THE BROOKINGS INSTITUTION

BROOKINGS CAFETERIA PODCAST

HOW TO MAKE RETIREMENT INCOME MORE ACCESSIBLE FOR ALL AMERICANS

Washington, D.C.
Friday, August 6, 2021

PARTICIPANTS:

Introduction:

FRED DEWS
Managing Editor, Podcasts and Digital Projects
The Brookings Institution

Host:

BILL FINAN
Director, Brookings Institution Press

Guests:

J. MARK IWRY
Nonresident Senior Fellow, Economic Studies, The Brookings Institution
Visiting Scholar, Wharton School, The University of Pennsylvania

DAVID C. JOHN
Deputy Director, Retirement Security Project
Nonresident Senior Fellow, Economic Studies
The Brookings Institution
Senior Policy Advisor, AARP Public Policy Institute

ROBERT MAXIM
Senior Research Associate
Metropolitan Policy Program
The Brookings Institution

* * * *

P R O C E E D I N G S

DEWS: Welcome to the Brookings Cafeteria, the podcast about ideas and the experts who have them. I'm Fred Dews.

Pensions and retirement saving plans have helped millions of American households build financial security, particularly for when they stop working. But nearly one-third of elderly Americans still depend on Social Security for 90 percent of their income, and about two-thirds depend on Social Security for half their income. And tens of millions of Americans—especially women, minorities, younger workers, and others—don't have access to wealth accumulation vehicles to secure their retirement.

In a new book from the Brookings Institution Press, three scholars offer practical solutions to address these problems. In "Wealth After Work: Innovative Reforms to Expand Retirement Security," editors William Gale, Mark Iwry, and David John present proposals that show how policymakers can help all Americans gain access to retirement savings accounts, obtain better information about their savings choices, and better manage their wealth in retirement.

On this episode of the Brookings Cafeteria, Brookings Press Director Bill Finan interviews two of those editors. Mark Iwry is a nonresident senior fellow in Economic Studies at Brookings, a visiting scholar at the Wharton School at the University of Pennsylvania and has served as the U.S. Treasury Department's deputy assistant secretary for retirement and health policy. David John is deputy director of the Retirement Security Project at Brookings, a nonresident senior fellow in Economic Studies, and a senior policy advisor with AARP's Public Policy Institute.

Also on this episode, Robert Maxim, a senior research associate in the Metropolitan Policy Program, offers a new Metro Lens segment on how federal investment in regional public universities can support distressed communities.

You can follow the Brookings Podcast Network on twitter @policypodcasts to get information about and links to all our shows including Dollar and Sense: The Brookings Trade Podcast, The Current, and our events podcast.

First up, here’s a new Metro Lens with Robert Maxim.

MAXIM: I'm Rob Maxim and I'm a senior research associate at Brookings Metro.

Amid ongoing discussions on how to support distressed communities and enrich education opportunities for underserved populations, I co-authored a recent report focused on how Congress can leverage regional public universities to reduce economic inequality by place. To start, why should policymakers, economic development officials, and Americans in general care about distressed places? It's been well covered that over the past 40 years economic inequality between the richest Americans on one hand, and middle-class and low-income Americans on the other has been growing.

In parallel to this growing interpersonal inequality, the gap between the richest and most economically successful places in the rest of the country has been growing, too, with tremendous economic and social costs for the places left behind. Millions of people in these left-behind communities face limited prospects for finding well paying, accessible work. This harms their quality of life not only materially, but also in terms of personal fulfillment and mental health.

But having people just move to high growth, high wage areas is not the best solution. For one, people have strong social, cultural, and economic ties to a place. It may not be in their best interest for them to just up and move. Not only that, but there's new evidence to suggest that severe regional imbalances have negative effects for people in high growth places as well. In this regard, taking steps to support economically distressed places can positively affect overall well-being across the U.S.

As policymakers consider ideas to provide transformative investments to distressed places, they should do more to support anchor institutions like universities, which can be important assets for economic and community development. To help generate a more spatially, equitable recovery, we propose providing federal grants to regional public universities situated in distressed communities.

What are regional public universities? We define regional public universities as public four-year institutions that are not research 1 universities—which are those schools that conduct the highest levels of research—or universities designated as land grant institutions under the Morrill Act of 1862. These schools provide a variety of benefits for the communities they're situated in. Places with a regional public university tend to have higher income, stronger levels of local employment, and a flow of in-migration.

Evidence shows that research at the regional public universities can also help communities weather economic downturns for manufacturing decline, the loss of coal mining, or even the general business cycle.

The public aspect of regional public universities is also important. Many of these schools have explicit community and economic development missions. However, these schools have been historically neglected by the federal government. While large land grant and research universities receive billions of dollars in funding annually, regional public universities receive just a fraction of their level of funding. And in many states, funding for public higher education never fully recovered after the Great Recession, leaving these schools with fewer resources for economic and community development.

As a result, there's a clear impetus for the federal government to do more to support regional public universities and the communities they're situated in. Our report proposes providing grants of between 25 and 50 million dollar to regional public universities situated in distressed communities throughout the U.S. Schools situated in communities with low median family income or in the same county as Native American tribal land would be eligible. Our analysis identifies nearly 150 such schools.

Funding could be used for a variety of diverse purposes, including the development of transit and digital infrastructure projects, entrepreneurship and business development services with a focus on underrepresented groups, and programs to improve local health or the quality of local education systems, among others. Funding would be made flexible to accommodate the local needs of each individual community.

With Congress currently considering a variety of proposals aimed at bolstering growth throughout the country, a program focused on deliberately mitigating local distress is needed. We think this type of concerted place-based investment, complemented by additional policies to support economic revitalization at the metropolitan, regional, and state levels, could begin reversing some of the growing spatial inequality that the U.S. has been undergoing for the last 40 years.

DEWS: You can find more editions of Metro Lens on our SoundCloud channel, at soundcloud.com/brookings-institution.

And now, here’s Brookings Press Director Bill Finan with Mark Iwry and David John on their new book, edited with Brookings expert William Gale, “Wealth After Work.”

FINAN: Fred, thank you, and David and Mark, thanks for joining us today to talk about your new book with Bill Gale about retirement, something very far away for many and for some of us like me looming over the horizon. I want to start with the basics for listeners. There are, as you note in your introduction to the book, basically three forms of retirement plans: Social Security, defined benefit plans, and since the 1980s, 401(k)s. Can you briefly describe each of these plans?

IWRY: Sure. The Social Security system, as most of us know, is the public mandatory, nearly universal pension that most working Americans receive and earn over the course of their careers. And it provides a guaranteed income inflation adjusted over time, starting sometime between age 62, the earliest you can claim in age 70. And that is the bedrock, the foundation of our system. It's not voluntary. It's not private sector provided, it's a public program corresponds to what most other countries have, some version of something similar.

Defined benefit pensions and 401(k)s are part of the private pension system and those are, in the case of defined benefit plans, traditional kind of pension, traditionally has paid a monthly or annual income for life to a retiree, and it's provided and funded by employers. People are covered by it. If the employer has such a plan and decides to cover their workforce, the individual doesn't have to traditionally do anything in order to get the benefit other than work and earn by virtue of their service. David, do you want to take the 401(k) IRA side of it?

JOHN: Sure, I'd be happy to. This is the system that has largely replaced the traditional pension system and in this case the employer offers a retirement savings system, often with a match. And throughout your career, you save for retirement. And at the end of your career, you convert that into a stream of retirement income. The problem that we often run into with this is that the employer has to decide whether to offer such a plan and only a certain proportion of employers, typically the mid and larger employers, offer this type of a system. And when you move from job to job, you may need to move your retirement savings with you. This is supplemented, however, with the IRA, the individual retirement account, or various other ways of describing it, which basically anyone can open at any point. If you don't have a retirement plan through work, you can get a tax deduction for it. And often people will move their retirement savings with an employer to an IRA after they've left that employer. So, the two work hand in hand and the two now are the bedrock of the additional income on top of Social Security.

FINAN: I get the sense from the book that there are two classes in America, those who do well or live well enough with the retirement system that we have—they have good paying jobs and either employer sponsored for one case or IRAs or defined benefit plans and of course, Social Security. But for the other half, it isn't going so good. Why?

JOHN: The problem is in order to succeed in a defined contribution system 401(k)/IRA, you have to have access to the program. And typically, because of the complexity and the expense of starting a plan or the composition of the workforce, many people don't have that. Or if they do, they only have it on some jobs during their career. Typically, a person will have 10 to 12 jobs in the course of their working lifetime. So, if you don't have access to that—and the five groups that we've identified who typically don't have access to this type of plan are younger workers, women, members of minority communities, lower income workers, and small business employees. So, if you don't have access to the plan, you're pretty much in a negative situation to start with. Mark, you want to continue?

IWRY: Yeah, exactly. And the access is voluntary for the employer. So, when it comes to the 401(k) or another employer-sponsored plan, including traditional pensions, the employer is not required to, generally speaking, to offer a plan. And that's one barrier to access. Smaller employers tend to offer less, as David was indicating.

And another barrier is that while the individual does not need an employer in order to contribute to an IRA, to save in an IRA, they have to take the initiative if they want to do that. And it turns out that only a small percentage of people who could save in an IRA actually go ahead and take the initiative to set one up, decide whether it'll be a traditional or a so-called Roth IRA, decide which institution to use a bank, insurance company, mutual fund, et cetera, and then how to invest it.

So, by the time they've confronted all of these decisions, some of which may be a little bit daunting, especially to people who are not financially literate, in particular, they may not get around to signing up for an IRA and the same, to a lesser degree, goes for 401(k) plans. If an employer sponsors that type of plan and has an enrollment whereby employees have to sign up if they want to be in the plan, then traditionally a lot of the people we are focused on here, whom David has listed, often don't take the initiative to sign up.

FINAN: There was a stat that I highlighted in the book that jumped out at me that comes to my mind again after we just said it. As a result, almost one third of the elderly depend on Social Security for at least 90 percent of their income. About two-thirds depend on Social Security for half of their income. I had no idea that the percentages were so high. When you think about the actual amount of Social Security that comes per month, where that puts people in terms of their income class after they retire. Your new book is an attempt to address this inequity, and you do it by looking at wealth accumulation. Then there are reforms needed to help people work within the retirement system that you talk about. In the last section of the book, you look at how people can manage their assets and use their savings in retirement. I wanted to talk about each of these sections a bit. First, you write about minorities and women especially, who are in real trouble when it comes to retirement. Can you talk about that a bit?

IWRY: The data are really fairly troubling. We have seen that even when people are eligible for a 401(k) plan, which itself is less common among minorities and to some degree women than among others, even when they are eligible, they're less likely to participate for a variety of reasons. And often because they're also earning lower wages and are doubtful whether they have the money to set aside for long-term saving, especially when folks are trying to live from hand to mouth, from paycheck to paycheck.

What we have suggested and encouraged over the years and what the book highlights, among other techniques or strategies, is to automatically enroll people which into these 401(k)s, that is simply say that if an employee is in a workforce that is eligible to participate in a 401(k), the employer goes ahead and puts them in the plan. A certain percentage of their pay, like 5 percent, goes into the plan regularly every pay period. And any employee can exercise their choice at any time to not participate, to opt out, or to save more or less or invest in a different way. But that automatic enrollment has brought up, raised, the participation rate of minorities, of women, of low wage workers. Strikingly, a few studies have shown this is from years back when the situation was even worse. But a few studies have shown that if there were one out of four or one out of five minorities, for example, using a 401(k) for which they're eligible when they had to sign up for it, taking the initiative on themselves, the automatic enrollment flipped that and brought it up to something like three out of four or four out of five of those minority groups participating in the plan.

FINAN: So, there's generally a decision not to opt out of it then, even though that's a possibility there, once there's this automatic sign up?

JOHN: That's an essential portion. I mean, the automatic enrollment has been a huge advance. We write about that fairly extensively. We also recognize in one of the articles that a woman's career path is likely to be different from a man's, that they're much more likely to deal with caregiving at some point or another, raising children, dealing with an elderly relative, or something along that line. And for that reason, one of the areas of our continuing research is to look at how the retirement savings system or along with Social Security, might be adjusted to better enable their outcomes to be better than they would have been under the traditional system.

FINAN: When it comes to better understanding the retirement system, which, as you point out, seems to be for many of us a black box, you also offer a unique solution in the book, Individual Retirement Dashboards. What exactly are those and how would they work?

JOHN: A dashboard is like a computer dashboard or your car's dashboard. It puts the information you need to guide your retirement outcomes all in one place. So, under an ideal system—and these exist mainly in Europe at this point, but our article discusses how to implement them in the U.S. and how the value would be—you could find your past retirement accounts.

One of the big problems that we see with people is that when you leave a job, you may not do something with your retirement account, especially if you leave the job under less-than-ideal circumstances. You're probably focused on other things at that point. And then over time, as your employer goes out of business or is merged or the provider is merged, how do you find those lost accounts and then combine them in a way so that you've got all of your retirement resources?

So, a dashboard is one way to make that process much easier. It would also include, under an ideal scenario, information about your retirement income from Social Security. It might give you curated information on what to do with your money as you approach retirement. How are you going to convert that into an income stream? And under ideal circumstances—and Mark and I actually looked at a demonstration of this probably at least eight or nine years ago, so the technology is there—there are ways that you can actually connect to various providers and take actions there. Now, that's probably in the future, but at the very least, a dashboard allows you to see your information in one area or one space and go from there.

IWRY: That's really a perfect description. And the challenge is, one might reasonably ask, but why aren't we there yet? Why don't we have this for everyone? It makes so much sense. The challenges are partly the same challenges that affect our private pension system. More broadly, that it is a voluntary system. It is a private-public partnership. And while Social Security is run by the government, private pensions, IRAs, 401(k)s, defined benefit pensions, are run by the private sector employers and the financial services providers and administrative providers to plans. So, they don't have an interest in moving an idea like this forward as a high priority. It's often hard to get it done as quickly as we would like. There's a process of negotiating with the private sector providers to achieve these things.

FINAN: Since Social Security allows workers to start taking benefits at age 62, which is very early in many people's life expectancies at this point, as you point out in the book, what are some of the ways in which workers can maximize their benefits?

IWRY: One way is to recognize that the decision when to start Social Security benefits is not something automatic. People can start as early as 62. They can start as late as they want. But there's no reason to start later than age 70. And the Social Security system will give you more benefits per month if you start the benefits later. So, the increase from one year to the next, 62 to 63, 63 to 64, as your starting date for the Social Security income can increase your income by 7 or 8 percent just by delaying a year. So, if you delay all the way from 62 to 70, you can get a tremendous increase in the monthly amount of your Social Security benefit, which of course is guaranteed for your entire life. And so, it's a real protection against outliving your benefits since you can't outlive your Social Security benefit the way you could outlive your assets, your savings.

So what we're urging people is to be deliberate and thoughtful about the decision when to start Social Security, not to fall into the trap that some people have fallen into thinking that, well, if I can start it at 62, there's no reason not to start it then as quickly as possible. There is a reason not to. The maximization of your income depends on your personal circumstances. It is usually true that if people can afford to wait to delay their Social Security start date, they will gain this additional monthly income. There are exceptions. If someone has a short life expectancy, if they are very sick and they assume that they're not going to be getting, unfortunately, these monthly payments for a very long life, then it may maximize them to start as early as you can start. On the other hand, if people expect that they will have an average or longer life expectancy, there's good reason to get advice and to think hard about what's the optimal date to begin. And for many people, age 62 is a kind of reflexive answer. Oh, I can start at 62, I will. As opposed to, I can start at 62 or anywhere up to 70. Let me get advice and figure out what is the income maximizing start date in all likelihood for me, or for me and my spouse.

JOHN: And one other point is that in many cases, a person doesn't really have a choice if you're injured, if your health declines rather suddenly, et cetera. So, one of the things that's in the book is a way to help people make the transition using a retirement account or a form of savings account that would help them to bridge the time that they might have to take Social Security with a later date, when, as Mark has pointed out, their benefits would be higher. And then you go beyond that, which is that you add the layer that we also discussed in the book of adding retirement income, taking what retirement assets you have and maximizing them in a way so that the combination gives you the best possible income for the rest of your life.

FINAN: The book also points out that states and not just the federal government can play a role in providing retirement savings, and you offer something called state sponsored retirement savings plans that build on automatic IRAs. What are automatic IRAs?

IWRY: Well, IRAs typically are something that someone has to sign up for, take the initiative to have, as we were describing earlier. But, Bill, the idea that David and I put out now 15 years ago to try to expand coverage to particularly the people who are left out, whom David listed earlier, is to make the IRA an opt-out arrangement, like 401(k) with automatic enrollment, extend this idea of automatic enrollment to IRAs.

So, an individual who has an employer that does not sponsor a 401(k) or another kind of plan could be automatically enrolled in having part of their pay by payroll deduction sent directly to a IRA savings account that that individual owns and that is invested for the individual in a professional manner, that that automatic enrollment into IRAs is something that David and I proposed on a nationwide basis, Congress enact that kind of legislation in order to make it easy for the one third to one half of the workforce who are left out of the system, save in a convenient way for retirement.

The states have been starting, in effect, piloting this idea for the nation by passing legislation in individual states, three of them actually running it now, another six or seven having also passed that similar legislation and moving to start implementing it. And that's a very encouraging development.

FINAN: What are the three states that have implemented this?

JOHN: At the moment, California, Oregon, and Illinois are there. Maryland and Connecticut are close to starting. As Mark said, there are a variety of others. And what is happening here is interesting. In the book, we discuss different models for implementing these state programs, and we are already seeing the success of this idea that individuals who did not have retirement savings are starting to be able to build them up with a special emphasis on the five groups that I mentioned much earlier in this discussion.

So, it's an idea that works and it's an idea that is spreading. We are seeing state after state—Virginia passed a bill earlier this year. Maine passed one just after that. New York state is looking at this—there's a bill on the governor's desk to make this an auto-IRA. And on top of that, we are seeing that with the requirement that a small employer offer either a 401(k)-type plan or the auto-IRA, that a number of new private sector plans are starting to appear. So, this is one of those cases where we wrote it and we can actually say this is having an impact.

FINAN: The last part of the book talks about living off retirement income and I have to mention the tweet I saw yesterday from a couple who asked, we have eight million dollars saved for retirement, are in our early 50s, and want to retire early, but are worried about health care expenses. What can we do? This couple aside, tell us some of the ideas you have proposed to manage retirement income in retirement.

IWRY: We have defined the issue of retirement income, I think, based on what Americans really encounter as, as the issue, the problem. First, getting enough assets accumulated in order to pay themselves a kind of paycheck in retirement, pension paycheck that replaces at least most of the paycheck that they typically would have earned while they were active in their career.

And second, even if people have accumulated assets or savings to do that, how to convert those into a stream of income, how do they know if they've saved up in a 401(k), in an IRA, or elsewhere? How do they know how quickly they can spend that money while protecting themselves from the twin risks of either spending too fast, burning through it and outliving it and then having to live on potentially Social Security alone, which is not enough for a lot of people to really preserve the kind of lifestyle they would like, or the other risk of being so afraid of outliving your assets that you underspend, you hoard them in effect and deny yourself a standard of living that you could have enjoyed had you been able to spend your savings down in a more optimal way.

JOHN: And one of the things that we actually look at is the fact that retirement is changing, that the old idea of sitting on the golf course or next to the beach for a third of your life just really doesn't apply. And with that, retirement products and retirement income solutions need to change also.

So, for instance, one of the things that we looked at and there's a chapter in the book, is what's essentially a phased withdrawal plan. Traditionally, people would use some form of an annuity. But the problem is that if you describe what an annuity does to someone, their immediate reaction is, yeah, that sounds really good. But as soon as you use the A word, annuity, they're immediately not interested.

So, we also looked at various alternatives. So, one of them, it's not guaranteed in the same way that an annuity is, but it's a pooled investment that is managed and then it allows you to pull out a certain level of income every year during the rest of your life, presumably. And this is a way of providing most of the benefits of the annuity without all of the costs and complexities that you might find with that instrument there. And then there's one that Mark took the lead on last year, which was also in the book, which is not a French pastry, I understand, it's a tontine.

IWRY: Well, this would be a way to pool the risk of outliving your assets, longevity risk, as we call it, by agreeing that when an individual in the pool dies, the assets that remain, if there are remaining assets, are pooled with all the other people, people who are surviving that individual, and increase everyone else's benefits. You can do this on a spousal basis.

Once both spouses who are married have passed on, then what remains, instead of going to their children or grandchildren, they could decide to join this pool where everyone shares the mortality risk and the mortality benefit that can accrue to the surviving members of the pool when one of them dies.

So, that pooling is actually part of what happens in the commercial annuities that David was talking about earlier. But there it's the insurance company that arranges it and manages that in the so-called tontine style arrangement. It's not necessarily an insurance company. It could be any kind of financial arrangement or institution that helps people pool their death benefits, essentially, in order to give everybody a chance at a larger lifetime benefit.

In effect, what we're doing is through the pooling, telling people who don't know how long they'll live. And therefore, if they want to be pretty sure that they've managed their risk of outliving their assets, they would otherwise save if they were on their own enough that if they lived to be 95 or 100, they'd still have income coming to them. If you pool, you can go with the average life expectancy of those in the pool. Say if each one of us saves enough to get us to the average life expectancy, then we are all saving enough. We achieve a certain certainty about how much we need to save and it's more efficient. It's less than if we were to go it alone because some of us will die earlier and our benefits will be pooled with those who live longer than the average.

FINAN: That's another innovative proposal in a book that's filled with many innovative proposals, and I'm glad you're able to highlight this, the tontine, which I'm glad to know isn't a French pastry, but just as good in terms of the benefits it brings, and to highlight some of those in our discussion. I'd like to end with your assessment of the retirement system as it exists today. What is your general assessment of it?

JOHN: I think it works for some and it has the potential to work for everyone, but it needs to be revised in some cases substantially and in some cases just minor tweaks here and there. One of the problems with the retirement system today is that you basically have three different stages. You've got the initial savings stage, you've got the preservation—in other words moving your money from place to place, and then you've got this huge decision of what to do with that money. And unfortunately, all too often people focus on one small part of the problem, because that's really what's in either their jurisdiction or the products they offer or the life stage that they're in. And we need to actually look at the whole system in whole to make our decisions going forward. But it has the potential. But that potential has not been realized at this point.

IWRY: Yes, and you can say in a sense, Bill, that the proverbial glass is half full and the glass is half empty. It depends on whom you're talking about. For tens of millions of Americans, the system, private pension system, has worked pretty well and we've accumulated the largest pool of investment capital in the world. Many middle-class people have augmented their Social Security benefits with private retirement savings and benefits in a meaningful way. And Social Security has, of course, continued and will hopefully be improved in the near future.

But for many tens of millions, the system has not worked so well. That's what we've been talking about in this podcast in particular. And I think that David and Bill and I feel that there is a great deal that can be done and needs to be done to improve and reform the system to make it more inclusive and to address those issues of preserving assets, not just accumulating them, but preserving one's benefits and then having a secure income for life in retirement.

And so, our book is chock full of suggestions and ideas, many of them things that other people have also been working on, many of them things that we've proposed from the outset. And we're on the whole, I think, hopeful that with appropriate reforms, the system can really be far more effective and realize its full promise.

JOHN: We still have more work to do. So, there are more articles and discussions and events coming. So, stay tuned.

FINAN: I want to say thank you both for taking the time today to talk about the new book, "Wealth After Work." It is a really informative volume on where we are with retirement, what we can do with it. And as I said earlier, too, a host of innovative proposals put forward there, too, to bolster the foundations of the system. So, thank you both and congratulations on the publication of the new book.

BOTH: Thank you, Bill.

DEWS: You can find “Wealth After Work,” edited by William Gale, Mark Iwry, and David John, wherever you like to buy books, and may I suggest your local independent bookseller.

A team of amazing colleagues helps make the Brookings Cafeteria possible. My thanks go out to audio engineer Gaston Reboredo; Bill Finan, director of the Brookings Institution Press, who does the book interviews; my communications colleagues Marie Wilkin, Adrianna Pita, and Chris McKenna for their collaboration. And finally, to Soren Messner-Zidell and Andrea Risotto for their guidance and support.

The Brookings Cafeteria is brought to you by the Brookings Podcast Network, which also produces Dollar & Sense, The Current, and our events podcasts. Follow us on Twitter @policypodcasts. You can listen to the Brookings Cafeteria in all the usual places and visit us online at Brookings.edu.

Until next time, I'm Fred Dews