

## **SPEECH**

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# **Does America Face a "Retirement Crisis"?**

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In the United States, ICI’s mutual fund members manage roughly half of all the assets in individual retirement accounts (IRAs), in 401(k) plans, and in other defined contribution (DC) plans—so we take an active interest in research and advocacy on the US retirement system.

Much of our US work is driven by the question, “Does America face a ‘retirement crisis’?” This issue has a lot of dimensions—but the debate tends to focus solely on workers and plans in the private sector.

Let me ask for a show of hands—how many of you here today believe that our private-sector retirement system is in crisis?

Quite a few hands are up.

If you believe there’s a crisis, it’s not surprising. We are bombarded by headlines like these.

And it doesn’t matter what generation you belong to—the press’s verdict is in. *Everyone* is headed toward a retirement crisis.

You can’t entirely blame the media. There’s a cottage industry of academics, politicians, and—to be frank—many senior figures in the financial industry, all promoting the “crisis”

narrative.

Well, let me give you my answer to the question:

- *No*—America’s retirement system is not “in crisis.”
- *No*—today’s retirees aren’t living in poverty. In fact, today’s elderly have the lowest poverty rate of any age group in the population.
- *No*—Baby Boomers are not looking over a cliff as they turn 65, nor will they be forced to keep working until they die.
- And *no*—the decline of traditional pensions in the private sector has not wrecked the retirement prospects of today’s young workers. As those pensions declined, 401(k)s and other defined contribution plans have grown and evolved—and can provide a secure future for our mobile workforce.

I’m not going to tell you that our system is perfect. There are significant challenges that we must confront—as I will discuss later.

But I’m going to give you a few key statistics that you might consider against this “retirement crisis” narrative.

Here’s the first:

Americans have [\\$28 trillion in assets earmarked for retirement](#), from all sources—private and public. That’s a record level.

The biggest single category in that total is individual retirement accounts, at \$9 trillion. That’s followed closely by balances in defined contribution accounts, such as 401(k)s, at almost \$8 trillion.

That’s \$17 trillion in hard assets held by workers—not the pie-crust promises of traditional pensions, which, as we know, are all too often underfunded or overpromised, especially for public employees.

And the \$28 trillion in retirement assets isn’t just a record on the aggregate level. It reflects great progress for American households.

Back in 1975, when the traditional pension was predominant—one year after Congress created IRAs and three years before it enacted Section 401(k) of the tax code—retirement assets from all sources totaled less than \$29,000 per household in today’s dollars.

In 2017, those assets exceeded \$220,000 dollars per household—*seven times* greater.

Those figures don’t include what workers have accrued in Social Security, which provides effectively a full pension for two out of five American workers.

But wait, you might say. The “crisis” isn’t the amount of resources available, it’s the lack of coverage—the “fact” that only half of all working Americans participate in a retirement plan at work.

Well, that statistic, like many others in this area, is deeply flawed.

Reports about “half of all workers” are based on a snapshot at a point in time—and

retirement planning is more like a movie. As workers move through their careers, they change jobs, or their jobs change. For most of us, careers progress toward better jobs with better benefits.

And the movie version is more accurate—because few people retire in their thirties or forties, when the snapshot might be taken. You retire after you’ve moved through a lifetime of jobs.

The *movie* version gives this statistic, from the Federal Reserve: [eight in 10 near-retiree households](#) have accumulated retirement resources from all sources, whether through traditional pensions, DC plans, IRAs, or some combination of those.

Then consider that 94 percent of workers are covered by Social Security, and that Social Security benefits are designed to provide the highest income replacement for workers with low lifetime earnings—the ones who are most likely to lack employer benefits. Put it all together, and the coverage picture looks a lot brighter than the snapshot might suggest.

The Fed has been tracking in depth whether near-retiree households have retirement resources since 1989—and the figure has remained consistently around eight in 10. The evolution from defined benefit (DB) to DC plans hasn’t changed that key measure of coverage.

What *has* changed is that retirees now are *more likely* to get private-sector pension income, and to get *more income*, than they were four decades ago.

Wait a minute, you say. Didn’t *almost everybody* have a pension “back in the day,” and didn’t almost everybody retire with a guaranteed monthly check?

Well—*no*. In fact, “the golden age of the gold watch” never existed.

Back in 1975, DB plans ruled the pension universe. Yet only 21 percent of all retirees collected any private-sector pension income—either directly or through their spouses.

What accounted for this gap? Well, in those days, a worker’s pension might not vest until his 65th birthday, or until she had spent 20 years on the job. Even now, DB pensions are structured to reward workers who stay for a long time at one company—and who retire from that company.

But reforms for DB plans have helped workers vest sooner—and made it more likely that they would collect pension income. And 401(k) plans put assets directly in workers’ hands.

As a result, the share of retirees who report income from a private-sector pension doubled between 1975 and 2015, while the median amount rose by 50 percent after inflation.

[More retirees, receiving more pension income](#). That’s a sign of strength.

Now, these calculations are based on the “official” data from the Census Bureau. They’re derived from a detailed annual survey.

The picture is even brighter when you look at hard numbers from a source like tax returns.

Economists at the Census Bureau have used tax data—the numbers that institutions and individuals actually report to the Internal Revenue Service (IRS)—to test the data derived from Census Bureau surveys. What they found is that the survey data—the “official” numbers that drive the debate—[are far off the mark](#).

In 2012, retirees reported *\$400 billion more income* from all sources in tax records than the Census Bureau surveys found. And most of that error—more than \$300 billion—resulted from undercounting *retirement* income. In fact, the “official” stats missed *more than half* of the retirement income from all sources that seniors reported to the IRS.

If there’s one thing I’m certain of, it’s that scarcely anyone ever over-reports income to the IRS.

The income that the Census survey misses affects the entire retiree population, regardless of age or income.

The case for the retirement “crisis” just gets weaker and weaker.

All fine, you might say. But the acid test of a retirement system is whether workers can maintain their lifestyles in retirement.

That same tax-based data sheds useful light on that question as well. Recent research by ICI, in partnership with the IRS’s Statistics of Income Division, used tax data to examine the income of a representative sample of workers around the time they first claimed Social Security.

The researchers compared those workers’ incomes from all sources in the year before they claimed Social Security benefits with their incomes three years after doing so. And they calculated the spendable portion of that income, after accounting for taxes and the like.

The net result? The research suggests that they were [able to maintain their standard of living](#) into retirement.

Three years after claiming Social Security, the median worker in the sample had replaced *all* of the spendable income he or she had pre-retirement. And the replacement rate is actually *higher* for lower-income workers—workers in the lowest income quintile replaced 123 percent of their spendable income.

Let me briefly recap:

- At \$28 trillion, Americans have record amounts of retirement resources.
- At \$220,000, Americans have seven times the amount of savings, per household, after inflation, as they did in the 1970s.
- Eight in 10 near-retiree households have retirement accumulations.
- Twice as many retirees are getting 50 percent more private-sector pension income—even before you correct for the serious underestimation in the “official” survey data.
- And when we look at actual income, recent retirees are maintaining, on average, the spendable income levels they had before retiring.

Take all of that together, and my last key number should not come as a surprise.

Nearly eight in 10 households [tell us that they are confident](#) that 401(k) plans can help them meet their retirement goals. And that figure includes households that *don't even own* a DC plan or an IRA, in the face of a constant barrage of headlines like the ones I showed you earlier.

Makes you think that maybe retirement savers have a better grip on the facts than the academics, pundits, and media do.

I could give you additional reams of data. But let's talk instead about what remains to be done.

Our retirement system is *not* in crisis. *It is strong.*

A crisis would demand sweeping action—like proposals to replace 401(k)s and other workplace plans with government programs.

Instead, we face a *challenge*—and challenges demand specific, targeted solutions. The private-sector retirement system can be made even better, by building upon its strengths.

There are three areas to concentrate on.

*First*, we must as a nation ensure that Social Security is financially sound. Social Security is the foundation of our retirement system. The math is simple, and the options are all well-known—all we lack is the political courage to act. It's long past time to do so.

*Second*, we do need to fill gaps in coverage by helping more employers voluntarily offer retirement plans at work. We can reduce the burdens of plan sponsorship by making it easier for small employers to band together, and by creating simpler plans for the very smallest workplaces. ICI has long supported these changes.

And *third*, we can strengthen new and existing plans by encouraging plans to make greater use of features that are proven to boost saving—such as automatic enrollment, automatic escalation of contributions, employer matches, and employee education.

The common theme among these three reforms? Each takes the strengths of our current system—and *builds* on them to help make retirement more secure.

Words matter. Talk about a “crisis” in retirement is damaging. Such talk paralyzes our policy discussions. It polarizes our employers, financial firms, and political leaders. And it demoralizes the millions of American retirees and workers who depend on this system for their current and future security.

Our retirement system is working for those retirees and workers. We owe it to them to portray it as it is—not through the false narrative of “crisis.” Only then will we be able to make the system better.