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Pension Reform

Retirement Coalition Releases Research Showing $6.6 Trillion Retirement Income Gap

About 70 million U.S. households with residents between the ages of 32 and 64 face a retirement income gap of $6.6 trillion, according to a new research study reported Sept. 15 by the Pension Rights Center and Retirement USA, a coalition of pension rights groups and labor unions.

Retirement USA will conduct a month-long campaign, ''Wake Up, Washington,'' to raise public awareness of the retirement crisis and to put pressure on lawmakers to improve Social Security benefits, Karen Friedman, executive vice president and policy director at the Pension Rights Center, one of five coordinating members of Retirement USA, said at a Sept. 15 news briefing.

The retirement income gap, which was calculated by the Center for Retirement Research at Boston College for the Pension Rights Center and Retirement USA, represents the present value of the projected shortfall in income those 70 million households will need to maintain their standard of living in retirement at age 65, said Anthony Webb, a research economist at the Center for Retirement Research. The $6.6 trillion is what it would cost today to close that retirement income gap, he said.

Using what Webb said were conservative assumptions, the center calculated the retirement income gap using methods similar to those it uses to compile the center's National Retirement Risk Index, he said. That index measures the share of households at risk of being unable to maintain a preretirement standard of living.

''We haven't included retiree health care costs, and we've assumed a continuation of current law vis-a-vis Social Security benefits,'' Webb said. ''If we factored in health care costs, obviously the numbers would be a great deal larger,'' he said.

The $6.6 trillion projected retirement income gap, based on 2009 data, is about five times the projected federal deficit for 2010, Maria Freese, director of government relations and policy at the National Committee to Preserve Social Security and Medicare, said at the briefing.

Separately, Ed Ferrigno, vice president of Washington affairs at the Profit Sharing/401(k) Council of America, told BNA Sept. 15 that given the scope of the study, which included households that are not saving for retirement in any form, a large deficit is not surprising.

''Retirement USA supports a new universal retirement plan with mandatory employer and employee contributions in addition to Social Security, with a government subsidy for low-income workers,'' Ferrigno told BNA. ''Their position should be understood and debated. The core question is whether or not Americans should be required to save for retirement beyond Social Security,'' he said.

Erosion of Social Security Benefits. In 2007, near the peak of the stock market, half of households with members approaching retirement had less than $98,000 in a retirement savings account, and the median balance for all households was much lower because about 40 percent of households had no retirement savings account, Ross Eisenbrey, vice president of the Economic Policy Institute, said at the briefing. The $98,000 account balance was enough to buy a joint and survivor annuity worth $5,400 a year, sufficient to replace about 10 percent of the median income for those households, he said.

Social Security, which is the primary source of retirement income for many people, is scheduled to replace a much smaller share of preretirement income in the future, even if Congress does nothing to further reduce Social Security benefits, Eisenbrey said. An average earner who retired at 65 in 2002 receives benefits that replace 39 percent of his preretirement income, he said.

 ISSN 1069-5117

By 2030, the average income replacement rate at age 65 will fall to 28 percent because of a higher normal retirement age, increased Medicare deductions, and increased income taxes levied on Social Security benefits, Eisenbrey said. The normal retirement age is 66 and will rise to 67 under current law, he said. ''The odds of replacing enough income in retirement have fallen and will continue to fall in the future,'' he added.

BY FLORENCE OLSEN

More information is at http://www.Retirement-USA.org.

ISSN 1069-5117