

U.S. Retirement Savings: Filling in the Gaps

Barb Van Zomeren



One word to describe



America's Savings Crisis

https://www.youtube.com/watch?v=GaBx_ry8E5Y



United States Retirement System

U.S. Retirement Savings 2018

- \$27.1 trillion total in retirement plans and IRAs
- \$7.5 trillion in DC plans
- \$8.8 trillion in IRAs
- 97 million Americans in DC plans

Source: "US Retirement Market Fourth Quarter 2018," Investment Company Institute (ICI).



U.S. Retirement Program

- Public pension: Social Security
- Occupational retirement plans
- Individual savings



U.S. Retirement Program



Social Security

- Only mandated public pension
- Funded primarily on lifetime earnings
- 93% of workers participate



Occupational Plans

- Mostly DC plans of large employers
- Fewer DB plans
- Small business plans
- 55% of workers have access to plans



Individual Savings

- Traditional and Roth IRAs
- Health savings accounts
- Other personal savings



Country Comparison

What can we learn?

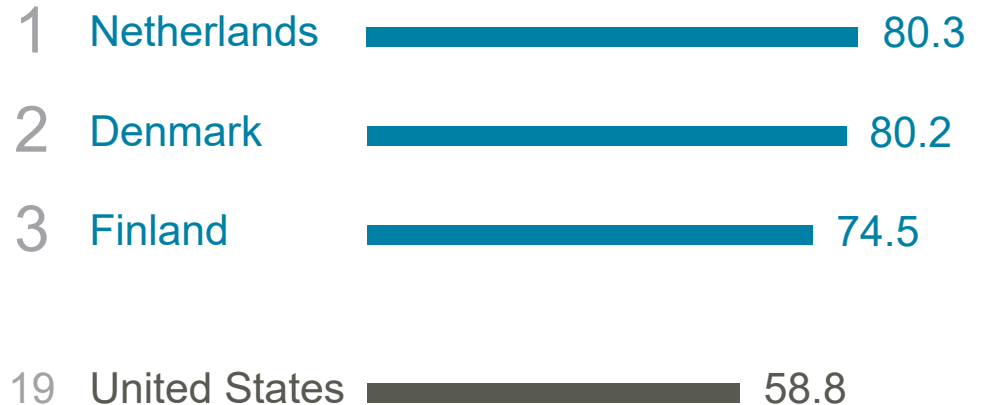
Melbourne Mercer Global Pension Index

34 Countries scored on

- Adequacy
- Sustainability
- Integrity





2018 Pension Index Overall Scores

Top 3 Countries



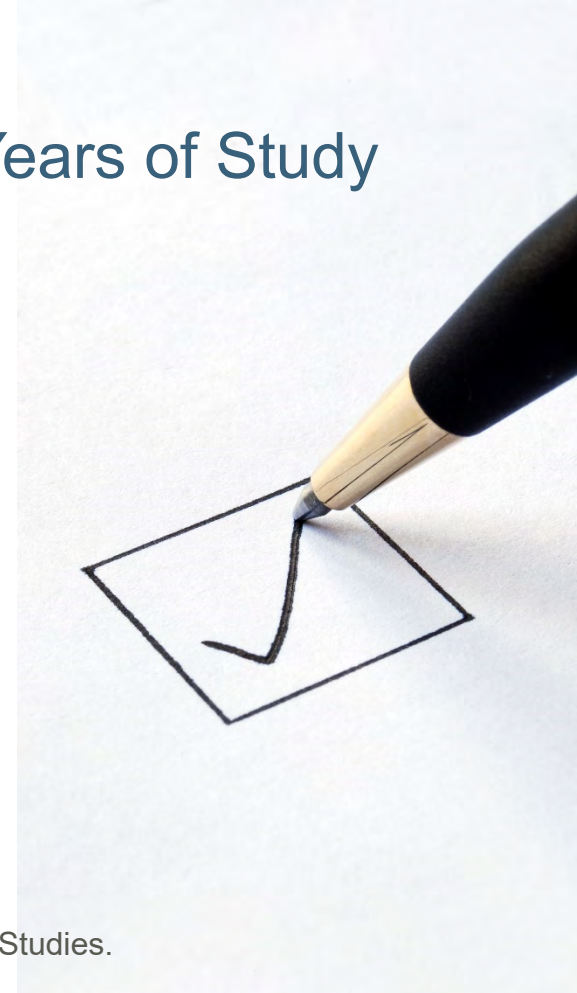
Source: "Melbourne Mercer Global Pension Index 2018," Australian Centre for Financial Studies.

Country Comparison

	 Netherlands	 Denmark	 Finland	 United States
Public Pensions				
Basic public pension	X	X	X	X
2nd mandatory public pension		X		
Private occupational plans				
Mandated or quasi-mandated occupational plans	X	X	X	
Mandated employer contributions	X	X	X	
Optional private plans	X	X	X	X
Individual retirement savings accounts	X	X		X

Pension Index Recommendations After 10 Years of Study

- Gradually increase average retirement age
- Increase the level of savings to lessen reliance on government
- Increase private pension coverage opportunities
- Reduce access to retirement savings before retirement
- Improve the transparency of pension plan operations



Source: "Melbourne Mercer Global Pension Index 2018," Australian Centre for Financial Studies.



U.S. Retirement System Challenges

Retirement Security Challenges

<https://www.youtube.com/watch?v=1myWQV8Hftc&autoplay=1&rel=0&showinfo=0>

U.S. Social Security Challenges

- Primary source of income for many
- 40% median income net replacement rate
- Demographic shifts
 - Baby boomers
 - Life expectancy increasing
- Low bond yields
- Costs to exceed income in 2020
- Trust fund reserves to run out in 2035



Occupational Retirement Plan Challenges



Many private employers don't offer a retirement plan



Not all workers with access participate



Large-scale shift from DB to DC plans puts more savings responsibility on workers



Risk of outliving the savings without a lifetime income guarantee

U.S. Individual Savings Challenges



Low IRA contribution rates



Not everyone has access to HSAs



Personal savings often low or nonexistent



Old age poverty is high at 21.5%



Savers' Most Common Concerns



Outliving retirement savings



Social Security instability



Health care costs



Long-term care costs



Increasing debt – student loans, housing, etc.



Workers responsible for saving and investments



Retirement Savings Gaps

Gap 1

Worker Access to Retirement Plans



RETIRE MENT

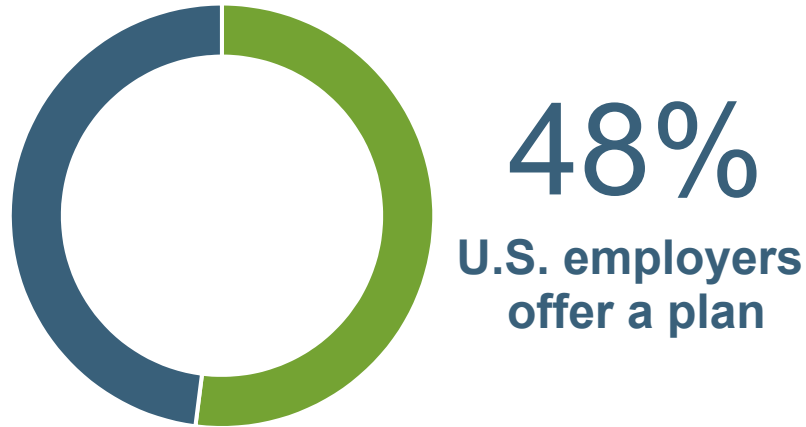
How many workers have access to retirement plans?

IRS on Retirement Plans

<https://www.irsvideos.gov/Business/RetirementPlans/RetirementPlans>

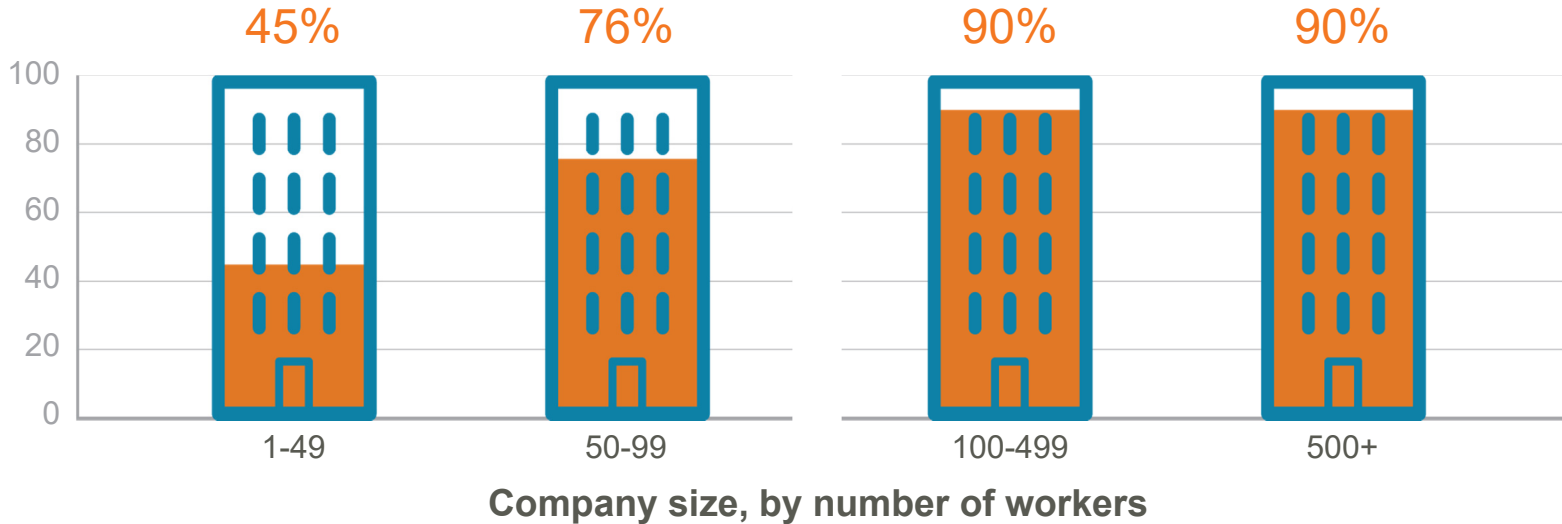
Employers Offering a Retirement Plan Option

Private Industry Employers With DB or DC Plans



Source: "National Compensation Survey: Employee Benefits in the United States, March 2018," U.S. Bureau of Labor Statistics

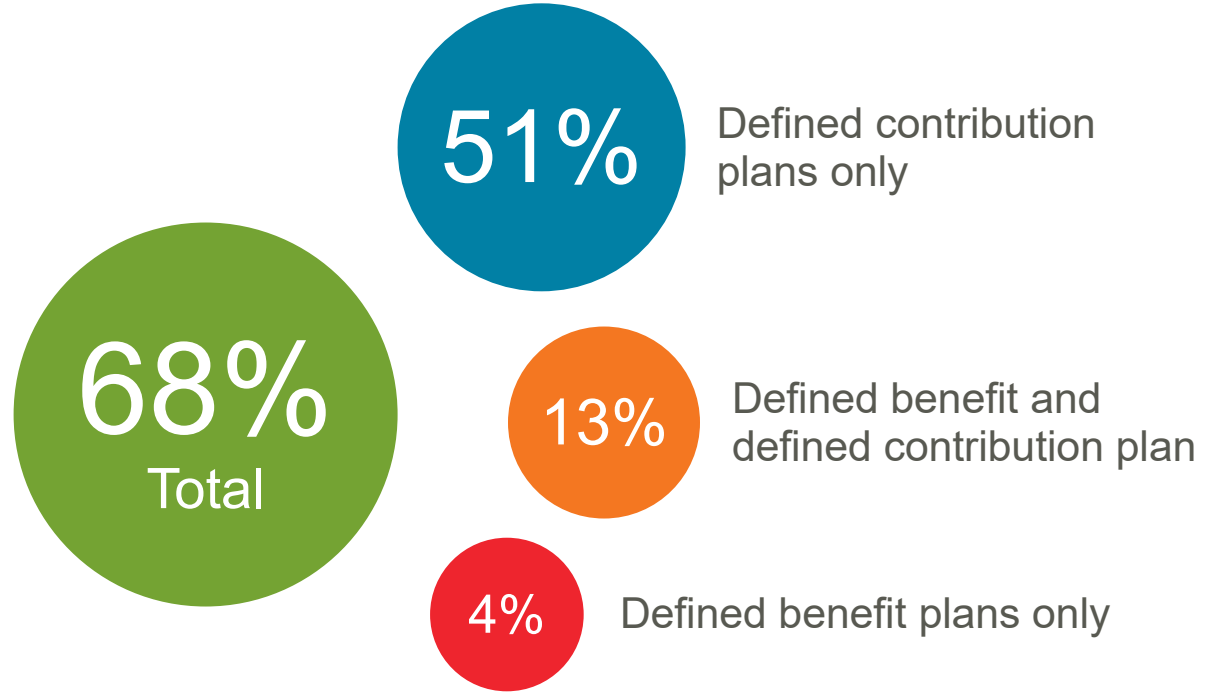
Employer Plan Option by Company Size



Source: "National Compensation Survey: Employee Benefits in the United States, March 2018," U.S. Bureau of Labor Statistics

Worker Access to a Retirement Plan

Private Industry
Worker's Access to
a DB or DC Plan



Source: "National Compensation Survey: Employee Benefits in the United States, March 2018," U.S. Bureau of Labor Statistics

Gap 2

Worker Participation

RETIRE

MENT

How many workers participate in retirement plans?

PBS News Hour

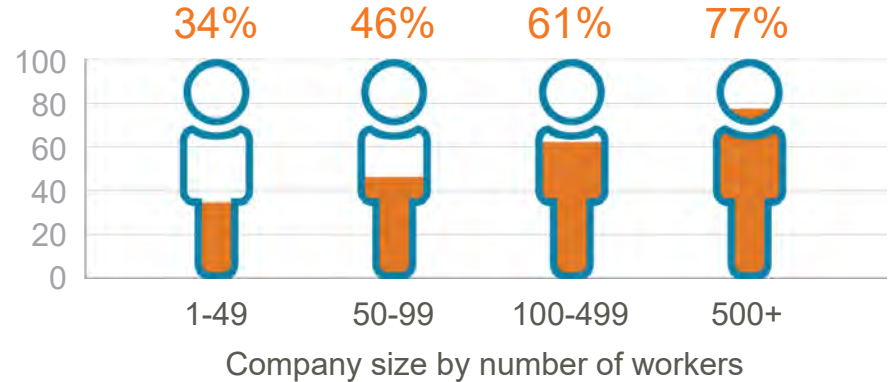
<https://www.youtube.com/watch?v=edae0U7cxxQ>

Worker Participation in Retirement Plans

All Private Industry Workers
(DB/DC plans)



Worker Participation by Company Size



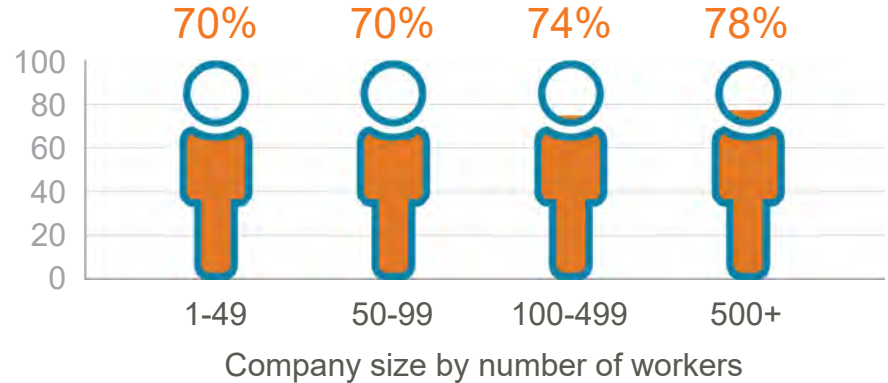
Source: "National Compensation Survey: Employee Benefits in the United States, March 2018," U.S. Bureau of Labor Statistics

Worker Participation Take-Up Rate

Private Industry Workers With
Access to a Plan



by Company Size



Source: "National Compensation Survey: Employee Benefits in the United States, March 2018," U.S. Bureau of Labor Statistics

Obstacles for Saving for Retirement



Paying for immediate needs (e.g., food, mortgage, rent, unexpected expenses)



Paying off credit card debt



Paying off student loans



Sacrifice quality of life (e.g., dining out, vacation)



Saving for education



Paying off medical bills

Source: "Retirement Savings Survey of Employees, National Survey Toplines," Pew Charitable Trusts.

Gap 3

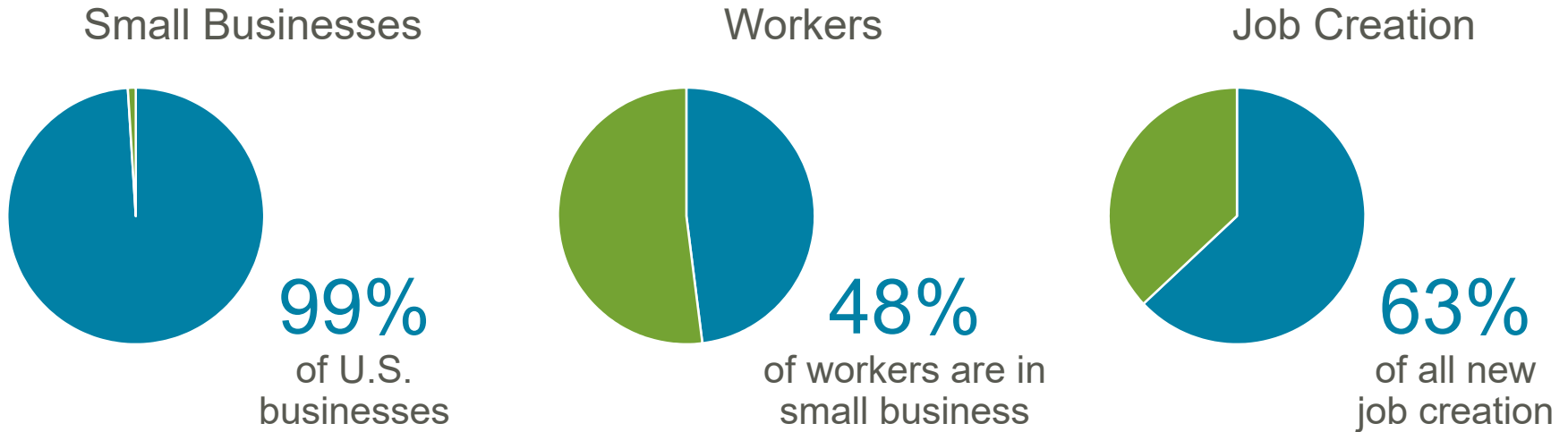
Small Businesses



RETIRE MENT


Do small business workers have access to retirement plans?

U.S. Small Businesses



Source: "2018 Small Business Profile," U.S. Small Business Administration, Office of Advocacy.

U.S. Small Businesses

 99.7% of employer firms had **less than 500 workers**

 98.2% of employer firms had **less than 100 workers**

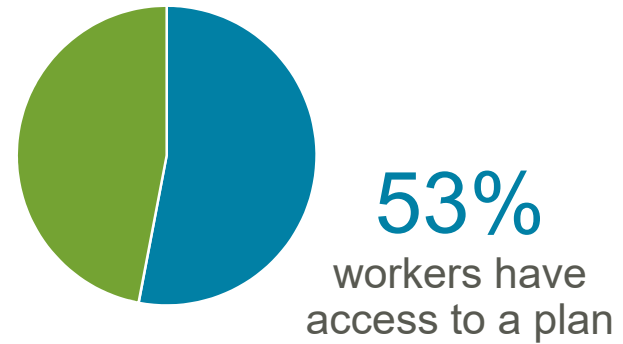
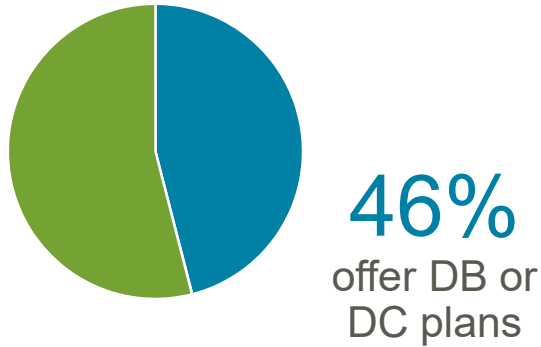
 89% of employers have **less than 20 workers**

NOTE: Does not include non-employers—employers with no paid employees with annual receipts of \$1,000 or more (e.g., real estate agents, independent contractors, etc.)

Source: “2016 Annual Survey of Entrepreneurs,” United States Census Bureau.

Small Business Retirement Plans With Less Than 100 Workers

Private Industry Employers



Source: "National Compensation Survey: Employee Benefits in the United States, March 2018," U.S. Bureau of Labor Statistics



Small Business Retirement Plans



Employer Challenges

- Plan cost and complexity
- Keeping up on compliance
- Changes in company size
- Contributions in financially challenged years



Worker Saving Challenges

- Eligibility restrictions (age and service)
- Deferrals not mandatory
- Lower wages
- Lack of savings and investment knowledge

Gap 4

Gig Economy



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Are gig workers saving for retirement?

Gig Economy: No Official Definition



Owner-Only in Gig Economy



80%

of small businesses with
< 500 employees are
owner-only businesses

Gig Examples

- ✓ Professional services (legal services, writers)
- ✓ Driving for Uber or Lyft
- ✓ Renting your home through Airbnb
- ✓ Selling clothes from your closet with Poshmark or threadUP
- ✓ Being a tutor, tour guide, handyman, or baby/pet sitter

Source: "Frequently Asked Questions From Small Business;"
U.S. Small Business Administration, Office of Advocacy;
August 2018

Gig Worker Challenges

- Finding gigs
- Financial instability
- Lack of health and retirement plan benefits
- Must fund own retirement



Gap 5

Women's Retirement Savings



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Are women faced with specific challenges in saving?



Unique Challenges for Women



Earn less



More career breaks



Live longer



Less financial confidence



Start investing later

Gender Pay Gap



Pay Gap = 20%

$\frac{\text{Women's median earnings}}{\text{Men's median earnings}} = \text{Earnings Ratio}$

$\frac{\$41,912}{\$52,208} = 80\% \text{ Earnings ratio}$

Source: "Usual Weekly Earnings of Wage and Salary First Quarter 2019," Bureau of Labor Statistics, April 16, 2019.



Career Breaks Affect Financial Security

Child Care

Children under age 15

- 27% have stay-at-home mother
- 1% have a stay-at-home father

Elderly Care

- 10% of Americans care for a parent or spouse
- Women represent 56% of parental caregivers, 63% spousal caregivers
- 39% of caregivers went part-time, took a leave of absence, or quit work entirely

Source: "2018 Current Population Survey Annual Social and Economic Supplement," April 16, 2019, U.S. Census Bureau. "Some Parental and Spousal Caregivers Face Financial Risks," May 2019, Government Accountability Office.

Gap 6

Low Income
Earners



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Are low income earners saving for retirement?

Household Median Income

2017 U.S. Median Income



\$61,372

median household
income



\$50,347

self-employed
incorporated
business



\$23,060

self-employed
unincorporated
business

Sources: "Income, Poverty and Health Insurance Coverage in the United States: 2017," U.S. Census Bureau. "2018 Small Business Profile," U.S. Small Business Administration, Office of Advocacy.



Retirement Savings Obstacles for Low Income Earners

- Often no access to retirement plans
- No employer funding
- Periods of unemployment
- Earnings losses over the years
- Less tolerance for investment risk
- Low savings

Unprepared Retiree Cost to States

Pennsylvania Treasury 15-year study of cost for insufficient retirement savings, projected out to 2030

- \$14.3 billion cost in state assistance expenditures over the 15 years
- \$1.4 billion loss in tax revenue due to reduced household spending by under-prepared retirees

Source: "Report on the Proceedings of the Pennsylvania Treasury Department Private Sector, Retirement Security Task Force," Pennsylvania Treasury.



Low Earners' Reliance on Social Security

Supplemental Social Security

- For seniors age 65 or older with extremely limited income and assets
- Not based on prior work history
- Average additional monthly benefit is \$459
- Maximum SSI monthly benefit is \$771 for single, \$1,157 for married



A group of five business professionals are seated around a conference table, engaged in a meeting. They are all smiling and looking at documents on the table. The image has a blue tint. The text "Savings Gap Solutions" is overlaid in white.

Savings Gap Solutions

Gaps and Solutions

The Gaps

- Worker access
- Worker participation
- Small businesses
- Gig workers
- Women
- Low income earners



The Solutions

- Traditional & Roth IRAs
- HSAs
- Individual 401(k) plans
- IRA-based retirement plans
- State-sponsored retirement plans
- Automatic enrollment/auto escalation
- Employee education
- Phased retirement
- Working during retirement

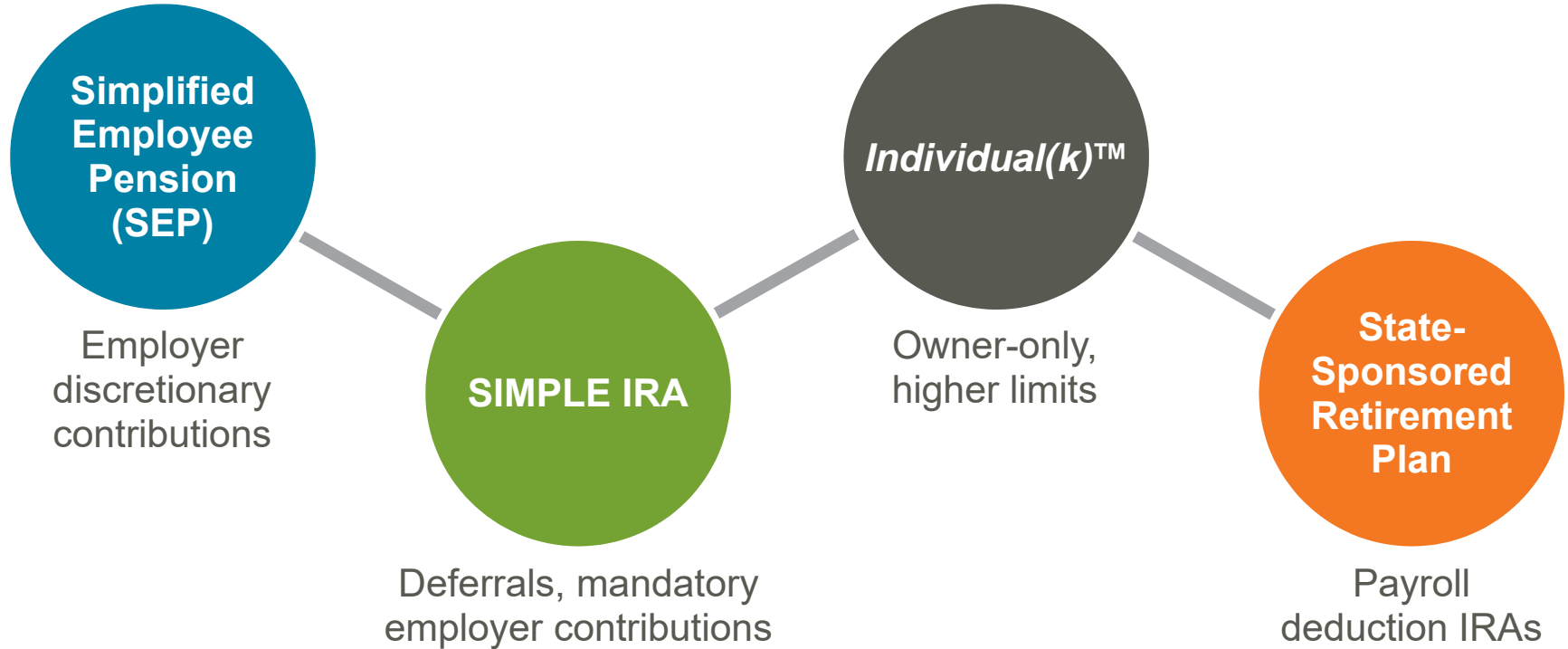


Retirement Plan Coverage Enhancements

- Participant eligibility expansion
- Automatic enrollment
- Automatic deferral rate increases
- Narrow access to plan assets



Small Business Retirement Plan Options



IRS on Retirement Plans

<https://www.irsvideos.gov/Business/RetirementPlans/RetirementPlans>

Health Savings Accounts for Retirement



Pre-retirement

- High deductible health plans
- Potential employer contributions
- 2019 limit: \$3,500 self-only, \$7,000 family (+ \$1,000 catch-up)
- Qualified medical expenses tax-free



Post-retirement (age 65+)

- Qualified medical expenses tax-free
- Pay Medicare premiums
- Qualified long-term care expenses
- Extra retirement income, no 20% penalty tax

Working Longer

- Continue working
- Return to work
- May increase Social Security benefits
- May reduce Social Security when collecting early



AARP Social Security Decisions

<https://www.aarp.org/retirement/social-security/info-2018/live-off-benefits-alone.html>

Phased Retirement

- Work part-time
- Work in different capacity
- Starting a 2nd vocation



Formal Phased Retirement Programs

- Still uncommon
- **More common** with
 - large employers,
 - industries with skilled workers and labor shortages, and
 - technical and professional workforces



Employer benefits

- Worker retention
- Knowledge transfer to new employees
- More time for future workforce planning



Employer challenges

- Regulatory complexities and ambiguities
- Federal tax and age discrimination laws

Source: “Phased Retirement Programs, Although Uncommon, Provide Flexibility for Workers and Employers,” GAO-17-536, Government Accountability Office.

Improving Retirement Readiness for Americans

Employers

Congress

State legislators

Financial advisors

Financial institutions

Savers



We all play a role

PBS News Hour

<https://youtu.be/edae0U7cxxQ?t=354>

Ascensus Recommendations to Build Retirement Readiness

- Expanded coverage (Auto-IRA programs, ARPs, or MEPs)
- Plan sponsorship mandate
- Plan simplification
- Increased contributions, mandatory contributions
- Universal eligibility for voluntary employee contributions
- Automatic portability
- Asset preservation
- Lifetime income as favored distribution option



One word to describe





We help over **9 million Americans**
save for life's biggest moments.
Education. Healthcare. Retirement.