Retirement (In)Security for Today’s Workers

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Retirement Insecurity for Today’s Workers

• What are the retirement prospects for today’s workers?
• Has the “three-legged stool” become a pogo stick?
• What are the risks facing today’s workers that are not currently covered by social insurance?
Defined Benefit Pension Plans

Steadily declining since the early 1980s

– In 1979, 38% of private sector employees participated in traditional pension plans

– Today, only 14% of workers today have access to these types of plans
Defined Contribution Plans

401(k) plans and IRAs have underperformed:

– Among those nearing retirement:
  
  • Two-thirds of White families have some type of retirement account
  
  • Only four-in-ten Black and three-in-ten Latino families

– Median balance for all working-age households...

  $2,500

– Fewer than half have any private retirement account assets

– Working households age 55-64: 62% have not accumulated retirement savings equal to or greater than their annual income
Defined Contribution Plans

- Factors limiting savings opportunities for many of today’s workers:
  - Stagnant earnings
  - Growing debt obligations
  - Rising living costs, especially for health care
  - Caregiving responsibilities
Social Security

• Leading source of income for most retired workers and their spouses
  – **41 million** retired workers received Old Age benefits in 2016
  – **10.6 million** workers, children, and spouses received Disability benefits
  – **6 million** spouses and children received Survivor benefits
  – Keeps **22 million** out of poverty
  – Provides **33% of all income** for those over age 65

**BUT:**
  – Increase in Normal Retirement Age
  – Reduction in Survivor Benefits for Students/Children over 18
  – Inadequate Cost-of-Living Adjustments
  – Reduced Replacement Rates
Social Security

- Social Security’s benefit package is the largest financial asset for many:
  - Survivor protection: 30-year-old worker with spouse, two young children has benefits of over $612,000
  - Disability protection: Over $631,000
Social Security

• Without any changes, 52% of households will not be able to maintain their living standards in retirement
  – Much worse for people of color and with low incomes with shorter life expectancies
  – Growing inequality in income distribution and longevity
  – By 2050, benefits will be 24% lower due to 1983 Social Security Act Amendments
Medicare covered **57 million** in 2016

- Projected to grow to **90 million** by 2040
- Part B and D premiums are increasing at rates faster than Social Security benefits
- High out-of-pocket costs are still a burden for many beneficiaries
- Does *not* cover dental, vision, hearing, long-term care
- Has outperformed private health insurance in holding down the growth of costs
Medicaid

• The nation’s largest public insurer: **Over 70 million** covered
  - Expansion extended coverage to low-income adults under age 65 in 31 states and District of Columbia
  - Primary funder of long-term services and supports, but wide variation among states
Risks *Not* Covered by Social Insurance

- Long-Term Services and Supports
- Caregiving
- Nonstandard work
Long-Term Services and Supports

- Source of insecurity, anguish due to unpredictable risk and catastrophic consequences
- Currently delivered piecemeal, costly
- **Over half** of all older Americans are expected to experience a high need for care
- **One-in-six** will spend over $100,000 out-of-pocket
- Private insurance market is shrinking; currently finances **less than one-tenth** of total spending
  - Carriers face low interest rates on reserves, higher policy retention rates, unpredictably high payouts, adverse selection
  - Consumers face unaffordable premiums, insufficient coverage
Long-Term Services and Supports

- Can the private insurance market be revitalized?
  - Would a catastrophic universal public plan create a framework for private front-end insurance plans to function?
  - Would more employers add coverage as an employee benefit?
  - Would refundable tax credits or subsidies encourage more individual purchases
  - Would hybrid products be more attractive?
  - Would greater consumer protections improve public perception of the private market?
  - Would federal reinsurance, stop-loss insurance, or some form of public-private partnership help?
Caregiving

- Currently **17.7 million** are providing care to an aging relative – most without paid support
  - For caregiving women in their 50s who leave the workforce, average lifetime loss in earnings exceeds **$300,000**

- Aging of Boomer Generation (1946-64)
  - Caring for parents, children, siblings, and selves
  - Gap in availability of paid caregivers will worsen caregiver-to-care-recipient ratio
  - Women spend more than twice as much time as men caring for household members, but men’s caregiving role is growing
  - Reduction in Social Security benefits when out of the workforce
• Every advanced industrial country has enacted social insurance programs, mostly funded with payroll contributions, to protect against risk of lost earnings due to caregiving – with one exception

• Family and Medical Leave Act of 1993 offers job-protected, unpaid leave

— BUT:

• Over 40% of employees are not eligible
• Only 14% had access to paid leave
Caregiving

• Potential reforms to support caregivers
  ✓ Social Security credits for caregiving
  ✓ Caregiver tax credit
  ✓ Child care subsidies
  ✓ Universal Family Care: An integrated social insurance fund to cover paid leave, child care, and long-term services and supports
Nonstandard Work

- Workers’ traditional relationships with employers have been fracturing
- Temporary, on-call, or contract work: 15.8% of total workforce in 2015 (up from 10.1% in 2005)
- All of labor growth equaled growth of alternate work arrangements
- In 2010, 40.4% of workforce were contingent workers (independent contractors, self-employed, and standard part-time workers)
Nonstandard Work

• Many lack access to employer-based benefits, such as retirement plans and health insurance

• Often also lack social insurance protections against workplace injury, disability, and involuntary unemployment, especially if classified as “independent contractors”
  
  – Miss out on employer contributions to Social Security
“Sharpening divisions in income and wealth over the past four decades... pose profound threats to retirement security for today’s workers. Retirement security – and indeed, retirement itself – are becoming increasingly difficult to achieve for low-and-middle-income workers.”