

Reimagining Retirement 2030: A Roadmap for Action

CRI Annual Policy Innovation Forum

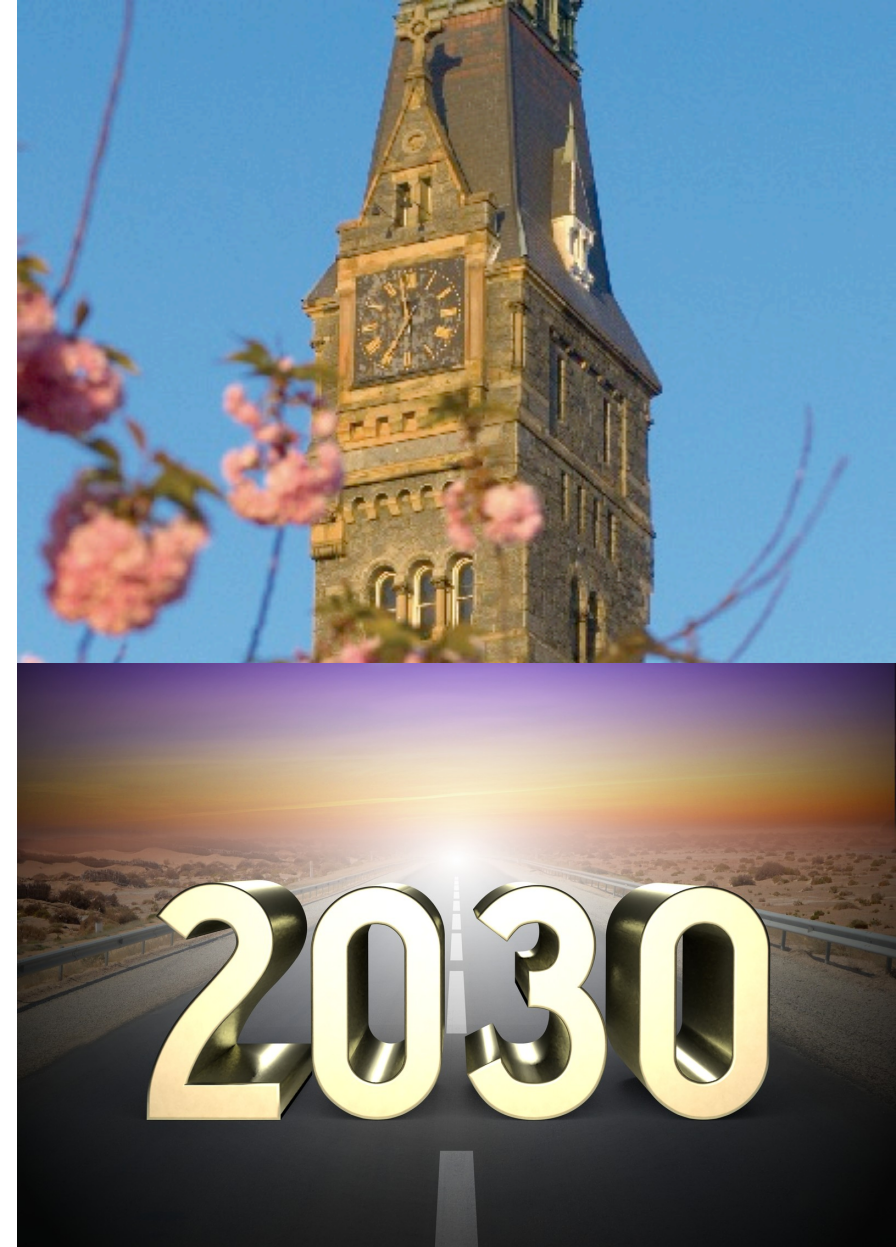
October 20, 2020

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How Will Demographic, Economic, and Political Trends Shape the Future of Retirement?

Moderator | Angela Antonelli

Research Professor and Executive Director,
Center for Retirement Initiatives, Georgetown
University



Panel Participants



James Poterba

President and CEO, National
Bureau of Economic Research



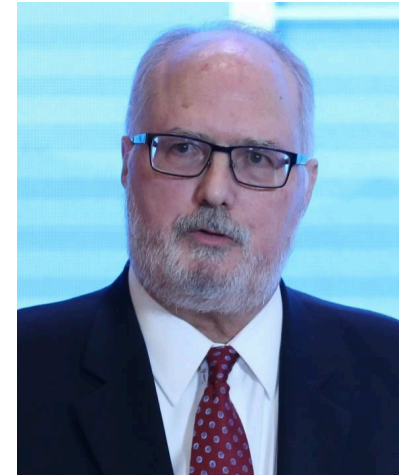
Alice Henriques Volz

Principal Economist, Federal
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James Poterba
President and CEO
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Reimagining Retirement 2030: Economic and Demographic Challenges

James Poterba – MIT, NBER, and TIAA
Georgetown University Seminar
20 October 2020

Key Determinants of Accumulation in Defined Contribution Accounts

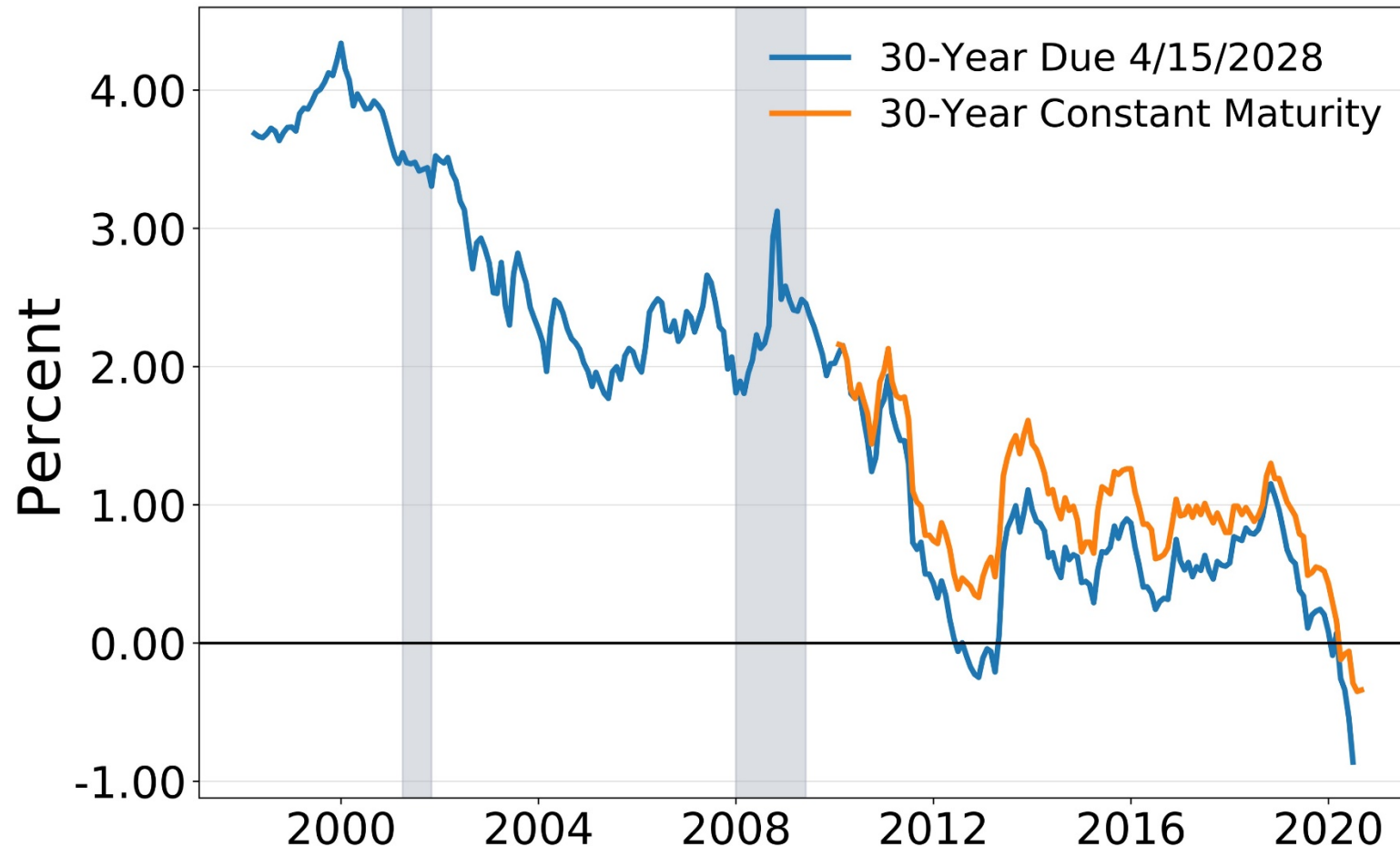
- Lifetime earnings trajectory: What will the recovery from the pandemic look like?
- Saving rate out of earnings
- Rate of return on savings: Long-term trend toward lower values

10-Year U.S. Treasury Yield



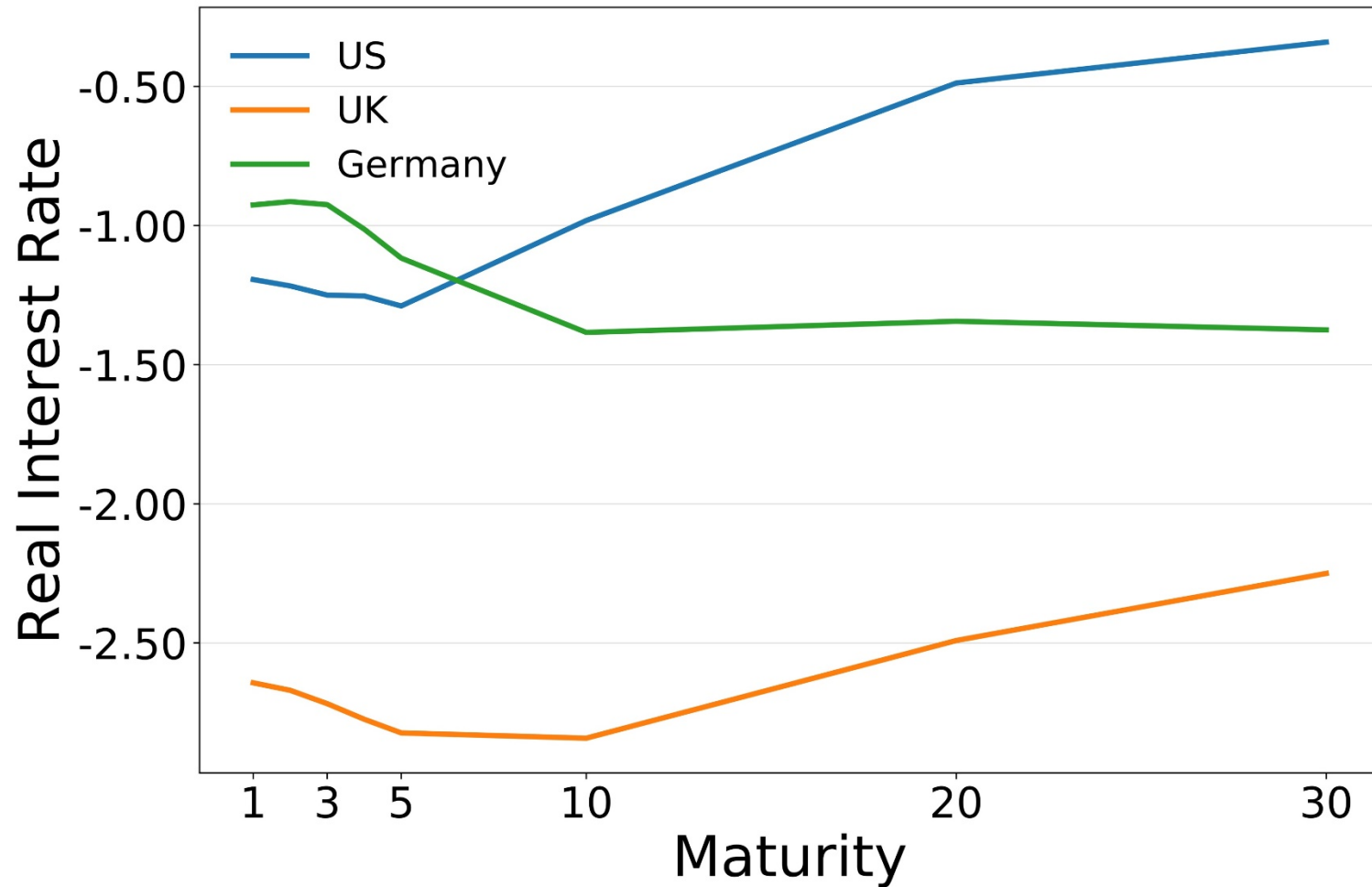
Source: Board of Governors of the Federal Reserve System (US), 10-Year Treasury Constant Maturity Rate [GS10], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/GS10>, August 10, 2020.

30-Year TIPS Yield



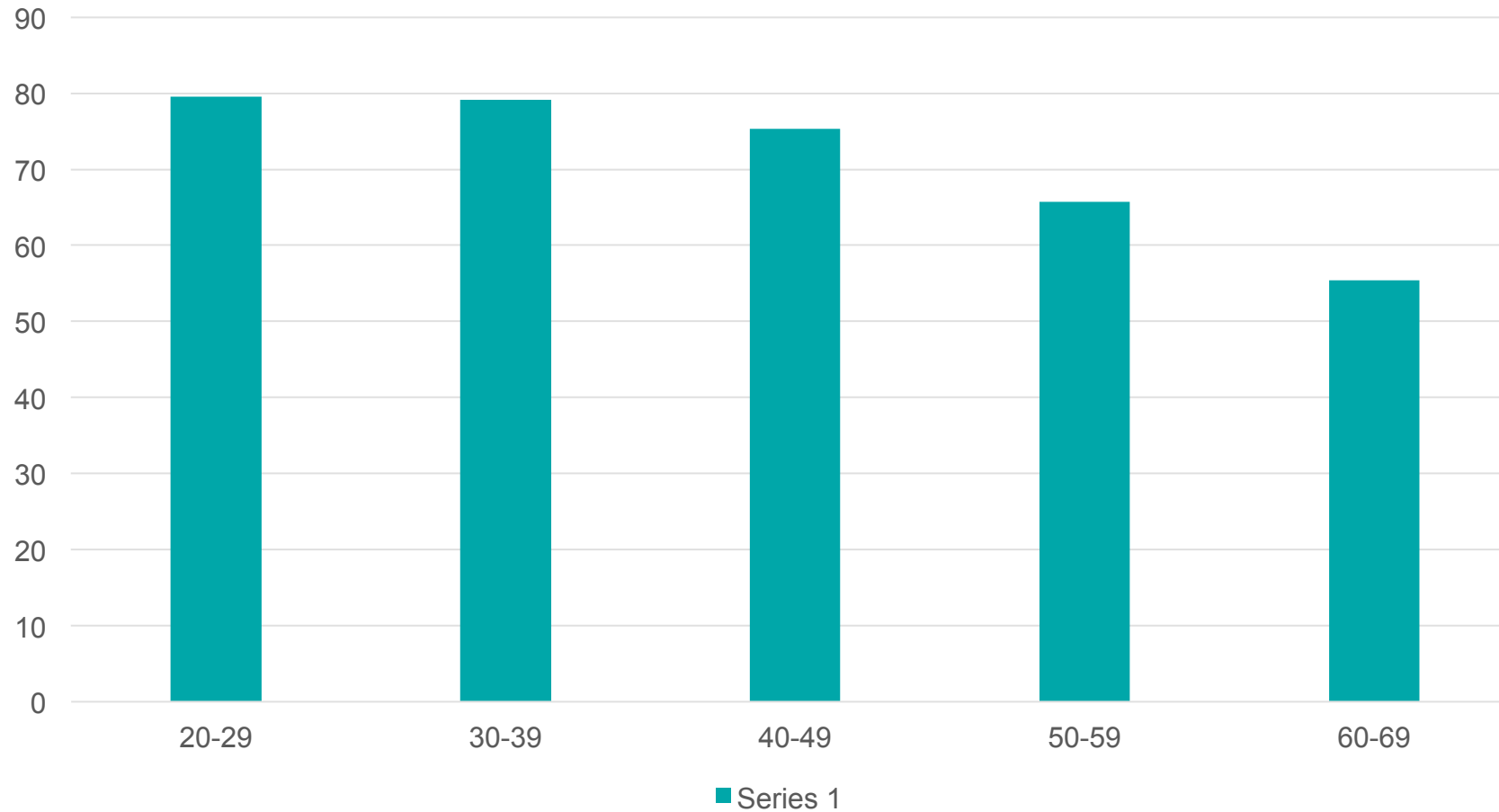
Source: Haver Analytics, 30-Year 3-5/8% Treasury Inflation-Indexed Bond, Due 4/15/2028 [TP30A28], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/TP30A28>, August 10, 2020. Board of Governors of the Federal Reserve System (US), 30-Year Treasury Inflation-Indexed Security, Constant Maturity [FII30], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/FII30>, August 10, 2020.

Real Interest Rates on Inflation-Indexed Bonds



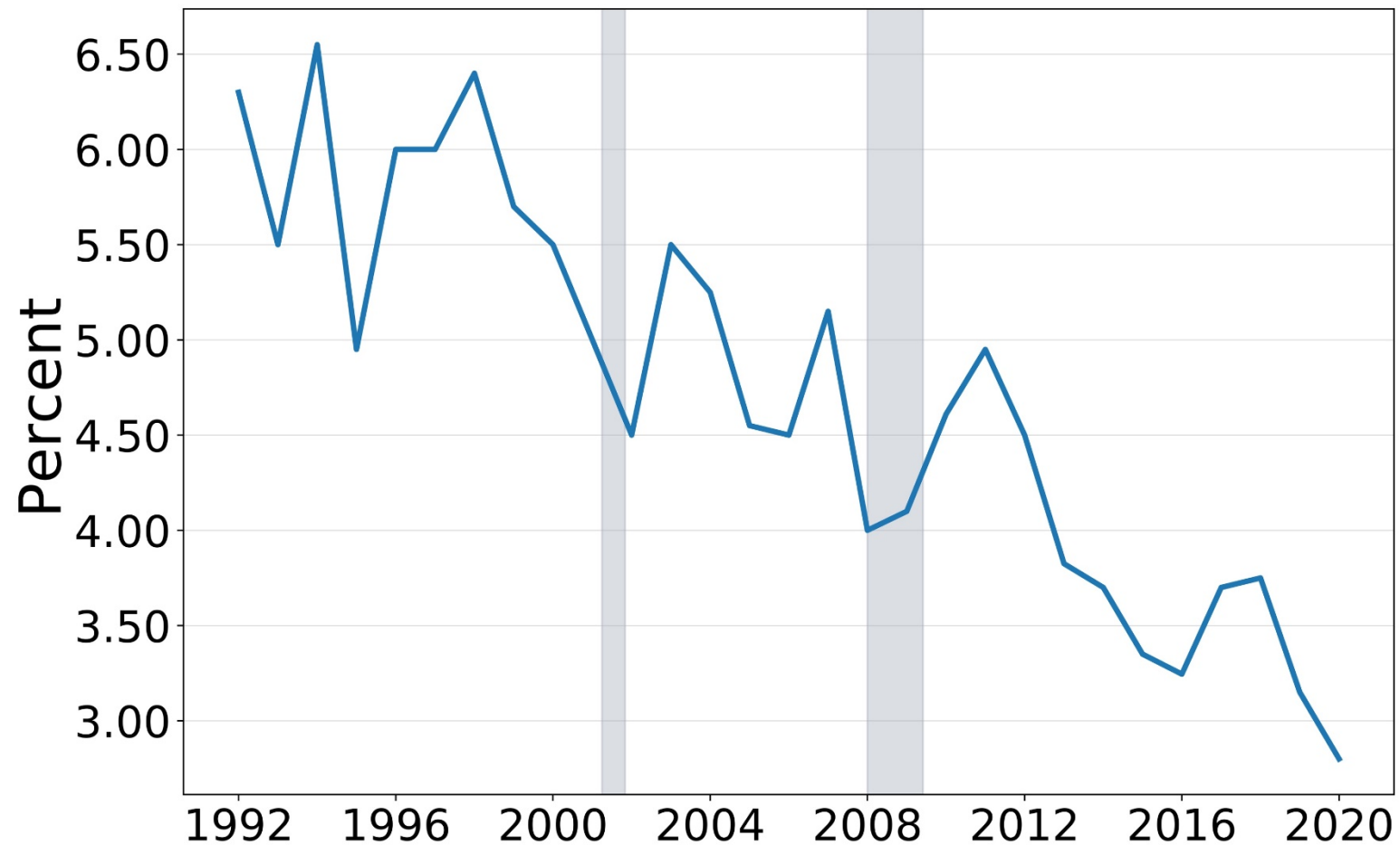
Source: Bloomberg, August 10 2020.

Equity Exposure in US 401(k) Plans



Source: Investment Company Institute, ICI Research Perspective 24 (Sept 2018).

Expected Real Stock Return for Next 10 Years



Source: Federal Reserve Bank of Philadelphia, Survey of Professional Forecasters, 10-Year CPI Inflation Rate (CPI10) (Median Responses), 10-Year Annual Rate of Returns to Equities (S&P 500) (STOCK10), August 10 2020. <https://www.philadelphiafed.org/research-and-data/real-time-center/survey-of-professional-forecasters/historical-data/median-forecasts>

Historical Data: Returns Earned by Today's Near-Retirees

Asset Category	Average Real (After-Inflation) Rate of Return for the Time Period		
	1970-2019	1980-2019	1990-2019
10-year Treasury bonds	2.66	3.21	2.40
S&P500	6.34	8.37	7.32

Source: dqydj.com calculators, December – December returns.

Why Are Riskless Returns so Low?

- Global savings glut
- Scarcity of safe assets
- Changing risk profile of Treasury Bonds
- Expansionary Fed policy

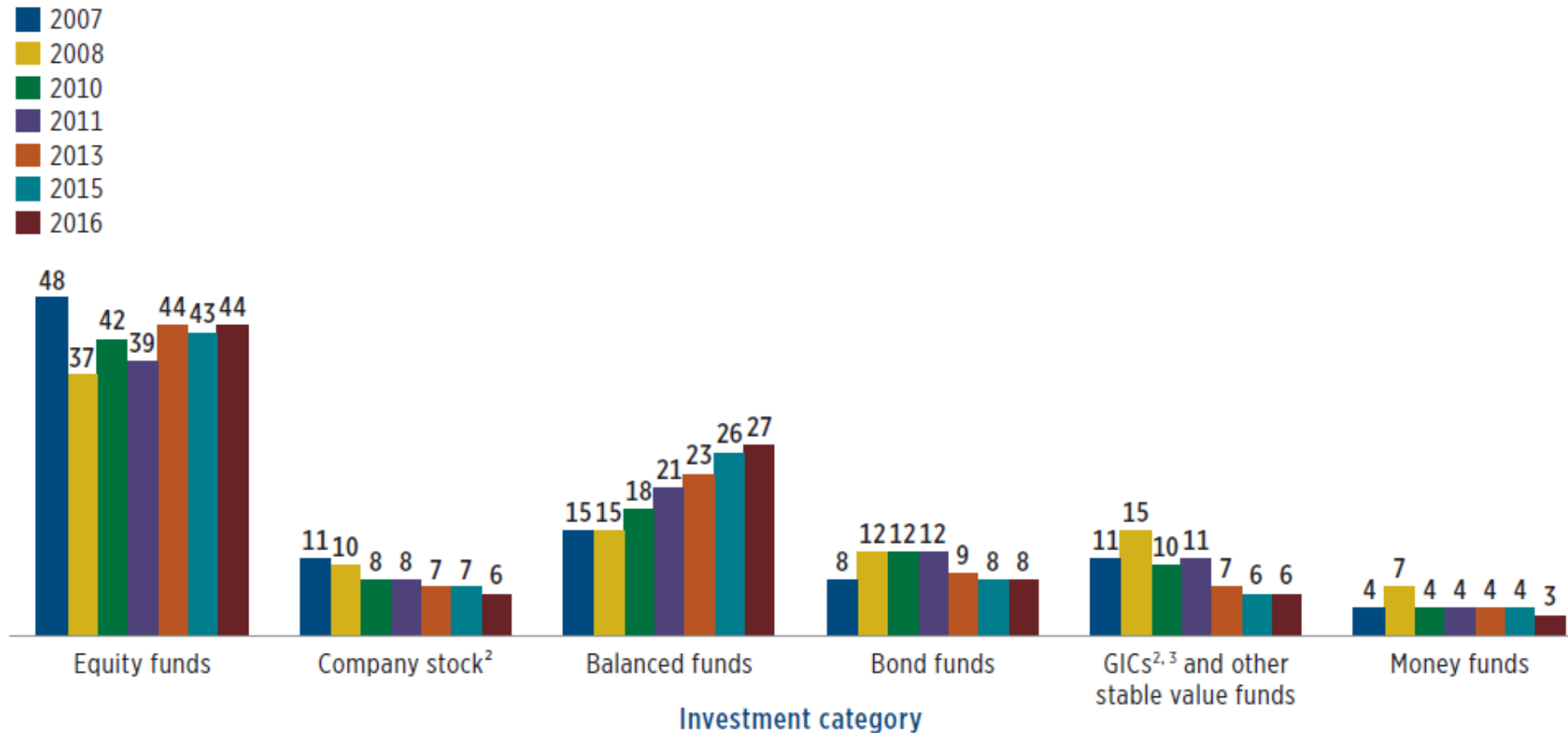
Adaptation Strategies for Low-Return Environment

- Raise saving rates
- Work longer: Double effect, more saving & shorter payout period
- Reach for yield: Take on additional risk
- Intergenerational risk-sharing?

Are Investors “Reaching for Yield”?

401(k) Plan Assets Are Concentrated in Equities

401(k) plan average asset allocation, percentage of total assets,¹ selected years



Source: Investment Company Institute, “401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2016,” *ICI Research Perspective* September 2018.

Longer Lives Make Lower Returns Even More Challenging

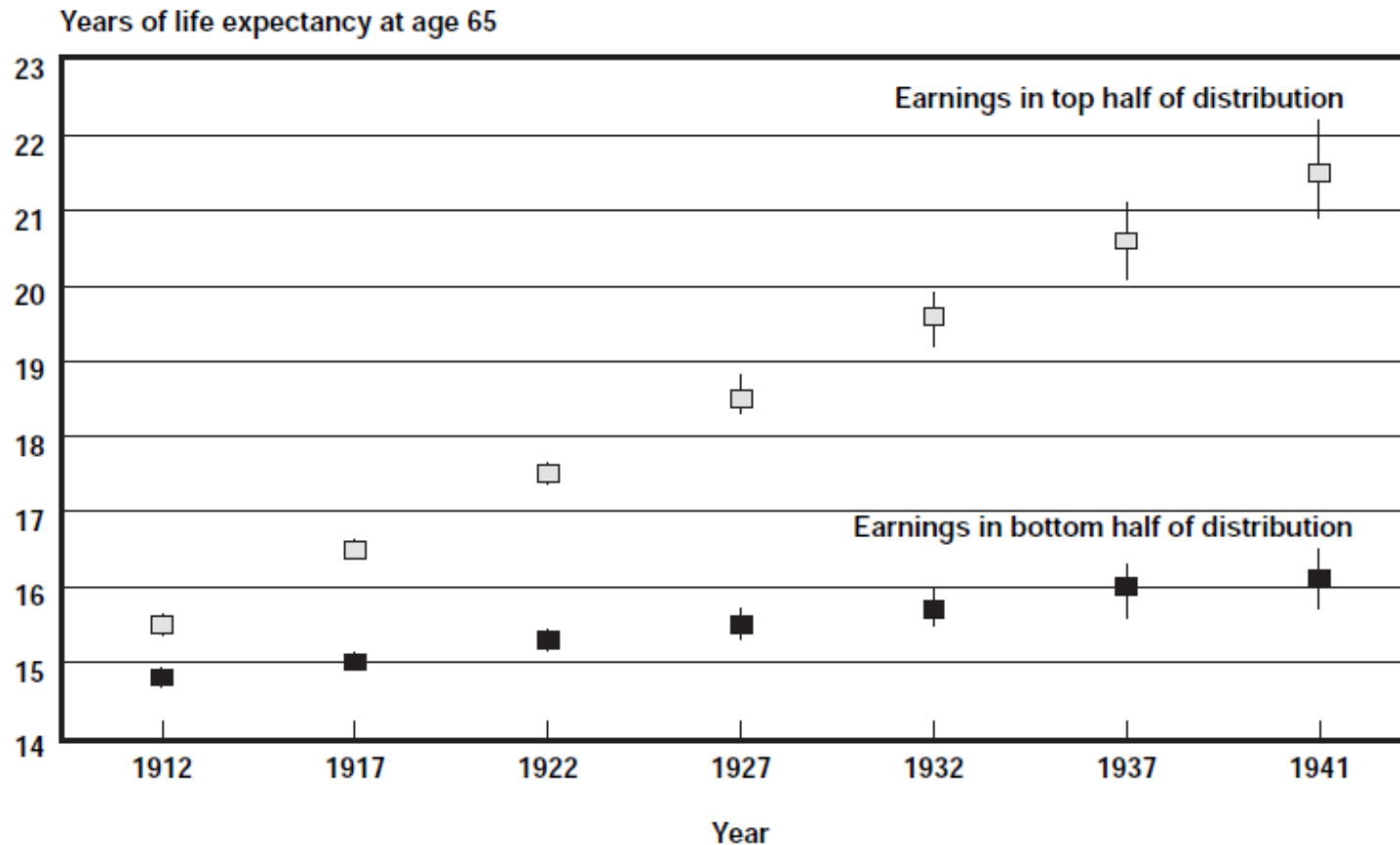
- Life expectancy at age 65 has been rising
- Disparities across the socio-economic spectrum are pronounced

Married Couple Longevity @ 65

	Poor Health		Average Health		Excellent Health	
	Either Alive	Both Alive	Either	Both	Either	Both
75	97%	69%	98%	75%	99%	79%
85	78	28	84	36	89	44
90	55	11	66	17	74	24
95	29	2	39	4	49	8
100	9	0	15	1	21	1

Source: www.longevityillustrator.org assuming married non-smoker couple both born 1/1/55.

Chart 3.
Cohort life expectancy at age 65 (and 95 percent confidence intervals)
for male Social Security-covered workers, by selected birth years and earnings group



SOURCE: Author's calculations using a matched 2001 Continuous Work History Sample.

Source: Hilary Waldron, Social Security Bulletin, 2007.

Alice Henriques Volz
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Disparities in Retirement Wealth

Alice Henriques Volz
Federal Reserve Board

October 20, 2020

2020 CRI Annual Policy Innovation Forum

The analysis and conclusions set forth are those of the authors and do not indicate concurrence by other members of the research staff or the Board of Governors.

Avenues to Save for Retirement

- Individuals access through employer provided plans and individual retirement accounts (IRAs)
 - Latter requires individual action to set up
 - Individuals can be auto enrolled in the former
- Limits to contributions in tax preferred retirement savings
- Defined benefit plans are less prominent but still significant resource for those in and approaching retirement
- Households can save outside of preferred accounts to fund their consumption in retirement

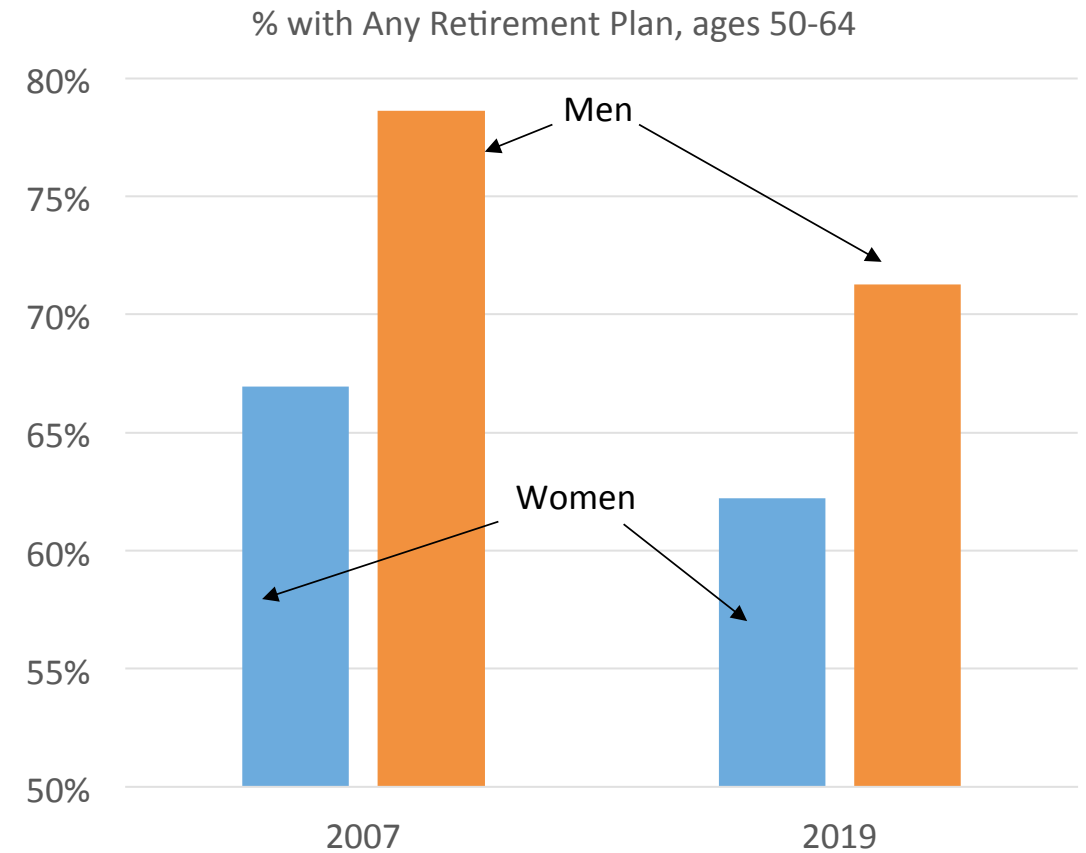
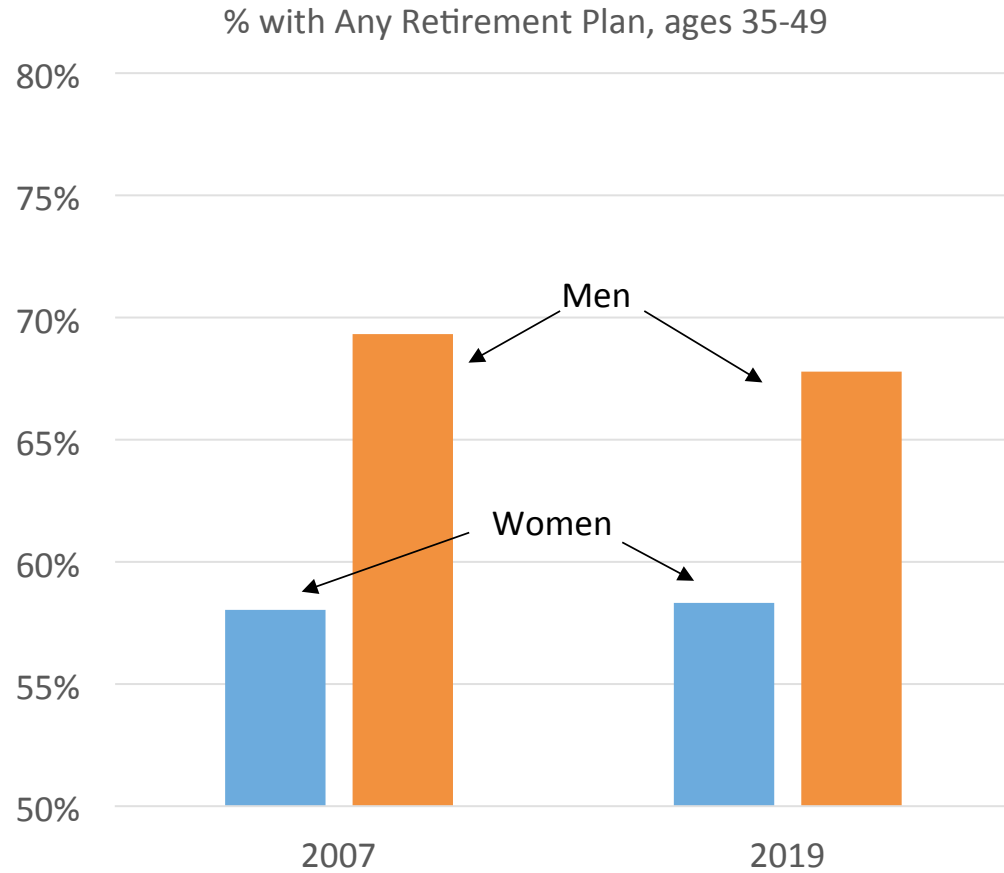
Overview

- Look at participation in retirement savings by age, sex and race/ethnicity
- Use Survey of Consumer Finances
 - Cross sectional, triennial survey on household balance sheets (1989-2019)
 - Collects data on household assets, debts, income and demographics
 - See Bhutta et al (2020) for overview of 2019 survey
 - Defined benefit asset estimates from Sabelhaus and Volz (2019)

Gender disparities partly reflect employment choices

- Attachment to labor market is best way to maximize benefits of tax preferred retirement savings
- Gender differences in labor force participation
- Retirement assets can be examined within a married couple, due to individual ownership of plans and accounts
- Further challenge is women's longer life expectancy relative to men

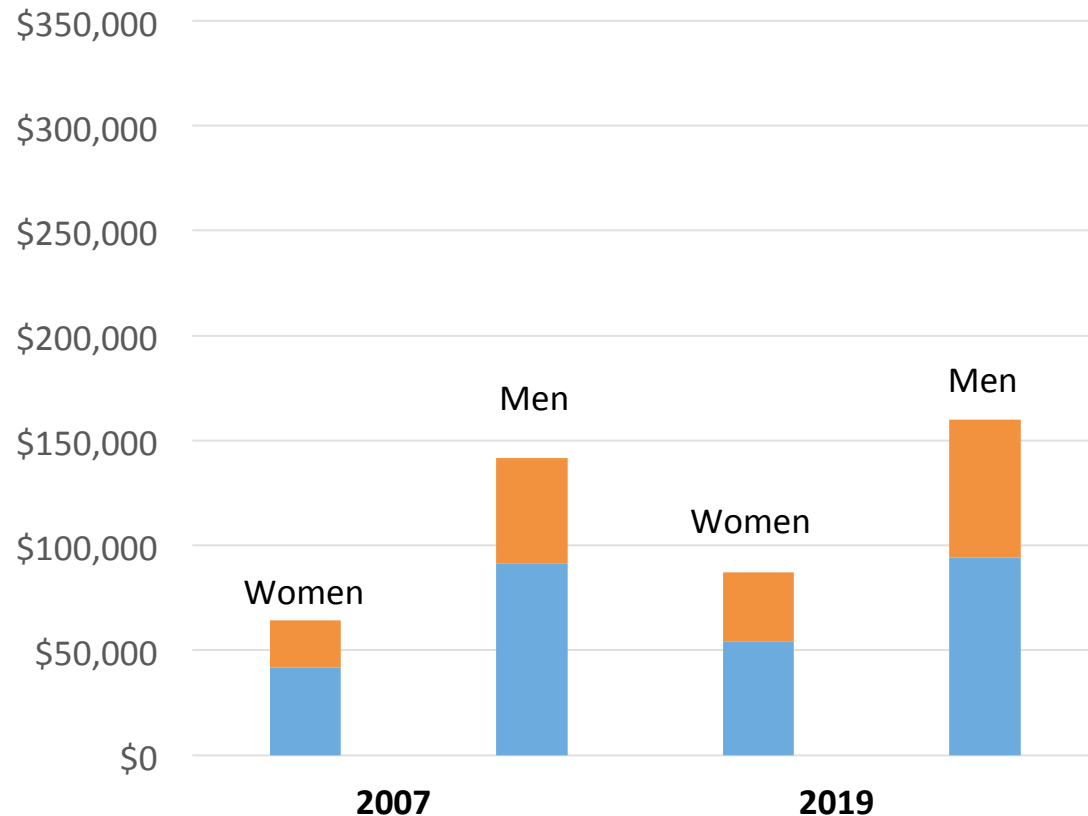
Men are more likely to have retirement plan



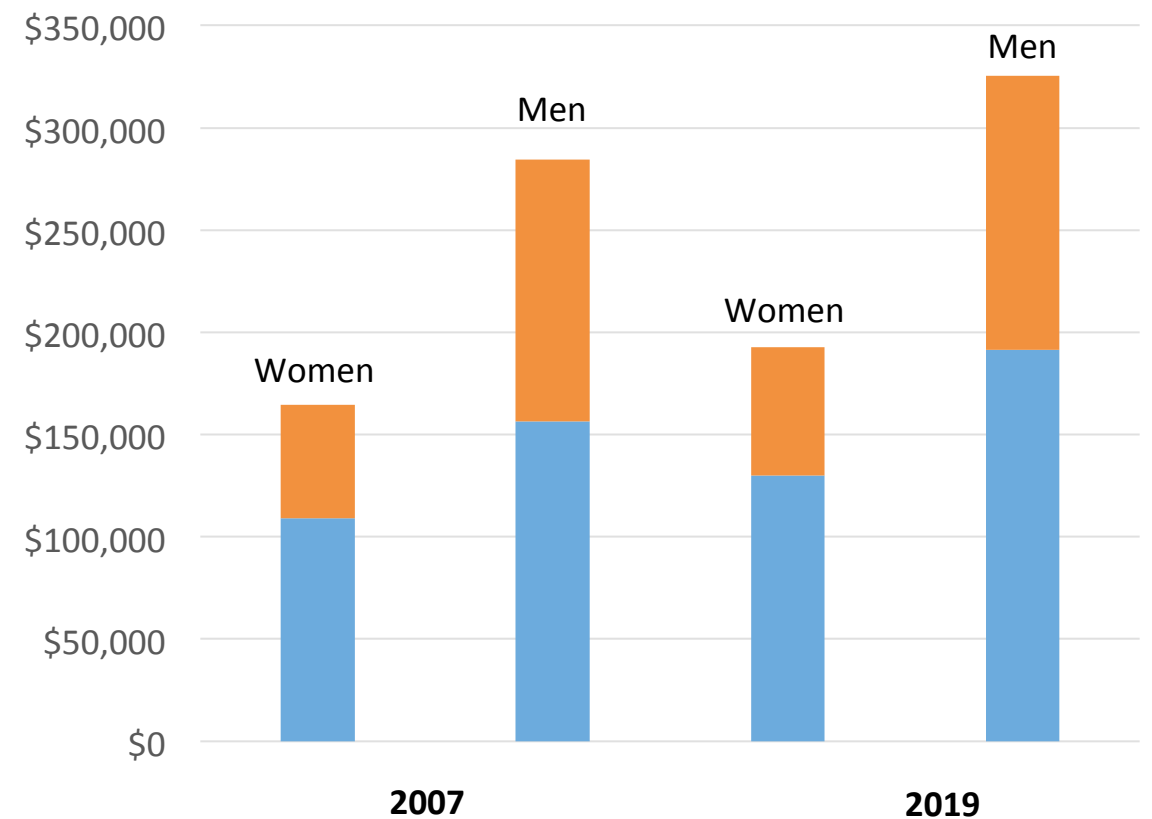
Men have more assets in retirement savings

(DB assets in blue, DC in orange)

Mean retirement assets in DB and DC plans, ages 35-49



Mean retirement assets in DB and DC plans, ages 50-64



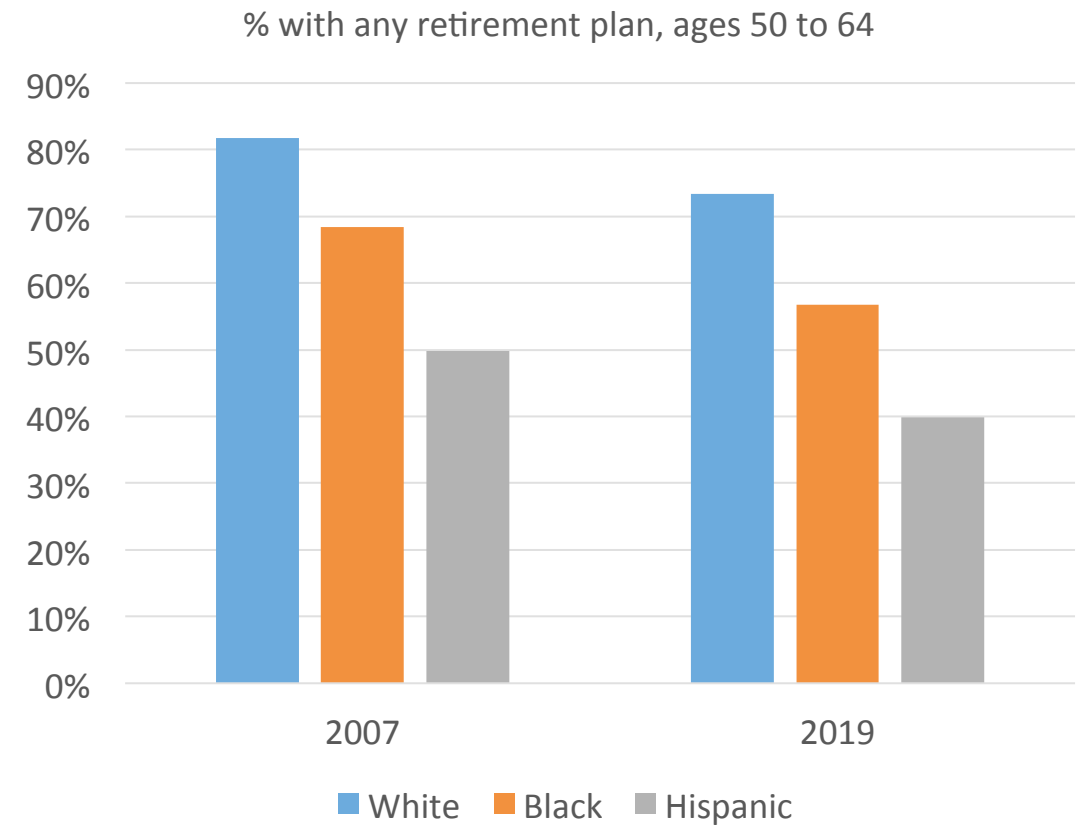
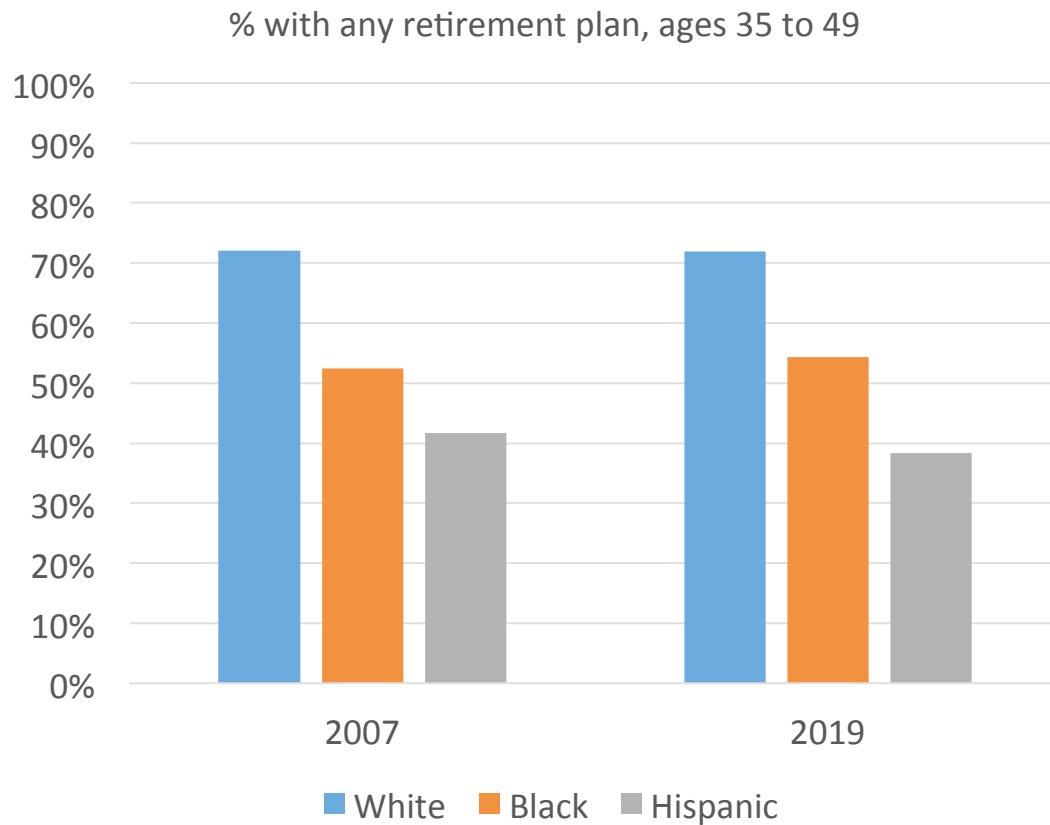
Compare across race and ethnicity groups

- Race and ethnicity is of the survey respondent, not each individual in family
- There have been small changes over time in size of each race/ethnicity group (i.e. Black families were 12% of sample in 2007 and 14% in 2019)

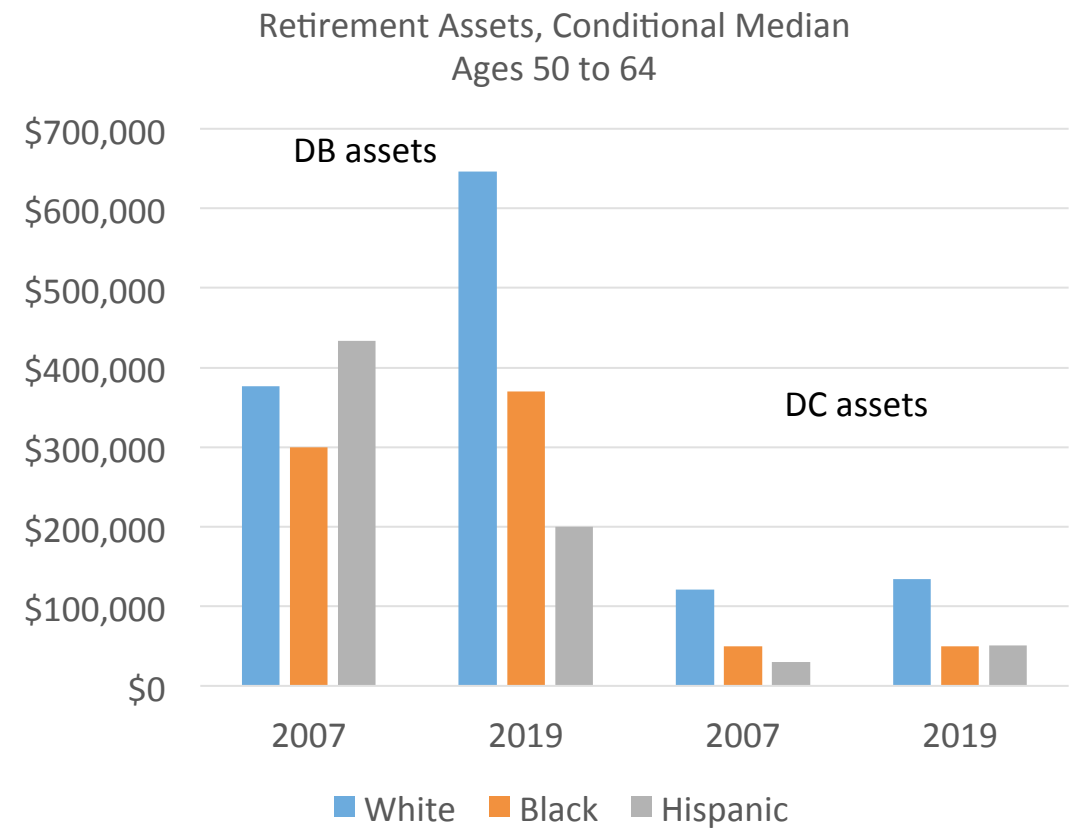
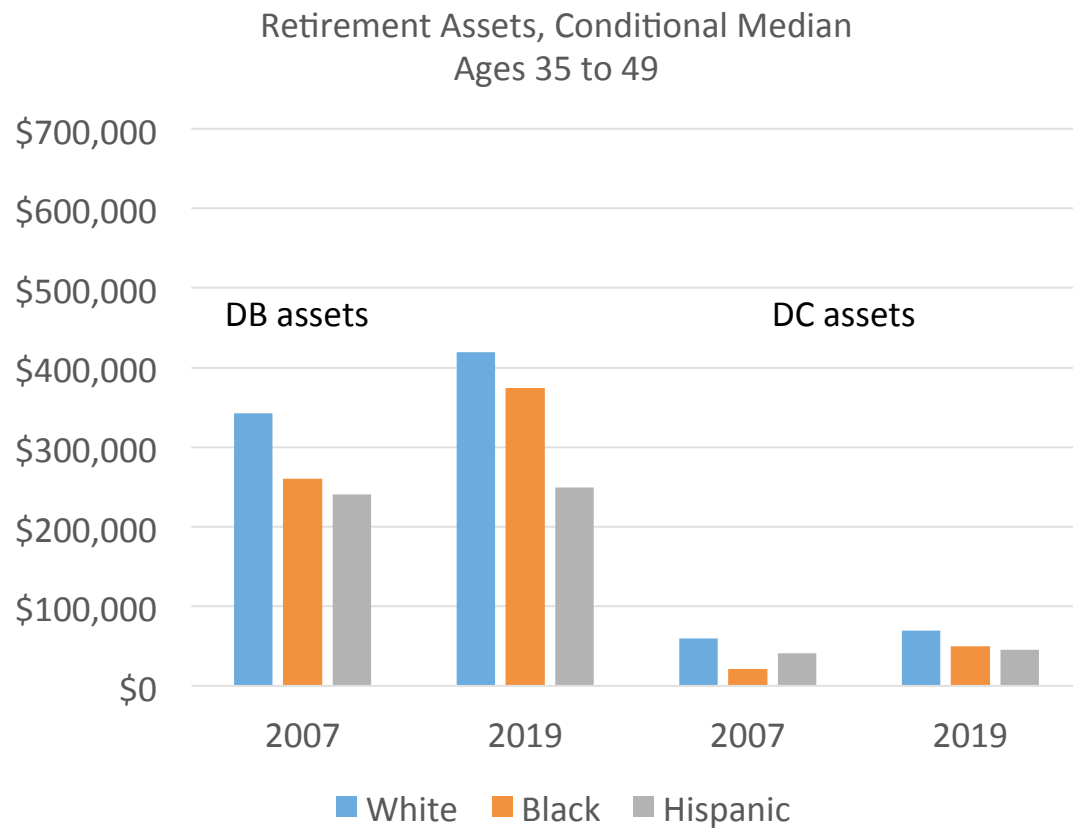
Racial disparities can also reflect employment histories

- Current employment status and ever had FT job
 - Black households have lower labor force participation and fewer years of full time work than white and Hispanic families
- Type of jobs that offer retirement plans

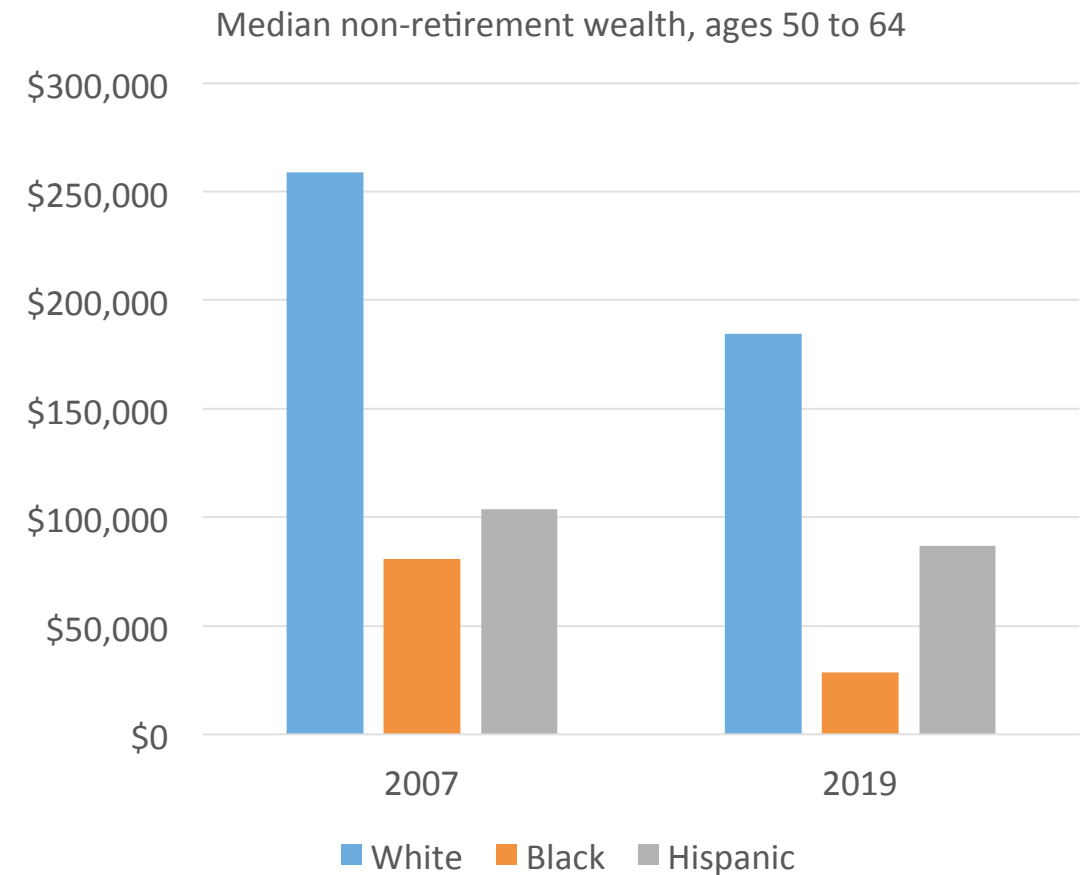
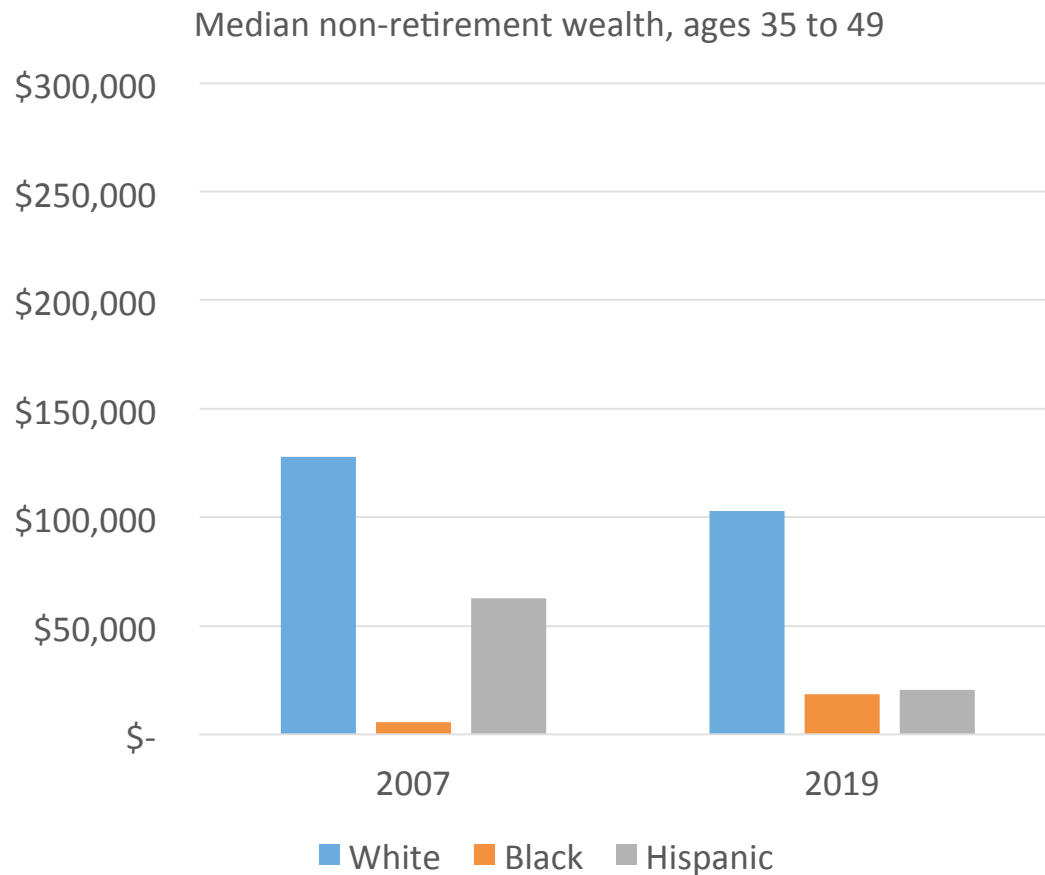
White families are more likely to have a retirement plan compared to Black and Hispanic families



Retirement wealth rising but... differences across groups are significant



Most Black and Hispanic households have few assets outside of retirement



Can't forget Social Security

- Given progressive nature of Social Security program, Black and Hispanic households rely relatively more than white families to fund retirement consumption
- Including Social Security in assessment of retirement preparation suggests Black and Hispanics may be more ready for retirement than if we only look at private retirement wealth
- Social Security provides good longevity protection for women
- With increased labor force participation over time, women will be less reliant on husband's choices and Social Security benefits in retirement

Takeaway

- Most retirement savings accessed through employer
- Black and Hispanic households and women have less access
- Approximately 1/3 households have no “retirement” savings
- Slightly lower participation in 2019 compared to 2007 but more assets accumulated overall
- A lot of households have *no* retirement savings, these households have lower wealth than those with retirement savings

Michael Kreps
Principal
Groom Law Group

Legislation

- Multiemployer pensions
 - Butch Lewis Act, HEROES Act
- Universal coverage
 - *E.g.*, Automatic IRA, Automatic Retirement Plan Act, State programs
- Retirement tax incentives
 - “Equalization”
- SECURE Act II / Portman-Cardin

Regulatory

- Fiduciary rule
 - DOL rule and exemption
 - SEC Reg BI
- ESG & proxy voting rules
- Pooled Employer Plans
- Lifetime income disclosure
- E-delivery
- State-facilitated programs

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