

Contemporary Challenges to Retirement Security: The Private Sector Experience

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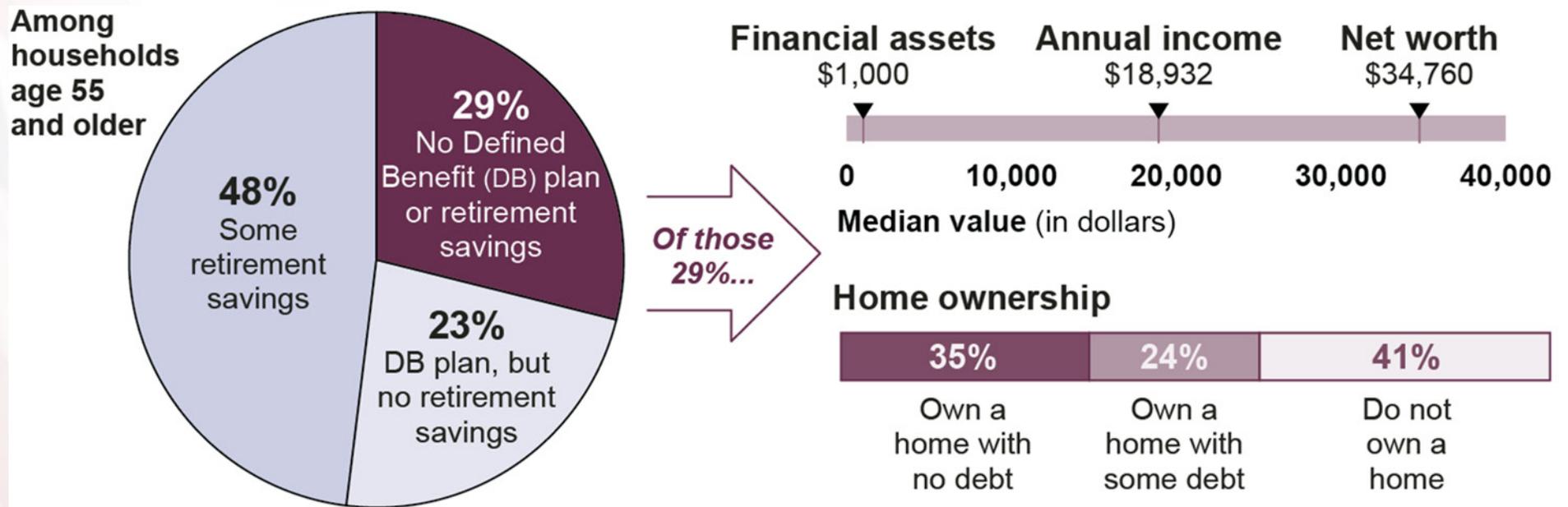
Some Key Retirement Challenges

- Are people, especially baby boomers, saving enough for retirement?
- If they aren't, how can we get them to save enough?
- Two recent GAO reports shed light on these issues:
 - RETIREMENT SECURITY Most Households Approaching Retirement Have Low Savings GAO-15-419, May 2015.
 - RETIREMENT SECURITY: Federal Action Could Help State Efforts to Expand Private Sector Coverage. GAO 15-556. September 2016
- You can get them at www.gao.gov

How Much Do Older People Have for Retirement?

- Not a whole lot!
 - 52% of households age 55 and older have no retirement savings
 - 29% have no retirement savings and no defined benefit plan (See Figure 1.)
 - Among the 48% of households with some savings, the median amount saved is \$109k (\$405/month inflation-protected annuity at age)
 - Among those 65 and older, Social Security makes up an average of 52% of household income.

Figure 1: Retirement Savings of Households Age 55 or Older, 2013



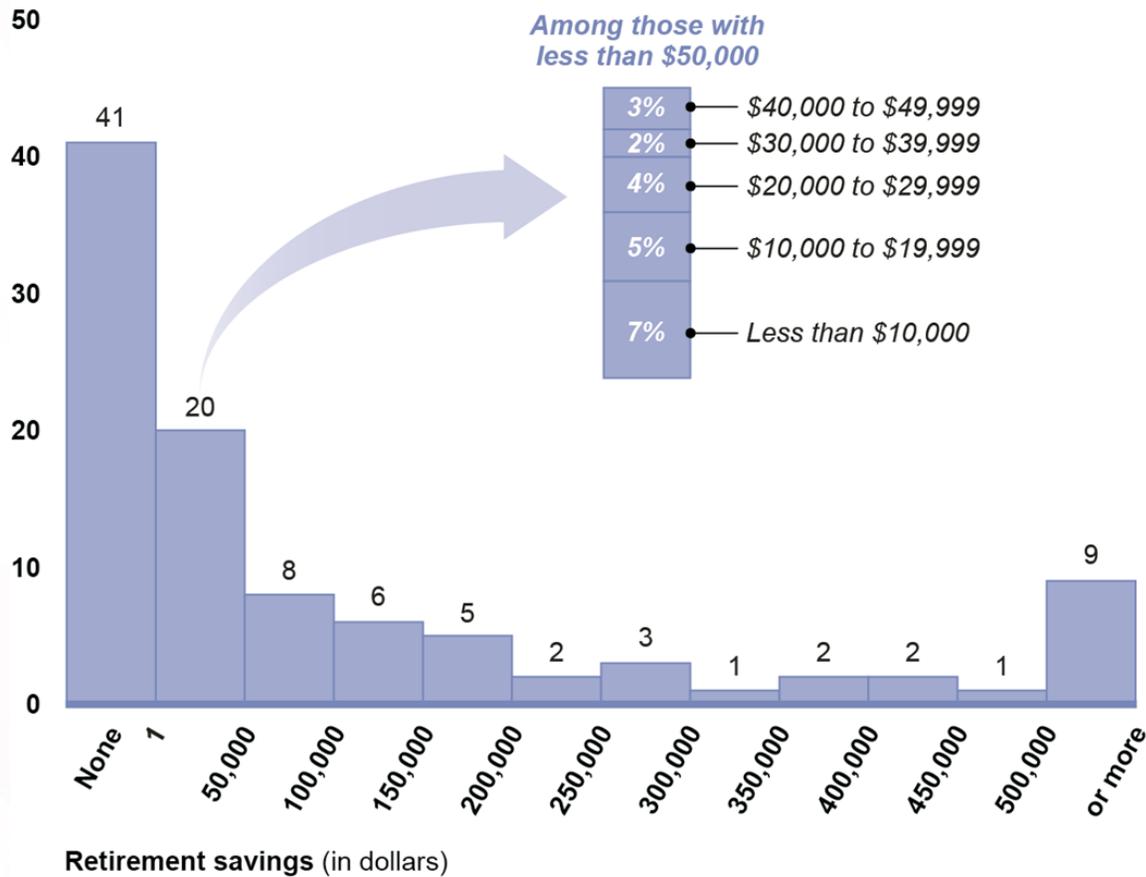
Source: GAO analysis of 2013 Survey of Consumer Finances (SCF) data. | GAO-15-419

How about Those Close to Retirement? (Households Aged 55-64)

- Things don't look so good for them either!
 - 41% have no retirement savings
 - 27% have neither retirement savings nor a DB plan
 - Their median net worth is \$9k and 91% have less than \$25k in financial assets
- 59% have some retirement savings; the median amount is \$104k (\$310 /month inflation-protected annuity)
- Of that 59 percent, we have a pretty broad distribution:
 - 15% of households have savings over \$500k,
 - 24% have less than \$25k in retirement savings
 - 11% have savings below \$10k (See Figure 2.)

Figure 2: Distribution of Retirement Savings for Households Aged 55-64, 2013

Percentage of households age 55-64



Source: GAO analysis of 2013 Survey of Consumer Finances (SCF) data. | GAO-15-419

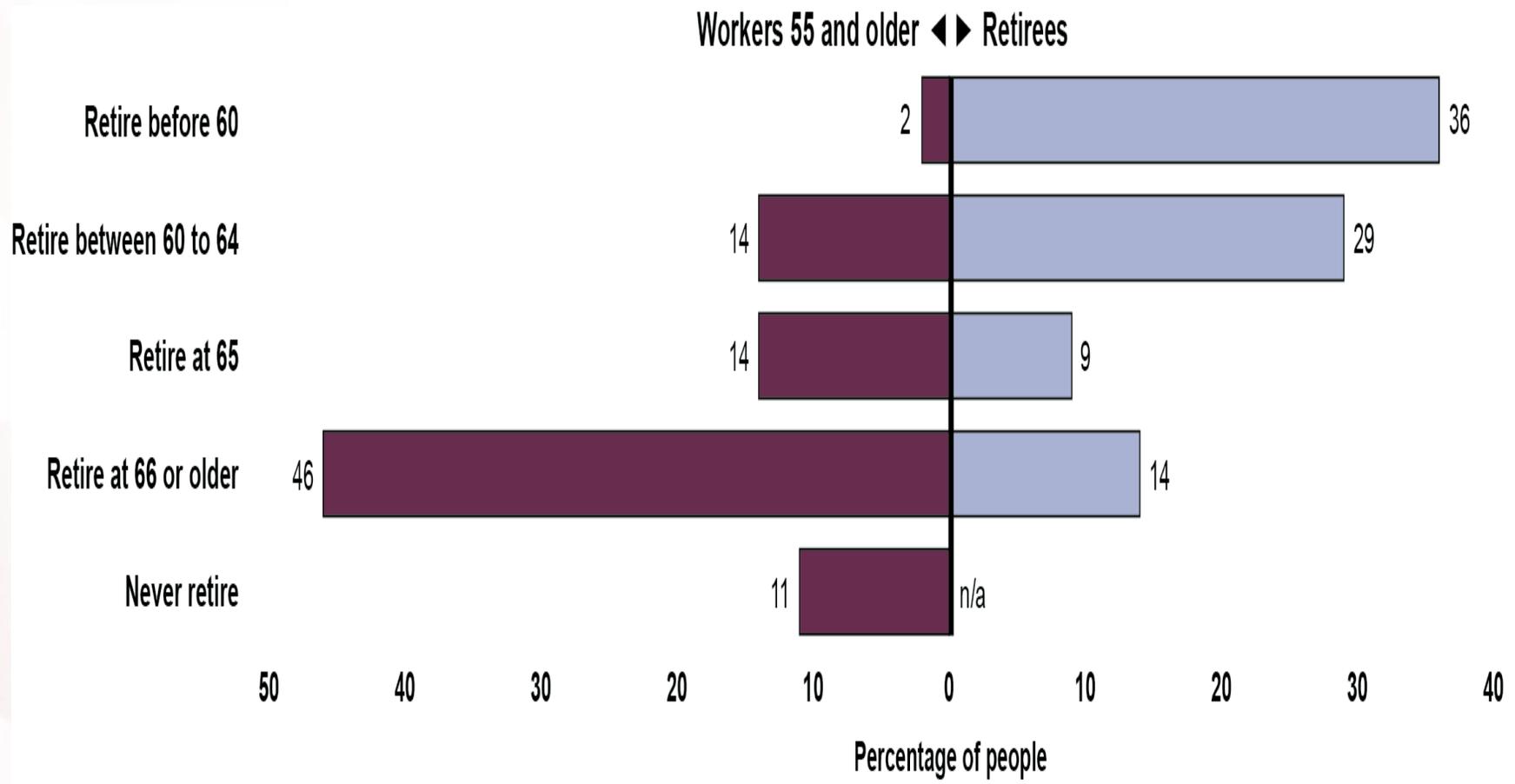
So How Much Income Do You Really Need in Retirement?

- Considerable disagreement exists over replacement rates/targets for retirement savings
 - How much income does one need in retirement? Considerations:
 - Do you have a mortgage?
 - How healthy are you/your spouse?
 - What is the status (college?/live home?) of your children, if you have any?
 - Are you saving for retirement?
 - What are your anticipated expenses in retirement? (lifestyle)
 - Studies range widely in their conclusions about the degree to which Americans are likely to maintain their standard of living in retirement
 - Even so, estimates are that between one-third to two-thirds of workers will fall short. (Many of these people will rely on Social Security.)
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Many Near Retirees Plan to Retire at Older Ages

- In comparison to current retirees, current workers age 55 and older expect to retire later (See Figure 3) and a higher percentage plan to work during retirement
- Workers from lower-income households are more likely to plan to retire at older ages than workers from higher-income households
- Most plan to work in retirement, while less than a third of retirees actually do (See Figure 4.)
- Some evidence that standard of living drops for those who retire due to health reasons
- People 55-64 are less confident about their finances in retirement than those who are age 65 or older.

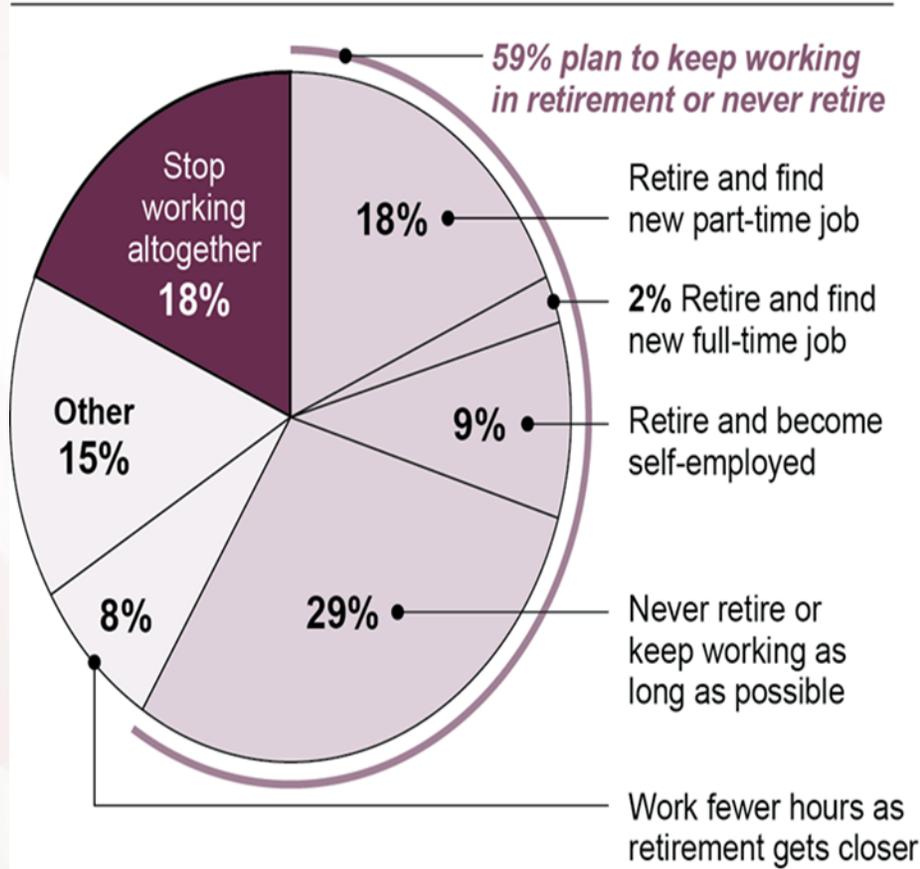
Figure 3: Planned Retirement Compared to Actual Retirement Behavior, 2015



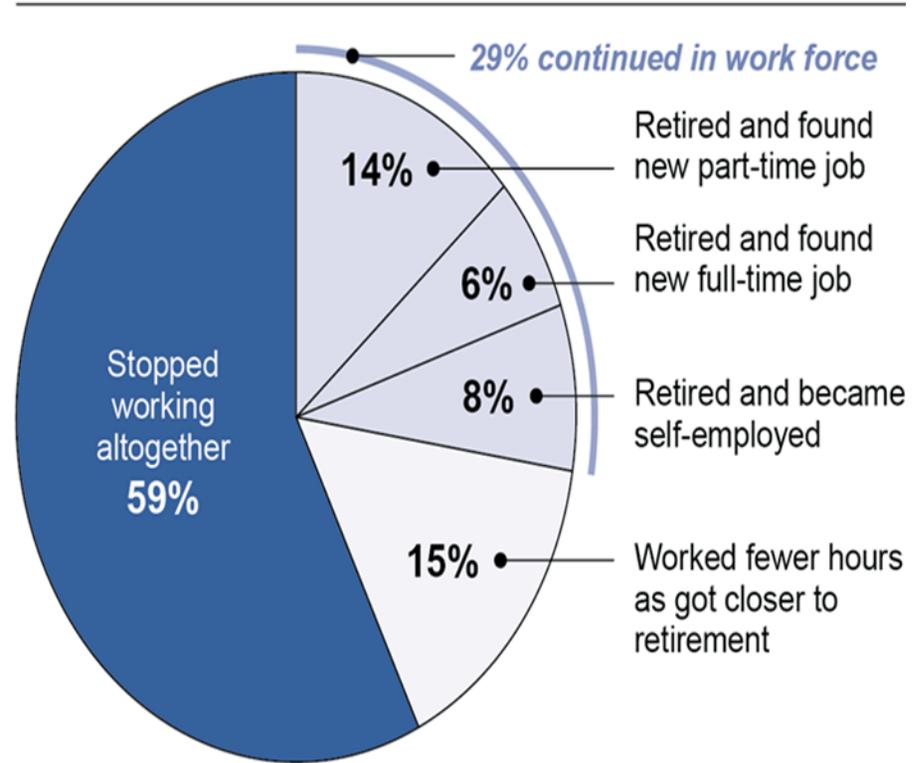
Source: Employee Benefit Research Institute, 2015 Retirement Confidence Survey. | GAO-15-419

Figure 4: Planned Labor Force Exit Compared to Actual Exit, 2013

Workers approaching retirement (age 55-64)



Retirees (age 55 and older)

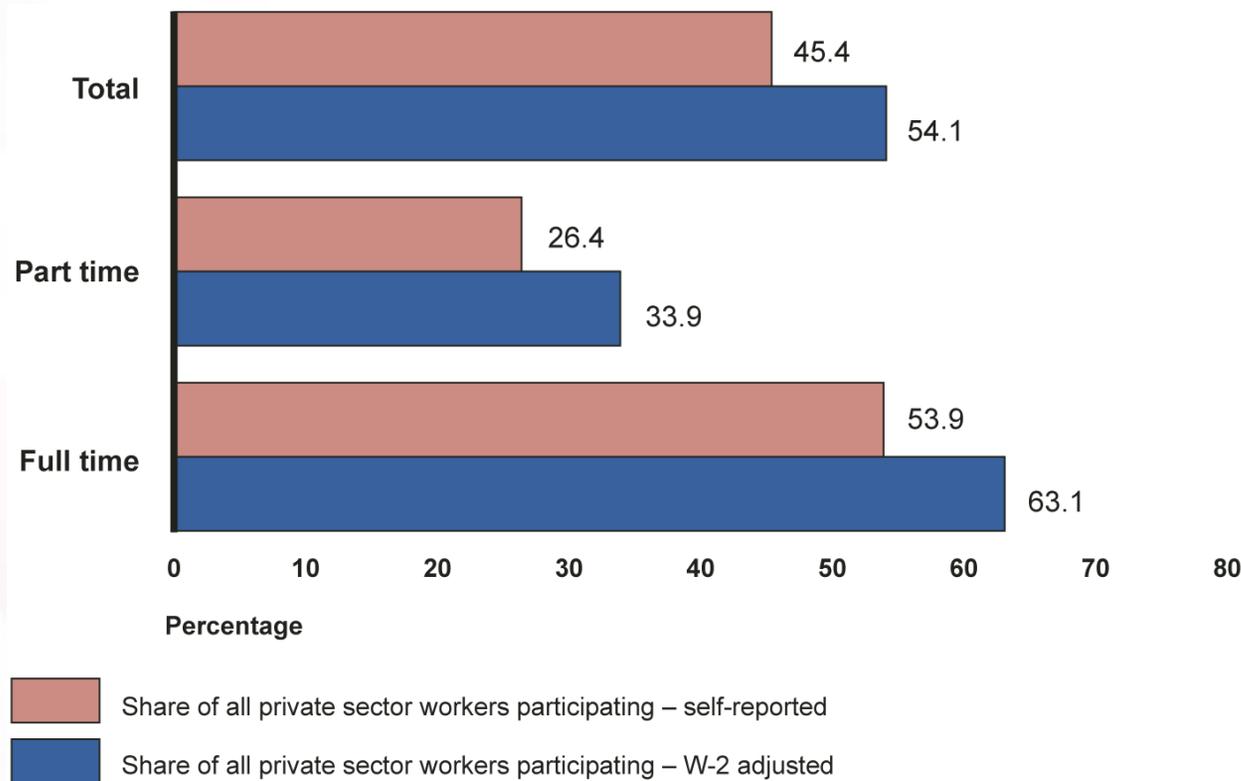


Source: Federal Reserve, 2013 Survey of Household Economics and Decision Making. | GAO-15-419

If You Think Retirement Saving Is a Problem, How Do We Get People to Save More for Retirement?

- One answer is to expand retirement plan coverage:
 - About half of private sector workers did not participate in a workplace retirement savings program in 2012, primarily because they lacked access.
 - Self-reported and tax data both also indicate that many workers lack coverage (See Figure 5)
 - Lower income workers are much less likely to have coverage (See Figure 6.)
- Most workers who do not participate in a plan do so because of lack of access (See Figure 7)

Figure 5: Share of Private Sector Workers Participating in a Workplace Retirement Savings Program, 2012



Source: GAO analysis of 2012 data from the Survey of Income and Program Participation and the U.S. Census Bureau. | GAO-15-556

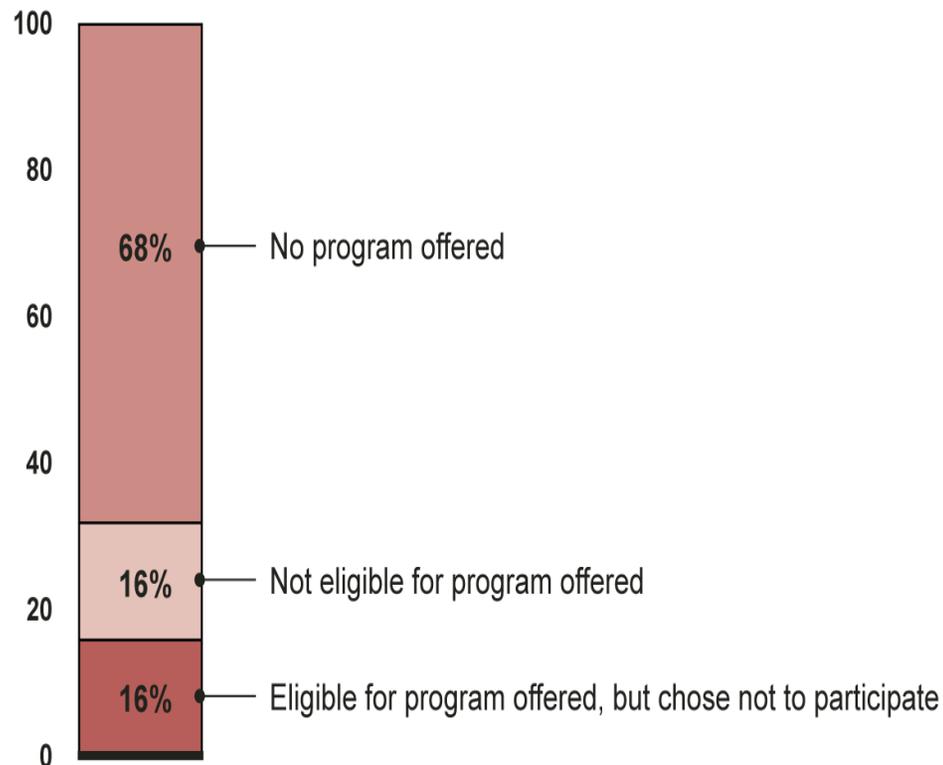
Figure 6: Effect of Income on Likelihood of Workplace Retirement Savings Program Coverage after Controlling for Other Factors



Source: GAO analysis of 2012 data from the Survey of Income and Program Participation. | GAO-15-556

A Key Reason for Low Retirement Saving is Lack of Access to a Retirement Savings Plan

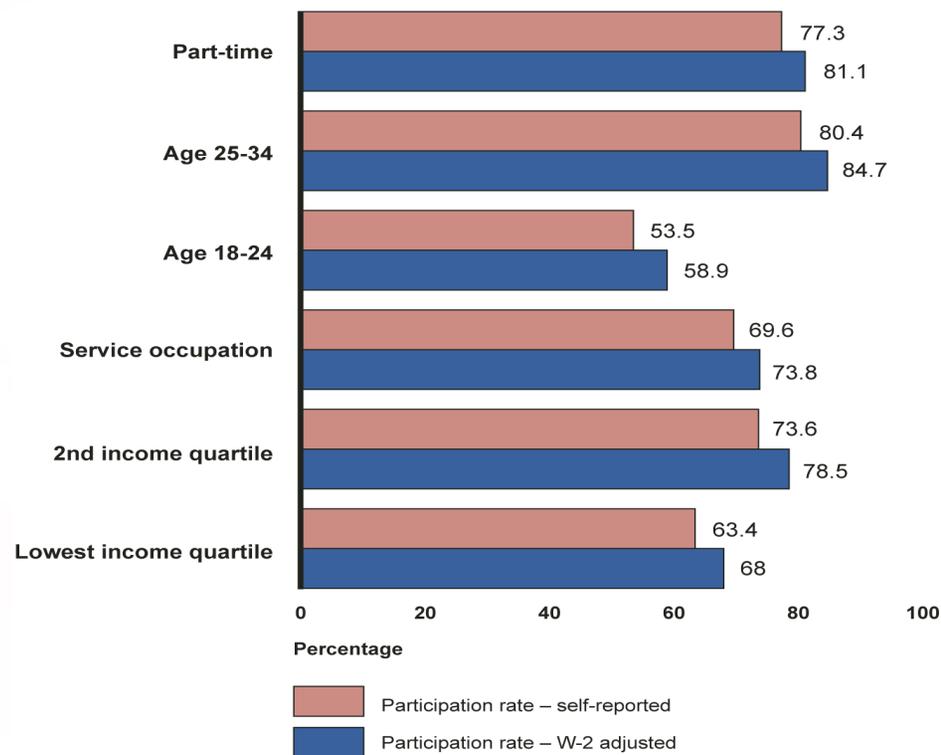
Figure 7: Percentages of Private Sector Workers Not Participating in a Workplace Retirement Savings Program by Reason Given, 2012



Source: GAO analysis of 2012 data from the Survey of Income and Program Participation. | GAO-15-556

When Given Access, Most Workers Participate in a Retirement Saving Plan

Figure 8: Participation Rate in Workplace Retirement Savings Programs among Eligible Workers by Various Characteristics, 2012



Source: GAO analysis of 2012 data from the Survey of Income and Program Participation and the U.S. Census Bureau. | GAO-15-556

Multiple Efforts at the Federal and State Levels to Expand Coverage

- Federal efforts include:
 - MyRA
 - proposed legislation on Multiple Employer Retirement Plans
- Current state efforts would require or allow employers to automatically enroll workers in a workplace retirement savings program

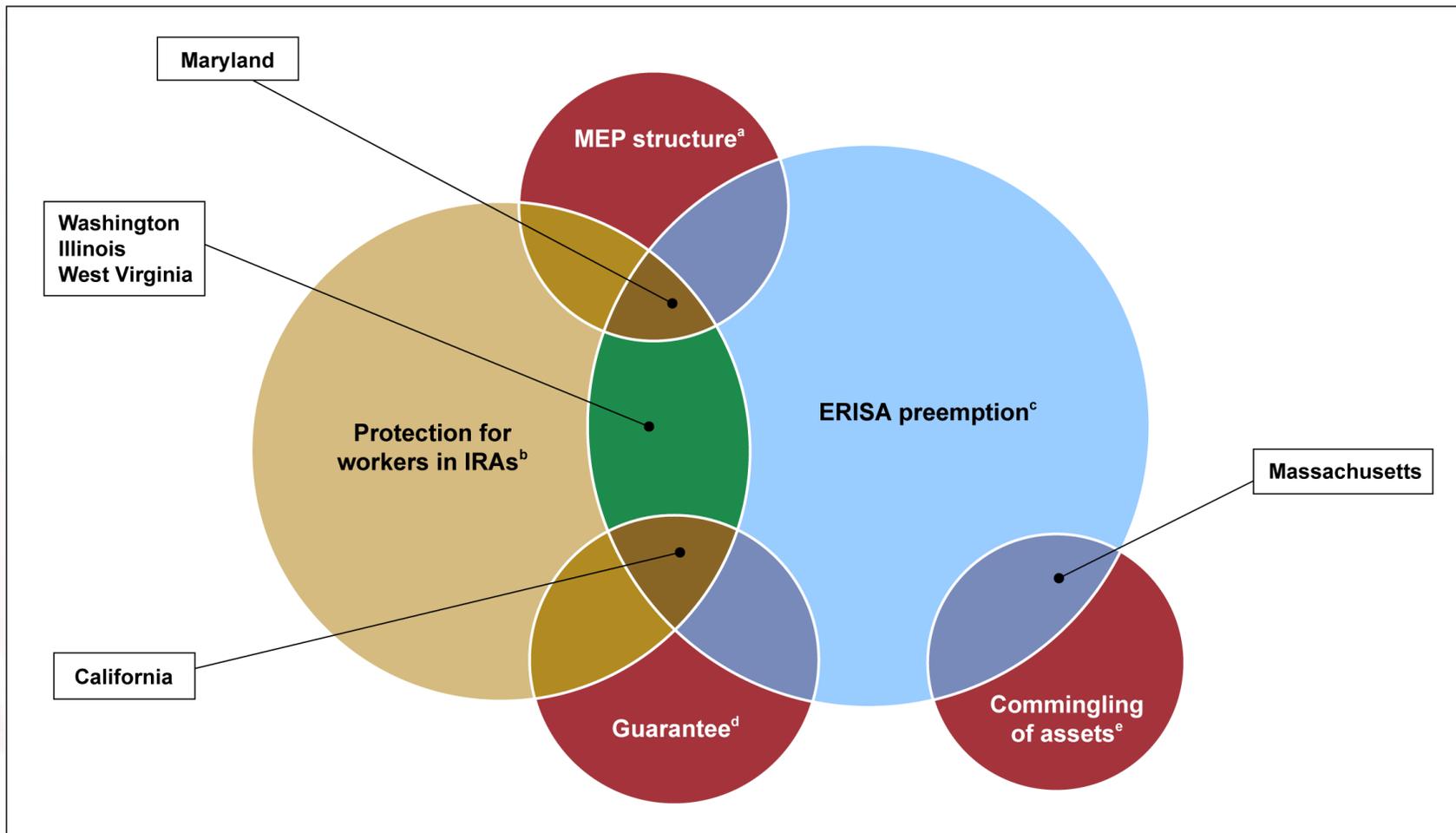
At least 29 States Have Made Efforts to Expand Retirement Plan Coverage

- State efforts typically address complexity, cost, and investment risk for *workers* through a variety of approaches that focus on program simplification:
 - Default contribution rate
 - Structure of investment options
 - Investment return guarantee
 - Portability
 - Limits on fees
- Financial incentives typically focus on tax-advantaged vehicles (e.g. Roth IRAs), but generally not other forms of financial incentives

State Efforts Face Potential Challenges with Legal Uncertainties

- Potential challenges with uncertainty created by the Employee Retirement Income Security Act of 1974 (ERISA) and agency regulations could delay or deter state efforts to expand coverage.
 - ERISA preempts state laws that “relate to” private-sector employee benefit plans
 - Preemption has historically been determined by federal courts
 - Existing regulation on payroll deduction Individual Retirement Accounts (IRAs) does not address state role or certain plan features (e.g., automatic enrollment)

State Efforts Face Potential Implementation Challenges



Source: GAO summary of interviews with state and national stakeholders and government officials. | GAO-15-556

Recent Actions by EBSA to Facilitate State Efforts

- In November 2015, the Employee Benefits Security Administration (EBSA) announced two new actions to guide state efforts:
 - Proposed Regulation – provides a safe-harbor from ERISA for state-sponsored payroll deduction IRAs that meet specified criteria
 - Interpretive Bulletin – provides examples of approaches for state-based programs (marketplace, prototype plan, or multiple-employer plan) that may avoid preemption



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