Retirement in America: Out of Reach for Working Americans?

By Jennifer Erin Brown, Joelle Saad-Lessler and Diane Oakley

September 2018
ABOUT THE AUTHORS

Jennifer Erin Brown served as the manager of research for the National Institute on Retirement Security (NIRS) until July 2018. She is a Tax Policy Fellow at American University, where she also serves as an Adjunct Professor. Before joining NIRS, she was an employee benefits law specialist at the U.S. Department of Labor’s Employee Benefit Security Administration. She holds an LLM in Taxation and a Certificate in Employee Benefits Law from the Georgetown University Law Center, a JD from the American University Washington College of Law, an MS in Law & Society from the American University School of Public Affairs, and a BA in Philosophy and Criminology from the University of Florida. She is a member of the National Academy of Social Insurance.

Joelle Saad-Lessler serves as an Associate Industry Professor in the School of Business at Stevens Institute of Technology. She is an economist with expertise in econometric modeling, statistical programming and in-depth data analysis. Her areas of specialty include economics of immigration, labor markets and economics of retirement. She has worked at the Schwartz Center for Economic Policy Analysis, based in the New School for Social Research and at Long Island University. She holds a BA and PhD in Economics from Columbia University.

Diane Oakley is executive director of the National Institute on Retirement Security and leads the organization’s research and education initiatives. Before joining NIRS in 2011, Ms. Oakley worked on Capitol Hill where she played a key staff role in formulating legislative strategy, tax, Social Security, financial services and workforce issues. Ms. Oakley held various leadership and policy roles during her 28-year tenure with TIAA, a leading financial services provider. She holds a B.S. in Mathematics from Fairfield University and an M.B.A. in Finance from Fordham University. She is a member of the National Academy of Social Insurance.

ACKNOWLEDGEMENTS

The authors are grateful for the comments, advice, and assistance provided by a number of individuals including: Beth Almedia, Tyler Bond, Teresa Ghilarducci, Hanna Han, and Luke Martel. The views in this report and any errors and omissions are those of the authors alone.
The second half of Baby Boomers start reaching age 62 during 2018. Their eligibility to start drawing retirement benefits from Social Security sharply focuses their attention on determining if they are prepared for retirement. As Boomers choose to retire or keep on working, the broader focus of this report considers all Americans’ financial security prospects in retirement. Many recent studies show that most Americans are ill prepared for retirement,¹ and that they are highly anxious about their ability to retire.²

A decade after the start of the Great Recession, a majority of working age Americans still have no retirement savings.³ Additionally, as indicated by the Federal Reserve, among those who are saving, over half lack comfort in the ability to manage their retirement investments.⁴ Although the total value of 401(k) accounts and Individual Retirement Accounts (IRAs) hit a record high of $16.9 trillion at the end of 2017,⁵ this growth in assets does not translate to improved retirement security for average working Americans. Financial trouble lurks when one understands that the bulk of those retirement assets are held by individuals in the top income quartile, and that the typical American worker falls behind in meeting recommended guidelines for retirement readiness.

This report builds on previous NIRS research published in 2015.⁶ To understand the challenges working-class individuals face in retirement, we conducted an analysis of the U.S. Census Bureau’s Survey of Income and Program Participation (SIPP) that was released in 2016 and 2017. The study analyzes workplace retirement plan coverage, retirement account ownership, and retirement savings as a percentage of income, and estimates the share of workers that meet financial industry recommended benchmarks for retirement savings.

The key findings of this report are as follows:

1. **Account ownership rates are closely correlated with income and wealth.** Over 100 million working age individuals (59.3%) do not own any retirement account assets, whether in an employer-sponsored 401(k) type plan or an IRA nor are they covered by defined benefit (DB) pensions. Individuals who do own retirement accounts have, on average, more than three times the annual income of individuals who do not own retirement accounts.

2. **The typical working American has no retirement savings.** When all working age individuals are included—not just individuals with retirement accounts—the median retirement account balance is $0 among all working individuals. Even among workers who have accumulated savings in retirement accounts, the typical worker had a modest account balance of $40,000. Furthermore, 68.3 percent of individuals age 55 to 64 have retirement savings equal to less than one times their annual income, which is far below what they will need to maintain their standard of living over their expected years in retirement.

3. **Even after counting an individual’s entire net worth—a generous measure of retirement savings—three-fourths (76.7%) of Americans fall short of conservative retirement savings targets** for their age and income based on working until age 67. Due to a long-term trend toward income and wealth inequality that only worsened during the recent economic recovery, a large majority of the bottom half of Americans cannot meet even a substantially reduced savings target.

4. **Public policy can play a critical role in putting all Americans on a path toward a secure retirement by strengthening Social Security, expanding access to low-cost, high quality retirement plans, and helping low-income workers and families save.** Social Security, the primary underpinning of retirement income security, could be strengthened to stabilize system financing and enhance benefits for vulnerable populations. States across the nation are taking key steps to expand access to workplace retirement savings, with enrollment in state-based programs this year starting in Oregon, Washington and Illinois. Other proposals to expand coverage are on the national agenda but universal retirement plan coverage has not become a national priority. Finally, expanding the Saver’s Credit and making it refundable could help boost the retirement savings of lower-income families.
In 2018, the second half of the Baby Boomers (those born between 1956 and 1964), reach age 62 and become eligible to start receiving retirement benefits from Social Security. As experts look back on the changes to the nation’s somewhat patchwork retirement system over the last several decades, trends indicate that financial security in retirement for working Americans is in peril. Recent studies show that many Americans are ill-prepared for retirement, and that they are highly anxious about their ability to retire. In a recent survey of Americans’ views on retirement security, 88 percent of Americans agreed that America is facing a retirement crisis.

As documented by the U.S. Government Accountability Office (GAO), since the 1980s private sector employers have shifted away from offering traditional defined benefit (DB) pensions—retirement plans that provide a guaranteed, monthly income stream that cannot be outlived, and are managed by professionals. Private employers replaced these plans with defined contribution (DC) plans, such as 401(k) plans that use individual accounts. Meanwhile newly created employers focused on offering only DC plans for employees, if they offered employees any retirement plan. In 401(k) plans, the risks and much of the funding burden fall on individual employees, who tend to have difficulty contributing enough on their own to accumulate sufficient assets for retirement. Employees also typically lack investment expertise, and may have difficulty figuring out how to spend down their nest egg in an optimal manner in retirement.

At the same time, baby boomers retiring now feel the financial sting of amendments to the Social Security program made in 1983 that gradually raised the full retirement age to 67. Individuals who turned 62 already faced early Social Security benefit payments that are 25 percent lower than the full benefit levels available at age 66. Over the coming years the reduction for starting Social Security benefits at age 62 is on track to reach a 30 percent reduction for those born after 1959. While the 1983 Amendments built up a trust fund to help pay some of the benefits of the boomer generation, the changes still left Social Security in need of a longer-term financial fix. Currently, the Social Security program has resources to pay scheduled benefits until 2034, after which it will have financing to only pay 79 percent of benefits. The limited national public policy debate to address this shortfall has focused on proposals to lower the benefits provided by Social Security, which serves to reduce its effectiveness as the primary foundation of retirement income security for most Americans and the critical bulwark against old-age poverty.

The catastrophic financial crisis of 2008 exposed the vulnerability of the DC-centered retirement system. Many Americans saw the value of their hard-earned nest eggs plummet when the financial markets crashed and destroyed trillions of dollars of household wealth. Asset values in Americans’ retirement accounts fell from $9.3 trillion at the end of 2007 to $7.2 trillion at the end of 2008. The economic downturn also triggered a decline in total contributions to DC retirement accounts as a number of employers stopped matching employee contributions. In fact, total contributions fell below the 2008 levels for the subsequent three years. Since then, the combined value of 401(k) type accounts and IRAs reached $16.9 trillion by the end of 2017. Unfortunately, this increase in total retirement account assets did not translate to improved retirement security for the majority of American workers and their families who have nothing saved.

In this uncertain environment, Americans face an ongoing quandary: how much income will they need to retire, and will they ever have enough? To maintain their standard of living in retirement, the typical working American needs to replace roughly 85 percent of pre-retirement income. This replacement rate may seem high, but it does not fully account for medical costs, which can escalate rapidly during retirement. Social Security, under the current benefit formula, provides a replacement rate of roughly 35 percent for a typical household. This leaves a retirement income gap equal to 50 percent of pre-retirement earnings that must be filled through other means.

Looking forward, a shrinking percentage of households will close this retirement income gap through a DB pension. Rather, most families must rely primarily on their own...
investments through an employer-sponsored retirement savings plan such as a 401(k) if available or, if not, an IRA, and other forms of private wealth to pay for needs during their retirement years. Financial experts suggest targets of eight to twelve times income in retirement assets in order to replace 85 percent of pre-retirement income. Since the 2008 crisis, some experts have begun to recommend a retirement contribution rate of 15 percent of pay—rather than the previous 10 percent—over a 40-year career in order to meet this target.

This is a hefty savings burden, one that the vast majority of households have not been able to meet. The magnitude of this crisis is considerably worse than many realize. For instance, a commonly cited statistic is the typical 401(k) account having a balance of roughly $120,000—depending on the source—for households near retirement age. Not only is this sum inadequate to provide meaningful lifetime retirement income security for the typical household but also it only counts those that own retirement accounts in the first place.

This report, like the earlier NIRS report published in 2015, examines the retirement readiness of all working individuals, not just those who have successfully begun saving. Seeking to provide a better understanding of typical working class employees, this report is based on an analysis of the U.S. Census Bureau’s Survey of Income and Program Participation (SIPP) which oversamples lower income individuals as parts of households and provides detailed background on participants. This report analyzes workplace retirement plan coverage, retirement account ownership, and retirement savings as a percentage of income among individuals aged 21 to 64. It also estimates the extent of the shortfall in working individuals’ savings as compared to financial industry recommended benchmarks to reach an adequate income replacement. The study is organized as follows:

- **Section I** summarizes historical and generational trends in access to and participation in employer-sponsored retirement plans, which remain the primary vehicle for tax-advantaged retirement wealth accumulation for workers.
- **Section II** examines rates of participation in DC retirement accounts—including employer-sponsored, 401(k) type plans or private retirement accounts like traditional and Roth IRAs—and identifies differences by income and wealth.
- **Section III** analyzes DC account balances and ratios of retirement savings to income for working individuals.
- **Section IV** estimates the share of working individuals that do not meet financial industry recommended benchmarks for retirement savings.
- **Section V** explores the policy implications of these findings, focusing on Social Security, access to retirement savings vehicles, and lower-income individuals’ ability to save.
I. LOWER COVERAGE, LESS SECURITY

Employer-sponsored retirement plans remain the most important vehicle for providing retirement income to older individuals after Social Security once individuals stop working. However, a large share of American workers lacks access to a retirement plan through an employer. This is a concern because working individuals are 15 times more likely to own a retirement account through employer-sponsored plans than they are to save on their own in an IRA. Today, those who do participate in a retirement plan are much more likely to be enrolled in an individual 401(k) type account rather than a DB pension. DC plans like 401(k)s offer the advantage of portability for a mobile labor force, but place all of the investment risk, longevity risk and most (if not all) of the contribution burden on individual workers. In traditional DB plans, employers bear the investment risk and primary funding responsibility, professional investment managers invest the plan assets, and workers benefit from secure monthly income that lasts through retirement. Because they pool investment, longevity and other risks, DB pensions provide significantly higher retirement income than DC plans for a given contribution rate.

In this section, we analyze worker and individual-level participation in employer sponsored retirement plans, drawing on the U.S. Census Bureau’s Current Population Survey (CPS) and Survey of Income and Program Participation (SIPP). We find declining access to workplace retirement benefits at the individual worker level, a decline in DB coverage in the private sector and increase in DC coverage among individuals that participate in workplace plans, since 1993.

Figure 1 illustrates historical trends in access to employer-sponsored retirement benefits, whether DB or DC, among private sector wage and salary employees age 21 to 64,

**Figure 1:**
*Only 51 Percent of Private Sector Workers Had Access to a Retirement Plan in 2014*
*Private sector wage and salary workers age 21 to 64 whose employers sponsor a retirement plan, 1980 to 2014*

![Graph showing historical trends in access to employer-sponsored retirement benefits, 1980 to 2014.](image)

Source: Authors’ analysis of Current Population Survey (CPS), various years.
Figure 2: Only 40 Percent of Workers Participated In Workplace Retirement Plans in 2014

Employer-sponsored retirement plan participation for private sector wage and salary workers aged 21 to 64, 1980 to 2014

Source: Authors’ analysis of CPS, various years.

based on an analysis of the CPS. “Access” denotes working for an employer that sponsors a retirement plan of some kind, regardless of whether an individual worker qualifies or participates. The percentage of workers whose employers sponsored a retirement plan declined during the 1980s, from 55.4 percent in 1980 to 51.4 percent in 1988. Workplace retirement plan access increased during the next decade—particularly during the mid to late 1990s when economic growth and low unemployment lifted wages across the board—reaching a high of 60.4 percent in 1999. Access dropped steeply in the aftermath of the 2001 recession and then again after the 2008 financial collapse and has remained low with only 50.9 percent of workers having access in 2014.

Workers who lack access to an employer-sponsored retirement plan tend to work for smaller firms, and to be low- to middle-wage employees. Large firms generally offer more generous benefits. For example, in 2017, 50 percent of workers in firms with 500 or more employees had access to a DB pension. Small businesses with less than 50 employees—which account for over half of workers that lack access to a retirement plan—often find it too expensive and complicated to set up any kind of retirement plan. In addition, earnings levels make a difference; firms that employ high-wage labor tend to offer at least a 401(k) type benefit with matching contributions as a recruitment tool, and those small businesses that offer a retirement plan tend to fall into this category. Small and large employers in low-wage industries are less likely to offer a retirement plan.

The trend toward declining access over the past decade in the private sector, which accounts for most employment in the U.S., is also reflected in participation rates at the individual level (Figure 2). The share of working individuals who participated in a workplace retirement plan peaked in 1980 to 1981, then fell through 1988. Participation rebounded and peaked again from 1999 to 2001, but has declined since. Consequently, the share of U.S. workforce who participated in a retirement plan through their job decreased from 47.4 percent in 2001 to 40.1 percent in 2014.
At the same time that a shrinking percentage of individuals participated in workplace retirement plans, the retirement income security provided by such plans has also diminished. Among working individuals who participated in an employer-sponsored retirement plan through a current job, the share of covered workers participating in a DC retirement savings plan increased from 42.5 percent in 1998 to 59.8 percent in 2014 (Figure 3). Correspondingly, a recent research paper on wealth inequality indicated a 42 percent drop in coverage by DB pensions (DB only or with a DC plan) among households in the bottom half of the income distribution. DB coverage declined from 29 percent of households in 1995 to just 17 percent of households having DB coverage in 2013. DB plan coverage fell faster than overall retirement plan coverage for these households over that period. In 1995, 49 percent of households in the bottom half had any retirement coverage but that fell to just 38 percent in 2013. According to the 2016 National Compensation Survey in 2016, 34 percent of private sector workers had no plan, 44 percent had DC plans and 15 percent had DB plans. Consistent with these findings, the drop in retirement coverage is also concentrated among younger households. Rhee and Boivie found that households between ages 25-44 were about half as likely as households ages 55-64 to have at least one member of the household covered by a DB pension.

While the greatest retirement security challenges occur among those who have no employer-sponsored retirement plan, participants in DC plans also face significant challenges. The trend toward increased coverage by DC plans has had profound implications for the retirement income security of working individuals. When the federal law creating 401(k) plans was originally passed in 1978, they were intended to supplement—not replace—DB pensions. These 401(k) plans provide mobile workers the advantage of portability. Federal law requires faster vesting of employer contributions to DC plans, compared to traditional DB pensions in which workers usually wait several years to vest. Also DB pension benefits in the private sector are tied to a single employer or group of employers and can be dependent on the employers’ financial well-being. However, it is widely recognized that 401(k) plans also expose workers to a host of risks that they are ill equipped to bear as individuals: inadequate contributions, poor investment choices, financial market volatility, and outliving their retirement savings.

The next section will examine how working Americans fare in wealth accumulation in the DC-centered retirement system.
II. MARKED DISPARITIES IN RETIREMENT ACCOUNT OWNERSHIP

A large share of Americans does not own any retirement account assets, and retirement account ownership rates are characterized by marked disparities according to income and wealth. This section examines rates of ownership of retirement accounts among working individuals. Retirement accounts include both employer-sponsored plans like 401(k)s, 403(b)s, 457(b)s, SEP IRAs, and Simple IRAs, and private retirement accounts like traditional IRAs and Roth IRAs. They do not include DB pensions, unless indicated. This section also draws out key socioeconomic distinctions between individuals who own at least one retirement account and those with no assets held in a retirement account.

For the purpose of this analysis, an individual is considered to own a retirement account if his/her total retirement account assets are greater than zero.

Figure 4: Almost 60 Percent of all Working Age Individuals Do Not Own Assets in a Retirement Account

Retirement account ownership by age, December 2013

<table>
<thead>
<tr>
<th>Age of Working Individuals</th>
<th>Has Retirement Account</th>
<th>No Retirement Account</th>
</tr>
</thead>
<tbody>
<tr>
<td>OVERALL (Ages 21-64)</td>
<td>40.7%</td>
<td>59.3%</td>
</tr>
<tr>
<td>21-34</td>
<td>27.5%</td>
<td>72.5%</td>
</tr>
<tr>
<td>35-44</td>
<td>44.5%</td>
<td>55.5%</td>
</tr>
<tr>
<td>45-54</td>
<td>48.0%</td>
<td>52.0%</td>
</tr>
<tr>
<td>55-64</td>
<td>48.7%</td>
<td>51.3%</td>
</tr>
</tbody>
</table>

Source: Authors’ analysis of SIPP 2014, Wave 1 data. Universe is working age individuals 21-64.
Figure 5: Working Age Individuals with Retirement Accounts have Three Times the Income of Individuals without Retirement Account Assets

Median income among working age individuals by retirement account ownership status, 2013

Source: Authors’ analysis of SIPP 2014, Wave 1 data for December 2013. Universe is individuals between the ages of 21-64. See Appendix for detailed methodology.

While there is a notable gap between older and younger individuals in retirement account ownership—72.5 percent among individuals aged 21 to 34 who do not own retirement accounts, versus 51.3 percent among individuals age 55 to 64—the ownership gap is much wider across income groups. To begin, individuals with retirement accounts have a higher median income of $51,024, compared to $17,004 among individuals without retirement accounts—three times as large (Figure 5).

Figure 6 shows the retirement account asset ownership of individuals by income quartile. Three-fourths (74.5%) of individuals in the highest income quartile own retirement account assets. In comparison, 52.7 percent of the third (second-highest) income quartile, 27.6 percent of the second-lowest income quartile, and only 15.8 percent of individuals in the bottom income quartile own retirement account assets. In other words, ownership of retirement accounts is sharply concentrated in the top quarter of the income distribution. Further income-related disparities appear in the Survey of Consumer Finances, which found that more than 90 percent of the top ten percent of households own retirement accounts. The overwhelming majority of individuals in the bottom half of the income distribution (84 percent in lowest quartile and 72 percent in the second quartile) have no retirement account assets. In contrast, Weller and Morrissey both found that the participation in DB pensions was more equitable across income groups than the ownership of retirement account assets in DC retirement savings plans.
Table 1: **103.6 Million Working Age Individuals Do Not Own Assets in Retirement Accounts or Participate in a DB pension**

Number of working age individuals without retirement account assets and no participation in a DB pension in 2013

<table>
<thead>
<tr>
<th>Age of Individual</th>
<th>Number of Individuals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>103,623,317</td>
</tr>
<tr>
<td>21-34</td>
<td>42,102,500</td>
</tr>
<tr>
<td>35-44</td>
<td>21,145,773</td>
</tr>
<tr>
<td>45-54</td>
<td>21,323,448</td>
</tr>
<tr>
<td>55-64</td>
<td>19,051,598</td>
</tr>
</tbody>
</table>

Source: Authors’ tabulations of SIPP 2014, Wave 1 data, for the 12th reference month (December 2013). See Appendix for detailed methodology.

Figure 6: **Retirement Account Ownership is Heavily Concentrated Among Higher-Income Individuals**

Share of working age individuals with non-zero retirement account assets by income quartile in 2013

Source: Authors’ analysis of SIPP 2014, Wave 1 data. Universe is individuals age 21-64. Retirement account ownership status reported for December 2013. Income quartiles were calculated as follows: Lowest quartile was $1-$15,324; Second quartile was $15,325-$30,660; Third quartile was $30,661-$55,548; and Highest quartile was $55,549 plus. DB plan participation is not accounted for.
III: RETIREMENT ACCOUNT BALANCES

While private saving has always played an important role in retirement, changes in the U.S. retirement system have put increasing emphasis on DC accounts rather than DB pensions. While total assets in retirement accounts appear to be substantial with a total value of $16.9 billion in accounts at the end of 2017, the concentrated ownership of accounts in the top income quartile means that the typical American worker has only very modest amounts saved, if anything at all. The shift from DB pensions to DC plans has had profound consequences for American workers in terms of the risks and costs they now bear in saving and investing to fund their own retirement. That shift has fallen most significantly on younger households and those in the bottom half of households by income. Unfortunately, as shown in Figure 4, the majority of workers—even those near retirement—have no retirement account assets. Even more worrisome, a large majority of working individuals have little retirement savings in relation to their income.

This section examines median retirement account balances for the entire population of individuals age 21 to 64 and analyzes retirement account assets in relation to current income.

Given that 59.3 percent of individuals do not own a retirement account, for the worker who is in the middle of overall workforce the value of their retirement savings is zero. This also holds for the median worker in each ten-year age

Figure 7: Typical Working Age Individual Has $0 in Retirement Account Assets; Among Individuals with Positive Retirement Accounts, the Median Balance is $40,000

Median retirement account balance of working age individuals with positive retirement account balances versus median account balances for all working age individuals

Source: Authors’ analysis of SIPP 2014, Wave 1 data. Universe is individuals age 21-64. Retirement account ownership status reported for December 2013. Numbers are weighted using final person weight. DB plan ownership is not accounted for.
Another way to look at retirement savings is as a multiple of current annual income. This provides a simple gauge with which to evaluate how well individuals are doing in preparing for retirement given their income level. Figure 8 illustrates ratios of retirement account balances to income among working individuals. Overall, some 59.3 percent of working individuals age 21 to 64 have no retirement savings and 22.1 percent of working individuals have retirement savings that are less than one times their income. Among working individuals closest to retirement (age 55–64), nearly 51.3 percent have no retirement savings and 17.0 percent have retirement savings that are less than one times their income.
Table 2: **Typical Near-Retirement Individual Has Less than Eight Percent of their Annual Income Saved in a Retirement Account**
Median ratio of retirement wealth among working age individuals, by age group, 2013

<table>
<thead>
<tr>
<th>MEDIAN RATIO</th>
<th>21-34</th>
<th>35-44</th>
<th>45-54</th>
<th>55-64</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retirement Account Balance to Income</td>
<td>0.00</td>
<td>0.00</td>
<td>0.04</td>
<td>0.08</td>
</tr>
<tr>
<td>Net Worth to Income</td>
<td>0.93</td>
<td>0.70</td>
<td>1.56</td>
<td>2.96</td>
</tr>
</tbody>
</table>

Source: Authors’ analysis of the SIPP 2014, Wave 1 data. Universe is working individuals age 21-64.

Table 2 shows median ratios of retirement account balances and net worth to income, by age, for working age individuals. The typical working individual near retirement has less than one-tenth of the value of their annual income saved in a retirement account, and the typical young worker has no retirement savings. Further, the typical near-retirement worker has only about three times their annual income as their total net worth.

In short, most working Americans are far behind in saving for retirement—not only in terms of 401(k) and IRA balances, but in terms of their total assets. The following section explores these retirement savings gaps in more detail.
IV. FALING SHORT BY ANY MEASURE: WORKING INDIVIDUALS’ RETIREMENT SAVINGS GAP

How much do individuals need to save in order to achieve retirement security? Most people do not have a clear idea of how much they need to save to have enough income—including Social Security—to maintain their standard of living in retirement. For instance, a $88,000 retirement account balance for near retirement workers with accounts may seem high to many, but this amount is only about one-fourth of what an individual with income of $44,000 is projected to need at age 60 to be on track to retire in seven more years, according to conservative estimates.46

In order to determine how working individuals measured up to the standards suggested by some financial services experts as retirement savings goal rules of thumb, the following analysis compares net worth—total assets minus debt—to retirement savings goals recommended by the financial services industry. Specifically, we used the age-specific savings benchmarks published by Fidelity Investments (see Table 3), which target replacing 85 percent of pre-retirement income and assume that retirement benefits from Social Security will replace about 40 percent of income.47 At the same time, we acknowledge that for low-and middle-income workers, a general 85 percent income replacement target underlying these standards is somewhat in the high range among estimates of the share of pre-retirement income that needs to be replaced in order to maintain a household’s standard of living, because Social Security will replace a higher percentage of earnings for lower income workers.

We chose the Fidelity standards as a benchmark because, all things considered, they represent a reasonable, lower bound estimate of savings needs. Nonetheless, there are several factors that make the ten times income target conservative:

- It does not fully account for increased medical and long-term care costs in retirement.
- The expected Fidelity retirement age of 67 is several years later than today’s actual median retirement age, and we believe that a large share of workers—including those who become disabled and those who take up caring for aging loved ones—will not be able to keep working until that age. An earlier retirement age than 67 requires greater retirement savings to maintain one’s standard of living since Social Security benefits will be lower. Fidelity indicates that if retirement starts at an earlier age then the Savings Factor will need to increase to account for a higher income replacement target (55%) for income replacement from savings due to lower Social Security benefits and having a longer period in retirement.48 In fact, if an individual chooses to retire at age 62, the earliest Social Security retirement age, that moves the Savings Factor up to 14. Early retirees would need to accumulate retirement assets equal to 14 times salary at age 62.49

<table>
<thead>
<tr>
<th>Age</th>
<th>Savings Target as Multiple of Current Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>30</td>
<td>1x</td>
</tr>
<tr>
<td>35</td>
<td>2x</td>
</tr>
<tr>
<td>40</td>
<td>3x</td>
</tr>
<tr>
<td>45</td>
<td>4x</td>
</tr>
<tr>
<td>50</td>
<td>6x</td>
</tr>
<tr>
<td>55</td>
<td>7x</td>
</tr>
<tr>
<td>60</td>
<td>8x</td>
</tr>
<tr>
<td>67</td>
<td>10x</td>
</tr>
</tbody>
</table>

Table 3: Financial Industry Recommended Retirement Savings Targets

Recommended retirement savings targets as a multiple of income

Source: Fidelity Viewpoints (2017) "How much do I need to save for retirement."
• The savings target of 10 times income at age 67 is intended to enable income payments to last until age 93. This is somewhat short of the future life expectancy level recommended by most financial planners and would leave a one-in-four chance of running short of funds. In contrast, we consider retirement income security in terms of the ability to maintain one’s standard of living for as long as one lives—if not until maximum life expectancy, then at least the 85th or 90th percentile.

In addition, the measure that we chose to compare to the savings benchmarks—net worth—is a generous measure of retirement wealth, for three reasons. First, home equity accounts for a large share of net worth for most individuals. While owning a home reduces housing costs, home equity is unlike financial wealth in that it is not easily converted into an income stream that can cover non-housing expenses. Second, net worth includes a variety of other financial and non-financial assets that are not intended to serve as a source of retirement income—e.g., college savings funds. Third, not all assets will produce the level of returns that can be expected from a diversified portfolio held through a 401(k) or IRA. Thus in the following analysis, some assets are effectively over-valued in terms of their retirement income potential.

“Working individuals” in this analysis is defined as working individuals aged 21 to 64. For this analysis, we calculated the percentage of individuals in the SIPP 2014, Wave 1 sample that met the Fidelity savings benchmarks listed in Table 3. Each individual’s net worth was compared to the savings targets that resulted from applying the Savings Factor multipliers to income.

An important caveat is that the following estimates rely on rule-of-thumb multipliers and are not based on detailed projections of the income needs of individuals, which vary with family size, marital status, income level and tax rates, health care needs, actual Social Security benefits, and other factors. However, a simple analysis like this provides a transparent and easy to understand assessment of retirement readiness, since most Americans spend at best just a few hours a year estimating retirement readiness and using a rule of thumb is easy to relate to. Thus, our analysis in aggregate terms, is broadly suggestive rather than definitive. Nonetheless, the sensitivity analysis presented at the end of this section confirms that significantly lowering the savings bar for low-income individuals—who can expect higher income replacement from Social Security—makes little difference in the findings.

Figure 9: Nearly 45 Percent of Working Individuals Age 21-64 Have Net Worth Less than Annual Income

Ratio of net worth to income among working-aged individuals, 2013

![Figure 9: Nearly 45 Percent of Working Individuals Age 21-64 Have Net Worth Less than Annual Income](chart)

Source: Authors’ analysis of the SIPP 2014, Wave 1 data. Universe is individuals age 21-64, with positive earnings.
As a context for the retirement savings target comparison, Figure 9 illustrates the ratio of net worth to income among working individuals by age group. In 2013, two-thirds (67.9%) of young workers (age 21-34), and 47.1 percent of individuals age 35 to 44 had net worth that was less than their annual income. Among individuals near retirement (ages 54-64) one-fourth (25.2%) had a net worth less than one times income, while 46.3 percent had net worth that exceeded four times their annual income. Indeed, as Table 2 in Section III showed, the median near-retiree had net worth equal to about three times their annual income—significantly less than the recommended retirement savings level of eight times income as the Fidelity Savings Factor for age 60. Among individuals aged 45 to 54, the median ratio of net worth to income was only 1.56 in 2013—again far short of the target of six times income by age 50.

Given the low level of net worth relative to income, even among individuals nearing retirement age, it is no surprise that a large majority of individuals age 21 to 64 fall short of financial industry recommended retirement savings targets. Figure 10 shows the share of working individuals in each age group that did not meet savings targets in 2013. Results are shown for the baseline savings factors targeting ten times income by age 67, as well as for a substantially reduced target of 7.5 times income by age 67.

We will first discuss results for the baseline savings benchmark. Three-fourths (76.7%) of individuals aged 21 to 64 are not on track to meet savings levels targeting ten times income by age 67. Among near-retirees, an overwhelming majority (75.3%) did not meet this target. A similar share (79.8%) of individuals aged 45 to 54 also fell short.
Readers should be cautious in interpreting the results for the youngest age cohort. A somewhat smaller share fails to meet the retirement savings targets and thus younger workers appear to be doing better than older generations, but this is largely an artifact of the way the savings trajectory is modeled. Expected contribution rates start at lower levels for this group and increase over time, thus the Savings Factor multiples at younger ages are disproportionately lower than those for the older age groups after controlling for compound interest. Indeed, the compound interest assumptions in the Fidelity standards, combined with the use of the net worth measure, are generally favorable to the younger age cohorts. Other studies that incorporate detailed retirement income models, including those of the Center for Retirement Research (CRR) and the Employee Benefit Research Institute (EBRI), tend not to examine households under age 30.50 Analysis by CRR indicates that younger age cohorts are deemed at greater risk of experiencing a retirement income shortfall than older age cohorts.51 With the shift to DC retirement savings plans, early and consistent savings in retirement accounts is important if individuals hope to maintain the same living standard in retirement. People struggle to achieve this sustained level of savings, especially those in the youngest age cohort who are least likely to be eligible for an employer’s retirement plan and to own a retirement account (see Figure 4).52

Reducing the savings goal by 25 percent,53 to only 7.5 times income by age 67, produces somewhat improved, but still discouraging results. Seven out of ten individuals (70.7%) in the sample did not meet the reduced savings goal in 2013. For the top 50 percent of individuals, this reduced level of savings would mean reducing standards of living in retirement. But what about individuals in the bottom half of the income distribution?

A typical worker who earns less than the median income will have a higher percentage of her pre-retirement income replaced by Social Security compared to a middle-wage worker—approximately 15 percentage points higher, depending on the data source.54 This gain is partially offset by the fact that he or she will also need to replace a greater share of her income in retirement. The costs that decrease or disappear in retirement—income taxes, savings, and work related expenses—take up a smaller share of a typical low-wage worker’s pay. Whatever the case, it turns out adjusting the savings benchmark makes little difference to low- or even low-moderate income individuals.

As Figure 11 shows, a 25 percent reduction in the savings target decreases the share of lowest-income individuals not meeting the target by four percentage points, from 81.5 percent to 77.5 percent. Most low-income workers (those in the bottom 25 percent) are so asset-poor—so far short of any modest retirement savings target—that moving the bar upwards or downwards makes little difference. The same

---

**Figure 11: Reducing the Benchmark Does Little to Improve Retirement Outlook for Lower Income Workers**

Share of Working Individuals with Net Worth Below Their Retirement Savings Target

<table>
<thead>
<tr>
<th>INCOME GROUP</th>
<th>Savings goal 10 times income @ 67</th>
<th>25% lower savings goal</th>
</tr>
</thead>
<tbody>
<tr>
<td>BOTTOM QUARTILE</td>
<td>81.5%</td>
<td>77.5%</td>
</tr>
<tr>
<td>SECOND QUARTILE</td>
<td>81.9%</td>
<td>75.9%</td>
</tr>
</tbody>
</table>

Source: Authors’ analysis of SIPP 2014, Wave 1 data based on retirement savings targets adapted from Fidelity (2017). Universe is individuals age 21-64, with positive earnings. See methodology in Appendix.
reduction in the savings target reduces the share of the low-
to-middle income individuals (the second lowest 25 percent) failing to meet the target from 81.9 percent to 75.9 percent, or six percentage points—again a negligible difference.

The findings in this section echo those of academic and industry studies. The National Retirement Risk Index from the Center for Retirement Research indicates that the share of U.S. households age 30 to 64 at risk of being unable to maintain their standard of living in retirement declined from 53 percent in 2010 and 2013 to 50 percent in 2016. This estimate does not account for long term care costs, which the Center previously projected would increase the share of households at retirement risk by 16 percentage points. In addition, EBRI's 2015 Retirement Security Projection Model estimates that for individuals on the verge of retirement, their retirement deficits or the shortfall in their retirement savings range from $19,304 (per individual in a married household) to $33,778 for single men and $62,734 for single women.

These troubling numbers are consistent with overall trends in an economic recovery in which overall wealth for working individuals has remained stagnant as income and wealth have dropped for most groups, especially those at the bottom. Net worth for the typical household from the Survey of Consumer Finances dropped precipitously between 2007 and 2010, but has increased between 2013 and 2016. Indeed, the clearest sign of declining retirement income security is the fact that ratios of net worth to income by age group have remained relatively flat over the past couple of decades, while Social Security and pension benefit cuts, combined with longer life expectancy, require greater personal savings just to keep up.
With declining workplace retirement plan coverage and fewer workers covered by secure pensions, Americans face a retirement savings burden that is heavier than ever. Unfortunately, the findings of this study clearly indicate that most Americans—especially those who are middle- and low-income—are not meeting this burden. Nearly 57.1 percent of working age Americans (103.6 million) do not have a retirement account, whether sponsored by an employer or not, nor do they participate in a DB pension. Most of those without accounts are in the bottom half of the income distribution. The typical working individual has $0 in retirement savings, and four out of five (81.4%) have retirement savings less than their annual income. While experts recommend that people build a nest egg that is at least 10 times income in order to maintain their standard of living in retirement and many estimate that a contribution rate of 15 percent over a full career is necessary to meet this goal, a large majority of working individuals fail to meet conservative benchmarks modeled on the assumption that people will work longer than today, until age 67.

This analysis clearly indicates the significant challenges facing baby boomers and upcoming generations of Americans when it comes to retirement security. Clearly, more individuals need to increase their retirement contributions, to the extent that they are able to do so. Even so, the magnitude of the retirement savings gap is such that most people will have to work longer if they are able to stay employed, or experience a significant decline in their standard of living when they retire.

It is highly unlikely that most individuals will be able to fill such a large retirement income gap by themselves. They also need employers to become more engaged in assuring the retirement readiness of the workforce. In addition, public policy can play a critical role in putting all Americans on a path toward a secure retirement.

Specifically, the findings of this study have policy implications in three critical areas: 1) strengthening Social Security, 2) expanding access to low-cost, high quality retirement plans, including DC savings plans, DB pensions and hybrid or combination DC/DB plans, and 3) helping low- and moderate income workers and families save for retirement with improved tax credits.

### Strengthening Social Security

The majority of workers and families rely on Social Security for a significant share of their retirement income. Social Security and Supplemental Security Income (SSI) together account for over 90 percent of income for the bottom 25 percent of retirees. For the middle 50 percent, Social Security accounts for approximately 70 percent of income. According to Supplemental Poverty Measure data released by the U.S. Census Bureau, which takes into account senior medical expenses, senior poverty was 14.5 percent in 2016—significantly higher than the 9.3 percent reported under the standard poverty measure. Fox and Pacus found that Social Security lifted a smaller share of seniors out of poverty in 2016 and increased medical expenses pushed more near poor elders into poverty. Already scheduled decreases in Social Security benefits will likely increase elder poverty.

The Social Security system faces challenges stemming from an aging population that, while significant, are manageable. Primarily a pay-as-you-go system, benefits are funded through payroll taxes as well as the Social Security (Old Age and Survivors Insurance, or OASI) Trust Fund. The Social Security’s Actuary projects that payments will exhaust the trust fund by 2034, after which incoming payroll taxes will cover approximately three-quarters of promised benefits. The actuarial deficit for the next 75 years is 2.84 percent of taxable payroll—that is, 2.84 percent of all earnings that are subject to Social Security contributions, which is capped at $128,400 per worker in 2018.

Given highly deficient employee-level retirement savings, strengthening Social Security—a system on which all Americans rely—is critical to the foundation of retirement security. While current political debate about the program is often focused on benefit cuts—e.g., increasing the full retirement age and reducing Cost of Living Adjustments (COLAs)—a study by the National Academy of Social
Insurance found strong public support for maintaining and expanding Social Security benefits as well as for increasing system revenues in order to preserve the system. 64

The challenges faced by vulnerable populations have spurred calls to expand benefits. One proposal calls for increasing minimum benefits for lifetime low-wage earners, 65 while another addresses the special challenges women face in their role as caregivers that result in fewer years in the labor force. 66 Several proposals to integrate the above elements, and more, into a broader package of reforms intended to strengthen and modernize Social Security have been advanced by former U.S. Senator Tom Harkin, the Economic Policy Institute, the Center for American Progress, and others. 67 These broad proposals share a common focus on increasing revenues by eliminating the payroll tax cap; increasing benefits for low-wage workers, survivors, and caregivers; and adjusting the benefit formula in order to better keep pace with living costs faced by seniors and to prevent seniors from falling into poverty at advanced ages.

Improving Low- and Middle-Income Workers’ Access to Low-Cost, High Quality Retirement Plans

Aside from Social Security, employer-sponsored plans are the most important vehicle for retirement security among workers and families. At the same time, the employer-sponsored system is purely voluntary, both on the part of the employer and the employee. This system seems to best serve workers and families with higher incomes, who enjoy high rates of access to workplace retirement plans. However, a large share of workers—mostly low- and middle-wage workers and small business employees—are being left out. Automatic enrollment, which is standard for DB pensions, is becoming increasingly common as a recommended practice for 401(k) plans,68 and is bridging a part of the participation gap within firms that offer a retirement plan. However, small employers have less incentive and/or capacity to offer a plan. 69

In theory, workers without access to a workplace plan can utilize retail IRAs. However, the vast majority of IRA contributions are rollovers from employer plans like 401(k)s.70 Three-quarters of participants in IRAs and Keogh plans for self-employed workers are from the top half of the income distribution.71 Retail IRAs lack the critical payroll deduction feature that participants in employer plans enjoy. And while 401(k) plans typically entail higher fees and lower returns than DB pensions, retail IRAs generally carry even higher fees and lower returns.72

To begin, Congress could enact policies to make it easier for private employers to sponsor DB pensions, which have been under stress partly because of regulatory changes enacted in 2006. 73 Changes to make funding requirements more predictable—such as the restoration of smoothed interest rates—would reduce funding volatility, thus making private sector DB pensions more sustainable. 74 New plan designs, such as the Adjustable Pension Plan (APP), which uses conservative asset allocations and plan assumptions, coupled with the ability to adjust prospective benefits, should be more attractive to employers, as the design allows for much more predictability in contribution rates.

Citing low coverage of low- and middle-income workers and families, some policy experts have advanced a number of proposals at the national level to move toward more universal retirement plan coverage. 75 These proposals aim to provide an additional layer of stable retirement income in the absence of traditional pensions. Most proposals feature automatic enrollment, payroll deduction, full portability, and low-cost professional investment management. The Auto IRA concept had support from the Obama administration, and one version has been introduced in Congress by U.S. Representative Richard Neal. 76 Basic provisions include requiring employers that do not offer their own plan to automatically enroll workers in an IRA and deduct a default contribution rate from paychecks, while allowing employees to individually opt out. While most Auto IRA proposals leave investment risk and funding responsibility to individuals, other proposals feature risk sharing and other pension-like benefits in order to provide an additional layer of secure income to supplement Social Security and private savings. 77

Meanwhile, efforts to expand retirement plan coverage are gaining momentum at the state level, based on growing concern among legislators and stakeholders that generations of workers might retire into economic hardship. Since 2012, 40 states have acted to implement, study or consider legislation to establish state-facilitated retirement savings programs. As of 2017, 10 states enacted new retirement savings programs for private sector workers. Illinois passed SB2758 in 2015, creating the Secure Choice Savings Program, which will begin phased enrollments in November 2018. 78 It is an Auto-IRA
program with pooled, professional investment management that will cover workers who lack access to a workplace plan. Employers with 25 or more employees must auto-enroll their employees at a three percent contribution rate, with employees having the ability to opt out. Investment and administrative fees are capped at 0.75 percent of assets. California passed a similar plan in 2012 and its administrator is in the final phases setting up the CalSavers program anticipating an official launch of statewide enrollment in 2019 with enrollment for all eligible employers to be completed by January 2022. OregonSaves, another automatic IRA program, was created in 2015 and has now opened enrollment to all eligible employers in Oregon. Washington State opened its marketplace program earlier in 2018.

Activity to expand access to retirement savings opportunities at the state level continues into 2018, even in the face of Congressional action in 2017 that rolled back regulatory guidance from the Department of Labor that answered questions about fiduciary liability. State policymakers find that addressing the pressing retirement savings crisis will enable more individuals to maintain their standard of living, which maintains economic activity while also potentially relieving future budget pressures to provide increased assistance to the elderly.

According to a NIRS public opinion survey, 75 percent of respondents support a possible state retirement solution that offers portability, professional investment management, and secure monthly income.

### Helping Low-Income Individuals and Households Save

Real wages have remained stagnant over the past several decades, lagging behind productivity growth, and this has made it difficult for low-income worker to save. The primary way the federal government supports retirement savings is through the income tax deduction for retirement contributions. However, 70 percent of the tax subsidies for contributions to 401(k) type accounts and IRAs are claimed by the top one-fifth of households by income. Because lower-income taxpayers have low marginal income tax rates, they have little incentive to save from the existing tax deduction. Low-wage workers are also less likely to receive an employer match, even if they do have access to an employer-sponsored DC plan.

In response to this situation, the federal government enacted the Saver’s Credit in 2001 for lower-income taxpayers, which reduces income tax liability by 10-50 percent of the first $2,000 in contributions to a qualified retirement account, depending on income and tax filing status. For single filers in the 2018 tax year, a credit of 50 percent is available for individuals with incomes up to $19,000 AGI (Adjusted Gross Income), 20 percent for AGI between $19,001 and $20,500, and 10 percent for AGI between $25,501 and $31,500. For married couples who file jointly, these income limits are doubled. The rapid phase-out at low income levels and lack of refundability restrict the credit’s effectiveness. The average credit in 2014 was only $174.

Expanding the Saver’s Credit by increasing income limits and credit rates and making the credit refundable would increase incentives for lower-income families to save for retirement and increase their account balances. State-sponsored retirement savings programs could educate members about the Saver’s Credit and encourage direct deposit of the tax credit into savers’ retirement accounts. In addition, creating a system for depositing the credit directly into retirement savings accounts would help bolster account accumulations.
The hope of retirement security is out of reach for many Americans in the face of a crumbling retirement infrastructure. Secure pensions that last through retirement have been replaced with volatile individual accounts, which were intended to supplement DB pension plans. The typical American has no retirement savings—the median retirement account balance is zero. Furthermore, nearly 4 out of 5 (81.4%) Americans have retirement savings less than their annual income. More than two out of three Americans have a net worth that falls short of 75 percent of recommended savings targets for their age to be on track.

The heart of the issue consists of two problems: lack of access to retirement plans in and out of the workplace—particularly among young and low-income workers and families—and low retirement savings even among those who are saving. These twin challenges amount to a severe retirement crisis that, if unaddressed, will result in grave consequences for the U.S. In the coming decades, the continued decline in the share of older workers receiving DB pension income—a factor linked to reduced reliance on public programs—combined with inadequate retirement savings, is likely to generate increasing demand for public assistance, which potentially could strain government budgets at all levels. An increasingly dependent elder population will likely place increased strain on families and social service organizations. The “American Dream” of retiring after a lifetime of work will be long delayed, if not impossible, for many.

How can the U.S. begin to address this retirement crisis? Policy action is warranted in three key areas. The first is to strengthen Social Security, the primary building block of retirement income security for low- and middle-income Americans. The second is to expand access among low-and middle-wage and younger workers to high-quality, low-cost retirement plans with professional investment management, risk pooling, and lifetime payouts. In addition to making it easier for private employers to sponsor DB pensions, national and state level proposals to ensure universal access to retirement savings through payroll deduction could fill the wide coverage gap in the employer-based system. States are leading but federal pension law limits the savings options. Third, an expanded, refundable Saver’s Credit could help boost the retirement savings of families struggling with stagnant wages and only modest tax benefits to encourage retirement saving.

The typical working American and 100 million others have nothing at all saved in a retirement account for those years and decades when they no longer can work. The retirement income system in the United States is a frayed security blanket with many individuals falling through its holes:

- young employees entering the workforce denied eligibility,
- low income workers whose employers do not offer plans,
- part-time workers who do not work enough hours to qualify for plans,
- women who are paid less and live longer,
- single and non-white workers who are less likely to have access to a workplace plan.

A report card on the U.S. retirement system would at best say “Needs Improvement.” In fact, the governmental agency that looks at the financial future of America, the GAO, issued a comprehensive report on the Nation’s Retirement System and called for action to improve how the nation promotes retirement security. Workers, employers, and policymakers should look closely at what we need to do individually and collectively, so that everyone can build sufficient assets to have adequate and secure income after a lifetime of work. Acting sooner rather than later will greatly improve our future retirement security.
APPENDIX: METHODOLOGY

About the Survey of Income and Program Participation (SIPP)

This report summarizes analyses of data from the U.S. Census Bureau’s Survey of Income and Program Participation (SIPP). SIPP is a longitudinal, multi-panel survey of adults in the United States. SIPP collects data and measures change for many topics including: economic well-being, family dynamics, education, assets, health insurance, childcare, and food security. Each panel features a nationally representative sample, interviewed over a multi-year period lasting approximately two and a half to four years.

The size of the historical SIPP sample ranges from 14,000 to 52,000 households. The SIPP 2014, Wave 1 panel sampled 42,491 living quarters and of those 29,825 households were interviewed between February and June 2014, resulting in 67,994 person interviews.

Ownership of a retirement account is defined as self-reporting non-zero retirement assets in 401(k), 403(b), 503(b), Thrift Savings Plan, IRA and KEOGH accounts as of the last day of the reference period. Reference period is December of 2013. Sample is limited to working age respondents (age 21–64). Individuals in a household were interviewed and considered in the analysis as individuals. Numbers are weighted using the final person weight. DB plan ownership not accounted for unless otherwise noted. For Figure 7, the income quartiles were calculated for the population of individuals age 21–64 with positive total personal income. The income quartiles break as follows:

- Lowest quartile $1–$15,324
- Second quartile $15,325–$30,660
- Third quartile $30,661–$55,548, and
- Highest quartile $55,549 plus.

In comparison to other nationally representative surveys, SIPP fills the gaps that surveys such as the Current Population Survey (CPS) leave, by providing data that affords a better understanding and analysis of the distribution of income, wealth, and poverty in the U.S., and of the effects of federal and state programs on the well-being of families and individuals. The core questions cover demographic characteristics, labor force participation, program participation, amounts and types of earned and unearned income received, including transfer payments and noncash benefits from various programs, and asset ownership. Additionally, SIPP is larger than comparable surveys such as the Survey of Consumer Finances (SCF) and the Current Population Survey (CPS). Moreover, unlike the SCF, which oversamples high-income households, SIPP oversamples lower-income households, which are more likely to include individuals of color.

Since the employment relationship is the primary source of retirement plan participation and retirement account ownership NIRS used individual data that are collected in SIPP 2014 data. The SIPP data track DB/DC/Cash Balance Plan account ownership, not just for the most important plan with individuals’ current employers but also for any secondary plans. The SIPP data reveal not only ownership of retirement accounts, but also provide detail on DB pensions. Also to the extent that household composition changes over time, this individual analysis yields a better perspective of the retirement readiness of individuals, especially women. For example, the NIRS report on women in retirement illustrated that a spouse can face serious financial risks in the event of the marriage ending by either death or divorce. While the SCF data is limited in the demographic information it collects, the SIPP survey has tremendous information on all aspects of respondents’ lives.
Despite its advantages, SIPP has its limitations. As with most survey data, SIPP data is self-reported, which can be problematic for the reporting of account balances and participation in particular types of retirement plans, such as DB pension plans.

All estimates were calculated using the final person weights.

Variables

We used the following variables to determine employer-sponsored retirement coverage, current retirement balances:

- **EPENSNYN** - Does person’s job/business have any kind of pension or retirement plans for anyone in the company or organization
- **TVAL_RET** - Person-level sum of value of retirement accounts
- **EOWN_PENSION** - Individual Participated in a defined-benefit pension or cash balance plan during the reference period (December 2013)

Individuals were determined to have a retirement account if TVAL RET was greater than zero and not to have an account if the value was zero.

Target Retirement Savings

Table A1 below details the multipliers applied to each individual, based on their age, in order to calculate the amount that it would need to have saved in order to meet Fidelity’s recommended retirement savings benchmarks. Each individual’s reported annual income as reported in SIPP 2014 was multiplied by the factors from Table A1 to arrive at dollar values for target retirement savings.

The resulting target retirement savings level for each individual was compared to that individual’s reported net worth (NETWORTH). Finally, in order to determine whether each individual was on track to meet a significantly reduced savings target of 7.5 times income at age 67, we calculated whether that individual met 75 percent of the age specific savings level outlined in table A1.
Table A1. 
Target Retirement Savings Multipliers

<table>
<thead>
<tr>
<th>Age</th>
<th>Retirement Savings Target</th>
<th>Age</th>
<th>Retirement Savings Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>21</td>
<td>0.00</td>
<td>45</td>
<td>4.00</td>
</tr>
<tr>
<td>22</td>
<td>0.11</td>
<td>46</td>
<td>4.40</td>
</tr>
<tr>
<td>23</td>
<td>0.22</td>
<td>47</td>
<td>4.80</td>
</tr>
<tr>
<td>24</td>
<td>0.33</td>
<td>48</td>
<td>5.20</td>
</tr>
<tr>
<td>25</td>
<td>0.44</td>
<td>49</td>
<td>5.60</td>
</tr>
<tr>
<td>26</td>
<td>0.55</td>
<td>50</td>
<td>6.00</td>
</tr>
<tr>
<td>27</td>
<td>0.66</td>
<td>51</td>
<td>6.20</td>
</tr>
<tr>
<td>28</td>
<td>0.77</td>
<td>52</td>
<td>6.40</td>
</tr>
<tr>
<td>29</td>
<td>0.88</td>
<td>53</td>
<td>6.60</td>
</tr>
<tr>
<td>30</td>
<td>1.00</td>
<td>54</td>
<td>6.80</td>
</tr>
<tr>
<td>31</td>
<td>1.20</td>
<td>55</td>
<td>7.00</td>
</tr>
<tr>
<td>32</td>
<td>1.40</td>
<td>56</td>
<td>7.20</td>
</tr>
<tr>
<td>33</td>
<td>1.60</td>
<td>57</td>
<td>7.40</td>
</tr>
<tr>
<td>34</td>
<td>1.80</td>
<td>58</td>
<td>7.60</td>
</tr>
<tr>
<td>35</td>
<td>2.00</td>
<td>59</td>
<td>7.80</td>
</tr>
<tr>
<td>36</td>
<td>2.20</td>
<td>60</td>
<td>8.00</td>
</tr>
<tr>
<td>37</td>
<td>2.40</td>
<td>61</td>
<td>8.28</td>
</tr>
<tr>
<td>38</td>
<td>2.60</td>
<td>62</td>
<td>8.56</td>
</tr>
<tr>
<td>39</td>
<td>2.80</td>
<td>63</td>
<td>8.84</td>
</tr>
<tr>
<td>40</td>
<td>3.00</td>
<td>64</td>
<td>9.12</td>
</tr>
<tr>
<td>41</td>
<td>3.20</td>
<td>65</td>
<td>9.40</td>
</tr>
<tr>
<td>42</td>
<td>3.40</td>
<td>66</td>
<td>9.68</td>
</tr>
<tr>
<td>43</td>
<td>3.60</td>
<td>67</td>
<td>10.00</td>
</tr>
<tr>
<td>44</td>
<td>3.80</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Author’s adaption of target retirement savings benchmarks from Fidelity 2012.


4 Ibid.


8 Northwestern Mutual (2018) and Harris Poll, 2017 (April), op.cit.


13 A. Biggs, 2018 (July 18), “State-run retirement plans are the wrong way to protect the poor,” Washington Post, Washington, DC.

14 ICI, 2018 (June), op.cit.

15 Ibid.


17 The Center for Retirement Research at Boston College estimates that a middle-income two-earner couple born between 1960-1962 will need to replace 76 percent of their income excluding health care and long term care costs, and 98 percent including these costs. A. H. Munnell, A. Webb, F. Golub-Sass, and D. Muldoon, 2009 (Mar.), “Long-Term Care Costs and the National Retirement Risk Index,” Issue Brief No. 9-7, Center for Retirement Research at Boston College, Chestnut Hill, MA.


21 Weller found that in fact, households have not saved adequately to offset increased risk. C. Weller, 2010, “Did Retirees Save Enough to Compensate for the Increase in Individual Risk Exposure?,”
22 $120,000 is the median household account balance for households with head age 55-64 that own a retirement account, according to the 2016 Survey of Consumer Finance (SCF). Financial firms like Vanguard often report average account balances such as $119,000 for participants ages 55-64: J. Young, 2018, “How America Saves 2018: Vanguard 2017 defined contribution plan data,” Vanguard, Valley Forge, PA, https://pressroom.vanguard.com/nonindexed/HAS18_062018.pdf.


26 The 2014 redesign of CPS produced much lower access and participation rates for working Americans in years after 2014 (participation in 2014 was at 40.1% but at 31.7% in 2017), which has not been fully explained. The CPS data thru 2014 provides coverage information in the same time frame as the 2014 SIPP.


29 Ibid.


32 Ibid.

33 The 2014 redesign of CPS produced much lower participation rates for working Americans in years after 2014 (participation in 2014 was at 40.1% but at 31.7% in 2017), which has not been fully explained.


35 National Compensation Survey, 2016. The NCS does not distinguish between workers who have DB plans exclusively and DC plans exclusively. As such, workers with DC plans may also have DB plans and vice-versa. C.

36 N. Rhee and I. Boivie, 2015, op. cit.


38 C. Jeszeck, 2017, op. cit.


41 Ownership of a retirement account defined as self-reporting greater than zero retirement assets in 401k, 403b, 503b, Thrift Savings Plan, IRA and KEOGH accounts as of the last day of the reference period. Reference period is December of 2013. Sample is limited to respondents ages 21-64. DB plan ownership not accounted for unless indicated.


44 ICI, 2018, op. cit.

45 Devlin-Foltz, Henriques and Sabelhaus, 2016, op. cit.

46 The recommended multiple of retirement savings in Table 3 at age 60 is eight times salary. Thus, for an individual with typical earnings of $30,600 in the SIPP data, he or she would need to accumulate $244,800 by age 60 to be on track to meet that target to replace 50 percent of income from a DC retirement account.
47 Fidelity investments originally published Guidelines for retirement savings in 2012 using a 5.5% rate of return on investments, a 1.5 percent real growth in income and 2.3% inflation and recommend accumulating 8 times salary by age 67 to stay on track. Fidelity Viewpoints revised those guidelines in 2017 with the publication of “How much do I need to save for retirement” on its website at https://www.fidelity.com/viewpoints/retirement/how-much-money-do-i-need-to-retire. The 2017 Fidelity “Savings Factor” rules of thumb target replacing 45 percent of income at retirement age of 67 from savings in DC plans which takes into account anticipated income replacement from Social Security. The revised 2017 Savings Factor for retirement at age 67 is 10 times salary, which is higher than the 8 times salary factor based on their 2012 analysis. A different rule of thumb analysis by Aon Hewitt in the “Real Deal” recommended multiples of salary as rules of thumb than Fidelity.

48 Fidelity Viewpoints, 2017 (June), op. cit.

49 Ibid.


51 Munnell, Hour, and Sanzenbacher, 2018 (January), op. cit.


53 This would reduce the amount of target income replacement from 45 percent to 33 percent.

54 For example Ghilarducci, Papadopoulos and Webb estimate that Social Security will replace 43 percent of pre-retirement income for those below the median income while Social Security will replace 29 percent of pre-retirement income for middle-income workers. T. Ghilarducci, M. Papadopoulos and A. Webb, 2017 (Sept.), “Inadequate Retirement Savings for Workers Nearing Retirement,” Policy Note, Schwartz Center for Economic Policy Analysis, the New School, New York, NY.

55 Munnell, Hour, and Sanzenbacher, 2018 (January), op. cit.


71 N. Rhee and I. Boivie, 2015, op. cit.


76 President Obama discussed Auto IRA in the 2015 State of the Union Address. Also, bills were introduced in the House and the Senate most recently the Automatic IRA Act of 2017 by longtime sponsor of the legislation Representative Richard Neal(H.R. 3499) and in by Senator Sheldon Whitehouse (S.1861).

77 For instance see Ghilarducci and James, op. cit. and Kim, op. cit.


79 DOL issued regulatory clarification on whether state-sponsored auto-IRAs offer safe haven from key ERISA regulations including preemption and fiduciary and reporting requirements that normally apply to employer-sponsored plans, but not IRAs Congress passed legislation to repeal those regulations in 2017. State updates on legislative action and program implementation can be found at the Center for Retirement Initiatives https://cri.georgetown.edu/states/.


81 D. Oakley and K. Kenneally, 2017 (Feb.),op. cit..


86 Ibid.


Board of Directors
Richard Ingram, NIRS Chair & Executive Director, Teachers’ Retirement System of the State of Illinois
Hank H. Kim, NIRS Secretary/Treasurer & Executive Director, National Conference on Public Employee Retirement Systems
Dana Bilyeu, Board Member & Executive Director, National Association of State Retirement Administrators
Kelly Fox, Board Member & Chief, Stakeholder Relations and External Outreach CalPERS
Michael Hairston, Board Member & Senior Pension Specialist, The National Education Association
R. Dean Kenderdine, Board Member & Executive Director, Maryland State Retirement and Pension System
Gerri Madrid-Davis, Board Member & Director, Financial Security and Consumer Affairs, State Advocacy & Strategy, Government Affairs, AARP
Roger Rea, Board Member & Trustee, Omaha School Employees’ Retirement System
Clarissa Smith, Board Member & Client Relations & Development, N.A. Institutional Distribution BNY Mellon Asset Management
Maureen Westgard, Board Member & Executive Director, National Council on Teacher Retirement

Our Mission
The National Institute on Retirement Security is a non-profit research and education organization established to contribute to informed policymaking by fostering a deep understanding of the value of retirement security to employees, employers, and the economy as a whole.

Our Vision
Through our activities, NIRS seeks to encourage the development of public policies that enhance retirement security in America. Our vision is one of a retirement system that simultaneously meets the needs of employers, employees, and the public interest. That is, one where:

- employers can offer affordable, high quality retirement benefits that help them achieve their human resources goals;
- employees can count on a secure source of retirement income that enables them to maintain a decent living standard after a lifetime of work; and
- the public interest is well-served by retirement systems that are managed in ways that promote fiscal responsibility, economic growth, and responsible stewardship of retirement assets.

Our Approach
- High-quality research that informs the public debate on retirement policy. The research program focuses on the role and value of defined benefit pension plans for employers, employees, and the public at large. We also conduct research on policy approaches and other innovative strategies to expand broad based retirement security.
- Education programs that disseminate our research findings broadly. NIRS disseminates its research findings to the public, policy makers, and the media by distributing reports, conducting briefings, and participating in conferences and other public forums.
- Outreach to partners and key stakeholders. By building partnerships with other experts in the field of retirement research and with stakeholders that support retirement security, we leverage the impact of our research and education efforts. Our outreach activities also improve the capacity of government agencies, non-profits, the private sector, and others working to promote and expand retirement security.
The National Institute on Retirement Security is a non-profit research institute established to contribute to informed policy making by fostering a deep understanding of the value of retirement security to employees, employers, and the economy as a whole. NIRS works to fulfill this mission through research, education, and outreach programs that are national in scope.