



COMMENTARY

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Taking a Step Forward: The Secure Retirement Institute

LIMRA and LOMA are proud to announce the creation of the Secure Retirement Institute (SRI). The SRI is designed to advance research and education as catalysts for innovation within the industry in an effort to improve Americans' retirement security. Retirement security benefits everyone — individuals, the industry, the government, and the economy. Identifying and implementing ways to help people achieve it will require commitment from each of these groups, and we are excited to be a part of that.

The stakes are high. We know that the number of retirees will double between 2010 and 2050. We also know that many of them are uncertain about the future of Social Security and are less likely to have access to a defined benefit plan at work. Employers still are committed to helping their employees retire, and the majority of full-time workers have access to a defined contribution (DC) plan.

That said, employers have their own challenges, and the proportion of their employee benefits budget spent on retirement has been declining since 1990. At the same time, many pre-retirees recognize that they have not saved enough in available plans. What many do not recognize is that their plan to work longer to make up for a lack of savings is unlikely to pan out; LIMRA SRI research finds that almost half of retirees left work earlier than they planned.

Given this challenging environment, is it any wonder that our recent research shows that half of Americans strongly believe the nation is facing a crisis in retirement savings? Perception matters, and this one does more harm than good. It also does not recognize the effort, progress, and innovation that already have been making a difference.

Retirement savings in DC plans and IRAs are at an all-time high of almost \$21 trillion. While more people still

need access to plans, many already are saving. Moreover, almost three quarters of Americans say they have taken at least one step to prepare for retirement. The most frequently cited steps are saving in an employer-sponsored retirement plan, paying down debt, and having a spouse who is saving for retirement. These are not the only steps, of course, but they do represent a start.

We also are learning more about what does and doesn't improve retirement decision-making and security, although there is still vigorous debate on these topics. Insights from behavioral finance have improved retirement plan practices and helped many people save more for retirement. For example, we know that tools like automatic enrollment increase the number of people participating in their

employer-sponsored plan by as much as 30 percentage points. We also know that automatically increasing deferral rates makes it easy for people to save more. We know how important default decisions are, and we can provide guidance to help employers select options that are more likely to lead to better outcomes.

The current system — while certainly not perfect — provides a good opportunity for many. For example, average people in their 20s, earning an average wage and saving at the average amount, should be on track to replace almost 80 percent of their pre-retirement income between Social Security and a DC plan. Of course, they have time on their side. Those in their 50s who have saved average amounts are in a much more difficult position, only on track to replace about 36 percent of their pre-retirement income.

We need to look deeper and learn more about different groups of people — not make generalizations about an entire system or industry. We need to target education and solutions to different groups based on their life stage and savings habits.

To gain a more complete understanding of the issues around retirement and what can improve retirement



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Figure 2

Retirees' Advice for Achieving Security



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security, we need good research. Much already has been done. The SRI seeks to build on this work and continue to identify ways to improve retirement security. Retirement savings programs, accessible through the workplace and funded by individuals, are the primary and most important way for working Americans to achieve a financially secure retirement.

All workers should have access to a plan and understand its role in providing for their retirement. They also should know how much they need to save. While the amount will vary based on individual needs, goals, and financial circumstances, having a clear target is important. A good plan also will help people think in terms

of income, or consumption, rather than purely savings. A plan also tends to make people more financially aware and literate, even if they rely on a financial advisor to develop it.

In many ways, the role of the financial services industry is to empower people to take responsibility for their retirement security. To succeed, we need to do everything we can to offer people an easy way to make better decisions — by providing product and service solutions structured to facilitate good choices. If we accomplish this, we will have achieved the SRI mission and improved the financial security of many future retirees. 🌐