

VIDEO

September 15, 2017

Focus on Funds: A View of the Success of the US Retirement System

Focus on Funds

A View of the Success of the US Retirement System

The US retirement system is working well for American households—through a combination of Social Security and personal savings. In the September 15, 2017, edition of *Focus on Funds*, ICI Senior Economist Peter Brady discusses the important role of Social Security in US retirement savings.

Transcript

Stephanie Ortvals-Tibbs, ICI director, media relations: Does the US need a mandatory retirement savings system? Well, actually, ICI Senior Economist Pete Brady reminds me [that] we have one—it's called Social Security. Here's the conversation that I recently had with Pete offering his analysis on how the system is laid out.

Peter Brady, ICI senior economist: There are several proposals out there to institute a mandatory retirement plan. What these proposals seem to miss is that the US already has a mandatory plan—it's called Social Security. Essentially, the US retirement system has two primary components: a mandatory component, which ensures a minimum level of income for all retirees, and then, a fully voluntary component, where workers can set aside on a tax-deferred basis some of their compensation for retirement.

Ortvals-Tibbs: Pete, you're an analytical guy. What do you think the metrics would look like to justify the addition of a second mandatory system?

Brady: A second mandatory system would be justified if two criteria were met. The first criterion would be that the current system isn't working. The second one would be that there is no way to fix the current mandatory system to solve the problem. Where I part company from those who would like a second mandatory system is that I think the evidence shows that the current system is working very well. And secondly, I think the way to repair the mandatory portion of the system is to put Social Security on sound financial footing, not create a whole new plan.

Ortvals-Tibbs: So, what's behind this common misperception that the current retirement system isn't working?

Brady: I think there's two primary reasons why people are very accepting of arguments

that the system isn't working. First, I think the importance of Social Security, which really provides a full pension for lower-income individuals and substantial resources to higher-income individuals, is seldom appreciated. And second, the official statistics, on both the share of workers who participate in a pension and the share of retirees who have income from pensions, understate the importance of these plans.

Ortbals-Tibbs: What does the evidence look like to demonstrate that the system is working?

Brady: Well, here's one piece of evidence: Most people have resources from employer plans by the time they hit retirement. Federal Reserve board data show that 81 percent of working households aged 55 to 64 either have benefits in a DB plan, assets in a DC plan or an IRA, or both. Furthermore, other research, including my own research using tax data, show that these resources are not just widespread, but they're substantial. On average, they're of about the same magnitude as Social Security benefits for middle-income people, and even more valuable than Social Security benefits for the top 40 percent.

Ortbals-Tibbs: Pete, a lot of people would listen to this and say, "Wait a minute. Are you saying that there's no problem with our current system?"

Brady: Not at all. There will certainly be some individuals who hit retirement and aren't prepared, but the most careful analysis shows that two-thirds to five-sixths of the population actually are prepared for retirement. The idea of a widespread shortfall obscures the fact that the system actually is working for the vast majority of the people, and also deflects attention from those who are actually at risk, such as those who leave work because of an illness, or have a spotty work history throughout their working years.

Additional Resources

- [*Focus on Funds: New Research Offers Good News for American Workers*](#)
- [*ICI Viewpoints: Scratch That: Why Arguments of a Broken Retirement System Are Misguided*](#)
- [*Fact Sheet: Most Americans Maintain or Increase Spendable Income After Accessing Social Security*](#)
- [*Release: ICI Analysis Shows Americans Maintain or Increase Spendable Income After Claiming Social Security*](#)