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What's Enough?

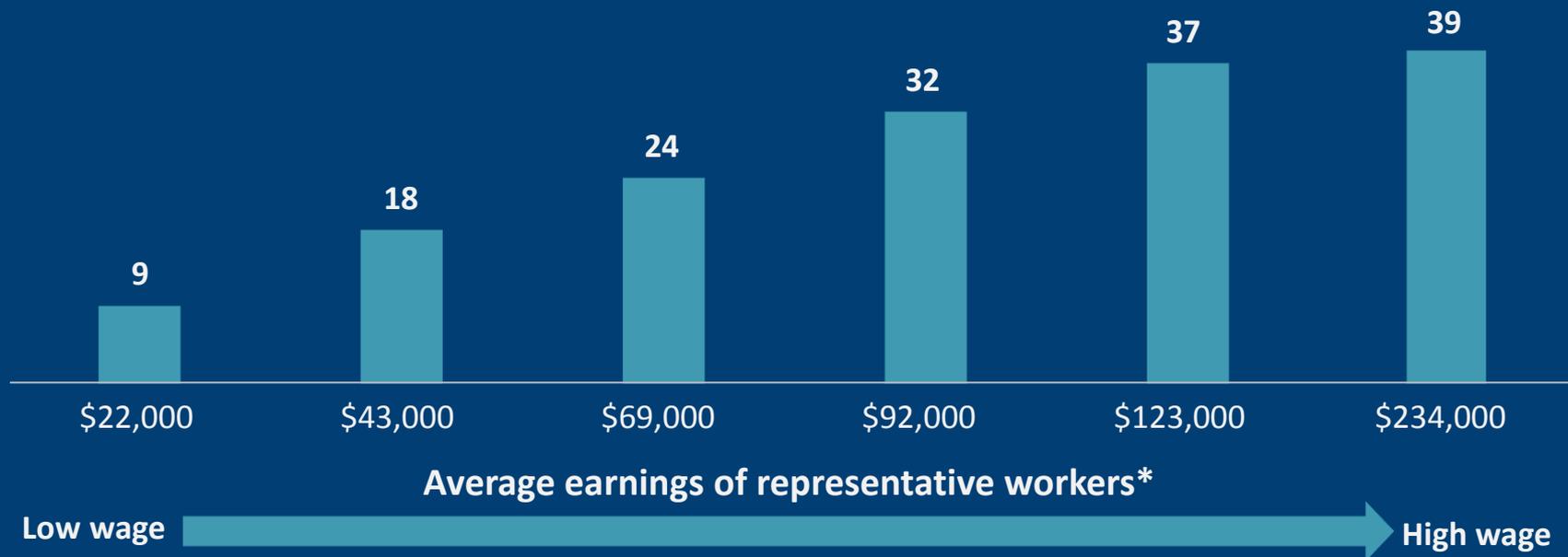
A Conceptual and Empirical Investigation of Retirement Adequacy

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EBRI's 80th Policy Forum

Does the US Voluntary Employer Plan System Provide Adequate Resources?

Average 401(k) plan distributions as a percentage of average annual earnings



*Average earnings are inflation-adjusted, rounded to the nearest thousand, and expressed in 2015 US dollars.

Retirement Plan Replacement Rates Alone Do Not Answer the Question

- » Retirement plans cannot be evaluated in isolation
 - » US retirees rely on a variety of resources
 - » Employer-sponsored retirement plans are only one component
 - » Social Security benefits represent the largest single source of resources
 - » Social Security and employer-sponsored retirement plans combine to provide retirement resources
- » Cannot understand the US retirement system without understanding the US Social Security system

An Overview of Remarks on Adequacy

- » Alternative standards for retirement resource adequacy
- » Overview of the US retirement system
- » What adequate retirement resources look like
- » What actual retirement resources look like

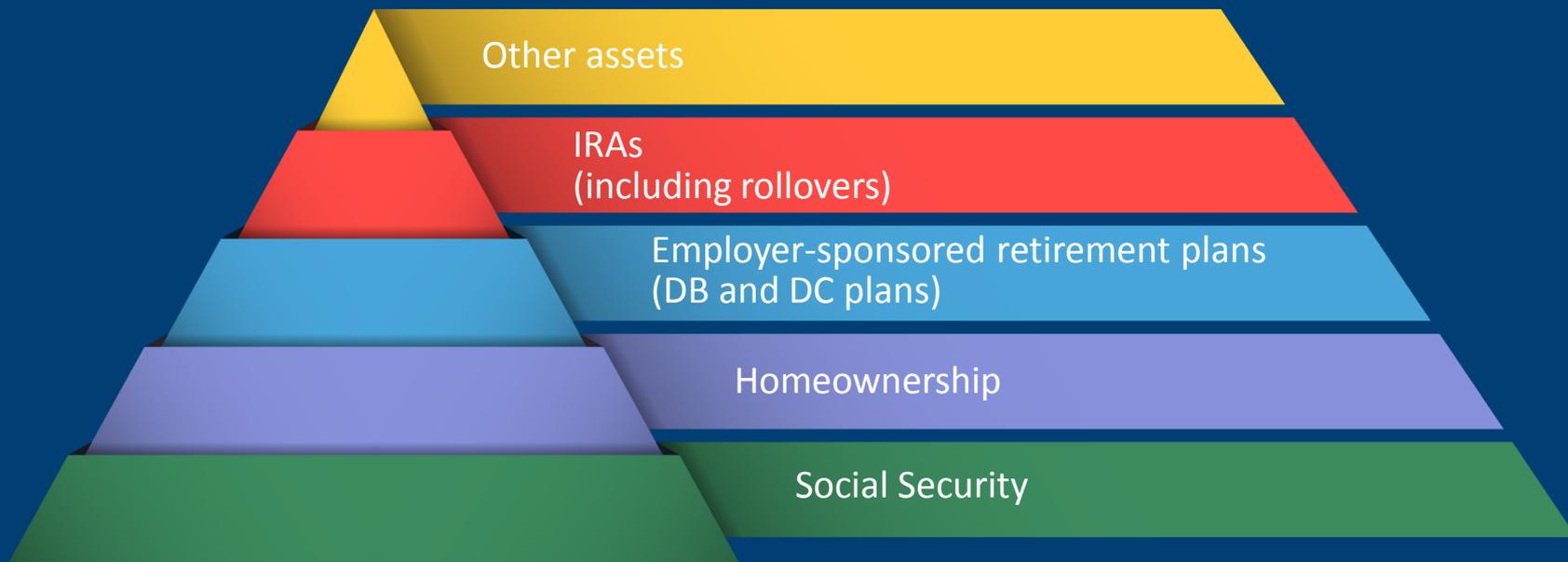
Alternative Standards for Retirement Resource Adequacy

- » Absolute standard
 - » Maintain spending above some minimum threshold
- » Relative standard
 - » Maintain pre-retirement standard of living

US Safety Net for the Elderly

- » Means-tested benefits funded with general revenue
- » Supplemental Security Income (SSI)
 - » 2017 maximum annual federal benefit
 - » \$8,830 for individuals; \$13,245 for couples
- » In-kind transfers
 - » SNAP (also known as food stamps)
 - » Housing
 - » Medicaid

Employment-Based Resources: A Retirement Resource Pyramid



U.S. Social Security System Is a Mandatory Contributory Retirement Plan

- » **Pay-as-you-go:** dedicated payroll taxes
- » **Coverage:** 94 percent of workforce
- » **Contributions:** 12.4 percent of earnings
- » **Benefits eligibility:** equivalent of 10-years of coverage
- » **Benefits:** progressive benefit formula

Benefits Per Worker Increase with Earnings

Average projected annual Social Security benefits net of income tax for workers in the 1960s birth cohort, constant 2016 dollars†*



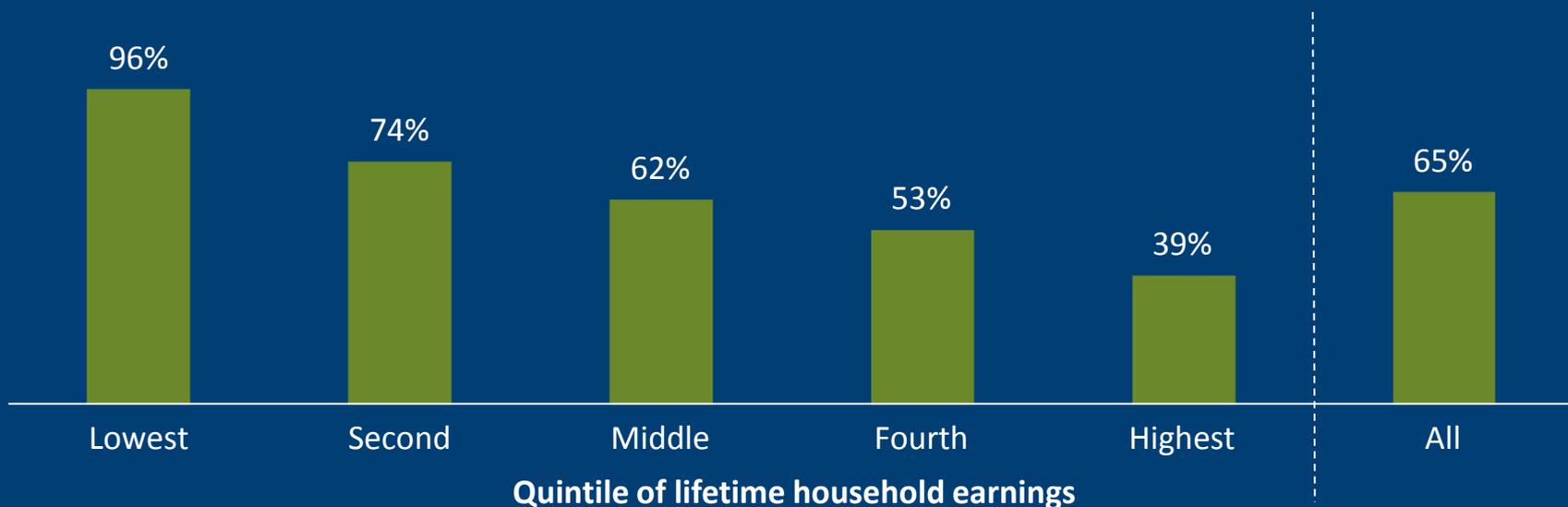
*If claimed at the full benefit retirement age (age 67)

†Rounded to the nearest thousand

Sources: Congressional Budget Office and Investment Company Institute

Replacement Rates Decrease with Earnings

Average projected Social Security replacement rate for workers in 1960s birth cohort †*



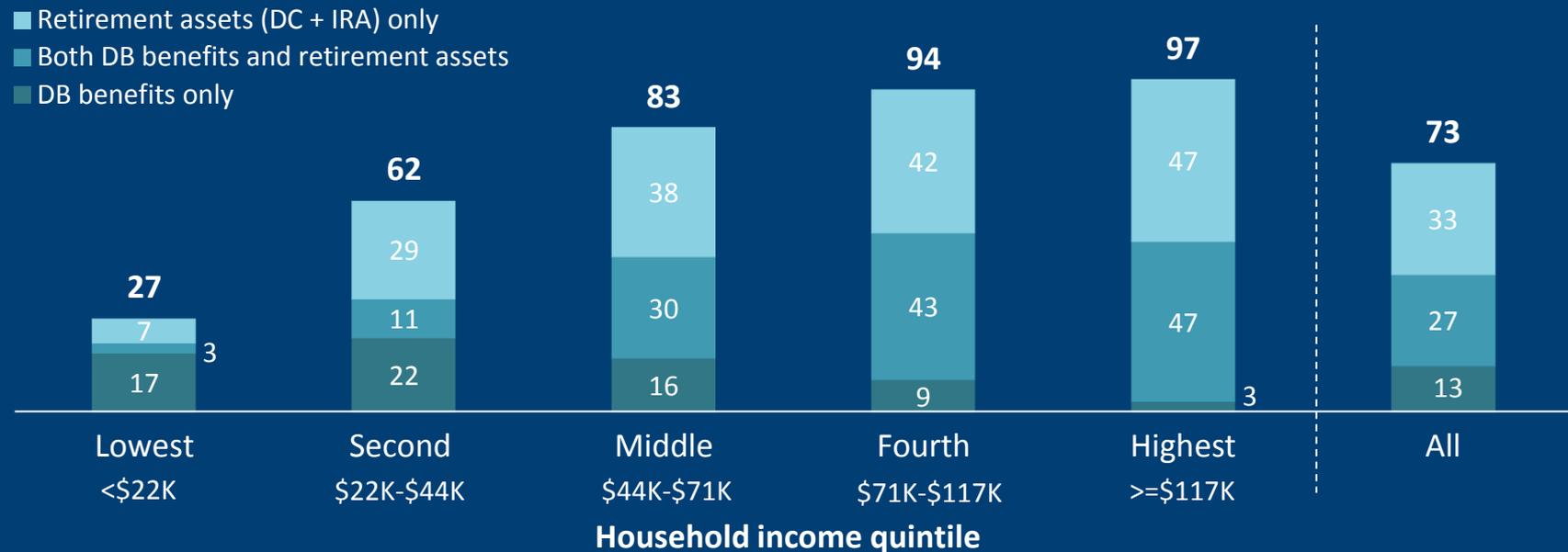
*Benefits net of income tax as percentage of average inflation-indexed earnings

†If claimed at the full benefit retirement age (age 67)

Sources: Congressional Budget Office and Investment Company Institute

Most Near-Retiree Households Have Resources from the Voluntary Employer Plan System

Households with head age 55 to 64 by quintile of household annual income, 2013



Source: Survey of Consumer Finances

Summary So Far

- » US retirees rely on a combination of resources in retirement
- » Can't judge the US system without evaluating it holistically
- » Social Security has a progressive benefit formula
- » Three-quarters of US households age 55 to 64 also have resources from employer plans

Q: If US workers had adequate retirement resources, what would it look like?

A: A lot like the resources they have today.

Interaction of the US Social Security and Voluntary Employer Plan Systems

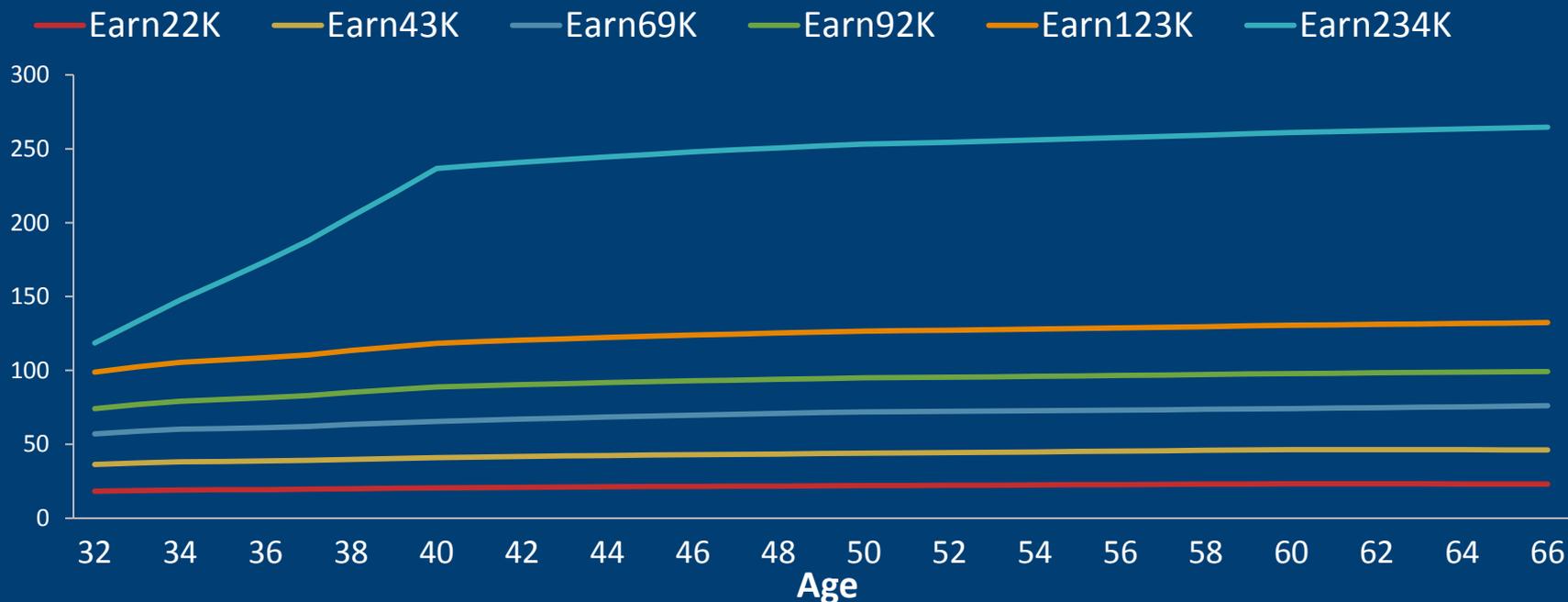
- » Illustrations based on analysis of six representative workers
 - » Born in 1966; work from age 32 through age 66; retire at age 67
 - » Range of lifetime earnings
- » All income is work related: wages, Social Security, 401(k) plan
- » Savings calibrated to hit target replacement rate

Key Point

» The relative importance of Social Security benefits varies with retirees' lifetime earnings

Who Are the Six Workers?

Individuals born in 1966 and who retire in 2033; constant 2015 USD (thousands)



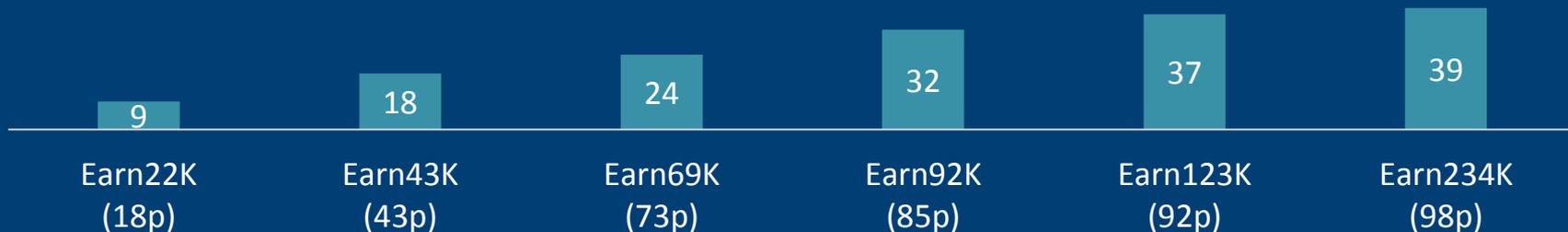
Although All Workers Have the Same Target, They Save at Different Rates

	Earn22K	Earn43K	Earn69K	Earn92K	Earn123K	Earn234K
Earnings percentile (at age 40)	18th	46th	73rd	85th	92nd	98th
<i>401(k) plan contribution behavior</i>						
Age when contributions begin	55	45	39	35	32	32
Total contribution rate (employer + employee)	9.0%	9.0%	9.0%	10.2%	10.8%	11.5%
Balance at retirement (1,000s of 2014 USD)	\$28.4	\$112.2	\$241.6	\$422.7	\$664.4	\$1,319.6

Does the US Voluntary Employer Plan System Provide Adequate Resources?

Inflation-adjusted income as a percentage of inflation-adjusted average gross earnings

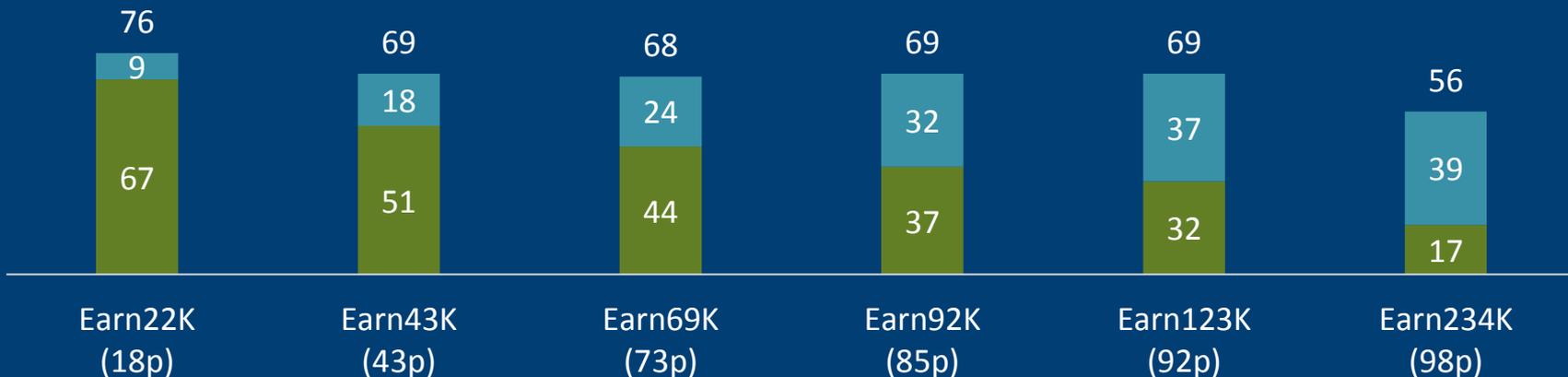
■ 401(k) plan gross replacement rate



Lower Earners Rely More on Social Security, Higher Earners Rely More on Employer Plans

Inflation-adjusted retirement income as a percentage of inflation-adjusted average gross earnings

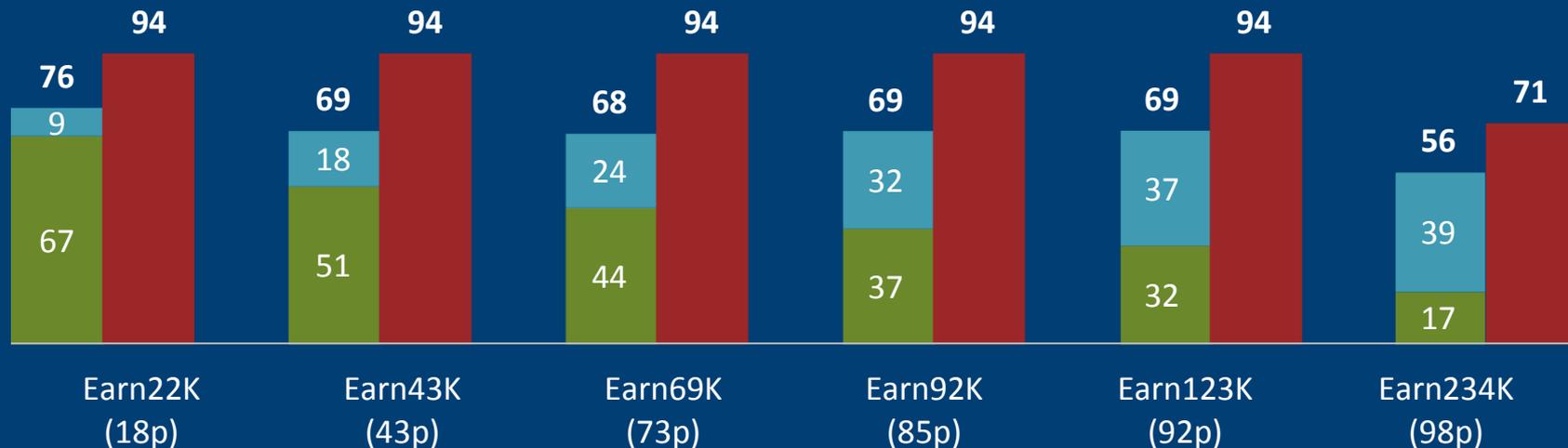
- 401(k) plan gross replacement rate
- Social Security gross replacement rate



(Nearly) All Hit Target Replacement Rate

Inflation-adjusted retirement income as a percentage of inflation-adjusted average gross and net earnings

- Net retirement income as percentage of pre-retirement net earnings
- 401(k) plan gross replacement rate
- Social Security gross replacement rate

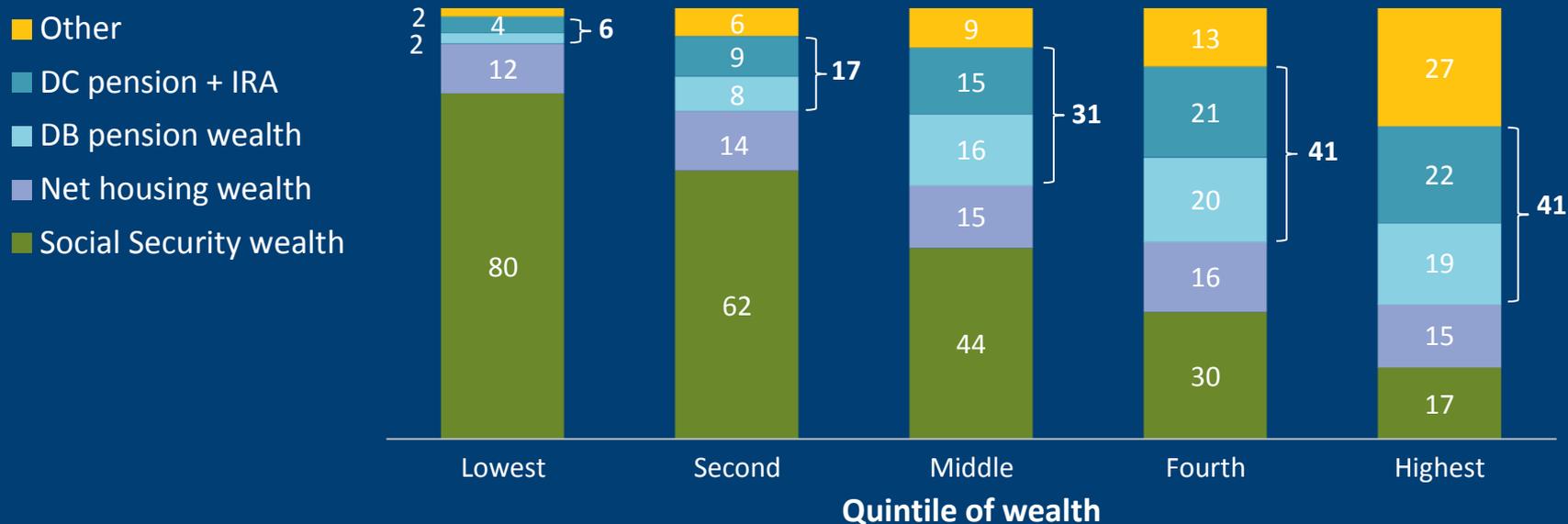


Summary of Findings from the Simulations

- » What retirees need to supplement Social Security will vary considerably depending upon workers' lifetime earnings
- » Many retirees can maintain their standard of living with relatively modest retirement accumulations

Composition of Actual Retirement Resources Roughly Consistent with Simulation Results

Percentage of wealth by wealth quintile, * 2010



*Data represent households with at least one member aged 57 to 62 and exclude the top and bottom 1 percent.
Source: ICI tabulation derived from an updated Table 3 of Gustman, Steinmeier, and Tabatabai (2009)

Simulations also Roughly Consistent with Income Tax Data

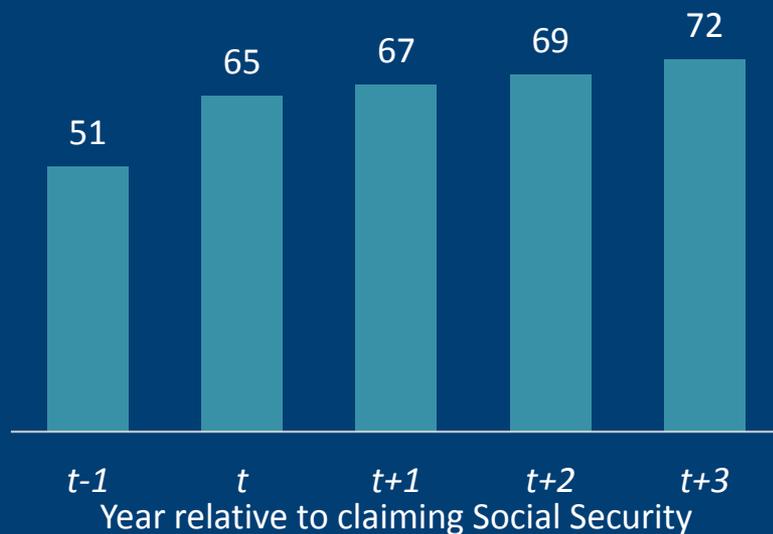
- » “Using Panel Tax Data to Examine the Transition to Retirement” (SOI Joint Statistical Research Program)
- » Follow (through 2010) working taxpayers age 55 to 61 in 1999 who had not yet claimed Social Security
- » Compare amount and composition of income from one year before claiming ($t - 1$) to three years after ($t + 3$)

Key Findings on Income Composition

- » Income from pension, annuity, and IRAs is widespread, persistent, and substantial
- » Most rely on mix of Social Security and retirement income

Over 70 Percent Have Retirement Income Three Years After Claiming Social Security

Individual or spouse has income from pensions, annuities, or IRAs (percentage of sample)



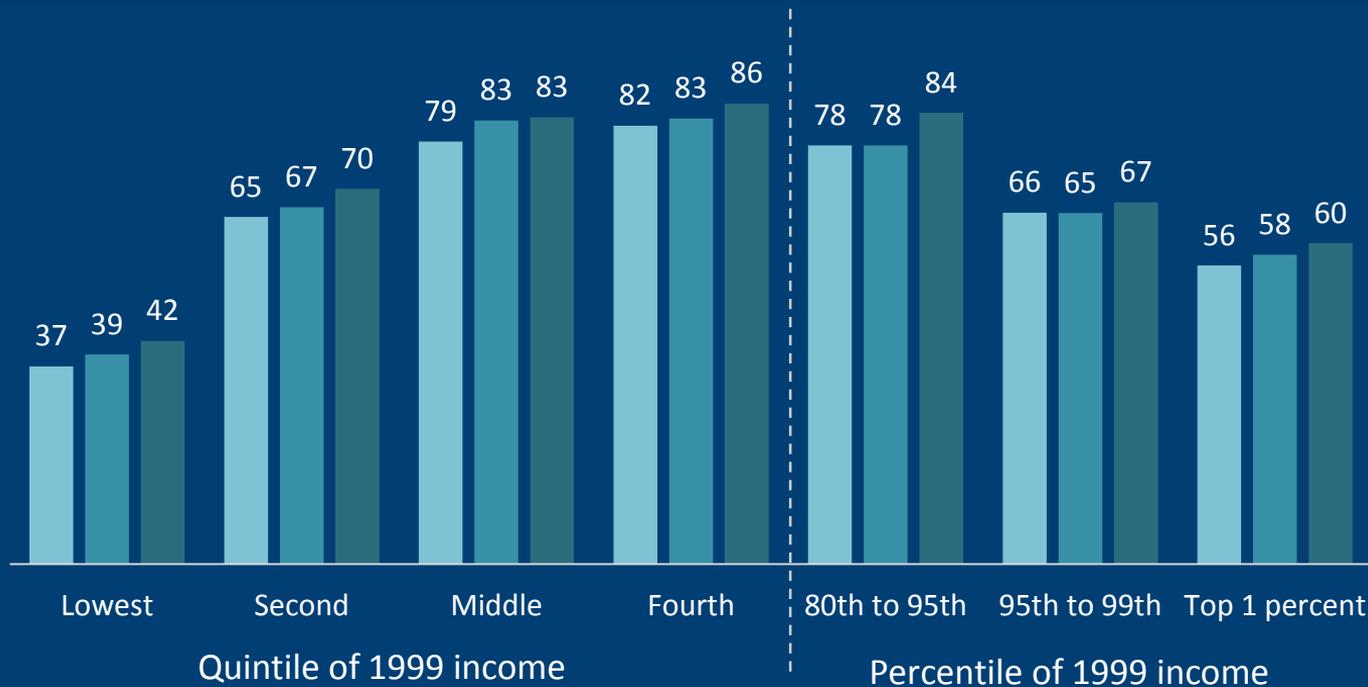
- » 72 percent have retirement income in year $t + 3$
- » 92 percent with retirement income in year $t + 1$ also have it in both year $t + 2$ and year $t + 3$

Moderate Income Most Likely to Have Retirement Income

Percentage of sample with income from pensions, annuities, and IRAs

Year relative to year of claiming Social Security

- t+1
- t+2
- t+3



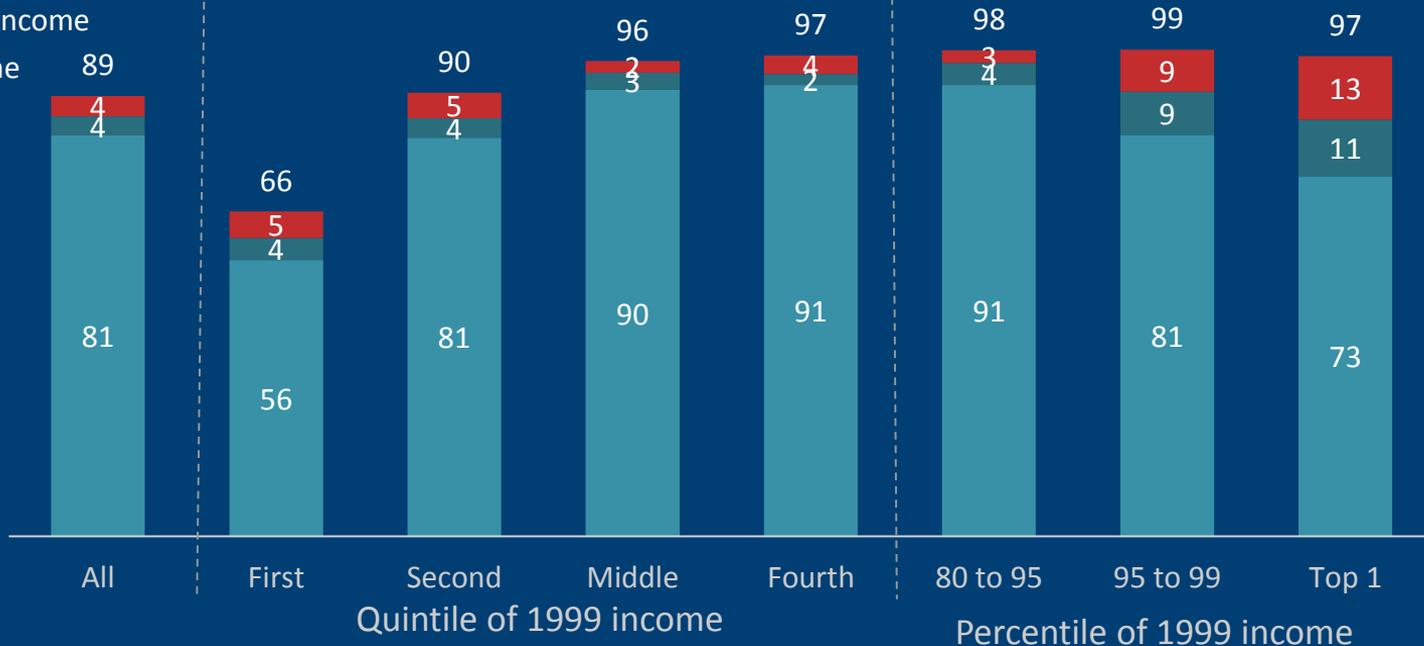
Nearly Nine in 10 Had Evidence of Non-Social Security Retirement Resources

Percentage of sample from with evidence at some point from year t -1 to year t + 3

■ Form 5498, no Form 1099-R or income

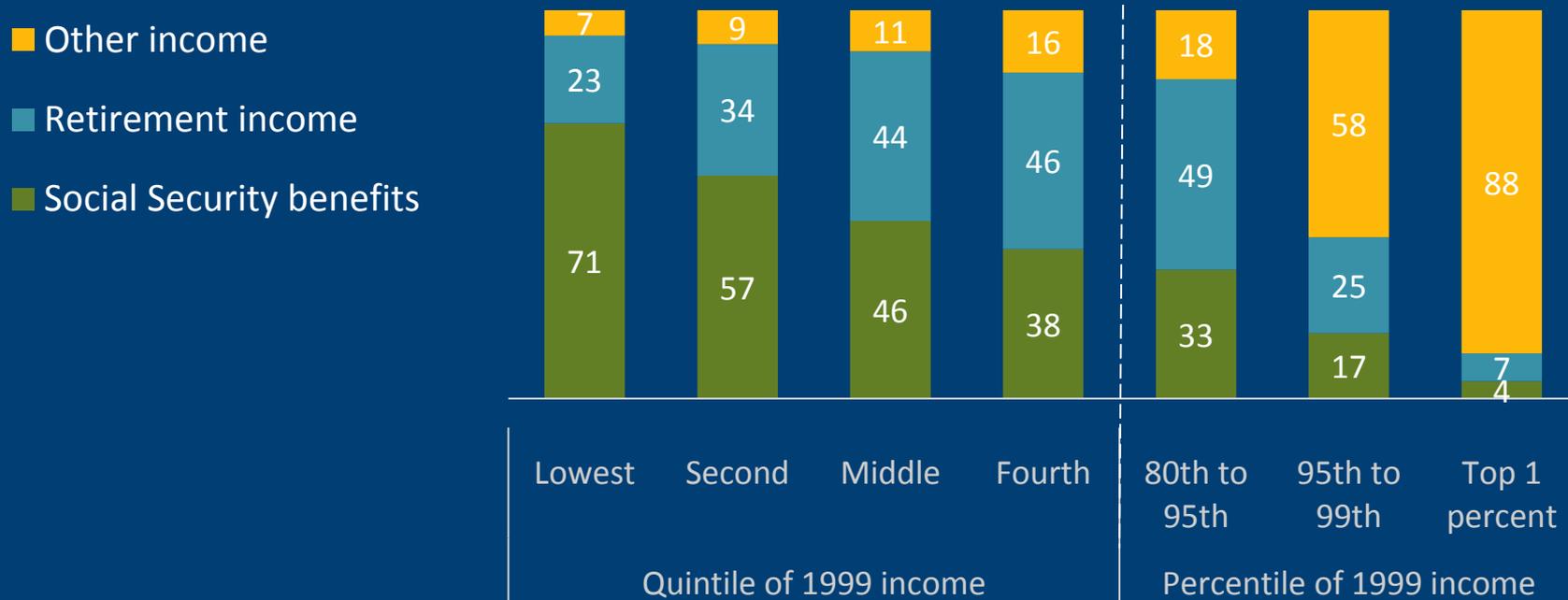
■ Form 1099-R, no income

■ Retirement income



Income Composition Roughly Consistent with Simulation Results

Share of non-labor income in year t + 3 for all in sample



Summary

- » Social Security is the most important component of the US retirement system
- » Composition of retirement resources reflects the design of the US retirement system
 - » Retirees with lower lifetime earnings rely more on Social Security
 - » Retirees with higher lifetime earnings rely more on employer plans

Questions and Discussion
