



August 2020

Retirement Insecurity

At the worst of the Great Depression, one-quarter of the U.S. workforce was unemployed.¹ Millions of Americans were homeless and breadlines were common in many cities. The prospects for older Americans was particularly grim—half lived in poverty.

On August 14, 1935, President Franklin Roosevelt signed the Social Security Act, stating that “we have tried to frame a law which will give some measure of protection to the average citizen and to his family against the loss of a job and against poverty-ridden old age. This law, too, represents a corner stone in a structure which is being built but is *by no means complete*...”²

Social Security not only has prevented tens of millions of men and women from falling into poverty, it has become the bedrock of retirement security for all Americans.³ However, the “three-legged stool” of retirement—Social Security, pensions and private savings—has been slowly coming apart. Since the late 1980s, the percentage who receive traditional pensions has been cut by more than half. Today, less than half of low wage earners have defined contribution accounts like a 401(k) or IRA. 35% of near retirees—those ages 55-64—have neither a defined benefit pension nor a defined contribution plan.⁴

The United States now is facing the worst health crisis since the 1918 influenza pandemic and the worst economic crisis since the Great Depression. Older Americans suffer a greater health risk from COVID-19 than younger age groups—eight out of ten COVID-19 deaths reported in the United States are among adults 65 and older. At the same time, they bear unique economic risks – millions of them are unemployed on the cusp of retirement. Many will never retire. The challenges older Americans face as a result of the dual coronavirus crises is covered in our companion report, *The Impact of the Coronavirus on Older Americans*.

Retirement Insecurity provides context for understanding the substantial economic challenges for older Americans caused by the coronavirus economy. For example, it finds that approximately half of all households are at risk of not being able to maintain their standard of living in retirement. The report also reveals, not surprisingly, that women and people of color are much more likely to suffer from retirement insecurity, largely the result of economic inequalities that they experience throughout their working lives.

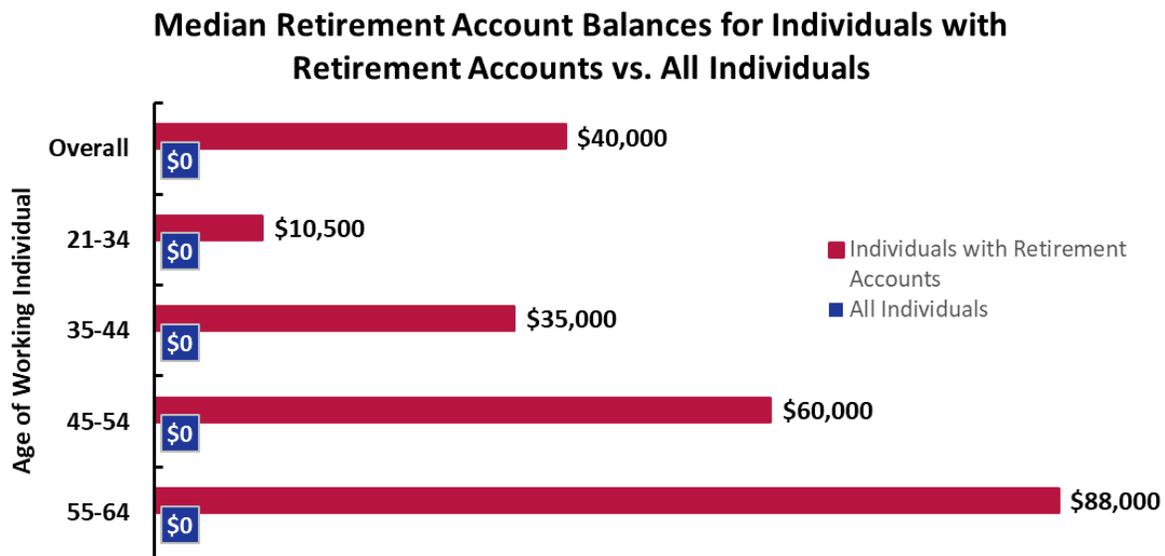
Together, these two reports suggest that we must advance the work President Roosevelt began. We not only must strengthen Social Security, but should investigate new approaches to attack the roots of retirement insecurity, for example, by reducing inequality, making it easier for unemployed older Americans to return to the workforce and establishing portable defined-contribution retirement plans that are untethered from employers. Such efforts would help fulfill Roosevelt’s vision for Social Security, to “take care of human needs and at the same time provide the United States an economic structure of vastly greater soundness.”

NOT READY FOR RETIREMENT

Americans widely recognize that their prospects for retirement security are in jeopardy.⁵ Sixty-five percent report that they will have to work past the normal retirement age to have enough money to retire. Sixty-two percent of Democrats, 57 percent of Republicans and 55 percent of Independents fear that they will not be financially secure in retirement. The overwhelming majority of Americans (80 percent of Democrats, 75 percent of Republicans, 75 percent of Independents) agree that there is a retirement insecurity crisis.⁶

The typical American has no retirement savings

The typical (median) American worker has nothing saved for retirement.⁷ Only 40 percent of Americans have any savings at all in retirement accounts, and among these the typical account balance is \$40,000—far short of the industry recommended savings target of six times current income at age 50. For those on the cusp of retirement, the median value of their retirement savings account (for those with accounts) is only \$88,000. Most workers have savings that are less than what they earn in a year.

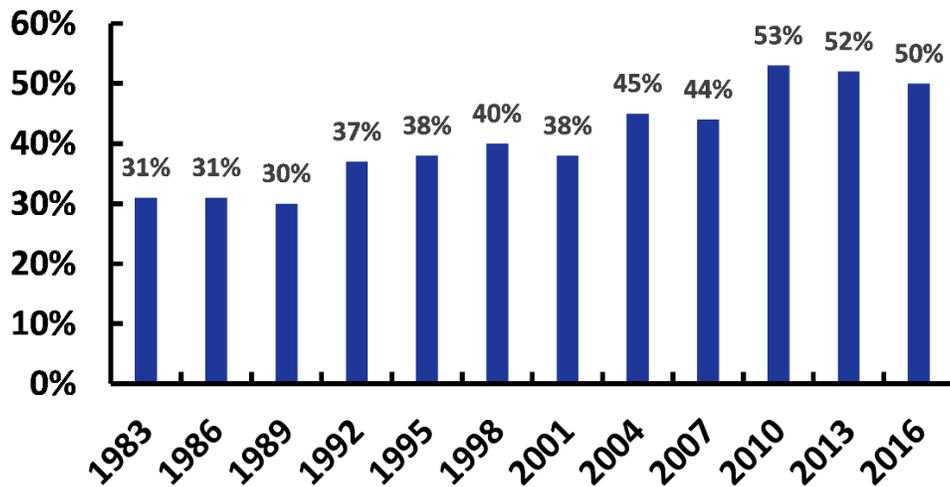


Source: Brown, J.E, Saad-Lessler, J. & Oakley, D. (2018). *Retirement in America*. Median retirement account balance of working age individuals with positive retirement account balances versus median account balances of all working age individuals

Half of all households are at risk of not maintaining their living standards in retirement

As a result of a lack of savings, approximately half of American households are at risk of being unable to maintain their standard of living in retirement. Even those who take extraordinary steps—like working until 65 (five years past the current average retirement age), annuitizing all financial assets or reverse-mortgaging their homes—may not be able to maintain their living standards.⁸ Worse, 40 percent of workers ages 50-60 who are not currently poor would be poor if were they retire at age 62.⁹ Women, Blacks and Hispanics are at substantially greater risk of being poor in retirement.

National Retirement Risk Index 1983 to 2016



Source: Munnell, Hou & Sanzenbacher (2018)

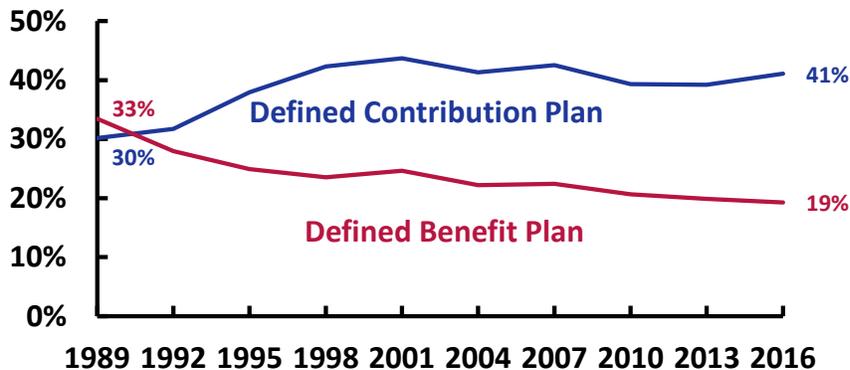
THE DEMISE OF THE TRADITIONAL PENSION

Fewer workers receive employer-provided defined-benefit pensions

The decline of unions and worker bargaining power throughout the 1980s and 1990s coincided with a shift in the American retirement system, with defined-benefit pensions gradually being replaced by defined-contribution plans like 401(k)s and individual retirement accounts. Defined-contribution plans shift risk and liability for maintaining income in retirement onto employees.¹⁰

Share of Workers Participating in Defined Contribution vs. Defined Benefit Plans

U.S. Workers Ages 21-64, 1989 to 2016



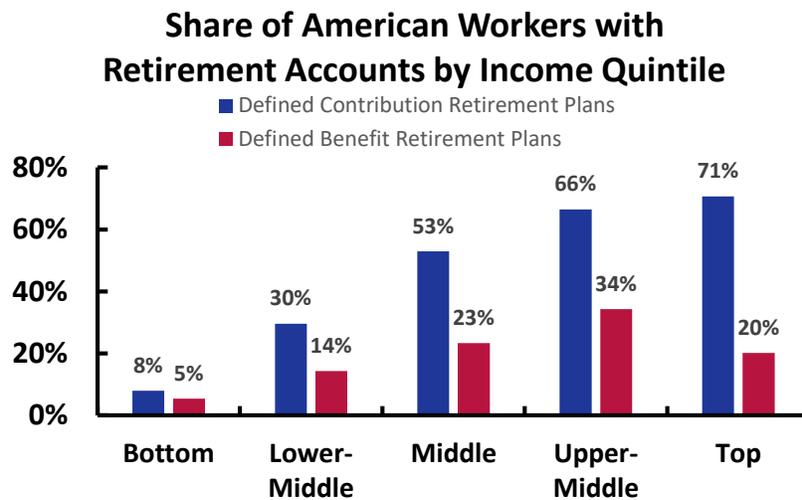
Source: JEC Democratic staff analysis of Survey of Consumer Finance

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Whereas defined-benefit plans guarantee workers a steady stream of income throughout retirement (typically based on some percentage of the salary being earned at retirement), defined-contribution plans and individual retirement accounts are managed assets that shrink and grow along with financial markets, and require no obligation on the part of employers beyond matching contributions throughout a career.

Higher earners are more likely to have defined contribution plans

The new defined-contribution plans are not equally distributed across the workforce; better-paid, more highly-educated workers are more likely to have access to a defined-contribution retirement plan. In 2016, workers in the top quintile were nearly nine times as likely to have a defined contribution plan at work as workers in the bottom quintile. Defined benefit plans were more evenly distributed, but also much rarer overall. The upper-middle class was most likely to have a defined benefit plan at work, and yet only a third of those workers did have access.



Source: JEC Democratic Staff Analysis of Survey of Consumer Finance, 2016

Defined-contribution plans increase risk to employees

Providing more American workers with access to workplace retirement plans is an important part of retirement security. However, defined-contribution plans have a number of issues that make them less than optimal as vehicles for retirement saving.¹¹

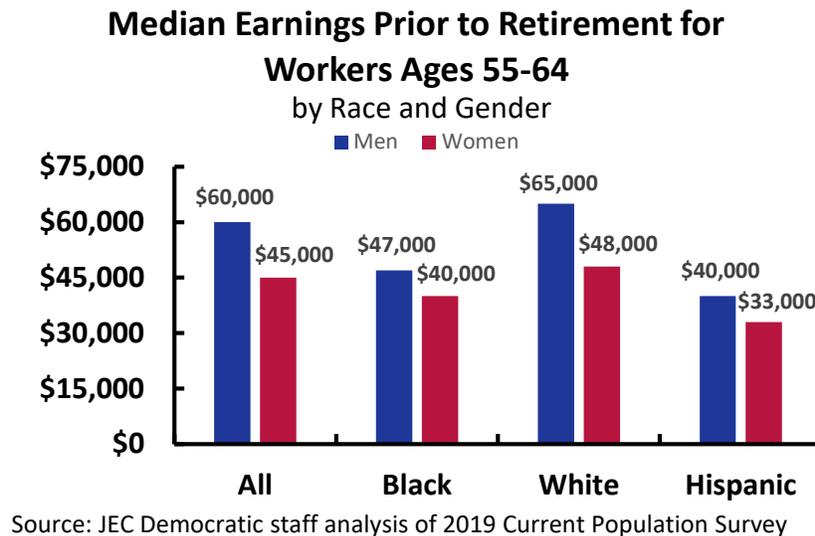
Workers may reach retirement without enough saved because of early withdrawals from retirement accounts in the event of unexpected negative income shocks.¹² Even if a worker avoids all of these pitfalls, it remains possible that they will live longer than expected and outlive their savings. Defined-contribution plans most benefit workers with stable job histories who are exposed to relatively few unexpected income shocks like job loss and unforeseen health care costs. Women and minorities in particular have been underserved by the rise in popularity of defined contribution plans.

RACE AND GENDER

The retirement crisis is even worse for women and minorities. A lifetime of lower pay, time spent in unpaid care work and more severe income shocks leaves women and minorities less prepared for retirement than their White or male counterparts.¹³ Black and Hispanic women face a unique intersection of challenges as they age.¹⁴ These include relatively long life spans compared with their male counterparts and an increased risk of disability leading to decreased capacity for work at older ages, combined with lower pay and fewer employee benefits at work. Women are more likely than men to be impoverished in old age.¹⁵

A lifetime of occupational segregation leads to a pay gap before retirement

Earnings disparities across gender and race play a major role in gender and racial gaps in retirement readiness. Racial and gender disparities in career earnings stem largely from occupational crowding, whereby women and minorities are overrepresented in low wage jobs and industries, and underrepresented in high wage jobs and industries.¹⁶

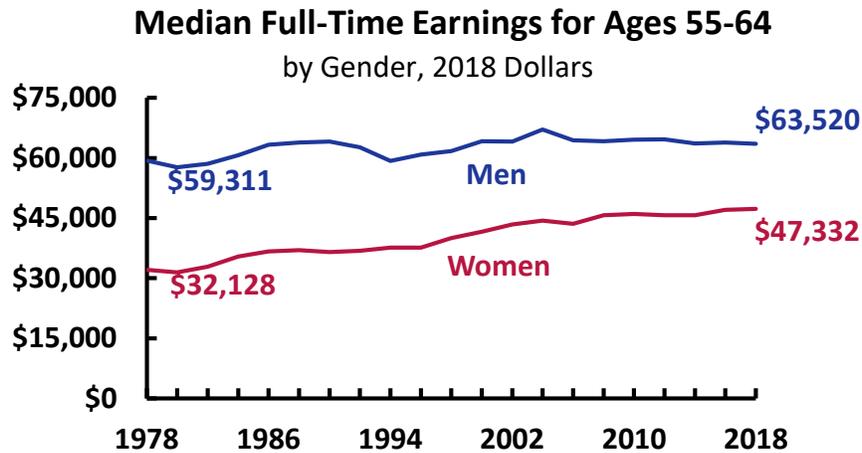


The gender pay gap contributes to disparities in retirement savings

Median earnings in the years just before retirement reflect a lifetime of unequal pay between men and women; women aged 55-64 working full-time receive around three-quarters of the income their male counterparts earn. These gaps in earnings result in lower accumulated retirement account balances before retirement. Social Security benefits, the stream of income received at the end of a career through a defined-benefit retirement plan, and defined-contribution account balances are all determined by career salary, with emphasis given on the salary earned at the end of a career.

The gender gap in pay is longstanding, and persists at every level of education; often women are out-earned by men with less education. As much as 40 percent of the gender pay gap can be

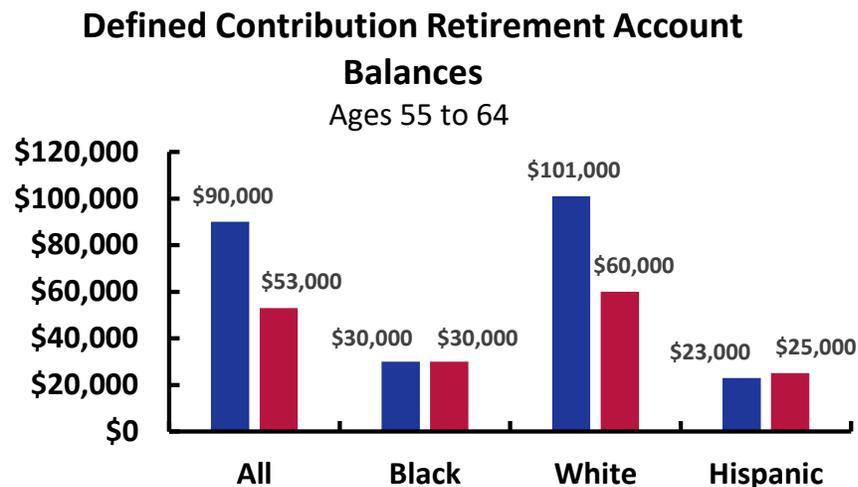
attributed to gender discrimination in pay. Closing this gender gap in end-of-career earnings could help close gender disparities in old-age poverty and retirement insecurity.¹⁷



Source: JEC Democratic staff analysis of 1978-2018 Current Population Survey

Women, Blacks and Hispanics have less saved

In part because of persistent gaps in career earnings, there are similar gender and racial gaps in accumulated retirement savings in the years leading up to retirement. Among those with access to defined contribution retirement accounts, women have less saved than men, and Black and Hispanic women have less saved than White women. This is due to lower incomes and greater exposure to the shocks that lead to early withdrawal. Lower wealth overall may also contribute to lower defined contribution account balances; Blacks and Hispanics in particular are less likely to have savings outside of a retirement account to draw on in case of an economic emergency.¹⁸



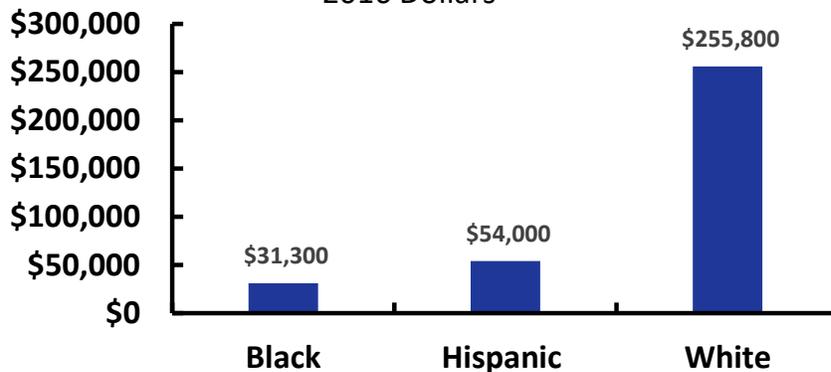
Source: JEC Democratic staff analysis of Rand Health and Retirement Study (2016)

Black and Hispanic households own a fraction of the wealth of White households

Personal savings and investment still comprise one of the three “legs” of the American retirement system, and the vast disparity in financial assets across racial groups is a key contributor to racial disparities in retirement security.¹⁹ Pre-retirement Black and Hispanic households held just 12 percent and 21 percent of the total assets respectively that older White households held in 2016.

The median wealth of Black and Hispanic households is on a steady decline; trends suggest that median wealth could reach zero by 2053 for Black households, and by 2073 for Hispanic households, while median White household wealth will have reached \$147,000 at median by 2073.²⁰ Closing the racial wealth gap will require bold policy solutions that reach across the entire life course.²¹

**Total Wealth of Households with Heads
Ages 55 to 64
2016 Dollars**

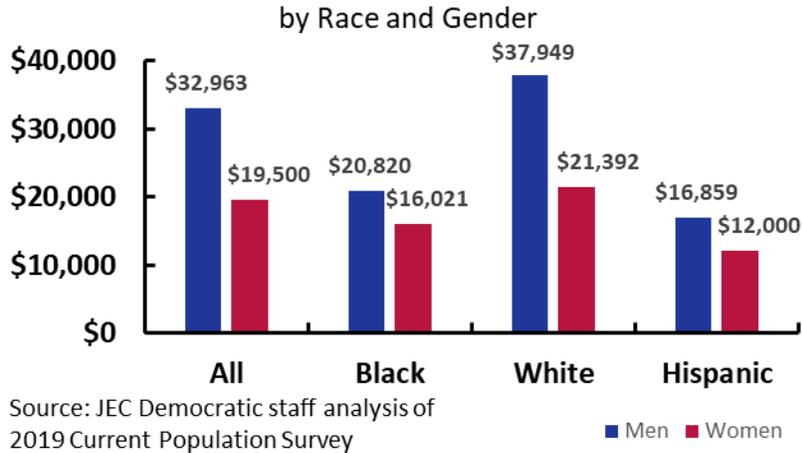


Note: Total wealth includes all liquid and non-liquid assets, less debts (including secondary residences).
Source: JEC Democratic staff analysis of 2016 Rand Health and Retirement Study

Women receive substantially less income in old age than men

The gender and racial gaps in earnings and retirement savings that exist throughout careers continue after customary retirement ages, with women, Blacks and Hispanics earning significantly less income than their White or male counterparts. Gender gaps in earnings within race are largest between White men and women, with White men earning nearly \$16,000 more than White women in old age.

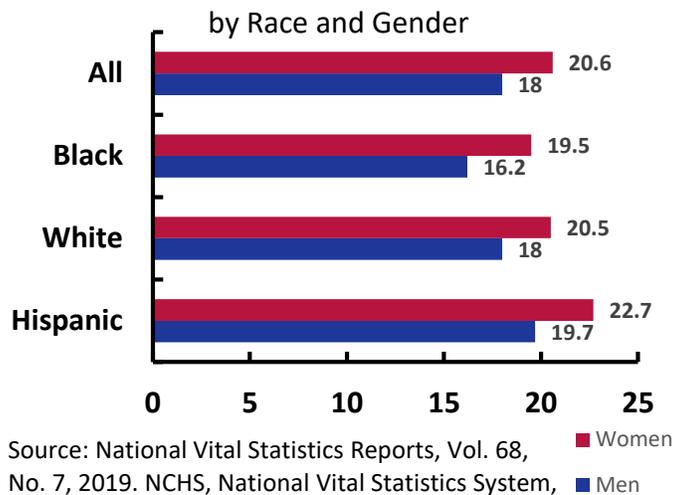
Median Earnings From All Sources After Age 65



Women are at higher risk of outliving their retirement savings

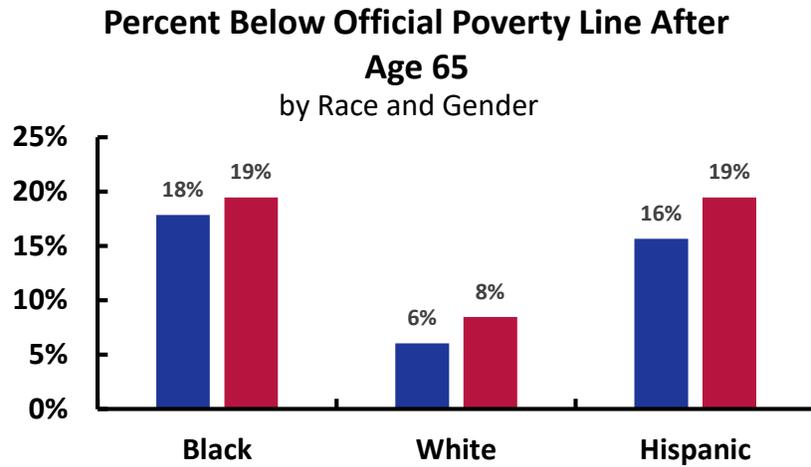
For every income group except the top decile of earners, women have lower mortality than men across the life course, leading to higher life expectancy.²² This means that the problems associated with aging often fall more heavily on women. Women’s longer life expectancy makes it even more important that they have adequate retirement savings.

Life Expectancy at Age 65



Black and Hispanic women are at a much higher risk of poverty in old age

Women’s lower earnings in retirement and lower retirement account balances combine with their relatively long life spans to create a unique risk of outliving their retirement savings and becoming impoverished in old age. Black and Hispanic women in particular are at the highest risk of retirement insecurity. This makes Social Security an essential part of these women’s lives as they age.



Source: JEC Democratic staff analysis of 2019 Current Population Survey

■ Men ■ Women

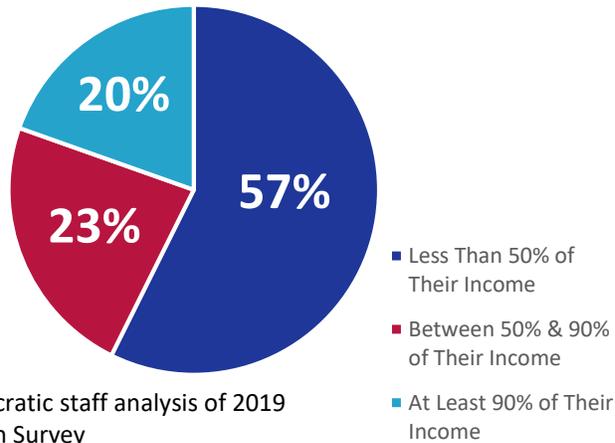
THE IMPORTANCE OF SOCIAL SECURITY INCOME

The American retirement system has traditionally been supported by the “three-legged stool” of Social Security, pensions and individual savings, with Social Security preventing old-age poverty and pensions and savings together ensuring that retirees can live comfortably. Social Security works as an “earned benefit,” where participants pay into the system throughout their careers, and in return receive a retirement benefit based on their career contributions for the rest of their lives. The program is designed to be progressive, such that low-earners receive a benefit that is a larger share of their pre-retirement earnings than high-earners.²³ Because Social Security benefits traditionally have been focused on old-age poverty prevention, additional pensions and retirement savings play an integral role in maintaining middle-class living standards in retirement.

Many Americans heavily depend on Social Security for retirement income

Nearly half of all seniors get a majority of their retirement income from Social Security, and one fifth are almost completely reliant on the program, receiving over 90 percent of their income from benefits. These are workers who have been unable to save enough for retirement through employer-based retirement plans and personal saving, and who would surely be impoverished without Social Security.

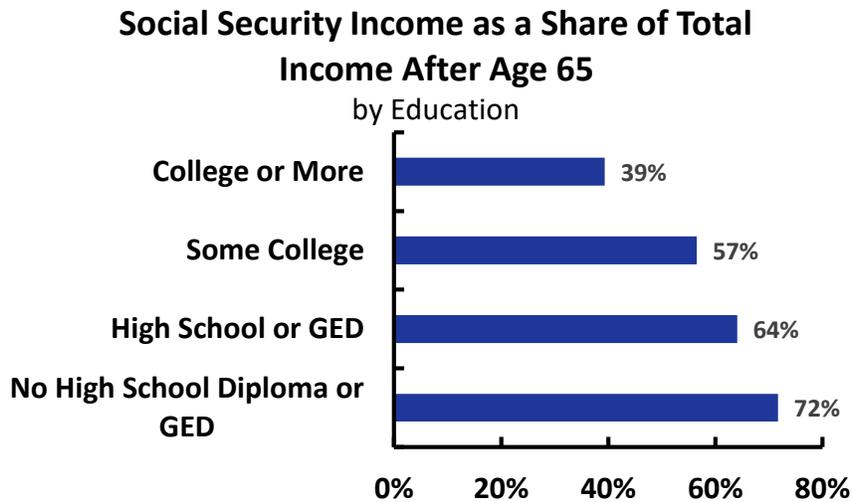
Percent of Seniors (65+) Relying on Social Security for Some Portion of Their Income



Source: JEC Democratic staff analysis of 2019 Current Population Survey

Less-educated workers rely more on Social Security

Those with relatively less education rely much more so on Social Security; while college graduates get 40 percent of their retirement income from Social Security on average, those without a high school diploma receive over 70 percent from Social Security.



Source: JEC Democratic staff analysis of 2019 Current Population Survey

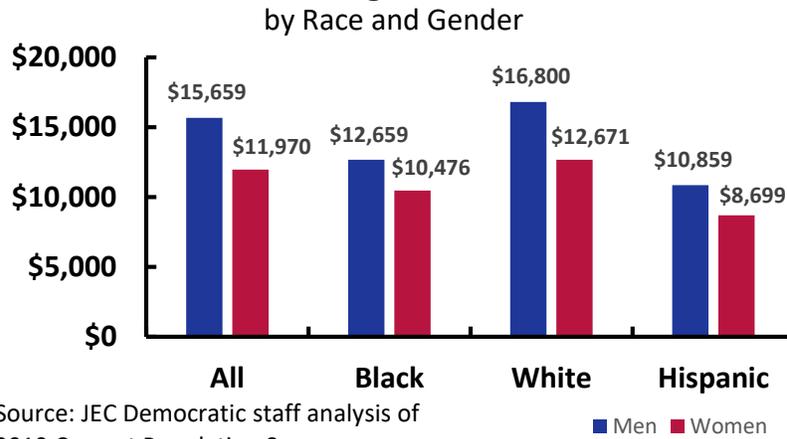
Retired men collect more in total Social Security benefits than women

Social Security has proven to be an effective program for preventing old-age poverty among Americans across race, gender and income level.²⁴ Though women live longer than men on average and receive less in total earnings in old age, men still tend to collect greater Social

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Security benefits on average. Career earnings determine the amount beneficiaries receive, and on average men have higher earnings than do women.²⁵

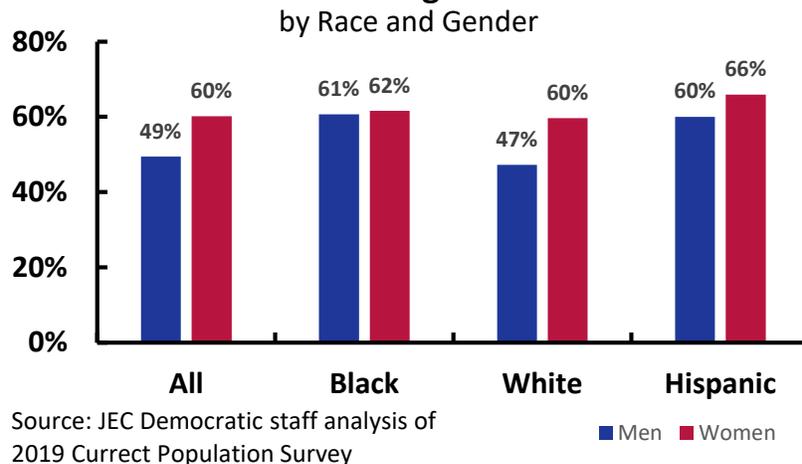
Income From Social Security Benefits After Age 65



Income from Social Security makes up a larger share of women's income in retirement

While all groups benefit from Social Security, women, minorities and low-earners replace a larger share of their career incomes from the program because of its progressive benefit structure. Income from Social Security also makes up a larger share of these groups' income in retirement, in large part due to the inequality in retirement account balances and access, and in personal wealth beyond retirement savings.

Social Security as a Share of Total Income After Age 65



CONCLUSION

Upon signing the Social Security Act 85 years ago, President Roosevelt said this: “We can never insure one hundred percent of the population against one hundred percent of the hazards and vicissitudes of life, but we have tried to frame a law which will give some measure of protection to the average citizen and to his family against the loss of a job and against poverty-ridden old age.” Since then, generations of American citizens have gone through their careers with the promise of protected time at the end of their lives to live comfortably among their loved ones, without the pressures of work or economic insecurity.

The three-legged stool of the American retirement system—Social Security, employer-based retirement plans and personal savings—has been weakened. Social Security does a good job of protecting Americans from poverty in retirement; it should be protected and strengthened. However, the rest of our retirement system is in crisis. All Americans have been affected, but women, Blacks, Hispanics and those with low earnings or less education have been especially hurt. Americans need a retirement system that works for everyone.

¹ David Wheelock, “The Great Depression: An Overview.” St. Louis Federal Reserve. <https://www.stlouisfed.org/~media/files/pdfs/great-depression/the-great-depression-wheelock-overview.pdf>.

² Statement of President Franklin Delano Roosevelt on signing of the Social Security Act, August 14, 1935, <https://www.fdrlibrary.org/documents/356632/390886/sssigningstatement.pdf/d6507053-fdd3-4545-b09b-cf15b37c85e9>

³ Joint Economic Committee. 80 years of Social Security. https://www.jec.senate.gov/public/_cache/files/03a062a9-c77c-47ee-aa22-da516dd0ef47/jec-social-security-report-8-14.pdf.

⁴ Ghilarducci, T., Papadopoulos, M., and Webb, A. (2017) “Inadequate Retirement Savings for Workers Nearing Retirement” Schwartz Center for Economic Policy Analysis and Department of Economics, The New School for Social Research, Policy Note Series. <https://www.economicpolicyresearch.org/resource-library/inadequate-retirement-savings-for-workers-nearing-retirement>; https://www.economicpolicyresearch.org/images/docs/research/retirement_security/Account_Balances.pdf.

⁵ Oakley, D., & Kenneally, K. (2019). “Retirement Insecurity 2019”. National Institute on Retirement Security. https://www.nirsonline.org/wp-content/uploads/2019/02/OpinionResearch_final.pdf.

⁶ *ibid.*

⁷ Brown, J. E., Saad-Lessler, J., & Oakley, D. (2018). Retirement in America. *National Institute on Retirement Security*. <https://www.nirsonline.org/reports/retirement-in-america-out-of-reach-for-most-americans/>.

⁸ Munnell, A. H., Hou, W., & Sanzenbacher, G. T. (2018). National retirement risk index shows modest improvement in 2016. *Center for Retirement Research at Boston College*, 18(1), 1-10. <https://crr.bc.edu/briefs/national-retirement-risk-index-shows-modest-improvement-in-2016/>.

⁹ Ghilarducci, T., Papadopoulos, M. & Webb, A. (2018). “40% of Older Workers and Their Spouses Will Experience Downward Mobility in Retirement.” Schwartz Center for Economic Policy Analysis and Department of Economics, The New School for Social Research, Policy Note Series <https://www.economicpolicyresearch.org/retirement-tools/the-retirement-crisis?tmpl=component&print=1>.

¹⁰ Bivens, J., Engdahl, L., Gould, E., Kroeger, T., McNicholas, C., Mishel, L., ... & Wilson, V. (2017). How Today’s Unions Help Working People. *Economic Policy Institute*. <https://www.epi.org/publication/how-todays-unions-help-working-people-giving-workers-the-power-to-improve-their-jobs-and-unrig-the-economy/>.

¹¹ Ghilarducci, T. and Webb, T. (2017). “Backgrounder: The Retirement Crisis.” Schwartz Center for Economic Policy Analysis and Department of Economics, The New School for Social Research. <https://www.economicpolicyresearch.org/retirement-tools/the-retirement-crisis?tmpl=component&print=1>.

¹² *Ibid.*

¹³ Saad-Lessler, J., Ghilarducci, T., & Reznik, G. L. (2018). Retirement Savings Inequality: Different Effects of Earnings Shocks, Portfolio Selections, and Employer Contributions by Worker Earnings Level. *Social Security Bulletin*, 78, 1-17. <https://www.ssa.gov/policy/docs/ssb/v78n3/v78n3p1.html>; Fifield, K. (2018 November 29). The trickle-down effects of caregiving on women. <https://www.aarp.org/caregiving/basics/info-2018/women-caregiving-trickle-down-effect.html>; Pew Trusts. (2015, October) The role of emergency savings in family security: How do families cope with financial shocks?. https://www.pewtrusts.org/~media/assets/2015/10/emergency-savings-report-1_artfinal.pdf.

¹⁴ Moore, K. K., & Ghilarducci, T. (2018). Intersectionality and Stratification in the Labor Market. *Generations*, 42(2), 34-40. <https://hrspubs.sites.uofmhosting.net/publications/biblio/9795>.

¹⁵ Morrissey M. (2016, March 8). Women over 65 are more likely to be poor than men, regardless of race, educational background, and marital status. <https://www.epi.org/publication/women-over-65-are-more-likely-to-in-poverty-than-men/>; Warner, D. F., & Brown, T. H. (2011). Understanding how race/ethnicity and gender define age-trajectories of disability: An intersectionality approach. *Social science & medicine*, 72(8), 1236-1248. <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC3087305/pdf/nihms-283182.pdf>; Kristal, T., Cohen, Y., & Navot, E. (2018). Benefit inequality among American workers by gender, race, and ethnicity, 1982–2015. *Sociological Science*, 5, 461-488. https://www.sociologicalscience.com/download/vol-5/july/SocSci_v5_461to488.pdf.

¹⁶ Equitable Growth. (2017, October 3). Occupational segregation in the United States. Retrieved from <https://equitablegrowth.org/fact-sheet-occupational-segregation-in-the-united-states/>.

¹⁷ Joint Economic Committee. (2016). Gender pay inequality. Consequences for women, families and the economy. <https://www.jec.senate.gov/public/cache/files/0779dc2f-4a4e-4386-b847-9ae919735acc/gender-pay-inequality---us-congress-joint-economic-committee.pdf>.

¹⁸ Collins et. al (2019) Dreams deferred: How enriching the 1% widens the racial wealth divide. Institute for Policy Studies. https://inequality.org/wp-content/uploads/2019/01/IPS_RWD-Report_FINAL-1.15.19.pdf.

¹⁹ DeWitt, L. (1996, May). Research note #1: Origins of the three-legged stool metaphor for Social Security. <https://www.ssa.gov/history/stool.html>.

²⁰ Asante-Muhammad, D., Collins, C., Hoxie, J., & Nieves, E. (2017). The road to zero wealth: How the racial wealth divide is hollowing out America’s middle class. Prosperity Now, Institute for Policy Studies, September. <https://ips-dc.org/report-the-road-to-zero-wealth/>.

²¹ *Ibid*; Darity Jr, W., Hamilton, D., Paul, M., Aja, A., Price, A., Moore, A., & Chiopris, C. (2018). What we get wrong about closing the racial wealth gap. *Samuel DuBois Cook Center on Social Equity and Insight Center for Community Economic Development*. <https://socialequity.duke.edu/sites/socialequity.duke.edu/files/site-images/FINAL COMPLETE REPORT .pdf>.

²² Bosworth, B., & Burke, K. (2014). Differential mortality and retirement benefits in the Health and Retirement Study. Available at SSRN 2440826. https://crr.bc.edu/wp-content/uploads/2014/04/wp_2014-4.pdf

²³Center for Budget and Policy Priorities. (2018, August 14). Policy basics: Top ten facts about Social Security. Retrieved from <https://www.cbpp.org/research/social-security/policy-basics-top-ten-facts-about-social-security>.

²⁴Romig, K. (2019, July 19). Social Security lifts more Americans above poverty than any other program. Retrieved from <https://www.cbpp.org/research/social-security/social-security-lifts-more-americans-above-poverty-than-any-other-program>

²⁵ “Social Security Benefit Amounts.” Social Security, www.ssa.gov/OACT/COLA/Benefits.html.