ICI Retirement Summit:
A Close Look at Retirement Preparedness in America
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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

- Social Security & Medicare
- Homeownership
- Employer-sponsored retirement plans (DB and DC plans)
- IRAs (including rollovers)
- Other assets

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

<table>
<thead>
<tr>
<th>Earned Income Level</th>
<th>Very Low Earner</th>
<th>Low Earner</th>
<th>Medium Earner</th>
<th>High Earner</th>
<th>Maximum Earner</th>
</tr>
</thead>
<tbody>
<tr>
<td>As a percentage of highest 35 years of earnings, wage indexed</td>
<td>77</td>
<td>56</td>
<td>42</td>
<td>34</td>
<td>28</td>
</tr>
<tr>
<td>As a percentage of highest 35 years of earnings, inflation indexed</td>
<td>87</td>
<td>63</td>
<td>47</td>
<td>39</td>
<td>31</td>
</tr>
</tbody>
</table>

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

- Homeownership
  - 25 to 34: 45%
  - 45 to 54: 75%
  - 65 to 74: 83%

- Mortgage incidence among homeowners
  - 25 to 34: 93%
  - 45 to 54: 80%
  - 65 to 74: 49%

- Median loan-to-value ratio among those with a mortgage
  - 25 to 34: 87%
  - 45 to 54: 58%
  - 65 to 74: 44%

Source: ICI tabulations of the Survey of Consumer Finances

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Americans’ Retirement Resources
Among Near-Retirees, Homeownership Increases with Income

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

- With mortgage
- Without mortgage

Percentage of households:
- Less than $30,000: 17%
- $30,000 to $54,999: 26%
- $55,000 to $79,999: 18%
- $80,000 to $149,999: 22%
- $150,000 or more: 19%
- All: 100%

Median home equity:
- Less than $30,000: $76,000
- $30,000 to $54,999: $72,500
- $55,000 to $79,999: $83,000
- $80,000 to $149,999: $104,000
- $150,000 or more: $350,000
- All: $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

- Retirement assets (DC + IRA) only
- Both DB benefits and retirement assets
- DB benefits only

Source: ICI tabulations of the Survey of Consumer Finances

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Americans' Retirement Resources
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

- Retirement assets only
- Both DB benefits and retirement assets
- DB benefits only

Percentage of households:
- Less than $30,000: 17%
- $30,000 to $54,999: 23%
- $55,000 to $79,999: 18%
- $80,000 to $149,999: 22%
- $150,000 or more: 19%
- All: 100%

Median retirement assets:
- Less than $30,000: $18,520
- $30,000 to $54,999: $36,000
- $55,000 to $79,999: $57,000
- $80,000 to $149,999: $150,000
- $150,000 or more: $429,000
- All: $105,000

Source: ICI tabulations of the Survey of Consumer Finances

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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

- Other
- DC pension + IRA
- DB pension wealth
- Net housing wealth
- Social Security wealth

Quintile of augmented wealth

Average wealth:
- Bottom: [$121,500]
- Second: [$358,000]
- Third: [$641,000]
- Fourth: [$1,072,000]
- Top: [$2,138,000]

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

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Americans' Retirement Resources
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

- Retirement assets only
- Both DB benefits and retirement assets
- DB benefits only

<table>
<thead>
<tr>
<th>Year</th>
<th>Retirement assets only</th>
<th>Both DB benefits and retirement assets</th>
<th>DB benefits only</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989</td>
<td>25%</td>
<td>60%</td>
<td>20%</td>
</tr>
<tr>
<td>1992</td>
<td>32%</td>
<td>36%</td>
<td>15%</td>
</tr>
<tr>
<td>1995</td>
<td>27%</td>
<td>34%</td>
<td>16%</td>
</tr>
<tr>
<td>1998</td>
<td>37%</td>
<td>32%</td>
<td>12%</td>
</tr>
<tr>
<td>2001</td>
<td>36%</td>
<td>33%</td>
<td>13%</td>
</tr>
<tr>
<td>2004</td>
<td>41%</td>
<td>32%</td>
<td>9%</td>
</tr>
<tr>
<td>2007</td>
<td>41%</td>
<td>31%</td>
<td>12%</td>
</tr>
<tr>
<td>2010</td>
<td>41%</td>
<td>30%</td>
<td>10%</td>
</tr>
</tbody>
</table>

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


