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The Retirement Pyramid: How to Best View Your Resources

ICI Explains: The Retirement Pyramid: How to Best View Your Resources

This video explains the various resources households can draw upon for retirement, offering the retirement pyramid as a useful guiding concept. The pyramid consists of five components: Social Security, homeownership, employer-sponsored retirement plans, individual retirement accounts (IRAs), and other personal savings. Each household's pyramid is different, but the combination of different resources helps fund their retirement.

Transcript

Many have thought about retirement resources as a "three-legged stool," where households rely equally upon Social Security, pensions, and personal savings during their golden years.

But the stool paints an incomplete picture of resources for many households, and there's another, better way to view retirement resources. That's as a pyramid, because households don't need to rely on each resource equally to maintain their standard of living in retirement.

The retirement pyramid consists of five basic components: Social Security, homeownership, employer-sponsored retirement plans, individual retirement accounts or IRAs, and other assets.

The extent to which retirees rely on any given piece of the pyramid differs from household to household.

Social Security is the base of the pyramid. It serves as the primary resource for households with low- to moderate- lifetime earnings, while providing substantial resources to households at all levels of earnings.

Homeownership forms the second level since about 80 percent of households own a home by retirement age, and many have paid off all or most of their mortgage. Homeownership reduces monthly expenses because you can live in your home rent-free.

The third level is employer-sponsored retirement plans. These include defined benefit [DB] and defined contribution [DC] plans—such as a 401(k)—from both private-sector and government employers.

The fourth level is IRAs, whether created with rollovers or contributions.

Considering the third and fourth levels combined, upon retirement, 75 percent of working households have accumulated assets in DC plans or IRAs, accrued benefits in DB plans, or both.

The top level of the pyramid—which is typically the smallest for all but the highest-income households—is other assets, such as non-retirement investment accounts, investment real estate, and equity in businesses.

Resources set aside for retirement are more than $33 trillion. Poverty among the elderly is down and more retirees are getting increased income from employer plans. There’s always room for improvement—but tax data show that most workers are maintaining their spendable income when they retire.

Each household’s pyramid is different—some rely more on Social Security, others on savings. But by layering these different resources, tens of millions of Americans are using the retirement pyramid to maintain their standard of living in retirement.

For more infromation, visit https://www.ici.org/retirement.
