



Retirements At Risk: The Outlook for the United States

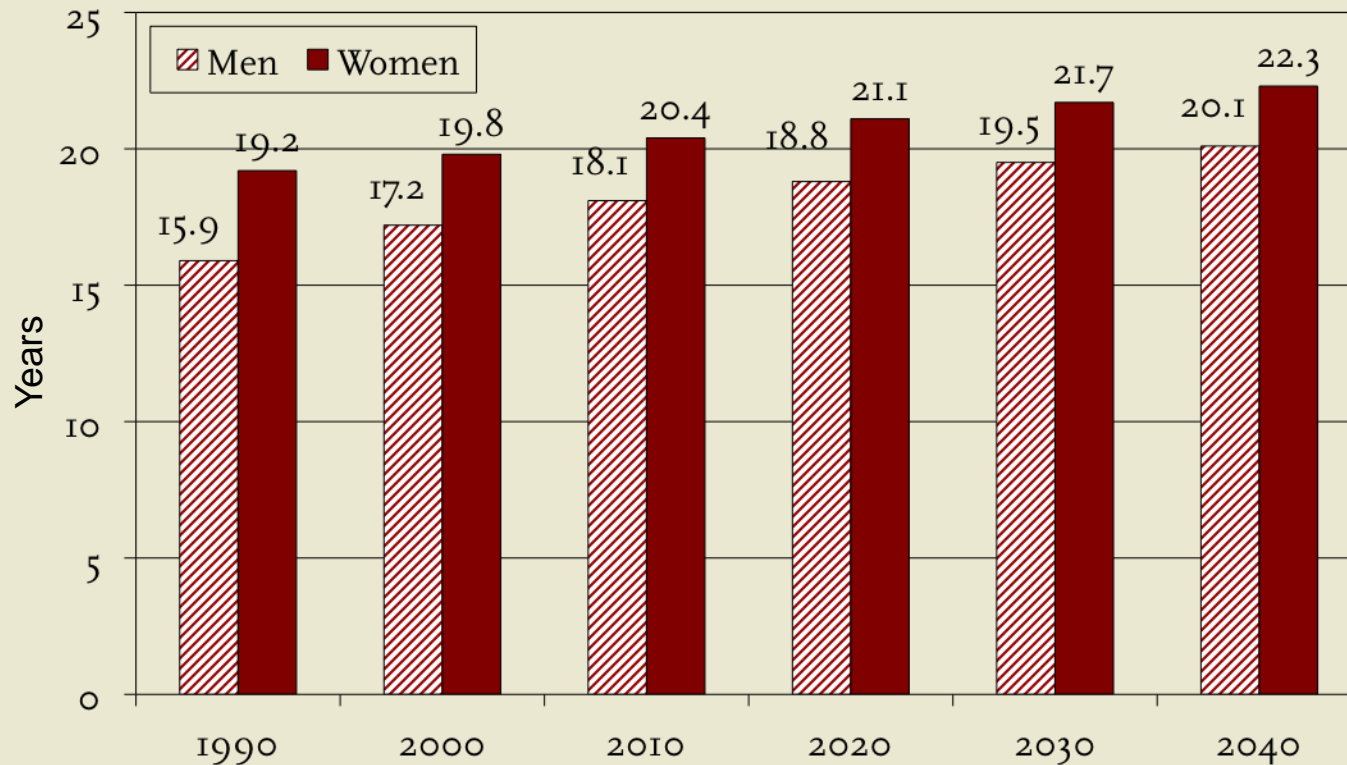
Alicia H. Munnell

Peter F. Drucker Professor, Boston College Carroll School of Management
Director, Center for Retirement Research at Boston College

Designing Adequate DC Pensions
Retirement Readiness Project – Initial Ideas
Annual OECD/IOPS Global Forum on Private Pensions
Sydney, Australia
November 2-3, 2010

Retirement needs in the U.S. are increasing – people are living longer...

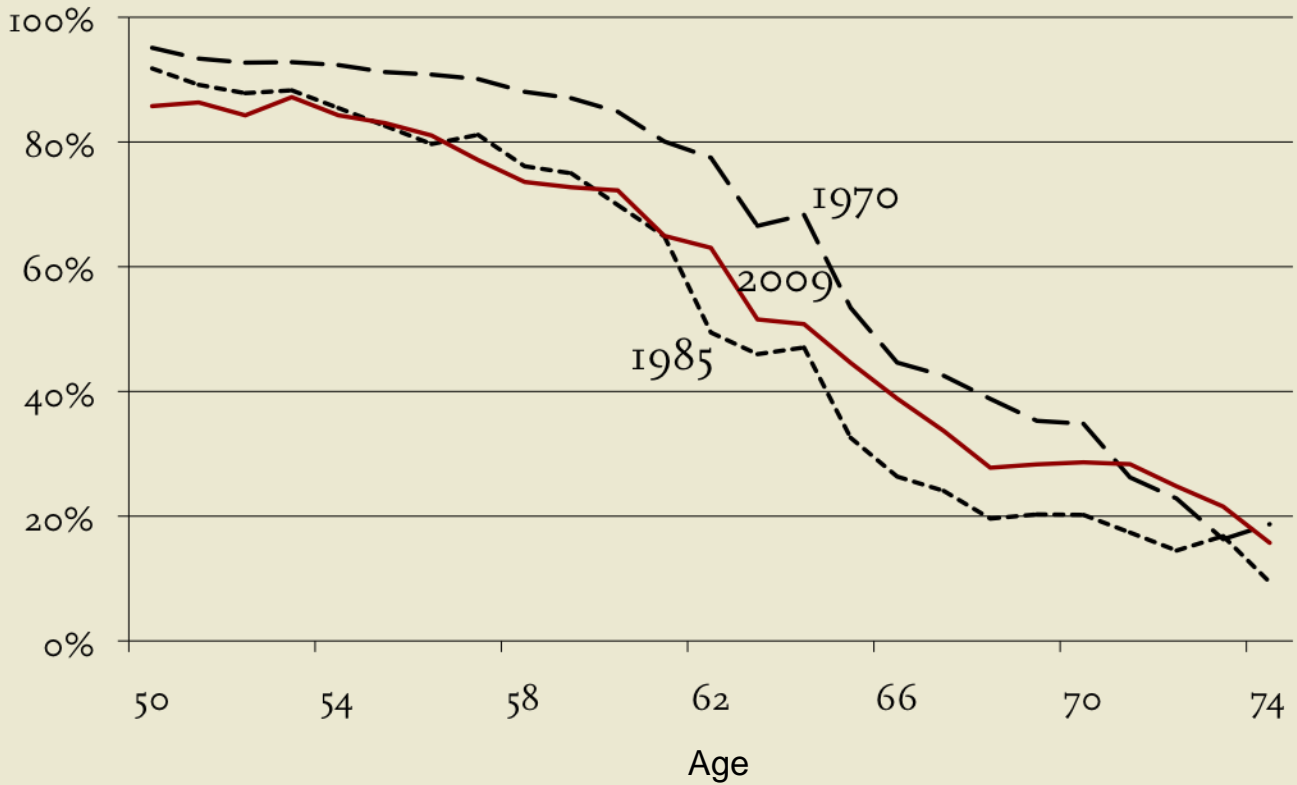
Cohort Life Expectancy at 65, Men and Women, 1990-2040



Source: U.S. Social Security Administration. 2010. *Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*. Washington, D.C.: U.S. Government Printing Office.

...they continue to retire early...

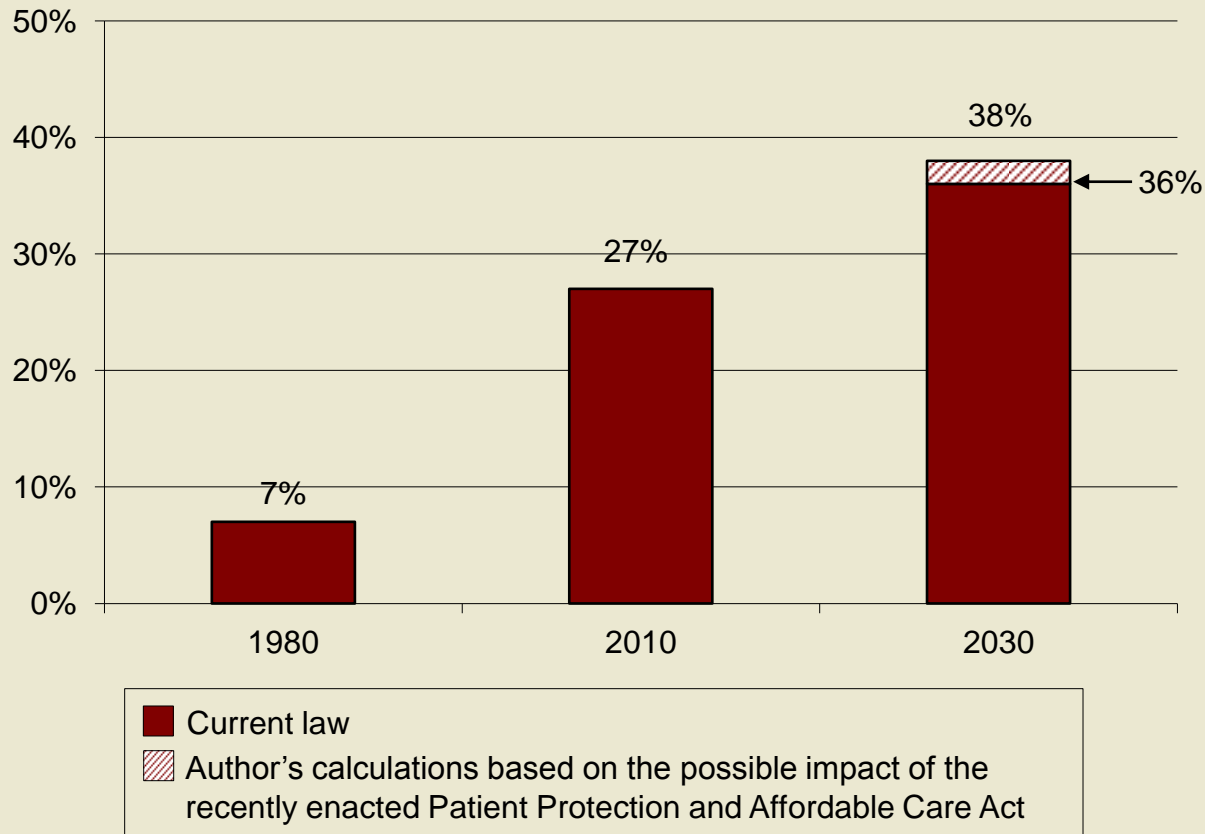
Workforce Participation Rates of Men Aged 50-74, 1970, 1985, and 2009



Source: U.S. Bureau of Labor Statistics. *Current Population Survey*, 1970, 1985, and 2009. Washington, D.C.

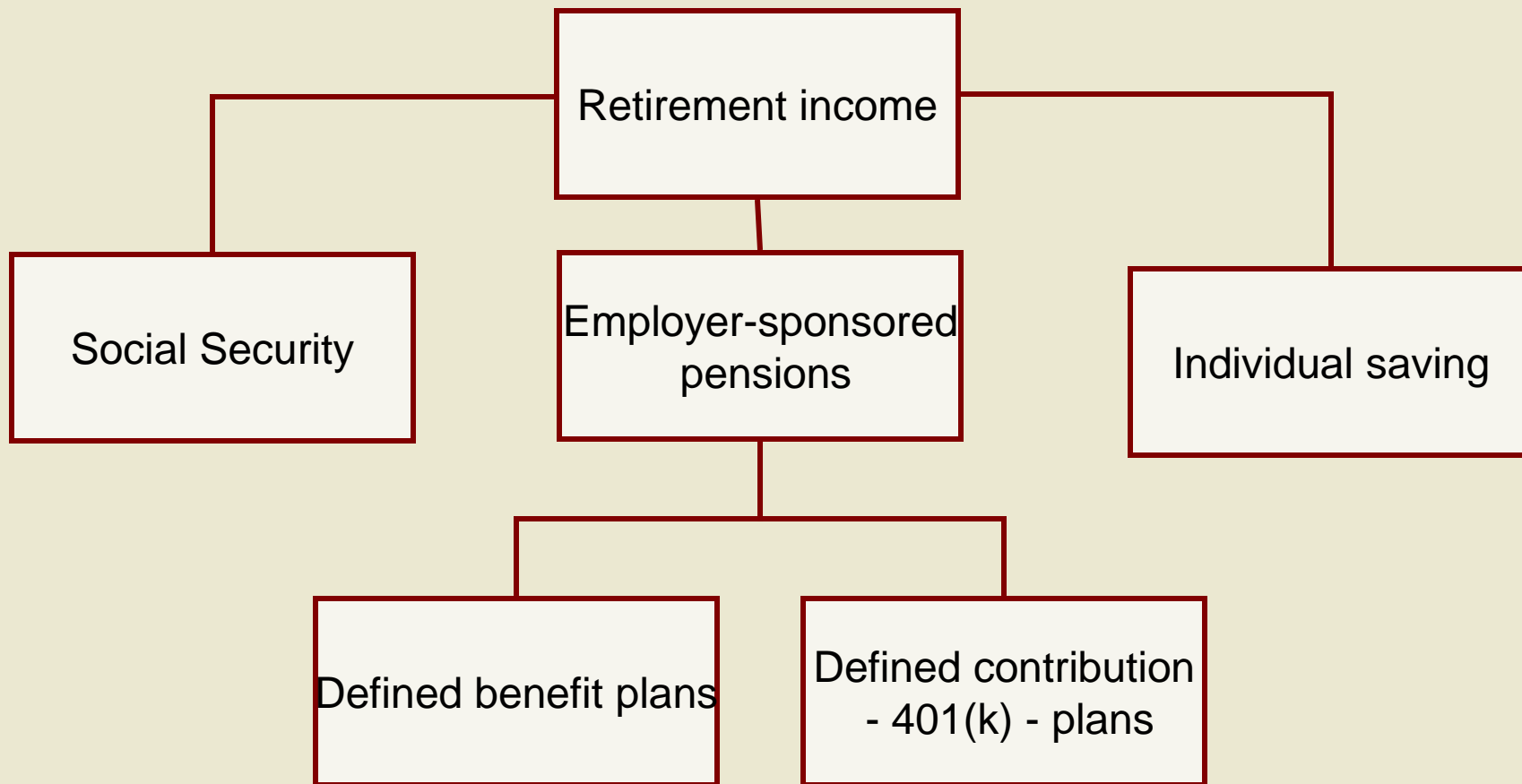
...and health care costs are rising.

Medicare Out-of-Pocket Expenditures as a Percentage of the Average Social Security Benefit, 1980-2030



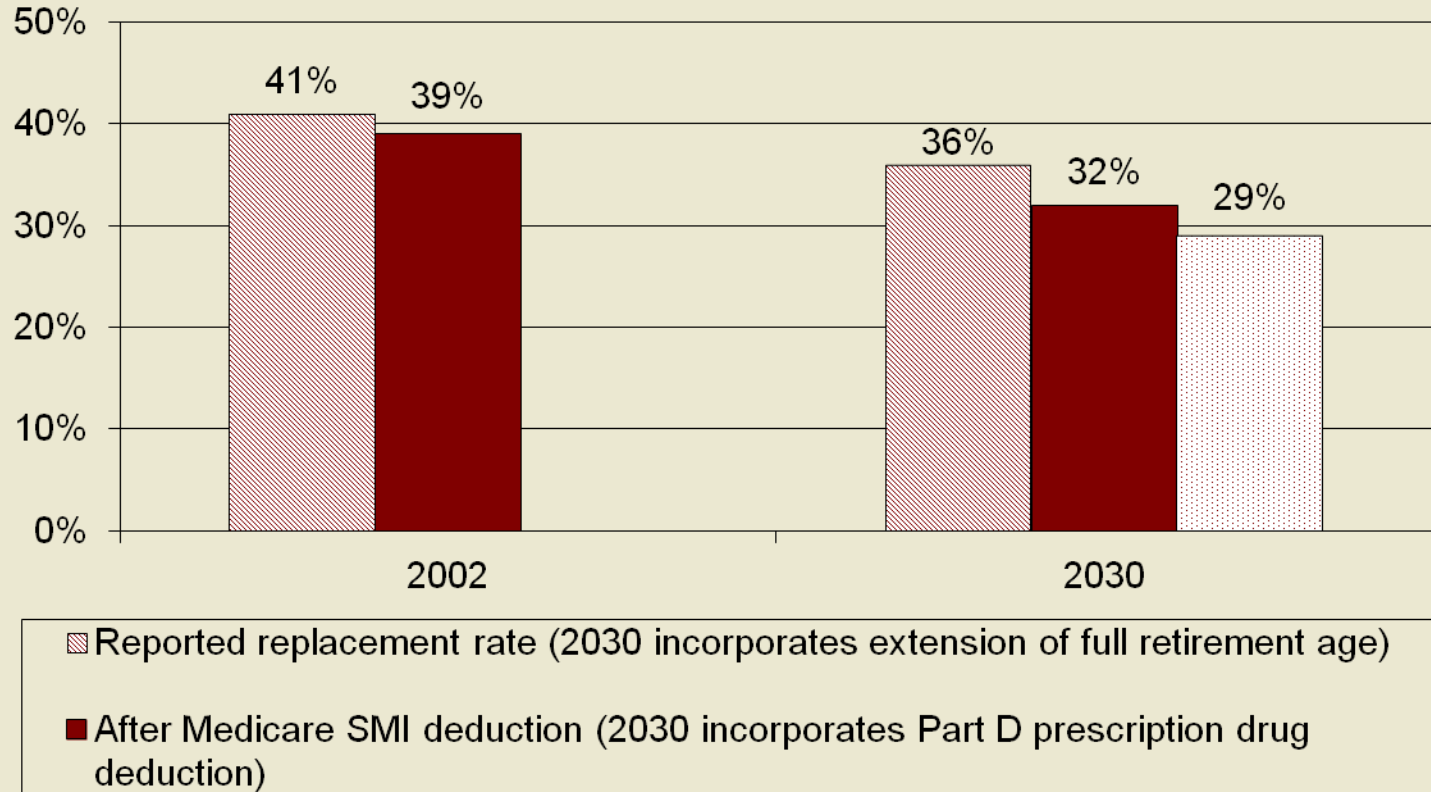
Source: Centers for Medicare & Medicaid Services (CMS), Office of the Actuary. 2010. "SMI Out-of-Pocket Expenses as a Percentage of Illustrative Social Security Benefit." Washington, D.C.

But U.S. retirement resources are decreasing



Social Security will replace less income in the future.

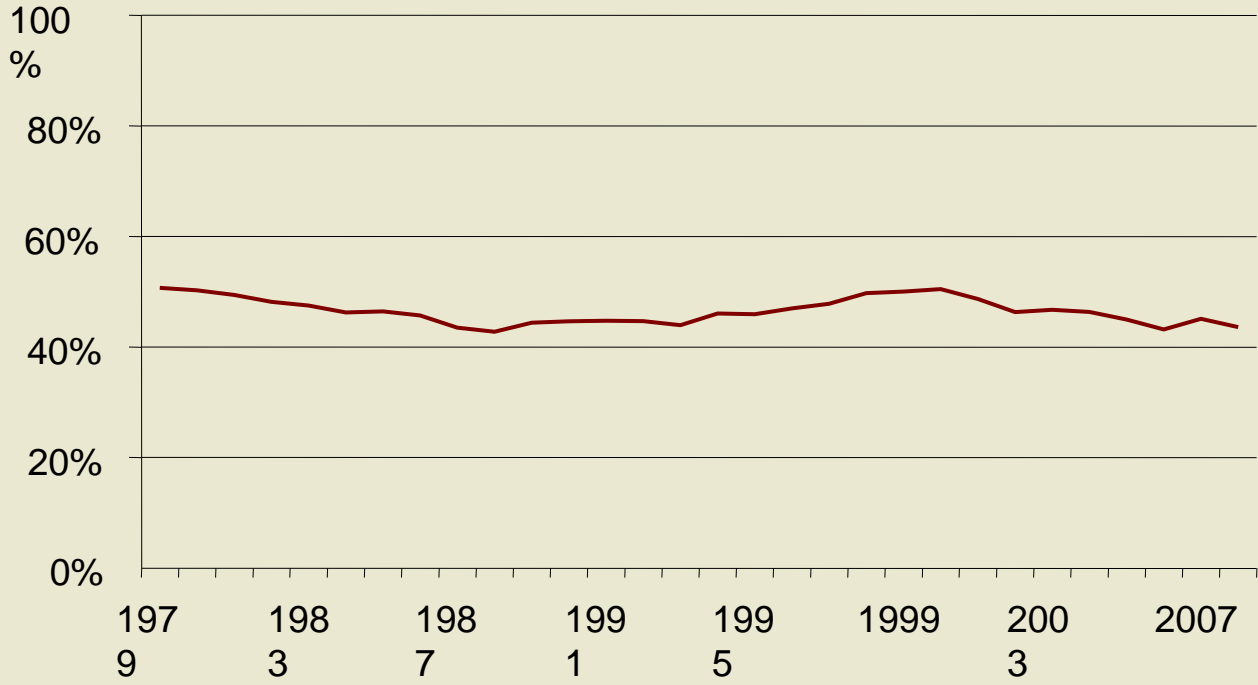
Social Security Replacement Rates for Average Earner Retiring at Age 65, 2002 and 2030



Source: Author's updates based on Alicia H. Munnell. 2003. "The Declining Role of Social Security." *Just the Facts on Retirement Issues*. Chestnut Hill, MA: Center for Retirement Research at Boston College.

In terms of pensions, only half of private sector workers has any employer plan.

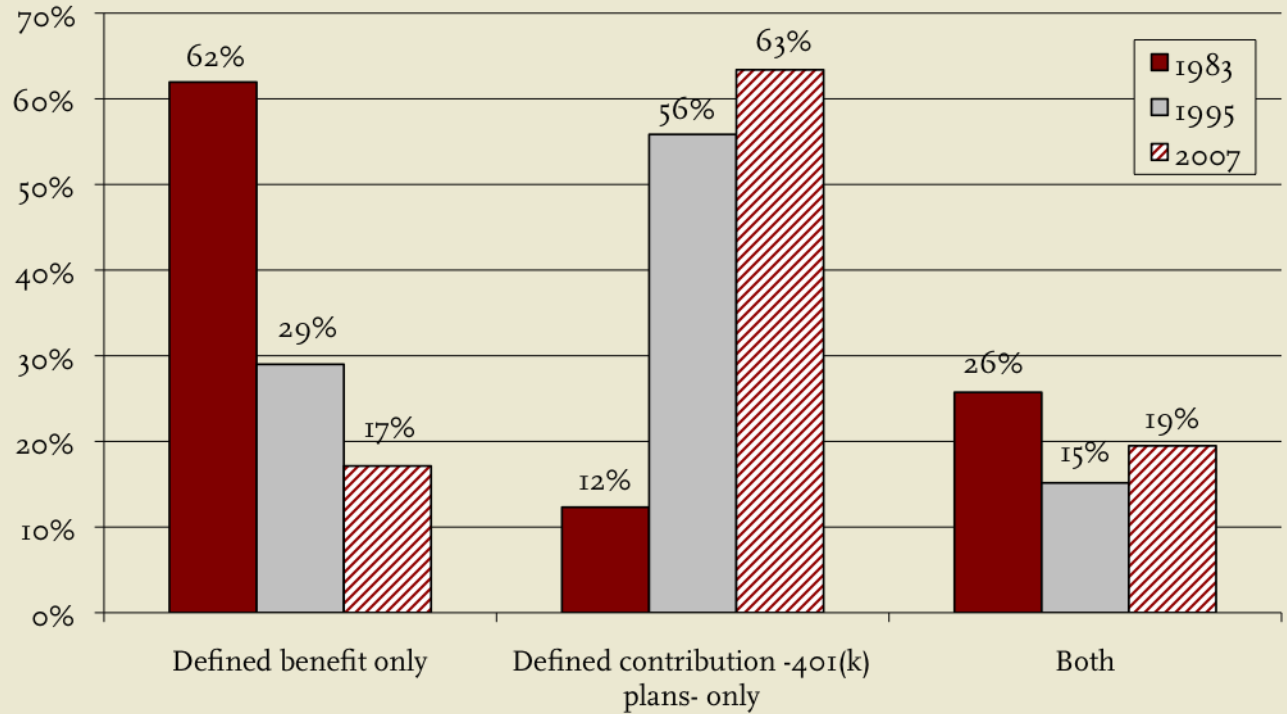
Percent of Private-Sector Workers Ages 25-64 Participating in an Employer-Sponsored Pension, 1979-2008



Source: Author's calculations based on U.S. Census Bureau. *Current Population Survey*, 1980-2009. Washington, D.C.

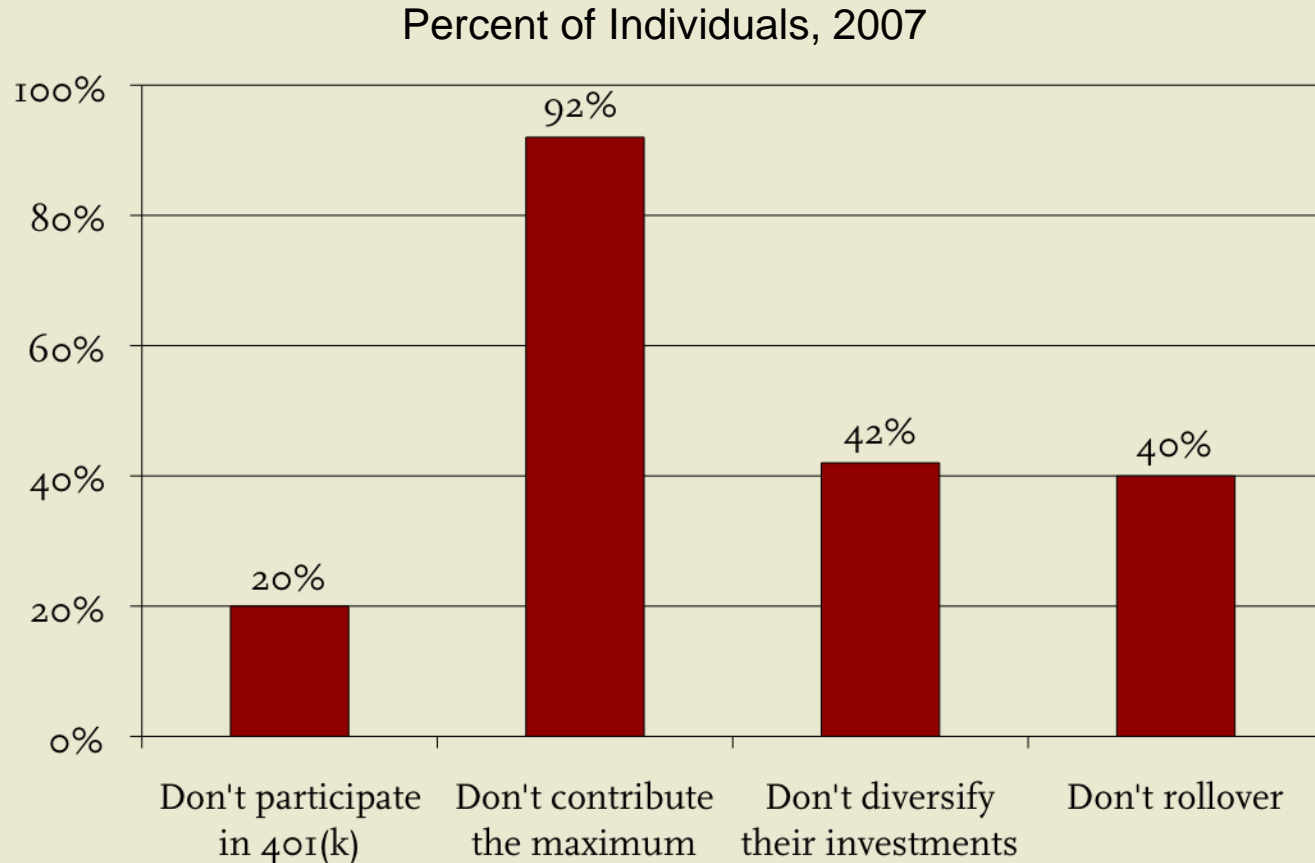
And those with coverage increasingly have defined contribution (401(k)) plans.

Workers with Pension Coverage by Type of Plan, 1983, 1995, and 2007



Source: Alicia H. Munnell, Francesca Golub-Sass, and Dan Muldoon. 2009. "An Update on 401(k) Plans: Insights From the 2007 SCF." *Issue in Brief* 9-5. Chestnut Hill, MA: Center for Retirement Research at Boston College.

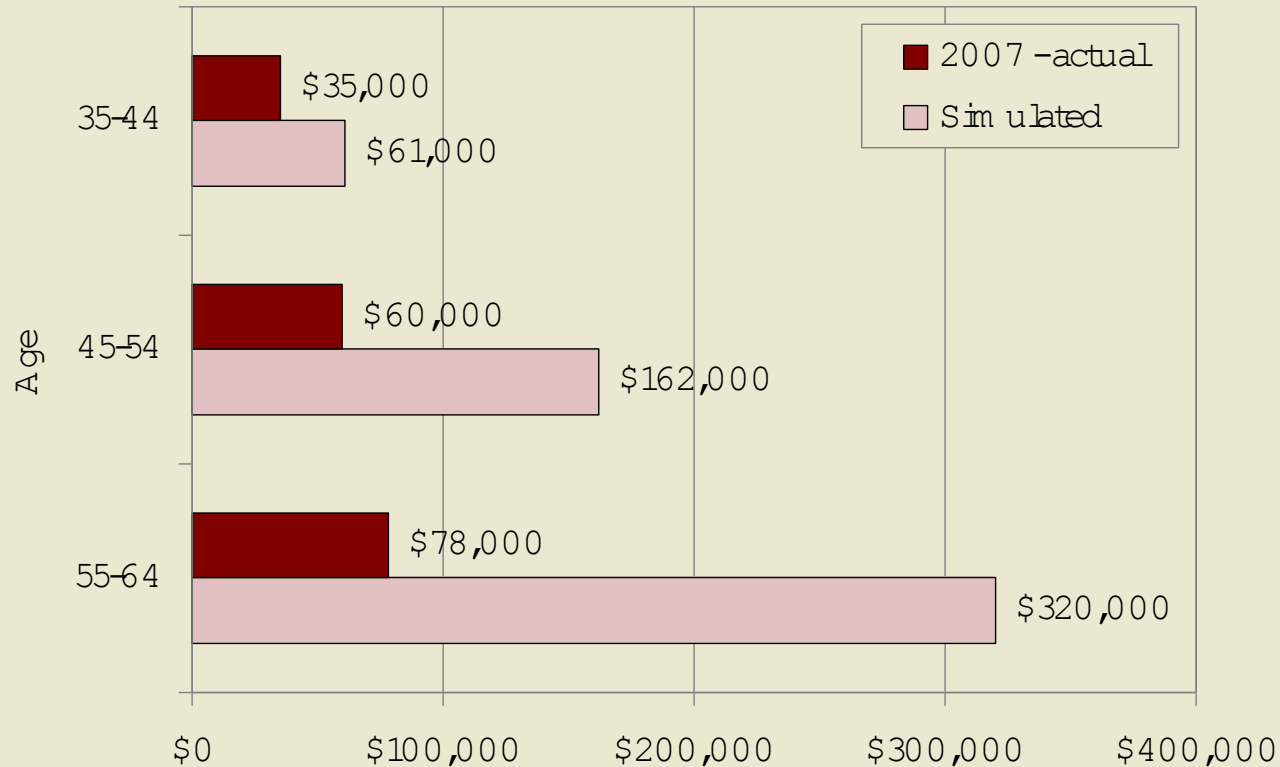
401(k)s shift all decisions to individuals; many make mistakes at every step.



Source: Author's calculations based on U.S. Board of Governors of the Federal Reserve System. *Survey of Consumer Finances*, 2007. Washington, D.C.

Even before the crash, 401(k) balances were way below potential.

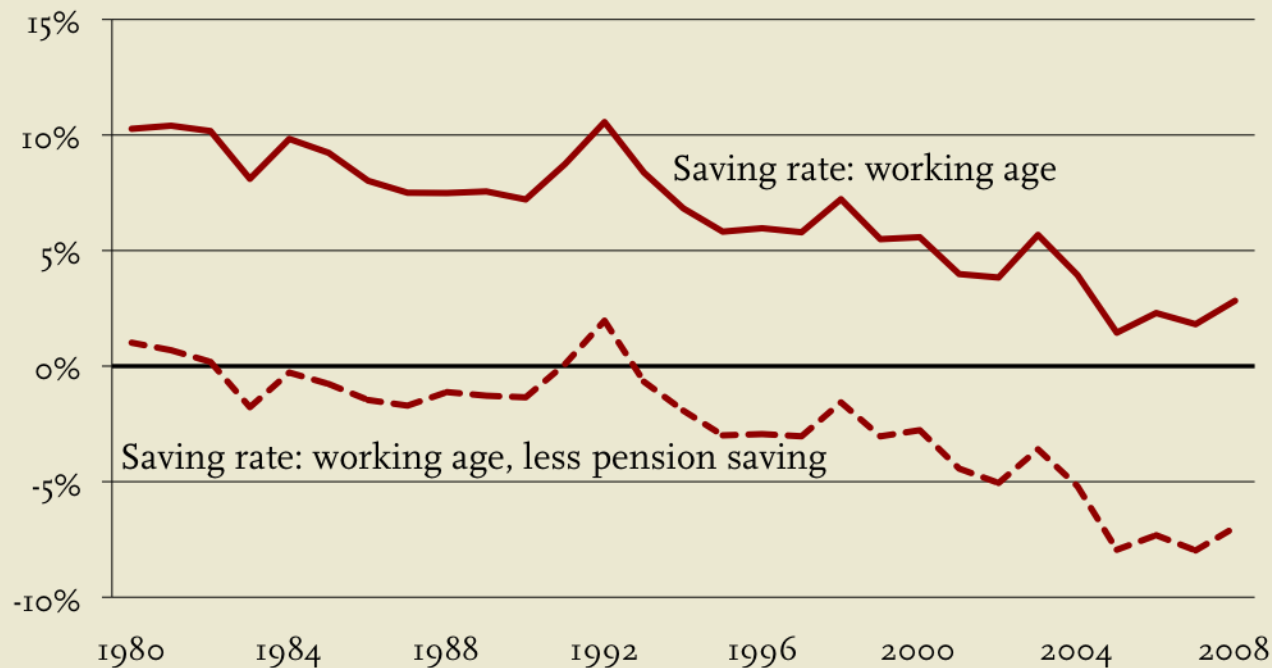
401(k)/IRA Actual and Simulated Accumulations of Individuals with 401(k) Plans, by Age Group, 2004 and 2007



Source: Alicia H. Munnell, Francesca Golub-Sass, and Dan Muldoon. 2009. "An Update on 401(k) Plans: Insights From the 2007 SCF." *Issue in Brief* 9-5. Chestnut Hill, MA: Center for Retirement Research at Boston College.

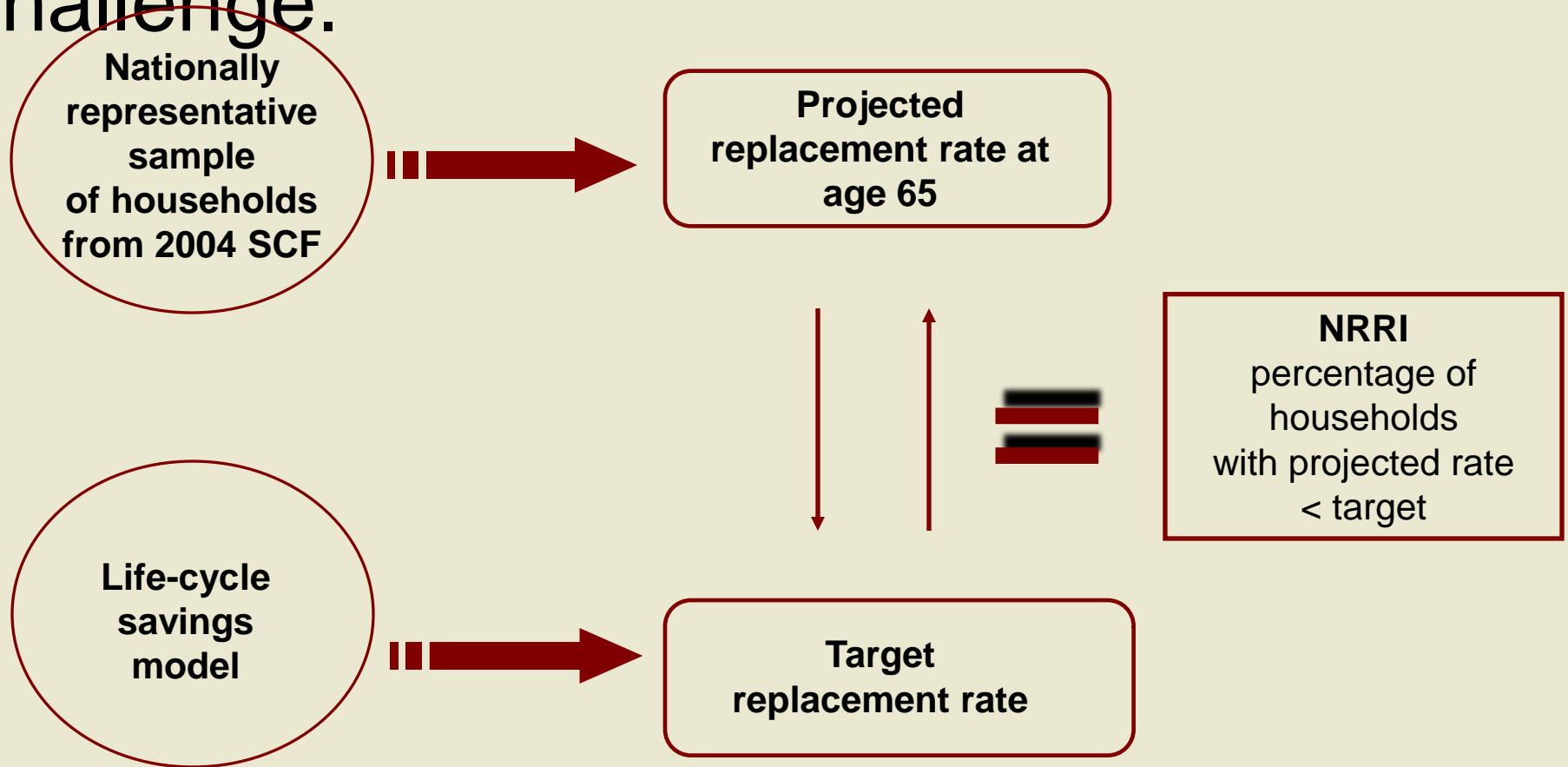
With regard to saving, Americans save nothing beyond Social Security and pensions.

NIPA Personal Saving Rate: Working-Age Population with and without Pensions, 1980-2008



Source: Author's updates based on Alicia H. Munnell, Francesca Golub-Sass, and Andrew Varani. 2005. "How Much are Workers Saving?" *Issue in Brief* 34. Chestnut Hill, MA: Center for Retirement Research at Boston College.

Center created National Retirement Risk Index to quantify size of retirement challenge.



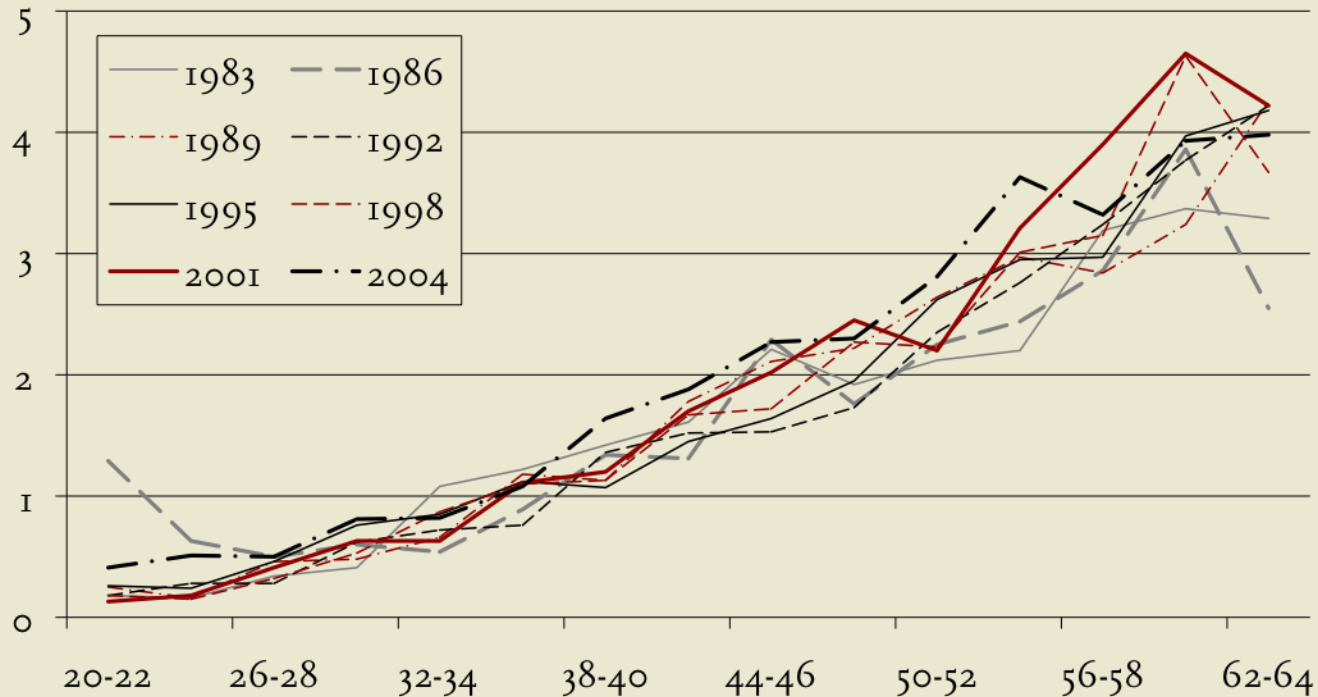
Projected replacement rate = retirement income as a share of income before retirement.

Social Security + Defined Benefit Pensions +
Annuitized Financial Assets + Imputed Rent +
Annuitized Value of Reversionary Interest of House

Earnings + Asset Income + Imputed Rent

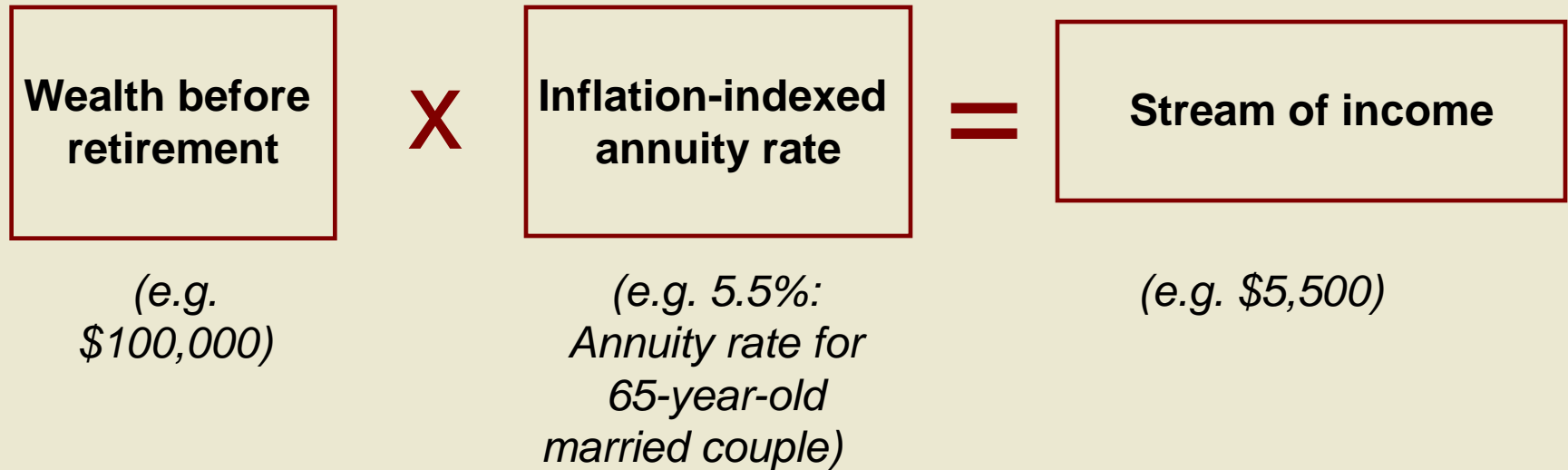
Wealth is estimated using wealth-to-income ratios from *Surveys of Consumer Finances*.

Median Ratio of Wealth-to-Income from the 1983-2004
Surveys of Consumer Finances



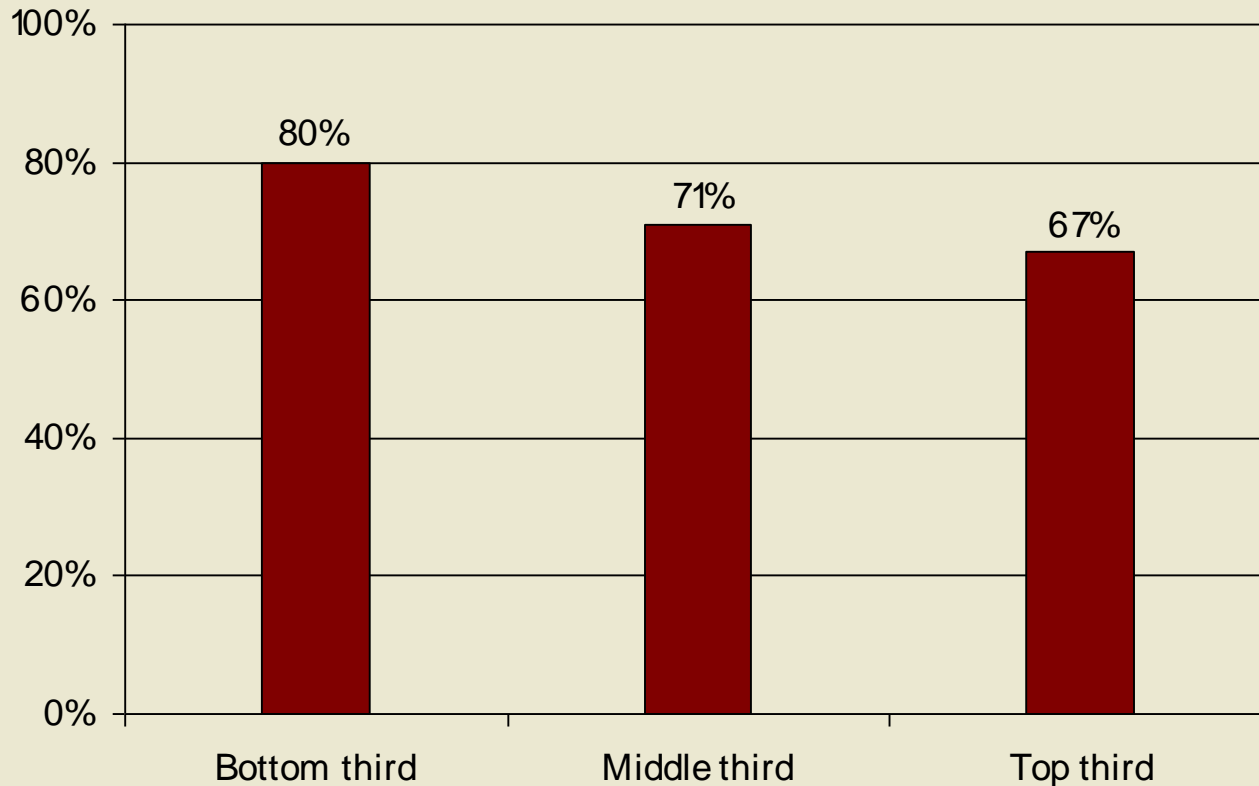
Source: U.S. Board of Governors of the Federal Reserve System. *Survey of Consumer Finances*, 1985-2006. Washington, D.C.

Wealth is converted to an income stream with inflation-indexed annuity.



The next step is to create target replacement rates.

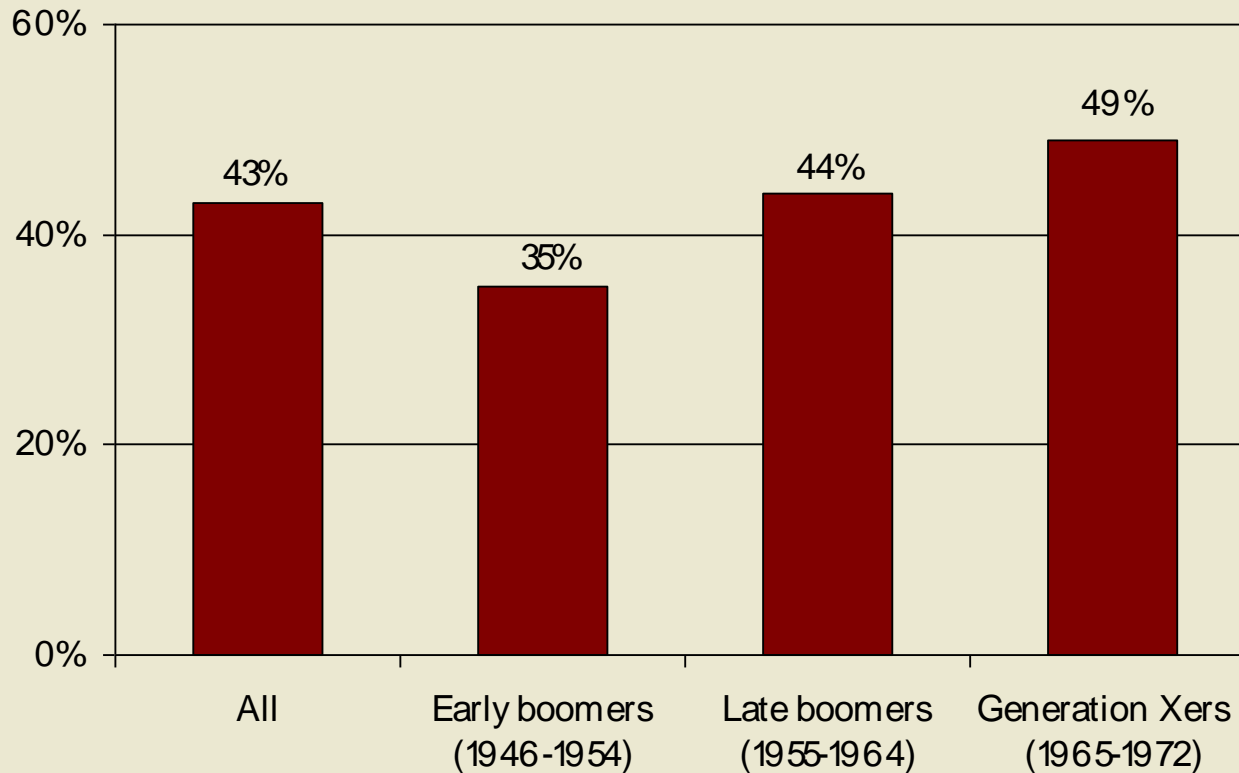
Target Replacement Rates by Income Group



Source: Center for Retirement Research at Boston College. 2006. *Retirements at Risk: A New National Retirement Risk Index*. Chestnut Hill, MA.

Comparing projected to target rates, Index found 43% of households 'at risk' in 2004.

Percent of Households Unable to Maintain Pre-Retirement Living Standard, by Birth Cohort

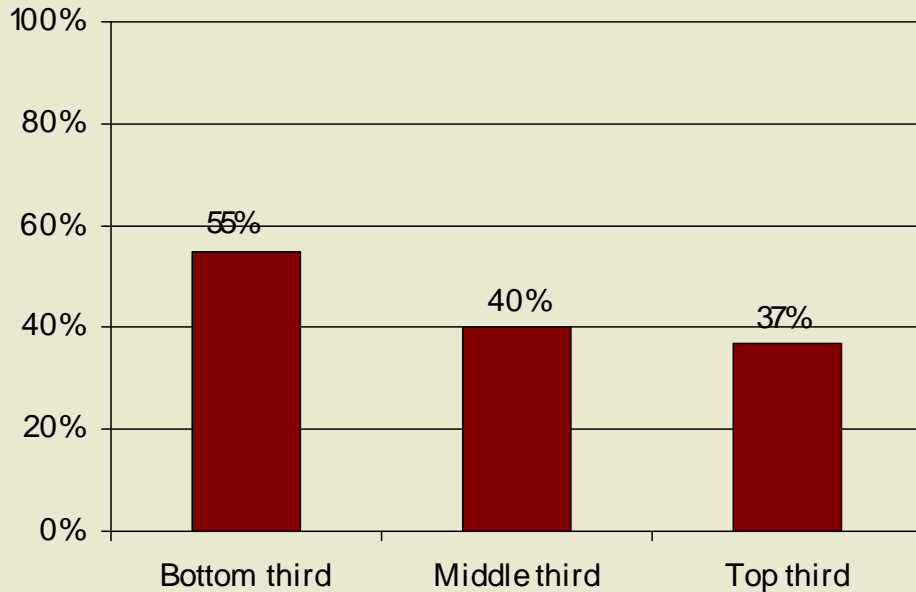


Source: Center for Retirement Research at Boston College. 2006. *Retirements at Risk: A New National Retirement Risk Index*. Chestnut Hill, MA.

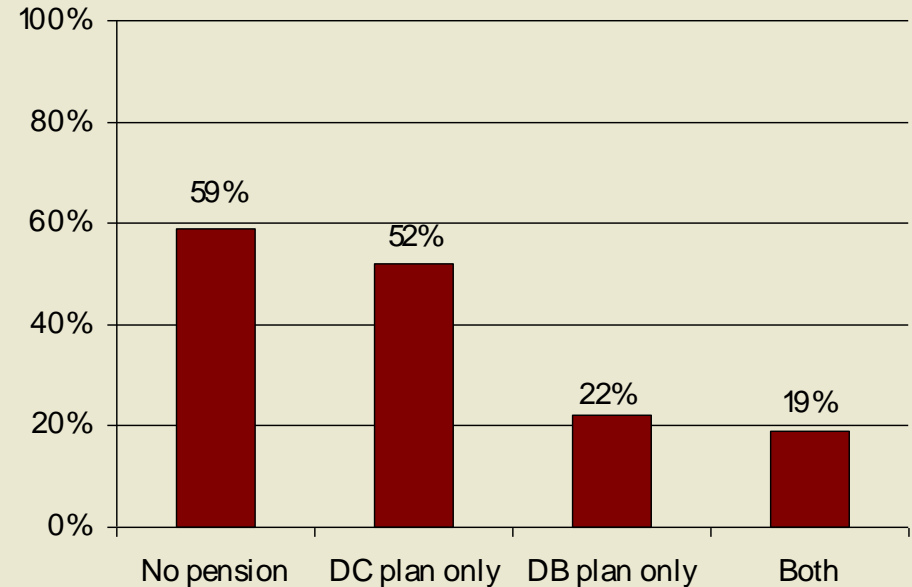
Vulnerable groups include those with low incomes and no pension.

Percent of Households 'At Risk' by Income Group and Pension Coverage

By Income



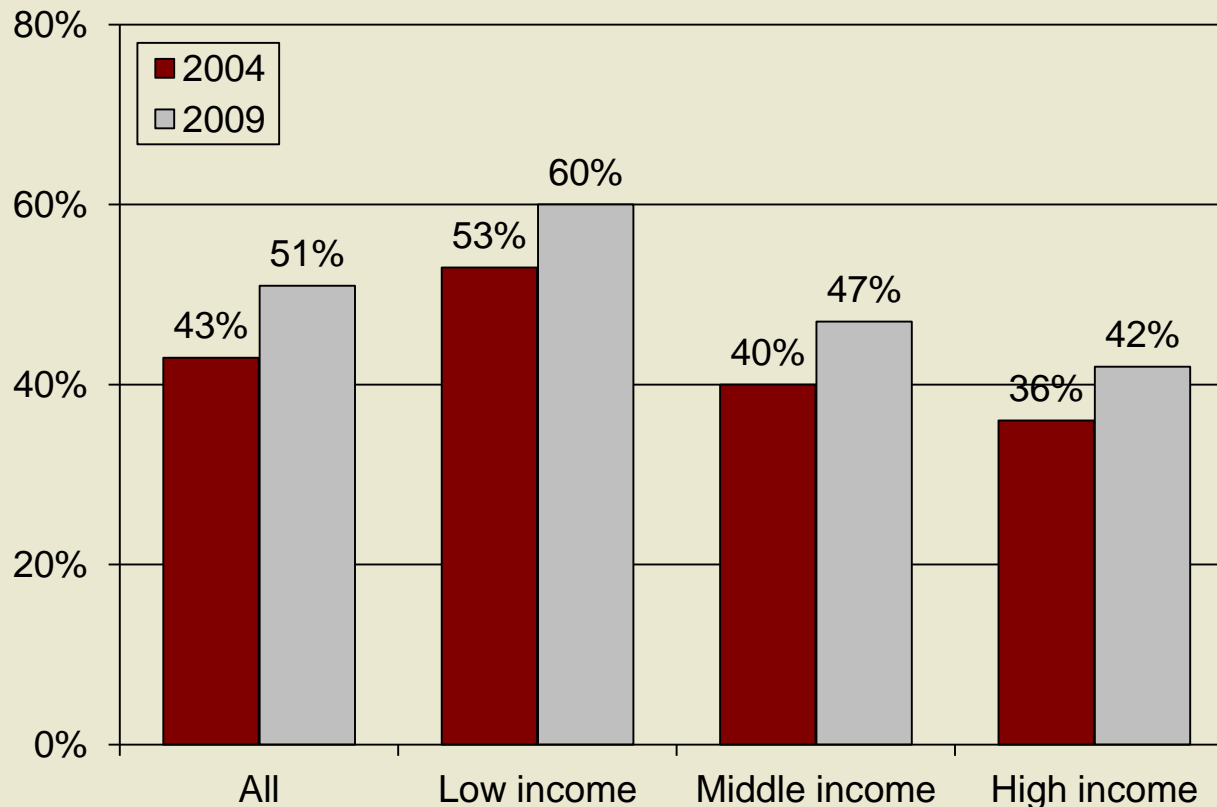
By Pension Coverage



Source: Center for Retirement Research at Boston College. 2006. *Retirements at Risk: A New National Retirement Risk Index*. Chestnut Hill, MA.

The percentage of households 'at risk' rose from 2004 to 2009.

Percent of Households 'At Risk' at Age 65 by Income Group, 2004 and 2009.



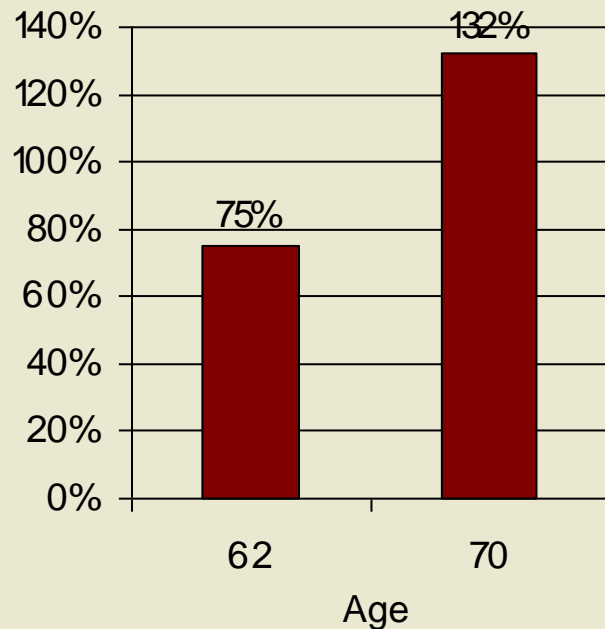
Source: Alicia H. Munnell, Francesca Golub-Sass, and Anthony Webb. 2009. "The National Retirement Risk Index: After the Crash." *Issue in Brief* 9-22. Chestnut Hill, MA: Center for Retirement Research.

Reducing risk in retirement can only be done the old-fashioned way:

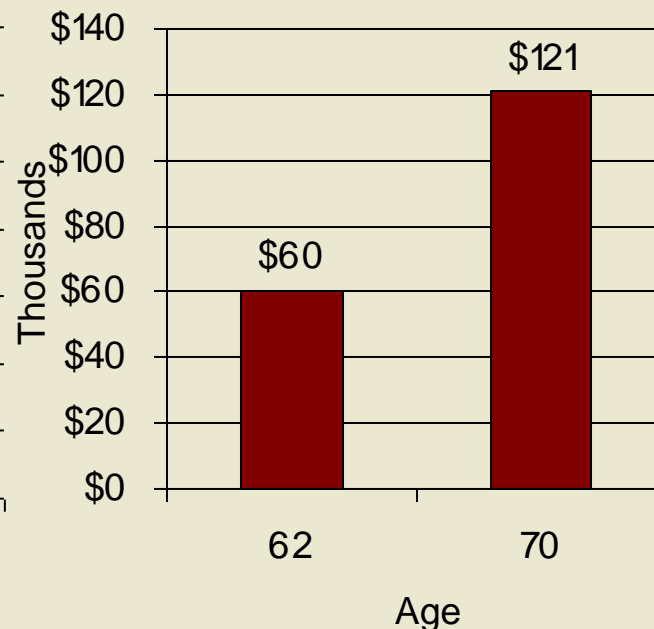
- 1) longer work lives; and
- 2) increased savings.

Working longer has a powerful impact on retirement income.

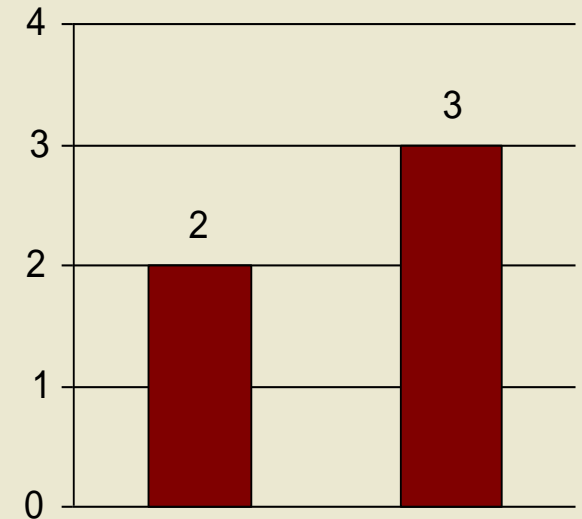
More Social Security



More 401(k)



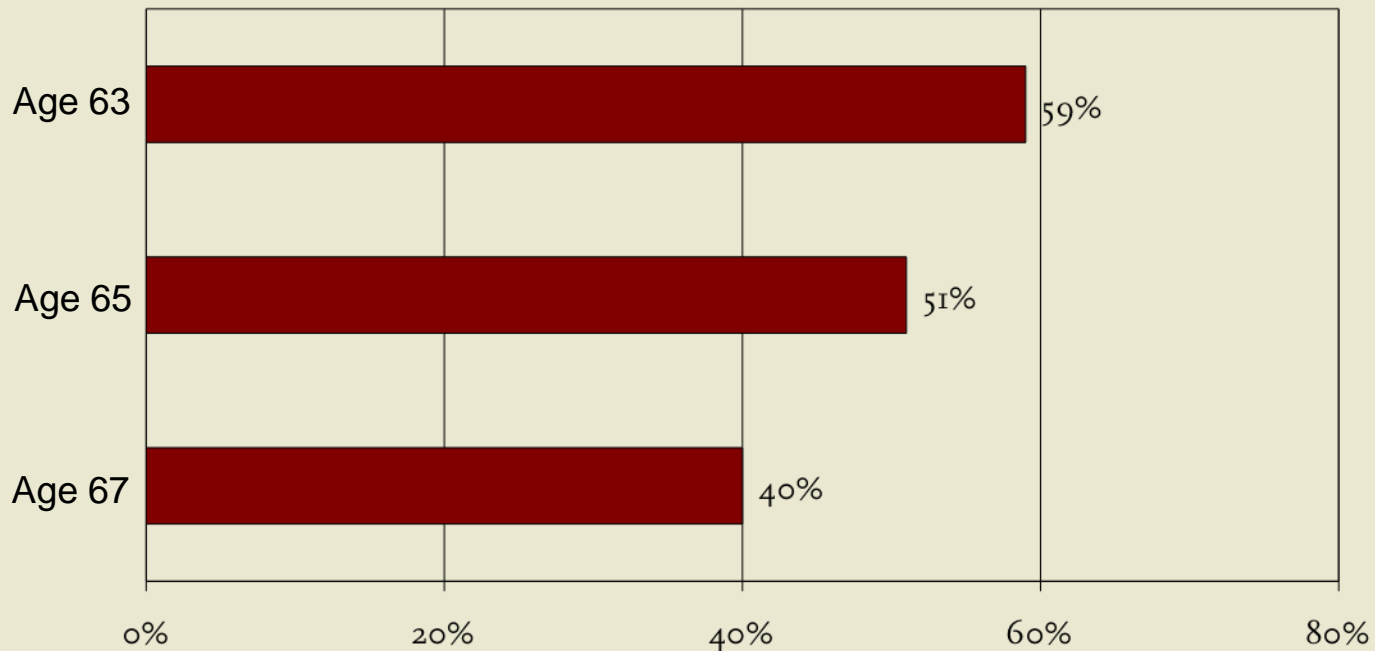
Increased Ratio of Working to Retirement Years



Sources: U.S. Social Security Administration. 2010. *The 2010 Annual Report of the Board of Trustees of the Federal Old Age, Survivors and Disability Insurance Trust Funds*. Washington, D.C.: U.S. Government Printing Office; Author's calculations based on U.S. Board of Governors of the Federal Reserve System. 2007. *Survey of Consumer Finances*; Congressional Budget Office 2004. "Retirement Age and the Need for Saving." *Economic and Budget Issue Brief*. Washington, D.C.

Raising the assumed retirement age reduces the 2009 NRRI from 51 to 40 percent.

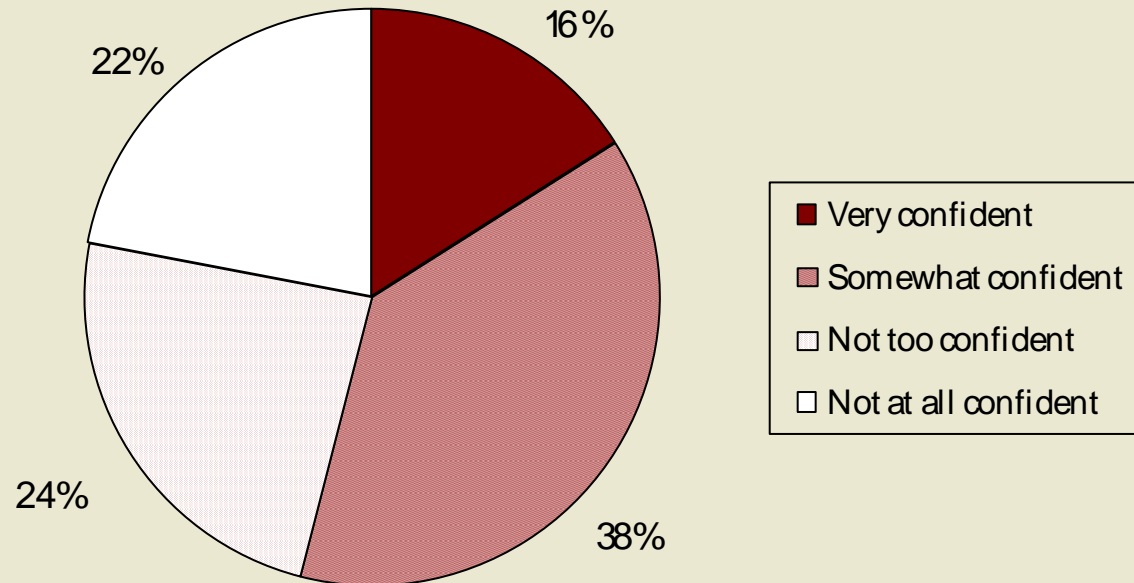
Percent of Households 'At Risk' by Assumed Retirement Age, 2009



Source: Author's calculations based on Alicia H. Munnell, Anthony Webb, and Francesca Golub-Sass. 2009. "The National Retirement Risk Index: After The Crash." *Issue in Brief* 9-22. Chestnut Hill, MA: Center for Retirement Research.

Improving retirement readiness also requires increased saving.

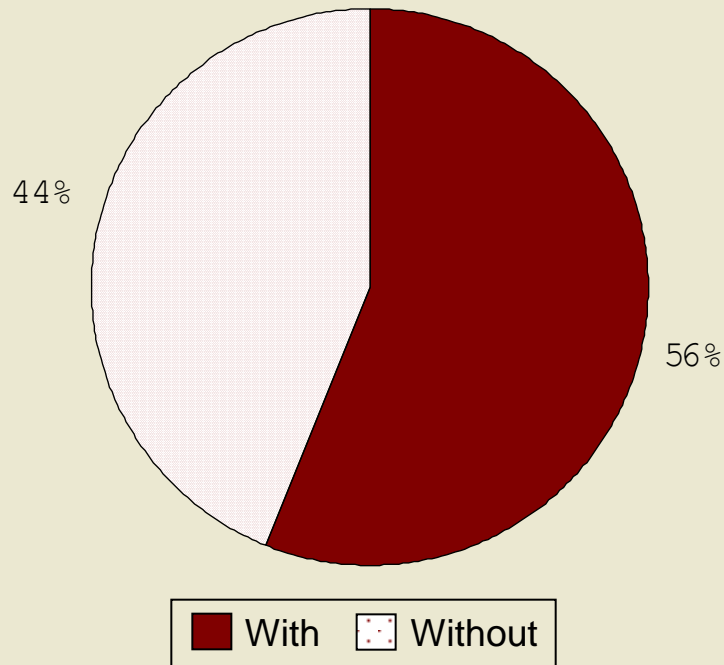
Worker Confidence in Having Enough to Live Comfortably in Retirement, 2010



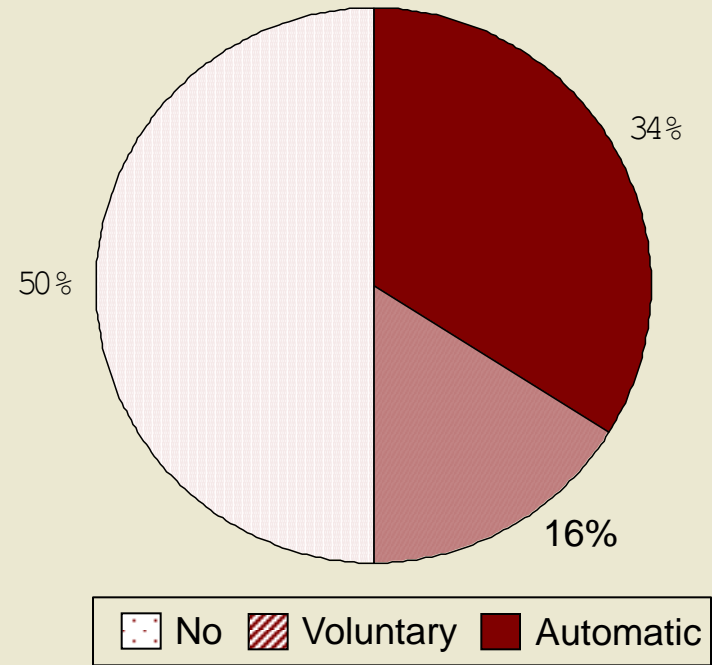
Source: Employee Benefit Research Institute. 2010. *The 2010 Retirement Confidence Survey: Economy Drives Confidence to Record Lows; Many Looking to Work Longer*. Washington, D.C.

U.S. needs to make 401(k) plans work as well as possible.

Percent of Large Plans with Automatic Enrollment, 2008



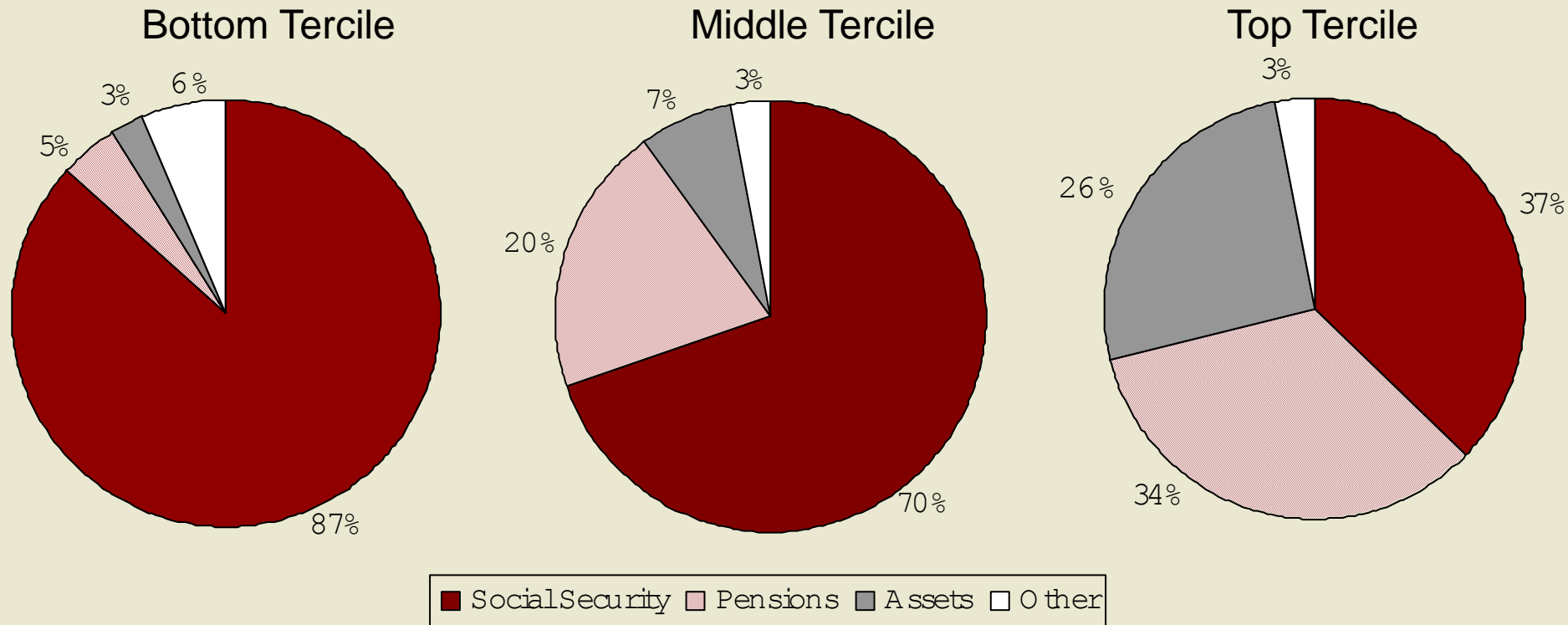
Percent of 401(k) Automatic Enrollment Plans that Increase Default Deferrals over Time, 2008



Source: Profit Sharing/401(k) Council of America. 2009. *52nd Annual Survey of Profit Sharing and 401(k) Plans*. Chicago, IL.

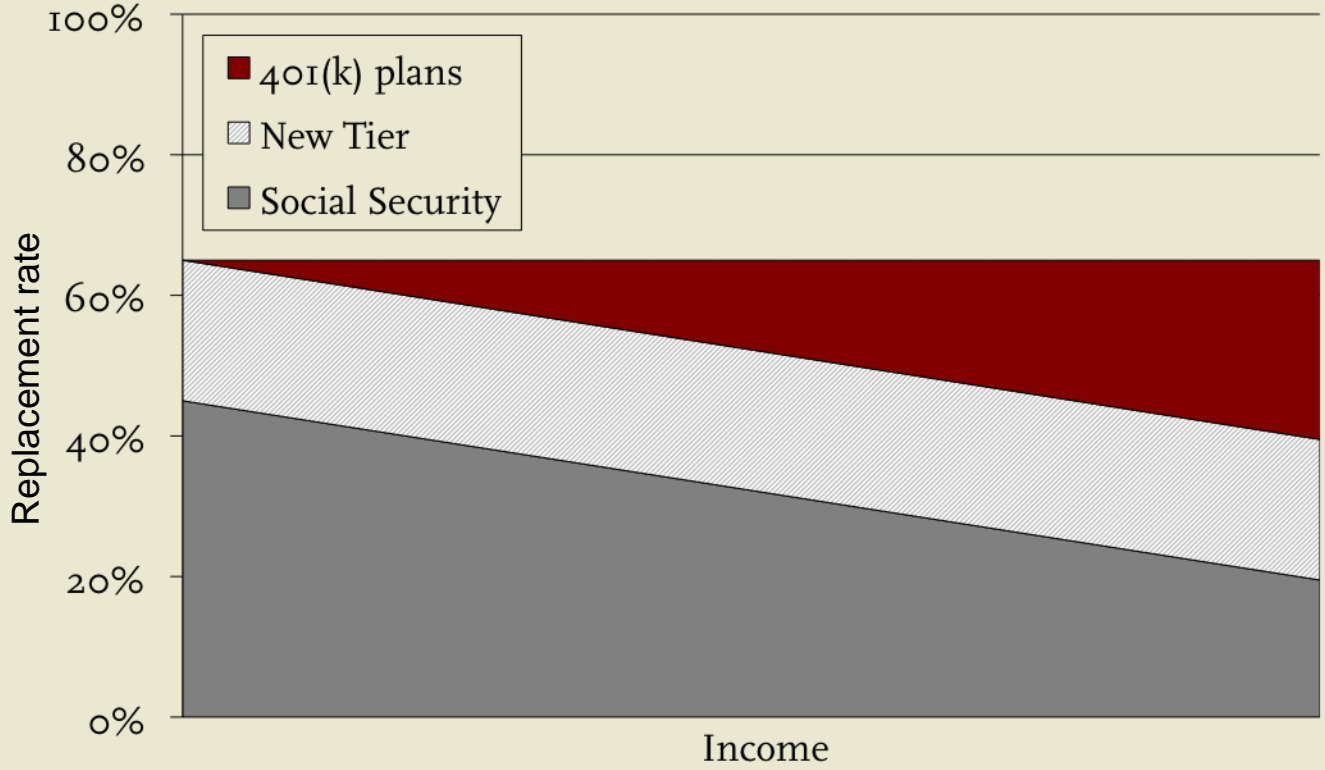
U.S. needs to maintain scheduled Social Security replacement rates.

Sources of Non-earned Income for Households by Tercile, Age 65 and Over, 2008



Source: Author's calculations based on the U.S. Bureau of Labor Statistics. 2009. *Current Population Survey*. Washington, D.C.: U.S. Government Printing Office.

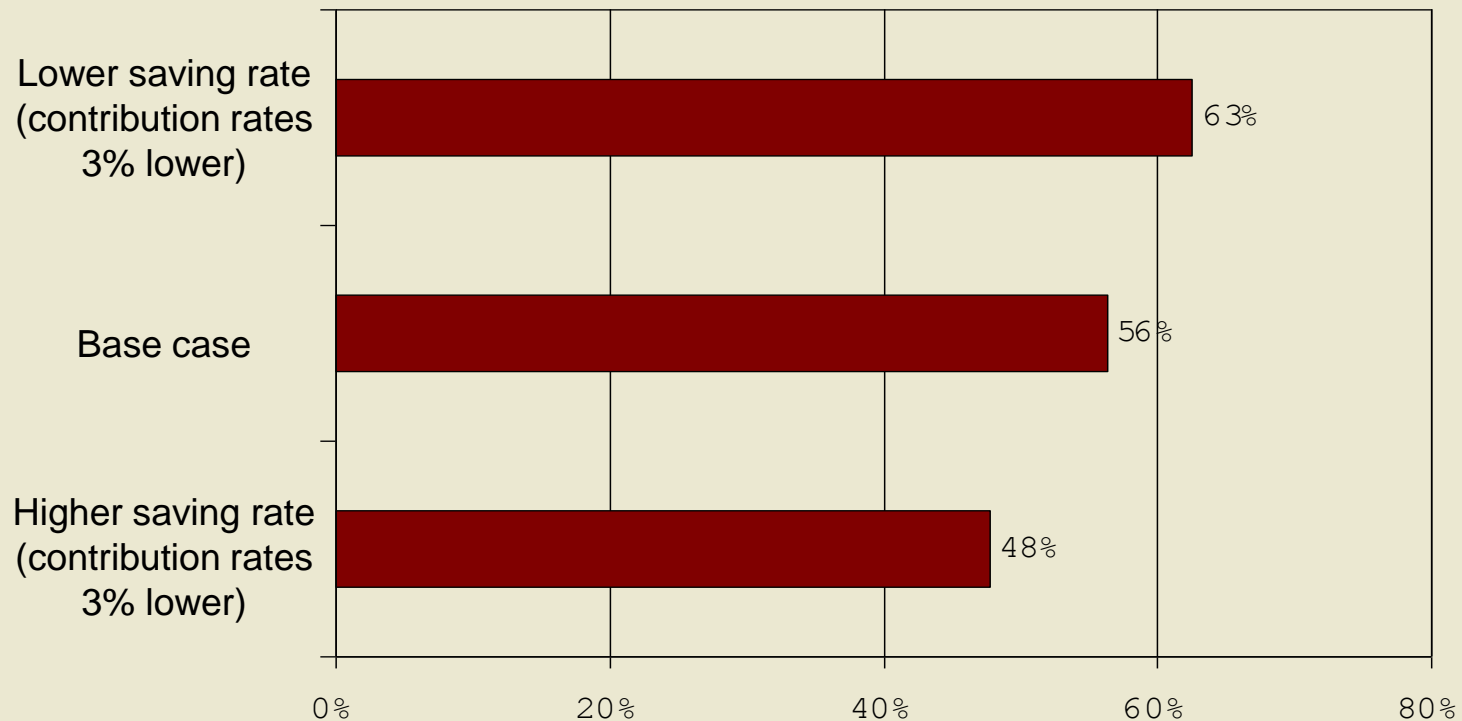
U.S. needs a new tier of retirement saving.



Source: Author's illustration.

Saving 3 percent more reduces the NRRI for younger workers from 56 to 48 percent.

Percent of Gen Xer Households 'At Risk' by Assumed Saving Rate, 2009



Source: Author's calculations based on Alicia H. Munnell, Anthony Webb, and Francesca Golub-Sass. 2009. "The National Retirement Risk Index: After The Crash." *Issue in Brief* 9-22. Chestnut Hill, MA: Center for Retirement Research.

Conclusion

- U.S. retirement needs are increasing.
- U.S. retirement income system is contracting.
- National Retirement Risk Index captures the magnitude of the problem.
- Solution requires:
 - Working longer; and
 - Saving more, which requires a new tier.