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# Retirement Security

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The financial well-being of average Americans is under assault. Rising economic inequality and increasing economic pressure on the middle class from globalization, the decline in unionization, and bad public policies are threatening the financial security of average Americans in ways we haven't seen in more than 60 years.

The Agenda for Shared Prosperity is examining every aspect of the American economy to understand its strengths and weaknesses, and to develop policies that will deliver a better result for the greatest number of our fellow citizens. Our guiding principle is that policies have to be at the scale of the problems they address.

As part of the Agenda, we have examined retirement security, and as our new Briefing Papers[1] in this area show, the problems are enormous.  Retirement security has been a key part of the American dream, and bad public policy is now playing a huge role in undermining it.

Thanks largely to Social Security, most Americans since the Second World War could expect to retire, to stop working before they die, and to enjoy several years of leisure at the end of their life. Increasingly, they could expect enough income from Social Security, pensions and other savings to maintain the standard of living they had while they worked, or at least something close to it.  In fact, the average age of retirement fell dramatically from 1950 to 1970, from about 68 years of age to about 62.5 years, before leveling off.  With growing unionization came shared prosperity and increasing pension coverage. Americans lived longer but were able to retire earlier.

But those golden years are disappearing. The conservative "you're on your own" philosophy—what we call "yo-yo economics"—has accelerated the decline of traditional pension plans, the disappearance of employer-provided healthcare, and, ironically, an erosion of personal savings. Today fewer than 20% of private-sector workers are covered by a traditional pension, and the national savings rate is near zero.

With fewer financial resources and fearful of losing health insurance, more and more of the elderly are remaining in the workforce. A quarter of those 65 and older worked in 1950, and by 1985 their employment rate had fallen to about 10%. Today it's 15% and rising. If we don't change federal policy, the dream of a decent retirement will be denied to more and more of our citizens, even as the productivity and wealth of the nation continue to increase.

### So what's wrong with current policy?

First, Congress weakened the foundation of retirement security by cutting Social Security benefits in 1983, when just the opposite was called for. Those benefit cuts, in the form of a higher retirement age, are taking effect now. Those cuts moved the program toward long-term fiscal balance, yet a two-decades-long campaign by conservative think tanks and politicians has been allowed to use a relatively small potential funding gap to weaken public confidence in Social Security. Thanks to the gullibility or complicity of the media, this effort has been a success: most Americans under 50 years old think that Social Security won't be there for them when they need it.

However, far from being in crisis, Social Security today is the strongest part of the U.S. retirement system and will continue to be stronger and more effective than the voluntary employer-based pension system or private savings far into the future. Simple and fair changes in tax law can erase any worry about the program's funding without cutting the already modest benefit levels.

The second big policy problem has been that Congress has encouraged employers to replace traditional pension plans with individual account plans, shifting both the risk of investment loss and the cost of saving for retirement from the employer to the individual worker. A real pension guarantees a steady stream of income to retired workers—it does not shift risk onto individuals who may not be able to adequately manage it.

A 401(k) plan or IRA guarantees nothing.  They are, however, cheaper for employers, and they generate tremendous fees and profits for Wall Street and financial firms. They also particularly benefit the well-off. So it's easy to see how they have achieved a measure of political success. But 401(k)s do precious little for the average worker. After 20 years of experience we can say with confidence that 401(k) plans have not built broadly shared retirement security, but instead eroded it. The nation is richer than it was 20 years ago, yet Americans nearing retirement are less prepared than they were a generation ago, and the future looks even dimmer.

Tweaking 401(k)s by making enrollment automatic and by changing their tax treatment can improve them a little, but they will never be a substitute for a defined benefit pension plan or for a strengthened Social Security system, both of which provide a guaranteed benefit at low administrative costs.

A real solution to the problem of secure and adequate retirement income can only come from a universal program, not one that depends both on the generosity of employers and the discipline, good fortune, and foresight of workers.

A new proposal prepared for EPI's Agenda for Shared Prosperity by Professor Teresa Ghilarducci presents this kind of real solution. She proposes a guaranteed retirement account (GRA) that would increase retirement income above and beyond traditional Social Security. Employees and employers would together contribute 5% of pay to the GRA, and would be guaranteed a real return on their savings. Savings would be pooled by independent managers who would be allowed to invest in the stock market, in the same way as other pension fund managers, so as to pre-fund the retirement benefits.  Since the return is guaranteed, individuals would not have to face the risk of a market downturn just prior to retirement.

Adding a guaranteed retirement account to a strengthened Social Security is the surest path towards a sound and secure retirement for all Americans.

*This EPI Policy Memo is based on the author's opening remarks at the Nov. 20 Agenda for Shared Prosperity event on retirement security.*

Note
1. See the following EPI reports released as part of the Agenda for Shared Prosperity initiative: *Building on Social Security's Success* (2007) by Virginia P. Reno; *Protecting Social Security's Beneficiaries: Achieving Balance Without Benefit Cuts* (2007) by Nancy J. Altman; and *Guaranteed Retirement Accounts: Toward Retirement Income Security* (2007) by Teresa Ghilarducci.