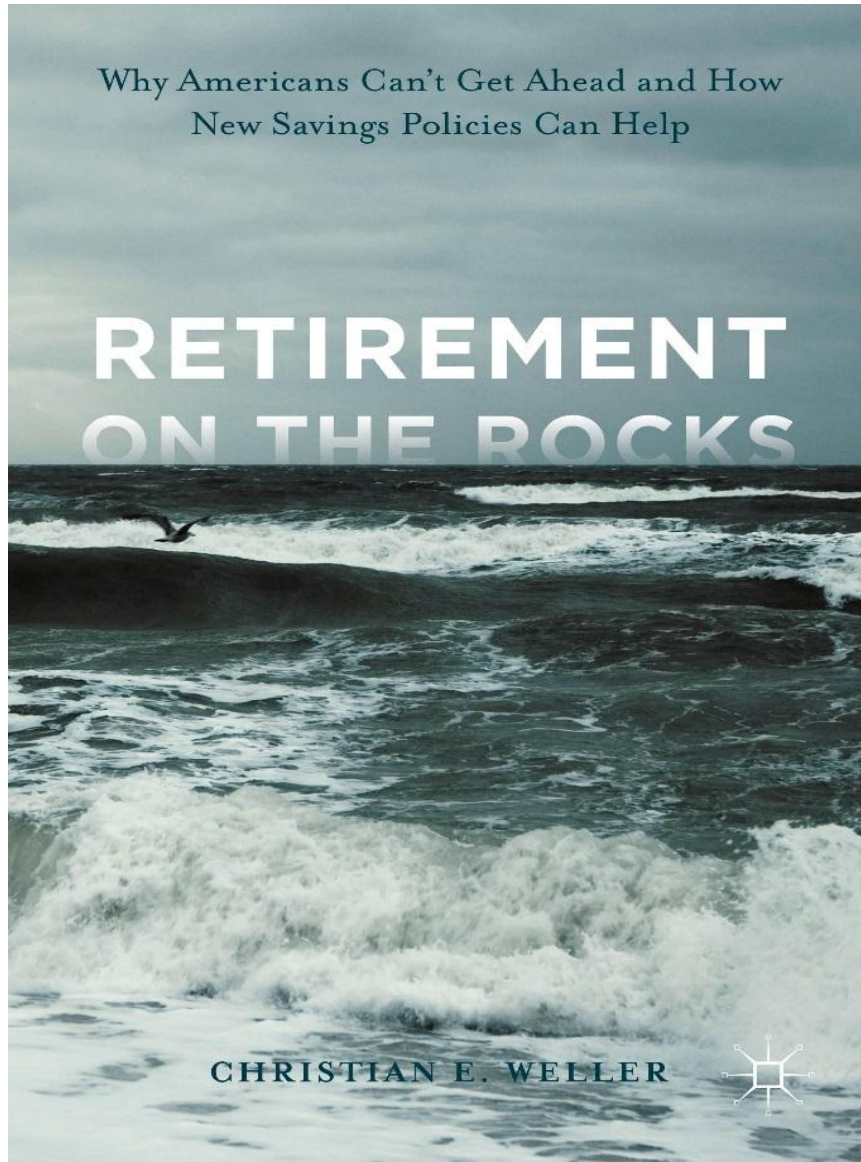


# New Policies Can Help Americans Save for Retirement by Reducing Risk Exposure

Christian Weller, University of Massachusetts Boston and Center  
for American Progress

## Published in December 2015: Retirement on the Rocks



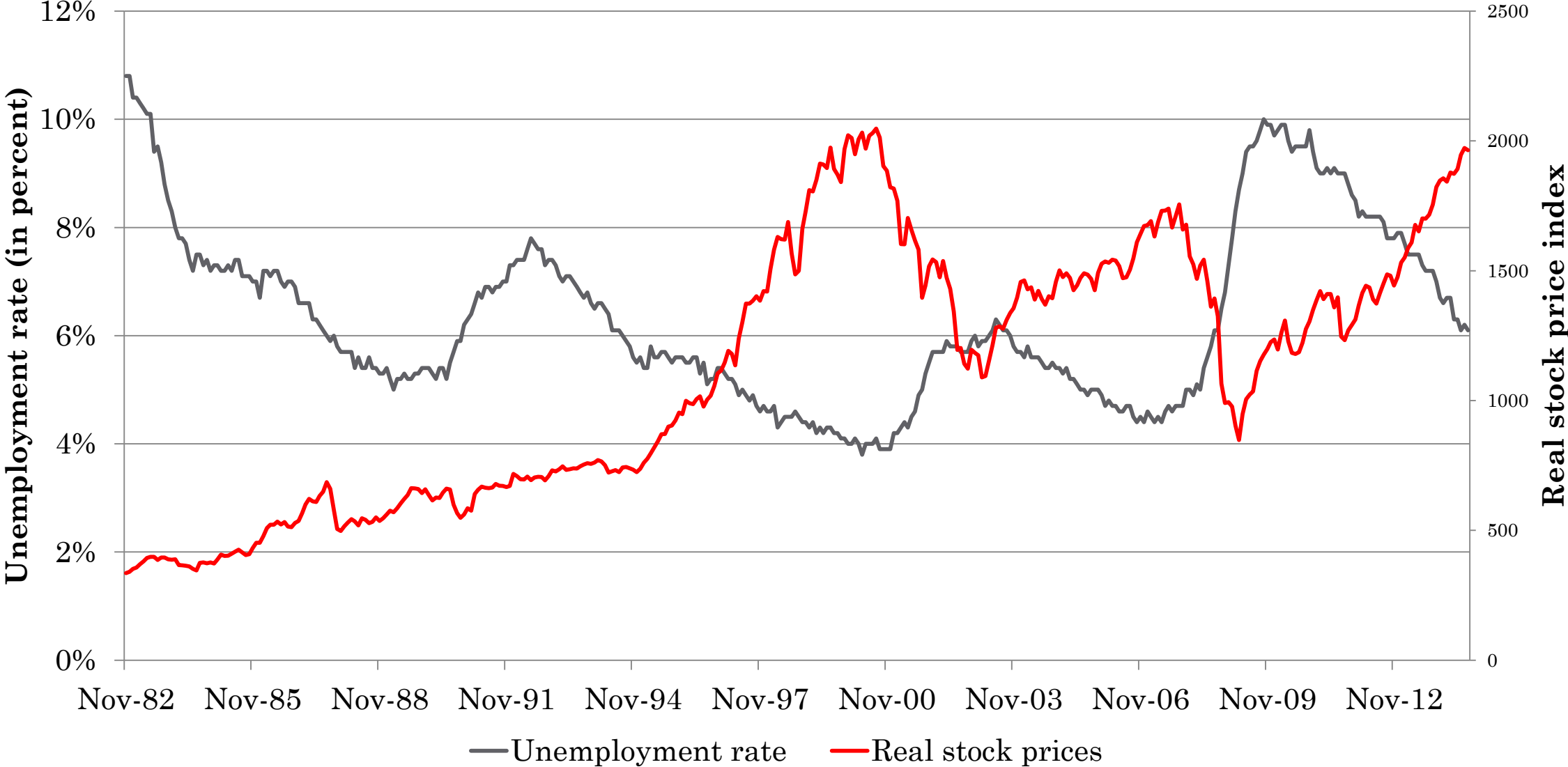
- Available from Palgrave-MacMillan
- Related social media:
  - Twitter: @Prof\_CEW and #RetirementOnTheRocks
  - Personal web site: [blogs.umb.edu/christianweller/](http://blogs.umb.edu/christianweller/)
  - Updates available on Facebook (Christian Weller's Retirement on the Rock page).

# Overview

- The country faces a growing retirement crisis as the security of middle class jobs such as teaching has eroded and people increasingly struggle to save for their retirement.
- The crisis will impact families, compete with other key public priorities such as education and slow economic growth.
- The retirement crisis is the result of obstacles to savings created by policy, not a result of people making unwise decisions.
- Policy has exposed people to more risks as they face rising labor market uncertainty and increasing boom and bust cycles in the stock and housing markets.
- Because policy has substantially contributed to the retirement crisis, there are also a range of policy solutions to the crisis.

# Rising labor and financial market risks make saving for retirement challenging

Figure 7.1: Unemployment rates and real stock prices the 1980s

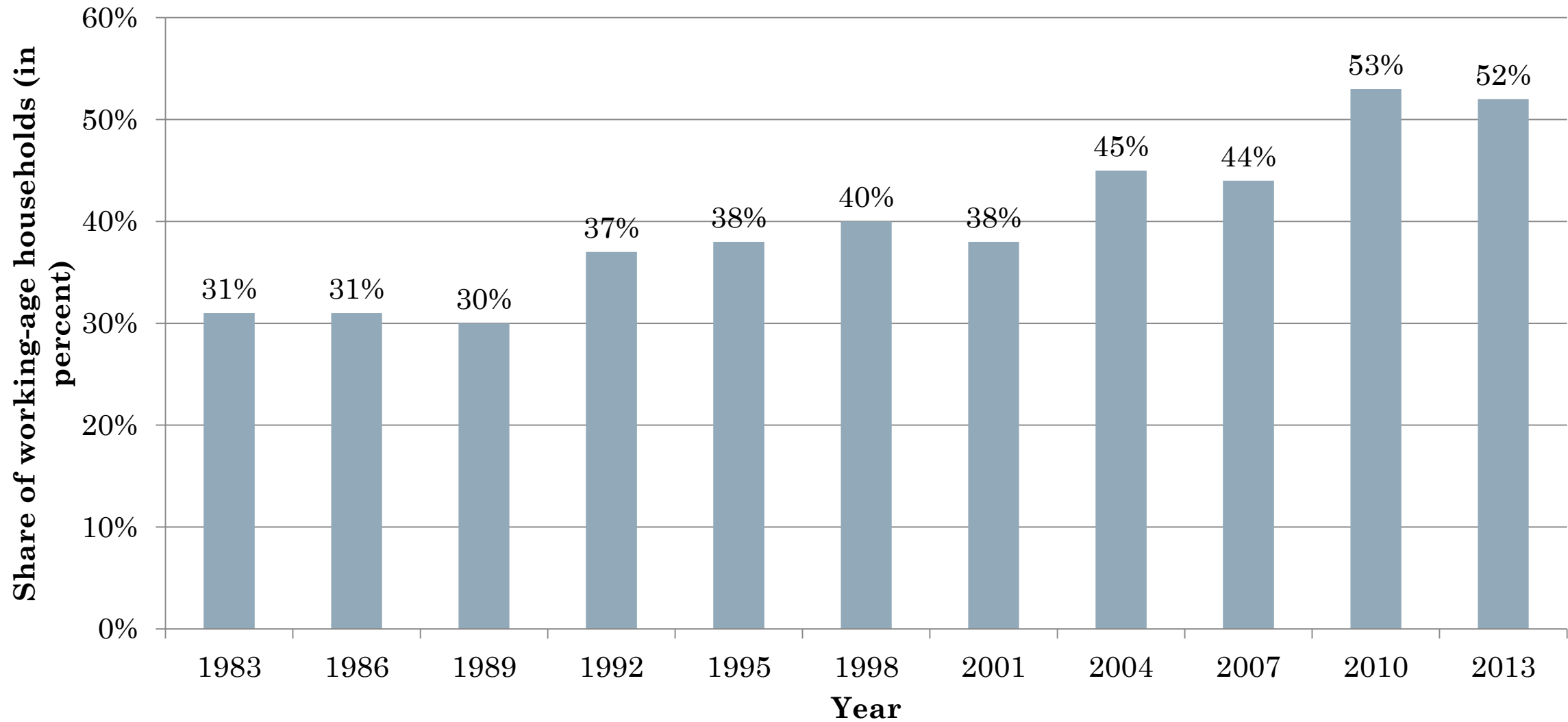


# Three facts about the retirement crisis emerge from research

- First, a substantial share – in some estimates even the majority – of households are unable to maintain their standard of living in retirement.
- Second, the share of households expected to have to cut their spending in retirement has been growing and will continue to grow.
- Third, the chance of falling short of what is needed in retirement is larger among communities of color, single women and lower-income households than among whites, single men and higher-income households.

# Retirement crisis has been worsening for three decades

**Figure 4.2: Share of working-age households at risk of not being able to maintain their living standard in retirement by year**

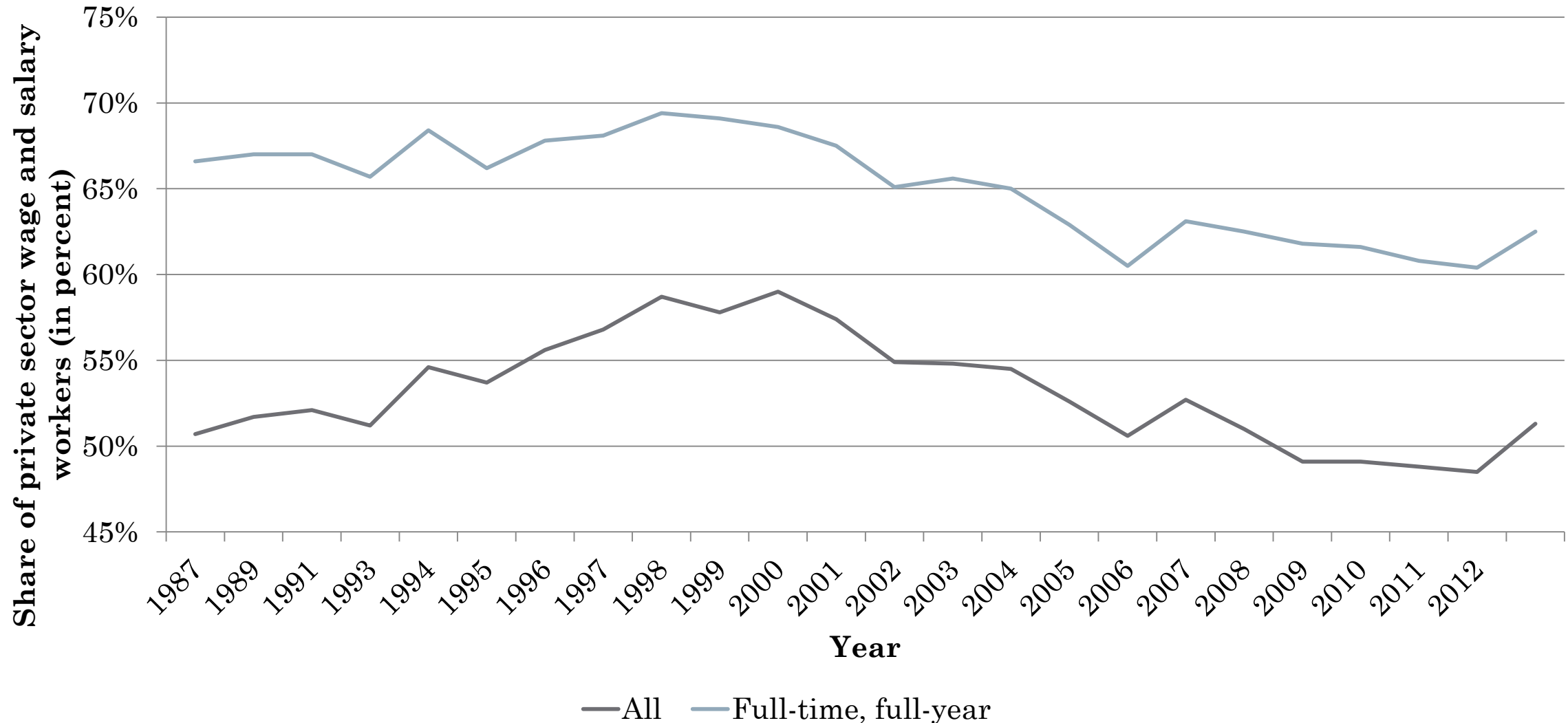


# Five policy obstacles to more retirement savings

- First, pooled, lower-risk retirement savings – Social Security and defined benefit pensions – have declined over time, while individual, higher-risk savings have grown.
- Second, employers are gatekeepers to good, low-cost and low-risk retirement savings, leaving those without employer benefits exposed to more risks.
- Third, savings incentives in the tax code are skewed towards higher-income earners and offer few or no assistance to low-income earners, who need the most help to save.
- Fourth, savings incentives are complex and can impede savings by confusing people more than offering help.
- Fifth, risk protections are an afterthought in public policy decisions at a time of growing labor and financial market uncertainty – just when people need such protections the most.

# Employers offer retirement savings to fewer workers over time

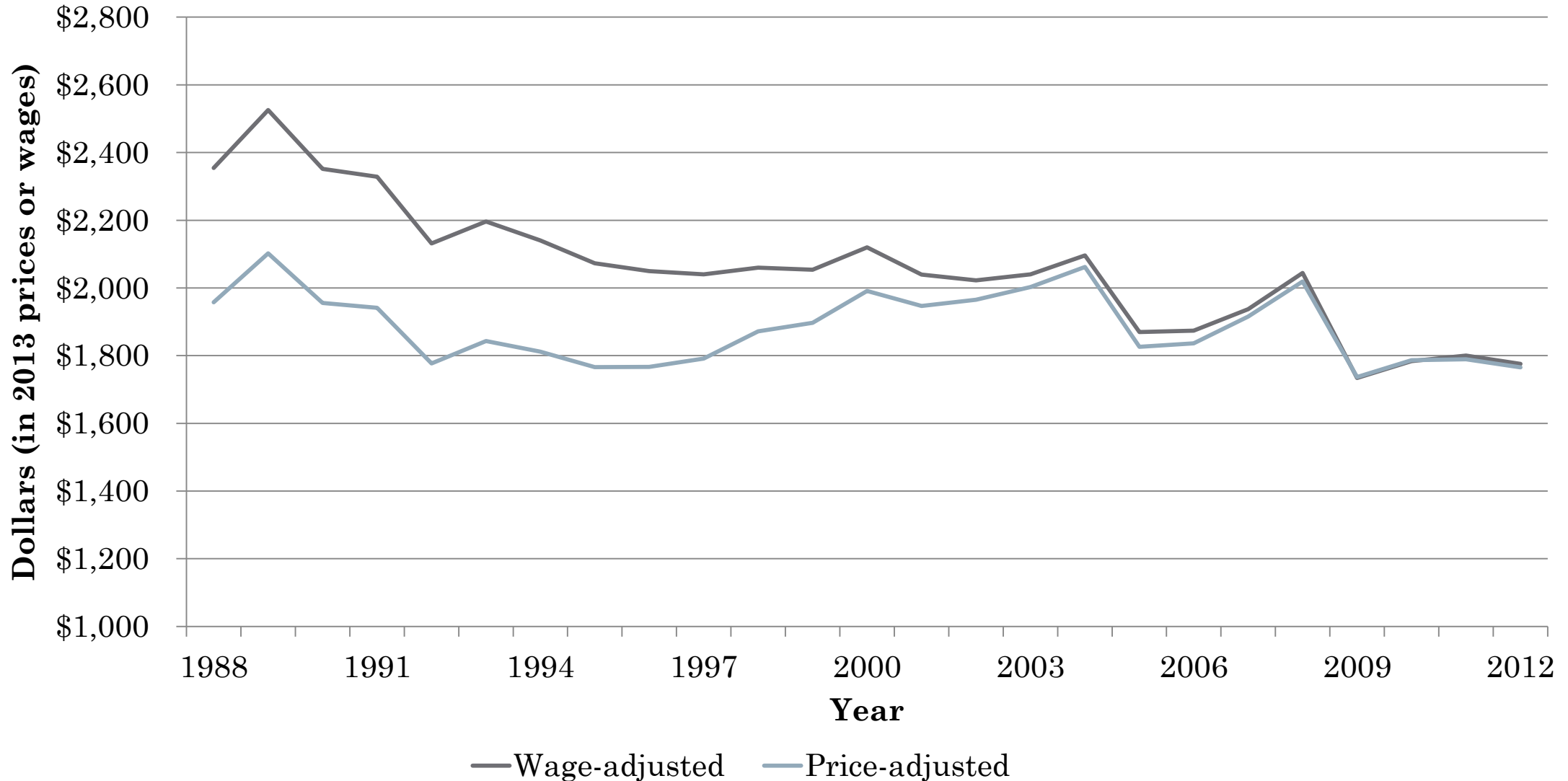
**Figure 8.1: Share of private sector wage and salary workers, who worked for an employer that sponsored a retirement plan at work, select years from 1987 to 2012**





# Employers contribute less over time to their retirement benefits

**Figure 8.3: Employer contributions DC plans per active participant, adjusted for wages or prices, 1988 to 2012**



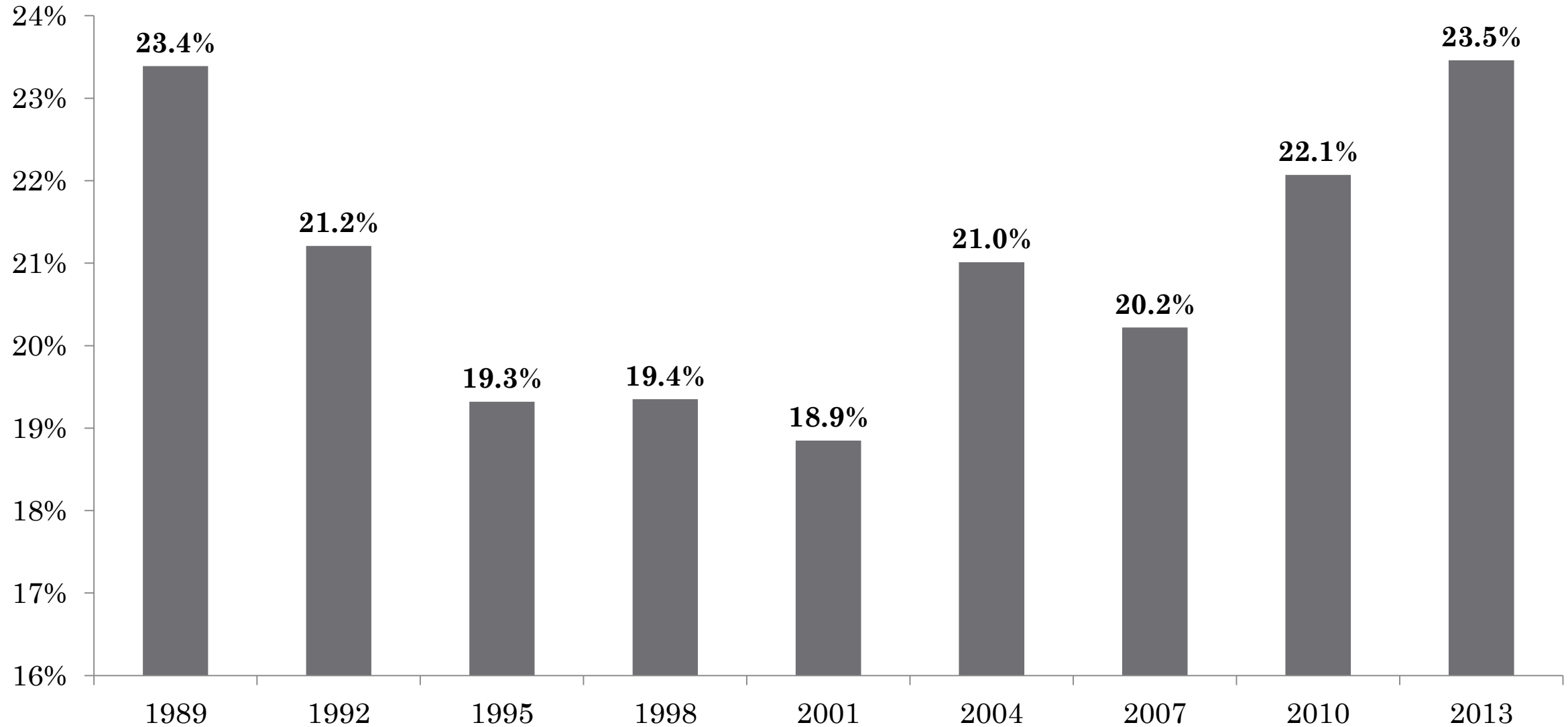
# Tax benefits are skewed towards high-income earners

**Table 9.1: Simulated net tax benefits of tax deferral under varying assumptions (in 2015 dollars)**

	Tax rate at deferral	Tax rate at withdrawal	Deferral benefit per dollar invested	Total deferral benefit	Ratio of total benefit to baseline benefit
Baseline scenario, \$5,500 deferred	25.0%	25.0%	22.5%	\$ 1,236.42	--
Low-income earner, \$5,500 deferred	10.0%	10.0%	11.9%	\$ 654.89	53.0%
High-income earner, \$5,500 deferred	39.6%	39.6%	26.1%	\$ 1,437.22	116.2%
High-income earner, \$18,000 deferred	39.6%	39.6%	26.1%	\$ 4,703.61	380.4%
High-income earner, \$23,500 deferred	39.6%	39.6%	26.1%	\$ 6,140.83	496.7%
High-income earner, \$23,500 deferred, marginal tax rate declines at retirement	39.6%	25.0%	40.7%	\$ 9,571.83	774.2%
High-income earner, \$23,500 deferred, all invested in stocks, marginal tax rate declines at retirement	39.6%	25.0%	29.6%	\$ 6,946.99	561.9%
High-income earner, \$23,500 deferred, all invested in stocks, marginal tax rate declines at retirement, deferral period is 35 years	39.6%	25.0%	34.5%	\$ 8,096.06	654.8%

# Complexity of savings incentives works for fewer and fewer people

**Figure 10.1: Share of non-retired households without any tax advantaged savings**



# Five policy areas ripe for improvements

- First, update Social Security to improve risk protections.
- Second, create new and better non-employer savings opportunities.
- Third, better targeting savings incentives to help lower-income people.
- Fourth, simplify savings so that more people will save more money.
- Fifth, make financial risk protections an integral part of retirement savings policy.

# Notes for figures and tables

- Figure 7.1: Sources include Bureau of Labor Statistics, “Current Population Survey,” (Washington, DC: BLS, 2014), accessed on November 6, 2014, <http://www.bls.gov/data/#unemployment>, for the unemployment rate, and Robert Shiller, “Irrational Exuberance – IrrationalExuberance.com,” (Yale University, New Haven, CT, 2014), accessed November 6, 2014, <http://www.irrationalexuberance.com> for the real S&P composite index. Business cycle dates are provided by the National Bureau of Economic Research, “Business Cycle Dates,” (NBER, Cambridge, MA, 2014) accessed November 6, 2014, <http://www.nber.org/cycles.html>. Recessions occurred from July 1990 to March 1991, from March 2001 to November 2001 and from December 2007 to June 2009. The last recession is also referred to as the Great Recession.
- Figure 4.2: All data are in percent, showing the share of households, not yet retired and younger than 65 years, who are expected to be unable to maintain their standard of living in retirement. Source is Alicia Munnell, Wenliang Hu, and Anthony Webb, “NRRI Update Shows Half Still Falling Short,” (Center for Retirement Research at Boston College, Boston, MA, 2014).
- Figure 8.1: Source is Craig Copeland, “Employment-Based Retirement Plan Participation: Geographic Differences and Trends, 2013,” (EBRI Issue Brief no. 405, Employee Benefits Research Institute, Washington, DC, 2014) and Craig Copeland, “Employment-Based Retirement Plan Participation: Geographic Differences and Trends, 2012,” (EBRI Issue Brief no. 392, Employee Benefits Research Institute, Washington, DC, 2013). Numbers are share of private-sector wage and salary workers in percent. Includes all workers working for an employer who offers a retirement plan at work. Retirement plans include DB pensions and DC savings accounts.
- Figure 8.3: Author’s calculations based on Bureau of Economic Analysis (BEA), “National Income and Product Accounts (NIPA),” (BEA, Washington, DC, 2014); Employee Benefit Security Administration (EBSA), Department of Labor, “Private Pension Bulletin, Abstract of Form 5500 – Historical Tables,” (EBSA, Washington, DC, 2014); and Bureau of Labor Statistics (BLS), Department of Labor, “Employee Cost Index (ECI),” (BLS, Washington, DC, 2014). Price adjustments are based on the Personal Consumption Expenditure index from the BEA’s NIPA, while wage adjustments are based on the BLS’ ECI for wages and salaries for civilians in the private sector. Calculations only include private sector employers and private sector, employment-based DC plans such as 401(k) plans.
- Figure 10.1: All figures in percent. Sample includes only non-retired households. Tax-advantaged savings options include owner-occupied housing, DB pensions, Individual Retirement Accounts (IRAs), 401(k) plans and life insurance policies, as long as they have a positive cash value. The difference between the two groups shown here are households with one or two tax-advantaged savings. They make up the largest group in any given year, but there is again no clear up or down trend over time. Adding this third group to the figure makes the presentation hence unnecessarily unwieldy without adding any information.
- Table 9.1: Notes: Benefits of tax deferral calculated as net present value (NPV) in 2015. Discount rate is equal to government interest rate, which is set equal to six percent nominally. All tax rates are marginal tax rates. Deferral period is 25 years, unless otherwise stated. Calculations based on Peter Brady. 2012. The Tax Benefits and Revenue Costs of Tax Deferral. ICI Report. Washington, DC: Investment Company Institute.