



EBRI News

2121 K St. NW • Suite 600 • Washington, DC 20037-1896
(202) 659-0670 • www.ebri.org • Fax: (202) 775-6312

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CONTACT: John MacDonald, EBRI (202) 775-6349, macdonald@ebri.org

House Ways and Means Committee Testimony:

EBRI President Dallas Salisbury Outlines Americans' Reliance On and Use of Various Retirement Options

WASHINGTON—Today's workers generally are saving more than workers in previous years, but they are not saving enough—and many are not saving at all, Dallas Salisbury, president of the Employee Benefit Research Institute (EBRI), said today, as he gave Congress an outline of Americans' reliance on and use of various retirement savings options.

Testifying as an invited witness before a House Ways and Means Committee hearing which is part of a series on Social Security, "Retirement Policy Challenges and Opportunities of an Aging Society", Salisbury said: "Most Americans are not planning for their future by taking control of their current financial situation and saving for retirement and other life events."

In wide-ranging remarks, Salisbury made these comments about programs available for retirement savings:

Social Security: One-quarter of current retirees rely *totally* on Social Security for their income and have no outside resources. Two-thirds rely *primarily* on Social Security for their income.

Individual Retirement Accounts: At the height of IRA usage, in 1986, research shows that just over 16 percent of taxpayers made contributions to IRAs. More recent tax data shows that less than 3 percent of taxpayers now contribute in any year. Research also shows that the primary source of new dollars flowing into IRAs is from rolling over lump-sum distributions from defined benefit and defined contribution employment-based retirement plans.

401(k) Plans: Average and median balances in 401(k) plans have grown over the years, but are still generally small. Average balances for the employee's current employer (and ignoring balances still residing with previous employers or rolled over to IRAs) stand at about \$51,000, compared with \$37,000 in 1996. Median balances (half higher, half lower) are about \$18,000 now, compared with \$11,600 in 1996. For workers with more than 30 years of service and now in their 60s, average balances are about \$168,000.

Defined Benefit ("Traditional") Pensions: About 20 percent of private-sector workers are active participants in a defined pension plan today, compared with about 27 percent private-sector workers in 1984. The actual numbers of workers participating in defined benefit pension plans has remained at

about 23 million to 26 million over the same period, during which the private-sector workforce has increased by 29 million.

Overall, Salisbury said research shows that about 10 percent of all workers ages 21–64 own *only* an IRA today; 21.7 percent own *only* a defined contribution personal retirement account (such as a 401(k) plan), and 9.2 percent own *both*. In addition, Salisbury reported that research updated this month finds that a current 401(k) participant who is assumed always to work for employers offering a 401(k) plan could reasonably expect 401(k) balances and IRA rollovers for money originating in 401(k) plans to replace from 51 percent (for those in the lowest income quartile) to 67 percent (for those in the highest income quartile) of final five-year average income.

Discussing proposals to revamp Social Security, Salisbury said: “Social Security is the most widely recognized and utilized retirement income program in the United States. Whatever results from Social Security reform, Americans will need to understand how the program works and how it affects their overall financial future.” Salisbury highlighted the Institute’s Choose to Save[®] public service announcements and www.choosetosave.org and its tools for educating the public on savings, retirement planning and Social Security, including the BallparkEstimate[®] retirement planning worksheet.

“That will not be easy,” Salisbury added, noting that Americans have been getting personalized annual Social Security benefit statements for years, but only 18 percent of respondents in EBRI’s 2005 Retirement Confidence Survey knew the age at which they will be eligible for full benefits. “Clearly, most people do not read or understand their Social Security benefit statements,” Salisbury said.

Salisbury also called for a greater focus on saving and preservation of assets. “America is a land of great opportunity,” he said. “However, many of its citizens are passing on their often one-time chance to build wealth and have failed to have financial security by spending beyond their means, not properly planning for life’s unexpected events, failing to invest in their own retirement savings, making bad decisions about debt, and not participating in their employer’s retirement plans. We feel the greatest shame is that these actions are often done out of simple ignorance.”

Salisbury’s testimony was his second in less than a month before a congressional committee exploring possible revisions in the Social Security program. He appeared last month as an invited witness before the House Committee on Financial Services. As a nonpartisan institute that promotes objective research, EBRI does not lobby and does not have a position on any of the proposals lawmakers are considering. His full testimony is available on the Internet at www.ebri.org.

Established in 1978, EBRI is a private, nonprofit organization committed exclusively to data dissemination, policy research, and education on economic security and employee benefits. The Institute’s mission is to advance the public’s, the media’s and policymakers’ knowledge and understanding of employee benefits and their importance to the nation’s economy.

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