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Ten Economic Facts about Financial Well-Being in Retirement

David Boddy, Jane Dokko, Brad Hershbein, and Melissa S. Kearney

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MISSION STATEMENT

The Hamilton Project seeks to advance America's promise of opportunity, prosperity, and growth. The Project's economic strategy reflects a judgment that long-term prosperity is best achieved by fostering economic growth and broad participation in that growth, by enhancing individual economic security, and by embracing a role for effective government in making needed public investments. We believe that today's increasingly competitive global economy requires public policy ideas commensurate with the challenges of the 21st century. Our strategy calls for combining increased public investments in key growth-enhancing areas, a secure social safety net, and fiscal discipline. In that framework, the Project puts forward innovative proposals from leading economic thinkers — based on credible evidence and experience, not ideology or doctrine — to introduce new and effective policy options into the national debate.

The Project is named after Alexander Hamilton, the nation's first treasury secretary, who laid the foundation for the modern American economy. Consistent with the guiding principles of the Project, Hamilton stood for sound fiscal policy, believed that broad-based opportunity for advancement would drive American economic growth, and recognized that "prudent aids and encouragements on the part of government" are necessary to enhance and guide market forces.

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Introduction

Most households in the United States find retirement planning a daunting challenge, with good reason. Rising life expectancy and potentially exorbitant long-term care costs have increased the financial resources required to support oneself and one's spouse in retirement and old age. For many segments of the population, negligible real wage growth has made the challenge all the more difficult. Furthermore, there are multiple dimensions of uncertainty when it comes to planning for those years, including returns on investments, health, longevity, Social Security benefits, and the level and type of support available from family members. Even with substantial planning, unanticipated events such as losing a job near retirement age, developing a serious illness, or the early death of a spouse can put pressure on even the most well-planned retirement portfolios.

Achieving financial well-being in retirement requires difficult choices and trade-offs long before retirement age. Individuals need to make decisions about how much to spend and how much to save. It is difficult to weigh the benefits of saving for retirement against day-to-day expenses, paying for a child's college education, saving for a small business, or spending money on pleasures like vacations and eating out. But aside from the decision about how much to save, individuals face a complicated set of choices about how to save. It is challenging to figure out how best to allocate assets across various types of retirement accounts, such as 401(k) plans and the various types of individual retirement accounts (IRAs). Annuities and other insurance products are complex and require a degree of financial sophistication to understand and successfully navigate.

Individuals and households are facing these challenges against a backdrop of stagnant real wage growth and fiscally strained public sector programs. With the aging of the baby boom generation and rising life expectancy, the number of retirees receiving public support has increased markedly, putting fiscal pressures on the Social Security, Medicare, and Medicaid programs. At the same time, health-care costs for seniors continue to rise. Taken together, demographic changes, gains in longevity, and higher medical costs mean that a large and increasing share of our nation's resources is devoted to supporting the elderly. Absent a dramatic change in policy, the public costs of providing care for seniors will rise. This growth

Introduction continued from page 1

presents additional public sector challenges, which, if unmet, will create uncertainty about how much individuals can reasonably expect to rely on these programs to support them in their retirement years.

A founding principle of The Hamilton Project's economic strategy is that individual economic security is a cornerstone of our nation's long-term prosperity. Achieving financial well-being in retirement is an important component of that goal. In that spirit we offer this framing document to bring attention to trends in Americans' financial security and preparedness for retirement.

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CHAPTER 1:
The Challenges of Preparing for Retirement

Many Americans worry that they will not have enough money to live comfortably in retirement. Among the issues facing them are longer life spans and the risk of spending exorbitant amounts of savings on long-term services and supports (LTSS) in old age. As the need for those services increases, so too does the amount of resources that individuals must have in order to avoid outliving their savings.

1. **Only half of nonretired American adults expect to have enough money to live comfortably in retirement.**

2. **Americans are living longer: More than three out of five 65-year-olds today will reach age 80, a marked increase from 50 years ago.**

3. **Around one-half of American seniors will pay out-of-pocket expenses for long-term services and supports, such as nursing home facilities or home-based health care.**

1. Only half of nonretired American adults expect to have enough money to live comfortably in retirement.

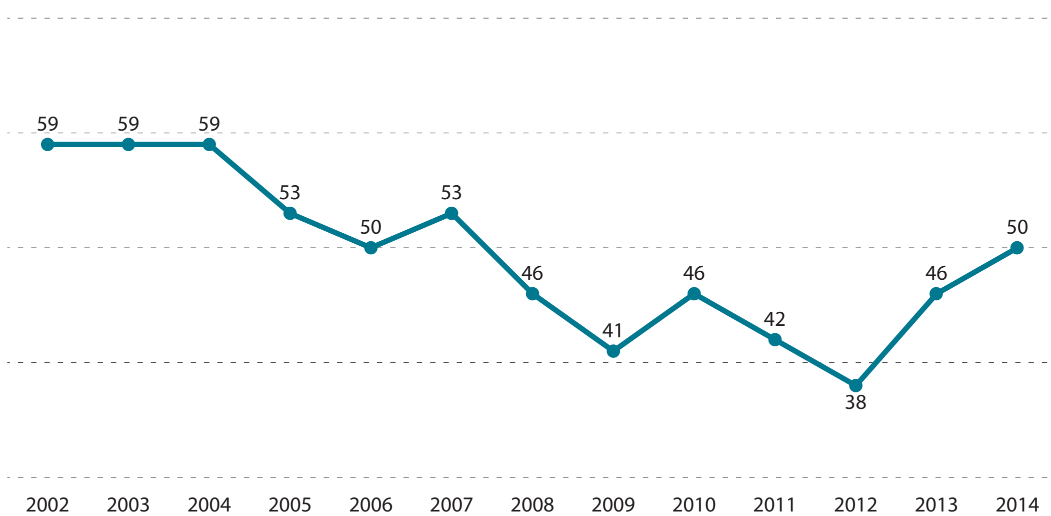
In 2014 approximately half of nonretired Americans reported being confident that they will have enough money to live comfortably in retirement. This share has hovered around 40 to 50 percent since 2005. These expectations about financial well-being in retirement vary relatively little across age groups, suggesting that concerns about financial well-being in retirement are pervasive across ages. Among adults between the ages of 18 and 29, the share is 52 percent; among nonretired adults 50–64 years old, the share is 45 percent (Gallup 2014). These low confidence levels may reflect the fact that about half of baby boomers born between 1948 and 1953 have thought about retirement just "a little" or "hardly at all" (Lusardi and Mitchell 2007).

Surveys of retirees show slightly higher levels of confidence. In a 2015 survey by the Employee Benefit Research Institute, just one in four retirees reported that she was "not too confident" or "not at all confident" that she would have enough money to live comfortably in retirement. These responses, however, diverged dramatically for workers with and without formal retirement plans. Among those with a traditional pension, 401(k) plan, or IRA, over two-thirds were "somewhat confident" or "very confident," compared to just one-third of those without such a plan (Employee Benefit Research Institute 2015).

FIGURE 1.

Percent of Nonretired Americans Who Expect to Have Enough Money to Live Comfortably in Retirement, 2002–14

The share of individuals who expect to live comfortably in retirement has hovered at around 40 to 50 percent for the past ten years.



Source: Gallup 2014.

Note: Results for this Gallup poll are based on telephone interviews with a random sample of 1,026 adults, age 18 and older, living in all 50 U.S. states and the District of Columbia.

2. Americans are living longer: More than three out of five 65-year-olds today will reach age 80, a marked increase from 50 years ago.

Americans today are living longer than did previous generations, thanks to advances in medicine and changes in lifestyle. As shown in the dark green bars, 50 years ago a man who had reached 65 had an 81 percent chance of reaching 70, a 41 percent chance of hitting 80, and a 10 percent chance of turning 90. By comparison, the chances of reaching those same ages for a man who reaches 65 in 2015 are (as shown in the light green bars) 90 percent, 62 percent, and 22 percent, respectively. Put differently, the likelihood of a 65-year-old man seeing his 80th birthday has increased by 50 percent, and the likelihood of him seeing his 90th birthday has more than doubled. Women live longer than men on average, and they have experienced smaller but still substantial gains in life expectancy over the past 50 years.

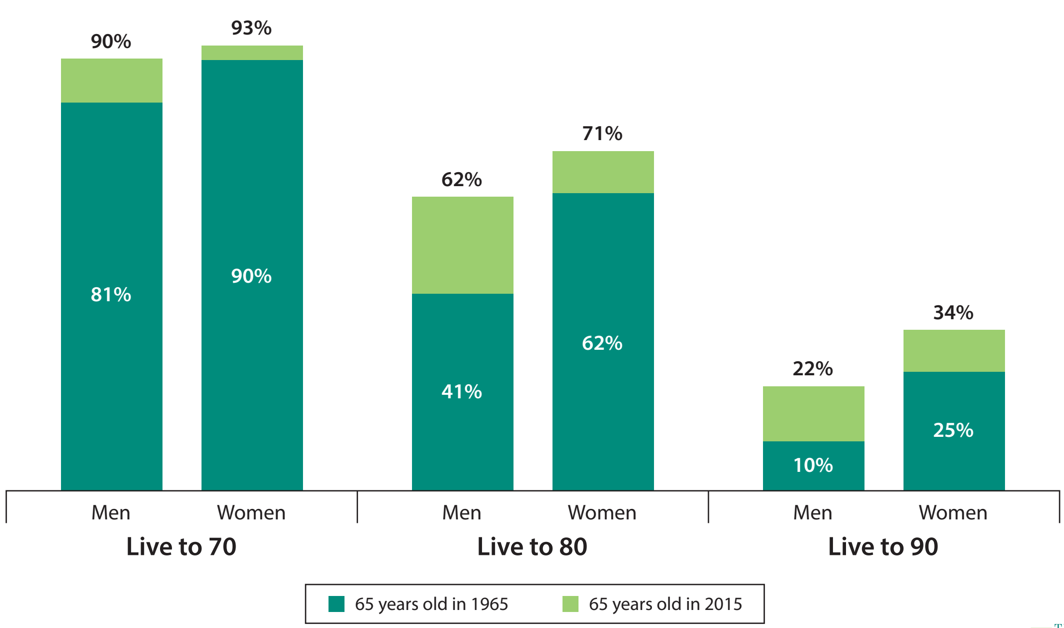
It is worth noting that increases in life expectancy have not been uniform across the population. People with high levels of income and education have seen greater increases than those with less income and education. In fact, for some demographic groups, such as whites without a high school diploma, life expectancy has fallen over the past quarter century (Olshansky et al. 2012). Although the underlying causes have not been conclusively determined, higher obesity and smoking rates among the less educated, in addition to more-limited access to health care, may have played a role in this decline.

The longevity gains experienced across most of the population have implications for the resources required to sustain a comfortable life throughout retirement. From the perspective of financial planning, these increases in life expectancy can raise the likelihood of outliving one's savings or unexpectedly reducing living standards in retirement.

FIGURE 2.

Probability of a 65-Year-Old Living to a Given Age, by Sex and Year

More than one in three women and one in five men who are 65 years old today will reach age 90.



Sources: Social Security Administration 2005; authors' calculations.

Note: The probabilities reflect the chance that an individual who has reached a 65th birthday will reach a 70th, 80th, or 90th birthday, respectively. For more details, see the technical appendix.

3. Around one-half of American seniors will pay out-of-pocket expenses for long-term services and supports, such as nursing home facilities or home-based health care.

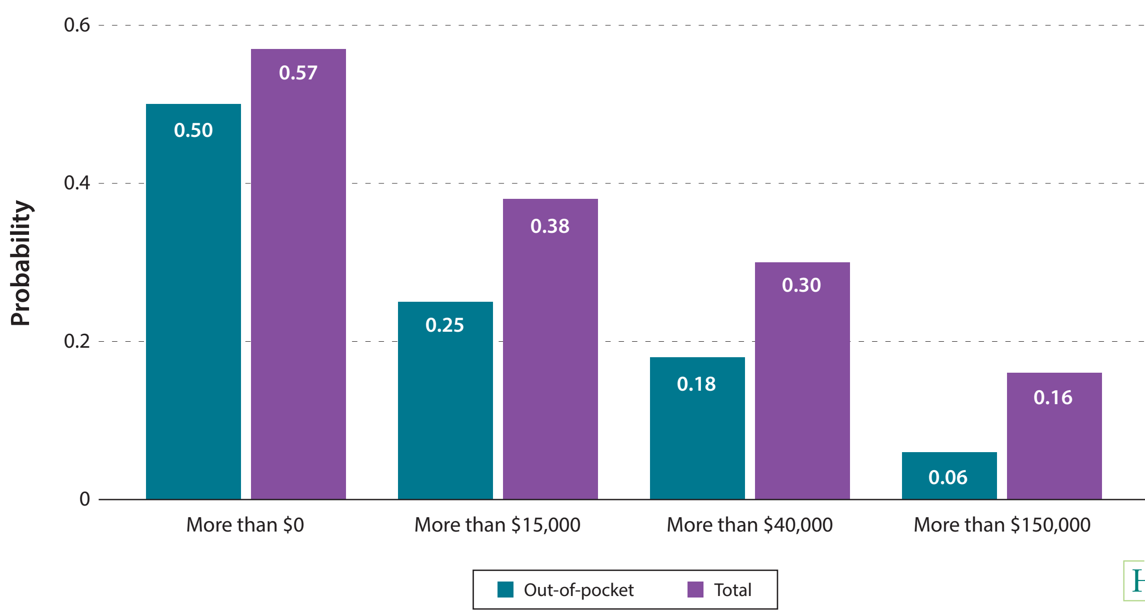
As shown in figure 3, half of all Americans turning 65 in 2014 will eventually face out-of-pocket expenditures on long-term services and supports (LTSS)—services provided in nursing homes, adult day-care centers, or in people's homes that support those who have difficulty with routine daily activities such as bathing or dressing (Kemper, Komisar, and Alecxih 2005). Despite this fact, the private market for insurance against this risk is very small, in contrast to many other kinds of health care. Fewer than one in seven people age 65 or older has private insurance for LTSS. Among those receiving these services, coverage is even lower. Americans paid $59 billion out of pocket for LTSS in 2013, whereas private insurers paid just $25 billion (Kaiser Family Foundation 2015). By comparison, for prescription drugs, Americans paid $45 billion out of pocket in 2013, far less than the $117 billion paid by private insurers (Centers for Medicare and Medicaid Services [CMS] 2015).

It can be difficult for individuals without substantial wealth to afford LTSS. In 2015 the median annual cost for home-based health care and nursing facilities was $44,616 and $80,300, respectively (Genworth Financial 2015). In 2014, as figure 3 shows, a 65-year-old faced a nontrivial likelihood of spending large sums on these services. In the absence of private insurance, LTSS users must rely on their own savings, or on Medicaid or Medicare. In 2013 public spending on LTSS, which comes primarily from Medicaid, was $223 billion—accounting for over two-thirds of total LTSS spending (Kaiser Family Foundation 2015). By comparison, for all types of health care combined, Medicare and Medicaid accounted for just over one-third of spending in 2013 (CMS 2015).

FIGURE 3.

Probability that Expected Lifetime Expenditures on Long-Term Services and Supports Exceed Various Thresholds, for 65-Year-Olds, 2015

For nearly one in five Americans who turned 65 in 2014, expected out-of-pocket payments for long-term services and supports (LTSS) will exceed $40,000.



THE HAMILTON PROJECT BROOKINGS

Sources: Yin 2015; authors' calculations.

Note: Original data come from Kemper, Komisar, and Alecxih (2005), which Yin (2015) adjusts to reflect price growth in LTSS. For more details, see the technical appendix.

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CHAPTER 2: How Americans Save

Over the past several decades, Americans' savings have shifted away from traditional pensions and toward defined-contribution plans—a trend that points to new challenges. Among them is greater individual responsibility in saving for retirement and making investment decisions across liquid and illiquid assets.

4. **In 1978 two-thirds of dedicated retirement assets were held in traditional pensions; by contrast, only one-third are today.**

5. **Middle-class households near retirement age have about as much wealth in their homes as they do in their retirement accounts.**

6. **Among households near retirement age, those in the top half of the net worth distribution had more wealth in 2013 than their counterparts did in 1989, while those in the bottom half had less wealth.**

7. **Home equity is a very important source of net worth to all but the wealthiest households near retirement age.**

4. In 1978 two-thirds of dedicated retirement assets were held in traditional pensions; by contrast, only one-third are today.

The composition of Americans' tax-preferred retirement savings has shifted tremendously in recent decades. Whereas traditional pensions (i.e., defined-benefit plans that make payments based on salary history and duration of employment) accounted for 67 percent of tax-preferred savings in 1978, as shown in figure 4, their share had fallen by half, to 34 percent, by the end of 2014. Meanwhile, the share held in defined-contribution plans such as 401(k)s and in IRAs—where payouts depend on how much individuals contribute, the return of the invested funds, and how much individuals elect to withdraw—nearly tripled from 20 percent to 58 percent (Council of Economic Advisers 2015).

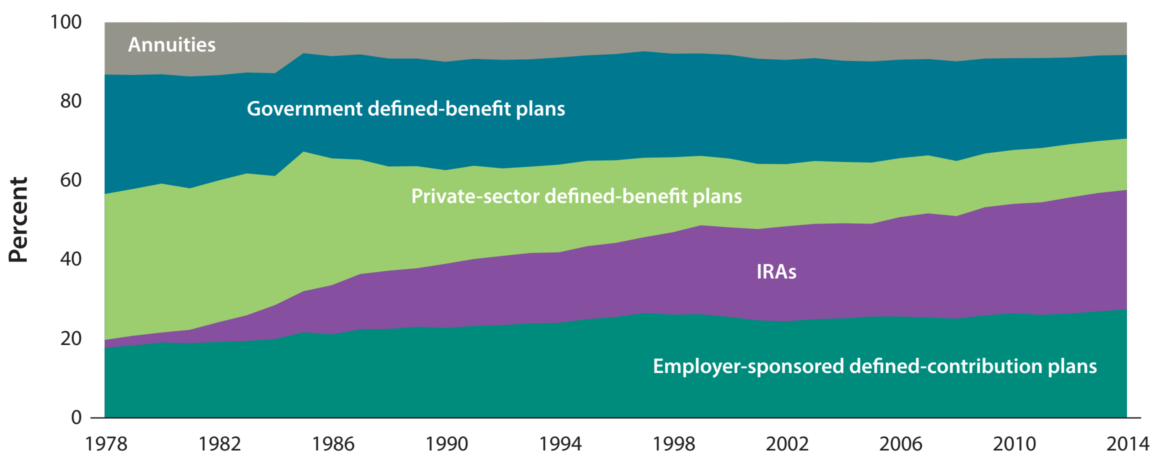
Changes in the composition of retirement savings correspond to changes in the types of plans in which Americans participate and shifts in the institutions supporting these plans. Just 13 percent of workers participated in defined-benefit plans in 2013, down from roughly 32 percent in 1989, while the share with defined-contribution plans increased from 25 percent to 38 percent over the same period (Center for Retirement Research 2014). Importantly, about half of private-sector employees with defined-benefit plans also contribute to defined-contribution plans, and many also have IRAs. These trends point to greater individual responsibility in saving for retirement: defined-contribution plans and IRAs shift many decisions about saving, investment options, and distributions away from employers and toward individuals. Accompanying this greater individual responsibility is the possibility of account withdrawals before retirement (called leakage), which can erode savings in defined-contribution plans and IRAs (Munnell and Webb 2015).

Looking at savings in the aggregate masks two important aspects of the retirement savings landscape: First, there are sizable differences in saving behavior across the distribution of wealth (as shown in facts 5, 6, and 7). Second, employers are responsible for establishing defined-contribution plans and selecting the menu of available investment options on behalf of their employees. They also determine whether their employees are auto-enrolled, and decide whether to match employee contributions or to make their own contributions to the employee's plan. Thus, while responsibility for retirement saving increasingly falls to individuals themselves, employers continue to play a critical role in decisions about saving.

FIGURE 4.

Composition of Americans' Tax-Preferred Savings, by Type of Account, 1978–2014

In 2014 nearly 60 percent of Americans' tax-preferred retirement savings were held in either IRAs or defined-contribution plans, and only 13 percent were held in private sector traditional pensions (i.e., defined-benefit plans).



Source: Council of Economic Advisers 2015.

Note: Council of Economic Advisers (2015) uses data from the Investment Company Institute.

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5. Middle-class households near retirement age have about as much wealth in their homes as they do in their retirement accounts.

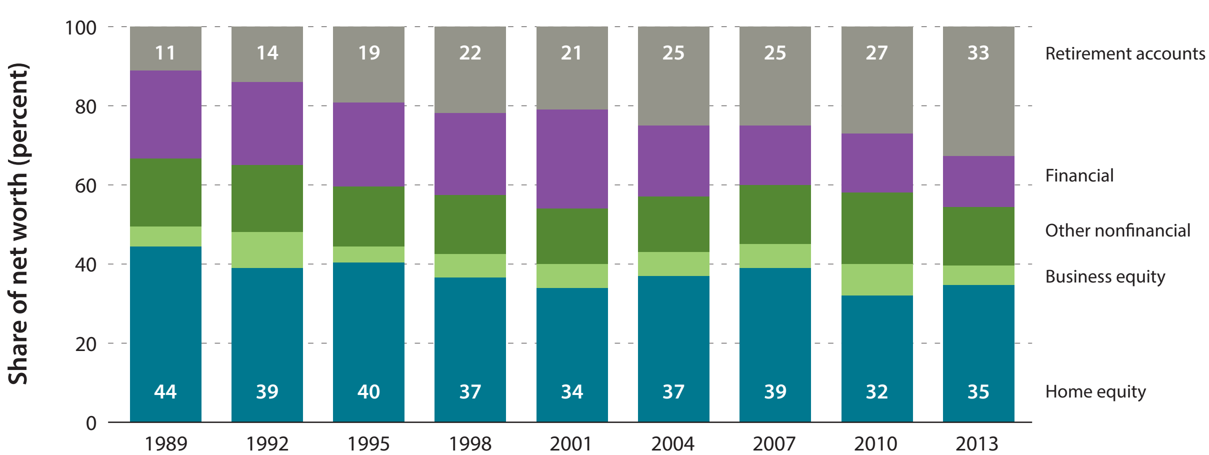
Even among households nearing retirement age, much of net worth (i.e., total assets minus total liabilities) is held outside dedicated retirement accounts. As shown in figure 5, over the past quarter century the largest single source of wealth for all but the richest households nearing retirement age has been their homes, which accounted for about two-fifths of net worth in the early 1990s and accounts for about one-third today (Survey of Consumer Finances 2014).

However, over this period the share of wealth in individually directed retirement accounts—that is, defined-contribution plans such as 401(k)s and IRAs—has tripled, as the types of plans in which Americans participate have changed (see fact 4). The share in individually directed retirement accounts in 2013 is about equal to the share held in home equity. Notably, because the net worth data shown here do not count the value of traditional defined-benefit pensions or anticipated Social Security benefits, the relative growth in the share of wealth held in retirement accounts has come largely at the expense of other financial assets, such as stocks, bonds, mutual funds, certificates of deposit (CDs), savings accounts, and the like. Because retirement accounts come with sizable tax breaks compared to these other financial assets, this shift is perhaps not surprising. In contrast, the share of net worth in business equity (ownership in non-publicly traded firms) and in nonfinancial assets (other real estate, vehicles, jewelry, art, and collectibles) has changed relatively little since 1989 for most households near retirement age.

FIGURE 5.

Components of Net Worth for Select Years, Households Age 55–64, Excluding Top Decile

The share of net worth in retirement accounts for households near retirement age tripled between 1989 and 2013 but still accounts for just one-third of their wealth.



Sources: Survey of Consumer Finances 2014; authors' calculations.

Note: The sample excludes households with net worth in the top 10 percent in each year to avoid skewing the lower 90 percent of the distribution. See the technical appendix for definitions of asset categories.

6. Among households near retirement age, those in the top half of the net worth distribution had more wealth in 2013 than their counterparts did in 1989, while those in the bottom half had less wealth.

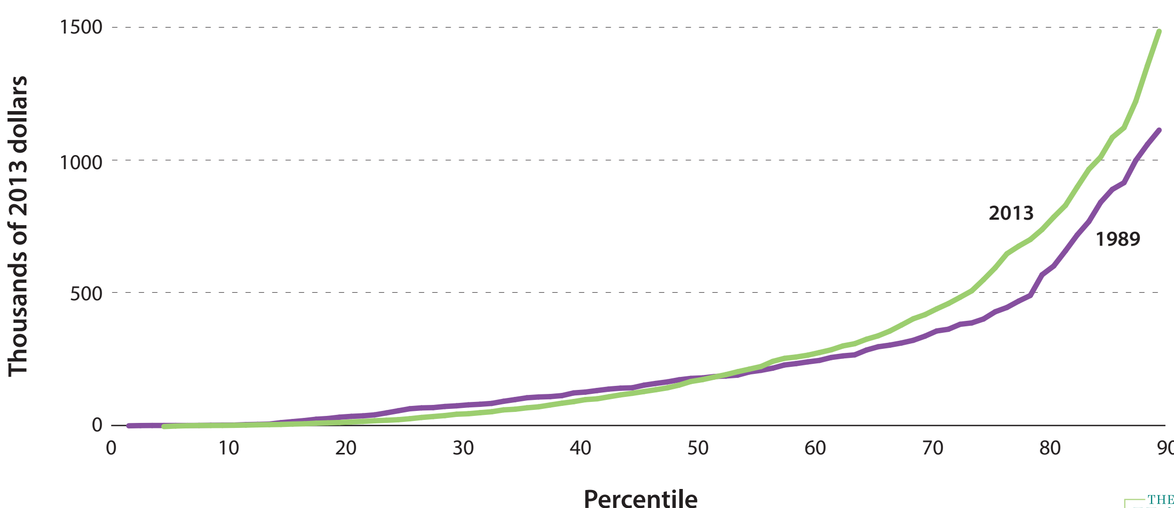
In 2013 the net worth of the typical household nearing retirement age (with heads of household age 55–64) was about $166,000. Adjusting for inflation, this level was slightly below the $177,000 that the equivalent household held in 1989. Put somewhat differently, the typical baby boomer household nearing retirement today is no better off in terms of wealth—and if anything is slightly worse off—than their parents' household was at a similar point in their lives.

Of course, not all households are typical, and these median values obscure vast and growing differences in wealth among households near retirement age. Figure 6 shows the distributions of net worth in both 1989 and 2013 for the bottom 90 percent of households on the verge of retirement; the top decile of such households is excluded in order to make the rest of the distribution legible. The horizontal axis shows the percentile of households' net worth for each year, and the vertical axis shows the values these percentiles correspond to. At just above the median, or the 50th percentile, the distributions cross: to the left of this point the distribution for 2013 is below that for 1989, and to the right of this point the distributions are flipped. In other words, roughly the bottom half of near-retirement-age baby boomer households have less wealth than their parents' households had in 1989. (Although the differences look small in the figure, they correspond to gaps of several tens of thousands of dollars, with many of the households in this range in 2013 having between one-half to two-thirds the wealth of equivalent households in 1989.) In contrast, baby boomer households in the top half of the wealth distribution are better off than their parents were a quarter-century ago, and these relative gains are larger for the very wealthiest households.

FIGURE 6.

Net Worth of Households Age 55–64, by Percentile of the Net Worth Distribution, Excluding Top Decile, 1989 vs. 2013

Among households near retirement age, median net worth, adjusted for inflation, has changed little between 1989 and 2013.



THE HAMILTON PROJECT
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Sources: Survey of Consumer Finances 2014; authors' calculations.

Note: The figure excludes households with net worth in the top 10 percent of the distribution to make the figure legible.

7. Home equity is a very important source of net worth to all but the wealthiest households near retirement age.

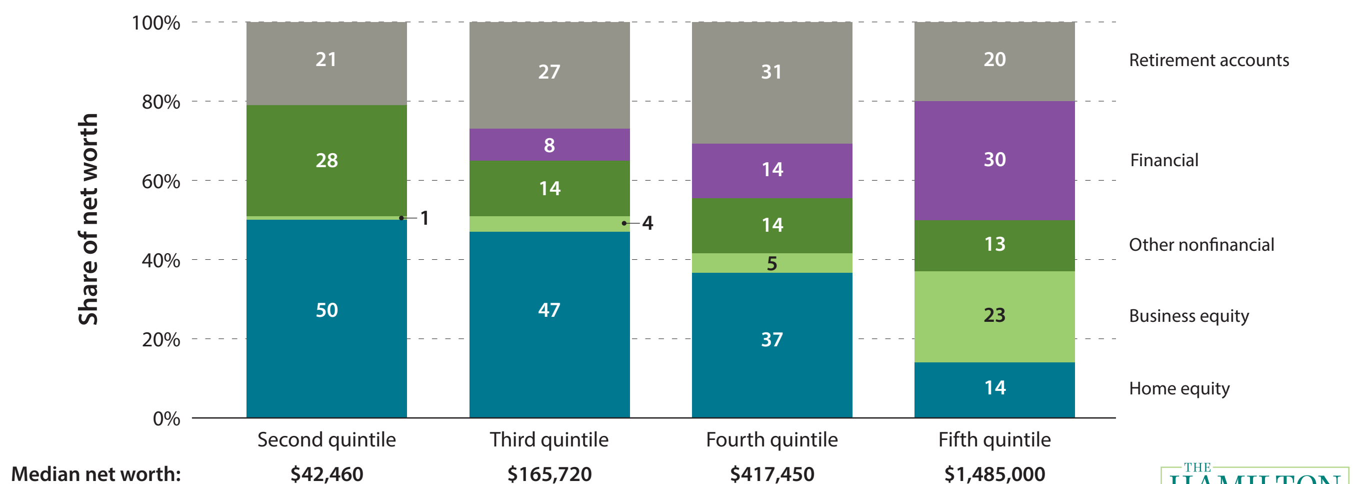
Home equity is an important source of wealth for middle-income households, accounting for more than one-third of total net worth for the second, third, and fourth quintiles of the net worth distribution (Survey of Consumer Finances 2014). However, housing wealth is not a liquid asset, and homeowners rarely access home equity during retirement through financial products such as reverse mortgages or home equity lines of credit.

As shown in figure 7, home equity declines as a share of net worth as wealth increases, comprising just 14 percent for the fifth quintile. In contrast to home equity, financial assets increase as a share of net worth as wealth increases, accounting for 30 percent in the fifth quintile, but a negligible share in the second quintile. The share of wealth in retirement accounts also increases with net worth, except for the fifth quintile, which has about the same share in retirement accounts as does the second quintile. The fifth quintile has a much larger share in business equity—almost a quarter—than any other quintile. (The figure leaves out the bottom quintile of households because they have negative net worth. It is likely that these households will rely almost exclusively on Social Security in retirement.)

FIGURE 7.

Components of and Typical Net Worth for Households Age 55–64, by Quintile of Net Worth Distribution, 2013

Home equity and retirement accounts comprise around 70 percent of net worth for the second, third, and fourth quintiles of the net worth distribution, but about one-third for the top quintile.



Sources: Survey of Consumer Finances 2014; authors' calculations.

Note: The values on the bars show means within net worth quintiles of households whose head is age 55–64. The first quintile is excluded from the figure because its mean net worth is negative. "Other nonfinancial" refers to the net value of other real estate, vehicles, art, jewelry, collectibles, etc. "Financial" refers to checking and savings accounts, money market accounts, CDs, stocks, bonds, mutual funds, etc., but excludes retirement accounts. For more details, see the technical appendix.

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CHAPTER 3: Challenges for the Future

Achieving financial well-being in retirement requires a certain degree of financial literacy, but many Americans lack such skills. In addition, with more retirees for every working American than at any other time in the history of the Social Security program, new fiscal pressures make it increasingly important for the federal government to find efficient and effective ways to help Americans prepare for a financially secure retirement.

8. **Basic financial concepts are not well understood by many Americans.**
9. **The ratio of current workers to current Social Security beneficiaries is half what it was in 1960.**
10. **Federal tax breaks to incentivize retirement saving totaled nearly $100 billion in 2014.**

8. Basic financial concepts are not well understood by many Americans.

Americans consistently demonstrate limited financial literacy across a range of measures and studies (Hastings, Madrian, and Skimmyhorn 2012; Lusardi and Mitchell 2014). Figure 8 presents one widely used measure of financial literacy: the ability to correctly answer three questions about compound interest, inflation, and risk diversification. Fewer than half of Americans can accurately answer these questions, though older adults are more likely than younger adults to provide correct responses (Hastings, Madrian, and Skimmyhorn 2012). Other surveys that measure financial literacy through questions about credit, savings patterns, debt, risk, and general financial management also consistently reveal limited understanding of financial products and concepts (Hilgert, Hogarth, and Beverly 2003; Kimball and Shumway 2006; Lusardi and Tufano 2009). Moreover, numerous academic studies document widespread, typically avoidable, and often costly financial mistakes that households make (Agarwal et al. 2009; Campbell 2006; Choi, Laibson, and Madrian 2011).

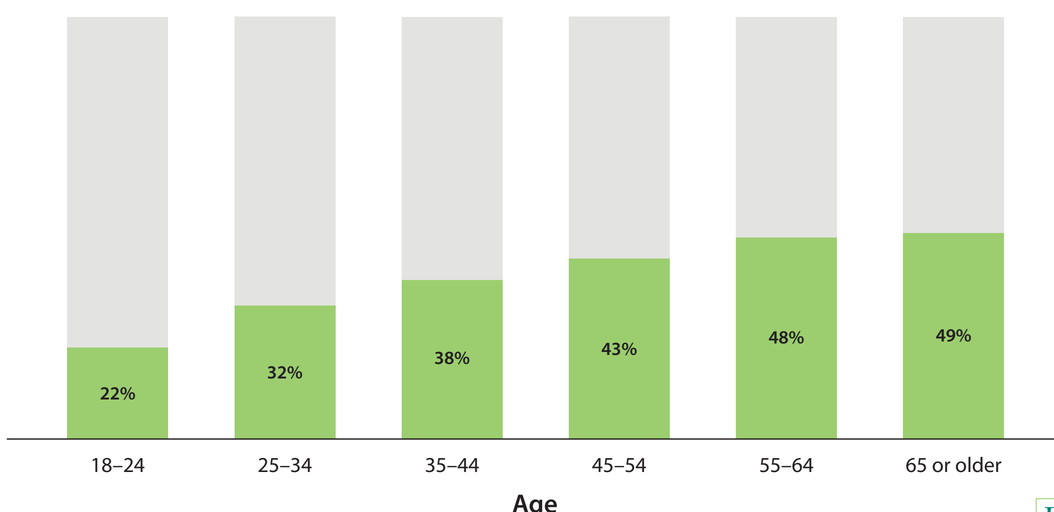
Recognizing their limited financial literacy, around half of Americans under retirement age turn to financial advisers for help, seeking unbiased, high-quality financial advice that is in their best interest (Society of Actuaries 2014). However, many advisers are compensated based on the products they sell rather than on the quality of the advice they provide, and so might face conflicts of interest between doing what is best for their clients and doing what is best for themselves. Research finds that advisers facing such conflicts frequently steer investors to products providing larger payments to the advisers and lower returns and higher fees for investors, suggesting that policies to align the incentives of advisers and their clients would enhance investors' savings (Christoffersen, Evans, and Musto 2013; Mullainathan, Noeth, and Schoar 2012).

It is an open question whether there are effective, large-scale interventions for improving financial literacy. Policy makers focused on increasing private saving must directly confront the underwhelming evidence of financial literacy training when evaluating the payoffs of promoting financial education against those of other policies, such as automatic enrollment in defined-contribution plans (Caskey 2006; Hastings, Madrian, and Skimmyhorn 2012).

FIGURE 8.

Percent of American Adults Who Demonstrated an Understanding of Compound Interest, Inflation, and Risk Diversification

Only one-third of Americans age 25–34 and one-half of those age 55–64 can accurately answer questions about compound interest, inflation, and risk diversification.



Source: Hastings, Madrian, and Skimmyhorn 2012.

Note: Hastings, Madrian, and Skimmyhorn (2012) use the 2009 National Financial Capability Study Survey, which took a random sample of 28,146 individuals. The bars in figure 8 show what percent of respondents provided correct answers to three financial literacy questions about (1) interest rates and compound interest, (2) inflation, and (3) risk diversification.

9. The ratio of current workers to current Social Security beneficiaries is half what it was in 1960.

The Social Security system is primarily a pay-as-you-go system funded through a dedicated payroll tax: current workers pay into the system, and funds are paid out to current beneficiaries. In 1960 there were approximately nine workers paying into the system for every individual receiving Social Security benefits (Social Security Administration 2014). This ratio fell steadily to just over five workers per beneficiary by 1985 and then held steady until the mid-2000s. The precipitous decline in the ratio between 1960 and 1985 is primarily due to the growth in beneficiaries as cohorts born between 1900 and 1920 aged into the system, but is also attributable to gains in longevity.

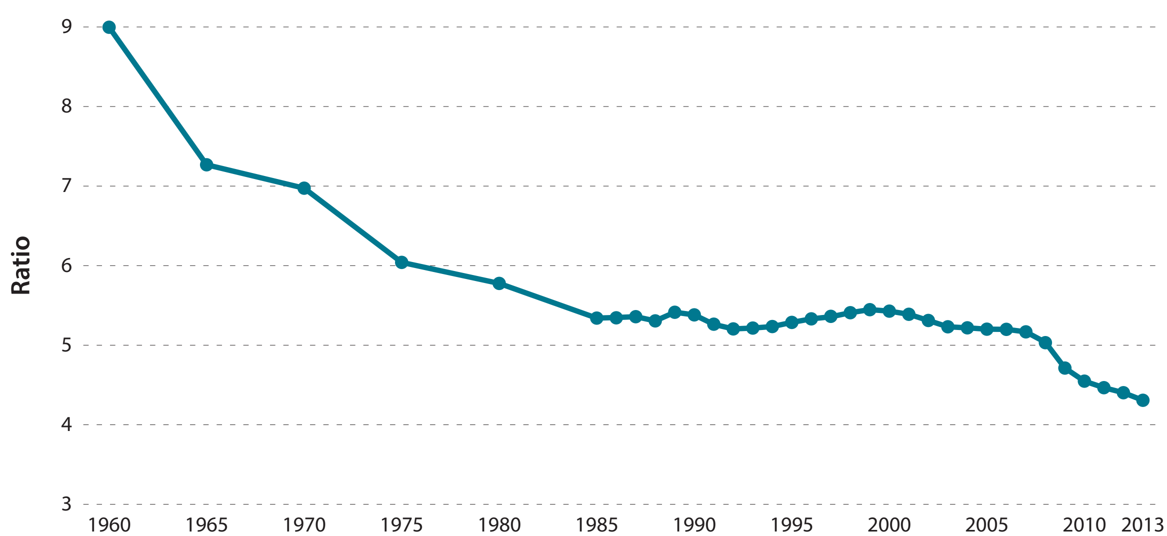
Since the mid-2000s, the ratio of workers to retirees has been falling: today there are only 4.3 workers for every Social Security beneficiary. This more-recent decline is attributable to a number of factors. First, demographic trends—namely the aging of the baby boom generation, a low fertility rate, and a stagnant net migration rate—have increased the number of retirees relative to the working-age population. Second, labor-force participation rates have been declining in recent years among young and middle-age workers (Aaronson et al. 2014).

Social Security has been remarkably successful at driving down rates of poverty among the elderly, and is the most important source of income for the poorer half of retirees (Poterba 2014). However, a fall in the ratio of workers to retirees places fiscal strain on the Social Security program and calls into question its sustainability without changes to benefits, tax rates, or both. Because individuals are living longer but generally retire and start claiming benefits at a similar age as previous generations did, a greater share of federal resources has shifted toward supporting the elderly, with the share of the federal budget spent on Social Security rising from 13.4 percent in 1962 to 23.5 percent in 2014.

FIGURE 9.

Ratio of Workers to Retirees, 1960–2013

In 2013 there were 4.3 U.S. workers supporting each Social Security recipient, an all-time low.



Sources: Social Security Administration 2014; authors' calculations.

Note: "Workers" includes those covered by Old-Age, Survivors, and Disability Insurance (OASDI), accounting for 94 percent of the workforce. "Retirees" includes retired workers age 62 and older who receive Old-age Insurance Benefits, but excludes spouses and children of retired workers, as well as those collecting Survivor or Disability Insurance benefits.

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10. Federal tax breaks to incentivize retirement saving totaled nearly $100 billion in 2014.

The federal government promotes various social goals through tax expenditures. These provisions in the tax code incentivize certain kinds of activities by exempting them from taxation, but thereby reduce tax revenue. Taken together, tax breaks to promote savings comprise the second-largest federal tax expenditure, estimated at $95 billion in 2014 (Joint Committee on Taxation 2014), behind only the tax breaks for employer-provided health insurance.

Within the group of tax breaks for retirement savings, nearly half is for employer-sponsored defined-contribution plans, to which employees can contribute up to $18,000 (in TY2015) tax free, or up to $53,000 including employer contributions. Traditional and Roth IRAs, which correspond to tax-free contributions and tax-free withdrawals, respectively, account for a smaller share, in part reflecting their lower annual contributions limits ($5,500 in TY2015). Defined-benefit plans (i.e., traditional pensions) make up just over a quarter of the tax expenditure for savings. The remainder of the expenditure comprises two small tax breaks: the saver's credit for lower-income families, and Keogh plans for the self-employed.

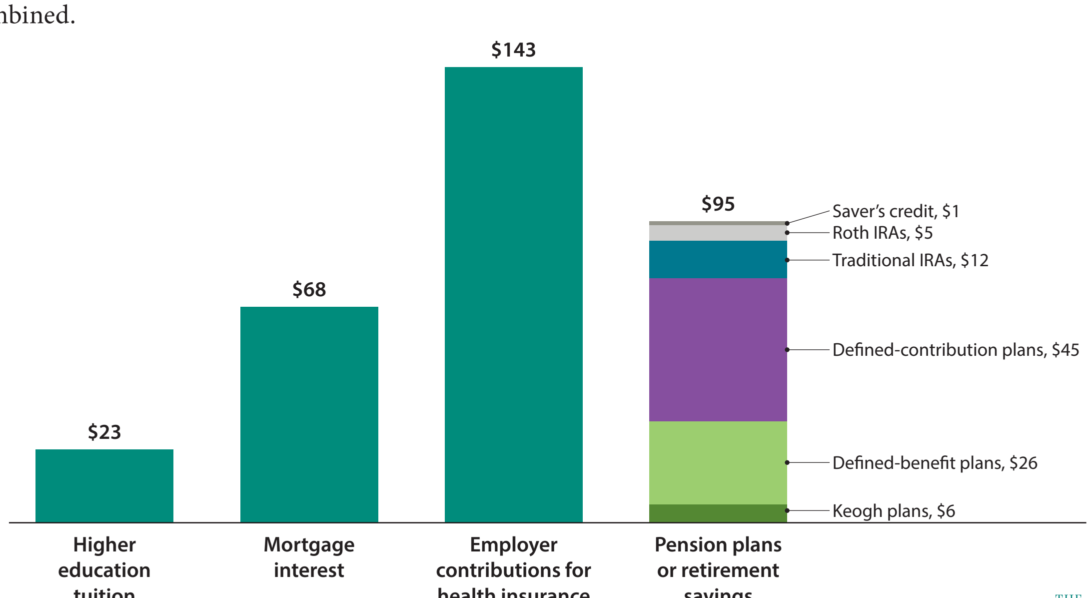
According to Congressional Budget Office (CBO) estimates, these tax expenditures for retirement savings disproportionately subsidize the savings of financially sophisticated and wealthy households because these households are more likely to hold retirement accounts (CBO 2013). For example, the top one-fifth of the income distribution receives 66 percent of the tax breaks. Moreover, research suggests that these subsidies generate little additional retirement savings because households reallocate to tax-preferred accounts the savings they would have accumulated anyway (Chetty et al. 2012).

FIGURE 10.

Tax Expenditure Estimates, by Budget Function, 2014

(billions of dollars)

Tax expenditures for retirement saving exceed those for the mortgage interest tax deduction and higher education tax credits combined.



THE HAMILTON PROJECT
BROOKINGS

Source: Joint Committee on Taxation 2014.

Note: "Higher education tuition" refers to credits for postsecondary education tuition. "Mortgage interest" refers to deductions for mortgage interest on owner-occupied residences. "Employer contributions for health insurance" refers to exclusions of employer contributions for health care, health insurance premiums, and long-term care insurance premiums. "Keogh plans" refers to pension plans available to self-employed individuals or unincorporated businesses. "Saver's credit" refers to credits for certain individuals for elective deferrals and IRA contributions.

Technical Appendix

Fact 2. Americans are living longer: More than three out of five 65-year-olds today will reach age 80, a marked increase from 50 years ago.

Figure 2. Probability of a 65-Year-Old Living to a Given Age, by Sex and Year

Sources: Social Security Administration 2005; authors' calculations.

Note: Data come from Social Security Administration (2005). For each sex and birth year, the probability of a 65-year-old individual living to age 70, 80, or 90 was calculated by dividing the number of persons reaching their 70th, 80th, or 90th birthday, respectively, by the number of people who reached their 65th birthday.

Fact 3. Around one-half of American seniors will pay out-of-pocket expenses for long-term services and supports, such as nursing home facilities or home-based health care.

Figure 3. Probability that Expected Lifetime Expenditures on Long-Term Services and Supports Exceed Various Thresholds, for 65-Year-Olds, 2015

Sources: Yin 2015; authors' calculations.

Note: Original data come from Kemper, Komisar, and Alecxih (2005, Table 2), which estimates the probability that a 65-year-old in 2005 faces various levels of expected lifetime expenditures on long-term services and supports (which are discounted to present value). Yin (2015) adjusts these expenditure cutoffs to 2015 dollars by multiplying them by 4 percent each year over ten years, which reflects general inflation of 3 percent annually and growth in wages and fringe benefits of 1 percent annually. Yin (2015) presents these data by showing the probability that expected lifetime expenditures fall within various intervals, for example between $15,000 and $40,000. Figure 3 shows the probability that expected lifetime expenditures exceed various cutoffs by summing the probabilities that correspond to intervals greater than the given cutoff. For example, the probability that expected lifetime expenditures exceed $15,000 was calculated by adding the probabilities that expected lifetime expenditures fall within the following intervals, which are the intervals that Yin (2015) presents: $15,000–$40,000, $40,001–$150,000, and $150,001 and above. Continuing the example, the probability that expected lifetime expenditures exceed $40,000 was calculated by adding the probabilities that correspond to the following intervals: $40,001–$150,000, and $150,001 and above.

Fact 5. Middle-class households near retirement age have about as much wealth in their homes as they do in their retirement accounts.

Figure 5. Components of Net Worth for Select Years, Households Age 55–64, Excluding Top Decile

Sources: Survey of Consumer Finances 2014; authors' calculations.

Note: "Retirement accounts" refers to 401(k)s, 403(b)s, 457s, IRAs, and Keogh plans. "Financial" refers to checking and savings accounts, money market accounts, CDs, stocks, bonds, and mutual funds, but not retirement accounts. "Other nonfinancial" refers to the net value of real estate other than the primary residence, vehicles, art, jewelry, and collectibles. "Business equity" refers to the net value of business ownership and non–publicly traded stock. "Home equity" refers to the net value of the primary residence, which is its market value minus the mortgage owed.

The sample includes households with heads of household age 55–64 and net worth at or below the 90th percentile of the net worth distribution. The top decile is excluded to avoid skewing the bottom 90 percent of the distribution. For each year, each asset category's share is calculated by summing the value of that asset category for all households in the sample and dividing that sum by the total net worth of the sample.

Fact 7. Home equity is a very important source of net worth to all but the wealthiest households near retirement age.

Figure 7. Components of and Typical Net Worth for Households Age 55–64, by Quintile of Net Worth Distribution, 2013

Sources: Survey of Consumer Finances 2014; authors' calculations.

Note: For asset category definitions, see the entry for figure 5 in in this technical appendix. The sample for figure 7 includes households with heads of household age 55–64. The figure excludes the first quintile, or bottom 20 percent, of the net worth distribution because its mean net worth is negative. For each of the remaining four quintiles, each asset category's share is calculated by summing the value of that asset category for all households in the quintile and dividing that sum by the total net worth of the quintile. Median net worth for each quintile is derived from the net worth distribution: the median net worth for the second, third, fourth, and fifth quintiles corresponds to the net worth at the 30th, 50th, 70th, and 90th percentile, respectively, of the net worth distribution.

Fact 9. The ratio of current workers to current Social Security beneficiaries is half what it was in 1960.

Figure 9. Ratio of Workers to Retirees, 1960–2013

Sources: Social Security Administration 2014; authors' calculations.

Note: "Workers" includes those covered by Old-Age, Survivors, and Disability Insurance accounting for 94 percent of the workforce. "Retirees" includes retired workers age 62 and older who receive Old-age Insurance Benefits, but excludes spouses and children of retired workers, as well as those collecting Survivor or Disability Insurance benefits. The number of workers and retirees come from Table 4.B1 and Table 5.B5, respectively, in Social Security Administration (2014). The ratio presented in figure 9 was calculated by dividing the number of workers by the number of retirees for each year shown in the figure. The points in the figure correspond to the years for which data are available.

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Select Hamilton Project Papers on Retirement Savings

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  John N. Friedman (2015)
  Workers rely more than ever on individually directed retirement savings vehicles, such as defined-contribution plans and IRAs, to provide the income necessary for a comfortable retirement. The author proposes combining the various types of retirement accounts into a single Universal Retirement Saving Account and instituting tax credits for businesses that encourage workers to save.

- **"Strengthening Risk Protection through Private Long-Term Care Insurance"**
  Wesley Yin (2015)
  Americans currently spend over $300 billion a year on long-term services and supports (LTSS), paid for through government programs, private insurance, and importantly, individuals' own out-of-pocket spending. The author proposes changes to the financing of long-term care (LTC) insurance so that individuals can have more-affordable and more-complete insurance against LTSS expenses, and so that insurance firms can manage their risks more efficiently.

- **"Better Ways to Promote Saving through the Tax System"**
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  J. Mark Iwry, William G. Gale, David C. John, and Lina Walker (2008)
  The authors offer a policy that would increase the role of lifetime income products in future retirees' overall retirement planning. This strategy addresses market function by making it easier for a substantial number of retirees to purchase lifetime income plans; the increased volume of sales would reduce prices and make them a better value for the average consumer.

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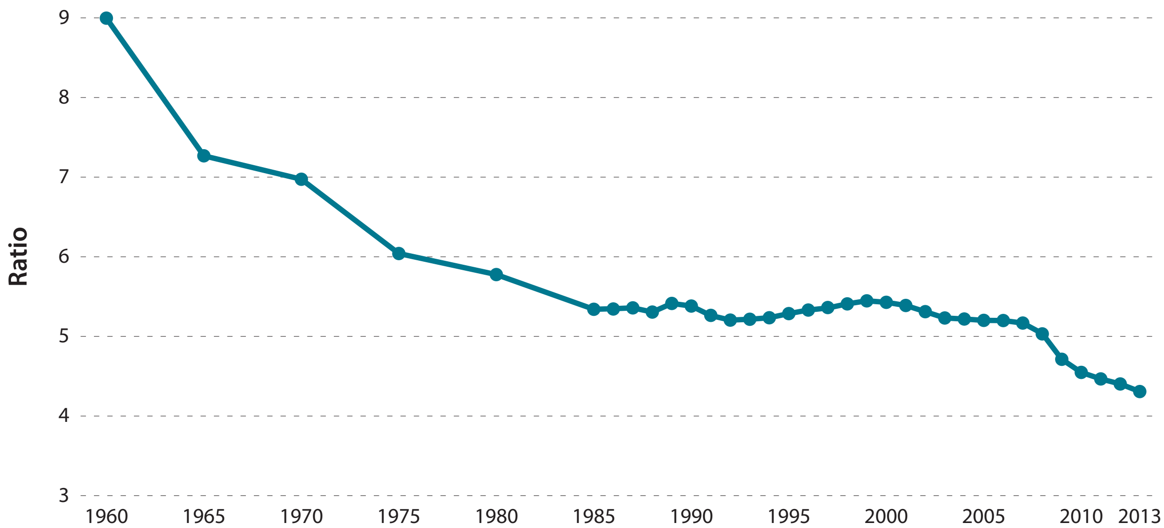
FIGURE 9.

Ratio of Workers to Retirees, 1960–2013

In 2013 there were 4.3 U.S. workers supporting each Social Security recipient, an all-time low.



Sources: Social Security Administration 2014; authors' calculations.

Note: "Workers" includes those covered by Old-Age, Survivors, and Disability Insurance (OASDI), accounting for 94 percent of the workforce. "Retirees" includes retired workers age 62 and older who receive Old-age Insurance Benefits, but excludes spouses and children of retired workers, as well as those collecting Survivor or Disability Insurance benefits.

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Retirement Facts:

1. Only half of nonretired American adults expect to have enough money to live comfortably in retirement.
2. Americans are living longer: More than three out of five 65-year-olds today will reach age 80, a marked increase from 50 years ago.
3. Around one-half of American seniors will pay out-of-pocket expenses for long-term services and supports, such as nursing home facilities or home-based health care.
4. In 1978 two-thirds of dedicated retirement assets were held in traditional pensions; by contrast, only one-third are today.
5. Middle-class households near retirement age have about as much wealth in their homes as they do in their retirement accounts.
6. Among households near retirement age, those in the top half of the net worth distribution had more wealth in 2013 than their counterparts did in 1989, while those in the bottom half had less wealth.
7. Home equity is a very important source of net worth to all but the wealthiest households near retirement age.
8. Basic financial concepts are not well understood by many Americans.
9. The ratio of current workers to current Social Security beneficiaries is half what it was in 1960.
10. Federal tax breaks to incentivize retirement saving totaled nearly $100 billion in 2014.

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