

Are Americans Preparing Adequately for Retirement?

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By Paul Schott Stevens

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Every day, thousands of Baby Boomers enter retirement, while thousands of members of an equally large generation—the Millennials—enter the workforce. How well the Baby Boomers have prepared for retirement, and how the Millennials will provide for their own future security in an evolving retirement system, are crucial questions on both a personal and policy level.

Most of the answers we hear to those questions are pessimistic. Headlines declare that today's retirees are coming up short and that today's workers face savings shortfalls in the trillions of dollars.

Yet numerous other rigorous research studies tell a very different story. They document that each successive generation of retirees has fared better than its predecessors; that more retirees receive more income from private-sector retirement plans today than in past decades; and that the assets earmarked for retirement—\$23 trillion at year-end 2013—are at record levels. And they show that widely used government statistics undercount the income that retirees receive from 401(k) plans and individual retirement accounts (IRAs).

It's vital that Americans hear all points of view on how our retirement system is working. That's why the [Investment Company Institute \(ICI\)](#) is hosting a one-day summit tomorrow featuring a wide array of experts and academics sharing their research about Americans' retirement preparedness.

The summit will help bring to light points of view that have not received much play in the media or the public discussion, where there continues to be a heavy emphasis on doom and gloom. The differing views of presenters at the summit will paint a more complete picture of the retirement situation—and provide insight into possible trends going forward.

We'll begin our meeting by drawing a baseline of data on household balance sheets, retirement resources, and the spending patterns of retirees. Other speakers will consider the challenges that today's and tomorrow's retirees will face—including healthcare costs, longevity issues, financial literacy, and the financial status of Social Security.

These sessions will lay the groundwork for a discussion of measures to evaluate Americans' retirement preparedness—and what those different measures tell us. Panelists from the Center for Retirement Research at Boston College, the Employee Benefit Research Institute, the University of Wisconsin, and the RAND Center for the Study of Aging will compare what their research says about the outlook for retirees and workers alike.

Of course, ICI has closely followed this area of research—and we have made our own contributions. For example, we have updated the traditional metaphor of retirement resources as a three-legged stool. Instead, we look at them as a pyramid with five basic components: Social Security serves as the wide, strong foundation, complemented by homeownership, employer-sponsored retirement plans (including both defined benefit and defined contribution plans), IRAs, and other personal savings.

Each household's pyramid is unique, because households do not need to rely on each part of the pyramid equally to maintain their standard of living in retirement. For example, though Social Security covers households at all levels of earnings, it provides a much higher replacement rate for those with lower earnings. So the pyramid of a household with lower lifetime earnings will include a larger share of Social Security income, while workers with higher lifetime earnings must rely more on other resources—employer plans, IRAs, and personal savings—to replace their income once they stop working.

Based on ICI's research, as well as our analysis of other academic work, we strongly believe that this multi-layered, flexible system is providing the tools that most Americans need to reach a secure retirement.

As a nation, we can do more to make those tools more available and more useful. As individuals, we each have to ensure that we are making the best use of our planning, saving, and investing opportunities. But overall, our retirement system has many strengths—and any changes should build upon those strengths.

Others, of course, disagree. Our summit is designed to ensure that all points of view are examined in light of solid data and research. ICI is committed to airing all sides, and we hope that this summit will make an important contribution to advancing a broader understanding of a challenge that faces us all.

Stevens is president and CEO of the Investment Company Institute, the national association of U.S. investment companies, including mutual funds. About half of all assets in defined contribution retirement plans and individual retirement accounts are invested in mutual funds.

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