THE NEW SCHOOL
SCHWARTZ CENTER FOR ECONOMIC POLICY ANALYSIS

POLICYNOTE

# MORE MIDDLE CLASS WORKERS WILL BE POOR RETIREES

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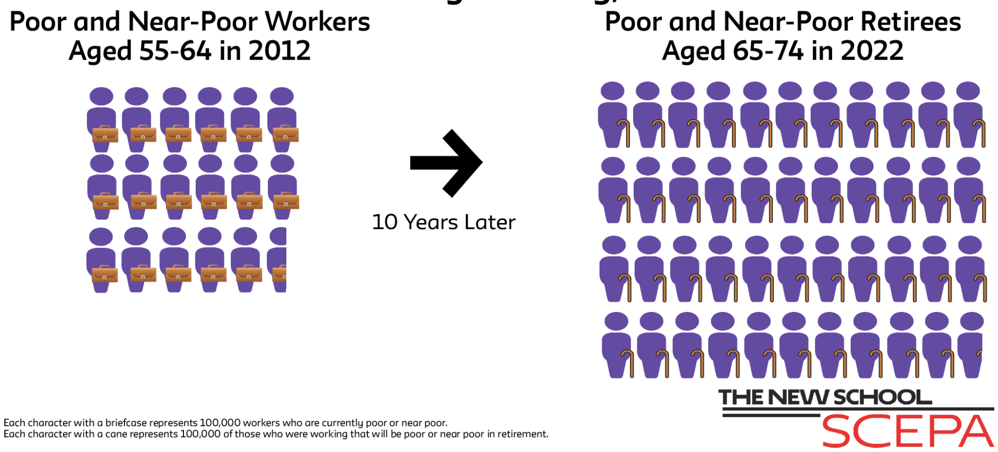
## ELEVATOR PITCH

The erosion of retirement income security in the United States is causing a decline in the living standards of millions of Americans when they retire. This puts pressure on the public for financial support, affecting all American taxpayers. Effective measures to reverse this trend of downward mobility in retirement are to strengthen the current Social Security system, implement Guaranteed Retirement Accounts (GRAs) to supplement Social Security benefits and transform retirement tax deferrals to refundable tax credits.

## KEY FINDINGS

- The number of 65-year-olds per year who are poor or near poor will increase by 146% between 2013 and 2022.
- The total number of poor and near poor 65-74 year-olds will be enough to fill over 319 Yankee Stadiums.
- Of the 18 million workers aged 55-64 in 2012, 4.3 million of them will be poor or near poor at age 65.
- Of the 18 million workers aged 55-64 in 2012, 1.7 million will have only $9/day for food at age 65.
- 2.6 million not poor 55-64 year-old workers in 2012 will be poor or near poor at age 65.
- The number of poor and near-poor workers aged 55-64 in 2012 will grow from 6.45 million to 15.9 million in the next ten years.

**U.S. Workers Face Downward Mobility in Retirement**
**Increases in Old-Age Poverty, 2012-2022**




Source: SIPP 2008 panel, waves 10 and 11, see entire source and methodology in Appendix

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## INTRODUCTION

If current trends persist, an increasing number of middle-class Americans will face downward mobility at retirement. The number of 65-year-olds per year who are poor or near poor will increase by 146 percent in the decade following 2012.[1]

This crisis of old-age deprivation is due to the erosion of quality retirement savings vehicles available to workers and highlights the need for comprehensive reform, including strengthening Social Security and providing add-on accounts for individual retirement savings known as Guaranteed Retirement Accounts (GRAs).

## DOWNWARD MOBILITY OF THE RETIRING MIDDLE CLASS

We use the Census Bureau's Survey of Income Program Participation (SIPP)'s latest data from 2011-12 to predict the retirement income of workers nearing 65.[2] We also use SIPP's 2011-12 data to measure the change in financial status of all people (not just workers) ages 55-64 from 2013 to 2022. For workers, the top ten percentile of the total earnings distribution is excluded to concentrate the analysis on everyday Americans.[3]

An increasing number of Americans will be poor or near-poor retirees.[4]

**Increasing Numbers of Elderly Poor in the General Population:**

- In 2012, there were over 644,792 poor or near-poor 65-year-olds in the United States.
- Each year from 2013-2022 there will be an average of 1,586,330 million poor and near-poor 65-year-olds.
- This is a 146 percent increase, which results in a total of 15,868,330 poor and near-poor 65-74-year-olds from 2013-2022.
- The total number of poor and near poor 65-74 year olds will be enough to fill more than 319 Yankee stadiums.

**Increasing Rate of Elderly Poverty among Workers:**

- While only 9 percent of the 18 million workers aged 55 to 64 were poor or near poor in 2012, 23 percent will be poor or near poor at age 65.

**Downward Mobility among Retired Workers:**

- 59 percent (or about 614,700) of the over 1 million older workers who were near poor in 2012 will experience downward mobility and be poor retirees.
- 16 percent (2.6 million) of the 16.8 million older workers who were not poor or near poor in 2012 will be poor or near-poor retirees.

Poverty risk increases as retirees get older. The oldest retirees, or those over age 80, are 30 percent more likely to be poor than the younger elderly (ages 65-69).[5] Englehart and Gruber (2004) found that depressed earnings, asset values and increases in healthcare costs will accelerate future old age poverty rates. The predictions of this report are optimistic because forecasted poverty rates are based on projected retirement income for the very "youngest" old, or those age 65.[6]

What does life at the federal poverty threshold look like? Using data from the 2012 Consumer Expenditure Survey, we estimate that the elderly living at 100 percent of the federal poverty level would have less than $9/day for food, $680/month for housing, just over $8/day for transportation, around $180/month for utilities, and approximately $144/month for health care.[7]

This means seniors' assets, including their savings for retirement in employer-sponsored plans, their homes, any other investments they own, and Social Security, will not be sufficient to keep them above the 2012 U.S. poverty level of $11,011 per year. Overall, 45 percent of all near retirees are projected to be poor or near-poor, meaning they have to live on $16,517 or less.

## THE EROSION OF QUALITY RETIREMENT SAVINGS VEHICLES

In the past, many American workers had relied on benefits from Social Security, retirement savings from employer-sponsored plans, and other personal savings to ensure an adequate income at retirement. However, employers are increasingly less likely to sponsor a retirement plan for their employees. A recent SCEPA report found that between 1999 and 2011, the availability of employer-sponsored retirement plans in the United States declined by eight percentage points, from 61 percent to 53 percent.[8] This leaves 47 percent of workers without access to a retirement plan at work.

If workers do have a retirement plan through their employer, these plans have shifted away from defined benefit (DB) plans, where workers are guaranteed a set payment for life based on years of service and salary. In the 1970s, over 80 percent of households with a family member between the ages of 55 and 64 had a DB plan through their medium- or large-sized employer. When workers retired in the early 1980s with a DB plan, that average household could count on $22,000 (in today's dollars) per year for life: $10,000 from a DB plan and $12,000 from Social Security.

Employers who do offer workers a retirement plan at work increasingly offer defined contribution (DC) plans, such as 401(k)'s. DC plans shift the risks and cost of retirement onto the shoulders of workers. These plans come with exorbitant fees that eat away at returns,[9] require workers to choose from a bewildering and opaque menu of investment options, may be exhausted before the end of a worker's life, and—as the Great Recession has shown—are vulnerable to huge losses in a bear market.

Today, workers nearing retirement experience a decrease in bargaining power necessary to ensure adequate wages and benefits.[10] The average balance of retirement savings for those in the bottom 50 percent of the income distribution near retirement is less than $30,000. Low rates of retirement plan coverage and low balances result in a majority of older households (55 percent) that will rely on Social Security for almost all of their income in retirement.

## POLICY RECOMMENDATIONS

The decline in sponsorship and the increase in 401(k)-type plans threaten the retirement security of American workers. This analysis shows that being a middle-class earner does not ensure adequate retirement income if a worker has insufficient savings to keep them above the poverty threshold when they retire.

As these trends continue, there will be a greater number of retirees living in a chronic state of want due to a severe downward pressure on their living standards. Unable to gain a secure footing financially, these retirees will be dependent on the public for support. These families will require social program assistance, putting pressure on social expenditures and municipal budgets to compensate for a declined living standard. Therefore, the retirement crisis is not an isolated issue for those nearing retirement age, but for all American taxpayers.

Comprehensive reform of our current retirement savings institutions is necessary to stem the retirement crisis. First, Social Security needs to be strengthened, rather than cut. In this study, we found that 405,000 poor or near-poor workers will experience moderate relief from poverty in retirement due to increased incomes when they collect Social Security. This small step up from poverty proves the effectiveness of the guaranteed income support provided by the social insurance program.

Second, implementing Guaranteed Retirement Accounts (GRAs) will roll back the decline of American's retirement savings. GRAs are individual savings accounts on top of Social Security that borrow the best features of defined-benefit and defined-contribution plans, including guaranteed retirement benefits that last a lifetime, low administrative costs, and steady contributions.

# APPENDIX

**Table 1: Projected Status of Workers 55-64 YearsOld in 2012 Over the Next Ten Years**

| | Poor | Near Poor | Not Poor | Total |
|---|---|---|---|---|
| **Status as of 2012** | | | | |
| Poor | 631,960 | 71,440 | insufficient sample size | 707,434 |
| Near Poor | 614,677 | 333,928 | 88,110 | 1,036,715 |
| Not Poor | 474,417 | 2,214,015 | 14,149,758 | 16,838,190 |
| **Total** | **1,721,054** | **2,619,383** | **14,241,902** | **18,582,339** |
| | | | | |
| **Poor or Near Poor Workers 55-64 Years Old in 2012** | | | | **1,744,149** |

Source: SIPP 2008 panel, waves 10 and 11, fielded August 2011-March 2012. Population of workers age 55-64 with positive earnings, who were not unpaid family workers, or members of the Armed Forces, and were in the 0-90th percentile of the total earnings distribution. Current Poverty means having total personal income plus the annuitized value of current net worth (including home equity, investments, business equity, real estate holdings, retirement savings minus debt) be below the federal poverty level for individuals below age 65. Current near poverty means having total personal income plus the annuitized value of current net worth be between the poverty level and 1.5 times the poverty level. Projected poverty means having Social Security benefits plus the annuitized value of future net worth and any Db benefits the worker may be eligible for, be below the poverty threshold. Assumptions made for projecting these values include a 6% nominal growth rate of current net worth (without further additions to net worth), 1% nominal growth rate of earnings, 2% inflation rate, 3% annuity rate, 4.3% nominal growth rate of Social Security bend points, poverty threshold adjustment for inflation each year, life expectancy of 84.3 for men and 86.6 for women, and retirement at age 65.

| Table 2a: Poverty Among Current 65-Year-Olds in 2012 | | |
|---|---|---|
| | **Frequency** | **Percent** |
| Poor | 349,992 | 11.34% |
| Near Poor | 294,800 | 9.55% |
| Not Poor | 2,442,549 | 79.11% |
| **Total** | **3,087,341** | **100%** |
| **Poor or Near Poor 65 Year Olds in 2012** | | **644,792** |
| **Projected Poor or Near Poor 65 Years Olds for the Next Ten Years** | | **1,586,830** |
| **Percentage Increase** | | **146%** |

| Table 2b: Projection of Poverty Among Those That Were 55-64 Years Old in 2012 Over The Next Ten years | | | |
|---|---|---|---|
| | **Frequency** | **Percent** | **Per Year for the Next Ten Years** |
| Poor | 12,092,251 | 33.94% | 1,209,225 |
| Near Poor | 3,776,079 | 10.6% | 377,608 |
| **Total** | **35,631,414** | **44.54%** | |

Source for Table 2a and Table 2b: SIPP 2008 panel, waves 10 and 11, fielded August 2011-March 2012. Population age 55-64. Projected poverty means having Social Security benefits plus the annuitized value of future net worth and any Db benefits the worker may be eligible for, be below the poverty threshold. Assumptions made for projecting these values include a 6% nominal growth rate of current net worth (without further additions to net worth), 1% nominal growth rate of earnings, 2% inflation rate, 3% annuity rate, 4.3% nominal growth rate of Social Security bend points, poverty threshold adjustment for inflation each year, life expectancy of 84.3 for men and 86.6 for women, and retirement at age 65.

## ENDNOTES

1. The author's calculation for this number came from comparing the number of poor and near poor 65 year olds in the U.S. in 2012 with the average number of poor and near poor 65 year olds over the next ten years. The increase is from 644,792 today to 1,586,330 per year for the next ten years. All projected calculations were made using SIPP 2008 panel, waves 10 and 11, fielded August 2011-March 2012. Projected poverty means having Social Security benefits plus the annuitized value of future net worth and any DB benefits the worker may be eligible for, be below the poverty threshold. Assumptions made for projecting these values include a 6% nominal growth rate of current net worth (without further additions to net worth), 1% nominal growth rate of earnings, 2% inflation rate, 3% annuity rate, 4.3% nominal growth rate of Social Security bend points, poverty threshold adjustment for inflation each year, life expectancy of 84.3 for men and 86.6 for women, and retirement at age 65.

2. SIPP 2008 panel, waves 10 and 11, fielded August 2011-March 2012. Population of workers age 55-64 with positive earnings, who were not unpaid family workers, or members of the Armed Forces, and were in the 0-90th percentile of the total earnings distribution. Current Poverty means having total personal income plus the annuitized value of current net worth (including home equity, investments, business equity, real estate holdings, retirement savings minus debt) be below the federal poverty level for individuals below age 65. Current near poverty means having total personal income plus the annuitized value of current net worth be between the poverty level and 1.5 times the poverty level. Projected poverty means having Social Security benefits plus the annuitized value of future net worth and any Db benefits the worker may be eligible for, be below the poverty threshold. Assumptions made for projecting these values include a 6% nominal growth rate of current net worth (without further additions to net worth), 1% nominal growth rate of earnings, 2% inflation rate, 3% annuity rate, 4.3% nominal growth rate of Social Security bend points, poverty threshold adjustment for inflation each year, life expectancy of 84.3 for men and 86.6 for women, and retirement at age 65

3. All findings are given in the Appendix.

4. All calculations made using the SIPP 2008 panel and the projection method in endnotes 1 and 2. Please see the Appendix for a visual display of the calculations.

5. Saad-Lessler, Ghilarducci, Schmitz. 2012. "New York's Retirees: Falling into Poverty. A Research Report on the Downward Mobility of New York's Next Generation of Retirees." Schwartz Center for Economic Policy Analysis and Department of Economics, The New School for Social Research.

6. Ibid

7. "Consumer Expenditures in 2012." 2015. 1046. BLS Reports. U.S. Bureau of Labor Statistics. http://www.bls.gov/opub/reports/cex/consumer_expenditures2012.pdf.

8. Ghilarducci, Saad-lesser, Bahn. 2015. "Are US Workers Ready For Retirement? Trends In Plan Sponsorship, Participation, And Preparedness" Winter Page 25 – 33) Journal of Pension Benefits

9. Hiltonsmith, Robert. "The Retirement Savings Drain: The Hidden & Excessive Costs of 401(K)s." Demos, May 2012. http://www.demos.org/sites/default/files/publications/TheRetirementSavingsDrain-Final.pdf.

10. Saad-Lessler, Joelle, Teresa Ghilarducci. 2014. "Explaining the Decline in the Offer Rate of Employer Retirement plans between 2001 and 2012." Schwartz Center for Economic Policy Analysis and Department of Economics, The New School for Social Research. SCEPA Working Paper Series.

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