Americans' Retirement Resources

ICI Retirement Summit:
A Close Look at Retirement Preparedness in America
April 4, 2014
Washington, DC

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Goal of Presentation

- Estimates of retirement readiness rely on current data and projections
- Two primary sources
  - Survey of Consumer Finances (SCF)
  - Health and Retirement Study (HRS)
- Provide a comprehensive description of retirement resources
- Review available data

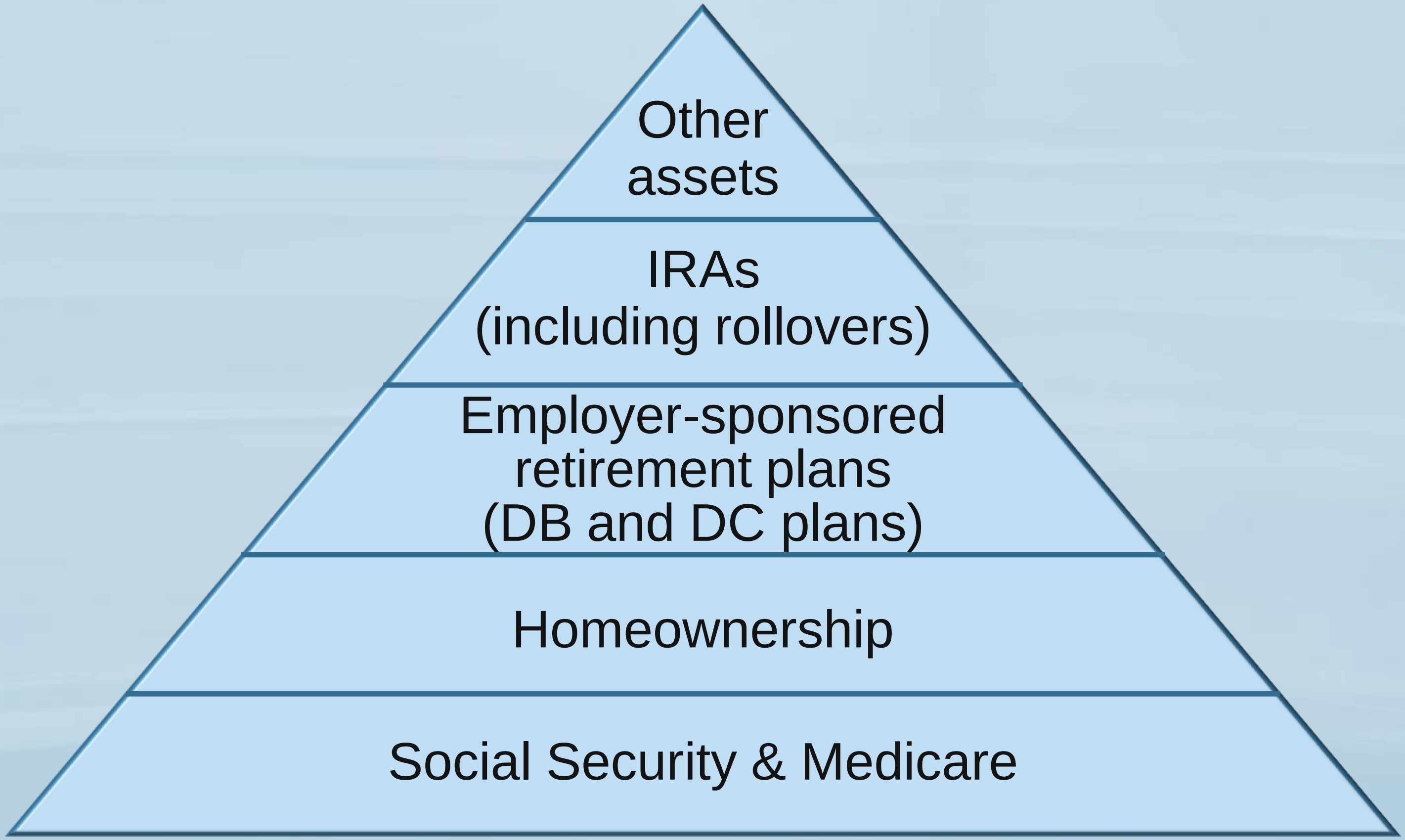
Outline

- U.S. safety net for the elderly
- Employment-based resources: a retirement resource pyramid
- Components of the retirement resource pyramid
- Comprehensive household balance sheet
- Impact to date of switch from DB to DC

U.S. Safety Net for the Elderly

- Supplemental Security Income (SSI)
  - 2014 maximum annual federal benefit
    - $8,652 for individuals
    - $12,984 for couples
  - Half of recipients in states with supplemental benefits
- Supplemental Nutrition Assistance Program (SNAP)
  - 2014 maximum annual benefit:
    - $2,268 for individuals
    - $4,164 for couples
- Housing
- Medicaid
  - In 38 states, nursing home coverage up to 300% of poverty

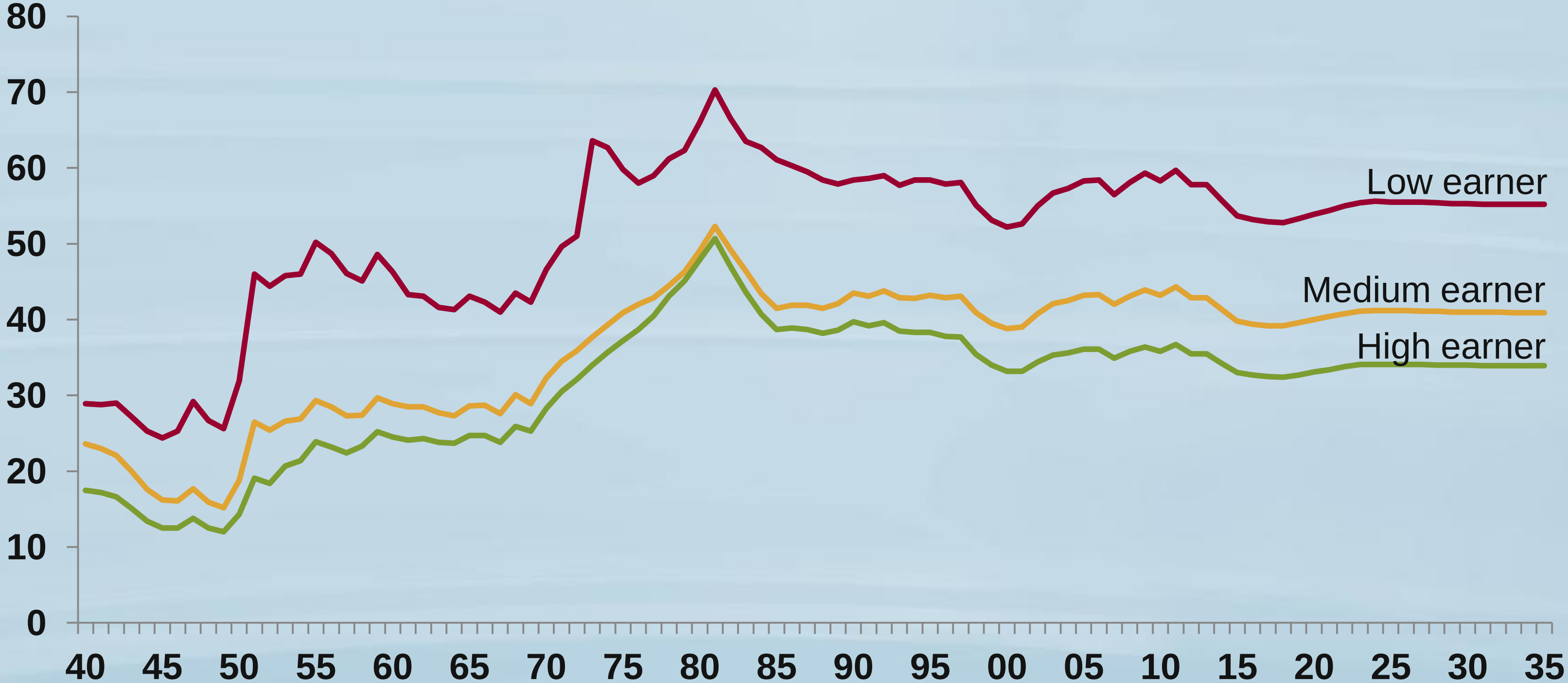
Employment-Based Resources: A Retirement Resource Pyramid



Source: Investment Company Institute; see Brady, Burham, and Holden, *The Success of the U.S. Retirement System* (December 2012)

Social Security Benefits Have Grown More Generous over Time

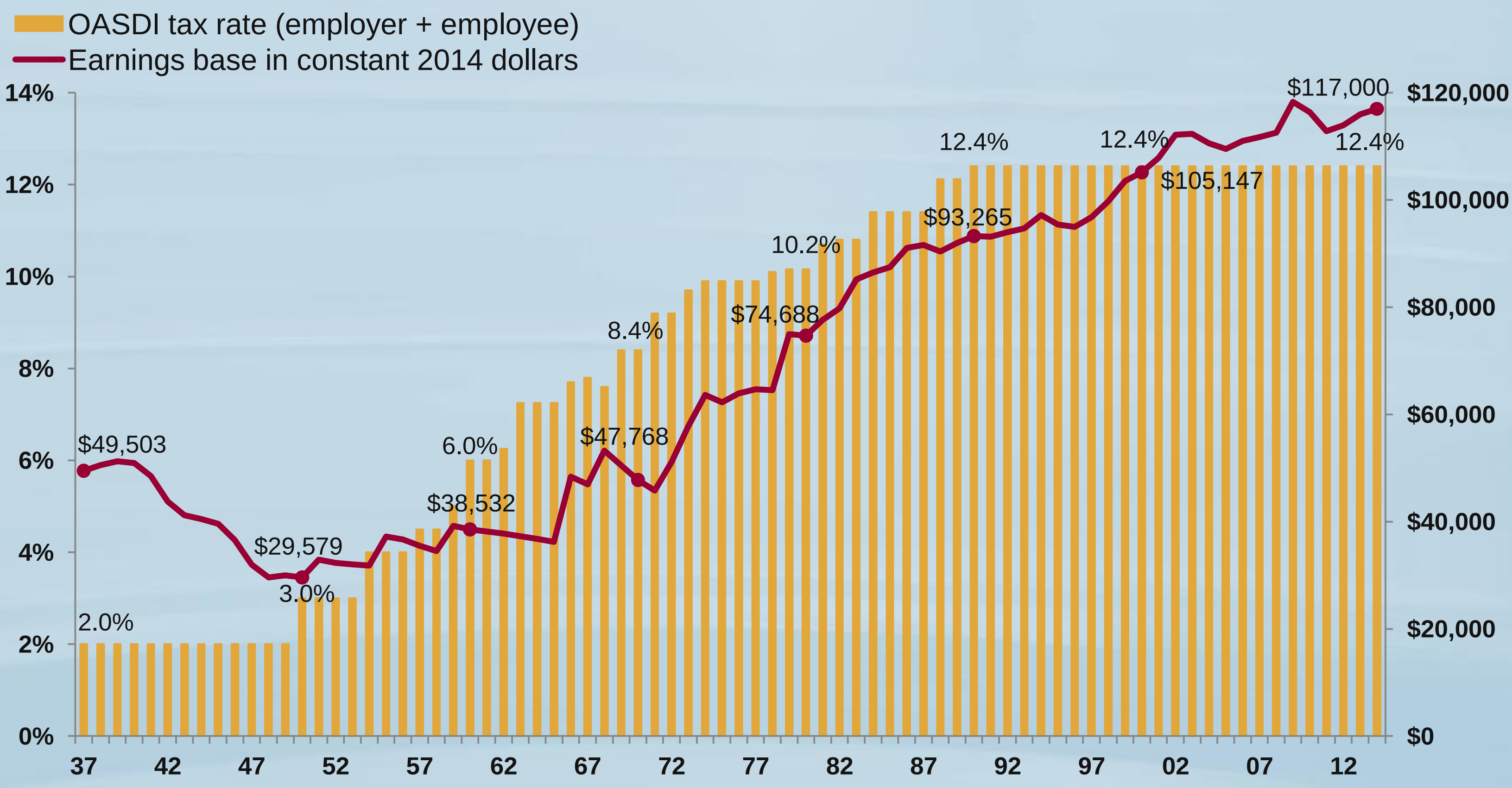
Estimates of replacement rates (first year benefits relative to average indexed earnings) at normal retirement age; percentage of lifetime earnings; 1940–2035



Note: Low, medium, and high earner refer to scaled earnings that reflect patterns of work and earnings for hypothetical workers over the course of a career. Projections assume no change in current policy.
Source: Social Security Administration, Office of the Chief Actuary; see Brady, Burham, and Holden, *The Success of the U.S. Retirement System* (December 2012)

Social Security Tax Rates and Tax Base Have Grown Over Time

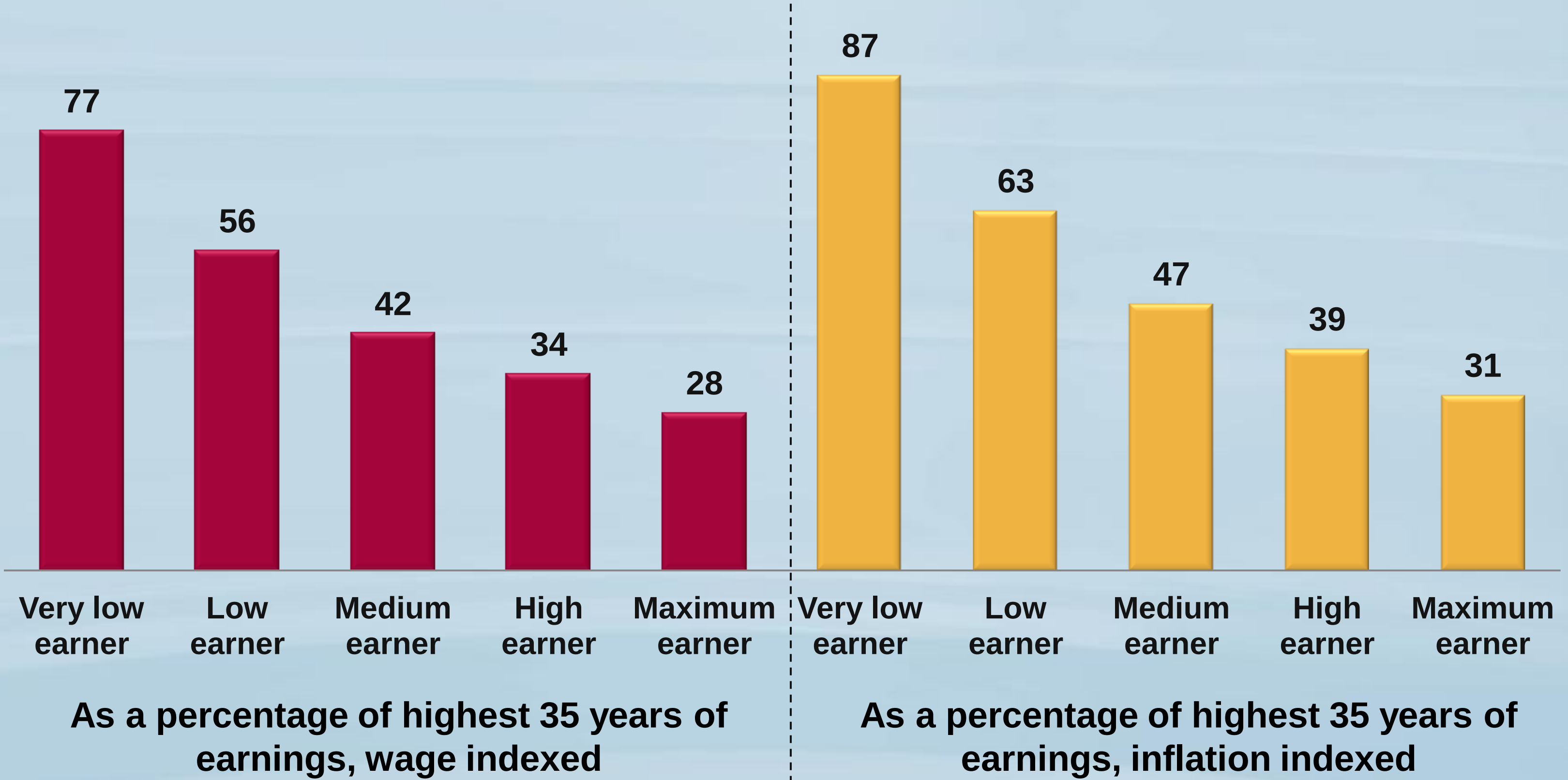
OASDI tax rate and earnings base, 1937 to 2014



Source: Social Security Administration, Office of the Chief Actuary

Social Security Benefits are More Generous to Workers with Low Lifetime Earnings

Alternative replacement rates for estimated Social Security benefits for SSA hypothetical workers born in 1949, retiring at age 65 in 2014



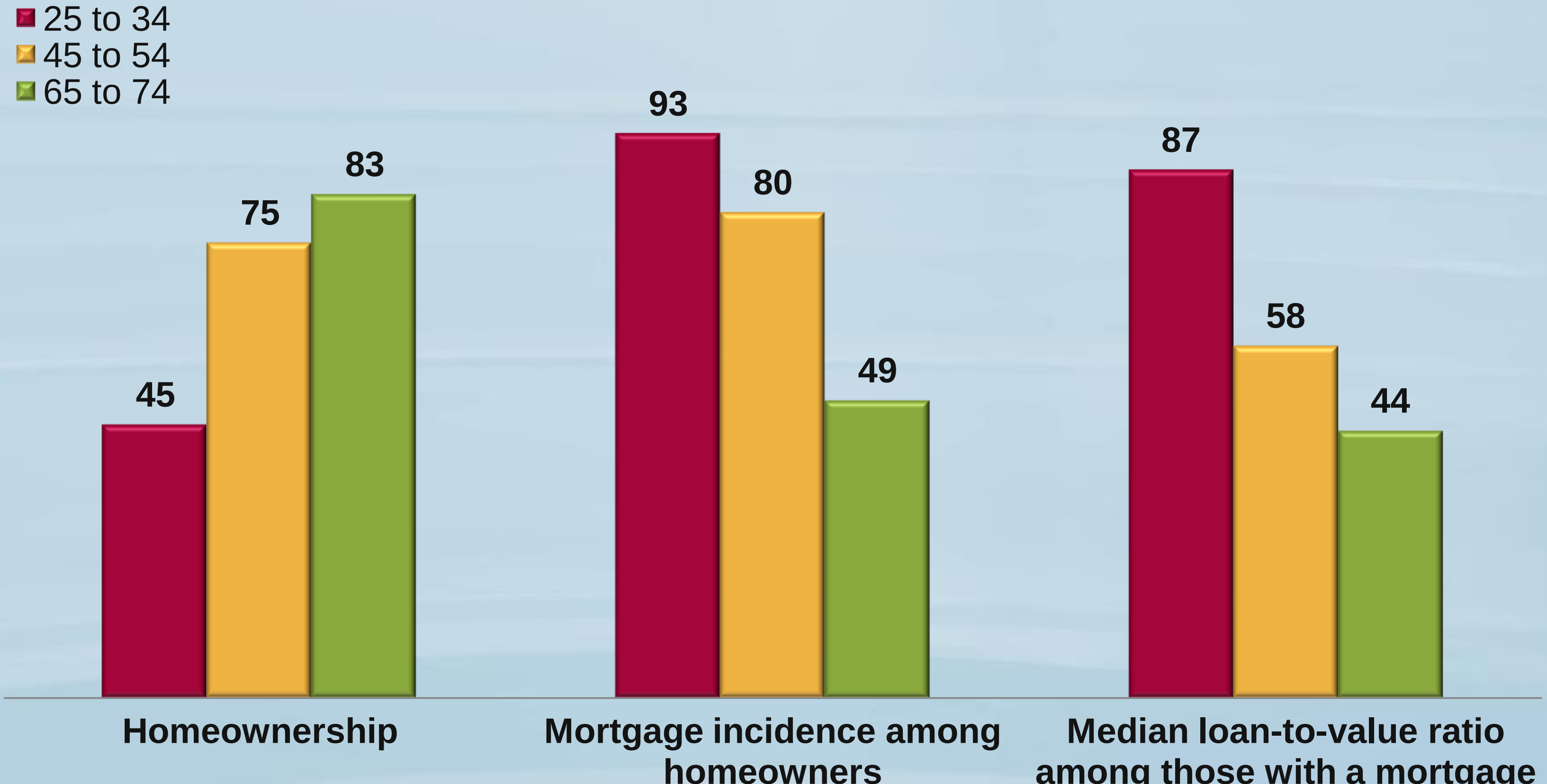
Source: Pang and Schieber, 2014

Social Security

- Social Security is a much more generous (and expensive) than when it was created in 1935.
- Social Security benefits replace a higher share of earnings for workers with lower lifetime earnings.

Homeownership Rises with Age; Mortgage Burden Falls with Age

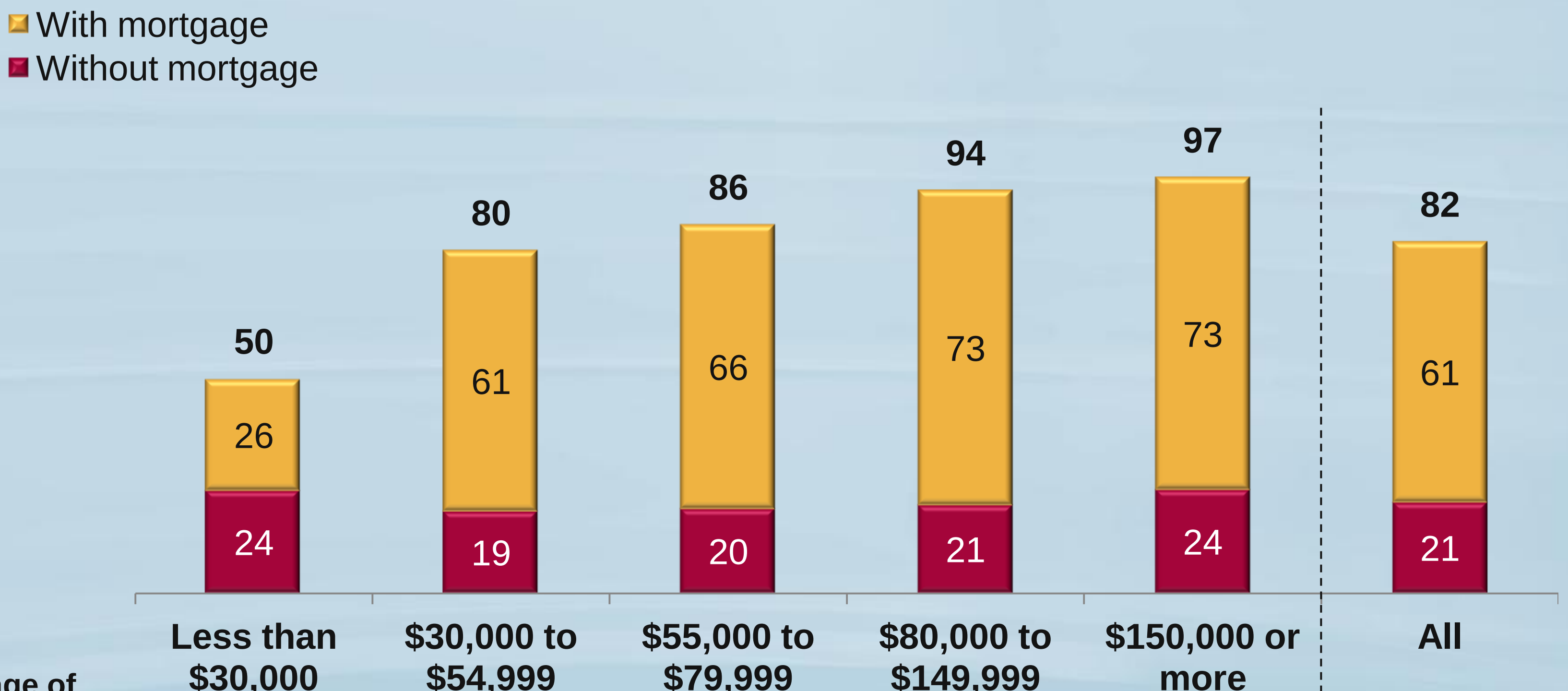
Percentage of households by selected age categories, 2010



Source: ICI tabulations of the Survey of Consumer Finances

Among Near-Retirees, Homeownership Increases with Income

Households age 55 to 64 with working head, by household income, 2010



	Less than $30,000	$30,000 to $54,999	$55,000 to $79,999	$80,000 to $149,999	$150,000 or more	All
Percentage of households:	17	26	18	22	19	100
Median home equity:	76,000	72,500	83,000	104,000	350,000	105,000

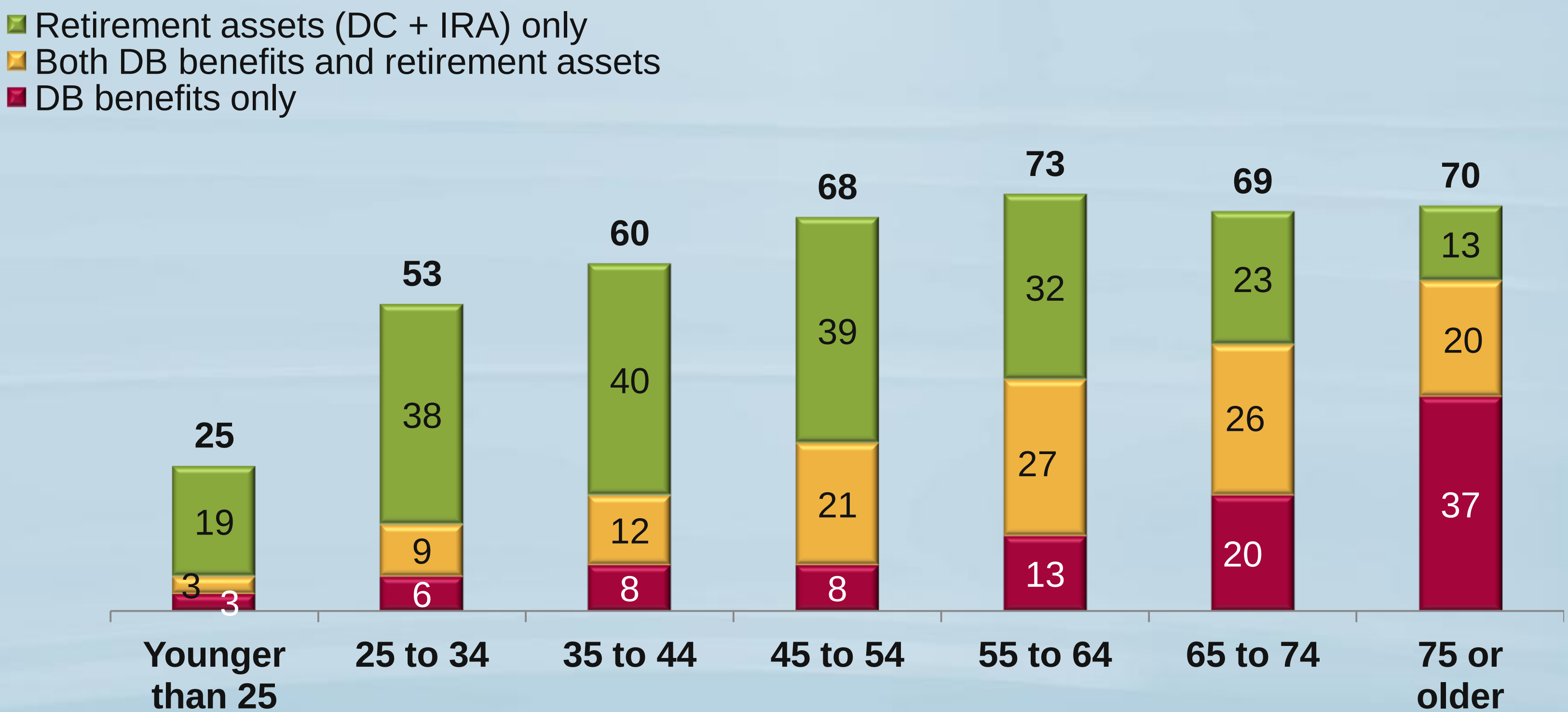
Source: ICI tabulations of the Survey of Consumer Finances

Homeownership

- Homeownership increases with age and mortgage debt declines with age.
- By retirement age, about 80 percent of households own a home and many have paid off all or most of their mortgage.

Share of Households with DB, DC, or IRA Increases with Age, as Do Retirement Assets

Households by age of household head, 2010

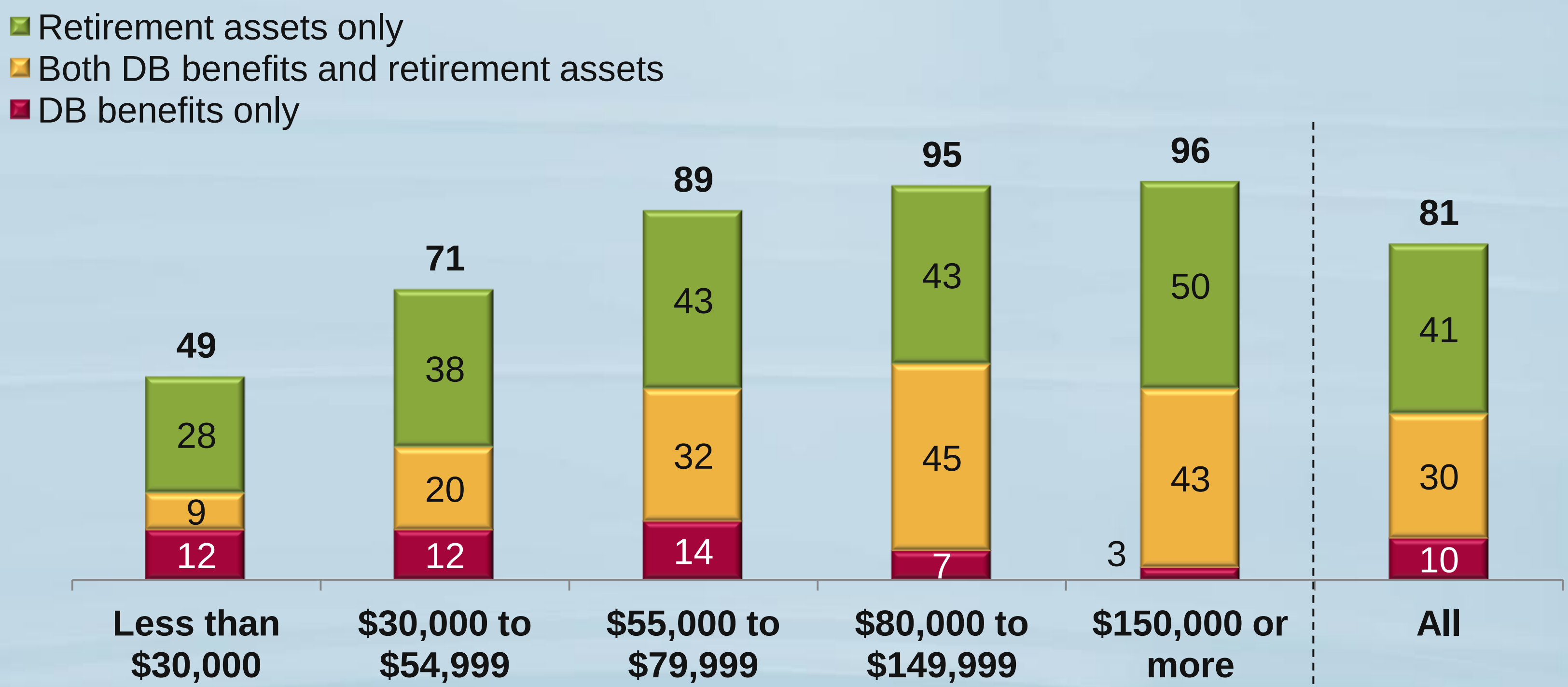


	Younger than 25	25 to 34	35 to 44	45 to 54	55 to 64	65 to 74	75 or older
Median retirement assets:	$3,600	$13,000	$31,000	$60,000	$100,000	$100,000	$54,000

Source: ICI tabulations of the Survey of Consumer Finances

Near-Retiree Households Across All Income Groups Have Retirement Assets, DB Plans Benefits, or Both

Households with working head age 55 to 64, by household income, 2010



	Less than $30,000	$30,000 to $54,999	$55,000 to $79,999	$80,000 to $149,999	$150,000 or more	All
Percentage of households:	17%	23%	18%	22%	19%	100%
Median retirement assets:	18,520	36,000	57,000	150,000	429,000	105,000

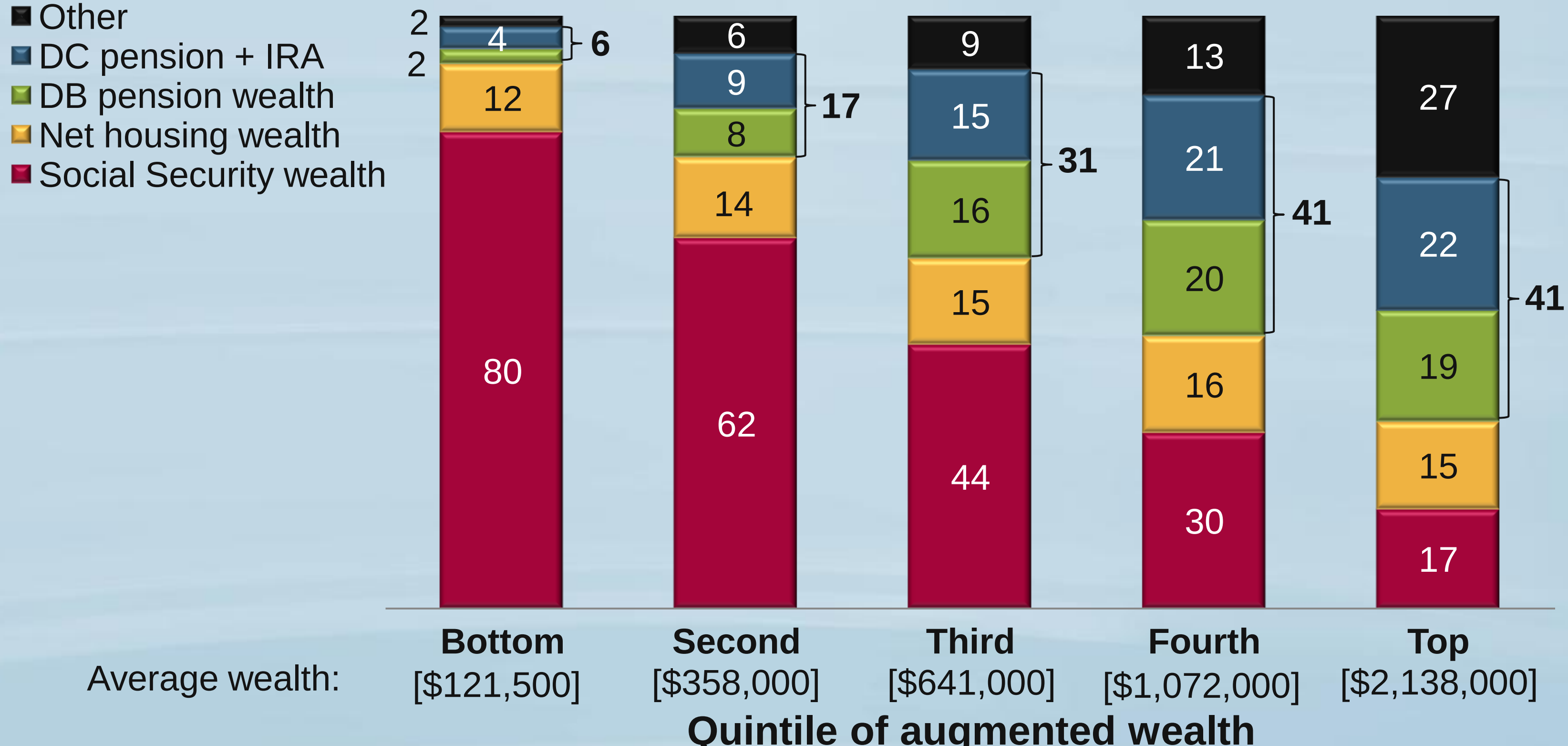
Source: ICI tabulations of the Survey of Consumer Finances

Employer-Sponsored Retirement Plans and IRAs

- The share of households that have retirement assets, DB benefits, or both increases with age.
- Among households age 55 to 64,73 percent of all households and 81 percent of working households have retirement assets, DB benefits, or both.

Retirement Resource Pyramid Varies With Wealth

Percentage of wealth by wealth quintile, households with at least one member age 57 to 62, excludes top and bottom one percent, 2010



Source: ICI tabulation derived from an updated Table 3 of Gustman, Steinmeier, and Tabatabai (2009) using Health and Retirement Study (HRS) data

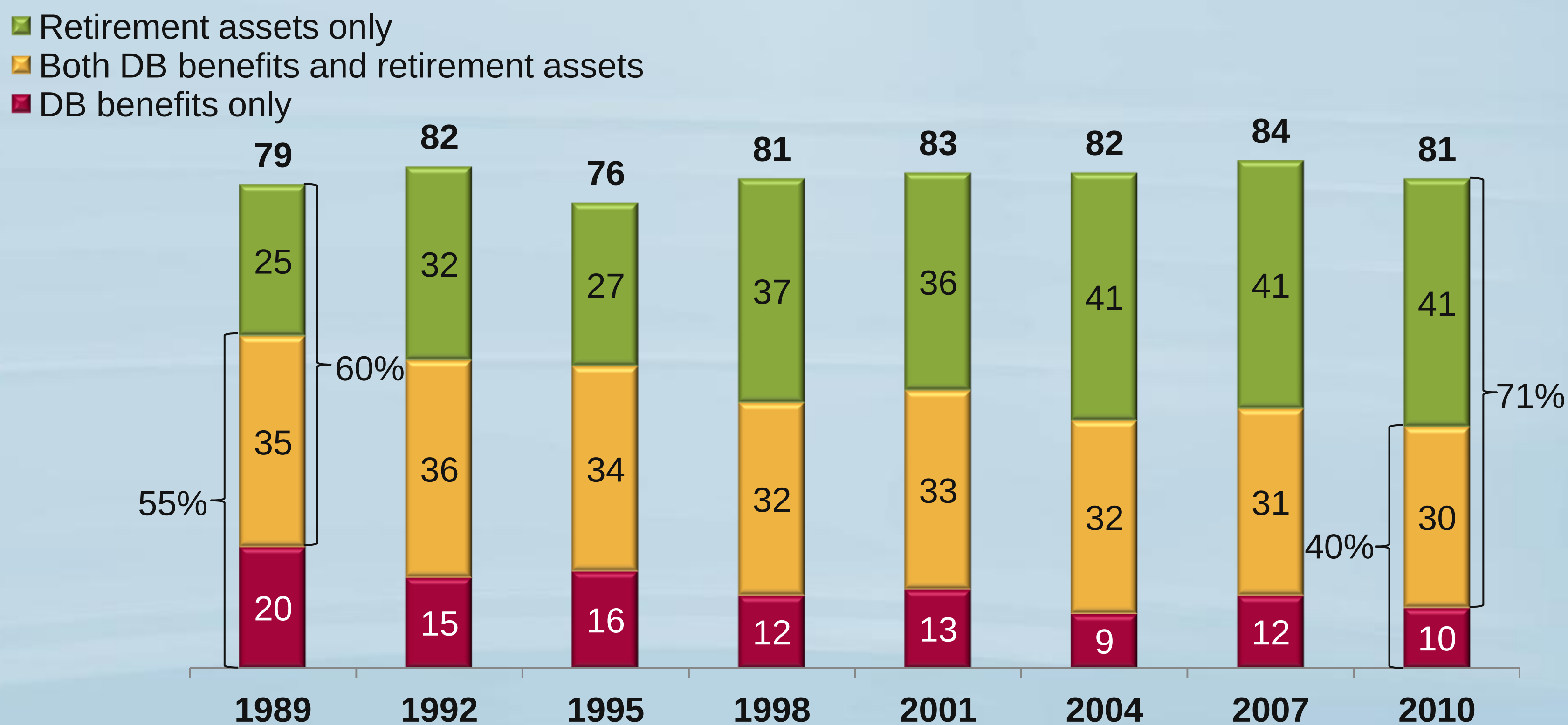
Summary: Retirement Resource Pyramid

- The composition of retirement resources varies from household to household.
- Social Security serves as the foundation for most households and the primary resource for households with low- to moderate- lifetime earnings.
- Homeownership provides shelter, reducing the need to generate monthly income.
- The vast majority of working households supplement Social Security with employer plans (DB and DC) and IRAs.

Impact of Shift in Private-Sector from DB to DC

Share of Near-Retirees with Retirement Accumulations Steady, but Composition Has Shifted

Households with working head age 55 to 64, 1989–2010

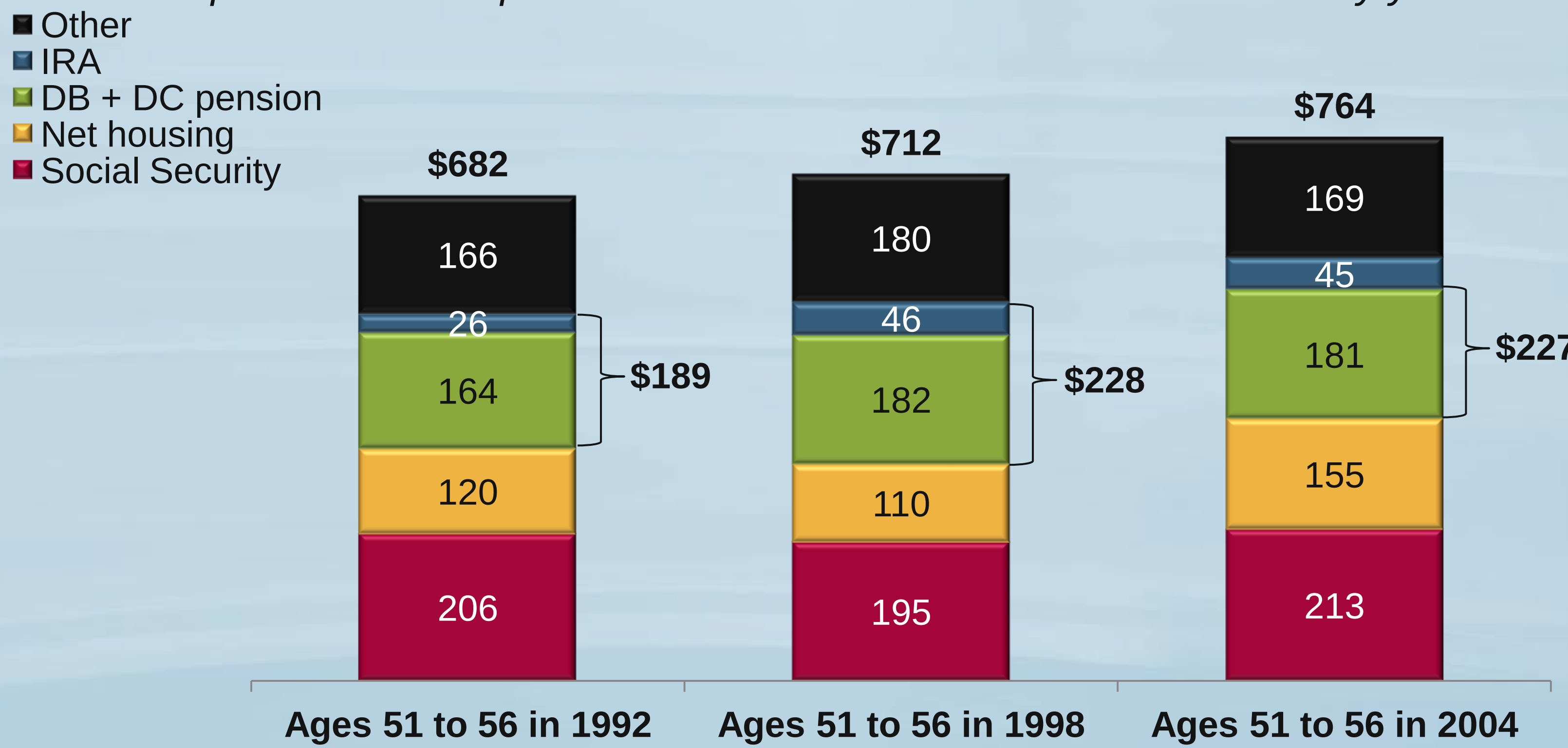


Median retirement assets (2010 dollars):	1989	1992	1995	1998	2001	2004	2007	2010
	40,479	51,546	42,490	60,025	66,170	96,769	113,150	105,000

Source: ICI tabulations of the Survey of Consumer Finances

Near Retiree Wealth Has Increased for Successive Cohorts

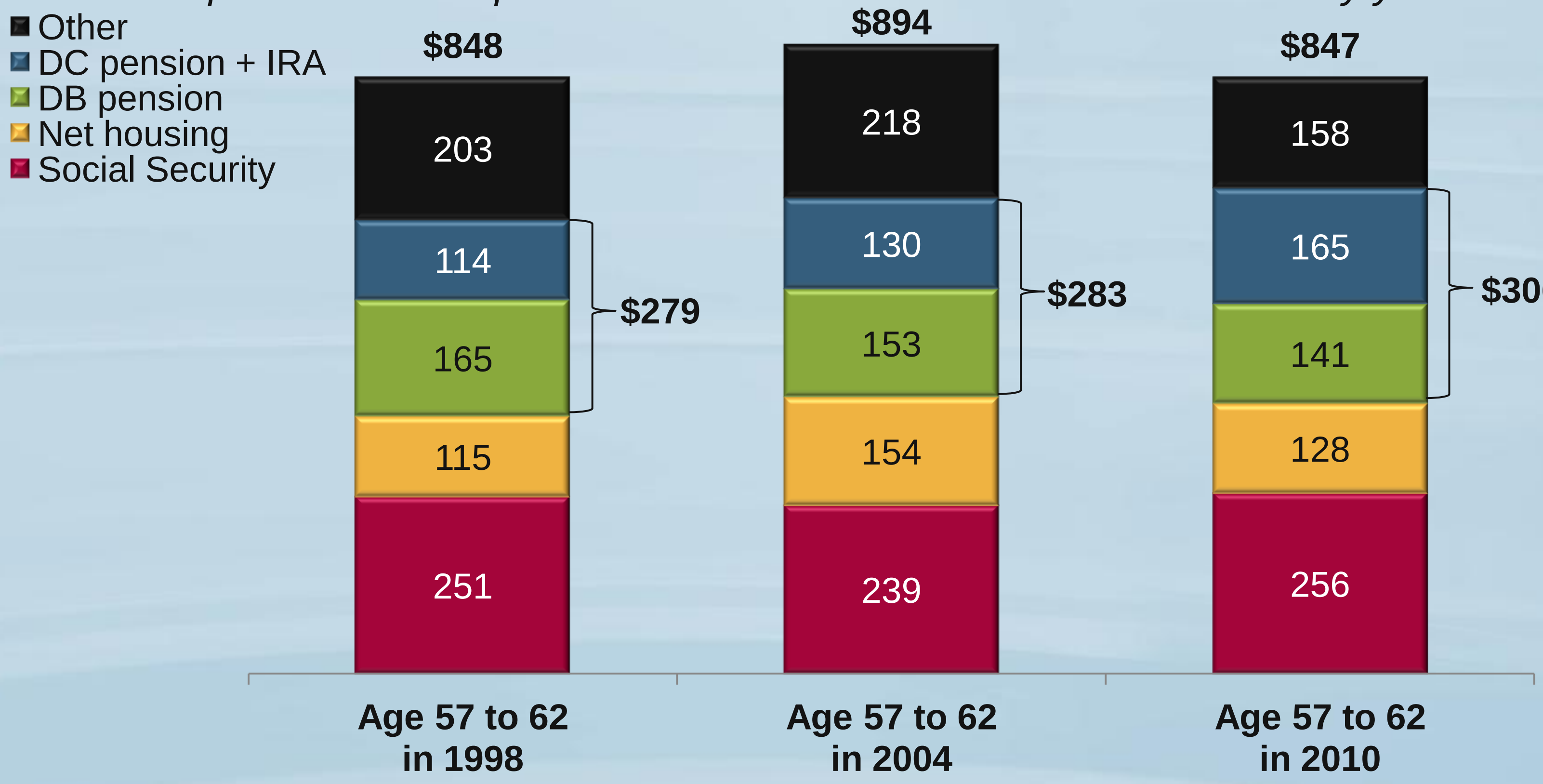
Comparison of average household wealth by cohort, thousands of constant 2010 dollars. Excludes top and bottom 1 percent of the wealth distribution in each survey year.



Source: Gustman, Steinmeier, and Tabatabai (2010)

Cohort Wealth Trend Affected By Recession, but Retirement Wealth Up

Comparison of average household wealth by cohort, thousands of constant 2010 dollars. Excludes top and bottom 1 percent of the wealth distribution in each survey year.



Source: Gustman, Steinmeier, and Tabatabai (2012)

Switch from DB Plans to DC Plans

- There is no evidence to date that the switch in the private sector from DB plans to DC plans has reduced retirement preparedness.
- The primary impact appears to be a shift in composition of retirement wealth.

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