The Retirement Income Problem

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Retirement Income Problem?

• What does the data tell us about income of older Americans? Where are the gaps?
• How do the sources of income differ: Social Security, defined benefit pension, defined contribution plan and work?
• Can we move 401(k) plans from Retirement Savings Plans to Retirement Income?
Composition of Median Household Income for Men and Women 65 and Over

Figure 5: The composition of median household income in relation to the Elder index, for men and women, age 65 and over, in 2013

Typical household income for men age 65 and over was $48,280 and for women age 65 and over it was $35,810.

Source: NIRS Shortchanged in Retirement: Continuing Challenges to Women’s Retirement Future, 2016
Sources of Household Income For Women and Men, by Income Level

Social Security Income is the most important source of income for households with $60,000 or less of income.

DB pension income is important for older middle income households.

Wages are largest income source for households with $80,000 or more of income.

Source: NIRS Shortchanged in Retirement, 2016
Older Men and Women Have Lower Incomes as They Age and Sources of Household Income Shift

Social Security provides a greater share of income with age.

DB pension income accounts for about 1/5 of income across the age groups. DC income very small.

Source: NIRS Shortchanged in Retirement: Continuing Challenges to Women’s Retirement Future, 2016
Retirement Income Gaps By Ethnicity
Latina Women Face Largest Gap

Figure 9: The composition of median household income in relation to the Elder Index, for men and women, age 65 and over, by ethnicity, in 2013

- Social Security
- Defined Benefit Pensions
- Defined Contribution Accounts (e.g., 401(k)s, IRAs)
- Wages
- Other

Elder Economic Security Index

- White
- Black
- Latino
- Asian
Changes in Marital Status Creates Gaps for Women More so than Men; Single Women Challenged to Meet Basic Expenses

Figure 7: The composition of median household income in relation to the Elder Index, for men and women, age 65 and over, by marital status, in 2013.
Health, Education, Public Admin. and Professional Women Have Higher Incomes in Retirement

Source: NIRS Shortchanged in Retirement: Continuing Challenges to Women’s Retirement Future, 2016
Women Are 80% More Likely To Live in Poverty Than Men

Women aged 75-79 are three times as likely to live in poverty, compared to men.

Women who are widowed have a poverty rate more than twice that widowers.

Rates of poverty among Black and Latina women greatly exceed those of Black and Latino men.

Source: NIRS Shortchanged in Retirement: Continuing Challenges to Women’s Retirement Future, 2016
Women Helped from Spousal Benefit Protections in DB Pensions Under Retirement Equity Act

Percent of Older Americans (60+) with DB Pension Income, 1998, 2003, 2006 and 2010

<table>
<thead>
<tr>
<th>Year</th>
<th>Own DB Pension</th>
<th>Own or Spouse's DB Pension</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>34%</td>
<td>52%</td>
</tr>
<tr>
<td>2003</td>
<td>34%</td>
<td>52%</td>
</tr>
<tr>
<td>2006</td>
<td>32%</td>
<td>48%</td>
</tr>
<tr>
<td>2010</td>
<td>28%</td>
<td>43%</td>
</tr>
</tbody>
</table>

Racial Poverty Gaps Shrink in Older Households with DB Pension Income

% of Older Households Classified as Poor

<table>
<thead>
<tr>
<th>Group</th>
<th>With Pension</th>
<th>No Pension</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>1.3%</td>
<td>11.7%</td>
</tr>
<tr>
<td>Female</td>
<td>2.0%</td>
<td>18.4%</td>
</tr>
<tr>
<td>White</td>
<td>1.5%</td>
<td>12.4%</td>
</tr>
<tr>
<td>Black</td>
<td>2.9%</td>
<td>26.9%</td>
</tr>
<tr>
<td>Hispanic</td>
<td>2.2%</td>
<td>25.4%</td>
</tr>
<tr>
<td>Other Race</td>
<td>2.7%</td>
<td>23.7%</td>
</tr>
</tbody>
</table>
Young Households with Workplace Retirement Benefits are Half as Likely as Near-Retirement Households to Have a DB Pension

DB and DC plan coverage among households covered by an employer-sponsored retirement plan, by age of head of household, 2013

4 out of 5 Households Have Less than One Times Income in Retirement Savings

Figure 9: Nearly Four out of Five Working Households Have Retirement Savings Less than One Times Their Annual Income

Retirement account balance as a percentage of income among working households, 2013

<table>
<thead>
<tr>
<th>Age of Head of Household</th>
<th>None (0%)</th>
<th>1-99%</th>
<th>100-399%</th>
<th>400%+</th>
</tr>
</thead>
<tbody>
<tr>
<td>25-34</td>
<td>50.4%</td>
<td>45.6%</td>
<td>0.4%</td>
<td>3.6%</td>
</tr>
<tr>
<td>35-44</td>
<td>41.3%</td>
<td>43.4%</td>
<td>14.5%</td>
<td>0.8%</td>
</tr>
<tr>
<td>45-54</td>
<td>38.0%</td>
<td>33.9%</td>
<td>22.9%</td>
<td>5.2%</td>
</tr>
<tr>
<td>55-64</td>
<td>29.5%</td>
<td>32.9%</td>
<td>27.6%</td>
<td>9.9%</td>
</tr>
<tr>
<td>ALL 25-64</td>
<td>39.8%</td>
<td>38.9%</td>
<td>17.3%</td>
<td>4.0%</td>
</tr>
</tbody>
</table>

Source: Authors' analysis of the 2013 SCF. Universe is households with heads age 25-64, with total earnings over $5,000 and under $500,000 and total incomes greater than zero and less than $1 million.
GAO and Bureau of Labor Statistics Find Limited Choice for Annuity Income and High Cost to Fund Income using Fixed Annuity

- Only 6 percent of retirees with DC retirement plan purchased annuities.
- Only about 17 percent of private-sector workers in retirement savings plans had an annuity option available. (Bureau of Labor Statistics)

<table>
<thead>
<tr>
<th>Plan Description</th>
<th>Cost to Fund Benefit as a Percent of Pay</th>
</tr>
</thead>
<tbody>
<tr>
<td>Defined Benefit Pension</td>
<td>16.3%</td>
</tr>
<tr>
<td>Fixed Annuity Retirement Plan at current interest rates (3.7 percent)</td>
<td>44.8%</td>
</tr>
<tr>
<td>Fixed Annuity Retirement Plan at improved interest rates (5.2 percent)</td>
<td>29.3%</td>
</tr>
</tbody>
</table>

Fornia calculation based on Average April 2014 purchase rates from AnnuityShopper.com, adjusted for projected mortality tables to age 62 female.

DC Plan and Retirement Income

- Complexity and Lack of Transparency in Annuity Expenses, Get Value from Annuity
- Selection—Buyer Tend to Live Longer
- Lack of Flexibility and Unexpected Expenses.
- Adverse Publicity and Lack of Knowledge about Annuities.

## Longevity Annuity Monthly Benefit Per $100,000—At Various Deferral Ages

<table>
<thead>
<tr>
<th>Commencement Age</th>
<th>Deferral Period</th>
<th>Premium</th>
<th>Monthly Benefit</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Without Death Benefit</td>
<td>With Death Benefit</td>
<td></td>
</tr>
<tr>
<td>65</td>
<td>0</td>
<td>$100,000.00</td>
<td>$546</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>70</td>
<td>5</td>
<td>100,000.00</td>
<td>686</td>
<td>630</td>
<td></td>
</tr>
<tr>
<td>75</td>
<td>10</td>
<td>100,000.00</td>
<td>1,035</td>
<td>861</td>
<td></td>
</tr>
<tr>
<td>80</td>
<td>15</td>
<td>100,000.00</td>
<td>1,729</td>
<td>1,218</td>
<td></td>
</tr>
<tr>
<td>85</td>
<td>20</td>
<td>100,000.00</td>
<td>3,352</td>
<td>1,719</td>
<td></td>
</tr>
</tbody>
</table>

Source: A large U.S. life insurance company estimates of Longevity Annuity benefits purchased with a $100,000 premium to an institutional Guaranteed Income Builder.
# Insurance Value of Longevity Annuity Purchased at Age 65

<table>
<thead>
<tr>
<th>Age Longevity Benefits Start</th>
<th>Percent of Insurance Value of Immediate Annuity</th>
<th>Percent of Wealth at 65 Required to Purchase Longevity Annuity</th>
</tr>
</thead>
<tbody>
<tr>
<td>80</td>
<td>88.5%</td>
<td>28%</td>
</tr>
<tr>
<td>85</td>
<td>69.2%</td>
<td>14%</td>
</tr>
<tr>
<td>90</td>
<td>50.5%</td>
<td>5%</td>
</tr>
</tbody>
</table>

Policy Interest

• Focus on retirement income because
  – Move from DB to DC
  – Great Recession

• Lifetime Income RFI
  – Issue by DOL, IRS, Treasury
  – 700+ comments

• Government Accountability Office Report
  – September 8, 2016
Challenges

- Many different options
  - Straight life annuities
  - Guaranteed lifetime withdrawal benefits
  - Longevity insurance
  - Systematic drawdown

- Barriers
  - Confusion
  - Behavior
  - Legal risk
Potential Solutions

- Require annuitization
  - Common in some industries
  - UK experience
  - Not currently under serious consideration
- Change participant behavior
  - Reframe view of DC plans
- Encourage adoption of lifetime income
  - Incent employer to include in plan options
Lifetime Income Illustration

• Proposal
  – Provide participants with lifetime income illustration
  – Include on benefit statements
  – Providing information not fiduciary advice

• DOL Advanced Notice
  – No longer on regulatory agenda

• Lifetime Income Disclosure Act
  – Bipartisan legislation
  – Approved 26-0 by Senate Finance on 9/21
Encourage In-plan Options

• Overcome legal concerns
  – Fiduciary risk
  – Tax issues

• 2008 Safe harbor (29 C.F.R. 2550.404a-4)
  – Does little to allay concerns

• Agency guidance
  – DOL Info Letter to Iwry (Oct. 23, 2014)
  – IRS Notice 2014-66
  – FAB 2015-02
Encourage In-plan Options

- Lifetime income safe harbor
  - Provides framework for satisfying duties
  - Still must evaluate cost and benefit
- Bipartisan support in Congress
  - Approved 26-0 by Senate Finance Committee
    (as part of Retirement Enhancement & Savings Act of 2016)
  - Prospects for ultimate passage?
Current Retirees have rely on Social Security and Defined Benefit Pensions.

Work is playing an increasing role today.

Future generations will rely on DC plan assets for income in retirement, but only a few households have adequate savings.

Lifetime annuity income options are not a popular choice for retirees with DC plans.

Deferred Life Annuity Options may provide flexibility and protection from outliving retirement savings.

There is a considerable amount of interest in solving the lifetime income “problem.”

There are legal and behavioral barriers inhibiting broader adoption of lifetime income solutions.

Policymakers are considering options to change the way participants think about their DC plans (e.g., lifetime income illustrations).

Policymakers are also considering changes that would reduce legal risk for employers offering in-plan lifetime income solutions (e.g., fiduciary safeharbor).
2017 Educational Programs
Retirement Security/Financial Education

63rd Annual Employee Benefits Conference
October 22-25, 2017
Las Vegas, Nevada
www.ifebp.org/usannual

Certificate Series
February 27-March 4, 2017
Lake Buena Vista (Orlando), Florida
July 24-29, 2017
Denver, Colorado
www.ifebp.org/certificateseries

Related Reading
Visit one of the on-site Bookstore locations or see www.ifebp.org/bookstore for more books.

Ready or Not: Your Retirement Planning Guide, 43rd Edition
Item #9067
www.ifebp.org/books.asp?9067