Income

Retirement account balance as a percentage of income among working households, 2010



Source: Author's analysis of 2010 SCF. Universe is households with heads age 25-64, with total earnings \geq \$5,000 and $<$ \$500,000 and total income $<$ \$1M.



IV. Falling Short By Any Measure: Working Households' Retirement Savings Gap

- Quandary for households: How do they know if they have saved enough?
- Financial industry provides rule-of-thumb retirement savings targets.
- How do households measure up?



Retirement Benchmarks from Financial Firms: Accumulate 8-11 Times Income

- **Fidelity:**
 - retire @ 67
 - contribute over 42-year career
 - 15% contribution rate over most of career, incl. employer match
 - 85% income replacement
- **Aon Hewitt:**
 - retire @ 65
 - contribute over 40-year career
 - 15% contribution rate , incl. employer match
 - 85% income replacement

Age	Savings Target as Multiple of Current Income	
	Fidelity (retire @ 67)	Aon Hewitt (retire @ 65)
25	0x	
30	.5x	
35	1x	
40	2x	
45	3x	
50	4x	
55	5x	
60	6x	
65	7x	11x
67	8x	



Methodology for Comparing Household Assets to Retirement Savings Benchmarks

- Universe limited to households with earnings between \$5K and \$500K, income <\$1M.
- Selected conservative age-specific multipliers from Fidelity.
- Applied multipliers to annual income to set benchmark for each household.
- Compared four measures of household financial assets to benchmarks to identify those that fall short, and by how much.



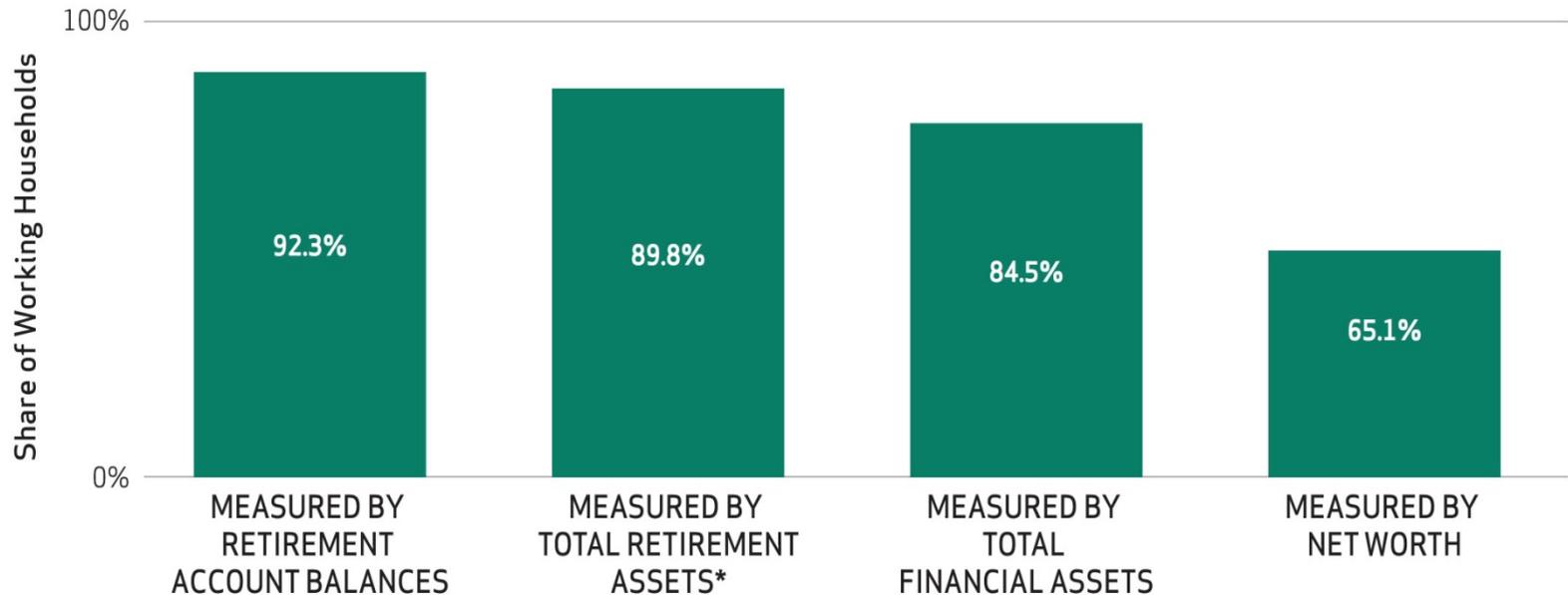
Four Measures of Financial Assets Compared to Retirement Benchmarks

TYPE	DEFINITION
Retirement Account Assets	employer-sponsored DC plans, IRA/KEOGH balances
Retirement Assets	Retirement Account Assets + imputed DB pension assets
Total Financial Assets	Retirement accounts, other stocks and bonds, money market, CDs, checking, life insurance, etc.
Net Worth	financial and nonfinancial assets (home equity and other real estate, business property, personal property, etc.) minus debt



Large Majority of Working Households Fall Short of Age-Specific Benchmarks for Retirement Savings

Share of working households that do not meet retirement savings targets for their age, by type of measure, 2010.



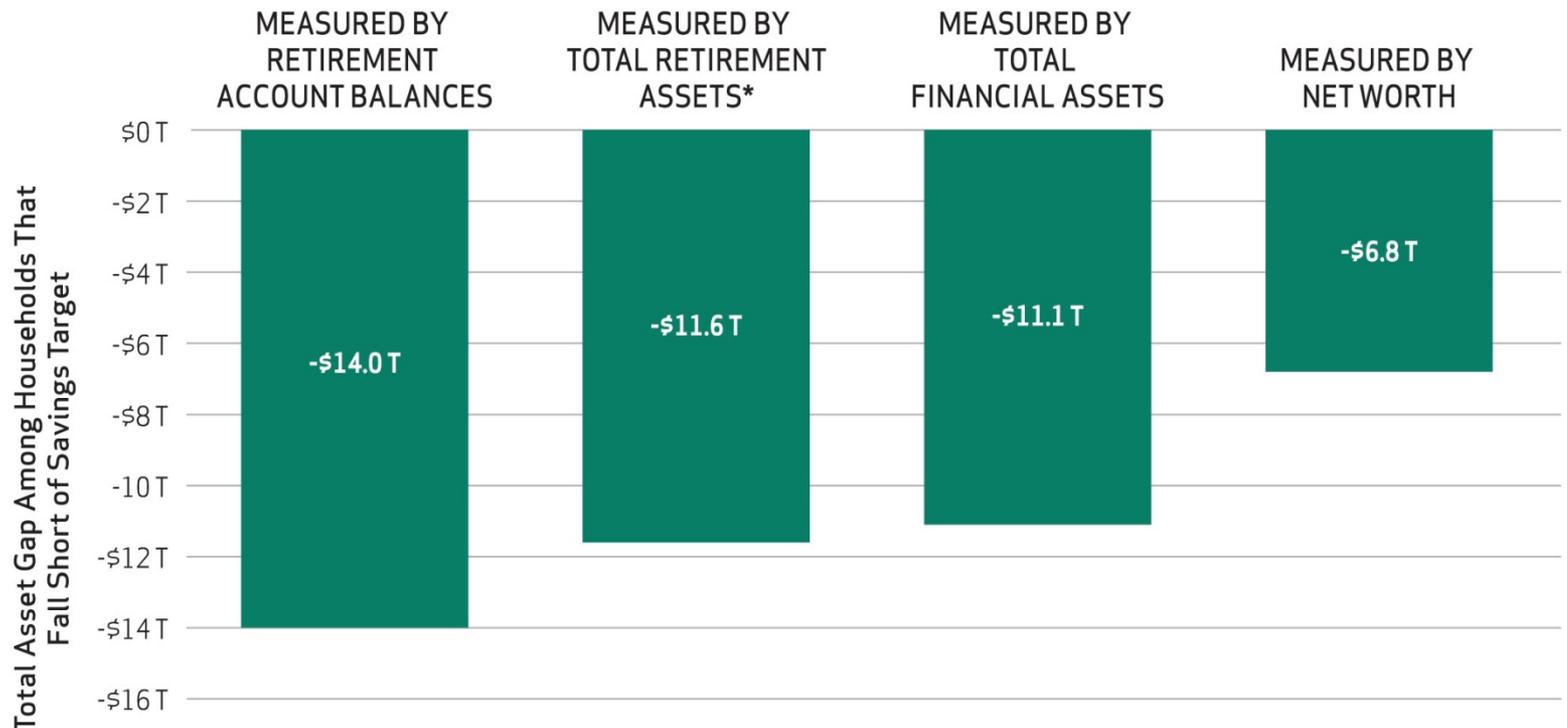
Source: Author's analysis of 2010 SCF based on retirement savings targets adapted from Fidelity (2012). Universe is households with heads age 25-64, with total earnings \geq \$5,000 and $<$ \$500,000 and total income $<$ \$1M.

* "Total Retirement Assets" measure includes retirement account balances reported in SCF and DB pension assets imputed by author.



U.S. Working Households Are \$6.8-\$14.0 Trillion Short of Target Retirement Savings

Aggregate savings gap among working households that do not meet retirement savings targets for their age, by type of measure, 2010



Source: Author's analysis of 2010 SCF based on retirement savings targets adapted from Fidelity (2012). Universe is households with heads age 25-64, with total earnings \geq \$5,000 and $<$ \$500,000 and total income $<$ \$1M.

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Policy Implications

- Current retirement savings system not working for most households.
- Families need to save more and many will work longer, but they cannot fill the gap alone: need help from employers and policymakers.
- Three key areas
 - Strengthen Social Security
 - Improve low- and middle-wage workers' access to work-related retirement plans
 - Help low-wage workers save



Policy Implications: Strengthening Social Security

- Social Security provides the majority of retirement income to current retirees.
- Proposals to further reduce Social Security benefits pose serious risks given the existing deficient level of retirement savings.
- Several proposals to make system financially sustainable while modestly raising minimum benefits for vulnerable populations.
- Surveys have found strong public support for increasing system revenues in order to preserve its benefits.



Policy Implications: Improving Retirement Plan Access

- Large gaps in the employer-based system
 - low- and middle- income workers
 - employees of small businesses
- Making retirement savings automatic for all:
 - Auto IRA
 - Hybrid models, such as USA Retirement Funds proposal, designed to pool risk and provide secure retirement income
 - State level action (i.e., California)



Policy Implications: Help Low-Wage Workers Save

- Saver's Credit designed to target low-income households
 - Most eligible for lower credit rate due to rapid phase-out of highest credit at modest income levels and non-refundable nature delivering low benefits to those with low income-tax liabilities
- Proposals to expand Saver's Credit and make it refundable would help low-income families accumulate assets faster.



Conclusions

- With limited retirement plan access and minimal retirement savings, majority of American households will not be able to their maintain standard of living after retirement, even if they work until age 67.
- Families need to save more and many will work longer, but cannot fill the gap alone.
- Working families need help from employers and policymakers to improve retirement readiness.



Questions?



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