2015 WHITE HOUSE CONFERENCE on AGING

# Retirement Security

Americans are living longer than ever before. In 2012, life expectancy at birth in the United States reached a record high of 78.8 years.[1] A 65 year-old man can expect to live another 17 years and a 65 year-old woman another 20 years.[2] As a result, older Americans have more time to help grow the economy, enrich their communities, and enjoy their families. But longer lives can also challenge older Americans' financial security, increasing the risk of outliving their assets.

Historically, experts have envisioned a secure financial foundation for retirement as a three-legged stool, made up of Social Security, employer-sponsored pensions, and individual savings or investments. But as traditional pensions have increasingly been replaced with defined contribution plans like 401(k) plans, retirees are taking on heightened risks in retirement, especially as longevity increases.

The Obama administration believes that all Americans deserve to retire with dignity. That is why the President has worked to strengthen Social Security, expand the availability of retirement savings options, and protect workers' hard-earned savings. This policy brief reviews recent activity and proposals in these three areas.

> ***"Financial security is one of the most daunting aspects associated with aging. There are so many uncertainties and risks that arise when living on a fixed income."***
>
> Doug B., Georgia

## Protecting and Strengthening Social Security

As we celebrate the 80th anniversary of the enactment of the Social Security Act in 2015, protecting Social Security to help ensure that older Americans can retire with dignity has never been more important. Social Security provides an essential foundation of retirement security for older Americans and an important lifeline to families and workers who become disabled. It provides guaranteed, life-long benefits to almost 60 million Americans, including nearly nine out of ten Americans aged 65 or older and nearly 11 million disabled workers and their families.[3] Monthly retirement benefits are modest – averaging $1,330 a month for retired workers in January 2015, or just under

$16,000 a year.[4] Similarly, monthly disability benefits averaged just $1,165 for disabled workers in January 2015, less than $14,000 per year. [5]

Yet Social Security continues to be the main source of income for most older Americans, especially women and minorities. Two-thirds of older beneficiaries rely on Social Security for half or more of their income; that includes one-third who count on it for nearly all (90 percent or more) of their income.[6] Nearly half of unmarried older women, including widows, rely on Social Security for 90 percent or more of their income.[7] Forty-six percent of older African American beneficiaries, 44 percent of Asian beneficiaries, and 53 percent of older Hispanic beneficiaries get at least 90 percent of their total income from the program, compared to 35 percent of older white beneficiaries.[8]

Social Security keeps nearly 15 million older adults out of poverty each year, along with more than 1 million children and 6 million adults younger than 65.[9] Without Social Security benefits, the poverty rate for older Americans would approach 50 percent.[10] Public opinion polls show that support for Social Security crosses both party and demographic lines, with many Americans open to contributing more in order to preserve and improve Social Security benefits.[11]

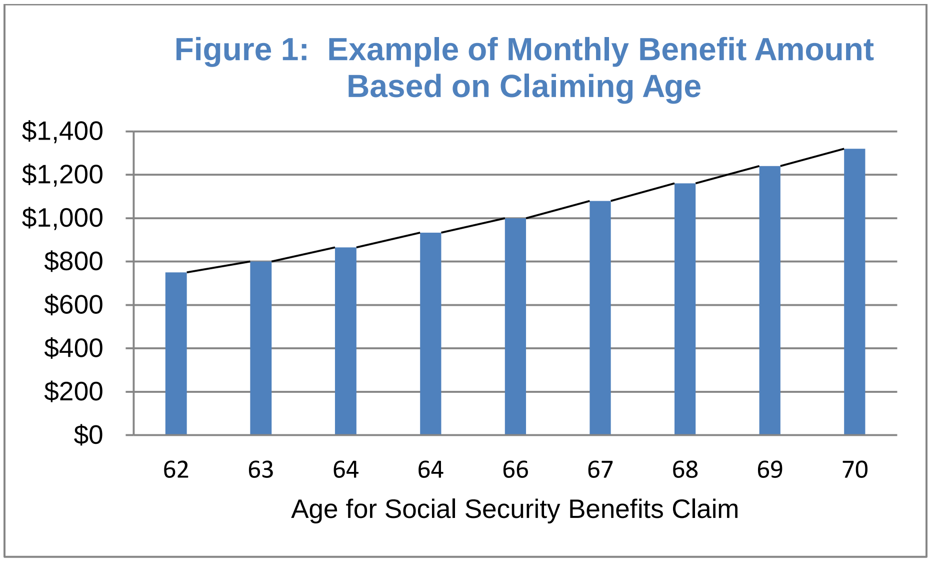
***"My dad is 98; Medicare and Social Security . . . have enabled him to live with a degree of dignity."***

Angelo M., New Jersey

The Obama Administration is committed to ensuring that Social Security is a rock-solid guaranteed benefit that every American can rely on, now and in the future. While the President believes that we need to work in a bipartisan fashion to strengthen Social Security, he remains committed to the following principles:

- Any reforms should strengthen Social Security for future generations and restore long-term solvency.
- The Administration will oppose any measures that privatize or weaken the Social Security system.
- While all measures to strengthen solvency should be on the table, the Administration will not accept an approach that slashes benefits for future generations.
- Current beneficiaries should not see their basic benefits reduced.
- Reform should strengthen retirement security for the most vulnerable, including low-income older Americans.
- Reform should maintain robust disability and survivors' benefits.

Because Social Security is such an important source of income for older Americans, it is critical that older Americans understand what their Social Security benefits mean for their lifetime income, and how to integrate Social Security payments with other income sources. Social Security monthly benefit amounts differ substantially based on when a person decides to start receiving benefits. For example, if a person begins claiming benefits at the earliest age of 62, benefits may be $750 a month for the rest of the person's life, but by delaying claiming benefits until age 70, the same benefit would be $1,320 a month.[12]




Source: Social Security Administration, 2014

The Administration is committed to supporting public education to help inform these decisions. The Social Security Administration is collaborating with other organizations on the "Campaign for a Secure Retirement: Helping Millions of Americans Plan and Save for Retirement." Current partners include the American Savings Education Council, the Consumer Federation of America, the Women's Institute for a Secure Retirement, and the U.S. Department of the Treasury. This educational campaign aims to encourage retirement planning and savings, and to encourage use of the online Social Security Statement as an important retirement planning tool. Workers and retirees of all ages are encouraged to access their statement by creating a "my Social Security account" to begin tracking their earnings record and potential future benefits. SSA also offers a Retirement Estimator, which allows workers to estimate their Social Security benefits under various retirement scenarios.

Social Security is and must remain a rock-solid, guaranteed progressive benefit that every American can rely on. However, too many Americans reach retirement age with insufficient savings to supplement their Social Security and enjoy a secure retirement, even after a lifetime of hard work.[13]

Saving challenges are especially acute for some demographic groups. For example, the median wealth of black and Hispanic households is just one-eighth that of white households.[14] Figure 2 demonstrates the impact of decreased earnings over time on the accumulation of wealth for black and Hispanic families.

**Figure 2: Median Wealth of Families by Race**

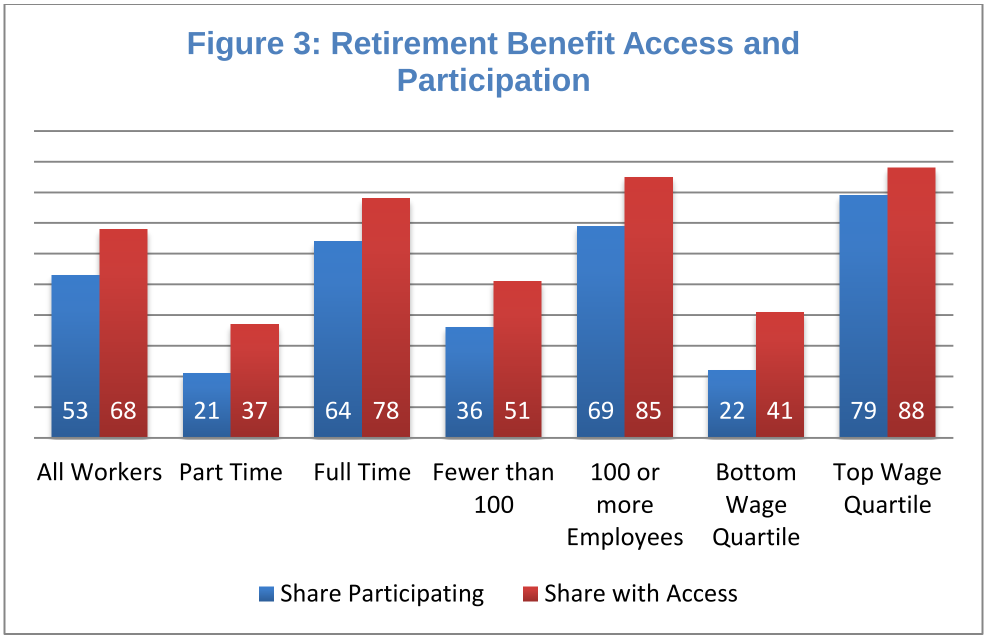
| | 1983 | 2010 |
|---|---|---|
| **White** | $91,000 | $124,000 |
| **Black** | $11,000 | $16,000 |
| **Hispanic** | $10,000 | $15,000 |

Source: Urban Institute, 2013

## Increasing Retirement Security and Employer-Based Retirement Savings Options

The number of traditional defined benefit pension plans in the private sector has fallen from 103,000 in 1975 to 44,000 in 2012, and the number of active participants in such plans has fallen from 27 million to 16 million[15] – even as the workforce has continued to grow. Employers are increasingly providing defined contribution plans instead. In 2014, individual retirement accounts (IRAs) and defined contribution plans like 401(k) plans accounted for $14.2 trillion in retirement savings – more than half of Americans' total retirement wealth.[16]

These trends in the employer-based retirement system mean that many Americans are being left behind. Nearly a third of all workers do not have access to workplace retirement benefits. For part-time workers, more than 60 percent do not have access. For those full-time workers who have access, only 64 percent participate, while for part-time workers, only 21 percent participate. And even if they do participate, many workers lack the time and information necessary to make the often complex financial decisions to maximize the impact of their contributions over time.[17]




Source: Bureau of Labor Statistics, 2014

The President's retirement tax reform proposals included in his 2016 Budget would dramatically expand coverage and access to employer-based retirement savings. Specifically, the President's 2016 Budget proposed to:

- Automatically enroll Americans without access to a workplace retirement plan in an IRA. The Budget would make it easy and automatic for workers to save for retirement through their employer. Under the proposal, every employer with more than 10 employees that chooses not to offer a retirement plan would automatically enroll their workers in an IRA without being responsible for running a retirement plan, and employees would have automatic payroll deductions from wages deposited into their IRA. "Auto-IRAs" would let workers opt out of saving if they choose, but would also let them start saving in an easy, convenient way without sorting through complex options. The proposal would provide employers with 100 or fewer employees that offer an auto-IRA a tax credit of up to $4,500 (up to $1,000 per year for three years plus $25 per enrolled employee up to $250 for six years). The auto-IRA proposal has been endorsed by independent experts and others across the ideological spectrum, including those affiliated with AARP, the Brookings Institution, and the Heritage Foundation.[18]

- Provide tax credits for auto-IRA adoption, as well as for employers that choose to offer more generous employer plans or switch to auto-enrollment. The President's 2016 Budget also proposed to triple the existing "start-up" credit, so small employers that newly offer a retirement plan would receive a tax credit of

$4,500 ($1,500 per year for three years) – more than enough to offset administrative expenses. And because auto-enrollment is the most effective way to ensure workers with access to a plan participate, small employers that already offer a plan and add auto-enrollment would get an additional tax credit of $1,500 ($500 per year for three years).

- Encourage state-based retirement savings initiatives. A number of states have been exploring options for expanding retirement savings among private-sector employees, especially those workers in the state who do not otherwise have access to a retirement savings plan at work. Some states are exploring models based on the President's auto-IRA proposal, while another possible model would be a state-sponsored 401(k)-type retirement savings program available to interested employers and their employees. Others are exploring state-sponsored 401(k)-type retirement savings program. To better support state efforts, the President's 2016 Budget requested $6.5 million and authority for the Department of Labor to approve pilot programs for a small number of states to experiment with ways to expand private sector retirement options and to evaluate what works best.

- Ensure long-term, part-time workers can contribute to their employer's retirement plan. Only 37 percent of part-time workers have access to a workplace retirement plan.[19] That's partly because employers offering retirement plans are allowed to exclude employees who work fewer than 1000 hours per year, no matter how long they've worked for the employer. The President's 2016 Budget proposed to expand access for part-time workers by requiring employers who offer plans to permit employees who have worked for the employer for at least 500 hours per year for 3 years or more to make voluntary contributions to the plan.

- Simplify minimum required distribution rules. Individuals with aggregate IRA and tax-favored retirement plan assets of less than $100,000 at the beginning of the year in which they turn 70½ would be exempt from the minimum required distribution rules. The rules for minimum required distributions would be harmonized for Roth IRAs and other tax-favored accounts, with Roth IRAs generally treated in the same manner as all other tax-favored accounts.

The above proposals would give 30 million more workers access to a retirement savings opportunity and build on the U.S. Department of the Treasury's actions over the past year to make retirement saving easier by creating simple, risk-free, and no-fee *my*RA savings vehicle. *my*RA is designed to encourage Americans who lack access to workplace retirement plans to begin a lifelong habit of saving, and provides a secure investment return at the same variable interest rate as federal employees' Thrift Savings Plan Government Securities Investment Fund (G Fund).[20]

The Administration is also looking at issues facing defined benefit pension plans and considering ways to help these plans continue to play a critical role in the retirement security of millions of Americans. Defined benefit plans provide workers and their families with a steady and reliable stream of income at retirement. The multiemployer type of defined benefit plan is unique in that it enables workers who switch employers frequently within the same industry to earn meaningful benefits under a defined benefit plan.

In the defined contribution area, the Administration has been issuing guidance and taking administrative actions to expand participation and saving in 401(k) and other plans by promoting the use of automatic enrollment and other automatic features. These plan features and best practices include:

- Automatic escalation of contribution levels for employees over time,
- Use of unused sick leave and vacation pay to make 401(k) plan contributions,
- Simplifications to encourage plans to accept rollovers, and
- Incorporation of disability benefits in 401(k) plans.

The Administration has also been pursuing ways to improve the retirement security of participants in employer-sponsored 401(k)-type plans and in IRAs as well, by facilitating access to, and use of, annuities or other arrangements designed to provide a lifetime stream of income through retirement. Adding lifetime income options to 401(k)-type plans and IRAs will help transform their savings into future income and reduce the risks that retirees will outlive their savings or that their living standards will be eroded by investment losses or inflation.

The Administration has clarified the rules about deferred annuities in 401(k) plans and permitted deeply deferred longevity annuities in 401(k) plans and IRAs. The Administration has also issued guidance making clear that 401(k) plans can automatically enroll employees into qualified default investment alternatives that use fixed annuities as the fixed income portion of target date funds and that plan sponsors can permit employees to roll their 401(k) lump sums into the sponsor's defined benefit plan to purchase a lifetime annuity from that plan. Additionally, the Administration has promoted disclosure to plan participants of the income equivalent of their actual and projected account balances.

## Ensuring Workers Receive Retirement Investment Advice in Their Best Interest

To help make informed choices, families often look for trusted advice on how to manage their hard-earned retirement savings. However, despite the significant changes in the retirement landscape over the past half century, the federal regulations that set the basic rules on giving investment advice to retirement savers have not been updated in nearly as long. Under these outdated rules, many financial advisers are not required to act in the best interest of their clients when they give retirement investment advice. Instead, too often advisers steer their clients' savings into funds with higher fees and lower returns, or recommend inappropriate rollovers out of lower-cost retirement plans into higher-cost vehicles, because the adviser can profit from doing so.

These conflicts of interest cost working and middle-class Americans $17 billion every year. On average, they result in annual losses of one percentage point for affected investors. These small differences can add up: a one percentage point lower return could reduce a person's savings by more than a quarter over 35 years. In other words, instead of a $10,000 retirement investment growing to more than $38,000 over that period after adjusting for inflation, it would be just over $27,500.[21]

In April, the Department of Labor issued a proposed rule to protect families from bad retirement advice by requiring more retirement advisers to abide by a "fiduciary" standard—putting their clients' best interest before their own profits.[22] All Americans – whether an employer trying to design a quality plan for his or her workers, a worker starting to save, or a retiree trying to avoid spending down their nest egg too quickly – deserve access to quality advice, without fear that financial bias is clouding their adviser's judgment.

## Discussion Questions

The 2015 White House Conference on Aging (WHCOA) aims to foster a national conversation, and the questions listed below are designed to stimulate dialogue on retirement security issues. The feedback received will help shape outcomes of the 2015 White House Conference on Aging. Please provide your thoughts and ideas on our website. All comments will be displayed in the public conversation area of the WHCOA website.

- How can we strengthen Social Security for future generations, while maintaining benefits and ensuring the program adequately serves low-income seniors and other vulnerable populations?
- How can we ensure that older Americans fully understand the considerations affecting, and the implications of, their decisions as to when to claim Social Security benefits, when and how to draw on private retirement benefits, and how long to continue working?
- How can we expand retirement plan coverage and participation and encourage people to save enough?
- How should the current private pension and retirement saving system be improved to enhance retirement security, especially for moderate and lower income households?
- How can we help Americans better understand and address their financial needs in retirement and make saving, investment, and risk management decisions (including obtaining sound advice) that are right for them?

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