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# Retirement Security After the Great Recession:

## Middle-Income and Middle-Aged Americans Feeling the Squeeze

The Great Recession took a tremendous toll on Americans of all ages. Declining home values caused housing wealth to evaporate, severe job losses drove the unemployment rate upward, and falling retirement account balances led many Americans to reconsider their retirement plans. The recession's impact on retirement security will persist even as the economy continues to recover. Older workers may delay retirement, while many prime-aged workers face the daunting prospect of rebuilding lost home equity and saving for retirement despite persistently slow wage growth. Wealthier Americans are more likely to have either employer-provided pensions or personal retirement savings, while middle- and lower-income Americans rely more heavily on Social Security income. Lawmakers should pursue a variety of policies to enhance retirement security, including enrolling participants automatically in Individual Retirement Accounts, promoting the purchase of financial products that provide guaranteed income for life, preserving favorable tax treatment for retirement savings for middle- and lower-income Americans, and protecting and strengthening Social Security for current and future generations of retirees.

REPORT BY

THE U.S. CONGRESS JOINT ECONOMIC COMMITTEE CHAIRMAN'S STAFF

Senator Bob Casey, Chairman

### *The Recession Will Have a Lasting Impact on Retirement Security*

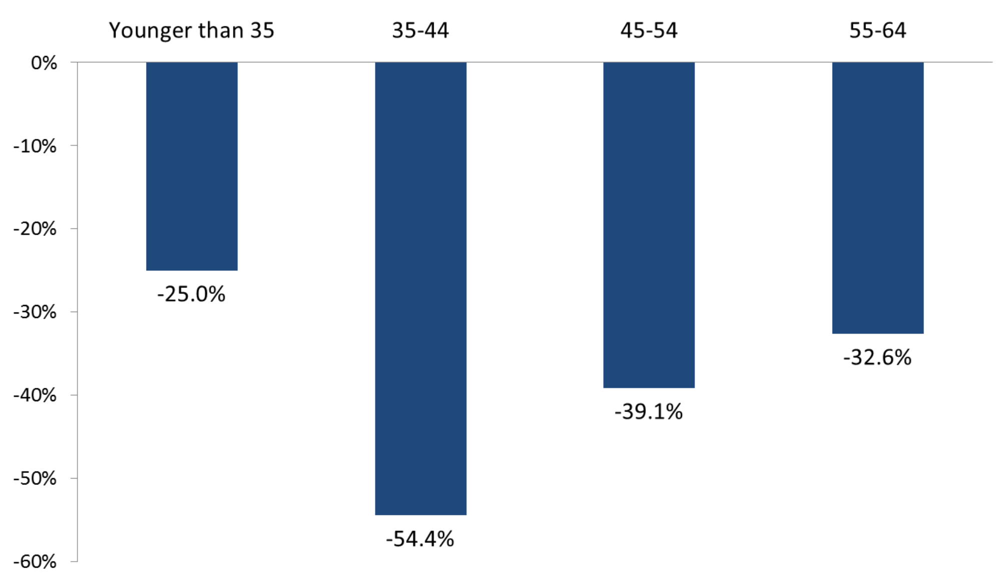
For generations, Americans have depended on a so-called "three-legged stool" of benefits to provide them with sufficient resources for a comfortable retirement: Social Security, employer-based pensions, and personal retirement savings. The degree to which individuals depend on each of these three components varies by income level, with the least well-off households receiving a higher share of their income in old age from Social Security than wealthier households.[1] However, the majority of older Americans (65 percent) depend on Social Security for at least half of their income and over one-third depend on Social Security benefits for at least 90 percent of their income.[2]

Although protecting and strengthening Social Security will ensure that future retirees continue to receive a subsistence level of income, the Great Recession diminished the strength of the other two legs of the stool. High unemployment resulted in millions of Americans digging into existing savings to get through hard times, and kept them from growing their retirement nest eggs.

Over the course of the recession, median household net worth fell substantially for working-age families (see **Figure 1**).[3] Much of the loss in net worth can be attributed to the over 17 percent decline in home values and the resulting drop in home equity.[4] While the loss of net worth affected all age groups, the percentage loss was most significant for families headed by individuals aged 35 to 44, many of whom purchased their homes at the height of the housing bubble and, thus, were most adversely affected by the drop in home values.[5]

**Figure 1. Household Net Worth Declined Substantially During the Recession**

Percent Change in Median Family Net Worth by Head of Household Age, 2007-2010

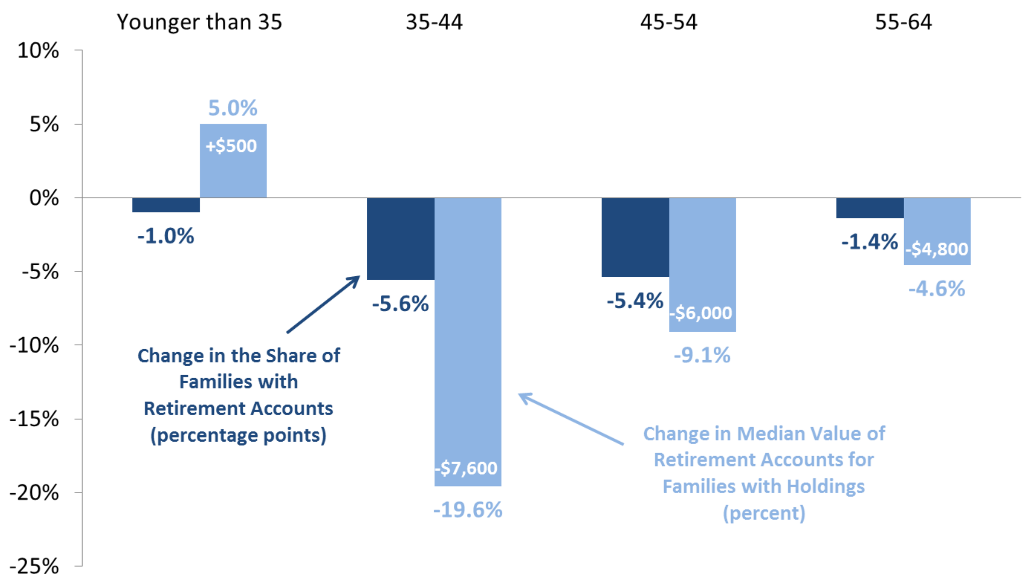



Source: Chairman's staff of the Joint Economic Committee using data from the Federal Reserve Board, Survey of Consumer Finances.

Families headed by 35- to 44-year-olds also saw the largest declines in retirement account participation rates and account balances. From 2007 to 2010, the percentage of households headed by 35- to 44-year-olds with a household member with an Individual Retirement Account (IRA), a Roth IRA, a Keogh plan, or an employer-sponsored defined-contribution plan fell from 58 to 52 percent, while the median total balance for households in this age category with such accounts fell by 20 percent – a drop of $7,600 (see **Figure 2**).[6] The share of households headed by 45- to 54-year-olds with retirement accounts fell from 65 to 60 percent from 2007 to 2010, while the median balance of their accounts fell by $6,000, or about 9 percent. The median balance for households headed by 55- to 64-year olds fell by $4,800, or about 5 percent over the same period. The median balance for households headed by those under the age of 35 with accounts edged upward despite the recession, increasing by $500 from 2007 to 2010, an increase of 5 percent.[7]

**Figure 2. Middle-Aged Workers' Retirement Security Hit Especially Hard**

Changes by Head of Household Age, 2007-2010




Note: Includes holdings in Individual Retirement Accounts (IRAs), Roth IRAs, Keogh plans, and defined-contribution plans from past or present employers; excludes Social Security and defined-benefit plans.
Source: Chairman's staff of the Joint Economic Committee using data from the Federal Reserve Board, Survey of Consumer Finances.

Recent surveys confirm that worries about having sufficient resources for retirement have grown across all age categories. According to one measure, the share of 35- to 44-year-olds who are pessimistic about their retirement security more than doubled between 2009 and 2012, rising from 20 to 49 percent. The share of pessimistic 45- to 54-year-olds rose to 43 percent in 2012, and this share rose to 39 percent for 55- to 64-year-olds.[8] Another recent survey found that currently only 14 percent of Americans are optimistic that they will have sufficient resources to support themselves in their retirement, down from 27 percent in 2007.[9]

Increasing retirement insecurity has caused many older workers to postpone retirement. While the overall labor force participation rate declined by nearly 2 percentage points from 2008 to 2011, among individuals aged 65 years and over, the labor force participation rate increased from 16.8 percent to 17.9 percent over the same time period.[10]

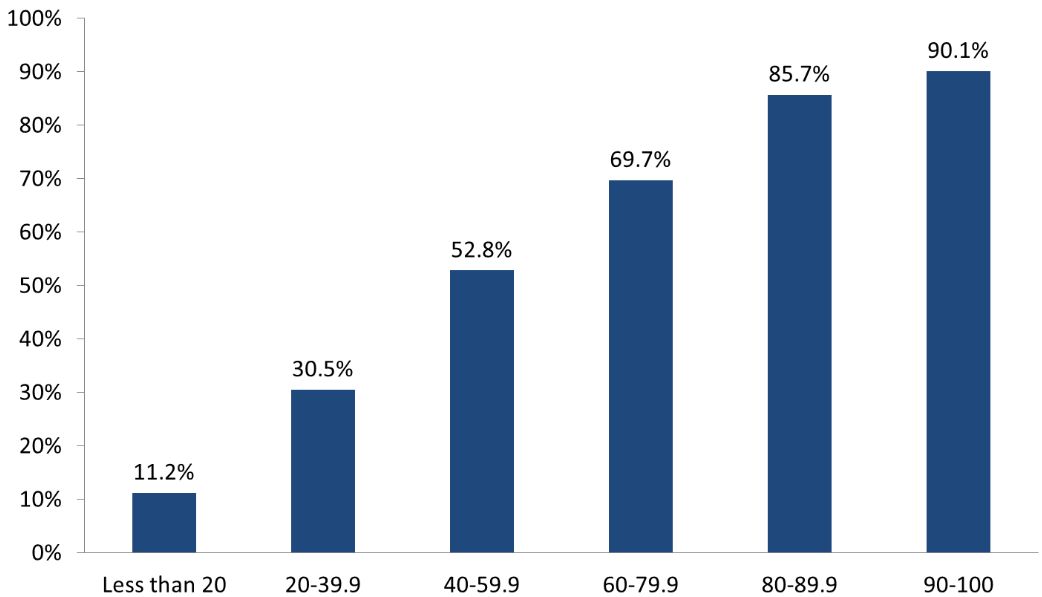
Workers under the age of 55 have experienced significant setbacks to saving for retirement. This is particularly true for those individuals whose largest asset was their home. Moreover, while the economy continues to recover, long-term unemployment remains high. A significant majority (71 percent) of the formerly long-term unemployed accept jobs that pay lower wages than the jobs they lost.[11] Furthermore, wages for all workers have stagnated over the past year, with inflation-adjusted weekly earnings declining 1.0 percent.[12] Thus, many Americans harmed by the recession will remain on a lower earnings trajectory throughout their lives, making planning and saving for retirement more complicated after the Great Recession.

### *Retirement Security is Particularly Fragile for Middle- and Lower-Income Families*

Middle-income Americans are less likely than wealthier individuals to have retirement accounts, and they are also less likely to have seen gains in account balances over the years. In 2010, 90 percent of families in the top income decile had a retirement account. Conversely, only about half of families in the middle income quintile had a retirement account, and only about 1 in 10 families in the lowest income quintile had such an account (see **Figure 3**). [13]

**Figure 3. Middle- and Lower-Income Families Less Likely to Have Retirement Accounts**

Percent of Families with Retirement Account Holdings by Income Percentile, 2010



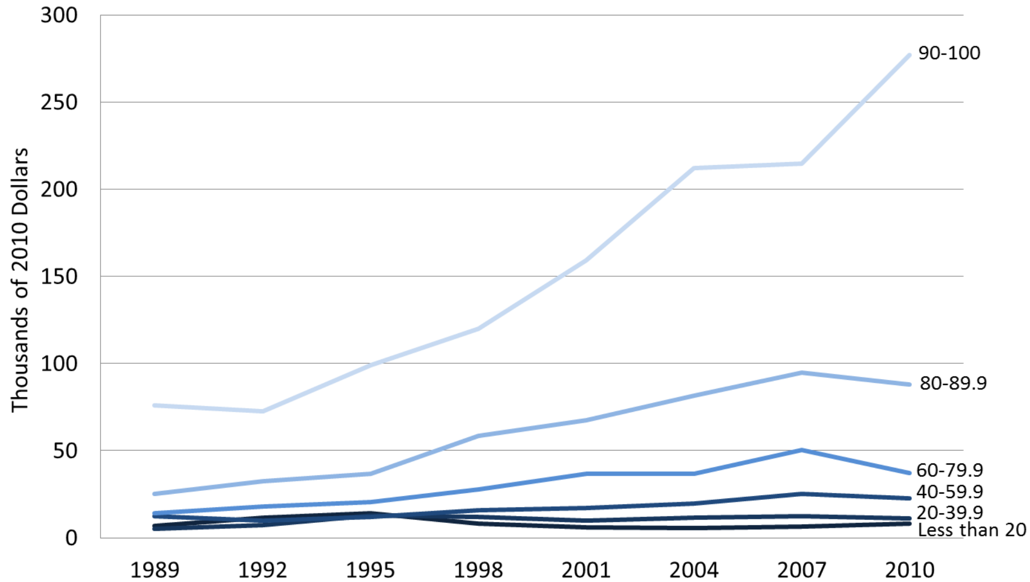

Note: Includes holdings in Individual Retirement Accounts (IRAs), Roth IRAs, Keogh plans, and defined-contribution plans from past or present employers; excludes Social Security and defined-benefit plans.

Source: Chairman's staff of the Joint Economic Committee using data from the Federal Reserve Board, Survey of Consumer Finances.

The Great Recession demonstrated the particular fragility of retirement security for middle-income families. From 2007 to 2010, the median value of retirement accounts for those families with any holdings at all declined by 9 percent for the middle quintile of income earners, by 13 percent for families in the 20 - 40 percent income quintile, and by 26 percent for families in the 60 - 80 percent income quintile. Over the same three-year period, the median value of retirement accounts for families in the top ten percent of income earners increased by nearly 30 percent — continuing a decades-long trend of enhanced retirement security for top income earners while retirement account balances for middle- and lower-income families stagnate or even decline (see **Figure 4**).[14]

**Figure 4. Retirement Security for Middle-Income Families is Stagnating**

Median Value of Retirement Accounts for Families with Holdings by Income Percentile, 1989-2010




Note: Includes holdings in Individual Retirement Accounts (IRAs), Roth IRAs, Keogh plans, and defined-contribution plans from past or present employers; excludes Social Security and defined-benefit plans.

Source: Chairman's staff of the Joint Economic Committee using data from the Federal Reserve Board, Survey of Consumer Finances.

## *Policymakers Can Take Steps to Enhance Retirement Security for Working Americans*

There is no simple solution to the retirement security challenges that were exacerbated by the Great Recession. However, it is incumbent on policymakers to work to reform and strengthen mechanisms that allow working Americans to save for retirement. This will require efforts to support all three legs of the "three-legged stool." First, Social Security must be preserved and the trust fund must remain solvent so that future retirees can count on the benefits they earn through paying into Social Security during their working years.

Second, overall retirement savings can be bolstered by protecting the existing favorable tax treatment afforded to employer and employee contributions to retirement plans. In particular, as policymakers consider options to reform the tax code, including the possible elimination of certain tax deductions and credits, care should be taken not to undermine retirement security for middle- and lower-income Americans. Retirement security can be enhanced further by encouraging the purchase of financial products that provide a guaranteed benefit for life.

Finally, taking steps to increase savings rates for employees of companies currently not offering employer-based pensions will help strengthen retirement savings. One proposal is the Automatic IRA Act of 2011 (S. 1557), which would establish an automatic payroll deduction of 3 percent of an employee's wages to go toward retirement savings. Additionally, a recent report by the Senate Health, Education, Labor, and Pensions Committee proposed the creation of Universal, Secure, and Adaptable (USA) Retirement Funds into which automatic payroll deductions could be deposited. These funds would be portable across employers, offer professional asset management, and provide a lifetime income benefit to retirees without placing the burden of plan management on employers.[15]

Congress should analyze these proposals as well as consider other possible approaches. While the impact of the Great Recession on retirement security will persist in the years to come, collectively these measures will help working Americans prepare for a comfortable retirement.

## Sources:

[1] Social Security Administration, *Income of the Aged Chartbook, 2010*, March 2012 (www.ssa.gov/policy/docs/chartbooks/income_aged/2010/iac10.pdf). In 2010, households with a head of household aged 65 or older in the lowest income quintile of these older households received 84 percent of aggregate income from Social Security, while households in the highest quintile received 17 percent of aggregate income from Social Security. For the purposes of this calculation, income excludes irregular withdrawals from savings and lump-sum payments from IRAs or 401(k)s, capital gains or losses, and in-kind support, such as food stamps and housing and energy assistance.
[2] *Ibid*.
[3] In this report, "working-age" refers to households or families headed by an individual between the ages of 18 and 64.
[4] Federal Housing Finance Agency, House Price Index (quarterly, not seasonally adjusted), peak (1st quarter of 2007) to trough (2nd quarter of 2012) on a national basis.
[5] Jessica Lautz, "Median Age of Home Buyers: 2001-2010," National Association of Realtors, March 2011 (www.economistsoutlook.blogs.realtor.org/2011/03/07/median-age-of-home-buyers-2001-2010). In 2006, the last full year of appreciating home prices, the median age of home buyers was 41, and the median age of first-time home buyers was 32.
[6] Federal Reserve Board, *2010 Survey of Consumer Finances Chartbook*, July 2012 (www.federalreserve.gov/econresdata/scf/files/2010_SCF_Chartbook.pdf).
[7] *Ibid*.
[8] Rich Morin and Richard Fry, *More Americans Worry about Financing Retirement*, Pew Social & Demographic Trends, October 2012 (www.pewsocialtrends.org/2012/10/22/more-americans-worry-about-financing-retirement). The shares refer to those who responded that they are "not too confident" or "not at all confident" that they will have enough financial resources in retirement.
[9] Employee Benefits Research Institute, *2012 Retirement Confidence Survey* (www.ebri.org/pdf/surveys/rcs/2012/fs-01-rcs-12-fs1-conf.pdf).
[10] Bureau of Labor Statistics, Labor Force Participation Rate by Sex, Age, and Race: Total (annual, not seasonally adjusted). While the recession contributed to the increase in labor force participation among older Americans, this trend began in the 1990s for a variety of reasons, including improved health and longevity as well as less-physically-demanding jobs.
[11] Government Accountability Office, *Unemployment Insurance: Economic Circumstances of Individuals Who Exhausted Benefits* (GAO-12-408), February 2012 (www.gao.gov/assets/590/588680.pdf).
[12] Bureau of Labor Statistics, Median Weekly Earnings of Full-Time Wage and Salary Workers (quarterly, not seasonally adjusted) and Consumer Price Index.
[13] Federal Reserve Board, *2010 Survey of Consumer Finances Chartbook*, July 2012 (www.federalreserve.gov/econresdata/scf/files/2010_SCF_Chartbook.pdf).
[14] *Ibid*.
[15] Committee on Health, Education, Labor, and Pensions, *The Retirement Crisis and a Plan to Solve It*, United States Senate, July 2012 (www.harkin.senate.gov/documents/pdf/5011b69191eb4.pdf).