A WHITE PAPER

The Over-Stated Retirement Crisis

An ever-improving retirement system is helping Americans be more prepared for retirement

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EMPOWER INSTITUTE

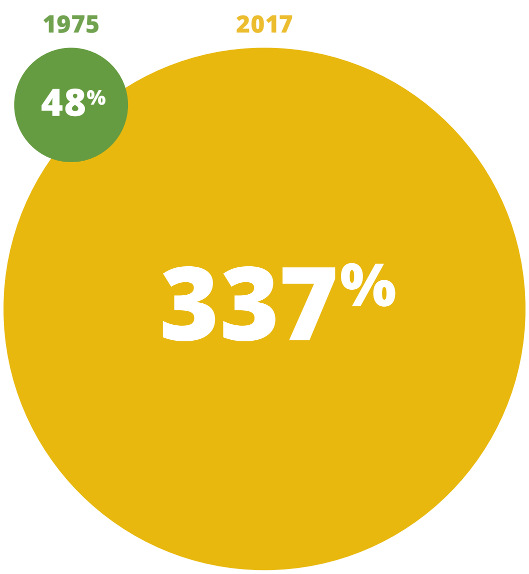
The Over-Stated Retirement Crisis

Many Americans fear their retirement savings won't be enough to allow them to retire, and media coverage has reinforced this narrative. "The Retirement Crisis is Much Worse Than You Think," declared a headline in one mainstream publication earlier this year.[1] "There's A Retirement Crisis in America Where Most Will Be Unable to Afford a 'Solid Life,'" read another.[2] Headlines, by design, are created to grab attention, playing up readers' hopes and fears to get them to read further. So it's worth asking a critical question: **Are retirement savers really facing a crisis?**

In reality, the answer is no. Each generation of retirees has been better off than the previous generation. In fact, in 2017, retirement assets represented 337% of employee wages, seven times the amount retirees saved during the time when traditional pensions were the retirement savings vehicle of choice.[3] This trend is expected to continue.

What's more, eye-catching statistics often do not paint a complete picture of the retirement landscape. As an example, a recent CNBC article cites an average 401(k) account value of $58,035 for those aged 65 and higher.[4] This figure sounds alarming — until you consider the context: At the end of 2018, defined contribution plans and IRAs accounted for only about 40% of all retirement assets.[5] About 60% of retirement assets existed outside these accounts in defined benefit plans, fixed and variable annuities, and government retirement funds such as the military retirement fund. What's more, as of January 2018, wage and salary workers had been with their

Retirement assets as a percentage of employee wages



In 1975, total retirement savings were equal to 48% of total employee wages according to Federal Reserve Board data. In 2017, retirement assets topped 337% of employee wages — a stunning increase.[3]

1 Holmes, Frank, Forbes, "The Retirement Crisis is Much Worse Than You Think," March 2019.

2 Pisani, Bob, CNBC, "There's a retirement crisis in America where most will be unable to afford a 'solid life'," April 2019.

3 Andrew Biggs, American Enterprise Institute, Statement before House Committee on the Budget on "Keeping Our Promise to America's Seniors: Retirement Security in the 21st Century," "13 Things You (Probably) Didn't Know About Retirement Savings," May 2019.

4 Ibid.

5 ICI Research Report, "American Views on Defined Contribution Plan Saving, 2018."

6 Bureau of Labor Statistics, "Employee Tenure Summary," September 2018.

current employers for a median period of just 4.2 years.[6] The upshot: Current plan account balances may be misleading unless an employee has rolled over all the retirement assets they've accumulated over the years.

To address the question of whether a retirement savings crisis is at hand, this paper takes a broader view of retirement savings, considering workplace retirement plans in the context of the greater retirement system. When this system is considered as a whole, Americans today:

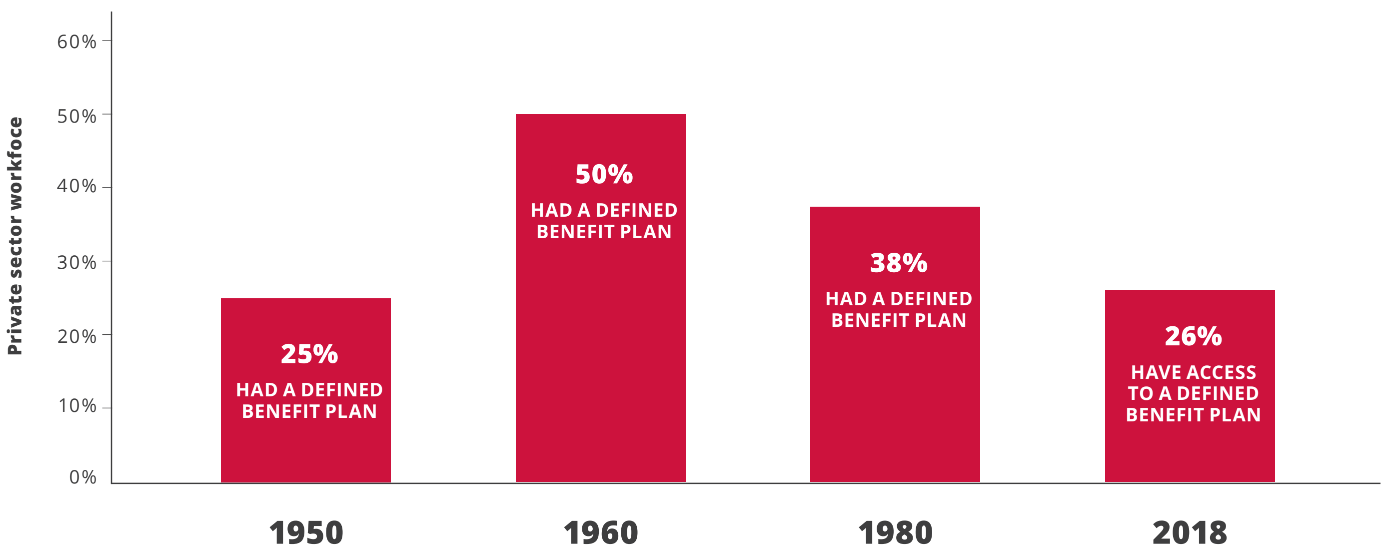
- Have greater access to workplace retirement plans than in the past.
- Are saving proportionately more.
- Will have more money in retirement.
- Have better protections in place to help guard their savings.

The conclusion is clear: The modern retirement system is actually leaving individuals better prepared to live the retirement lifestyle they imagine.

A brief history of the U.S. retirement system

More than 40 years ago, retirement planning in the U.S. began to shift from defined benefit plans to defined contribution plans. While defined benefit plans had been common for decades, they were associated with both systemic and individual plan challenges. On a systemic level, defined benefit coverage was not portable — and defined benefit plans covered relatively few people. In 1950, 10 million Americans, or about 25% of private sector workforces, had a defined benefit plan.[7] The percentage of workers with a defined benefit plan increased, and in 1960, about half of the private sector workforce had a defined benefit plan. In 1980, 38% of workers had defined benefit coverage.[8] As of March 2018, 26% of civilian workers have access to a defined benefit plan.[9]

Percentage of workers with a benefit plan[9]



7 Melissa Phipps, The Balance, "The History of the Pension Plan," January 2019.

8 Barbara A. Butrica, Howard M. Iams, Karen E Smith, and Eric J. Toder, Social Security Administration, " The Disappearing Defined Benefit Pension and Its Potential Impact on the Retirement Incomes of Baby Boomers," vol. 69, no. 3, 2009.

9 Congressional Research Service, "Worker Participation in Employer-Sponsored Pensions: A Fact Sheet," April 2019.

It's important to note that between 72% and 90% of pension participants did not qualify for defined benefit plans because of strict vesting schedules.[10] Individual plans' challenges included discrimination toward rank-and-file workers and occasional misuse by corporations.

Of course, defined benefit plans also had positive qualities. Chief among them, employees with access to a defined benefit plan had a clear retirement day with a fixed payout, and the employer, rather than the employee, assumed the burden of funding the plan. In fact, many of the positive aspects of defined benefit plans are being replicated through the modernization of the retirement system.

After passage of the 1978 legislation that created defined contribution plans, employers began moving away from the defined benefit model. This move shifted the savings burden from employers to employees, leading many to worry that Americans wouldn't be prepared for retirement. The modernization of the retirement system has further altered the landscape, adding workplace retirement plans with auto features,[11] employer matches and qualified default investment alternatives, to name a few. The new system, which is enabled by technology, also includes access to myriad other retirement savings vehicles. Ultimately, the modern retirement system boosts retirement readiness.

More individuals have access to workplace retirement plans now than in the past

Approximately $7.5 trillion are held in defined contribution plans, and access to workplace plans has increased over time. It's particularly important to note that access at the household level has expanded as well. While 71% of civilian employees have access to either a defined benefit or a defined contribution plan,[12] in 80% of married couples at least one spouse has access to a retirement plan.[13] The shift from defined benefit plans to modern define contribution plans has played an important role in this increase. Consider that in 1980, only 38% of private sector workers participated in a pension plan.[14]

Modern plans are also more available to employees of small businesses. In 1981, there were only about 4 million participants in pension plans at companies with fewer than 100 people. In 2015, by contrast, defined benefit and defined contribution plans covered nearly 11 million participants at businesses of that size.[15]

In fact, most plans today are geared toward smaller businesses, with a full 97% of 401(k) plans covering 100 or fewer employees. It's likely these employees would never have had access to any workplace retirement plan in the 1970s and 1980s.[16] Moving forward, coverage could increase if legislation approving open multi-employer plans passes.

The bottom line: Access to retirement plans has improved over the last several decades, especially for individuals who work at businesses with fewer than 100 employees.

Access to workplace retirement plans

71%

OF CIVILIAN EMPLOYEES[12]

80%

OF MARRIED COUPLES[13]

10 Andrew Biggs, American Enterprise Institute, Statement before House Committee on the Budget on "Keeping Our Promise to America's Seniors: Retirement Security in the 21st Century," "13 Things You (Probably) Didn't know About Retirement Savings," May 2019. Data from Senate Labor Subcommittee. "Statistical Analysis of Major Characteristics of Private Pension Plans." 1972.

11 Auto-features refer to plan design features that help participants by automatically beginning contributions or by automatically increasing contributions.

12 Congressional Research Service, "Worker Participation in Employer-Sponsored Pensions: A Fact Sheet," April 2019.

13 Irena Dushi and Howard M. Iams, Social Security Administration, "Pension Plan Participation Among Married Couples," vol. 73, no. 3, 2013.

14 Barbara A. Butrica, Howard M. Iams, Karen E Smith, and Eric J. Toder, Social Security Administration, " The Disappearing Defined Benefit Pension and Its Potential Impact on the Retirement Incomes of Baby Boomers," vol. 69, no. 3, 2009.

15 Employee Benefits Security Administration, United States Department of Labor, "Private Pension Plan Bulletin Historical Tables and Graphs 1975-2015," February 2018.

16 Sullivan, John, 401(k) Specialist, "Father of 401k Ted Benna Sounds Off on DOL Fiduciary Rule," April 2016.

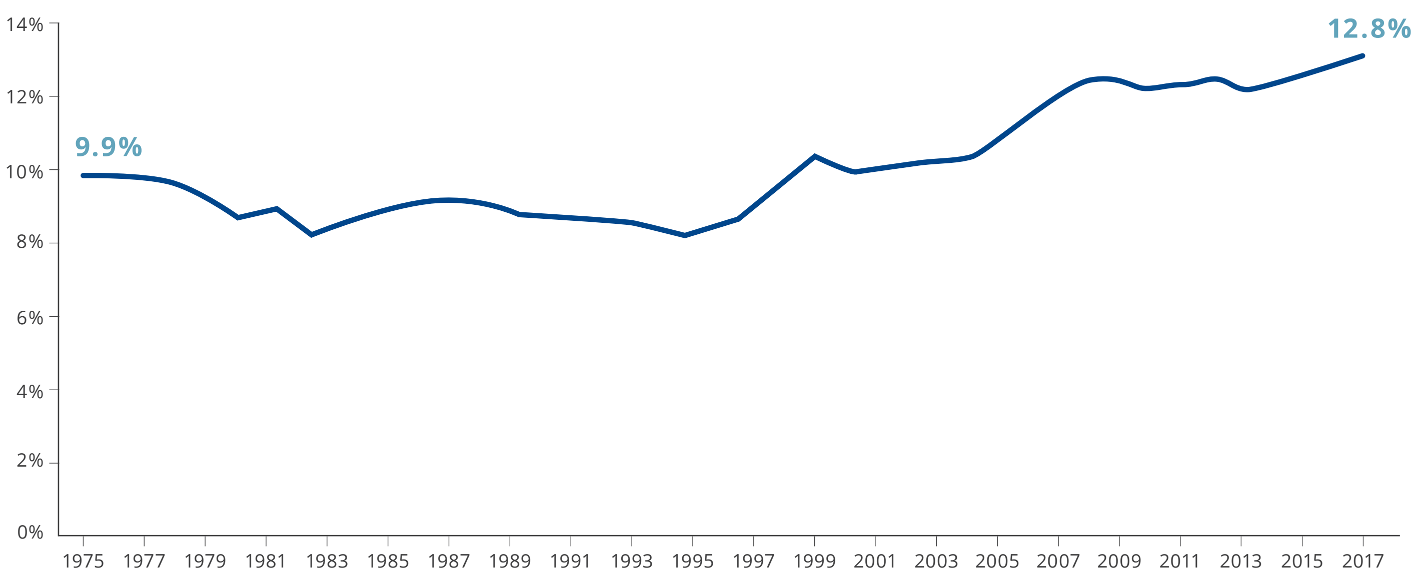
Individuals are saving proportionally more money today

When all retirement assets are considered, individuals are saving more money, with savings levels at all-time highs. Unsurprisingly, in light of these facts, savers are generally happy with their retirement savings plans. Before we explore all sources of savings available to retirement savers, let's assess the state of workplace plan savings today.

Thanks to modern plan design and auto-features that encourage better savings behaviors, employees in workplace retirement plans are saving more now than they ever have. Total employee and employer contributions have increased from an average of 9.9% of employee salaries in 1984 to 12.8% of employee salaries in 2017.[17]

What's more, the amount of money saved in retirement savings accounts is at near-record levels. In 1975, total retirement savings were equal to 48% of total employee wages according to Federal Reserve Board data. In 2017, retirement assets topped 337% of employee wages — a stunning increase.[18]

Employer and employee retirement plan contribution as a percent of wages and salaries[19]

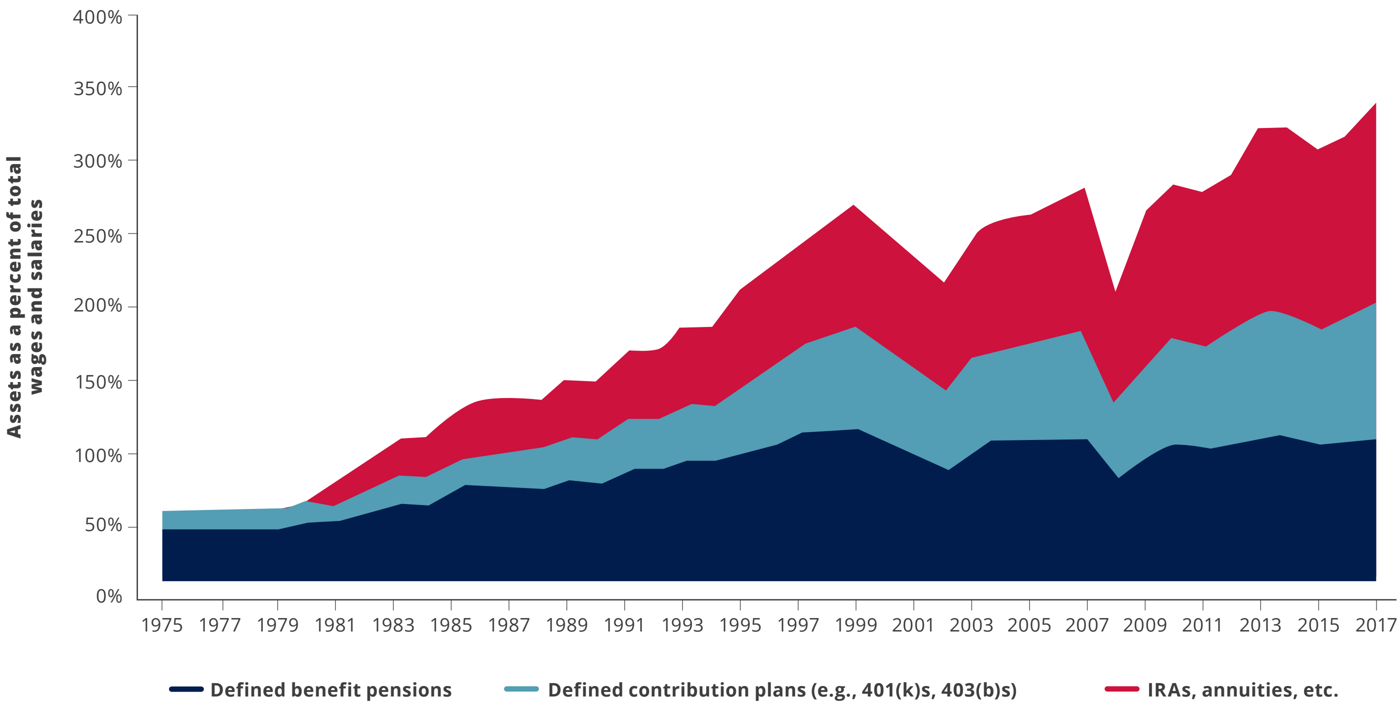


17 Andrew Biggs, American Enterprise Institute, Statement before House Committee on the Budget on "Keeping Our Promise to America's Seniors: Retirement Security in the 21st Century," "13 Things You (Probably) Didn't Know About Retirement Savings," May 2019. Calculated from data from National Income and Product Accounts.

18 Andrew Biggs, American Enterprise Institute, Statement before House Committee on the Budget on "Keeping Our Promise to America's Seniors: Retirement Security in the 21st Century," "13 Things You (Probably) Didn't Know About Retirement Savings," May 2019.

19 Andrew Biggs, American Enterprise Institute, Statement before House Committee on the Budget on "Keeping Our Promise to America's Seniors: Retirement Security in the 21st Century," "13 Things You (Probably) Didn't Know About Retirement Savings," May 2019. Calculated from data from National Income and Product Accounts.

Retirement plan assets as a percentage of wages and salaries[20]



Objectively, individuals are better prepared, and the data shows that they are feeling more prepared as well. Today's retirement savers have a positive view of the American retirement system and recognize the benefits it offers. For example, 94% of respondents to a survey by the Investment Company Institute said they appreciate the level of choice and control over the investments in their retirement plans, and 91% said payroll deductions make it easier to save.[21]

20 Andrew Biggs, American Enterprise Institute, Statement before House Committee on the Budget on "Keeping Our Promise to America's Seniors: Retirement Security in the 21st Century," "13 Things You (Probably) Didn't Know About Retirement Savings," May 2019.

21 ICI Research Report, "American Views on Defined Contribution Plan Saving, 2018."

Views of retirement plans and features are favorable for defined contribution account owners[21]

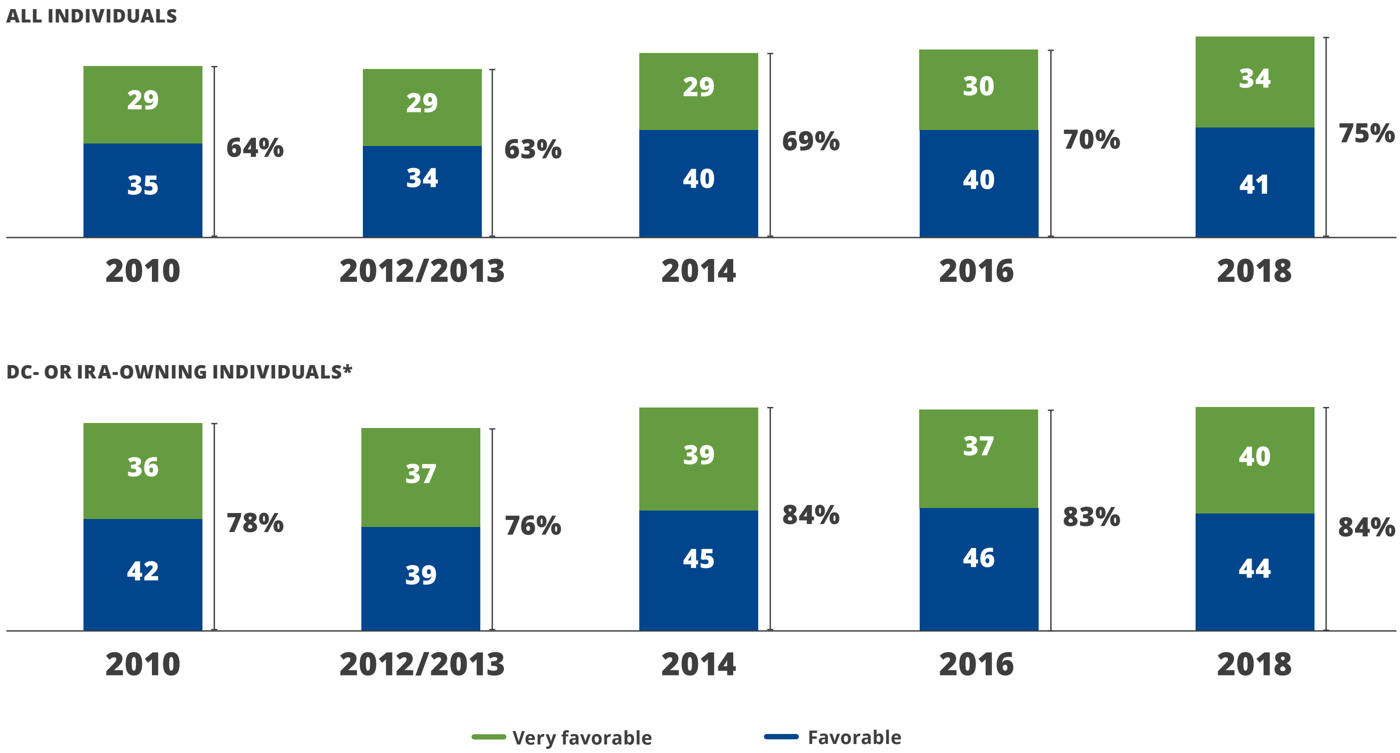
	All DC-owning individuals*	AGE OF SURVEY RESPONDENT: Younger than 35	35 to 49	50 to 64	65 or older
It is important to have choice in, and control of, the investments in my retirement plan account.	**94%**	**87%**	**97%**	**96%**	**96%**
My employer-sponsored retirement account helps me think about the long term, not just my current needs.	**91%**	**85%**	**92%**	**94%**	**96%**
Payroll deduction makes it easier for me to save.	**91%**	**83%**	**92%**	**95%**	**97%**
The tax treatment of my retirement plan is a big incentive to contribute.	**85%**	**76%**	**85%**	**90%**	**92%**
My employer-sponsored retirement plan offers me a good lineup of investment options.	**83%**	**74%**	**87%**	**86%**	**89%**
Knowing that I'm saving from every paycheck makes me less worried about the short-term performance of investments.	**79%**	**76%**	**80%**	**76%**	**87%**
I probably wouldn't save for retirement if I didn't have a retirement plan at work.	**49%**	**53%**	**49%**	**49%**	**40%**
Number of respondents: 1,358					

In fact, the percentage of U.S. individuals who view their retirement plans favorably is at an all-time high.[22] In 2018, 75% of individuals held a favorable view of their retirement plan compared with 63% in 2009. Over time, individuals with a defined contribution account (DC for purposes of the above chart) or an IRA have felt more positive about their accounts than the average across all individuals.[23]

22 Ibid.

23 Ibid.

Percentage of individuals who view retirement accounts favorably



While it may be tempting to look at retirement readiness in terms of how much is saved in retirement accounts alone, that approach provides an incomplete picture of how much money is actually available to people once they retire. Instead, we must consider all sources of savings.[24]

In the past, the three-legged stool model of retirement savings accounted only for Social Security, employee pensions and personal savings. Today, a more accurate view of retirement savings is the five-layer retirement resource pyramid.

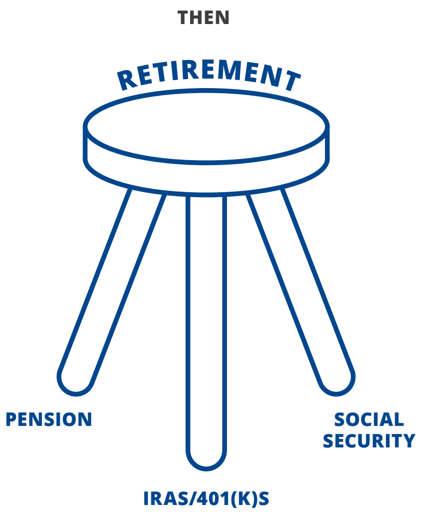
According to the Investment Company Institute, this pyramid takes into account the large portion of retirement savings held outside retirement accounts.[25] At the base of the pyramid, Social Security and homeownership make up the largest retirement resources for many retirees. They are followed by employer-sponsored retirement plans, IRAs and, at the top of the pyramid, other assets. The retirement resources pyramid reflects the modernization of the retirement system as a whole rather than focusing on employer-sponsored plans and Social Security only.

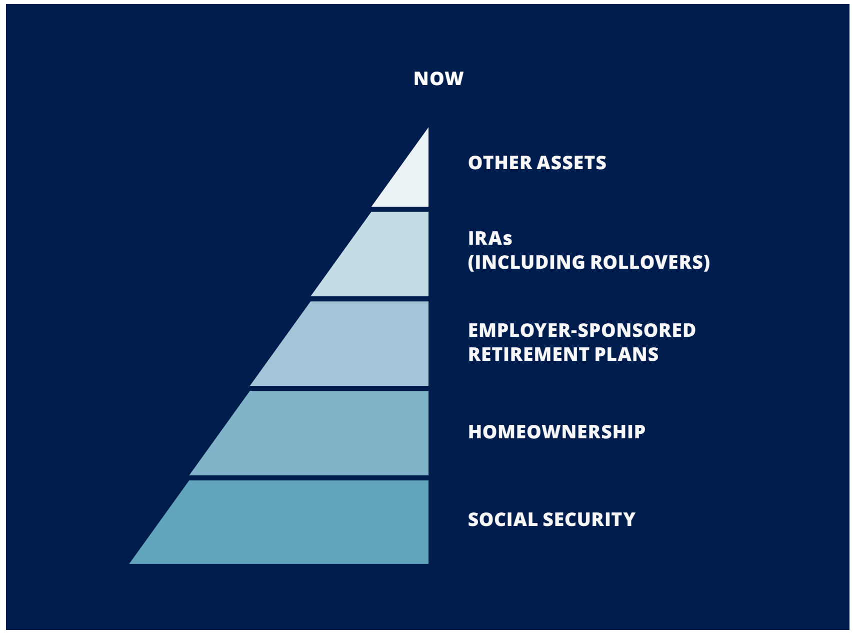
** DC- or IRA-owning individuals are individuals aged 18 or older whose households owned 401(k) plan accounts, other DC plan accounts or IRAs at the time of the survey. Note: In 2010, the sample includes 1,977 DC- or IRA-owning individuals and 1,026 individuals not owning DC accounts or IRAs. In 2012/2013, the sample includes 2,417 DC- or IRA-owning individuals and 1,575 individuals not owning DC accounts or IRAs. In 2014, the sample includes 1,855 DC- or IRA-owning individuals and 1,191 individuals not owning DC accounts or IRAs. In 2016, the sample includes 1,299 DC- or IRA-owning individuals and 728 individuals not owning DC accounts or IRAs. In 2018, the sample includes 1,520 DC- or IRA-owning individuals and 521 individuals not owning DC accounts or IRAs. The fall 2014, and fall 2016 surveys were online surveys; the prior surveys were conducted over the phone. The fall 2018 survey was conducted on the NORC AmeriSpeak® panel, which uses a mixed-mode data collection methodology. The fall 2018 survey includes 1,771 surveys completed online and 270 surveys conducted over the phone. Sources: ICI tabulations of GfK OmniTel survey data (fall 2009-2011; November 2012-January 2013; fall 2013), GfK KnowledgePanel® OmniWeb survey data (fall 2014-2017), and NORC AmeriSpeak® survey data (fall 2018).*

24 Investment Company Institute, "2019 Investment Company Fact Book: A review of trend and activities in the investment company industry," 2019.

25 Ibid.

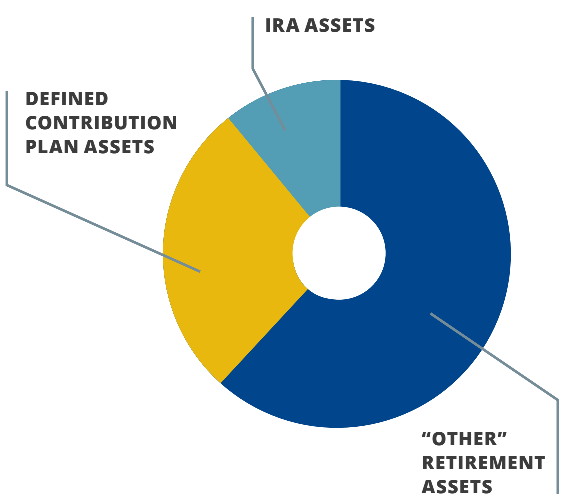
Potential retirement income resources





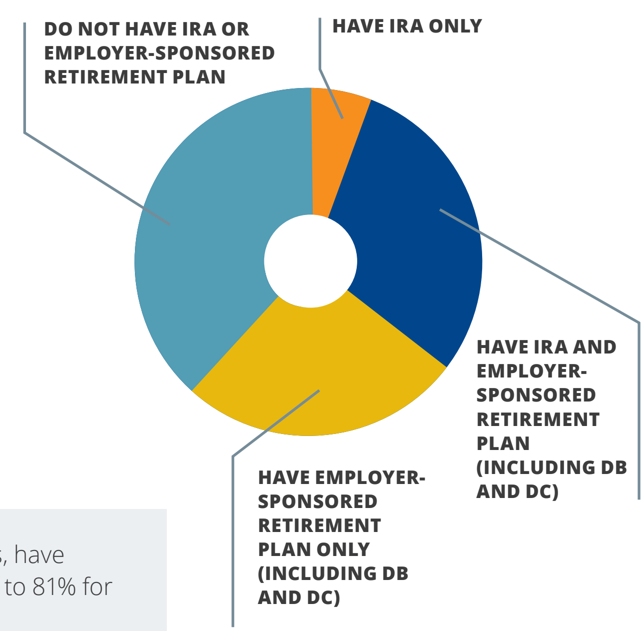
As we mentioned earlier, defined contribution plans and IRAs accounted for only about 40% of all retirement assets at the end of 2018; the remaining 60% of retirement assets existed outside these accounts.[26]

Total U.S. retirement assets 2018[26]



Approximately 62% of U.S. households, including savers of all ages, have retirement resources outside Social Security. This figure increases to 81% for near-retiree households.[27]

U.S. households with assets outside Social Security[26]



26 Investment Company Institute, "2019 Investment Company Fact Book: A review of trend and activities in the investment company industry," 2019.
27 Ibid.

Though the pyramid provides a general outline of retirees' financial resources, the mix of assets a particular individual relies on will largely depend on their income level over their working tenure. According to the Congressional Budget Office, for people in the lowest quartile of income earners, Social Security will replace 85% of their income, well above the 75% industry standard for income replacement ratios. As a result, while members of this group may not have other savings, they may not need them to maintain their pre-retirement standard of living.

The percentage of income that Social Security replaces declines sharply as income rises. For the top 20% of income, Social Security only replaces 34% of lifetime earnings, meaning these workers will likely lean more heavily on workplace retirement plan savings.[28] Individual factors will determine which parts of the resource pyramid will apply to each person. For example, while those with lower incomes and savings will rely almost exclusively on Social Security and homeownership, those with higher incomes and savings may have access to other assets on the resource pyramid, such as additional savings in IRAs.

The bottom line: Individuals hold many forms of retirement savings. As a percentage of salary, more money is being saved than ever before, and savers — especially those with access to a workplace retirement plan — are happy with their retirement plan accounts.

Today's workers will actually get more money in retirement than retirees did previously

Savers are on track to have a similar income replacement ratio to current retirees, and they are generally optimistic that they will be able to maintain their standard of living in retirement. At the same time, current retirees are pleased with their situation and are better off than those in earlier decades.

Consider the fact that future retirees will be able to maintain the standard of living set by previous generations. Retirees born during the Great Depression had a median income equal to 109% of their average inflation-adjusted earnings. Gen Xers are on track to replace 110% of their earnings.[29]

Retirement plan features are integral to helping savers reach this mark. Research from the Empower Institute shows that participants in plans with auto-enrollment and increases are on track to replace more of their current income in retirement.[30]

Americans tend to be confident their retirement plan accounts can help them meet their retirement goals. In 2018, 77% of individuals were confident their retirement accounts could help them meet their retirement goals. That number jumped to 83% among owners of defined contribution accounts or IRAs.[31] What's more, evidence shows that savers are confident they will live comfortably through retirement by using their retirement savings and other assets.

People who actively participate in an employer savings plan report higher levels of confidence than the average American.[32]

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28 Congressional Budget Office, "CBO's 2018 Long-Term Projections for Social Security: Additional Information," 2018.

29 Andrew Biggs, Wall Street Journal, "The Phony Retirement Crisis," February 2019. Author's calculations using data from the Social Security Administration.

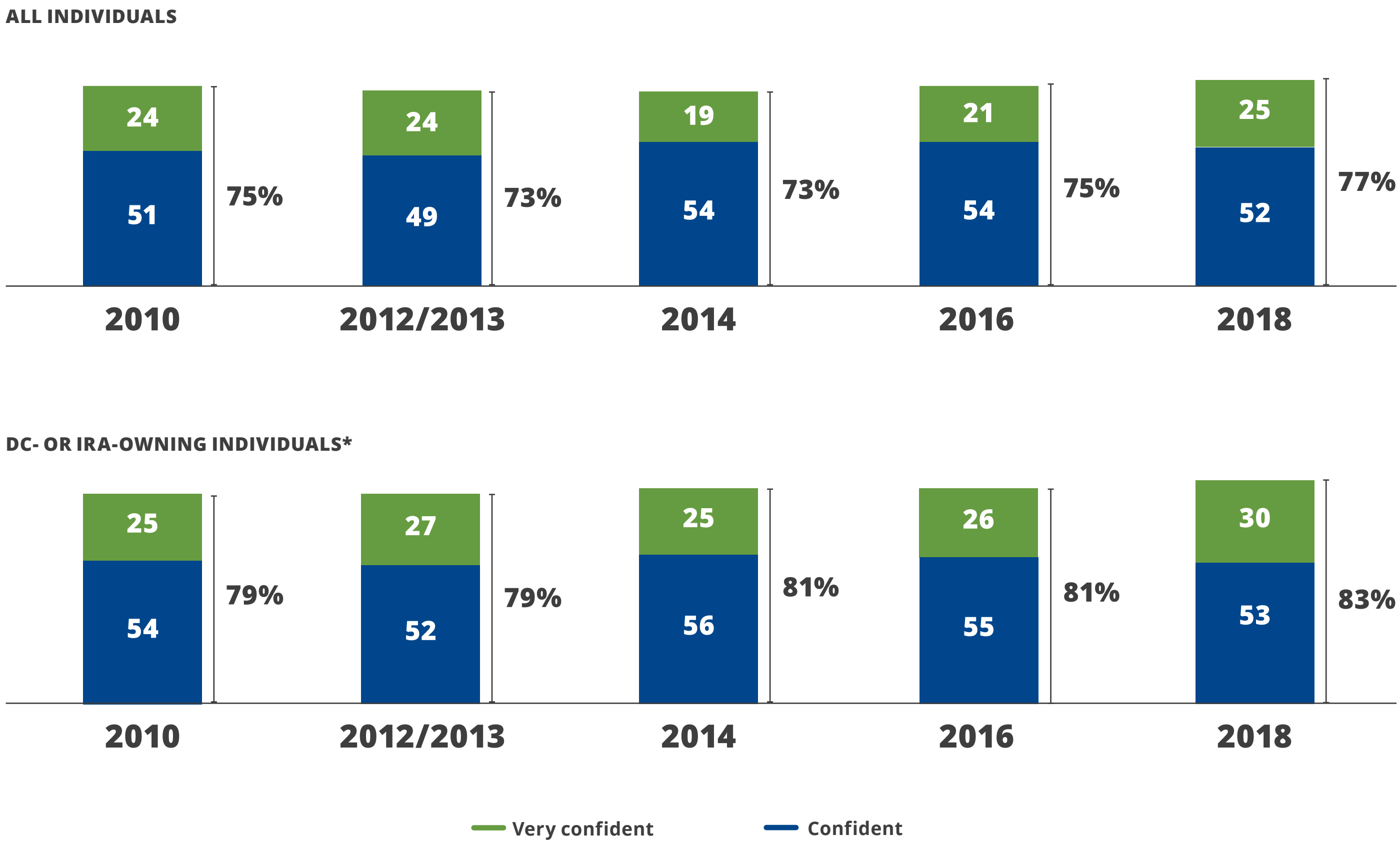
30 Empower Institute, "Scoring the Progress of Retirement Savers," April 2018.

31 ICI Research Report, "American Views on Defined Contribution Plan Saving, 2018."

32 This survey was conducted online within the United States by The Harris Poll on behalf of Empower Retirement from March 29-April 8, 2019, among 2,0331 U.S. adults aged 21-75, working full time or retired with savings between $5,000 and $3,000,000.

Confidence that retirement plan accounts can help individuals meet retirement goals[31]

Percentage of US individuals by ownership status



Current retirees also feel good about their financial prospects through retirement, with eight in 10 reporting they have enough money to "live comfortably."[33]

The bottom line: Both pre-retirees and current retirees are generally confident about their retirement financial plans — and for good reason. They are on track to maintain the savings level of previous generations.

33 Gallup, "Update: Americans' Concerns about Retirement Persist," May 2018.

There are better rules and protections for savers now

Protections are better for savers now than they used to be, and they will continue to improve into the future. Some areas to consider are portability and ownership, regulatory oversight, and the value of advice.

1

Portability and ownership

Retirement savings in defined contribution plans are portable, allowing employees to take their retirement assets with them as they move from job to job. Historically, in the "golden age" of defined benefit plans, it was difficult — if not impossible — for employees to seek a new job without affecting their retirement readiness. Now, employees change jobs 12 times from age 18 to age 50.[34] Plans that do not limit employees' abilities to change jobs are therefore more supportive of a modern workforce. Workers also have flexibility when it comes to their retirement account options. This comes in handy for members of the gig economy,[35] who make up 36% of the workforce[36] and will have to fund retirement accounts without traditional, full-time employment.

2

Regulatory oversight

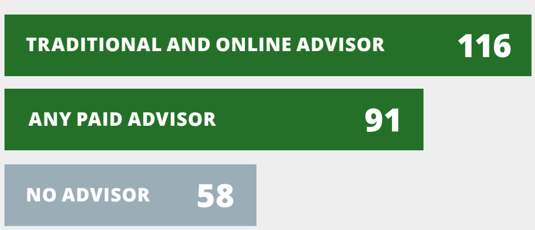
Regulation has been refined over years, offering employees more protection when it comes to their retirement assets. For example, anti-bias rules require all employees to be treated the same regardless of their personal attributes, and rules against misuse make asset investment transparent to participants.

3

Advice

While not a protection in the regulatory sense, investment and retirement planning advice has been proven to improve overall retirement readiness. As the retirement system marched toward modernization, many retirement savers had to manage their own portfolios, leaving them subject to errors due to behavioral biases. Now, many individuals have access to advice either through their workplace retirement plans or advisors they seek out on their own. A recent study found that those who work with paid advisors are on track to replace 91% of their current income in retirement compared with only 58% of those without advisors. The data in this study also indicated that one of the most important tools a financial advisor provides is the creation of a formal financial plan. While retirement savers with formal financial plans have a median projected income replacement of 99%, those without such plans are on track to achieve a median replacement level of only 58%.[37]

RETIREMENT PROGRESS SCORE BY ADVISOR USE



34 Bureau of Labor Statistics, US Department of Labor, "Number of Jobs, Labor Market Experience, and Earning Growth Among Americans at 50: Results from a Longitudinal Survey," August 2017.

35 Gig economy refers to workers with part-time, contractor, or short-term positions.

36 McCue, T.J., Forbes, "57 million US workers are part of the gig economy," August 2018.

37 Empower Institute, "Scoring the Progress of Retirement Savers," April 2018.

The bottom line: The refinement of regulatory oversight along with modern plan design and financial advice have led to better protections for savers than existed historically. At the same time, the flexibility offered by defined contribution and other plans gives savers more control over where they work and how they save.

Building on a strong system

Far from existing in a state of crisis, the retirement system as a whole positions Americans for a successful retirement. The retirement services industry has many players who compete in a marketplace of ideas, helping to ensure the system remains robust, competitive and flexible. Providers, asset managers, advisors, fintech players, academics, policy makers and regulators are engaged in ongoing conversations to identify the right combination of solutions to meet retirement savers' evolving needs. This rich and multifaceted discussion has driven dramatic improvements since 1978. Through this debate and in these partnerships, we ultimately produce better retirement prospects for more Americans.

We believe that each generation of savers is better off than the one that preceded it. While the current system is not broken, we can continue to work to improve it.

- The retirement system works best for those who have access to workplace retirement plans and can take advantage of the whole system beyond those plans.
- Within individual plans, employers can choose options, such as automatic features, company-matching contributions, financial wellness plug-ins and advice solutions that can help their employees save more.
- Stakeholders in the retirement system can advocate for opportunities to increase coverage and portability. These efforts may include public policy interventions such as Social Security reform and open multi-employer plans.

We've seen public policy improve the system in the past. Consider that under the Pension Protection Act (PPA), U.S. retirement assets in defined contribution plans increased from $4.6 trillion in 2007 to $8.1 trillion in the third quarter of 2018.[38] Millennials, who were entering the workforce at about the time PPA was enacted, have taken advantage of PPA provisions that allow automatic enrollment and automatic escalation.

Other public policy changes may be on the horizon as well. Future legislation may further expand and protect Americans' ability to build savings and generate income with the goal of achieving a comfortable retirement.

38 ICI Research, "Defined Contribution Plan Participants Activities, First Three Quarters of 2018," February 2019.

The Empower Institute is brought to you by Empower Retirement to critically examine investment theories, retirement strategies and assumptions. It suggests theories and changes for achieving better outcomes for employers, institutions, financial advisors and individual investors.

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