

April 6, 2017

# The US Retirement System

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Leadership Forum on Retirement Savings, Middleburg, VA

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# Background Materials

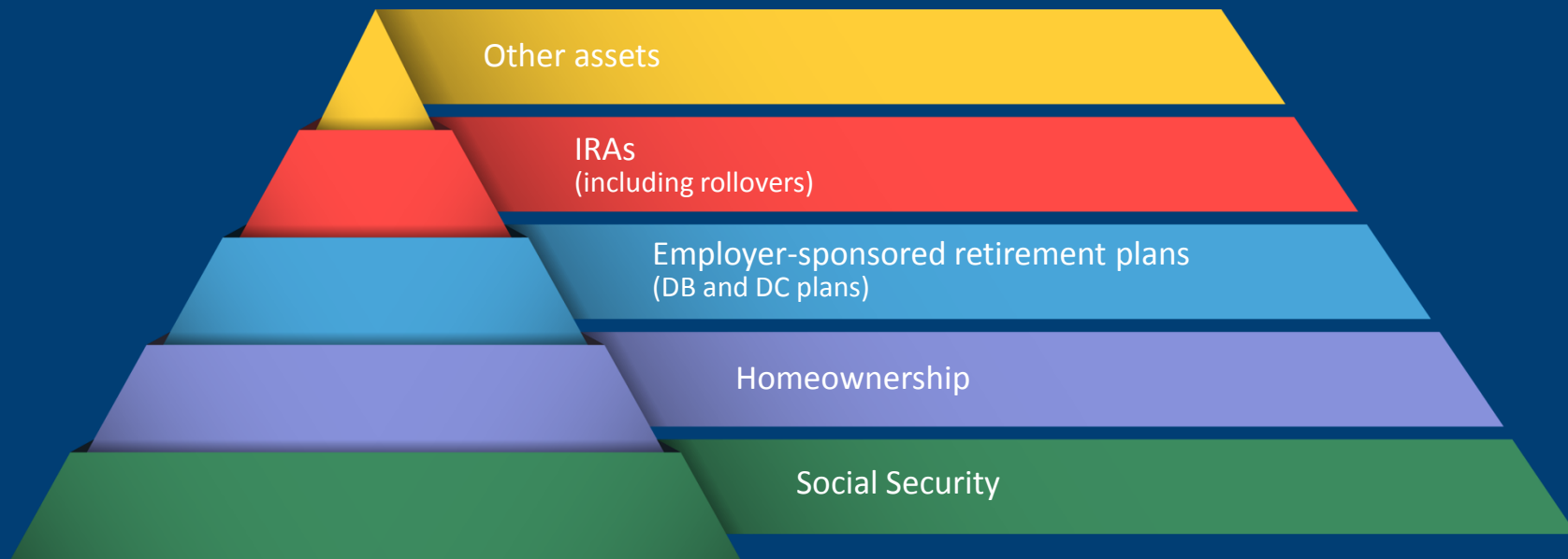
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- » US Retirement Resources Can Be Thought of as a Pyramid
- » Many Factors Influence Retirement Plan Coverage
- » Promoting Retirement Saving in the Evolving US Retirement System
- » Americans Appreciate Retirement Plan Features
- » Demographic Trends Will Impact Retirement Savings
- » References

# US Retirement Resources Can Be Thought of as a Pyramid

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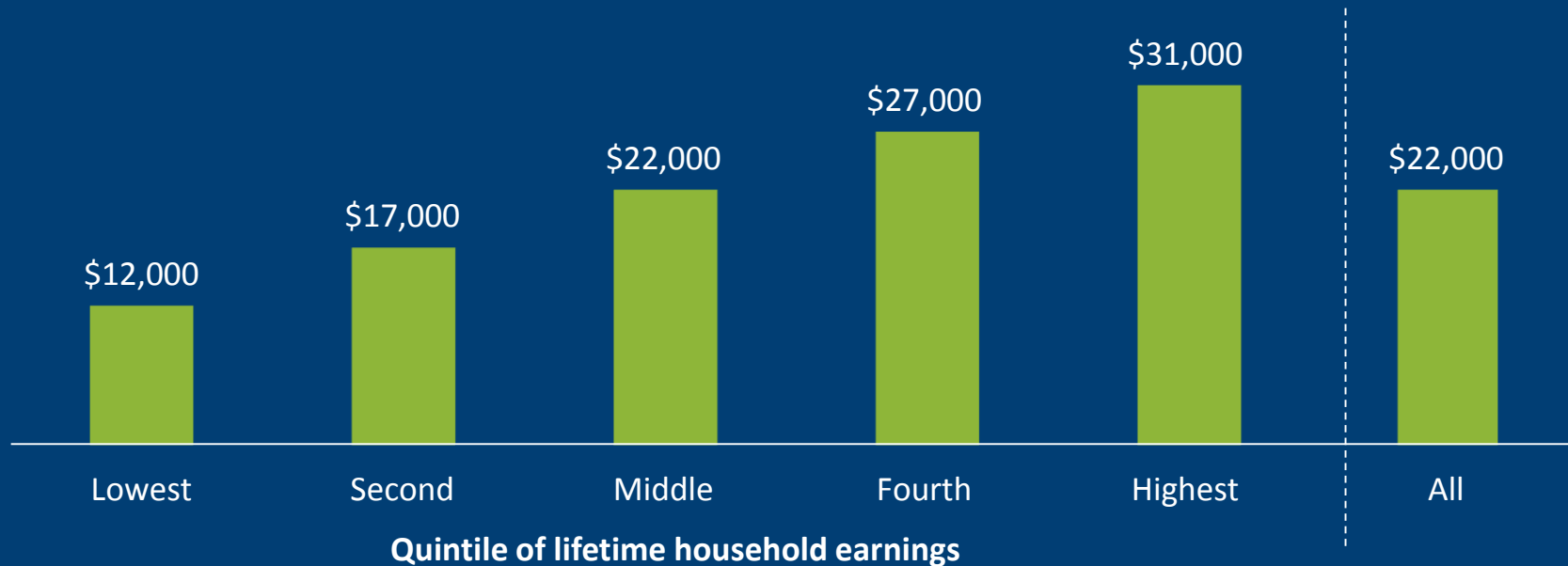
# The Retirement Resource Pyramid



Source: Investment Company Institute; see Brady, Burham, and Holden (2012)

# Social Security Benefits Per Worker Increase with Earnings

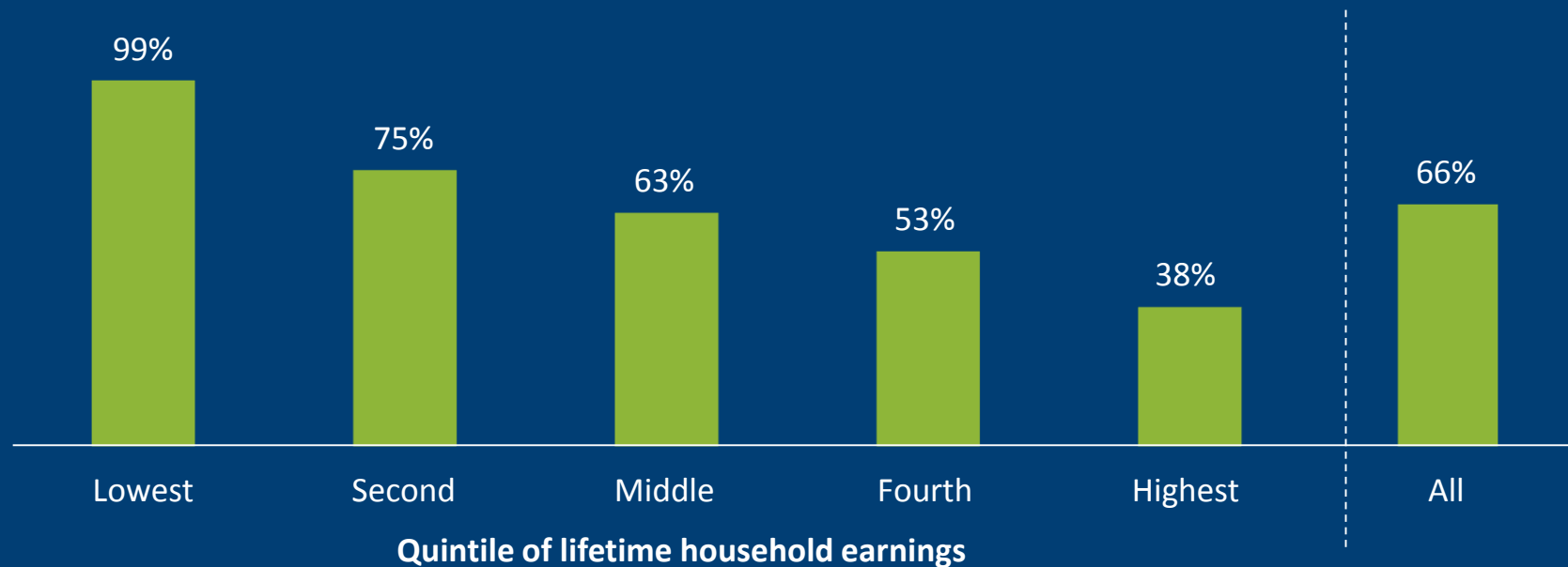
*Average projected annual Social Security benefits, net of income tax, for workers in the 1960s birth cohort if claimed at the full benefit retirement age (age 67), constant 2015 dollars*



Sources: Congressional Budget Office and Investment Company Institute

# Social Security Benefit Formula Is Progressive

*Average projected Social Security replacement rate (benefits net of income tax as percentage of average inflation-indexed earnings) for workers in 1960s birth cohort if claimed at the full benefit retirement age (age 67)*

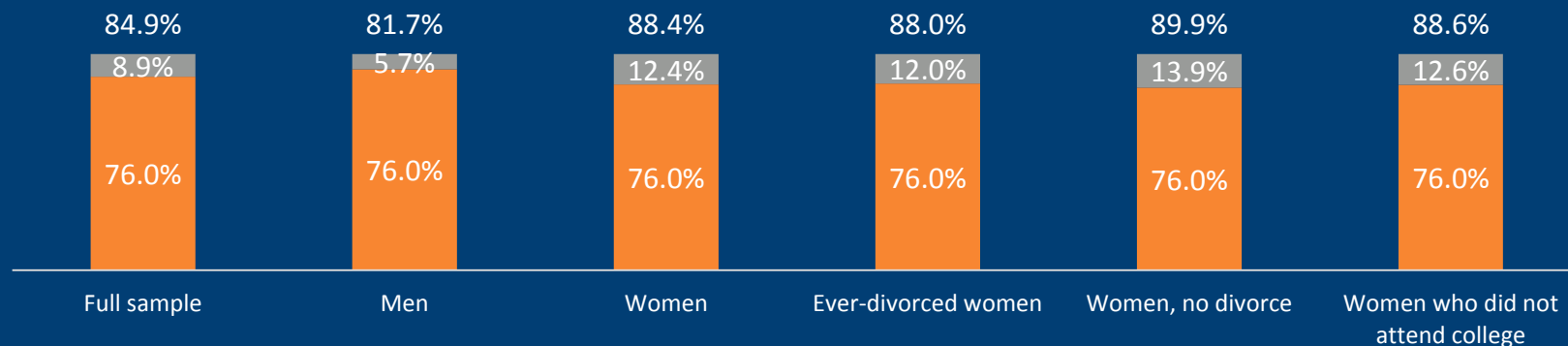


Sources: Congressional Budget Office and Investment Company Institute

# Waiting Until Age 70 to Claim Social Security Increases Benefits a Lot

*Cumulative percentage increase in Social Security retirement benefits from delaying retirement from age 62 to age 70*

- From primary insurance amount\*
- From actuarial adjustment

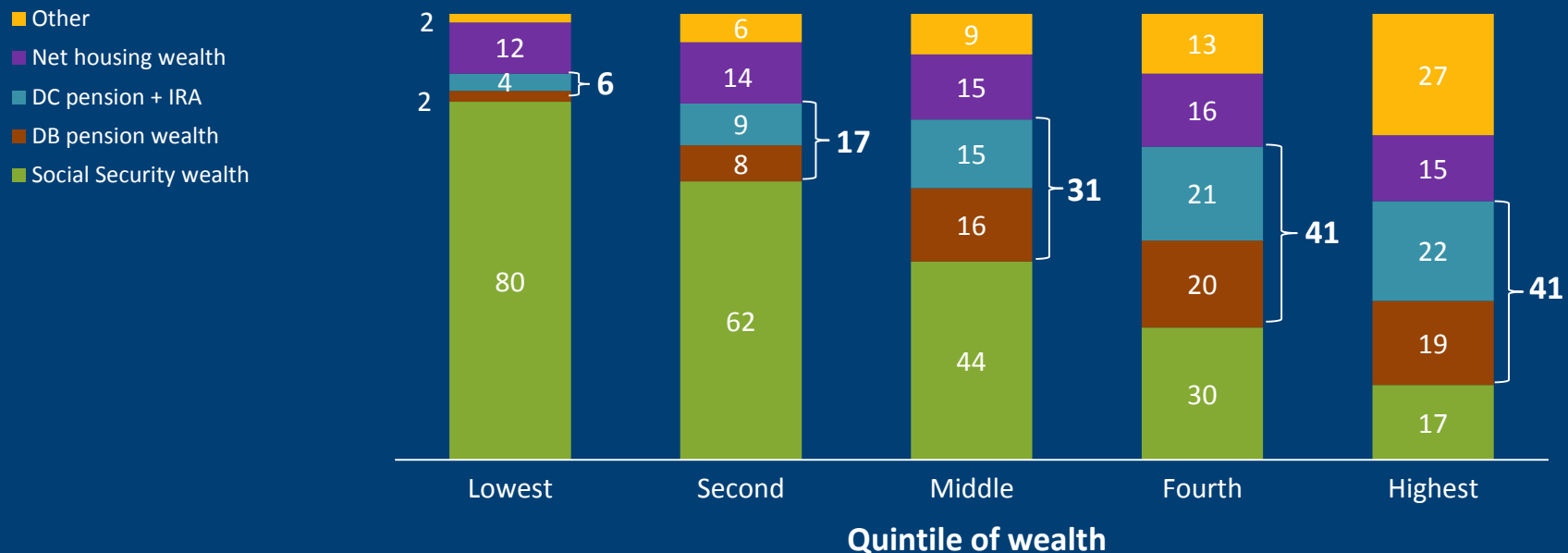


\*The primary insurance amount uses the earnings from the years worked; replacing a zero-year increases this amount.

Source: Boston College Center for Retirement analysis of Health and Retirement Study (HRS), 1992–2012 linked to SSA Respondent Cross-Year Summary Earnings File; see Rutledge and Lindner (2016)

# The Retirement Resource Pyramid Varies Across Households

Percentage of wealth by wealth quintile, households with at least one member age 57 to 62; excludes top and bottom 1 percent, 2010



Source: ICI tabulation derived from an updated Table 3 of Gustman, Steinmeier, and Tabatabai (2009)

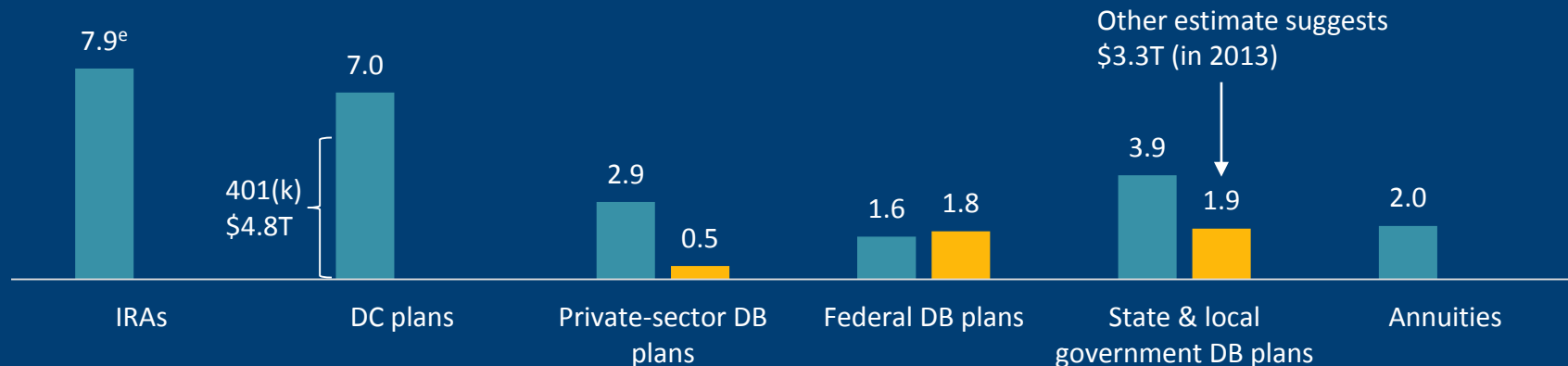


# US Retirement Assets and Unfunded DB Liabilities

Trillions of dollars; year-end 2016

■ Assets (\$25.3 trillion)

■ Unfunded liabilities (\$4.2 trillion)

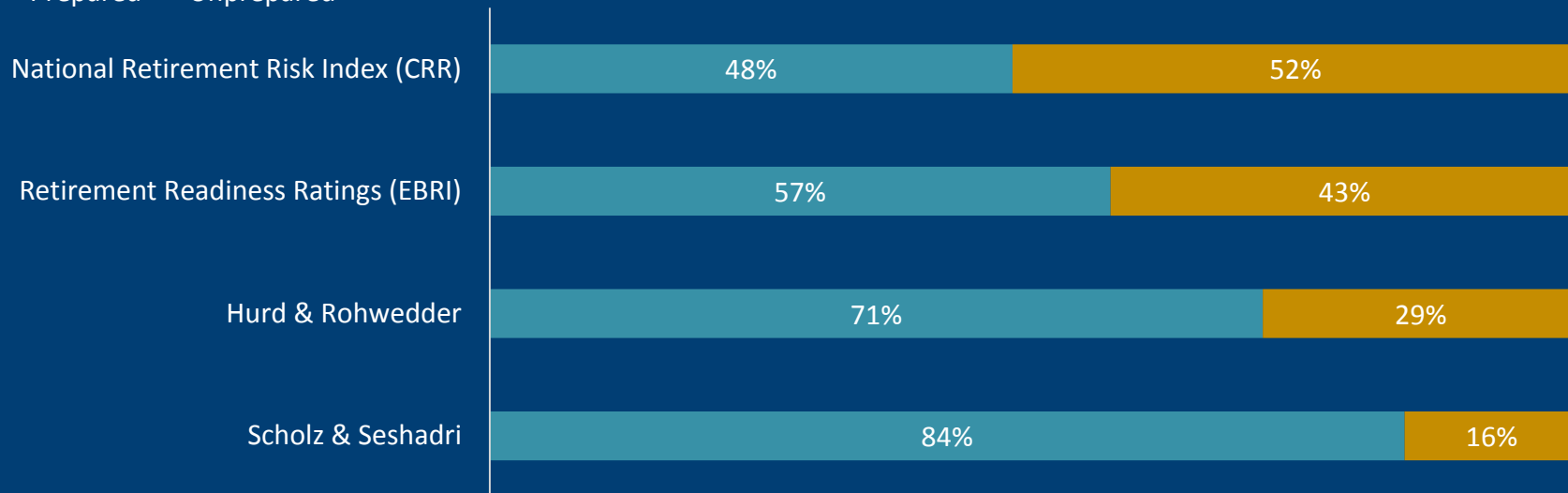


Note: For definitions of plan categories and a complete list of data sources, see Tables 1, 2, and 5 in "The U.S. Retirement Market, Fourth Quarter 2016." Some data are estimated. Components may not add to the total because of rounding.

Sources: Investment Company Institute and Federal Reserve Board (see Investment Company Institute, "The US Retirement Market, Fourth Quarter 2016" (2017) and Rauh (2015)

# How Prepared Are Americans? Four Estimates Show a Range of Views

■ Prepared ■ Unprepared



Note: The results of all four studies are sensitive to assumptions. The chart shows the headline results for the first three studies and representative results from a series of papers for the fourth.

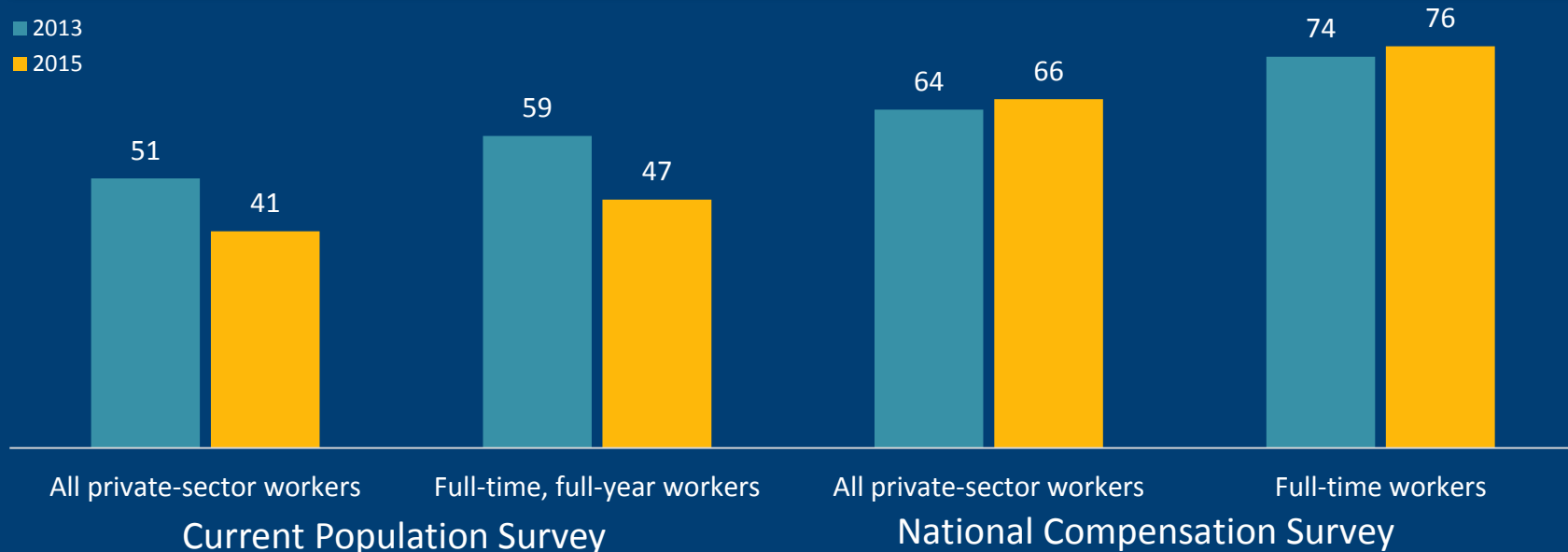
Source: Based on presentation by Utkus, “Four Views of Retirement Preparation” at the 2014 ICI Retirement Summit: A Close Look at Retirement Preparedness in America ([www.ici.org/events/retirement\\_summit](http://www.ici.org/events/retirement_summit)); discussed in [www.ici.org/viewpoints/view\\_14\\_four\\_studies](http://www.ici.org/viewpoints/view_14_four_studies)

# Many Factors Influence Retirement Plan Coverage

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# The Most Widely Used Data Understate Retirement Plan Coverage—and Have Gotten Worse

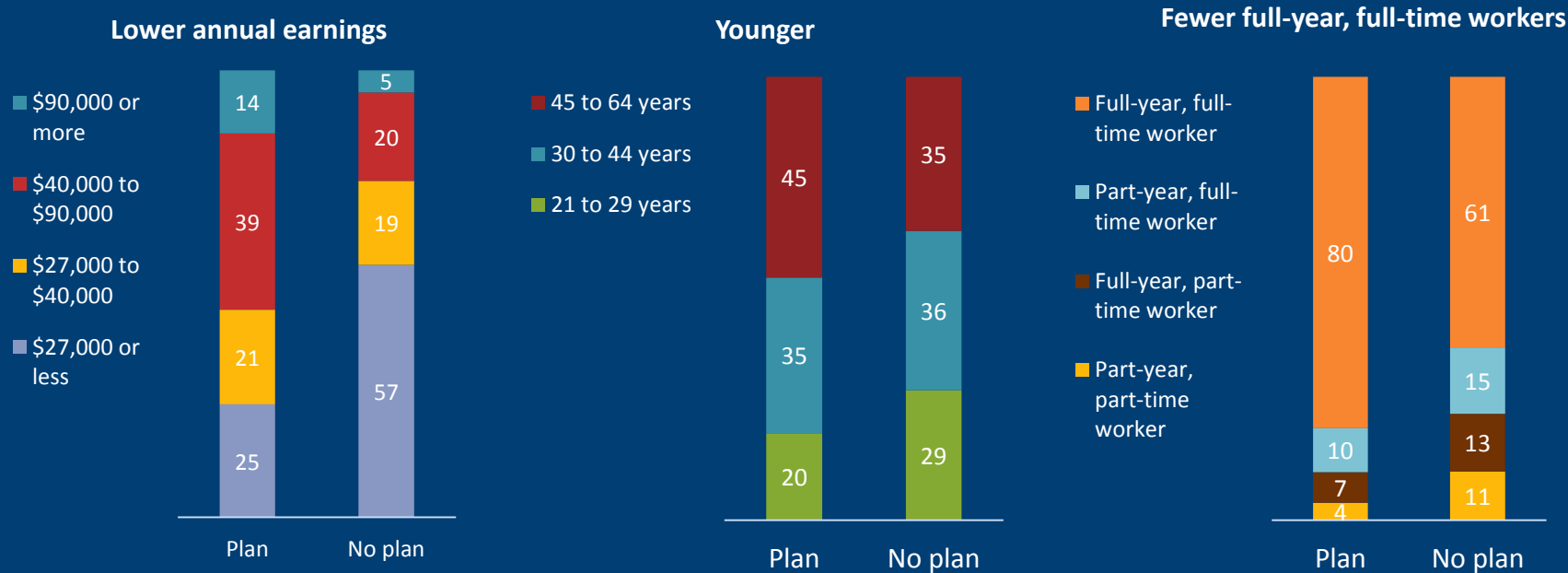
*DB and/or DC plan coverage; percentage of private-sector wage and salary workers, 2013 and 2015*



Sources: Bureau of Labor Statistics National Compensation Survey and Investment Company Institute tabulations of Current Population Survey

# Workforces Differ at Employers That Sponsor Retirement Plans and Those That Don't

Percentage of private-sector workers aged 21 to 64 by retirement plan coverage, 2013



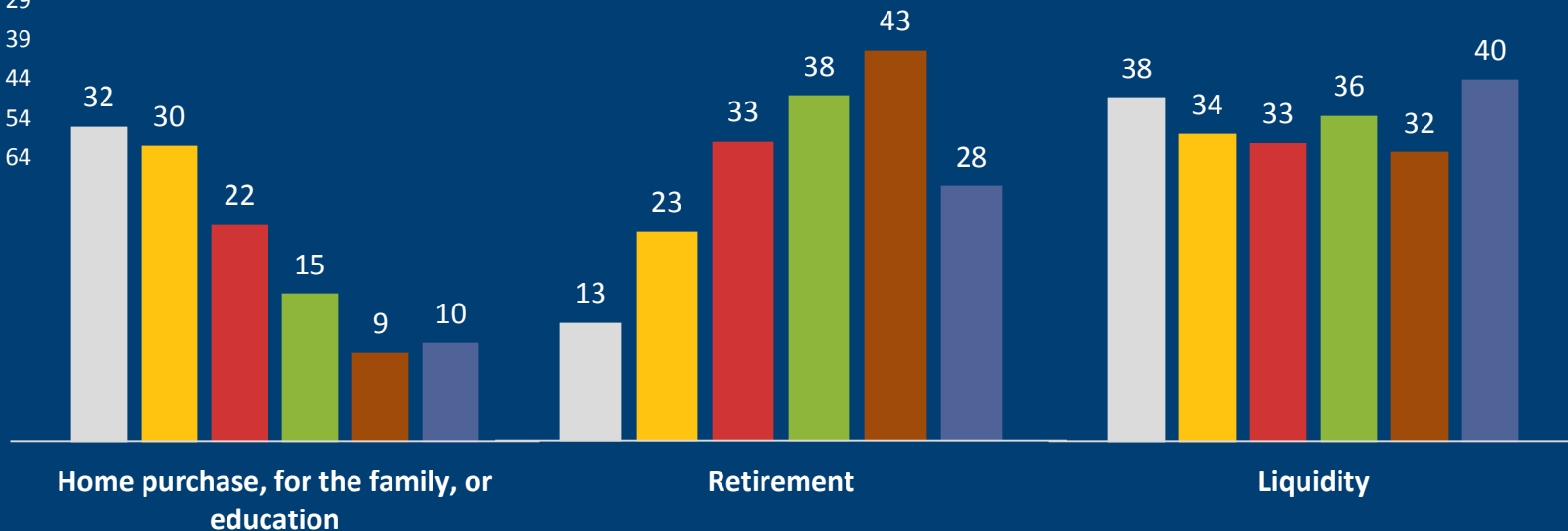
Source: Investment Company Institute tabulations of March 2014 Current Population Survey; see Brady and Bogdan (2014)

# Savings Goals Tend to Change over the Life Cycle

Primary reason for saving; percentage of households by age of household head, 2013

Age of head of household

- 21 to 29
- 30 to 39
- 40 to 44
- 45 to 54
- 55 to 64
- 65+

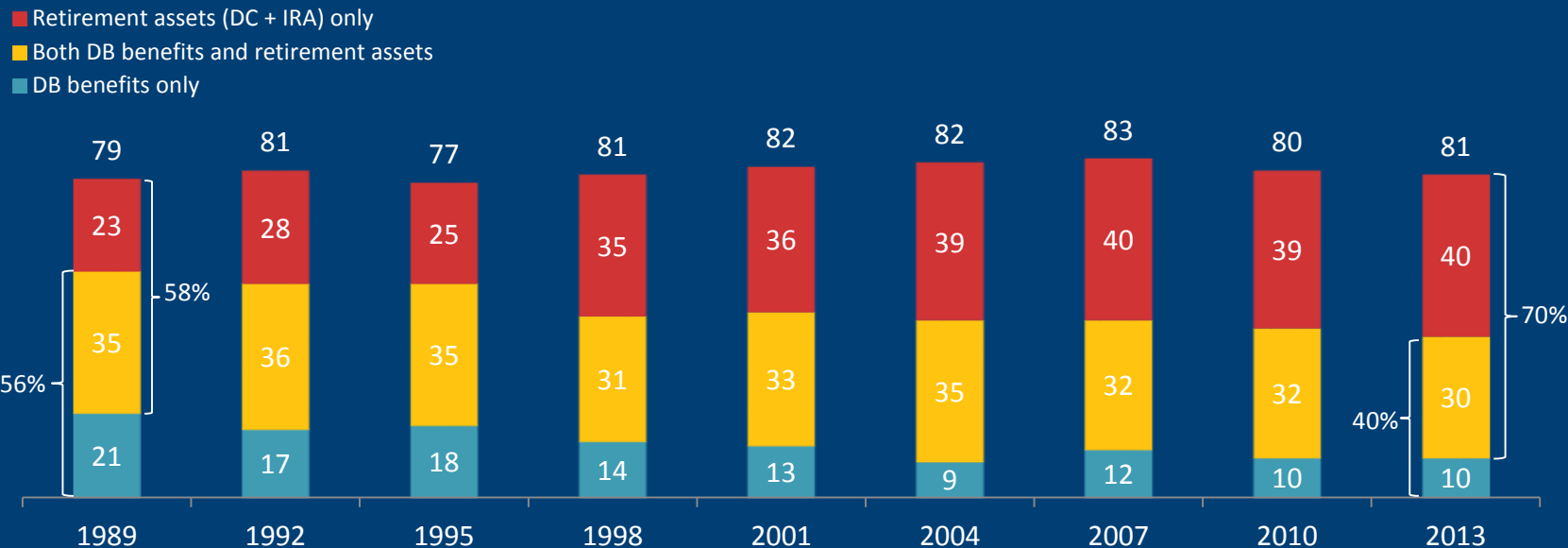


Note: Age group percentages do not add to 100 percent because other savings goals (purchases, investment, no reason, can't save) are not plotted.

Source: Investment Company Institute tabulations of the 2013 Federal Reserve Board Survey of Consumer Finances

# About Eight in 10 Near-Retiree Households Have Retirement Accumulations

Percentage of households with head aged 55 to 64 and head or spouse working, 1989–2013



Source: ICI tabulations of the Survey of Consumer Finances

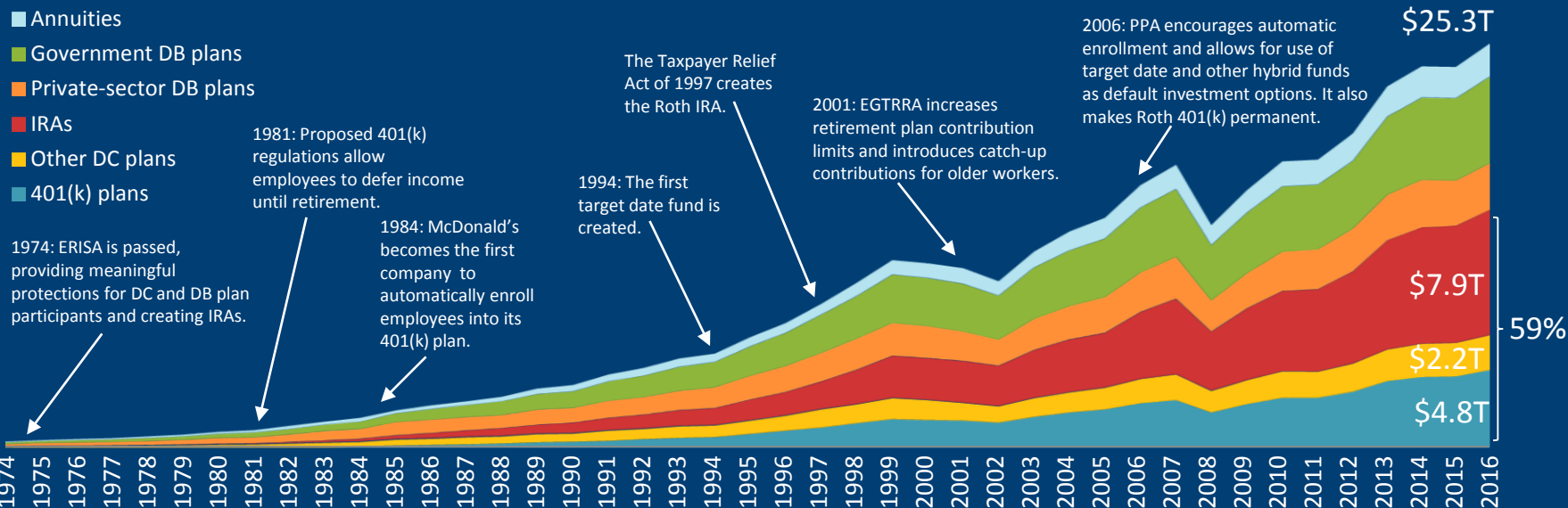
# Promoting Retirement Saving in the Evolving US Retirement System

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# Account-Based Saving Has Risen in Importance in the US Retirement System

US retirement assets and ICI summary of events and legislative changes, 1974–2016

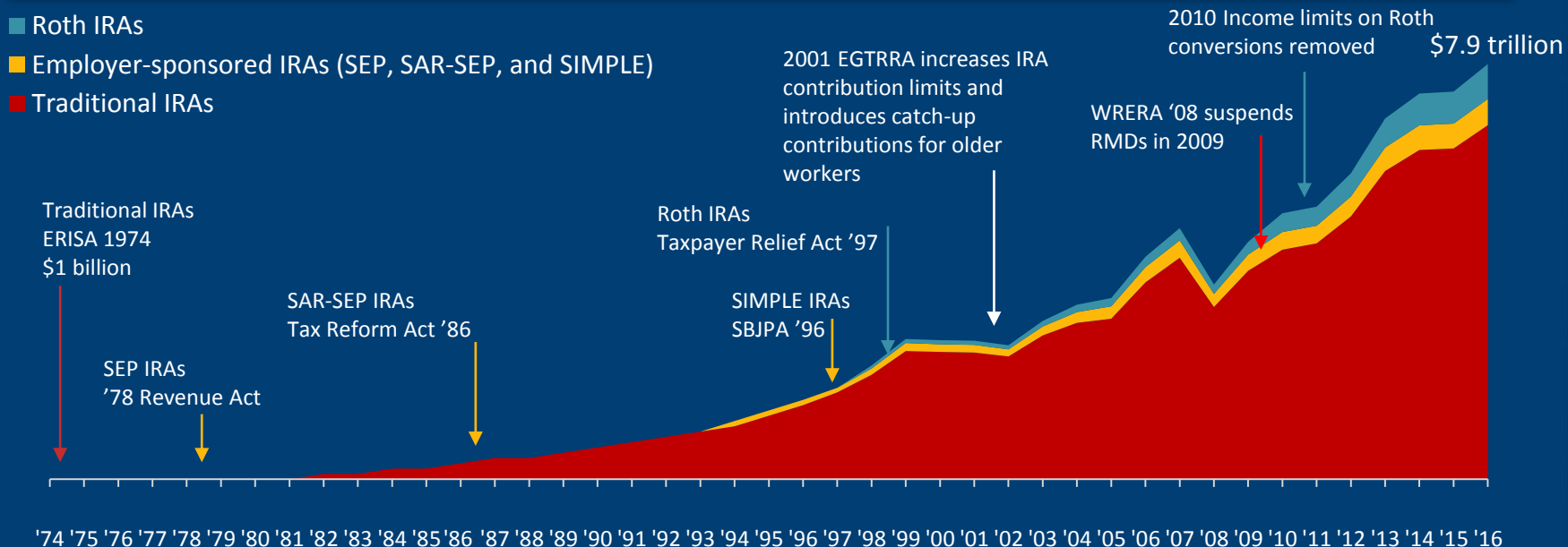


Note: For definitions of plan categories and a complete list of data sources, see Tables 1 and 5 in "The US Retirement Market, Fourth Quarter 2016." Some data are estimated.  
Sources: Investment Company Institute summary of events and legislative changes, and Investment Company Institute, "The US Retirement Market, Fourth Quarter 2016" (2017)

# History of IRAs

Trillions of dollars, assets, 1974–2016

- Roth IRAs
- Employer-sponsored IRAs (SEP, SAR-SEP, and SIMPLE)
- Traditional IRAs

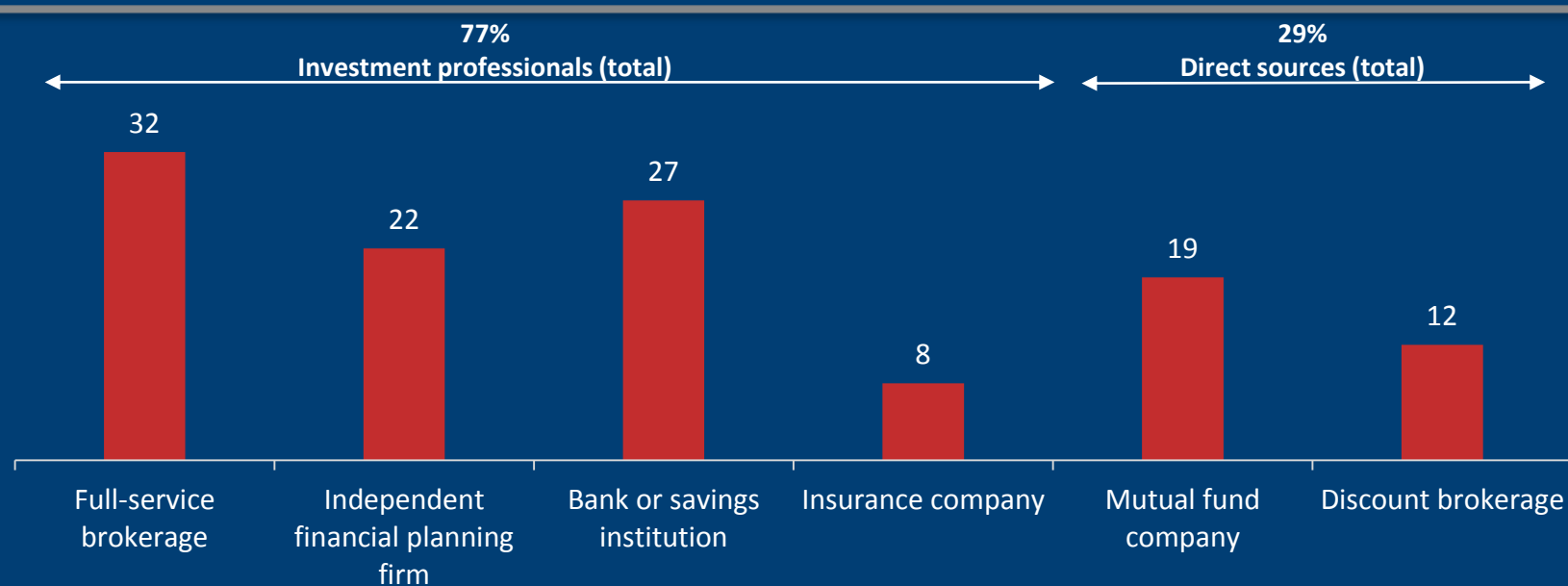


Note: Some data are estimated.

Sources: Investment Company Institute and Internal Revenue Service Statistics of Income Division Office; see Investment Company Institute, "The U.S. Retirement Market, Fourth Quarter 2016" (2017)

# Traditional IRAs Are Held at a Variety of Financial Services Firms

Percentage of households owning traditional IRAs, mid-2016



Note: Multiple responses are included.  
 Source: Investment Company Institute IRA Owners Survey; see Holden and Schrass (2017)

# Americans Appreciate Retirement Plan Features

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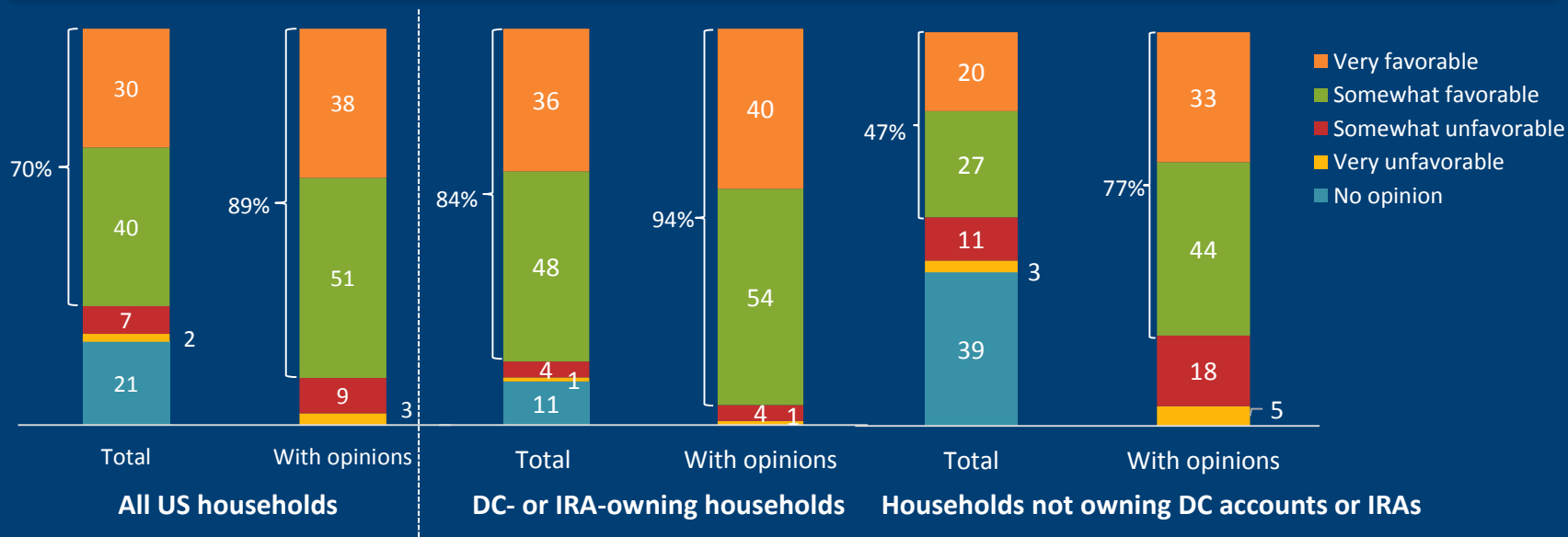
# Annual Survey Gathers Views on DC Plans

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- » Designed by ICI staff
- » Administered by the GfK Group using the KnowledgePanel®, a proprietary, probability-based web panel
- » Survey was fielded in December 2016
- » 2,027 US adults responded
- » Responses were weighted to be representative of US households by age, income, region, and education level

# Households Have Favorable Opinions of DC Plans

Percentage of US households by ownership status, fall 2016

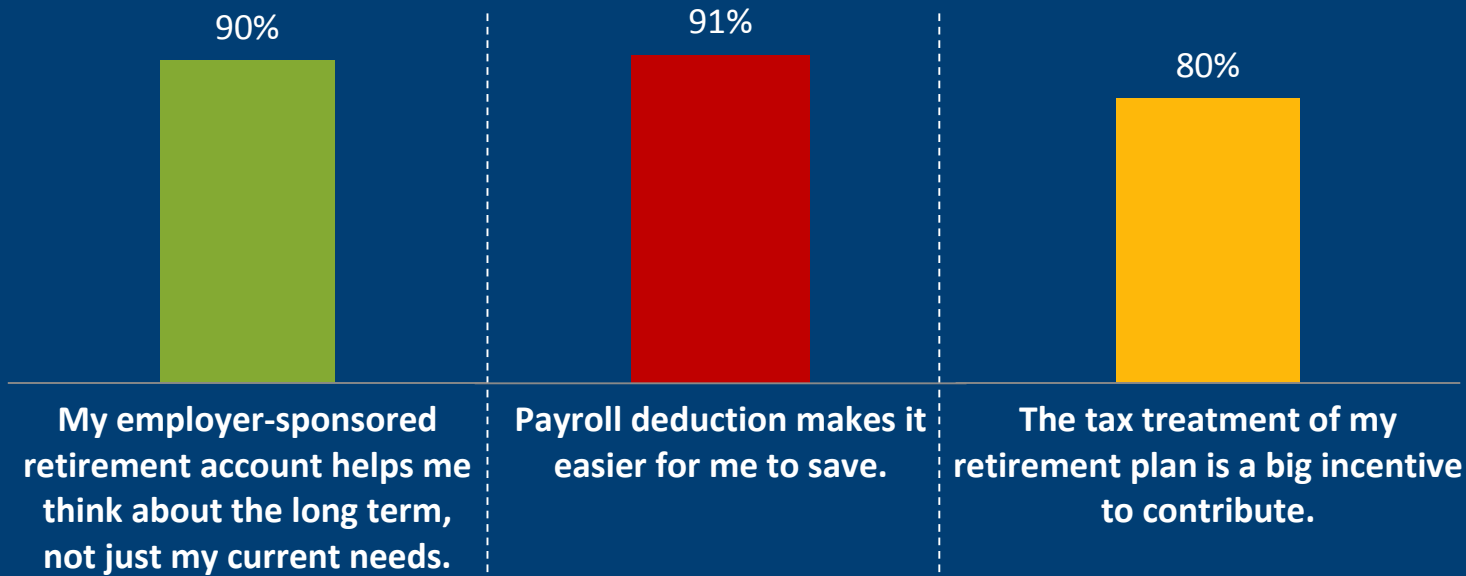


Note: Components may not add to 100 percent because of rounding.

Source: ICI tabulation of GfK KnowledgePanel® OmniWeb survey data (fall 2016); see “American Views on Defined Contribution Plan Saving, 2016,” *ICI Research Report* (February 2017)

# DC Plan Savers Appreciate DC Account Savings Features

Percentage of DC-owning households agreeing with each statement, fall 2016

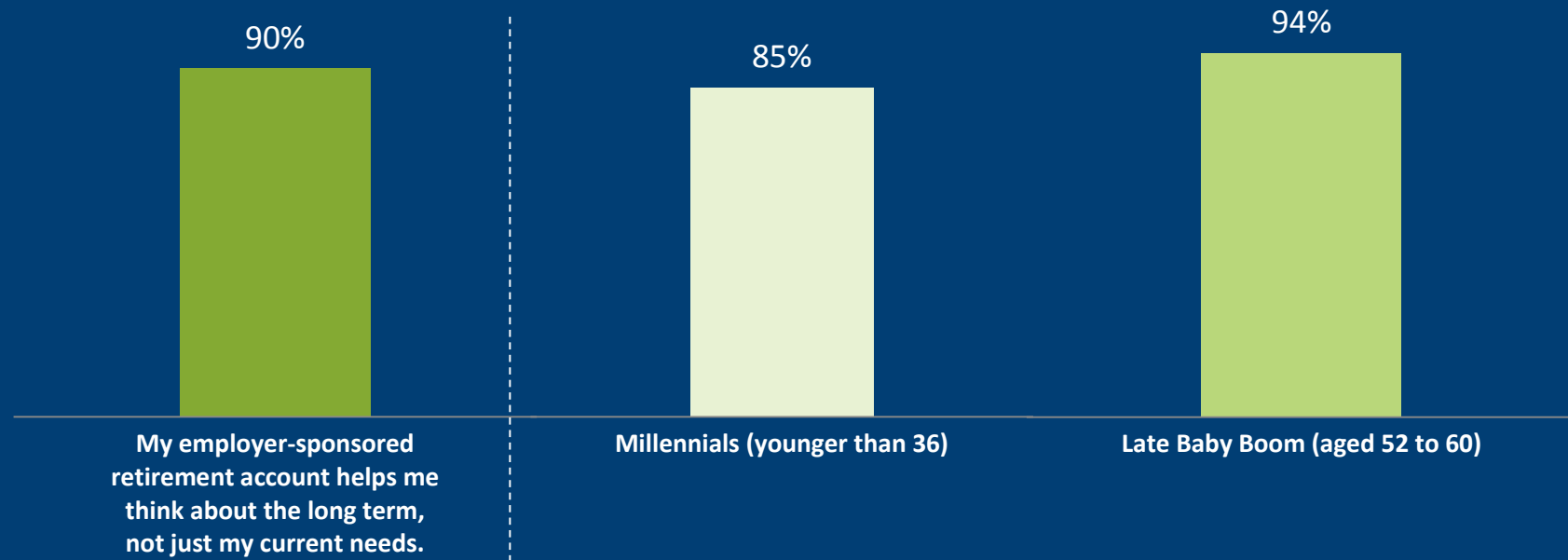


Note: Figure reports the percentage of DC-owning households who “strongly agreed” or “somewhat agreed” with the statement.

Source: ICI tabulation of GfK KnowledgePanel® OmniWeb survey data (fall 2016); “American Views on Defined Contribution Plan Saving, 2016,” *ICI Research Report* (February 2017)

# Older Generations Are More Likely to Agree That DC Account Savings Features Help Them to Save

*Percentage of DC-owning households agreeing with the statement, fall 2016*



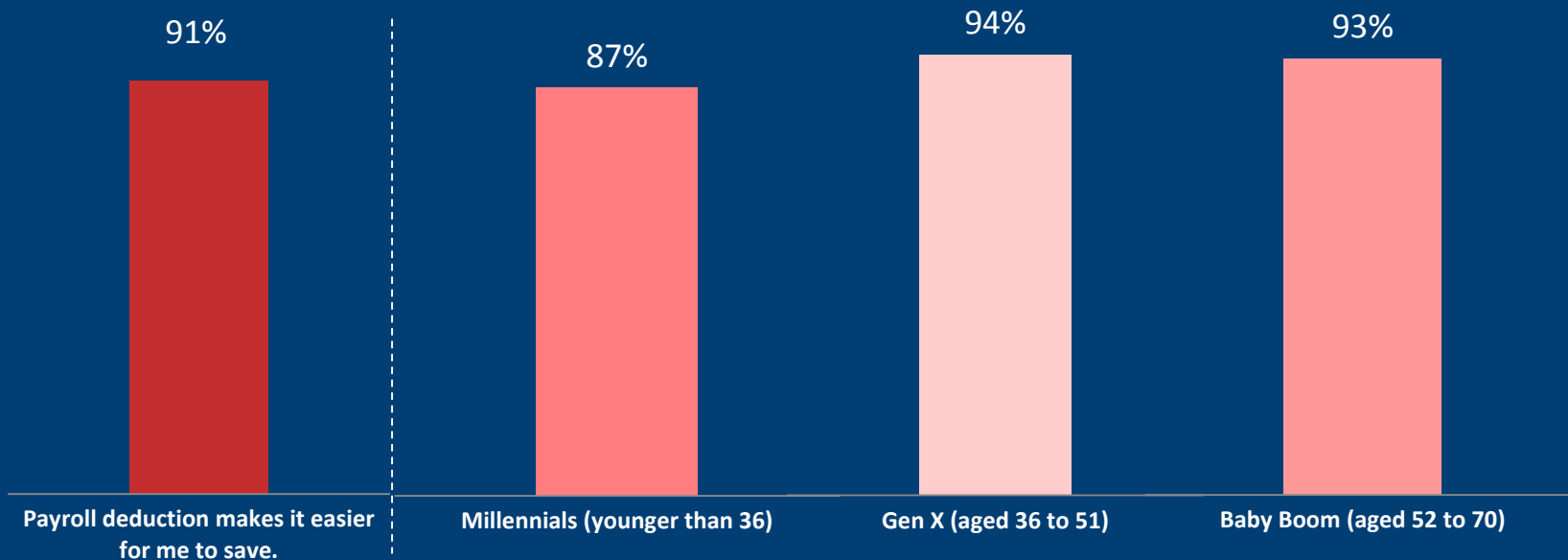
Note: Figure reports the percentage of DC-owning households who “strongly agreed” or “somewhat agreed” with the statement.

Source: ICI tabulation of GfK KnowledgePanel® OmniWeb survey data (fall 2016); “American Views on Defined Contribution Plan Saving, 2016,” *ICI Research Report* (February 2017)



# Older Generations Are More Likely to Agree That Payroll Deduction Helps Them to Save

*Percentage of DC-owning households agreeing with the statement, fall 2016*

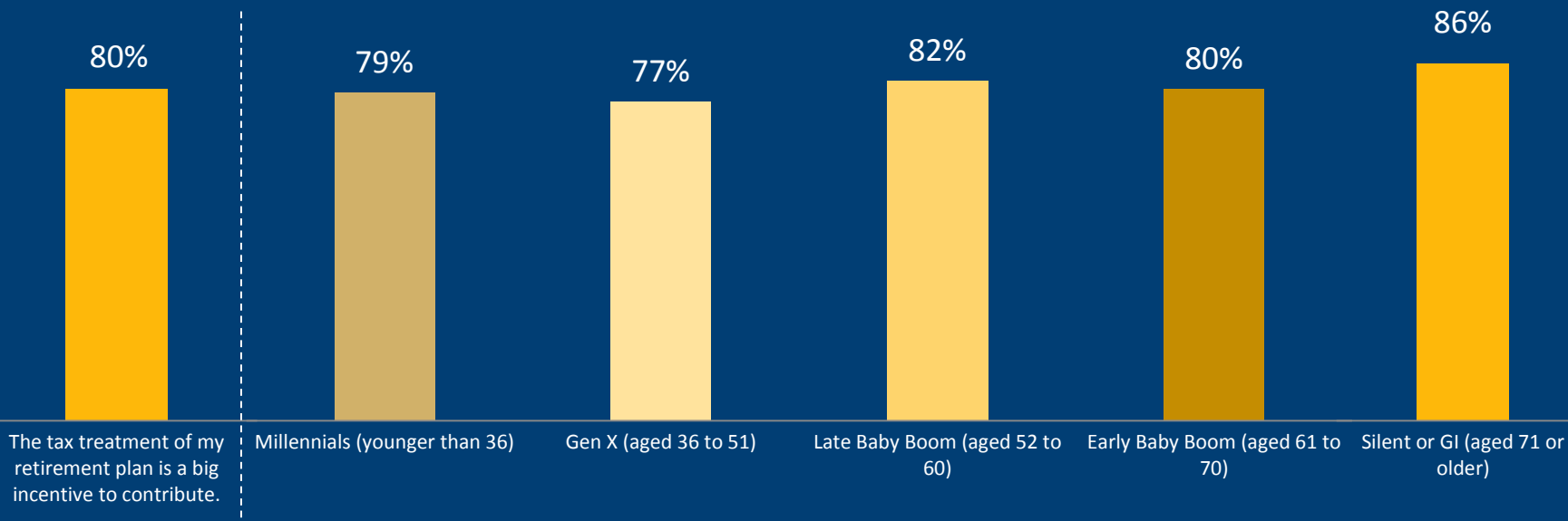


Note: Figure reports the percentage of DC-owning households who “strongly agreed” or “somewhat agreed” with the statement.

Source: ICI tabulation of GfK KnowledgePanel® OmniWeb survey data (fall 2016); “American Views on Defined Contribution Plan Saving, 2016,” ICI Research Report (February 2017)

# Most Generations Have Similar Appreciation of the Tax Treatment of Their DC Accounts

*Percentage of DC-owning households agreeing with the statement, fall 2016*

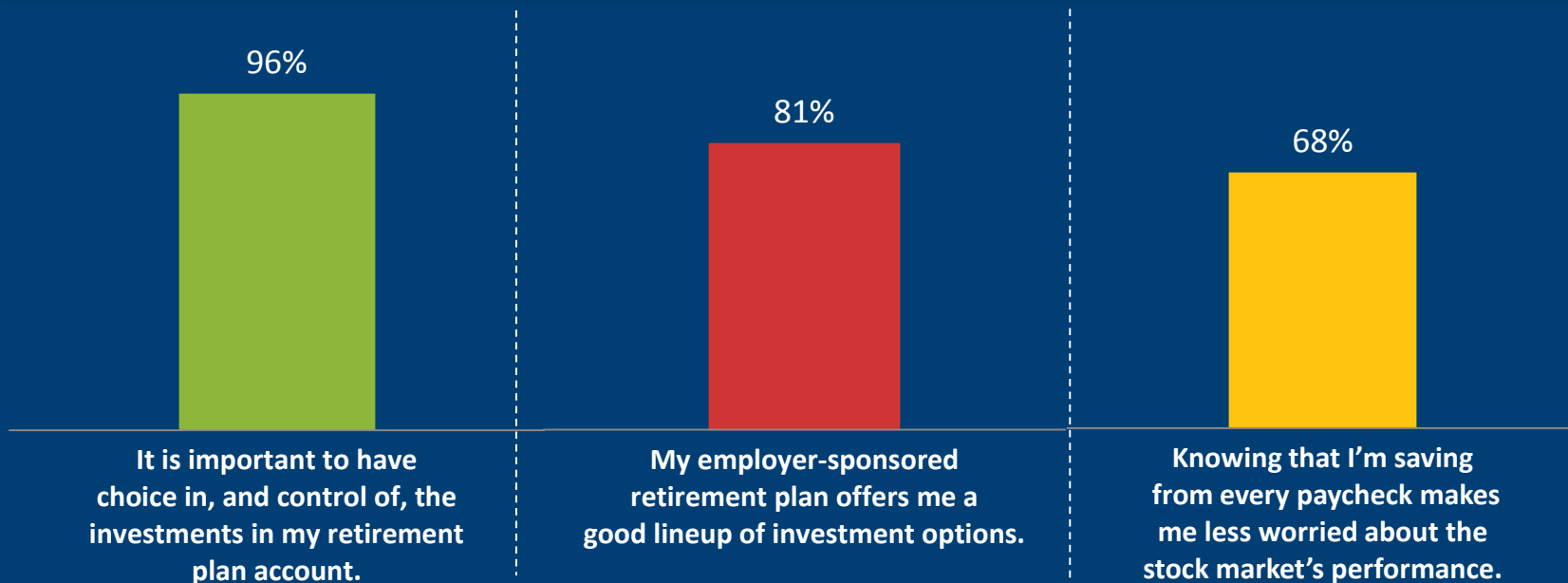


Note: Figure reports the percentage of DC-owning households who “strongly agreed” or “somewhat agreed” with the statement.

Source: ICI tabulation of GfK KnowledgePanel® OmniWeb survey data (fall 2016); “American Views on Defined Contribution Plan Saving, 2016,” ICI Research Report (February 2017)

# DC Plan Savers Appreciate DC Account Investment Features

Percentage of DC-owning households agreeing with each statement, fall 2016



Note: Figure reports the percentage of DC-owning households who "strongly agreed" or "somewhat agreed" with the statement.

Source: ICI tabulation of GfK KnowledgePanel® OmniWeb survey data (fall 2016); see "American Views on Defined Contribution Plan Saving, 2016," *ICI Research Report* (February 2017)

# Large Majorities of Americans Want to Keep DC Plan Tax Features

Percentage of US households disagreeing or agreeing by ownership status, fall 2016

■ Disagree ■ Agree

## The government should take away the tax advantages of DC accounts



## The government should reduce the amount that individuals can contribute to DC accounts



Source: ICI tabulation of GfK KnowledgePanel® OmniWeb survey data (fall 2016); see "American Views on Defined Contribution Plan Saving, 2016," ICI Research Report (February 2017)

# Large Majorities of Americans Want to Keep DC Plan Investment Features

Percentage of US households disagreeing or agreeing by ownership status, fall 2016

■ Disagree ■ Agree

**The government should not allow individuals to make their own investment decisions in DC accounts**



**The government should invest all retirement accounts in an investment option selected by a government-appointed board of experts**



Source: ICI tabulation of GfK KnowledgePanel® OmniWeb survey data (fall 2016); see “American Views on Defined Contribution Plan Saving, 2016,” ICI Research Report (February 2017)

# Large Majorities of Americans Want to Keep Retirement Income Flexibility

Percentage of US households disagreeing or agreeing by ownership status, fall 2016

■ Disagree ■ Agree

**The government should require retirees to trade a portion of their retirement plan accounts for a fair contract that promises to pay income for life from an insurance company**



**The government should require retirees to trade a portion of their retirement plan accounts for a fair contract that promises to pay income for life from the government**



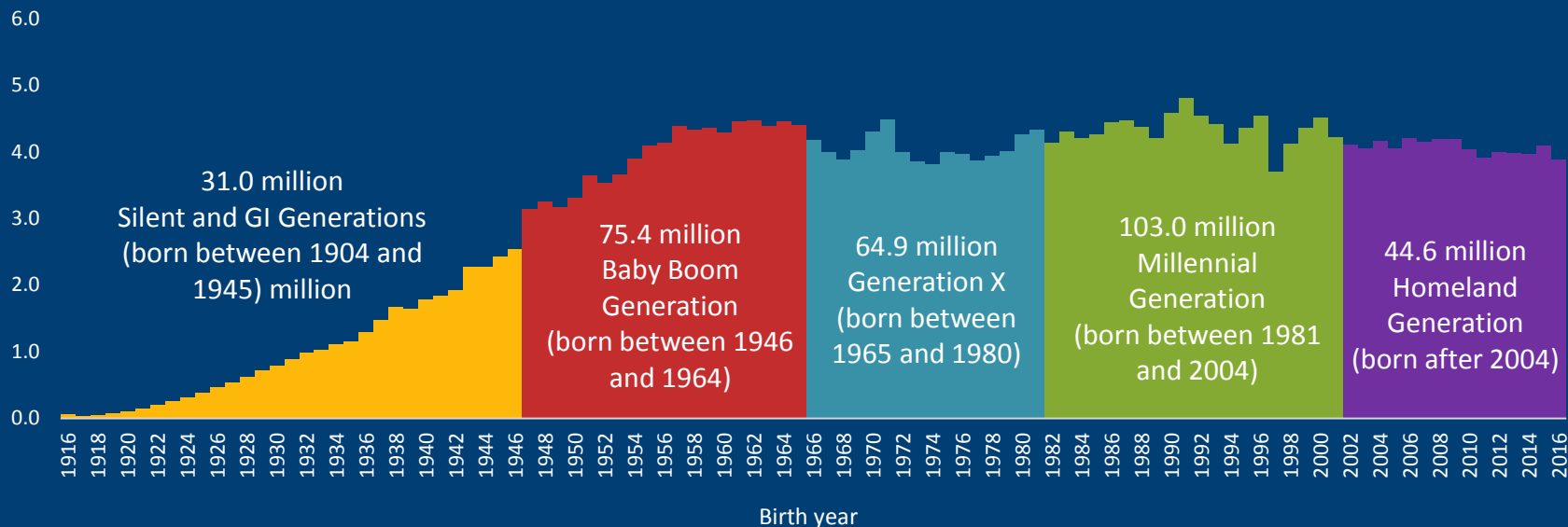
Source: ICI tabulation of GfK KnowledgePanel® OmniWeb survey data (fall 2016); see “American Views on Defined Contribution Plan Saving, 2016,” ICI Research Report (February 2017)

# Demographic Trends Will Impact Retirement Savings

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# Millennials Are the Largest Generation

Millions of persons by birth year, 2016

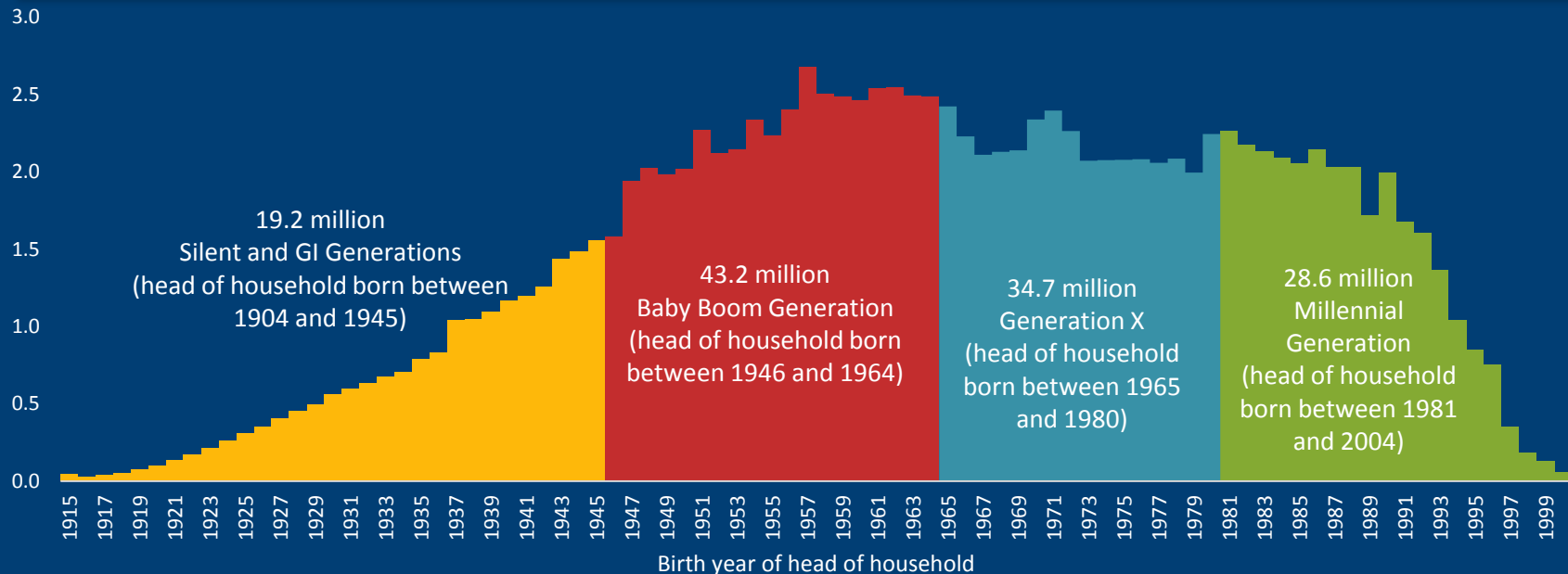


Note: In 2016, there were 318.9 million persons in the United States.  
 Source: ICI tabulations of the US Census Bureau's Current Population Survey



# Millennials Head About One-Fifth of US Households

Millions of US households within each generation group, 2016

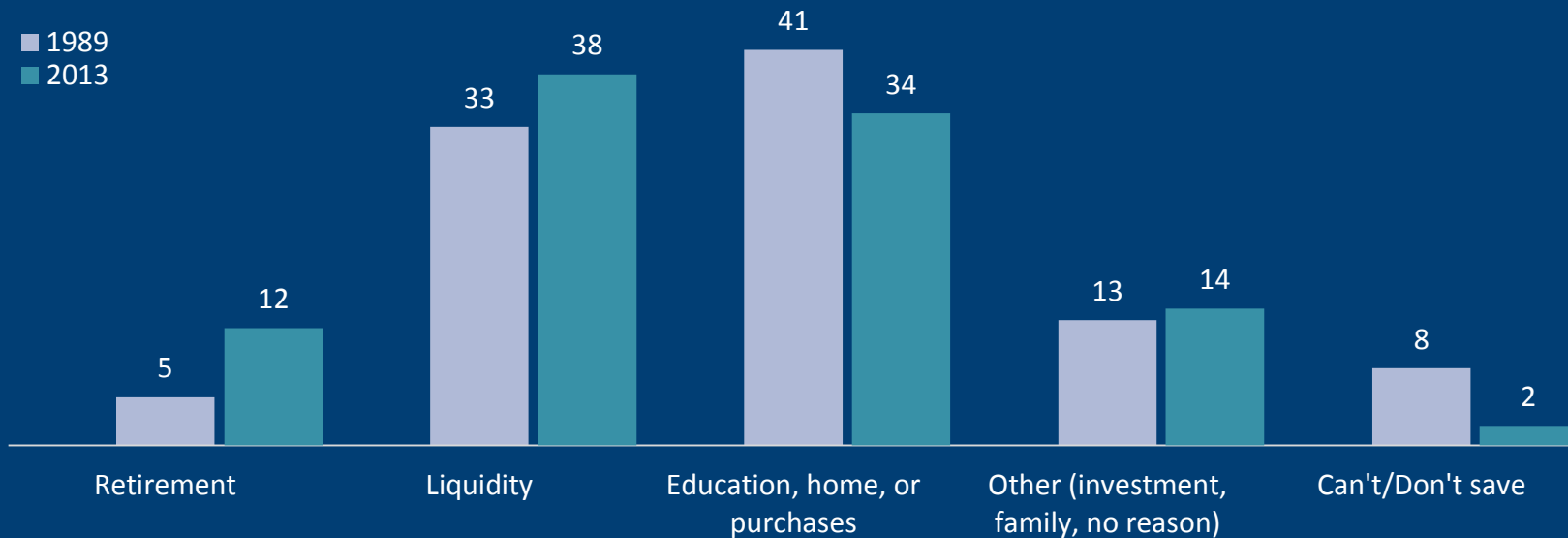


Note: In 2016, there were 125.8 million US households. Components do not add to the total because of rounding.

Source: Investment Company Institute tabulations of the US Census Bureau's Current Population Survey; see Holden, Schrass, and Bogdan (2016)

# Millennials Are More Focused on Retirement for Their Age

Primary reasons for family saving; percentage of households in their 20s, 1989 and 2013

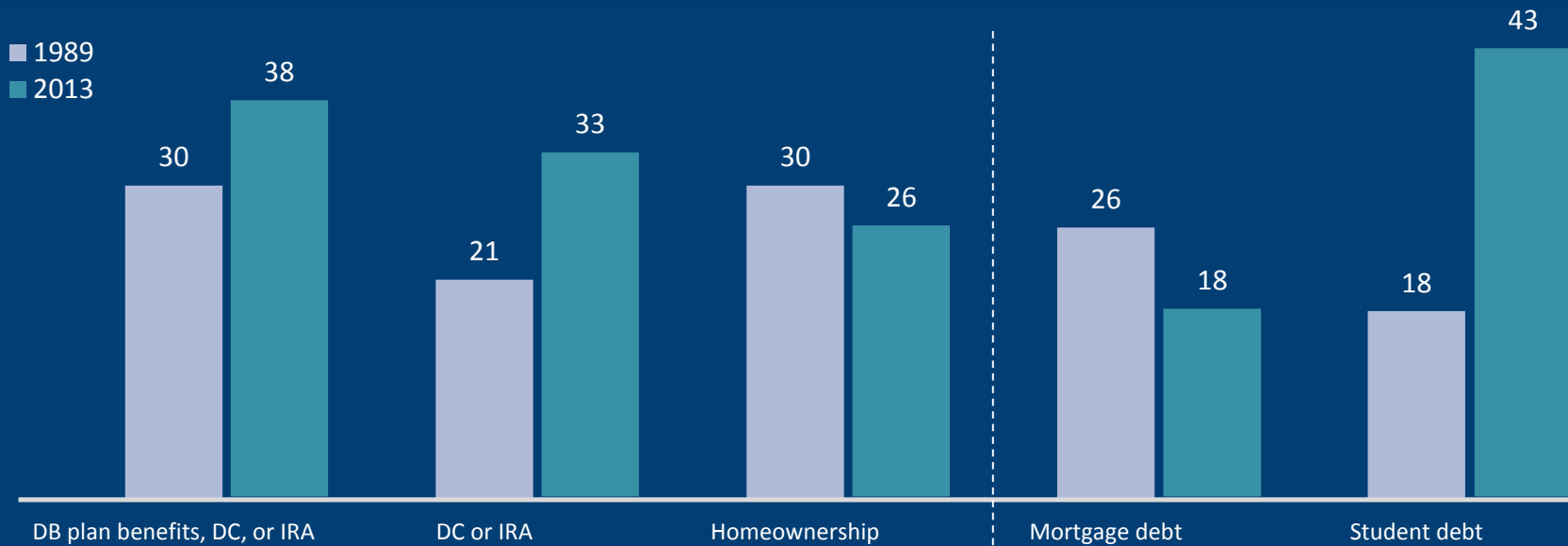


Note: Age is based on the age of the head of household.

Source: Investment Company Institute tabulations of Federal Reserve Board Survey of Consumer Finances

# For Their Age, More Millennials Have Retirement Assets—and Student Debt

*Incidence; percentage of households in their 20s, 1989 and 2013*



Note: Age is based on the age of the head of household.

Source: Investment Company Institute tabulations of Federal Reserve Board Survey of Consumer Finances

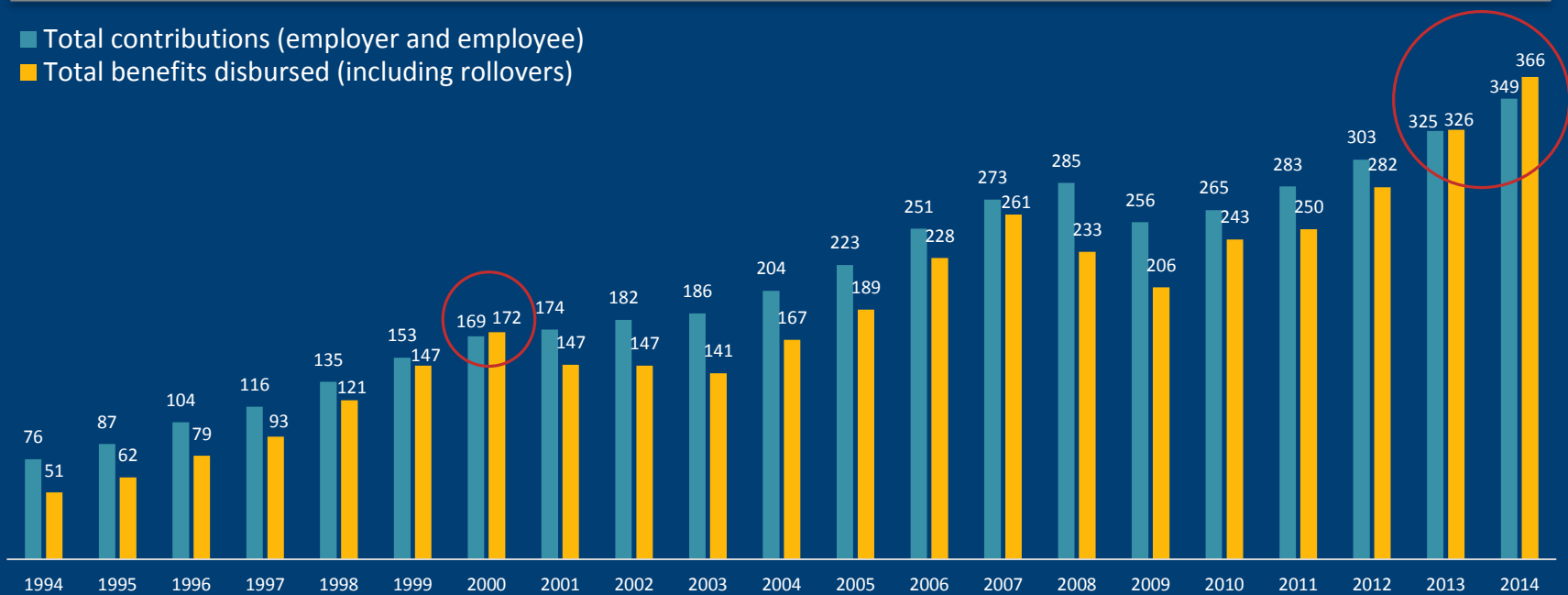
# Demographics Affect 401(k) and IRA Markets Differently

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- » 401(k) plans experience two competing demographic forces
  - » Workers contributing during their careers
  - » Job changers and retirees making rollovers
- » IRAs experience three effects from two competing demographic forces
  - » Job changers and retirees making rollovers
  - » Aging IRA investors forced to take distributions (RMDs)
  - » Aging IRA investors choosing to take distributions

# 401(k) Plans Receive Significant Contributions

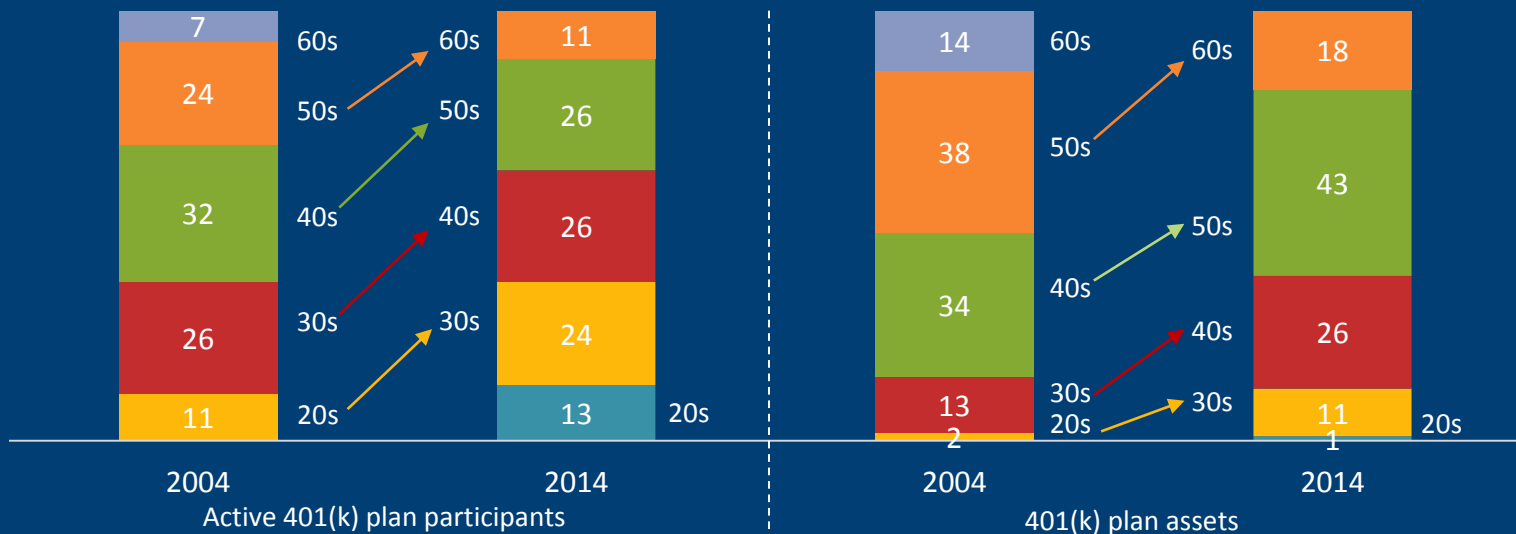
Billions of dollars; 1994–2014



Sources: Investment Company Institute and US Department of Labor; see Investment Company Institute, "The US Retirement Market, Fourth Quarter 2016" (2017)

# Millennials Can Expect Their 401(k) Plan Participation and Assets to Grow

Percentage of total, year-end 2004 and year-end 2014

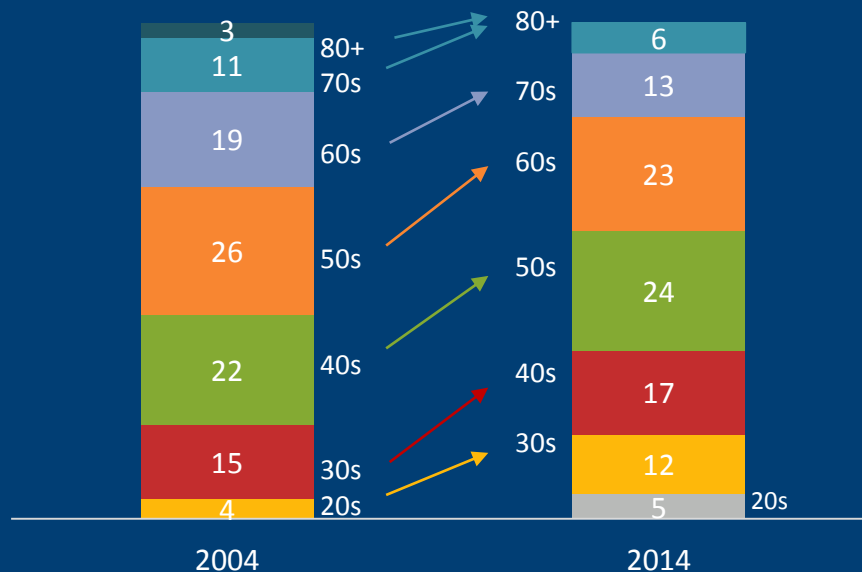


Note: Active 401(k) plan participants tend to range in age from 20 to 69; those few that are younger or older are excluded. Participants are grouped by age into 20s, 30s, 40s, 50s, and 60s.

Source: Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project

# IRA-Owning Taxpayers Are Aging

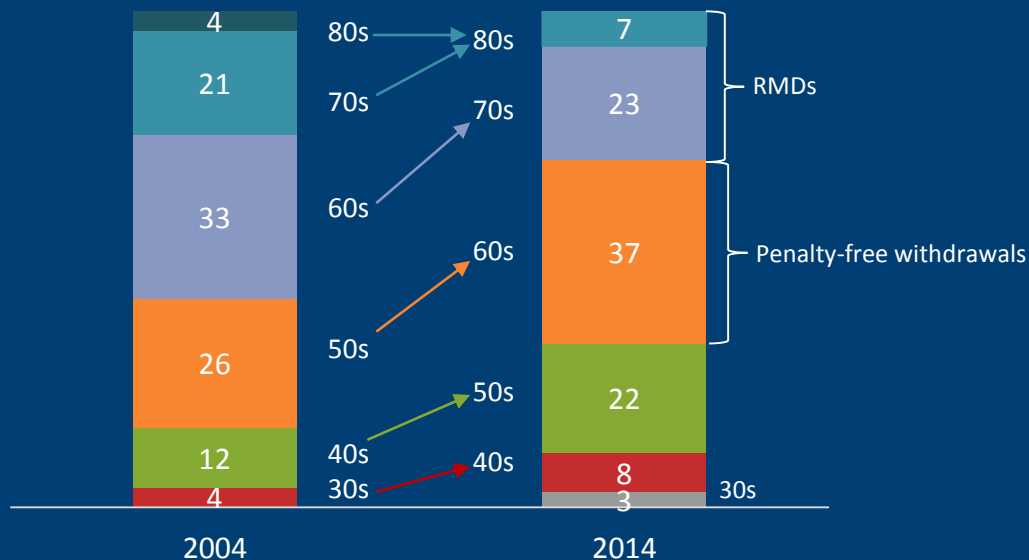
Percentage of IRA-owning taxpayers, year-end 2004 and year-end 2014



Note: A small number of IRA-owning taxpayers younger than 20 or missing an age variable are excluded.  
 Source: Tabulation of IRS Statistics of Income data; see Bryant (2008) and US Internal Revenue Service Statistics of Income (2016)

# 30 Percent of IRA Assets Already Entering RMD

Percentage of total IRA assets, year-end 2004 and year-end 2014



Note: A small number of IRA-owning taxpayers younger than 20 or missing an age variable are excluded.  
 Source: Tabulation of IRS Statistics of Income data; see Bryant (2008) and US Internal Revenue Service Statistics of Income (2016)



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Bureau of Labor Statistics. "Table 2. Retirement benefits: Access, participation, and take-up rates, private industry workers, National Compensation Survey, March 2015." [www.bls.gov/ncs/ebs/benefits/2015/ownership/private/table02a.pdf](http://www.bls.gov/ncs/ebs/benefits/2015/ownership/private/table02a.pdf)

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