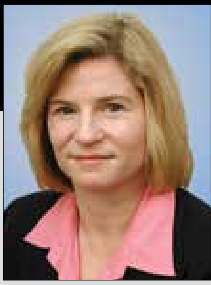

RETIREMENT

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The Retirement Crisis: Fact and Fiction

Recently a number of news sources have reported things like, "America's retirement crisis is crushing the hopes of a generation of young people," and this crisis is creating a "world of poor Boomers." It also appears that there are a variety of different crises to choose from: the crisis in Social Security, the crisis in defined benefit (DB) plans, and the crisis in personal savings.

It's pretty scary stuff, unless you happen to be reading some other sources, which suggest perceptions of a crisis are "overblown," "exaggerated," and contributing to "a myth." Amid all the polemic, it's hard to know where the truth is in this issue. Of course, that assumes there is a single truth that holds for everyone.

By definition, a crisis is an unstable time or state of affairs in which a decisive change is impending, especially one with a probability of a highly undesirable outcome. That definition can cover a variety of situations. Whether or not one sees a retirement crisis in the existing state of affairs is an important issue because the stakes are high, and interest in the issue is intense. Consider that the number of retirees in the United States is expected to double to 85 million between 2010 and 2040.

At the same time, many are uncertain about past sources of retirement security. According to analysis by the U.S. Social Security Administration, the cost of the program is expected to rise, and if nothing is done to address the issue, trust fund reserves will be exhausted by 2033. At this point taxes will provide enough funds to pay for three quarters of scheduled benefits for about another 50 years.

Many expect changes to Social Security, either from cuts in benefits or through another increase in the retirement age. That isn't certain, though. Recently a group of six U.S. Senators, most recently Jeff Merkley of Oregon, have been pushing for a proposal to increase Social Security.

The security of public pensions is also a topic of debate. The gap in state retiree benefits has been estimated at more than $1 trillion. Many states and municipalities face huge benefits obligations that hinder their ability to provide services and invest in the future. In December 2013 a federal judge held that the city of Detroit could formally enter bankruptcy and asserted that the city's obligation to pay pensions in full was not untouchable — despite the written protection of workers' pensions by the state constitution. This certainly is a crisis for those who planned their retirement expecting benefits they may not receive. It is also a crisis for municipalities that need to make very difficult decisions about the services they can provide.

Private pensions are not immune, either. The Pension Benefit Guaranty Corporation, which covers more than 26,000 private sector DB plans, had a deficit that increased to about $36 billion in 2013. But those who believe that the crisis argument is exaggerated point out that DB benefits never were available universally in the private sector. They also call attention to the fact that the benefit's value was a function of when employees joined the company and how long they worked there.

In terms of personal savings, for years people have been told they should not rely on others for their retirement income. The message was received, as the vast majority of workers say they expect to rely on themselves to finance their retirement.[1] Of course, there is plenty of evidence that they are not well prepared for this responsibility. Our research shows that only 39 percent are "very" or "somewhat" knowledgeable about investments and financial products, and only 18 percent of workers are very confident they will have a comfortable retirement. Moreover, the majority of workers have less than $10,000 saved for retirement.[2]

Our research finds that younger workers are in a much better position with respect to retirement saving. They have more time to save, and the defined contribution system provides a good way for them to save. Older workers who have not been saving are in a much tougher spot because they don't have the time to make up for any shortfall. A lot of different variables will determine whether this situation turns into a crisis.

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In the public discussion of retirement security, the loudest voices are not always the most educated or impartial. The issue has a lot of facets and gets complicated quickly. Pundits are paid to opine, and policymakers to propose. The media need sound bites and attention-grabbing statistics. Perception drives public response to the issue, and this response influences public policy. It affects the decisions that U.S. Congress, the U.S. Department of Labor, and the U.S. Treasury make about retirement savings programs.

Going forward, instead of focusing on points of disagreement, it may be more helpful to turn our attention to areas where there is likely to be agreement. To really help Americans achieve a financially secure retirement, a partnership is required among the financial services industry, employers, and individuals. Each has a responsibility to help improve retirement outcomes and help positively address the "crisis" debate so prevalent today.

[1] "Workers Bank on 401(k) for Retirement but Need Help Making the Most of It," Charles Schwab press release, August 15, 2013.

[2] *2014 Retirement Confidence Survey*, EBRI and Greenwald & Associates.