

VIDEO

July 11, 2014

ICI Chief Economist Brian Reid Discusses the American Retirement System on Fox Business

ICI Chief Economist Brian Reid Discusses the American Retirement System on Fox Business
ICI chief economist Brian Reid, in a July 11, 2014, appearance on Fox Business's Willis Report, argues that 401(k) plans are an essential part of the retirement system and are contributing to an improvement in retirement security in America.

Transcript

Geri Willis: And for most Americans, the employer-sponsored 401(k) account is truly essential to your retirement. But is the popular plan providing a false sense of security? Is it truly helping people save for their golden years? Here to discuss that issue is the chief economist of the Investment Company Institute, Brian Reid, and Helaine Olen. She's the author of *Pound Foolish: Exposing the Dark Side of the Personal Finance Industry*, a book I've read, by the way. Welcome to you both; great to have you here. Brian, I'll start with you. Are 401(k)s worth it?

Brian Reid: Absolutely. They're an important and essential part of the U.S. retirement system. You have to think about them as a part of that, but if you look at 401(k)s and you add in IRAs [individual retirement accounts]—and IRAs have to be added in because when people leave a job they put their 401(k) into an IRA—take all that money together, we have [\\$12.5 trillion sitting in these types of retirement assets](#), plus another \$10.5 sitting in traditional pension plans for a total of \$23 trillion.

Geri Willis: That's the number we have: \$23 trillion. Do you agree with that, and what's your main criticism about 401(k)s?

Helaine Olen: It sounds like a phenomenal sum of money, but it's simply not enough. The middle class does not fully benefit from the 401(k) because it was never meant for them. The 401(k) starts as a way for high-earning executives to defer a portion of their salary in the late 1970s. No one ever intended it to be a primary means of retirement, with the result that about half of all of us have less than \$10,000 saved.

Geri Willis: Do you agree, Brian?

Brian Reid: Well, you have to look at the totality of it. You can't look at just 401(k)s or just IRAs or just pensions, you have to look at all of it. If you look at that \$23 trillion and adjust for inflation and population growth, we have six times more—every family in the U.S. has six times more—saved for retirement [now than they had in 1975](#).

Geri Willis: All right, well, let me ask you about that. Because what I'm wondering is, is that because we're all getting older and these are our primary savings years? Is this because we've seen a bull market? What's the reason behind that?

Brian Reid: It's a combination. We've been working in this country for nearly a half century to improve retirement security. We have elderly poverty rates at the lowest point that they've been in fifty years. It used to be that 30 percent of elderly people were in poverty in the United States in the 1960s. We're down to less than 10 percent now. All of these features, including the 401(k), are contributing factors and are really important components to it.

Geri Willis: Well, Brian makes a lot of good points here. Helaine, what do you say?

Helaine Olen: I would say that first of all, Social Security is what's keeping elderly people out of poverty. Without Social Security, over 50 percent of the elderly would be in poverty right now. The second thing is that most of the benefits from these programs go to the people at the top end of the earning spectrum. So, people at the lower end simply are not getting enough money.

Geri Willis: Why is that?

Helaine Olen: They can't afford to save. For the past 30 years, incomes have stagnated, as the cost of things like housing, education, and healthcare, the things I like to say you can't live without, have gone up. And their more immediate needs become more pressing than their long-term needs.

Geri Willis: Brian, answer that specific question. Because what she's saying—it makes some sense here—is that people at the bottom of the income scale don't have enough money to set aside in those 401(k)s. They may be offered to them, but they can't use them. What do you say?

Brian Reid: So, looking at data from the Survey of Consumer Finance that the Federal Reserve publishes, people who are nearing retirement, 80 percent of them have some sort of retirement accumulation. That's unchanged since 1989. And if you look at other research that's being done by academics on this, the amount that's actually set aside in some kind of retirement, whether that's in a pension or 401(k), has actually been growing over the last 15 years, and so [the average amount is about \\$300,000 for those near retirees](#).

Geri Willis: Now you guys disagree on the balance, the right about of money, to talk about when we say how much do people have saved for retirement, on average, median? The average number, \$63,929, Brian you like this number. You say, hey, that's about what people have. And Helaine, you say the median account balance is \$17,630. Very different numbers. Why are they so different, and Helaine, I'll start with you.

Helaine Olen: It really depends on how you're counting people. Part of this is, are you only counting 401(k)s or are you counting other assets? For instance, with housing, people do have more assets. But it's interesting that you use 1989 as a year, because in 1989 only 20 percent of people in retirement were still paying mortgages on their houses, which gave

them a huge asset toward their retirement. Today it's 40 percent and growing rapidly. So, for instance, for Gen-Xers, the number is expected to be even higher with the result that, according to both the Pew Charitable Trusts and the Boston College Center on Retirement, more Gen-Xers than not are not going to be able to maintain anything near their standard of living in retirement.

Geri Willis: Brian, we're going to give you last word here.

Brian Reid: Again, all of this has to be taken into context. We have as many people who own their homes now than we had in 1989. Housing is very important. There's \$20 trillion of [housing wealth that is available for retirement](#) when people get there. So again, looking at just the 401(k) and saying, can everyone live on just one piece of it? No, we're not saying that. It's part of an overall complex retirement system.

Geri Willis: Did the policy fail, though? I think that's the question. Is it going to work, is it going to keep Americans financially secure in retirement?

Brian Reid: Absolutely. As we begin to move away from traditional pension plans, the research that's being done out there is showing that...for every dollar lost in DB [defined benefit] we're getting more than a dollar in retirement assets in a 401(k) or in an IRA. That's part of the progress.

Geri Willis: It's a big debate. I've got to tell you, there are people on both sides with firmly held views. We really appreciate the two of you coming on and debating it for us. Thank you so much.

Additional Resources

- [The Economics of Providing 401\(k\) Plans: Services, Fees, and Expenses, 2013](#)
- [ICI Retirement Resource Center](#)

Copyright © by the Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.