

The Retirement Crisis In America



Presented By: **Rose Panico-Marino, AIF, ERPA, QPA**
Managing Director

Retirement Confidence

Results of the 2012 Employee Benefit Research Institute Retirement Confidence Survey:

- Americans' confidence in their ability to retire comfortably is at historically low levels
 - Concern regarding job security (42% identify job uncertainty as the most pressing financial issue facing them today)
 - Concern regarding medical expenses
 - In 2012 over 37% of workers say they expect to retire AFTER age 65 compared to only 11% in 1991
 - Over 50% of current retirees say they stopped working due to health problems, layoffs, or changes at their company (hence, not voluntary retirement!)
 - 56% of workers have not tried to calculate how much they need to live comfortably in retirement

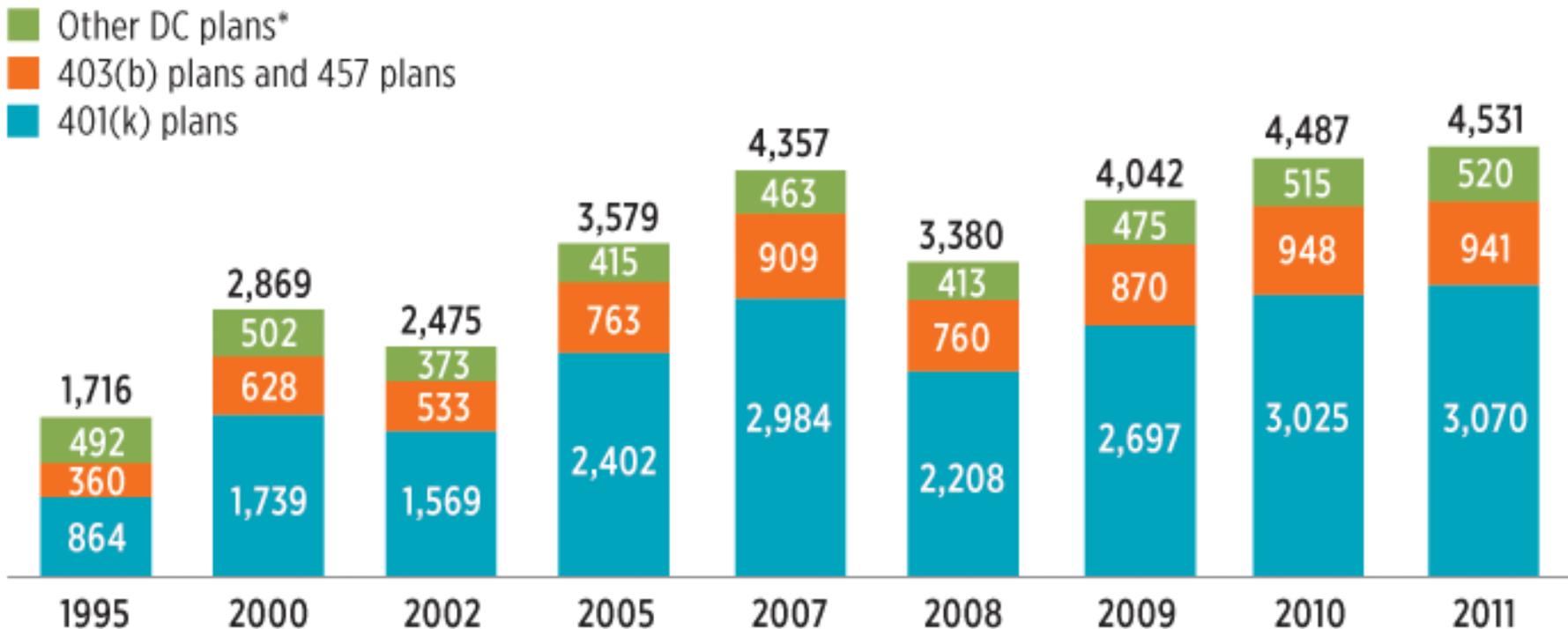
The Retirement Confidence Survey (RCS) gauges the views and attitudes of working-age and retired Americans regarding retirement, their preparations for retirement, their confidence with regard to various aspects of retirement, and related issues. The 2012 RCS is the 22nd annual wave of this project, making it the longest-running retirement survey of its kind in the nation.

The survey was conducted in January 2012 through 20-minute telephone interviews with 1,262 individuals (1,003 workers and 259 retirees) age 25 and older in the United States, using random digit dialing along with a cell phone supplement to obtain a representative cross section of the U.S. population. The survey has a statistical precision of plus or minus 3 percentage points

The Retirement Plan Landscape

Defined Contribution Plan Assets by Type of Plan

Billions of dollars, year-end, selected years



Other DC plans include Keoghs and other DC plans (profit-sharing, thrift-savings, stock bonus, and money purchase) without 401(k) features.

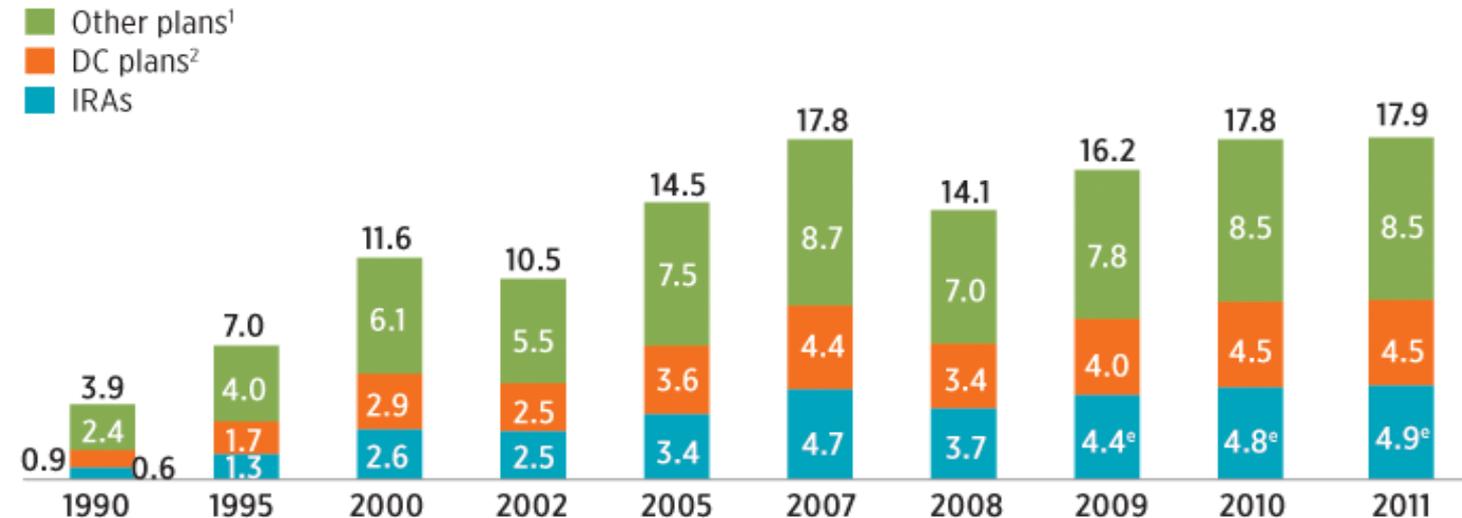
Note: Components may not add to the total because of rounding.

Sources: Investment Company Institute, Federal Reserve Board, Department of Labor, National Association of Government Defined Contribution Administrators, and American Council of Life Insurers

The Retirement Plan Landscape

U.S. Retirement Assets Edged Up in 2011

Trillions of dollars, year-end, selected years



Download an [Excel file](#) of this data.

¹ Other plans include private-sector DB plans; federal, state, and local pension plans; and all fixed and variable annuity reserves at life insurance companies less annuities held by IRAs, 403(b) plans, 457 plans, and private pension funds. Federal pension plans include U.S. Treasury security holdings of the civil service retirement and disability fund, the military retirement fund, the judicial retirement funds, the Railroad Retirement Board, and the foreign service retirement and disability fund. These plans also include securities held in the National Railroad Retirement Investment Trust and Federal Employees Retirement System (FERS) Thrift Savings Plan (TSP).

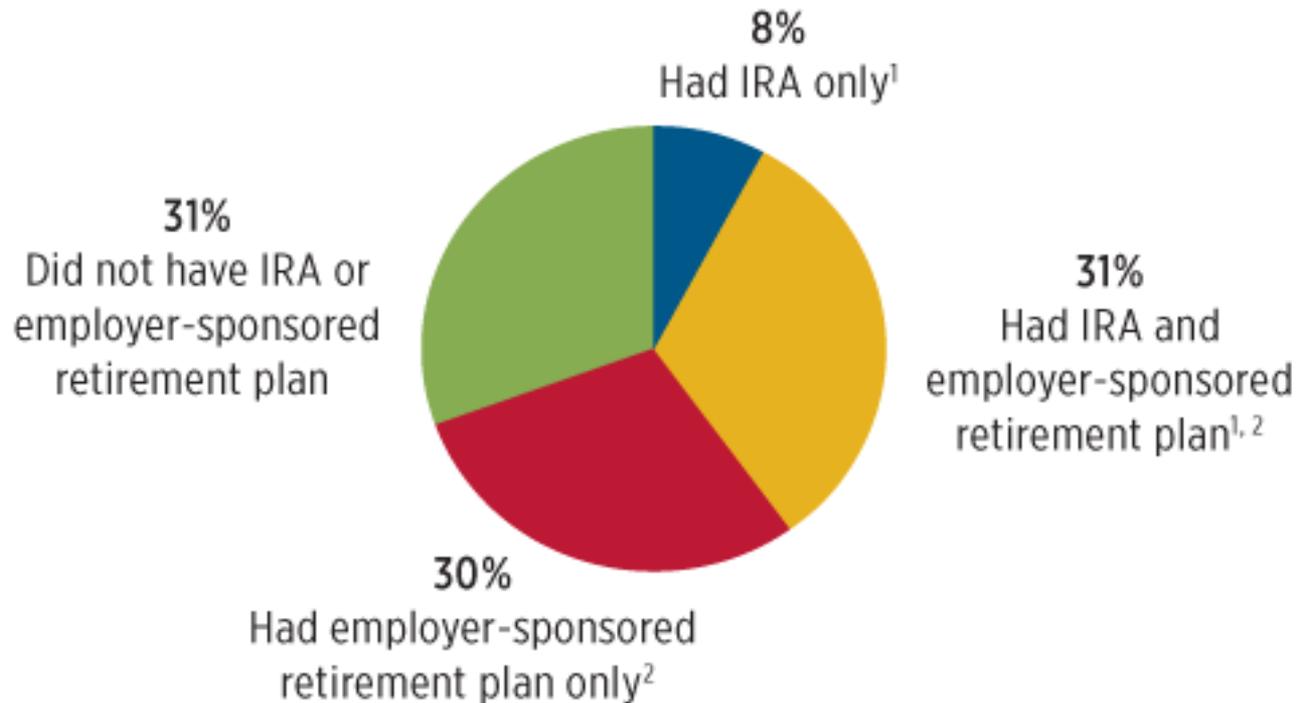
² DC plans include 403(b) plans, 457 plans, and private employer-sponsored DC plans (including 401(k) plans).

^e Data are estimated.

Sources: Investment Company Institute, Federal Reserve Board, National Association of Government Defined Contribution Administrators, American Council of Life Insurers, and Internal Revenue Service Statistics of Income Division. See "The U.S. Retirement Market, Fourth Quarter 2011."

The Retirement Plan Landscape

Many U.S. Households Had Tax-Advantaged Retirement Savings
Percentage of U.S. households, May 2011



Total number of U.S. households: 118.7 million

¹ IRAs include traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs).

² Employer-sponsored retirement plans include DC and DB retirement plans.

Sources: Investment Company Institute and U.S. Census Bureau. See *ICI Research Perspective*, "The Role of IRAs in U.S. Households' Saving for Retirement, 2011."

What Americans Have Relied On...

- The Economic Safety Net of the Past
 - Traditional Pension
 - Social Security
 - Home Equity

Source: National Institute on Retirement Security

The Demise of Traditional Pension Plans

- In 1998, 53% of Americans over age 60 received income from pension plans. By 2010, the figure had fallen to 43%. In the private sector, the decline is more dramatic – 38% in 1979 to 15% in 2010
- Based on US Census Bureau data, poverty rates were 9x greater in 2010 in households without income from pension plans

Source: National Institute on Retirement Security

The Impact of Social Security Benefits

- Social Security is keeping seniors out of poverty
 - Center on Budget and Policy Priorities estimates that 45% of Americans over age 65 would fall below the government's official poverty line if they did not receive SS benefits
 - Without SS payments, the number of elderly in poverty would have been higher by almost 14 million
- The gradual increase in NRA for full social security benefits will rise to 67 for those born after 1960 resulting in a 13% decrease in monthly benefits if the retirement age had remained at 65

Source: National Institute on Retirement Security

Poverty Threshold for 2011

Poverty Thresholds for 2011 by Size of Family and Number of Related Children Under 18 Years

Size of family unit	Related children under 18 years								
	None	One	Two	Three	Four	Five	Six	Seven	Eight or more
One person (unrelated individual).....									
Under 65 years.....	11,702								
65 years and over.....	10,788								
Two people.....									
Householder under 65 years.....	15,063	15,504							
Householder 65 years and over.....	13,596	15,446							
Three people.....	17,595	18,106	18,123						
Four people.....	23,201	23,581	22,811	22,891					
Five people.....	27,979	28,386	27,517	26,844	26,434				
Six people.....	32,181	32,309	31,643	31,005	30,056	29,494			
Seven people.....	37,029	37,260	36,463	35,907	34,872	33,665	32,340		
Eight people.....	41,414	41,779	41,027	40,368	39,433	38,247	37,011	36,697	
Nine people or more.....	49,818	50,059	49,393	48,835	47,917	46,654	45,512	45,229	43,487

Source: U.S. Census Bureau.

The Impact of Social Security Benefits

If your full retirement age is 67 and you take benefits earlier:

- If you start your retirement benefits at age 62, your monthly benefit amount is reduced by about 30 percent. The reduction for starting benefits at age
 - 63 is about 25 percent;
 - 64 is about 20 percent;
 - 65 is about 13.3 percent; and
 - 66 is about 6.7 percent.
- If you start receiving spouse's benefits at age 62, your monthly benefit amount is reduced to about 32.5 percent of the amount your spouse would receive if his or her benefits started at full retirement age. (The reduction is about 67.5 percent.) The reduction for starting benefits as a spouse at age
 - 63 is about 65 percent;
 - 64 is about 62.5 percent;
 - 65 is about 58.3 percent;
 - 66 is about 54.2 percent; and
 - 67 is 50 percent (the maximum benefit amount).

Source: National Institute on Retirement Security

Home Equity as a Retirement Nest Egg

- The housing crash has drained equity
- AARP reports 3.5 million homeowners over the age of 50 are “underwater” on their mortgages
- Seniors are carrying more debt into retirement and have less home equity to meet expenses

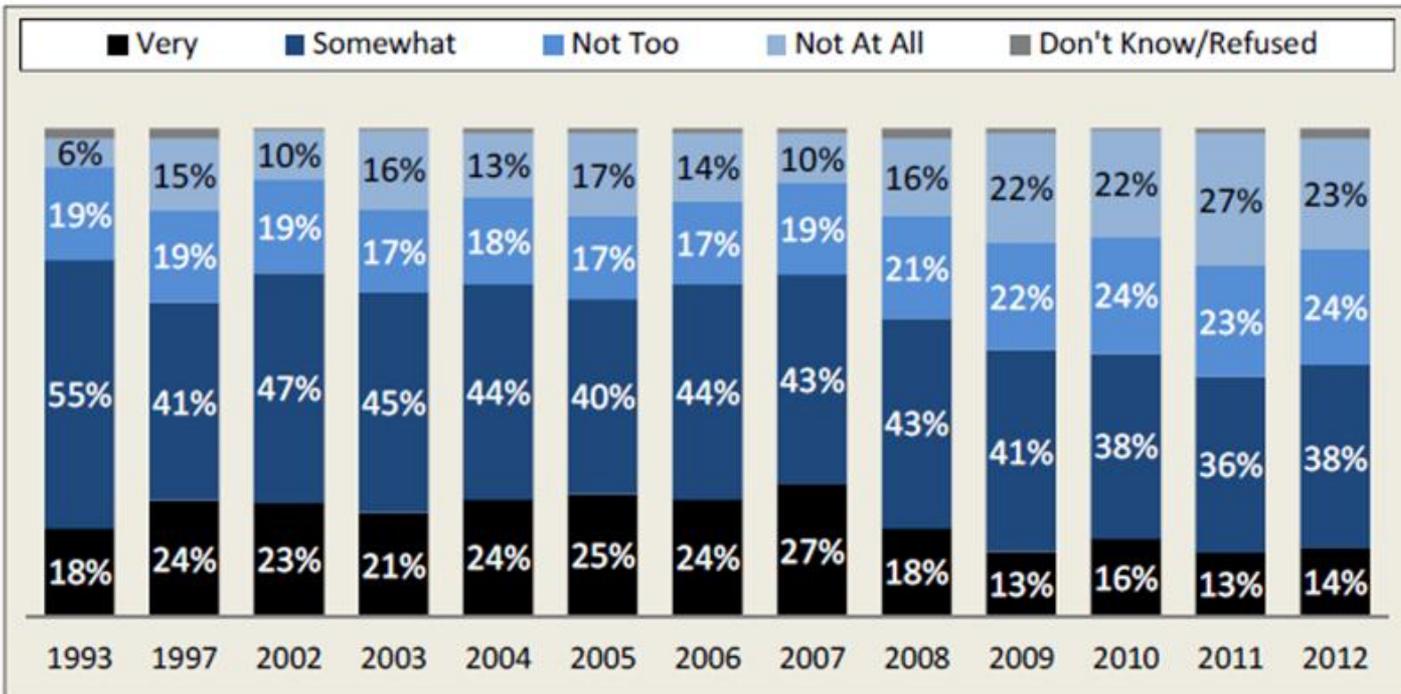
Poverty at End of Life?

- Three Ivy League researchers' findings:
 - 46% of all retirees die owning less than \$10,000 in savings
 - These retirees generally have no housing wealth and rely on Social Security entirely for support
 - Little capacity to pay for unanticipated needs or entertainment
 - Is the targeted “replacement ratio” sufficient for the adequacy of retirement preparation?
 - Total income in the last year of life is, on average, only 50% of income in pre-retirement years
 - Researchers' observation:
 - “These persons balance on only one leg of the oft touted three-legged stool that is said to provide retirement support—Social Security, pension benefits and personal saving. If the one leg is judged inadequate it raises the question of how to strengthen the other legs, which in turn may, for example, increase interest in the spread of 401(k)-like plans to low-wage workers in firms with high turnover.”

Source: National Bureau of Economic Research; authors: James Poterba – MIT; Steven Venti – Dartmouth; David Wise – Harvard; Feb 2012

Retirement Confidence

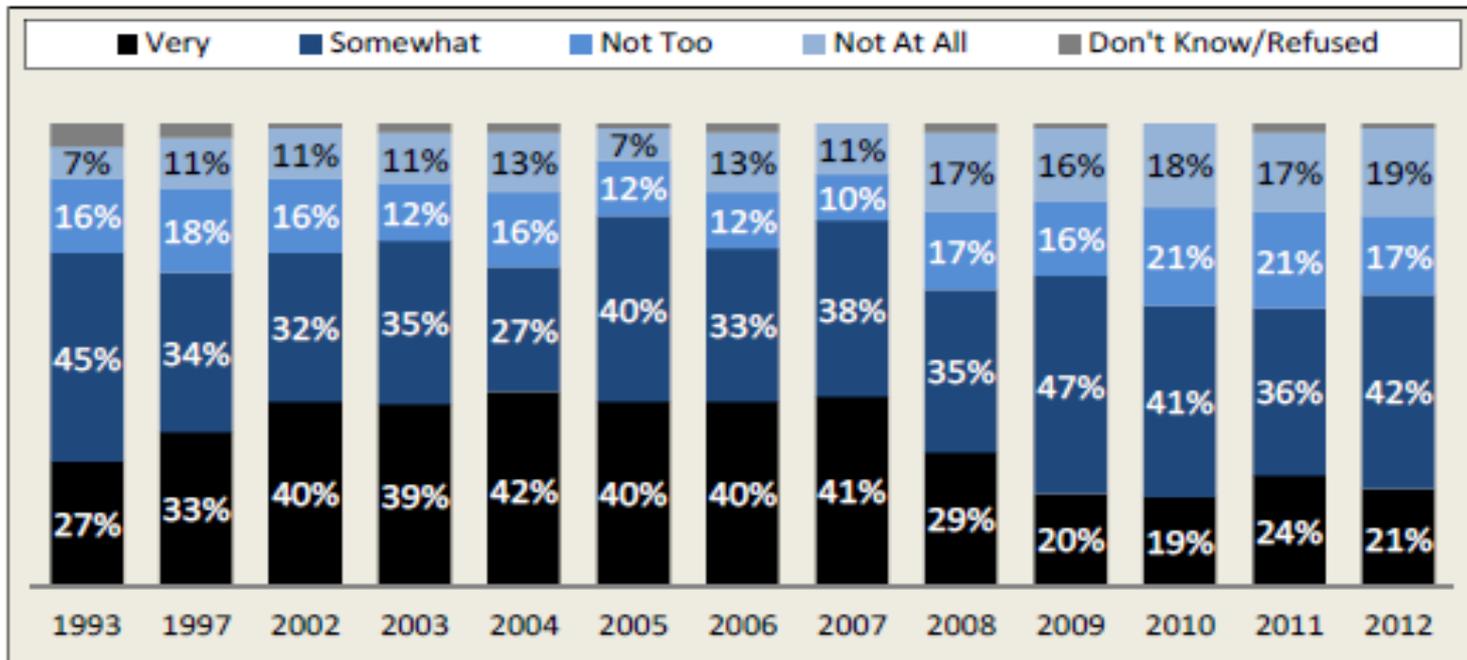
Figure 1
Worker Confidence in Having Enough Money to Live Comfortably Throughout Their Retirement Years



Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 1993–2012 Retirement Confidence Surveys.

Retirement Confidence

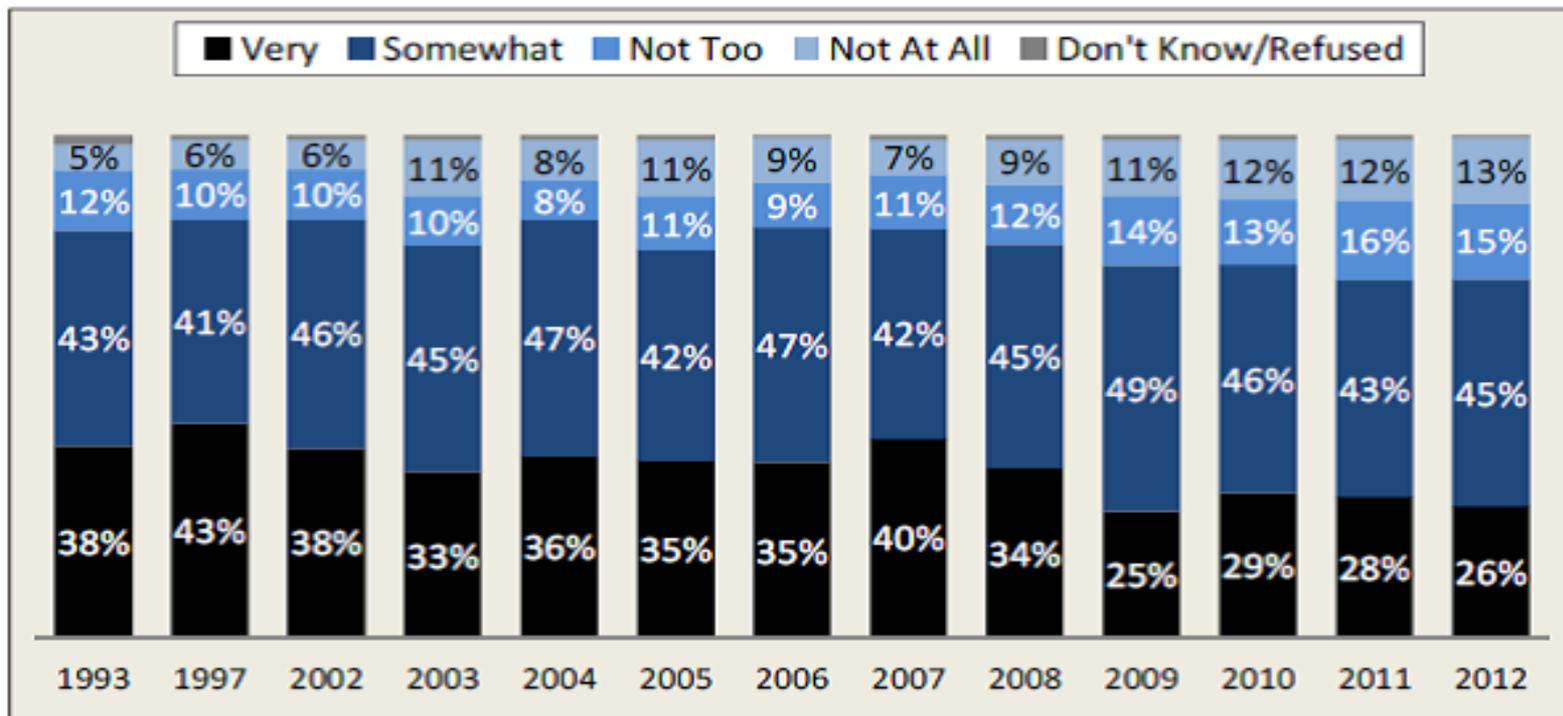
Figure 2
Retiree Confidence in Having Enough Money to Live Comfortably Throughout Their Retirement Years



Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 1993–2012 Retirement Confidence Surveys.

Retirement Confidence

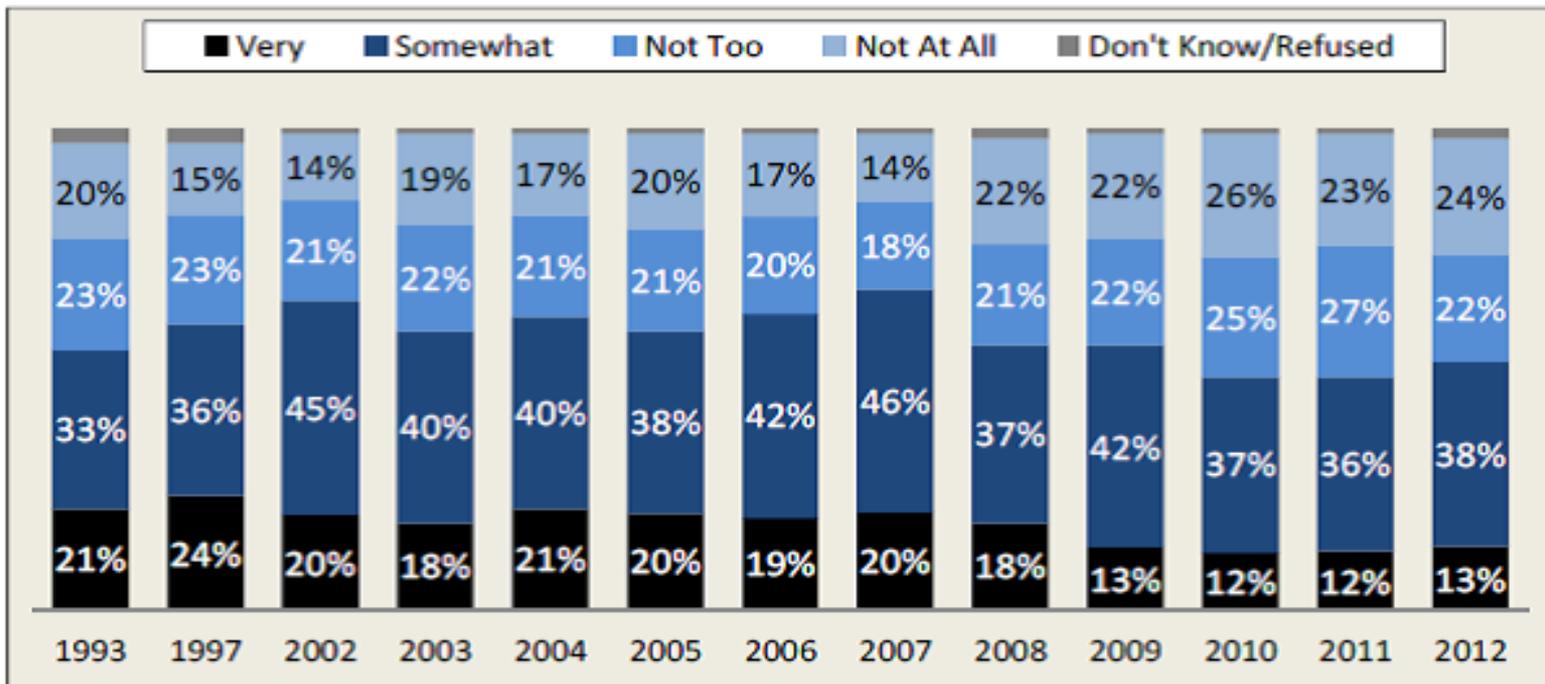
Figure 3
Worker Confidence in Having Enough Money to Pay for Basic Expenses in Retirement



Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 1993–2012 Retirement Confidence Surveys.

Retirement Confidence

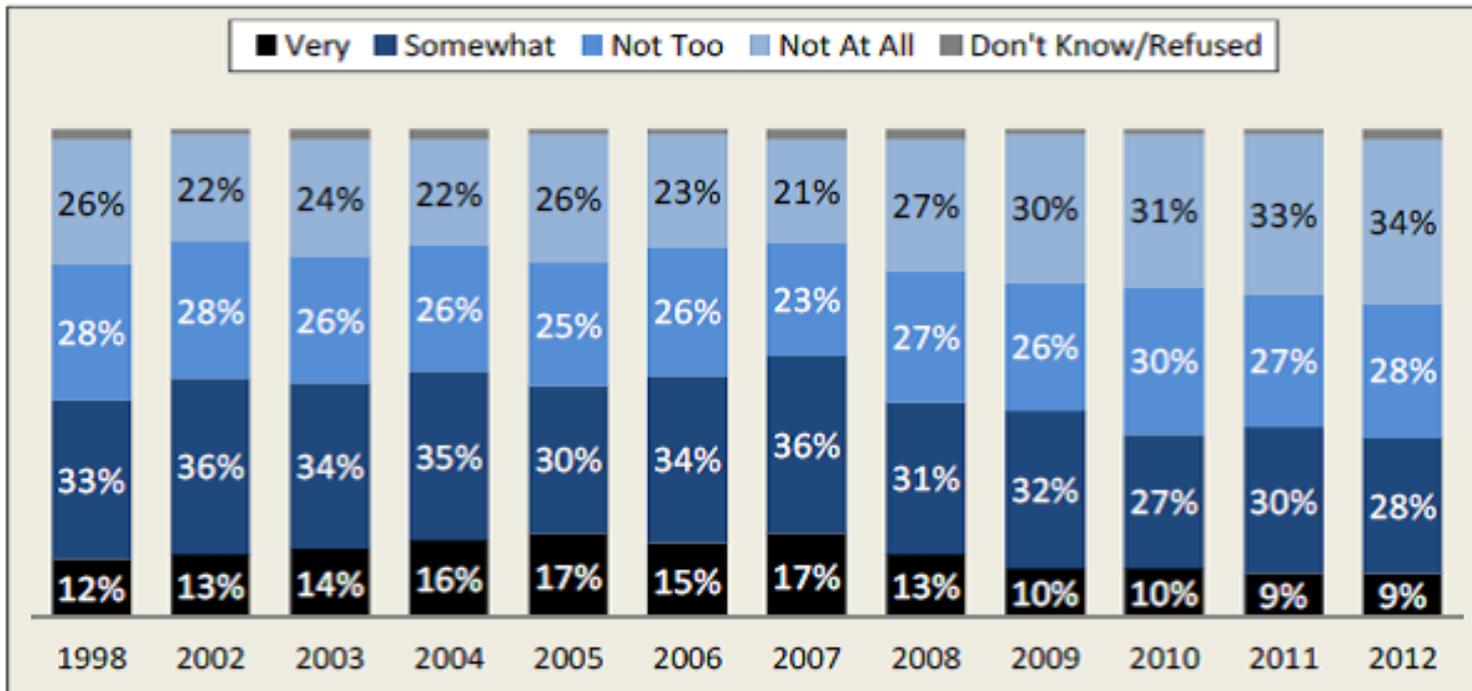
Figure 4
Worker Confidence in Having Enough Money to Pay for Medical Expenses in Retirement



Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 1993–2012 Retirement Confidence Surveys.

Retirement Confidence

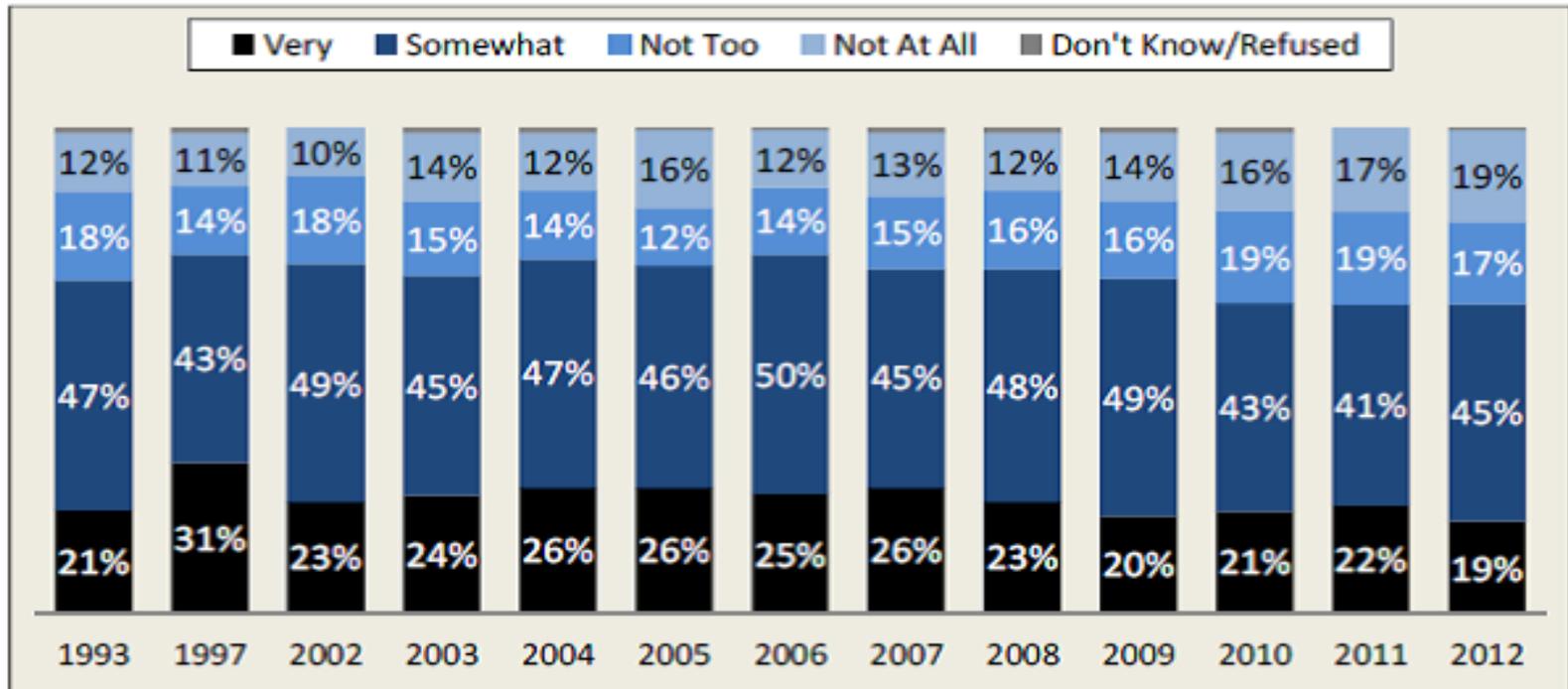
Figure 5
Worker Confidence in Having Enough Money to Pay for Long-term Care Expenses in Retirement



Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 1998–2012 Retirement Confidence Surveys.

Retirement Confidence

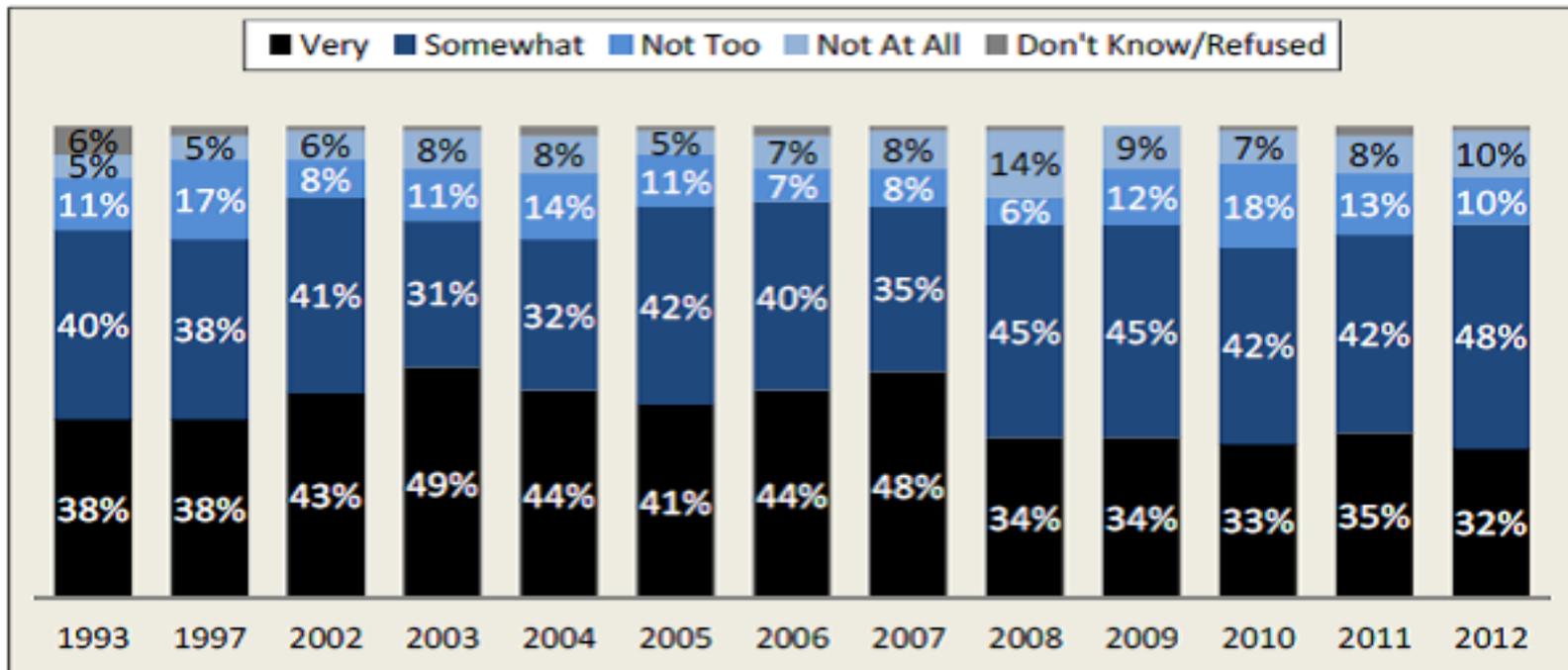
Figure 6
Worker Confidence in Doing a Good Job of
Preparing for Retirement



Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 1993–2012 Retirement Confidence Surveys.

Retirement Confidence

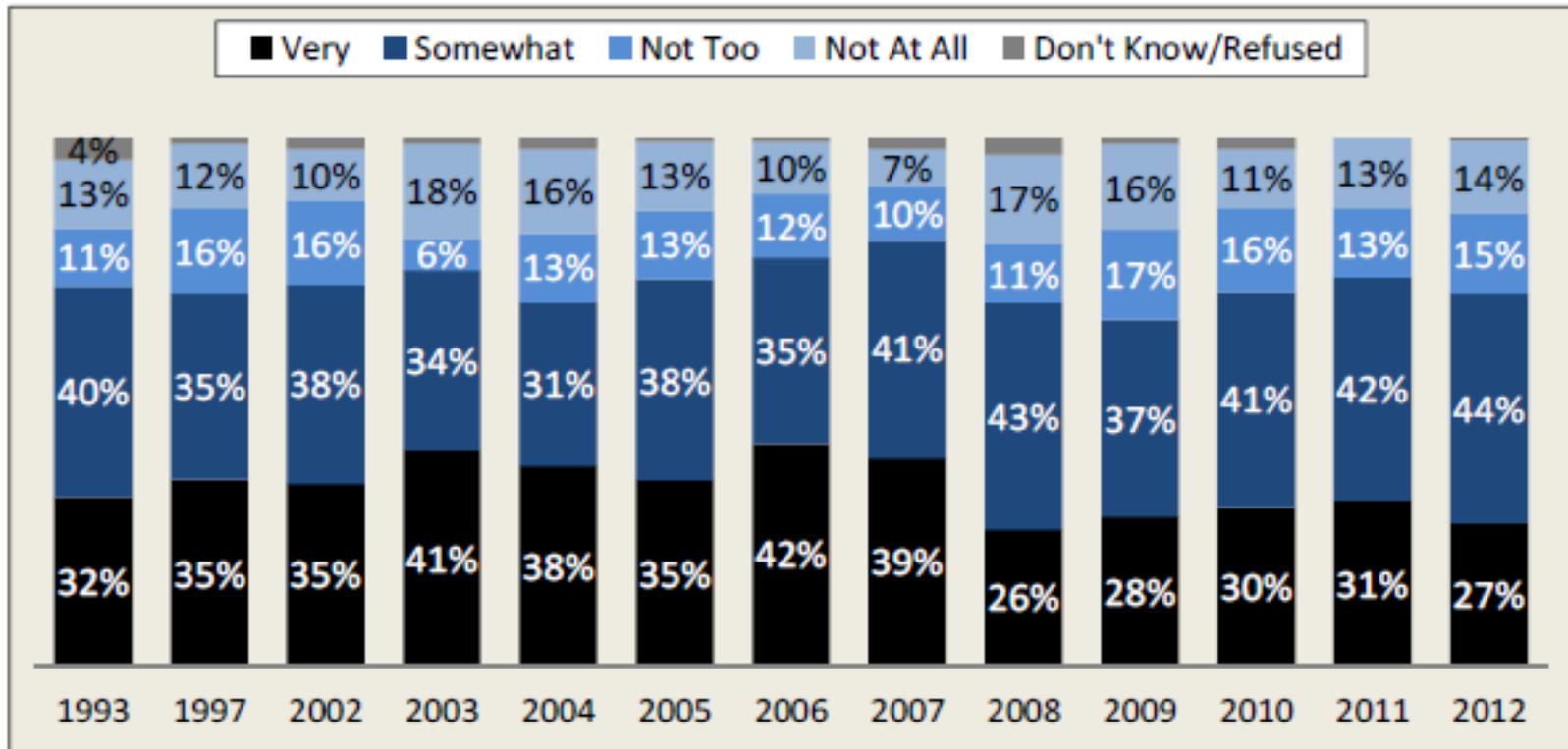
Figure 7
Retiree Confidence in Having Enough Money to Pay for Basic Expenses in Retirement



Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 1993–2012 Retirement Confidence Surveys.

Retirement Confidence

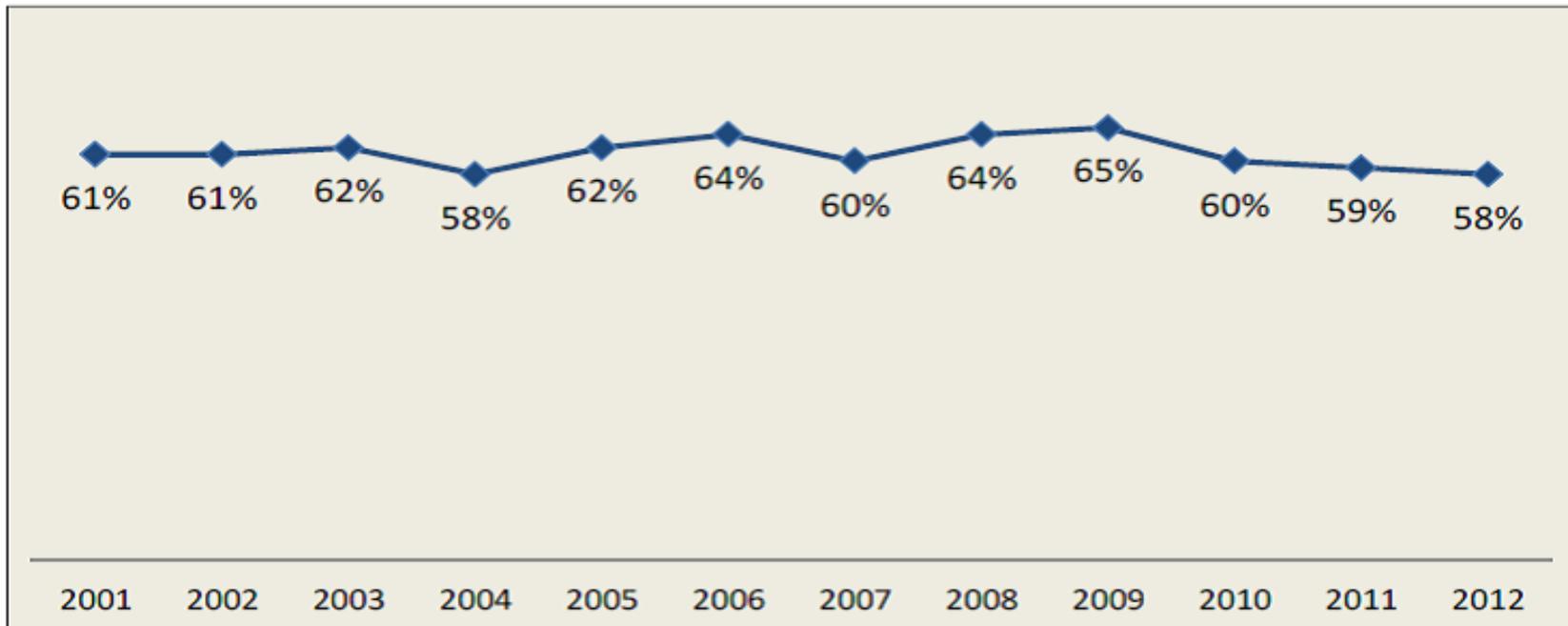
Retiree Confidence in Having Done a Good Job of Preparing for Retirement



Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 1993–2012 Retirement Confidence Surveys.

Retirement Confidence

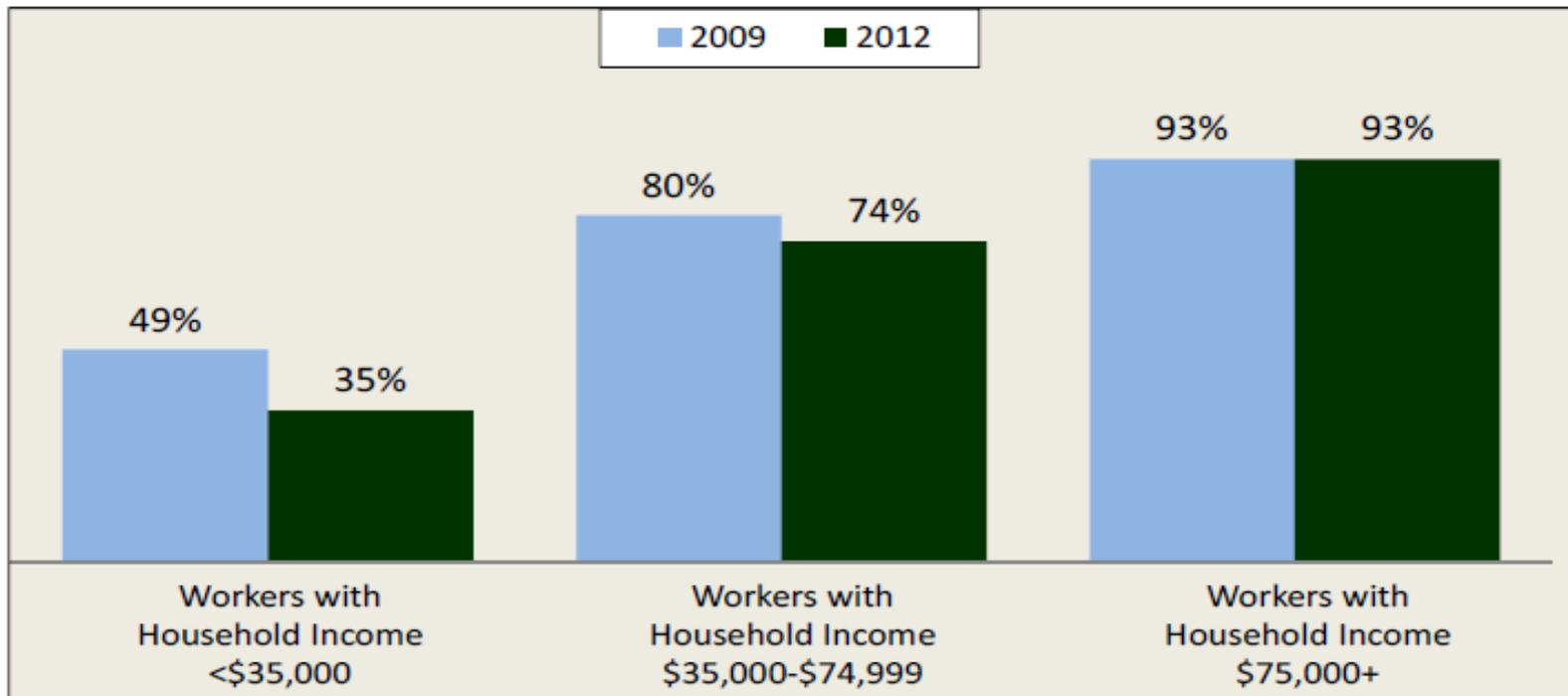
Figure 16
Workers Currently Saving Money for Retirement



Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2001–2012 Retirement Confidence Surveys.

Retirement Confidence

Figure 17
Workers Having Saved Money for Retirement,
by Household Income



Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2009, 2012 Retirement Confidence Surveys.

Retirement Confidence

Figure 18

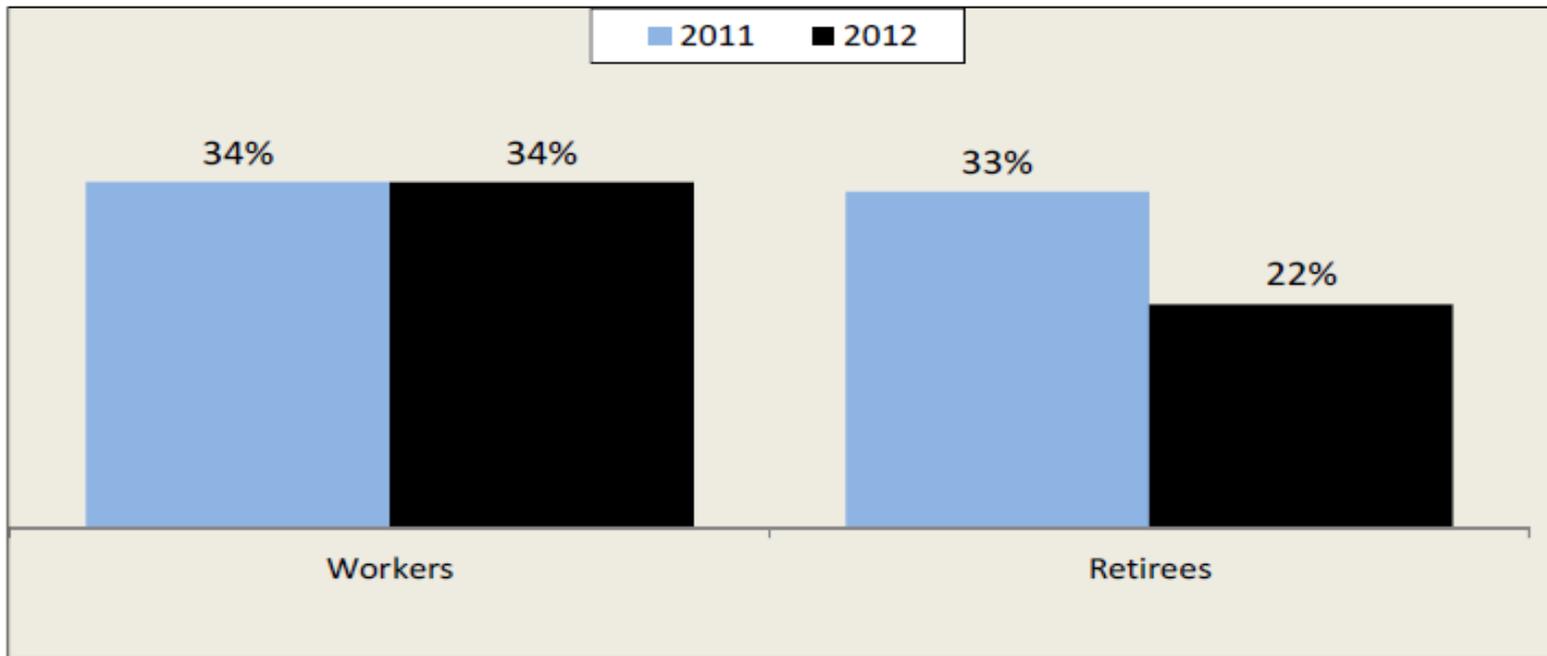
**Total Savings and Investment Reported by Workers,
Among Those Providing a Response**
(not including value of primary residence or defined benefit plans)

	<u>2002</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Less than \$1,000	50%	35%	36%	20%	27%	29%	30%
\$1,000 - \$9,999				19	16	17	18
\$10,000 - \$24,999		13	13	13	11	10	12
\$25,000 - \$49,999	13	10	12	11	12	11	10
\$50,000 - \$99,999	15	13	12	12	11	9	10
\$100,000 - \$249,999	15	15	15	12	11	14	11
\$250,000 or more	7	14	12	12	11	10	10

Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2002–2012 Retirement Confidence Surveys.

Retirement Confidence

Figure 20
Americans Reporting They Dipped into Savings to Pay for Basic Expenses

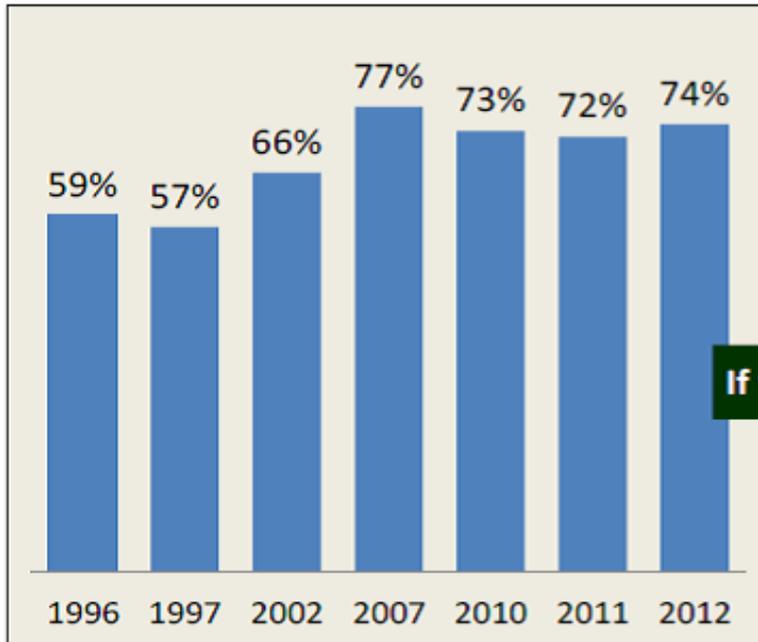


Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2011–2012 Retirement Confidence Surveys.

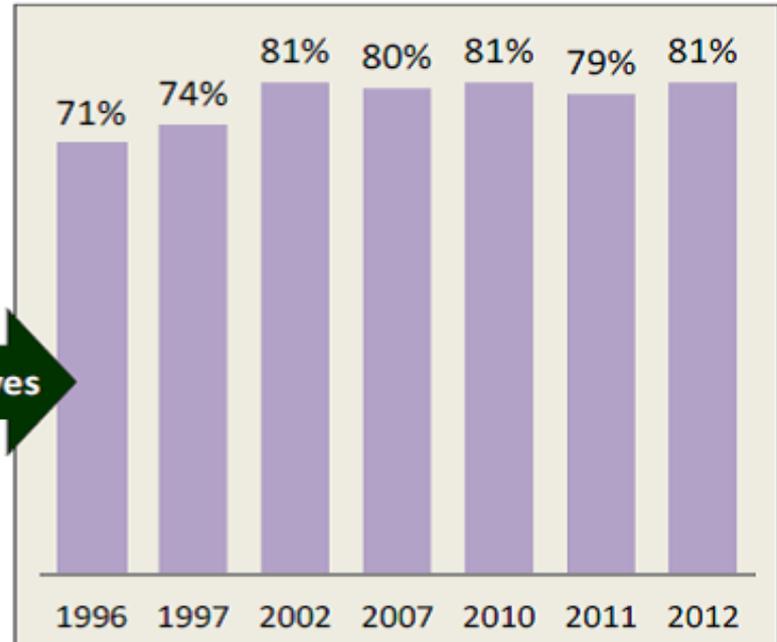
Retirement Confidence

Figure 21
Reported Offer and Take-up of Employer-Sponsored Retirement Savings Plans, Among Employed Workers

Percentage of Employed Workers Offered Plan



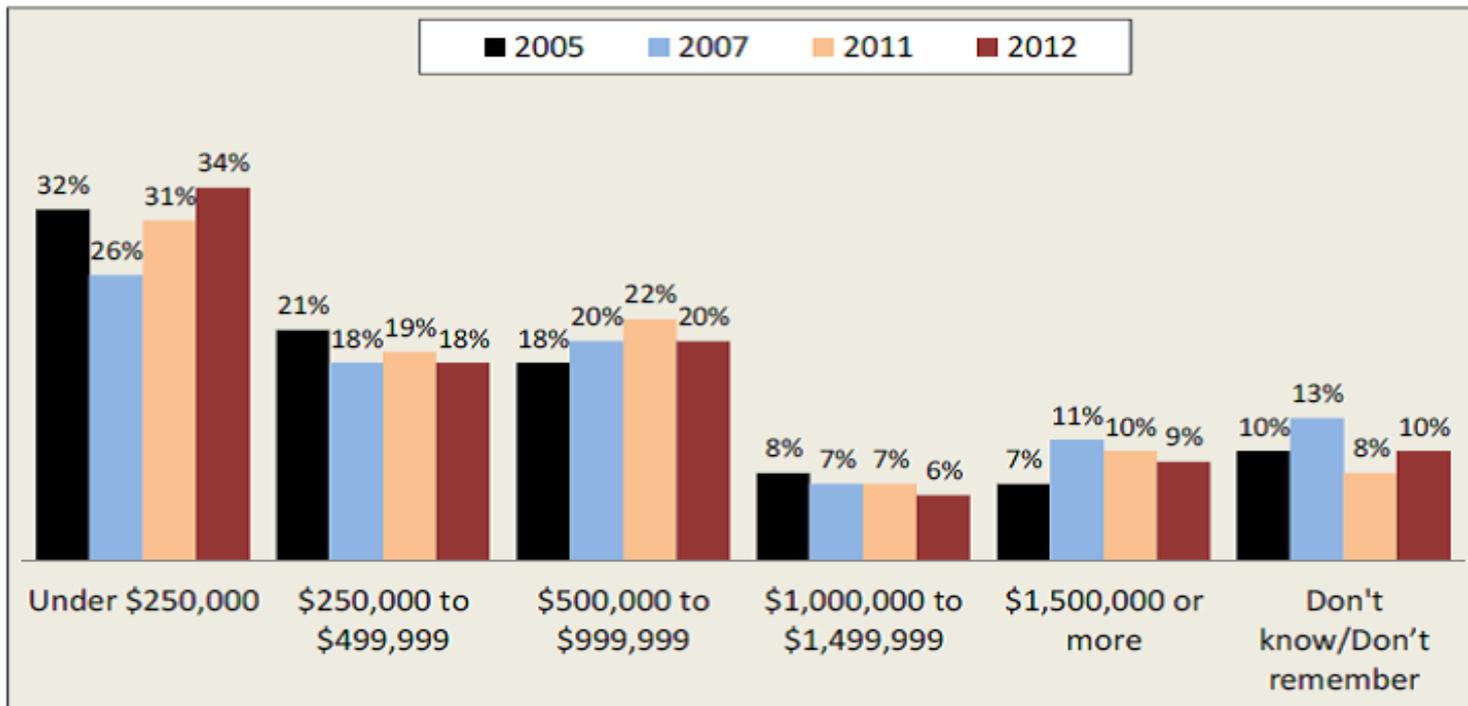
Percentage of Workers Offered Plan Who Contribute



Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 1996–2012 Retirement Confidence Surveys.

Retirement Confidence

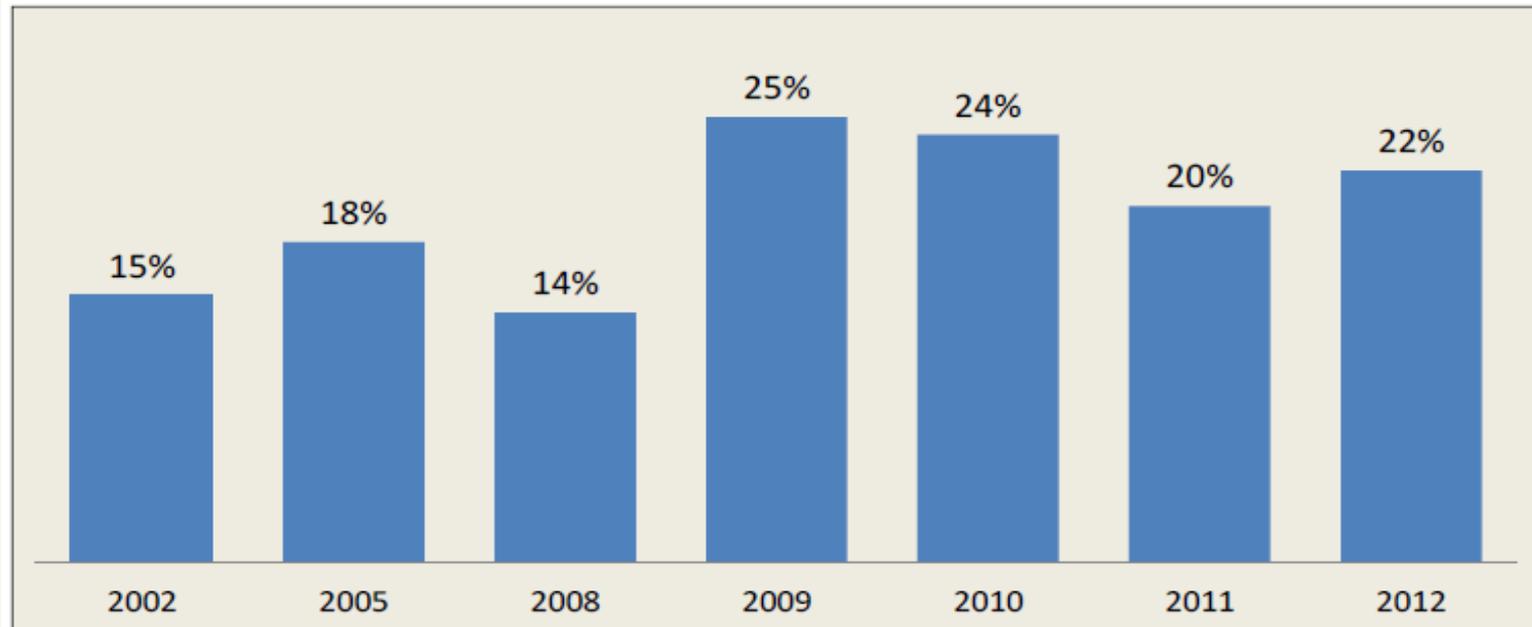
Figure 23
Amount of Savings Workers Think
They Need for Retirement



Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2005–2012 Retirement Confidence Surveys.

Retirement Confidence

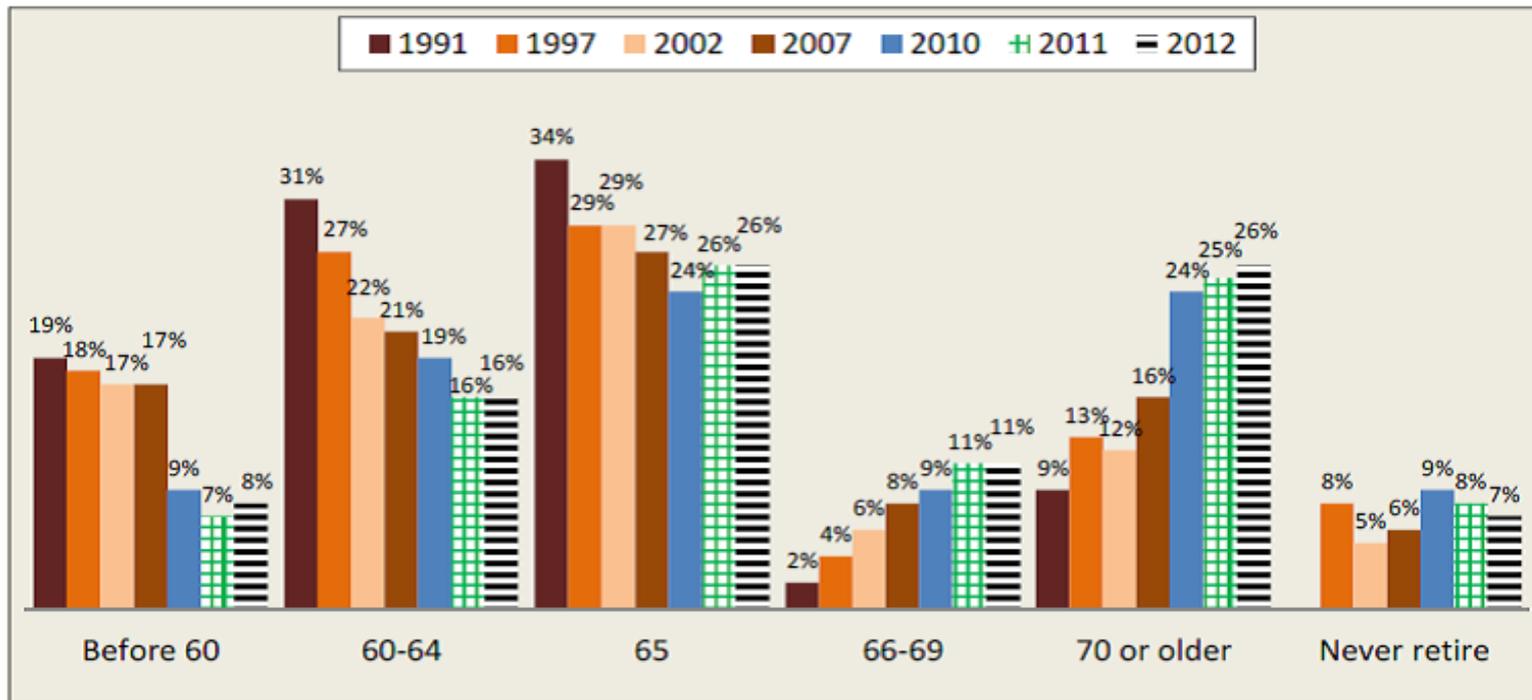
Figure 29
Workers Expecting to Retire Later Than Planned



Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2002–2012 Retirement Confidence Surveys.

Retirement Confidence

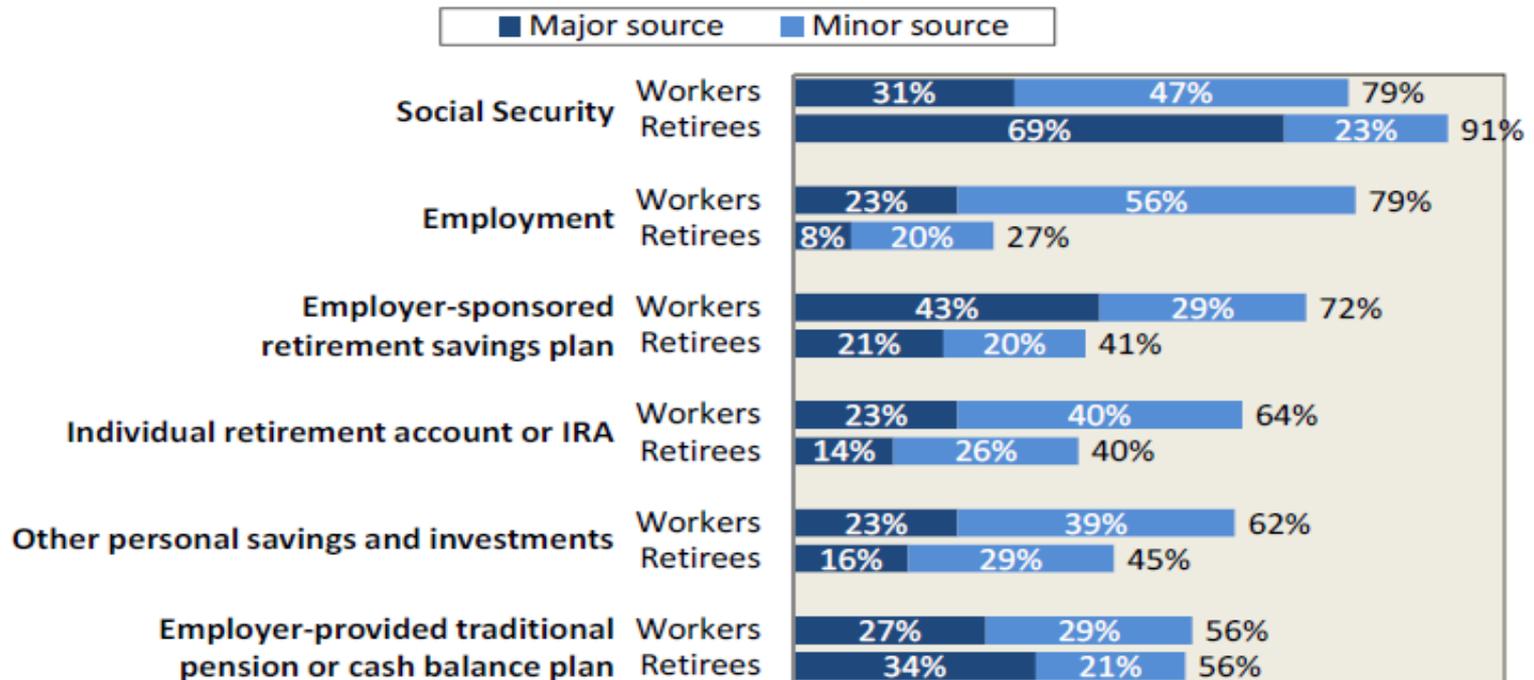
Figure 30
Trend in Workers' Expected Retirement Age



Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 1991–2012 Retirement Confidence Surveys.

Retirement Confidence

Figure 35
Expected (Workers Expecting to Retire) and Actual (Retirees) Sources of Income in Retirement

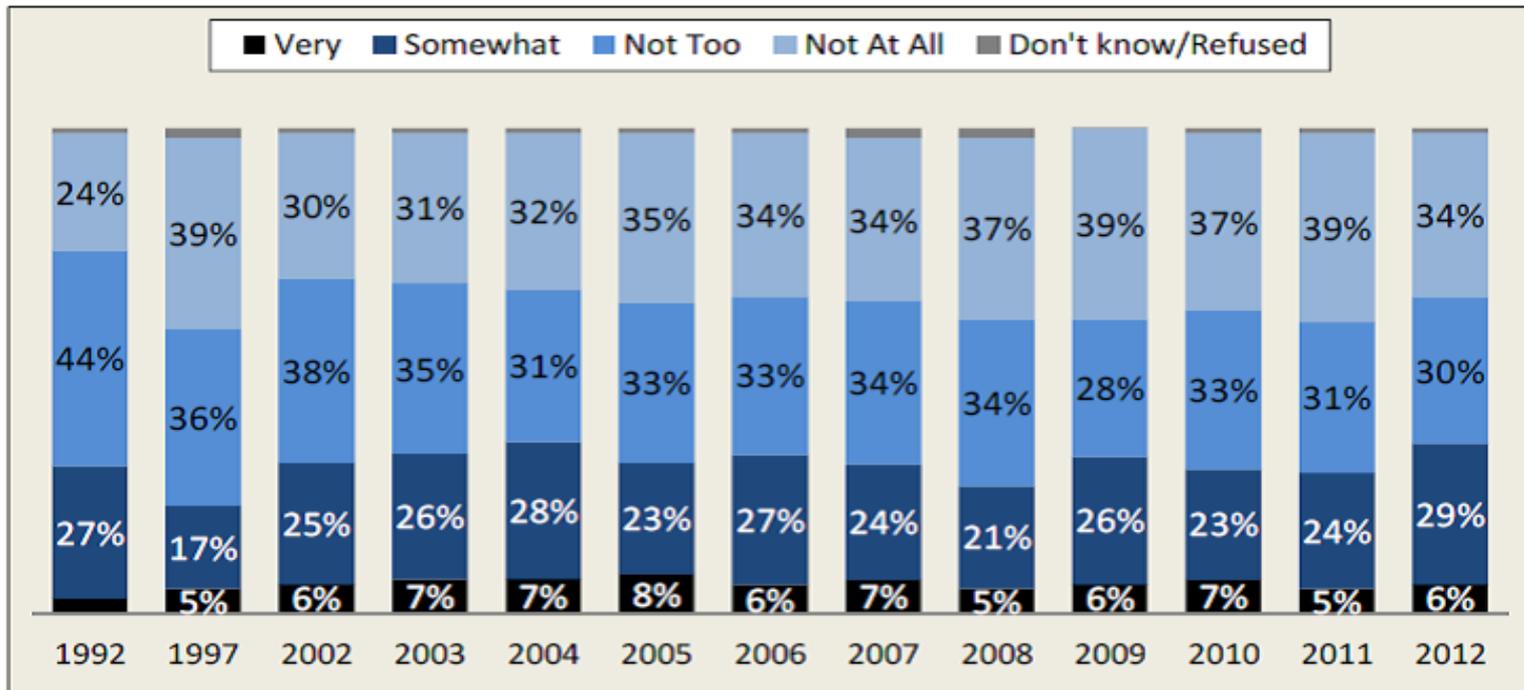


Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2012 Retirement Confidence Survey.

Retirement Confidence

Figure 38

Worker Confidence That Social Security Will Continue to Provide Benefits of at Least Equal Value to Benefits Received by Retirees Today

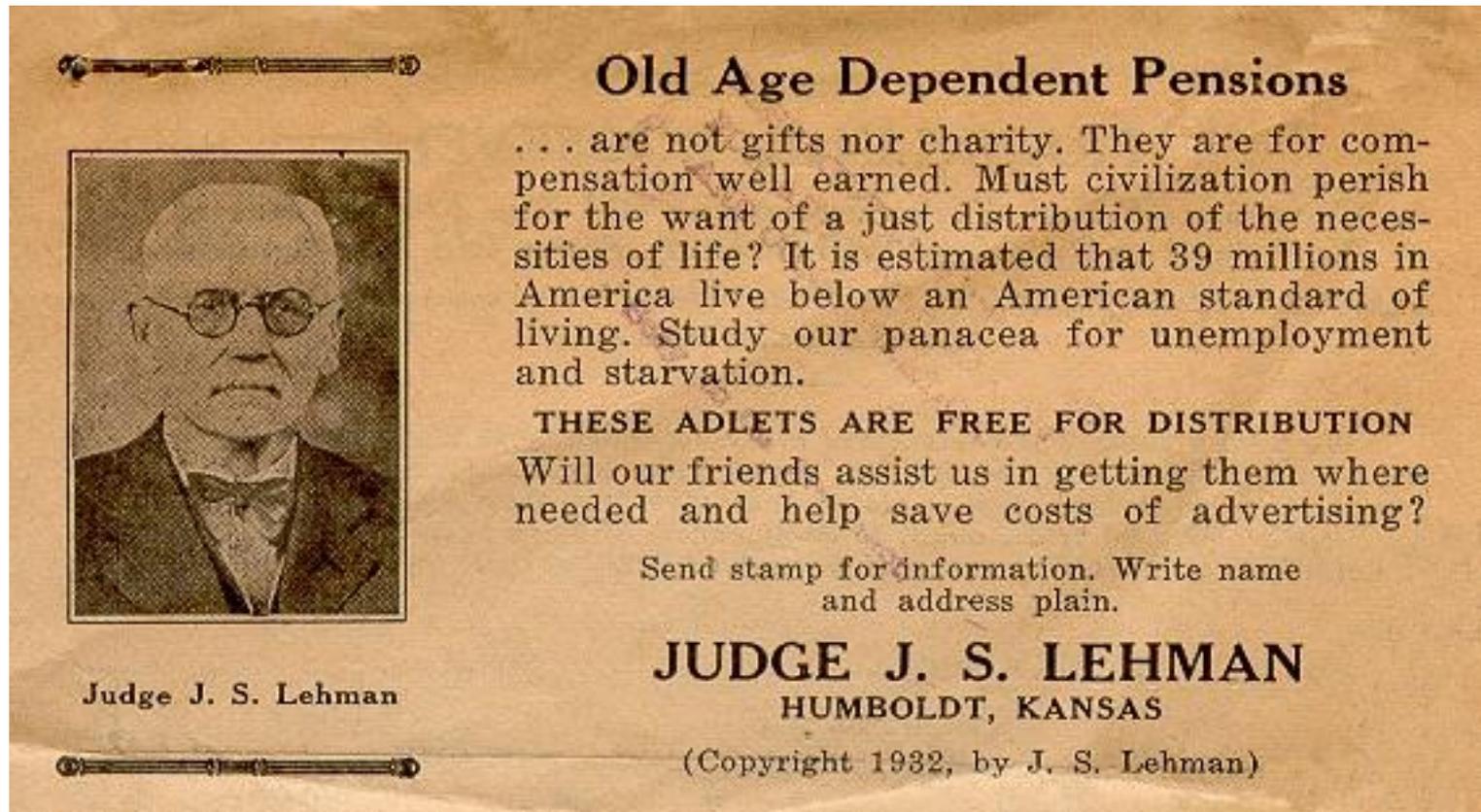


Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 1992–2012 Retirement Confidence Surveys.

OUR SOCIAL SECURITY SYSTEM



America In Crisis



Old Age Dependent Pensions

... are not gifts nor charity. They are for compensation well earned. Must civilization perish for the want of a just distribution of the necessities of life? It is estimated that 39 millions in America live below an American standard of living. Study our panacea for unemployment and starvation.

THESE ADLETS ARE FREE FOR DISTRIBUTION
Will our friends assist us in getting them where needed and help save costs of advertising?

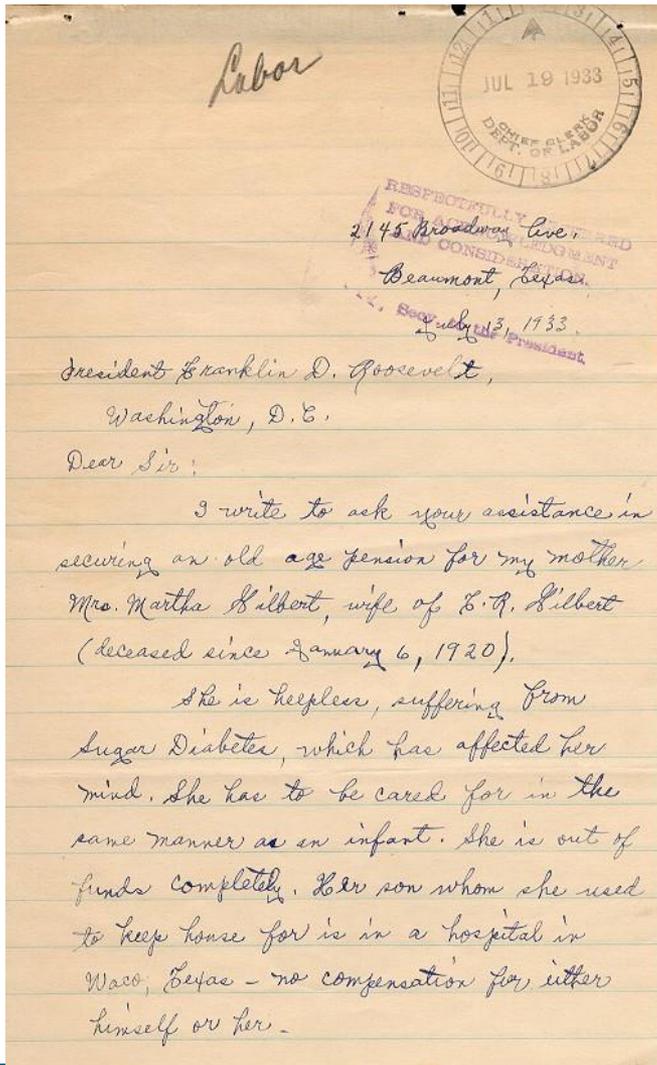
Send stamp for information. Write name and address plain.

JUDGE J. S. LEHMAN
HUMBOLDT, KANSAS

(Copyright 1932, by J. S. Lehman)

Judge J. S. Lehman

America In Crisis



After President Roosevelt came into office millions of hopeful Americans wrote letters to President, offering advice and requesting help. Appeals for old-age pensions were especially frequent, and often quite poignant. This is a fairly typical example of the letters sent to the White House during the Depression. It is a letter sent by Mrs. M. A. Zoller on behalf of her aged mother. In the letter she informs the President that her mother will be 82 in August and has no means of support, and she appeals for the President's help.

Federal Passage of the Social Security

- The Social Security Act was signed into law by President Roosevelt on August 14, 1935 as a result of massive unemployment during the Great Depression—especially among older workers—combined with the fact that the life span of the average American was increasing.
- The Act was the United States' first major federal government program to deal directly with the economic security of its older citizens. Previously, the states and private resources were responsible for economic security of older workers.
- The Great Depression created such a large financial displacement that federal action became necessary to supply the required financial resources to cope with the growing need among the people.
- The Social Security Act was an attempt by the U.S. government to meet some of the serious problems of economic insecurity arising from the Great Depression.

The History of Social Security

1937: Social Security payroll taxes begin, and lump-sum payments begin.

1939: Social Security provides benefits to spouses, minor children and survivors of workers who die prematurely.

1940: Social Security pays out [monthly benefits](#) for the first time, drawing on workers' contributions that were made starting in 1937. Ida Mae Fuller receives the first monthly benefit from Social Security. Her check is for \$22.40.

1944: Mary Thompson, a widow, is the 1 millionth beneficiary of Social Security benefits.

1950: Social Security adds the first cost of living adjustment (COLA) so benefits can keep pace with inflation.

1956: Social Security provides benefits to disabled workers aged 50-64 and disabled adult children. Women are permitted to [retire](#) early at age 62 with a reduced benefit.

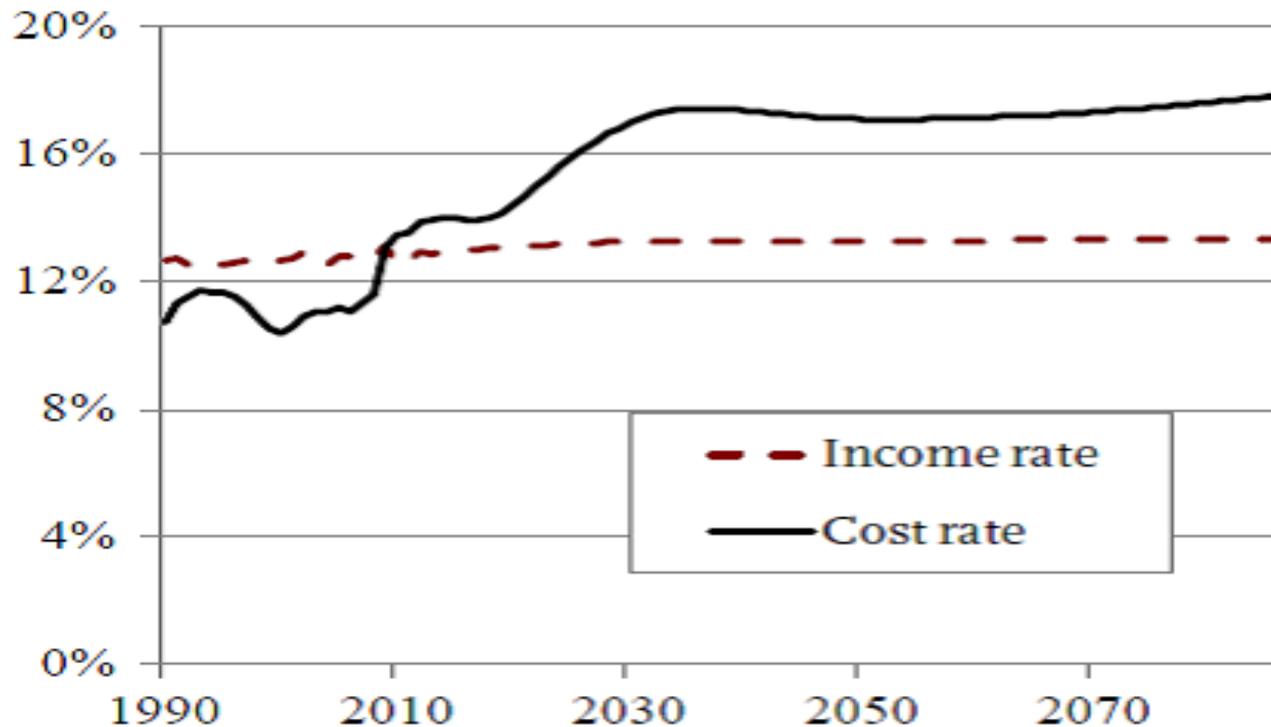
1961: Social Security allows men to retire early, starting at age 62, with a reduced benefit.

Social Security 2012 Trustee Report

- Findings:
 - In 2011, cost to provide benefits exceeded both tax income and non-interest income
 - \$148 billion in 2011
 - \$165 billion projected in 2012
 - OASI Trust Fund and DI Trust Fund will be adequate over the next 10 years
 - Projected assets of the DI Trust Fund will be depleted by 2016
 - The OASI will be exhausted in 2035
- In 2011, cost to provide benefits exceeded both tax income and non-interest income

Future of Social Security

FIGURE 1. PROJECTED SOCIAL SECURITY INCOME AND COST RATES, AS A PERCENT OF TAXABLE PAYROLL, 1990-2086



Source: 2012 Social Security Trustees Report, Table IV.B1.

Future of Social Security

FIGURE 2. REPLACEMENT RATE FOR THE MEDIUM EARNER AT AGE 65 FROM EXISTING TAX REVENUES, 2012-2086



Source: 2012 Social Security Trustees Report, Tables IV.B1 and V.C7.

Future of Social Security

TABLE 1. KEY DATES FOR SOCIAL SECURITY TRUST FUND

Event	Trustees Report				
	2008	2009	2010	2011	2012
First year outgo exceeds income excluding interest	2017	2016	2015	2010	2010
First year outgo exceeds income including interest	2027	2024	2025	2023	2021
Year trust fund assets are exhausted	2041	2037	2037	2036	2033

Source: 2008-2012 Social Security Trustees Reports.

Future of Social Security

TABLE 5. KEY DATES FOR SOCIAL SECURITY TRUST FUNDS

Event	2008	2009	2010	2011	2012
Year OASI Trust Fund assets are exhausted	2042	2039	2040	2038	2035
Year DI Trust Fund assets are exhausted	2025	2020	2018	2018	2016

Source: 2008-2012 Social Security Trustees Reports.

Social Security Statistics

TABLE 2. CURRENT LAW SOCIAL SECURITY REPLACEMENT RATES, 2030 AND LATER

Earnings level	Age	
	67	65
Low	55.2%	48.9%
Medium	40.9	36.3
High	33.9	30.0
Maximum	27.2	23.9

Source: U.S. Social Security Administration (2010), Table F10.

Boston Research Study

TABLE 1. PERCENT OF PRE-RETIREMENT EARNINGS
REQUIRED TO MAINTAIN LIVING STANDARDS, 2008

Pre-retirement earnings	Two-earner couples	Single workers
\$20,000	94	88
\$50,000	81	80
\$90,000	78	81

Source: Palmer (2008).

Boston Research Study

TABLE 3. SAVING RATE REQUIRED FOR A MEDIUM EARNER TO ATTAIN AN 80-PERCENT REPLACEMENT RATE WITH A 4-PERCENT RATE OF RETURN

Retire at:	Start saving at		
	25	35	45
62	22%	35%	65 %
65	15	24	41
67	12	18	31
70	7	11	18

Source: Authors' estimates.

Boston Research Study

TABLE 4. SAVING RATE REQUIRED FOR A MEDIUM EARNER TO ATTAIN AN 80-PERCENT REPLACEMENT RATE WITH A STARTING AGE OF 35, BY RATE OF RETURN

Retire at:	Real rate of return		
	2%	4%	6%
62	46%	35%	26%
65	32	24	17
67	26	18	13
70	16	11	7

Source: Authors' estimates.

Boston Research Study

TABLE 5. SAVING RATE REQUIRED FOR A LOW EARNER TO ATTAIN AN 80-PERCENT REPLACEMENT RATE WITH A 4-PERCENT RATE OF RETURN

Retire at:	Start saving at		
	25	35	45
62	18%	28%	52%
65	11	17	30
67	8	12	20
70	3	4	7

Source: Authors' estimates.

Boston Research Study

TABLE 6. SAVING RATE REQUIRED FOR A MAXIMUM EARNER TO ATTAIN AN 80-PERCENT REPLACEMENT RATE WITH A 4-PERCENT RATE OF RETURN

Retire at:	Start saving at		
	25	35	45
62	26%	42%	77%
65	19	30	53
67	16	25	42
70	12	17	29

Source: Authors' estimates.



1

Improving Retirement Outcomes

- Work longer – 88% of people 65 to 74 are healthy enough to work
- Delay full Social Security retirement age to 70 or older
 - A boomer starting benefits at age 70 would have approximately a 75% larger base benefit than starting to draw retirement benefits at age 62

Source: Center for Retirement Research at Boston College

Improving Retirement Outcomes

- Employer Initiatives:
 - Automatic enrollment at 6% or greater
 - Automatic annual increases up to 12%
 - Real-time retirement income adequacy calculation
 - If matching contributions are being made, consider changing match to encourage higher employee contributions:
 - e.g.: if current match is 50% on the first 6%, change match to 25% up to the first 12% of employee contributions



Improving Retirement Outcomes

- Chairman Tom Harkin's Recommendations from the Senate Committee on Health, Education, Labor and Pension: Key Principals
 - Universal retirement (required by employer) and automatic participation
 - A retirement system that provides certainty
 - Retirement as a shared responsibility between individuals, employers and the government
 - Retirement assets should be pooled and professionally managed

Improving Retirement Outcomes

- Chairman Tom Harkin's Recommendations from the Senate Committee on Health, Education, Labor and Pension: Solutions
- PART ONE
 - USA Retirement Funds (Universal, Secure, Adaptable)
 - A privately-run hybrid pension plan requiring payroll withholding
 - Professional, pooled asset management (no participant direction)
 - Lifetime income benefit with survivor benefits like a pension
 - Risk sharing. Virtually all risk to the employer is eliminated. The risk is spread between employees and retirees
 - Universal coverage. Employees would be automatically enrolled.
 - Employer would not guarantee the USA Retirement Funds or have responsibility for any shortfall

Improving Retirement Outcomes

- Chairman Tom Harkin's Recommendations from the Senate Committee on Health, Education, Labor and Pension: Solutions
- PART TWO
 - Strengthen Social Security
 - The Rebuild American Act – introduced March 2012
 - Improve the replacement factor for a person's Average Indexed Monthly Earnings – results in an average pension increase of \$60/month for most beneficiaries
 - Improve COLA adjustments to accurately reflect the change in seniors' cost of living. Rather than tying increases to CPI for all urban wage earners, increases would be tied to CPI for the elderly which is tailored to more closely track costs for seniors
 - Phase out the cap on wages subject to payroll taxes (currently \$110k) to improve financing; would be phased in over a 10 year period

Improving Retirement Outcomes

- Old measures of success:
 - High participation
 - Deferral rates
 - Investment options (target date funds, managed accounts, asset allocation models)
 - Brand name providers
 - Brokerage accounts
 - Investment education/advice



Improving Retirement Outcomes

- New measures of success:
 - Back-end results
 - Adequacy of benefits in retirement
 - Month-to-month benefits vs. lump sum payments



Improving Retirement Outcomes

- Help participants know what they need:
 - Gap analysis tells a participant whether they are on course to have adequate retirement income
 - Sustainable withdrawal rates in retirement
 - 4% is generally the amount per year in order to have a 90% probability of lasting for 30 years
 - Provide tools to help participants understand the impact of waiting to retire
 - Guaranteed income for life investment option

Thank You

For questions or more information contact:

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