THE NEW SCHOOL
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POLICYNOTE

INADEQUATE RETIREMENT ACCOUNT BALANCES FOR FAMILIES NEARING RETIREMENT

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ELEVATOR PITCH

Americans nearing retirement do not have enough savings to support their standard of living in retirement. Over 28% of American families ages 50-64 have nothing saved for retirement. The average total balance in all retirement accounts is $150,000, an amount considered inadequate for retirement security.

KEY FINDINGS

- Retirement account balances have not recovered after the Great Recession.
- 28% of families have no retirement savings.
- The average total balance in all retirement accounts for families nearing retirement is only $150,000, and the median is as low as $12,000.
- The account balances of near-retirement families with positive retirement savings are too low to sustain living standards after retirement, regardless of income group.

Table 1: Fraction of U.S. Families Ages 50-64 Without a Retirement Plan by Family Income (2013)

Family Income	No Retirement Plans
Bottom 50% (under $60,000)	48.0%
Middle 40% (between $60,000- $187,000)	9.8%
Top 10% (over $187,000)	5.2%
All Families	**28.5%**

Source: SCF (2013)

INTRODUCTION

Despite over $100 billion in tax breaks for contributions to qualified retirement savings plans, including $94 billion at the federal level and over $20 billion[1] at the state level, Americans ages 50 to 64 do not have adequate retirement savings. Over 28 percent of American families nearing retirement age have nothing saved in their retirement accounts. The average total balance in all retirement accounts for families nearing retirement is only $150,000. The top 10 percent have just $411,000. By even the most conservative standards most Americans do not have enough saved to maintain their living standards in retirement.

The fact that retirement account balances have not bounced back four years after the Great Recession highlights the necessity for both short-term and long-term retirement reform to avoid an impending retirement crisis and prevent near-retirees from falling into poverty.

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FAMILIES' RETIREMENT ACCOUNT BALANCES BY INCOME

Using the 2013 Survey of Consumer Finance, we calculated the average retirement account balances of people living in low-, middle-, and high-income households. Specifically, we looked at families with heads of households between ages 50 and 64 through three income tiers: the bottom 50 percent of the income distribution (under $60,000), the middle 40 percent (between $61,000 and $187,000), and the top 10 percent (over $187,000).

This distribution follows the example of wealth researchers, such as Thomas Piketty,[2] who show that over time and across countries, growing inequality means that the stark differences in people's well-being and life circumstances are found by analyzing the top 10 percent separately, rather than the common method of splitting income into even fifths, or quintiles.

FAMILIES AT ALL INCOME LEVELS LACK RETIREMENT ACCOUNTS

A vast majority of older Americans do not have a retirement account at work or an Individual Retirement Account (IRA). Forty-eight percent of families in the bottom half, close to 10 percent of people in the middle 40 percent, and five percent of the top 10 percent of the household income distribution do not have any retirement account (see Table 1).

Some of these families don't have retirement accounts because they prefer to use their savings to purchase different types of financial assets. However, most of them do not have any savings at all. Half of these families have a net worth less than $9,250 and will depend solely on Social Security benefits after retirement.

Table 2: Average and Median Retirement Account Balance of Families Ages 50-64, Including Those with Zero Account Balances, by Family Income

Family Income	All Retirement Accounts
Bottom 50%	
Average Income $32,491	$28,639
Median Income $32,000	$0
Middle 40%	
Average Income $103,252	$181,092
Median Income $97,000	$77,000
Top 10%	
Average Income $460,852	$639,825
Median Income $251,000	$411,000
All Families	
Average Income $103,291	$150,185
Median Income $60,000	$12,000

Source: SCF (2013)

INADEQUATE RETIREMENT ACCOUNT BALANCES

An "adequate" level of retirement savings ranges from 8 to 20 times current annual income, depending on assumptions and definitions of adequacy.[3] By even the most conservative standards, American families need savings at least 8 times their annual income to maintain their pre-retirement income consumption and living standards. On average, a person reaching retirement age with an income of $100,000 per year would maintain their living standards with approximately $800,000.

LOW-INCOME NEAR RETIREES

Near-retirement families in the bottom 50 percent of the income distribution have average retirement account balances of $28,639 (see Table 2).[4] An annuity purchased with this amount adds less than $100 to a monthly Social Security benefit, a negligible amount. However, the median value of retirement account balances for this group is zero, meaning that over half of low-income families whose head is near retirement have no money in their retirement accounts.

MIDDLE-INCOME NEAR RETIREES

The middle 40 percent have more savings in their retirement accounts. However, with an average of $181,092 and median of only $77,000, their balances are still too low to maintain their standard of living in retirement.

HIGH-INCOME NEAR RETIREES

Finally, even families in the top ten percent of the income distribution have not saved enough in retirement accounts. For a family earning $250,000, they need at least $2 million saved for retirement. The median balance of $411,000 for this group is woefully inadequate for their needs.

POSITIVE RETIREMENT ACCOUNT BALANCES

In this section, we exclude those without any retirement savings from our calculations to evaluate retirement readiness for those who do save for retirement (see Table 3).

In theory, this group would be the families well-served by the system. In practice, the retirement account balances of this lucky and/or disciplined group are also too low to maintain households' standards of living.

For families in the lower 50 percent of the income distribution whose head is near retirement with a retirement account, the average balance is $84,121, about two times average annual wages and salaries. Given that people need a minimum of eight times their income at retirement to maintain their standard of living, two times average annual income is inadequate. The average account balance of $226,980 for families in the middle 40 percent of the income distribution is also too small. Even the account balances of the most prepared Americans - those who saved for retirement using a private retirement account and whose incomes are in the top 10 percent – are an average of $682,169 and a median of $450,000, which is less than two times their average annual income (the top 10 percent have wealth in other assets besides their retirement accounts).

Even when considering total net worth of families with non-zero retirement account balances (including their retirement savings), the numbers are not close to the amount needed. The conditions are worse for the bottom half of the income distribution, where the median family net worth is only $81,400, while families in the middle 40% have a median net worth of $335,300. The top 10 percent, with a median net worth of $1,876,500, have less to worry about.

Table 3: Average and Median Retirement Account Balance of Families Ages 50-64, with Non-Zero Total Balances, by Family Income

Family Income	All Retirement Accounts
Bottom 50%	
Average Income $32,491	$84,121
Median Income $32,000	$25,000
Middle 40%	
Average Income $103,252	$226,980
Median Income $97,000	$121,000
Top 10%	
Average Income $460,852	$682,169
Median Income $251,000	$450,000
All Families	
Average Income $103,291	$257,959
Median Income $60,000	$102,000

Source: SCF (2013)

NO RECOVERY FOR NEAR RETIREES

Beware of reports that 401(k) plans have bounced back from the recession; those reports include workers' and employers' subsequent contributions.[5] Without those additional contributions, account balances remain lower than they were prior to the crash; stock market returns have not been robust enough to mitigate losses to retirement saving balances.

For example, we can compare the value of a retirement account invested in the SP500 to a retirement account with a steady annual rate of 5 percent, to have a more clear understanding of the actual recovery. A retirement account of $10,000 invested in the SP500 in 2007 would have a value of $11,205 if it had earned 5 percent in 2008 and 2009. However, the stock market lost 39 percent of its value in 2008, decreasing the value of the account to $6,100.

The stock market would have had to increase by 80.7 percent[6] in 2009, not just 23 percent,[7] to bring the value of the initial $10,000 to $11,025 at the end of the year.

POLICY RECOMMENDATIONS

American families nearing retirement age will need all the financial assets available upon retirement to supplement monthly Social Security benefits. Unfortunately, 28 percent of American families nearing retirement do not have a retirement plan. Of those who do participate in voluntary retirement accounts (indicated by having positive balances in their voluntary private retirement accounts), we find their average account balances are inadequate to maintain their standard of living in retirement.

A previous SCEPA report[8] using Survey of Income and Program Participation (SIPP) data from 2011 also reported low balances, a low ratio of families with retirement plans and wide differences between the savings of the top 10 percent and the rest of families. Two years after that report and four years after the Great Recession, the account balances and the ratio of families with retirement plans still haven't bounced back and the saving gap between the lower 50 percent and the top ten percent is widening.

Our findings show that the current employer-based pension system is broken, leaving the United States facing an impending retirement crisis. In the short-term, we need to strengthen Social Security to support near-retiree families currently facing downward mobility in retirement. In the long-term, we need comprehensive reform to provide safe, effective pension institutions that allow Americans to save more for their retirement. This includes a federal Guaranteed Retirement Account (GRA), which guarantees principal and an annual rate of return and provides annuities as an add on to Social Security benefits.[9]

ENDNOTES

1. Ghilarducci et al, 2015. "Retirement Savings Tax Expenditures: The Need for Refundable Tax Credits." Schwartz Center for Economic Policy Analysis and Department of Economics, The New School for Social Research. SCEPA Policy Note.

2. Thomas Piketty, 2014. Capital. Cambridge, Mass. Harvard University Press.

3. Palmer, B., DeStefano, R., Schachet, M., Paciero, J., and Bone, C. 2008. 2008 Replacement Ratio Study. Chicago, IL: Aon Consulting Pang, Gaobo and Syl Schieber. 2014. "Retirement Security: Helping Workers Set Realistic Savings Goals." Insights Newsletter. Towers, Perrin Watson. May 19. http://www.towerswatson.com/en-US/Insights/Newsletters/Americas/insider/2014/retirement-security-helping-workers-set-realistic-savings-goals.

4. This consists of account balances in 401(k) plans, Individual Retirement Accounts (IRA) and the value of other types of plans associated with an account balance.

5. EBRI, 2014." What Does Consistent Participation in 401(k) Plans Generate?," EBRI Issue Brief #402

6. (1/(1-0.39)*(1.05)*(1.05)) = 1.807

7. The SP500 increased by 23 percent by the end of 2009, 13 percent by 2010, 1 percent in 2011, 13 percent in 2012 and 29 percent in 2013.

8. Joelle Saad-Lessler and Teresa Ghilarducci, 2014. "New Retirees Have Inadequate Retirement Account Balances: Analysis of the 2010 Survey of Income and Program Participation (SIPP) Wave 10." Schwartz Center for Economic Policy Analysis and Department of Economics, The New School for Social Research, Policy Note Series.

9. Teresa Ghilarducci, Bridget Fisher and Zachary Knauss, 2015. "Now is Time to Add Retirement Accounts to Social Security: The Guaranteed Retirement Account Proposal." Schwartz Center for Economic Policy Analysis and Department of Economics, The New School for Social Research. SCEPA Working Paper Series.