THE UNFOLDING AMERICAN RETIREMENT CRISIS

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LONGEVITY GAINS HAVE GONE MOSTLY TO THE TOP

Longevity Gains Between 1920 and 1940 Male Birth Cohorts

LONGEVITY GAINS HAVE GONE MOSTLY TO WHITES (1950 and 2013)

- Black Men: 3.4
- Black Women: 4.6
- White Men: 5.2
- White Women: 5.4
INEQUALITY IN RETIREMENT TIME IS A NEW DEVELOPMENT

Because Some Do Not Live a Normal Human Lifespan, they have less retirement time

- **WOMEN**
  - High SES: 19.7
  - Low SES: 15.9

- **MEN**
  - High SES: 14.3
  - Low SES: 12.6
SOCIAL SECURITY MATTERS MOST FOR ALL BUT THE TOP SOURCES OF INCOME TO THOSE OVER 65

- **Bottom 20%**
  - Social Security: 83
  - Pensions: 14
  - Other Wealth: 3

- **Middle 20%**
  - Social Security: 65
  - Pensions: 17
  - Other Wealth: 18

- **Highest 20%**
  - Social Security: 16
  - Pensions: 16
  - Other Wealth: 68
HOW THE RETIREMENT SYSTEM WORKS

Private Assets and Work

Workplace Retirement Plans

Social Security Benefits

Workplace Plans are Eroding
### THE RETIREMENT SYSTEM HAS FAILED

<table>
<thead>
<tr>
<th>Income Category</th>
<th>Median Retirement Account Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bottom 50%</td>
<td>$0</td>
</tr>
<tr>
<td>Middle 40%</td>
<td>$60,000</td>
</tr>
<tr>
<td>Top 10%</td>
<td>$200,000</td>
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</tbody>
</table>

NONWHITE WORKERS HAVE EVEN LESS SAVED THAN WHITE PEERS

• Compared to white peers, nonwhite workers had significantly lower retirement savings:
  • African-Americans (-$16,977)
  • Asians (-$11,743 to -$41,979)
  • Hispanic nonwhites (-$8,280 to -$24,278)
THE SYSTEM WOULD WORK IF THIS IS HOW PEOPLE WORKED

Richard's Career

Pay raises every year, good match

Starts at 40K

Decides to work longer

Richard's Career

$40,000

$60,000

$80,000

$100,000

$120,000

$140,000

$160,000
WHAT A TYPICAL WORKER FACES IN THE AMERICAN LABOR MARKET

Joe's Career Trajectory

1. Starts at 40K
2. Laid off in New York moves to Chicago – cashes out plan
3. Lives Richard Thaler’s Dream in Chicago – raises every year and saves
4. Loses job in recession at 40 – finds one paying 10%
5. Wife leaves him takes half the pension, he is ok
6. But, can’t keep working

THE NEW SCHOOL
RELAB
WHAT POLICIES AND PRACTICES CAUSED THE CRISIS?

• Financialization

• Do-it-Yourself Approach
401(K)-STYLE PLANS REPLACED DEFINED BENEFIT PENSION PLANS

Percent of Households Aged 51-56 who have either DC Plans or DB Plans

- Defined Contribution Plan Only
- Defined Benefit Plan Only

1992: 20% Defined Contribution Plan Only, 44% Defined Benefit Plan Only
2010: 20% Defined Benefit Plan Only, 43% Defined Benefit Plan Only
PENSION TAX BREAKS GO MOSTLY TO THE TOP

Source: Congressional Budget Office (2013)
PROPOSED SOLUTIONS TO THE RETIREMENT CRISIS THAT WON’T WORK

1. Myth one: Older workers can save more.
2. Myth two: Older workers should work longer.
3. Myth three: Older workers should use their home equity as a source of retirement income.
JOB QUALITY IS DEGRADING FOR OLDER AMERICANS

1992 - 2008

-24%

79%

Easy Jobs
(Age 62-65)

Jobs requiring good eyesight
(Age 62-65)
AMERICANS ALREADY WORK MORE: THE U.S. RANKS AMONG THE LOWEST FOR WORKERS’ TIME IN RETIREMENT

Average Number of Years Spent in Retirement

Source: OECD 2013
Inadequate retirement savings reflect systemic failures of the American retirement system— not a lack of planning or financial literacy on the part of American workers.
THE GRA NEEDS A STRONG SOCIAL SECURITY SYSTEM AT ITS BASE

Social Security Benefits

Guaranteed Retirement Accounts

Private Assets
WIDE SUPPORT FOR MANDATED, ASSET-BASED RETIREMENT PLANS

- Create a new privately run, universal, portable pension plan: 75%
- Require companies provide guaranteed pensions: 79%
- Create an Automatic IRA: 79%

Source: David Madland (2008) and (2013)
Pushing Aside 401(k)’s for Mandatory Savings Plans

By MARK MILLER DEC. 11, 2015
New York Times
Thank you