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DECEMBER 18, 2013

America's Retirement System Is Strong

By Sarah Holden

One year ago, ICI released its landmark study, *The Success of the U.S. Retirement System*, a compilation of research from a wide range of sources, which found that the country's retirement system is fostering economic security in retirement for Americans across all income levels. In fact, the body of available research suggests that overall retirement well-being has improved over time, as shown by measures of current retirees' wealth, income, and consumption; by studies of workers' savings for retirement; and by rising levels of assets earmarked for retirement. Indeed, today ICI published total retirement assets as of September 2013, which moved to a new record-high of $21.7 trillion. Defined contribution (DC) plan assets, including 401(k) plan assets, represent a growing component of that retirement nest egg.

Building on a Solid Base: The Retirement Resource Pyramid

Americans' retirement resources can be thought of as a pyramid, with Social Security— which provides retirement income for the vast majority of working Americans—forming its strong foundation. Social Security provides the highest replacement rates for lower-earning households, replacing 70 percent of average annual lifetime earnings for the lowest-income quintile and 47 percent in the second quintile. Other components of the pyramid include homeownership; employer-sponsored retirement plans, including defined benefit (DB) and DC plans, from both private-sector and government employers; individual retirement accounts (IRAs), including rollovers; and other assets, including personal savings.

Assets specifically earmarked for retirement have grown as a component of households' financial assets. In September 2013, total retirement assets ($21.7 trillion) accounted for more than one-third of households' total financial assets. Over the past several decades, DC plans also have grown in importance, rising to be a key component of the voluntary, private-sector employer-sponsored retirement plan system. As highlighted in a recent white paper developed by the American Council of Life Insurers (ACLI), the American Benefits Council, and ICI, such plans are an especially good fit for America's mobile workforce, in which workers tend to move from job to job. DC plans provide their participants with ownership and control, and are portable. When employees accumulate savings in workplace retirement plans like the 401(k), those assets grow with them when they change jobs.

Most working near-retiree households have resources from employer-sponsored retirement plans. According to data from the Federal Reserve Board's Survey of Consumer Finances (SCF), 81 percent of households in 2010 headed by a worker aged 55 to 64 had accrued benefits from DB plans, DC assets (such as from 401(k) or 403(b) plans), or IRA assets.

Retirement Plan Access and Participation Are Strong

According to the U.S. Bureau of Labor Statistics (BLS), almost 80 percent of full-time workers have access to employer-sponsored retirement plans (DB or DC) and, of those, more than 80 percent participate. Though other data from the BLS show that part-time, temporary, and seasonal workers, and those at small businesses, are less likely to have access to retirement plans at work, many such workers do have opportunities to accrue retirement resources to supplement their Social Security benefits. Many have had access to a retirement savings plan at previous employers, have a spouse accruing retirement benefits at work, can save in a tax-advantaged IRA, or will accumulate retirement resources in the future.

Americans Support the Employer-Based 401(k) System...

Both household surveys and administrative data indicate that Americans support the current DC plan system. Several studies have shown that these favorable attitudes have been reflected in the behavior of workers across all ages, even through the recent recession. For example, a 2012 survey conducted by the American Benefits Institute and WorldatWork found that the percentage of employees who elected to contribute the maximum allowable contribution under their 401(k) plan in 2012 was consistent with data from a similar survey four years earlier. Surveys of DC plan recordkeepers by ICI have found that only 3.7 percent of DC plan participants stopped regular contributions in 2008—the year that the financial crisis began—while only 3.4 percent stopped contributing in 2009.

A number of factors shape these favorable attitudes about DC plans. According to a recent ICI survey, households—whether or not they had a DC plan account or IRA—were generally confident in DC plans' ability to help individuals meet their retirement goals, while an overwhelming majority of households invested in DC plans (about nine in 10) said that these plans help them to think about the long term and make it easier to save for retirement.

Workplace access also is important. The same survey showed that more than half of households with DC plan accounts—51 percent—said they probably would not save for retirement if they did not have a retirement plan at work. Households with DC accounts also generally like the convenience of payroll deduction and the control that such plans give them over their investments and distribution decisions.

... And Support the Tax Treatment of DC Plans

Finally, the ICI survey showed the importance that people place on the tax-deferred treatment of DC plans. Almost nine out of 10 households with DC accounts or IRAs disagreed with a suggestion to remove the tax incentives for DC plan retirement savings, while a large majority of the households without these accounts (81 percent) opposed elimination of the tax incentives around such plans. There also was widespread disapproval of reducing contribution limits.

Because retirement plan contributions are tax-deferred, not tax-free, proposals by policymakers to raise revenue by reducing tax incentives for retirement plans would likely not live up to estimates. In addition, because the current tax treatment of such plans promotes participation in the system, these proposals could decrease retirement savings at all income levels.

Retirement assets constitute a major share of U.S. households' savings and investments, providing more than $21 trillion in investment capital. DC plans—which account for $5.6 trillion of that amount—offer workers a portable benefit that grows throughout their careers, the assurance of ownership, and a flexible platform for further innovation and improvement (including such recent developments as automatic enrollment, automatic escalation, and life-cycle investing).

Analysis of the available research and data indicates that DC plans are not just working—like the rest of America's retirement system, they are strong.

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