

Retirement Security

Promoting Retirement Security

Make Saving Easier & More Rewarding

Background

The past 25 years have brought a dramatic shift in our nation's pension system away from defined benefit plans and toward defined contribution accounts, such as 401(k)s and Individual Retirement Accounts (IRAs). But many of our public policies have not been updated to reflect the increased responsibility placed on workers to prepare for their own retirement.

Bolstering retirement security on top of Social Security need not be contentious and divisive. Given the known shortfalls in retirement saving among millions of American households, policies that improve retirement security are urgently needed. But these should not be accompanied by policies that merely encourage government-subsidized asset shifting among households already tending to be adequately prepared for retirement. Instead, policymakers should focus on the groups most in need, making saving easier and increasing the incentive to save for middle- and low-income workers.

Recommendations

The next President can improve and strengthen retirement security substantially through the following common-sense reforms that would make the defined contribution pension system easier to navigate and more rewarding for American families:

- make saving easier and less complicated possibly through automatic 401(k)s for workers at firms offering pensions and automatic IRAs for other workers
- restructure tax incentives for retirement saving
- reduce implicit taxes on retirement saving

Key Facts

- many families approaching retirement age have little or no retirement savings
- in 2004, half of all households headed by adults age 55 to 59 had \$15,000 or less in an employer-based 401(k)-type plan or tax-preferred savings plan account



- the current system provides the smallest benefits to the middle- and lower-income families who most need to save more in order to meet their basic needs in retirement

A full version of this proposal, as well as supporting background material, is available at www.opportunity08.org.

About the Author and the Project

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William G. Gale is a Brookings vice president and director of the Economic Studies Program. He also is co-director of the Urban-Brookings Tax Policy Center and director of the Retirement Security Project. Gale is an expert on tax policy, budget and fiscal policy; and public and private pensions. He served as a senior staff economist for the Council of Economic Advisers under President George H.W. Bush.

Opportunity 08 aims to help 2008 presidential candidates and the public focus on critical issues facing the nation, presenting policy ideas on a wide array of domestic and foreign policy questions. The project is committed to providing both independent policy solutions and background material on issues of concern to voters.