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Retirement Security

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Pensions and Retirement Security 2013

A Roadmap for Policy Makers

By Diane Oakley and Kelly Kenneally

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ABOUT THE AUTHORS

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Diane Oakley is executive director of the National Institute on Retirement Security and leads the organization's research, education and strategic planning initiatives. Before joining NIRS in 2011, Ms. Oakley worked on Capitol Hill. She played a key staff role in formulating legislative strategy on a range of pension, tax, Social Security, financial services, and workforce issues. Ms. Oakley also held leadership positions with TIAA- CREF, a leading financial services provider. During her 28-year tenure with the organization, she held a number of management, public policy, and technical positions. She began as an actuarial assistant and was promoted to positions including vice president for special consulting services and vice president for associations and government relations. She holds a B.S. in Mathematics from Fairfield University and an M.B.A. in Finance from Fordham University. She is a member of the National Academy of Social Insurance.

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Kelly Kenneally has provided communications counsel to NIRS since its founding in February 2007. On behalf of NIRS, she implements communications and education programs that have helped to accurately inform the retirement policy debate. This includes NIRS reports she co-authored such as the 2009 and 2011 opinion research studies. Kenneally has more than 20 years of public affairs experience with corporations, government, and non-profit organizations. Previously, she served in the White House as Associate Director of the President's Commission on White House Fellowships. She has held communications positions at Micron Electronics and MCI WorldCom, and began her career at the Maryland General Assembly. She holds a B.A. in Government and Politics from the University of Maryland.

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EXECUTIVE SUMMARY

The road to retirement has deteriorated dramatically. Pensions for private sector workers continue to disappear under an uncertain regulatory environment.¹ Social Security benefits have been cut, with more to come. Also, Americans just aren't saving enough in their individual retirement accounts.

Experts have been sounding the alarm on the looming retirement crisis for years. Now, the alarm bell is ringing at an ear-piercing level thanks to changing demographics and the recent Wall Street crisis.

The National Institute on Retirement Security commissioned its third nationwide public opinion research project to assess over time how average Americans feel about retirement and their views on policies that could improve their retirement prospects. This research is intended to serve as a valuable tool for policymakers, thought leaders, and retirement service providers as they work to improve the U.S. retirement infrastructure.

The key research findings are as follows:

1. **Americans remain highly anxious about their retirement outlook** despite stabilization of the financial market, declining unemployment, and increased consumer confidence. An overwhelming majority of Americans, 85 percent, continues to report concern about their retirement prospects, with more than half (55 percent) very concerned.
2. **Americans are highly supportive of pensions and see these plans as a way to improve retirement readiness.** Some 83 percent of Americans report favorable views of pensions. Also 82 percent indicate that those with pensions are more likely to have a secure retirement, and 84 percent report that all Americans should have access to a pension to be self-sufficient in retirement.
3. **Americans feel that leaders in Washington do not understand their struggles to save for retirement.**

Americans overwhelmingly would support Congressional action to provide all Americans with access to a new type of privately run pension plan.

4. **When looking across generations, Millennials are quite cognizant of the broken retirement infrastructure and dissatisfied with the state of retirement and policymaker efforts.** Even though their retirement is in the distant future, virtually all Millennials agree that the retirement system is under stress and needs repair (95 percent), and that lawmakers need to make reform a higher priority (90 percent).
5. **Protecting Social Security benefits remains important.** Some 67 percent of Americans say it is a mistake to cut government spending in such a way to reduce current Social Security benefits.
6. **Americans support pension benefits for public employees** because these workers contribute to the costs, and because some segments of the public workforce have high-risk jobs and lower pay. Nearly three quarters of Americans (73 percent) support these pensions because public employees contribute from every paycheck to their pension.
7. **Americans seem to understand there is an economic imperative to ensure employees have pensions and sufficient income to retire.** An overwhelming majority of Americans, 87 percent, say that the increasing number of Baby Boomers retiring without pensions and adequate savings is straining families and the economy.

INTRODUCTION

Following the Great Depression and World War II, the U.S. had in place a strong road to retirement that consisted of three key elements: Social Security, defined benefit (DB) pension plans, and private savings. This infrastructure enabled Americans to be self-sufficient in their retirement years after a lifetime of work.

Over time, however, the road to retirement deteriorated dramatically. Pensions for private sector workers continue to disappear under an unworkable regulatory environment,² Social Security benefits have been cut, and Americans just aren't saving enough in their individual accounts. Consider the following:

- Fewer private sector employees have access to traditional pension plans. In 1975, a full 88 percent of private sector workers with a workplace retirement plan had pension coverage.³ Today, only 35 percent of private sector workers with a workplace retirement plan are covered by DB pensions.⁴
- Americans continue to struggle to save enough in their individual defined contribution (DC) retirement accounts. According to the 2010 Federal Reserve Survey of Consumer Finances, median 401(k)/IRA balances for households approaching retirement were about \$100,000. Given increasing life expectancies and inflation, this sum is not sufficient to last through a typical retirement and could easily be depleted in a matter of a few years. More and more Americans are using these DC accounts for non-retirement purposes. More than 25 percent of households with a DC retirement account have breached their balances for non-retirement spending needs, amounting to over \$70 billion in annual withdrawals.⁵
- Public sector pensions are recovering, but remain under pressure in the wake of the financial crisis. The vast majority of public pensions has made a wide variety of benefit and funding changes – from reducing benefits and increasing employee costs – to ensure pensions remain the cornerstone of retirement security for public employees.
- Increases in the Social Security retirement age have resulted in lower benefits—a particularly difficult development for lower income workers who rely most heavily on Social Security to make ends meet. Some groups are calling for further benefit reductions, including raising the retirement age to 70, changing benefit formulas and cutting cost of living adjustments (COLAs).⁶
- Rising Medicare costs will put strains on Social Security income. Medicare payments are scheduled to climb from five to 12 percent of benefits in the next 17 years, and there could be more increases given the financial pressures on the system.⁷
- More than half of American workers still do not have a workplace retirement plan.⁸

Experts have been sounding the alarm on the looming retirement crisis for years. Now, the alarm bell is ringing at an ear-piercing level thanks to changing demographics and the recent Wall Street crisis.

For the Baby Boomer demographic, the retirement crisis has arrived. To illustrate the magnitude of the crisis for this generation, consider that 10,000 Americans will reach the age of 65 every single day for the next 20 years.⁹ A large portion simply does not have sufficient income to maintain a middle class standard of living in retirement. The Boston

College Center for Retirement Research calculates that even if households work to age 65 and annuitize all their financial assets, including reverse home mortgages, more than half are at risk of being unable to maintain their standard of living in retirement.¹⁰

The Wall Street crisis has made a bad situation even worse. Americans experienced massive investment losses, plummeting home values, and deep unemployment at levels reminiscent of the Great Depression. The Great Recession is responsible for losses including 5.5 million jobs, \$360 billion in wages, and \$1.6 trillion in real estate wealth during the fifteen months that followed the peak of the crisis in September 2008.¹¹

These losses will be felt for decades. Retirement prospects for middle income workers aged 45-54 in 2012 are projected to decline to a lower income status in retirement. They simply have too few years to recover from the Great Recession.¹²

Another key consideration in the retirement debate is the U.S. government's fiscal situation in the wake of the financial crisis. Although the economy is recovering, the nation faces upwards of \$11 trillion in federal debt. Federal policymakers are under pressure to get the nation's financial house back in order by raising revenues and cutting spending. Meanwhile, state governments still face Great Recession induced challenges and looming long-term issues that will continue to have implications for operating budgets.¹³

Taken together, the federal and state budget situations add further strain to the already fractured retirement infrastructure and to American pocketbooks. Taxes are rising, further cuts to Social Security and Medicare are part of the conversation, and overall contraction of government spending already is expected to negatively impact economic recovery.¹⁴

Against this backdrop, the National Institute on Retirement Security commissioned its third nationwide public opinion research project. The goal is to assess over time how average Americans feel about retirement and their views on policies that could improve their retirement prospects. This research is intended to serve

as a valuable tool for policymakers, thought leaders, and retirement service providers as they work to improve the U.S. retirement infrastructure.

The key research findings are as follows:

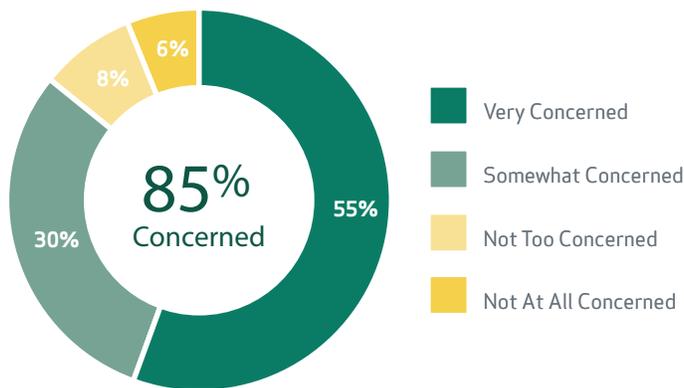
1. **Americans remain highly anxious about their retirement outlook** despite stabilization of the financial markets, declining unemployment and increased consumer confidence. An overwhelming majority of Americans (85 percent) continues to report concern about their retirement prospects, with more than half (55 percent) very concerned. Concern is higher for women than men (90 and 80 percent, respectively) and concern is high consistently across generational lines.
2. **Americans are highly supportive of pensions and see these plans as a way to improve retirement readiness.** Some 83 percent of Americans report favorable views of pensions, and 82 percent say those with pensions are more likely to have a secure retirement. Moreover, 84 percent indicate that all Americans should have access to a pension to be self-sufficient in retirement. Support was even among men and women (83 and 82 percent, respectively). Pensions may also play a factor in choosing an employer—if considering a new job, Americans report being nearly twice as likely to pick an employer with a pension than one with a 401(k) plan.
3. **Americans feel that leaders in Washington do not understand their struggles to save for retirement. Americans overwhelmingly would support Congressional action to provide all Americans with access to a new type of privately run pension plan.** Eighty-seven percent of Americans indicate that policymakers do not understand how hard it is to save for retirement. Millennials are highly dissatisfied at 94 percent. Three-fourths (75 percent) of Americans say a new type of pension plan described in the survey is a good idea. More than 90 percent would favor a new pension plan that is available to all Americans, is portable from job to job, and provides a monthly check throughout retirement for those who contribute.

4. **When looking across generations, Millennials are highly cognizant of the broken retirement infrastructure and are highly dissatisfied with the state of retirement and policymakers.** Even though retirement is in the distant future, virtually all Millennials agree that the retirement system is under stress and needs repair (95 percent), and that lawmakers need to make retirement a higher priority (90 percent). They also believe overwhelmingly that those with pensions will have a more secure retirement (89 percent) than those without, and 94 percent say that the lack of pensions for Baby Boomers is creating stress for families and the economy. Millennials are especially supportive of a new pension system (84 percent), with 88 percent saying they would consider participating.
5. **Protecting Social Security benefits remains important.** Some 67 percent of Americans say it is a mistake to cut government spending in such a way as to reduce Social Security benefits for current retirees.
6. **Americans support pension benefits for public employees** because these workers contribute to the costs, and because some segments of the public workforce have high-risk jobs and lower pay. Nearly three quarters of Americans (73 percent) support these pensions because public employees contribute from every paycheck to their pension. For police and firefighters, 86 percent of Americans say these employees deserve pensions given their job risks. And for teachers, 72 percent of Americans indicate pensions are deserved to compensate for low pay.
7. **Americans seem to understand there is an economic imperative for ensuring Americans have pensions and sufficient income to retire.** An overwhelming majority of Americans, 87 percent, say that the increasing number of Baby Boomers retiring without pensions and/or inadequate savings is straining families and the economy.

AMERICANS REMAIN HIGHLY ANXIOUS ABOUT RETIREMENT OUTLOOK

Figure 1: High Retirement Anxiety

How concerned are you about current economic conditions affecting your ability to achieve a secure retirement?



Precisely how do Americans feel about their retirement prospects? As a follow up to our 2009 and 2011 opinion research, we polled 800 Americans regarding their level of concern about economic conditions impacting their ability to retire. We learned that 85 percent of Americans are concerned, with more than half (55 percent) very concerned about retirement (Figure 1).

How does this level of anxiety compare to our previous polling? We found that despite a slow but steady economic recovery, anxiety remains at essentially the same high level (Figure 2) as in 2009 and 2011.

Figure 2: Retirement Anxiety Not Dissipating

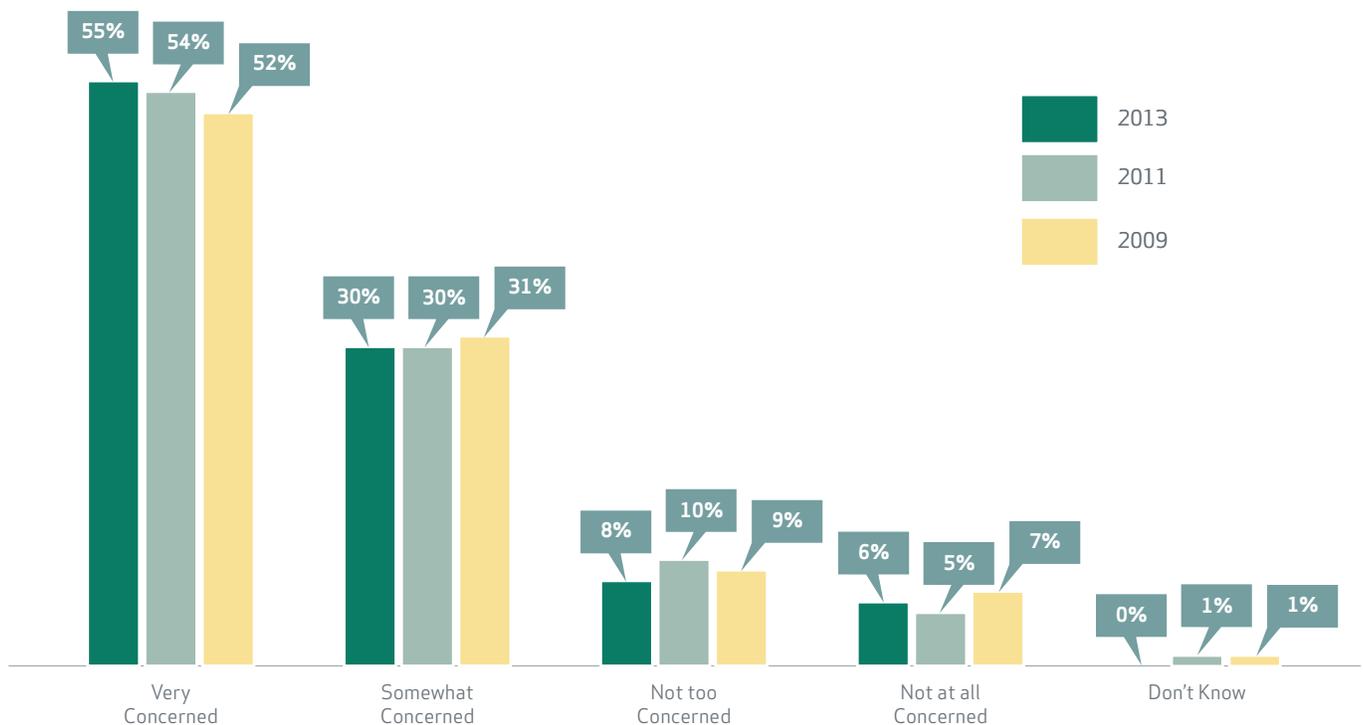
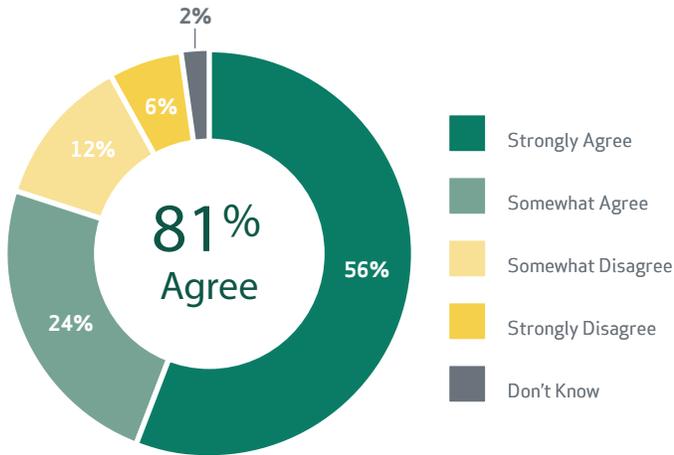


Figure 3: Americans Can't Do It Alone

To what extent do you agree or disagree that the average worker cannot save enough on their own to guarantee a secure retirement?



We also learned that a majority of Americans believe the average employee cannot save enough on their own to guarantee a secure retirement—a full 81 percent agree, and 56 percent strongly agree (Figure 3). This comes against a backdrop of fewer private sector pensions, on-your-own individual accounts, stagnant wages, and lower employer contributions to retirement plans.¹⁵

Perhaps the high level of anxiety can be tied to Americans' sentiment in the risks embedded in today's crumbling retirement infrastructure—one where fewer and fewer Americans have a reliable monthly pension check in exchange for a system where Americans are investing on their own in a volatile stock market. An overwhelming majority of Americans agree that the Great Recession exposed the risks of the nation's retirement system—87 percent, up from 81 percent in 2011 (Figure 4). Across generations, Millennials are most in tune with the risks of the system—some 96 percent agree that the downturn exposed risks inherent in the system.

Figure 4: 87 Percent Say Economic Meltdown Exposed Risky Retirement Infrastructure

To what extent do you agree or disagree that the recent economic downturn shows just how risky America's retirement system can be?

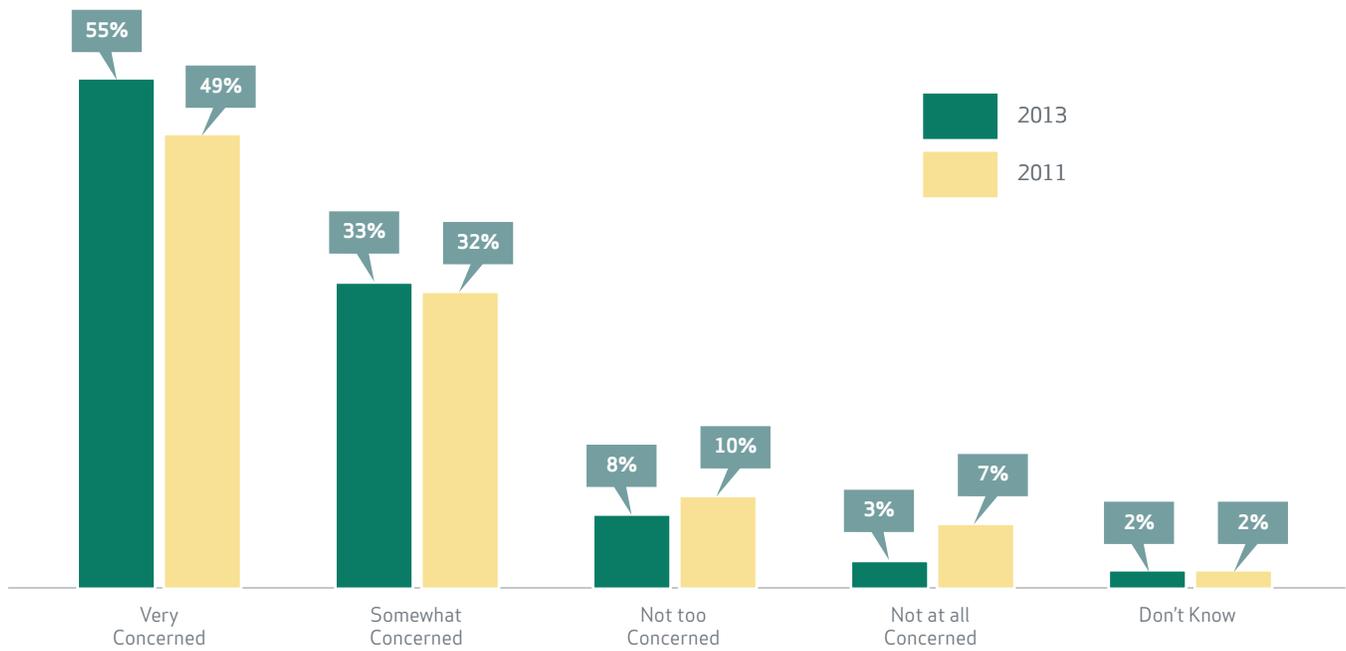
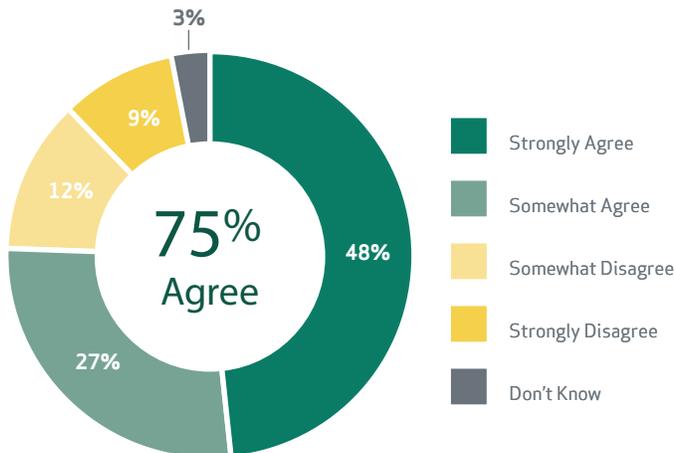


Figure 5: A Majority Agrees that Volatility of Stocks Makes Predicting Savings Impossible

To what extent do you agree or disagree that changes in the stock market make it impossible for the average American to predict how much money they will have in their nest egg when they retire?



Perhaps predictably, given the trend of switching from pensions to individual accounts invested in the financial markets, Americans see how difficult it is to predict how much they will have saved when they reach retirement age. Three-quarters of Americans say changes in the stock market make it impossible for the average American to predict how much money they will have in their nest egg when they retire (Figure 5), consistent with polling conducted in 2011.

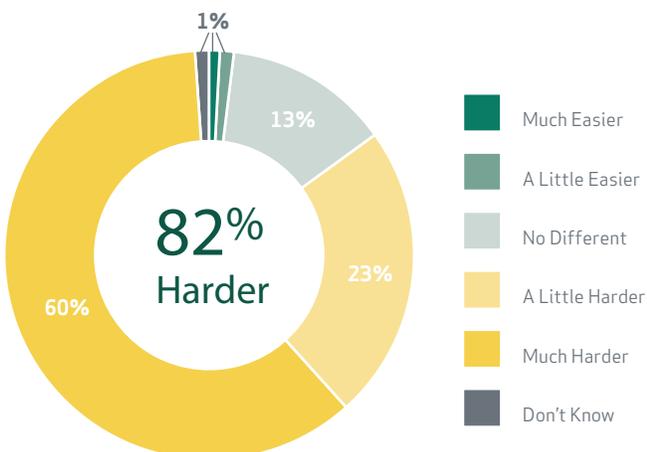
Americans also don't see the outlook improving. Some 82 percent feel that compared to today, it's only getting harder to prepare for retirement.

The research also examined why Americans feel it's more difficult now to prepare for retirement as compared to previous generations. We asked Americans to tell us how much of a factor they feel each of the following issues are complicating retirement:

- Stock market volatility
- Longevity
- Increase of Social Security retirement age to 67
- Fewer pensions
- Middle class salaries not keeping up with inflation
- Employees responsible for funding and managing retirement on their own

Figure 6: Americans Agree It's Getting Hard to Prepare for Retirement

Do you feel that – compared to today – it will be easier or harder for Americans to prepare for retirement in the future, or will there be no difference?

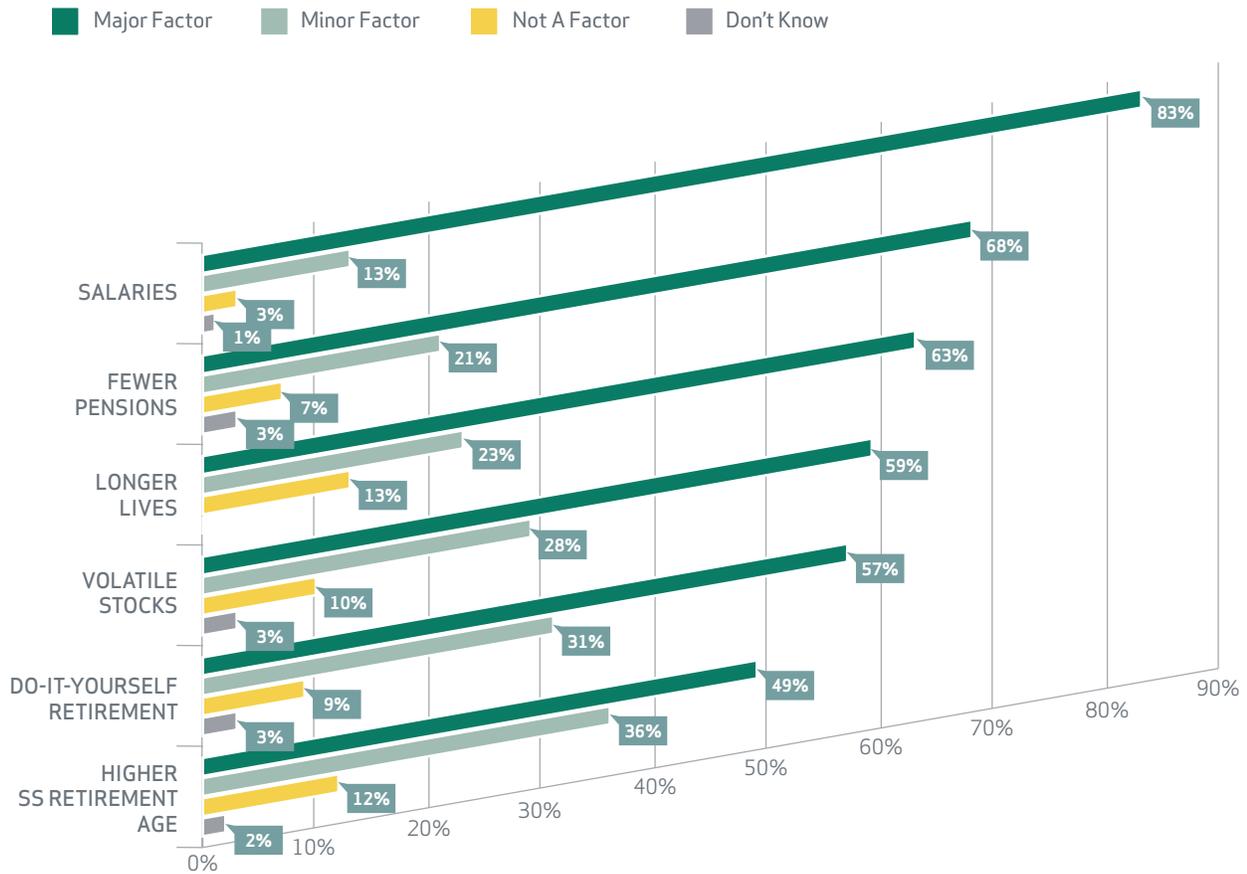


We found that concern about salaries was the primary factor, followed by fewer pensions, longer life expectancy, stock market volatility, do-it-yourself retirement, and lastly by a higher retirement age (Figure 7).

While the increasing Social Security retirement age is among the least likely to be considered a factor in today's retirement crisis, it is a more important factor for subpopulations that are considered vulnerable in retirement: lower income, women and those who are single.

Figure 7: Salaries, Fewer Pensions and Longer Lives Make Retirement More Difficult

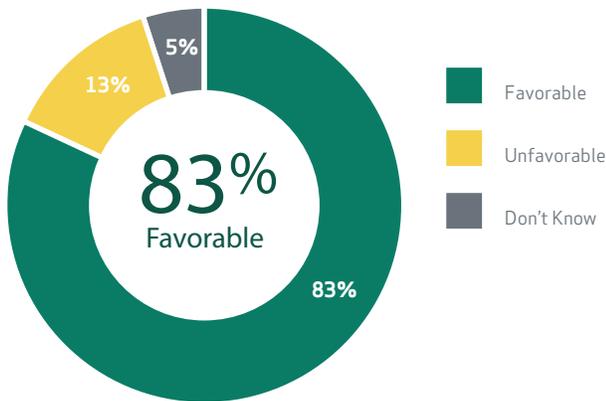
For each issue, do you believe it is a major factor, a minor factor, or not a factor in making it harder for Americans to prepare for retirement?



AMERICANS SUPPORT PENSIONS, CONSIDER A SOLUTION

Figure 8: **Highly Favorable View of Pensions**

How would you describe your overall view of a defined benefit pension?

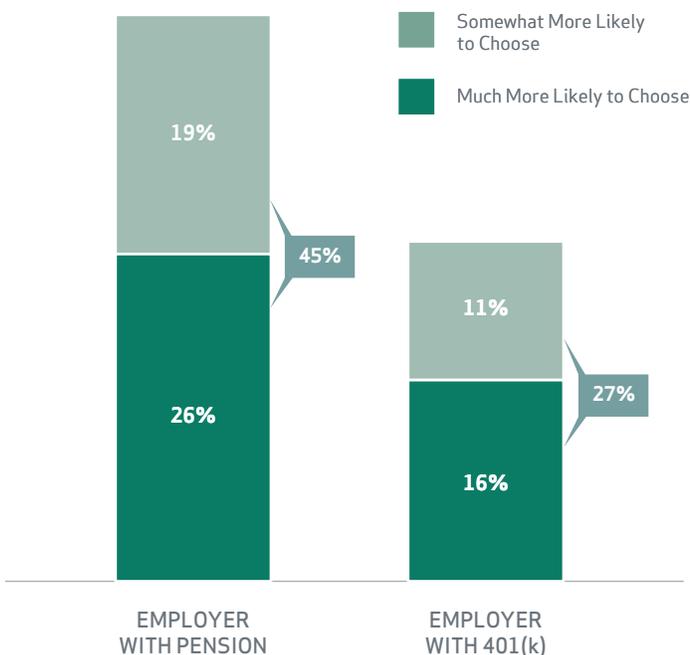


Americans seem to understand and value the qualities of pensions and how they promote retirement security with a regular income stream that lasts through retirement. The overall favorability of pensions is quite high—83 percent.

Support for pensions was even among men and women, 83 percent and 82 percent respectively. Private sector employees were highly supportive (80 percent), as were governmental employees (90 percent).

Significantly, more than half of Americans who currently have a pension (59 percent) say that availability of pensions was a factor in their decision to work for their current employer. Moreover, when choosing between an employer with a pension and one with a 401(k), far more workers would choose the employer with a pension (Figure 9). Some 45 percent are more likely to choose an employer offering a pension as compared to 27 percent for a 401(k).

Figure 9: **Americans More Likely to Choose Employer with Pension**



Americans continue to have a high level of confidence that their pension is safe. More than three-quarters of those who have a pension (78 percent) are confident their pension would be there when they retired, or will be when they do retire (Figure 10). This is up from polling conducted in 2011. Retirees (92 percent) and government employees (89 percent) express high levels of confidence.

In terms of improving retirement security, more than half of those without a pension say having a pension would increase their retirement confidence. Not surprisingly, a pension would increase retirement confidence at an even higher level for subpopulations considered at a higher risk in retirement.

In addition, 82 percent believe that Americans with a pension are more likely than those without to have a secure retirement (Figure 11). And across generational lines, 89 percent of Millennials see pensions as playing a role in increasing retirement security.

Americans also feel that the disappearance of pensions makes it harder to achieve the American Dream—80 percent agree, steady from 77 percent in 2011 (Figure 12).

Finally, 84 percent of Americans believe all workers should have access to a pension so that they can be self-sufficient in retirement (Figure 13). More than half strongly agree, which is consistent with polling conducted in 2009 and 2011. Support is higher among populations considered more vulnerable to falling short in retirement.

NIRS AND GREENWALD ASKED AMERICANS:

What are the biggest challenges you face(d) in achieving a financially secure retirement?



“Finding a job with a good retirement plan.”

“Being able to **save enough money**, low interest rates on savings, returns on investments, the real estate market, and declining home values.”



“Well I think that with me it was somehow...not being resourceful enough to have the information I needed. One needs to plan for retirement. You need to consider the amount of money [you'll need in order] to **plan properly.**”



“I don't see [a retirement] in the future. The way things are going, **I don't see any retirement at all.**”



“We had quite a bit of money in IRAs. The banks went down, [and] **we lost over \$60,000.** Also, my husband had Alzheimer's.”



“Things were good and now the **increases in my social security don't keep up with inflation.**”

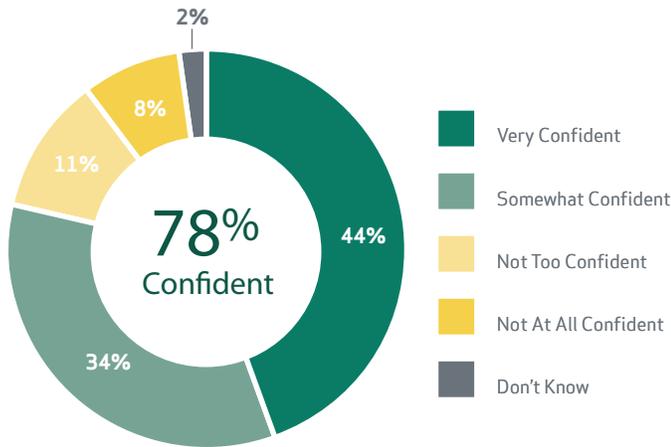


“I am worrying about **social security, Medicare, the tax structure** and how that is going to affect my ability to save.”



Figure 10: Americans Trust Pensions Will Be There at Retirement

How confident are you that your pension will be there when it is time to retire?



LEVEL OF CONFIDENCE HIGHEST FOR RETIREES (92%) AND GOVERNMENT EMPLOYEES (89%)

Figure 12: Fewer Pensions Make it Harder to Achieve the American Dream

To what extent do you agree or disagree that the disappearance of traditional pensions has made it harder for workers to achieve the American Dream?

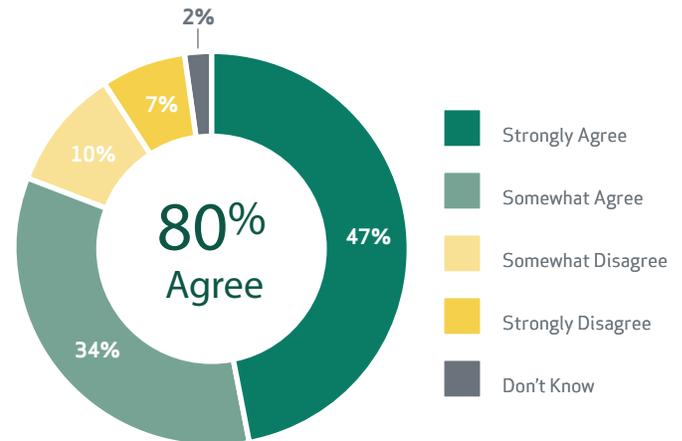


Figure 11: Majorities Believe Pensions Increase Retirement Security

To what extent do you agree or disagree that Americans with traditional pensions are more likely than those without pensions to have a secure retirement?

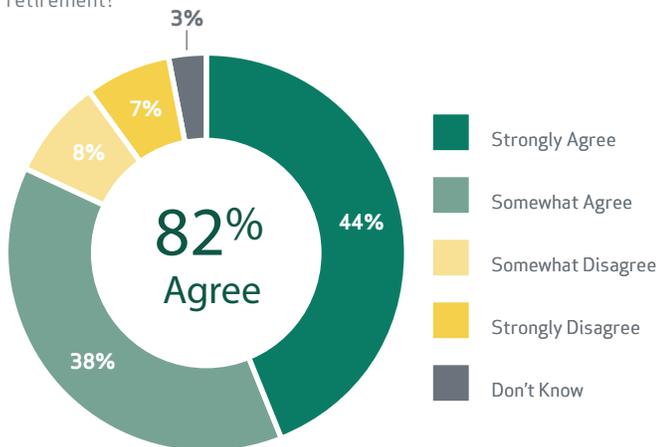
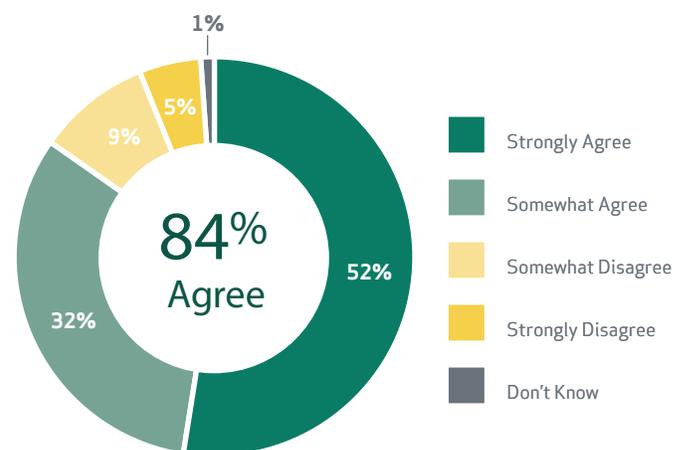


Figure 13: Strong Support for Pensions to Ensure Self-Reliance

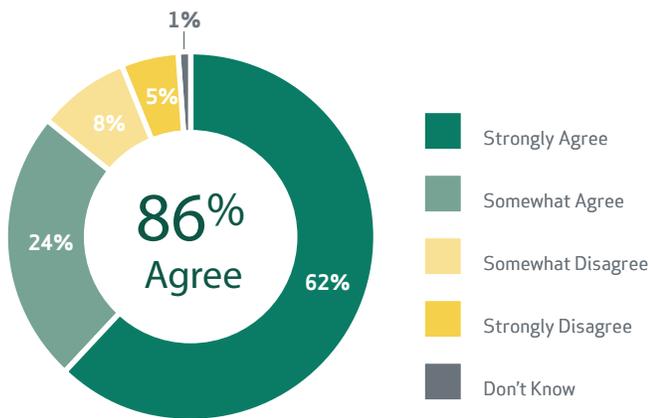
To what extent do you agree or disagree that all workers should have access to a pension plan so they can be independent and self-reliant in retirement?



STRONG BELIEF THAT WASHINGTON DOES NOT UNDERSTAND; CONGRESS SHOULD CREATE NEW TYPE OF PENSION FOR ALL

Figure 14: Americans Say Washington Needs to Give Retirement a Higher Priority

To what extent do you agree or disagree that leaders in Washington need to give a higher priority to ensuring more Americans can have a secure retirement?



Confidence in Washington is at historic lows, and also is low in terms of public confidence in our leaders' comprehension of the struggles Americans face trying to prepare for retirement. Some 87 percent of Americans say Washington just does not understand how hard it is to prepare for retirement, with 66 percent strongly agreeing. This is a significant jump from polling conducted in 2011, in which 79 percent of Americans said policymakers do not understand. Notably, Millennials are highly dissatisfied, with 94 percent indicating that leaders don't understand the struggle to save for retirement.

Additionally, 86 percent of Americans say that leaders need to give retirement a higher priority – up from 81 percent in 2011 – with 62 percent strongly agreeing (Figure 14). Again, Millennials agree highly that retirement policy needs more attention (90 percent).

Figure 15: 89 Percent of Americans Agree Retirement Needs Reform

To what extent do you agree or disagree that the retirement system in this country is under stress and needs to be reformed?

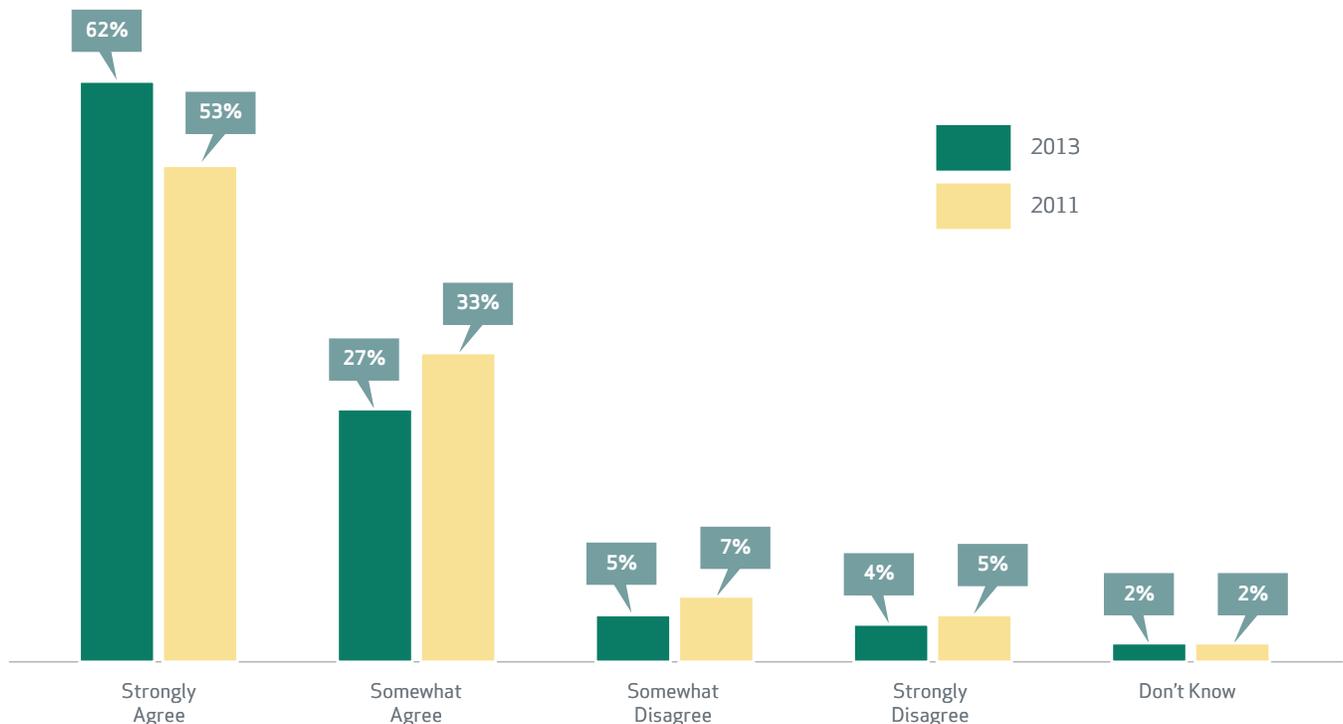


Figure 16: Government Should Ease the Way for Employers to Offer Pensions

To what extent do you agree or disagree that the government should make it easier for employers to offer traditional pension plans?

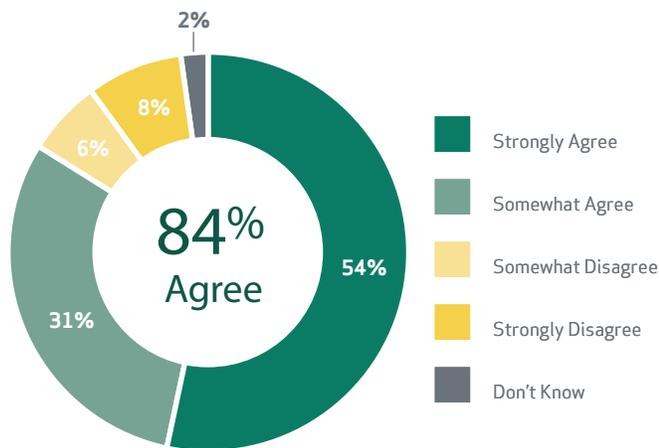
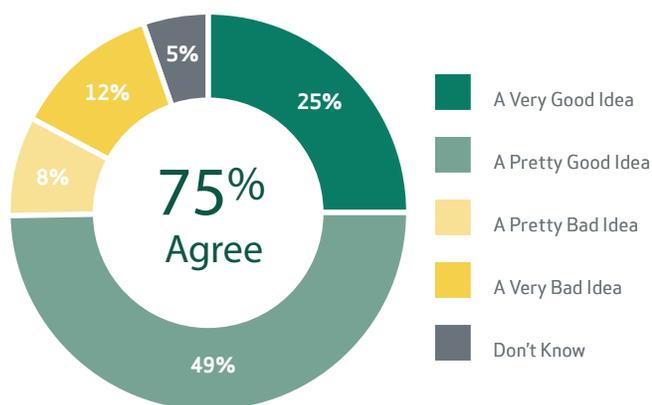


Figure 17: Americans Strongly Support Idea for New Privately Run, Universal, Portable Pension System

Suppose Congress were considering a bill that would provide all workers access to a new type of privately run pension plan. All Americans could participate and make contributions along with their employer. Like a traditional pension, the money would be professionally managed. At retirement, those who participate would get a check every month for as long as they live. But unlike a traditional pension, the benefits would be portable so that people can take their money with them as they change jobs.

This retirement plan would also be easy for employers, because they wouldn't be responsible for administering the funds or managing the money. Those tasks would all be handled by an independent board of trustees. Employers would just have to enroll their employees and make sure that their contributions go into the plan.



In terms of reforms, the overwhelming majority of Americans (89 percent) agree that the retirement system is under stress and something needs to be done (Figure 15). Some 62 percent strongly agree, up from 53 percent in 2011. Once again, Millennials voice a high level of concern, with 95 percent agreeing that the retirement system is stressed and needs repair.

One of the possible retirement reforms would be to make it easier for employers to offer pensions. The vast majority of Americans (84 percent) agree that government should ease the way for employers to offer pension plans (Figure 16), consistent with polling from 2009 and 2011.

The polling also conducted a deeper examination of measures Congress could introduce to make pensions more broadly available to Americans. We described a possible new type of privately run pension plan that would be available to all Americans; portable from job to job; allow for a regular check that lasts through retirement; and easy for employers to administer while offering professional money management. These characteristics are similar to a possible proposal by the U.S. Senate called Universal, Secure, and Adaptable (“USA”) Retirement Funds.

Three quarters of Americans agree that such a new pension system is a good idea. Millennials are highly supportive at 84 percent.

The polling then examined the level of appeal of key features of this possible new pension plan (Figure 18). The most appealing aspects are its portability; the regularity of checks coming every month through retirement (92 percent); and that all Americans can participate (91 percent). Large majorities also find it appealing that it is a private solution not run by the federal government (79 percent), and that employers can auto-enroll employees but employers do not have to manage their money (77 percent).

Finally, 81 percent of Americans indicate they would participate in a plan with the described features if it were available (Figure 19), with Millennials supporting such a measure at 88 percent.

Figure 18: **Portability, Monthly Checks, and Universal Availability Have High Appeal**

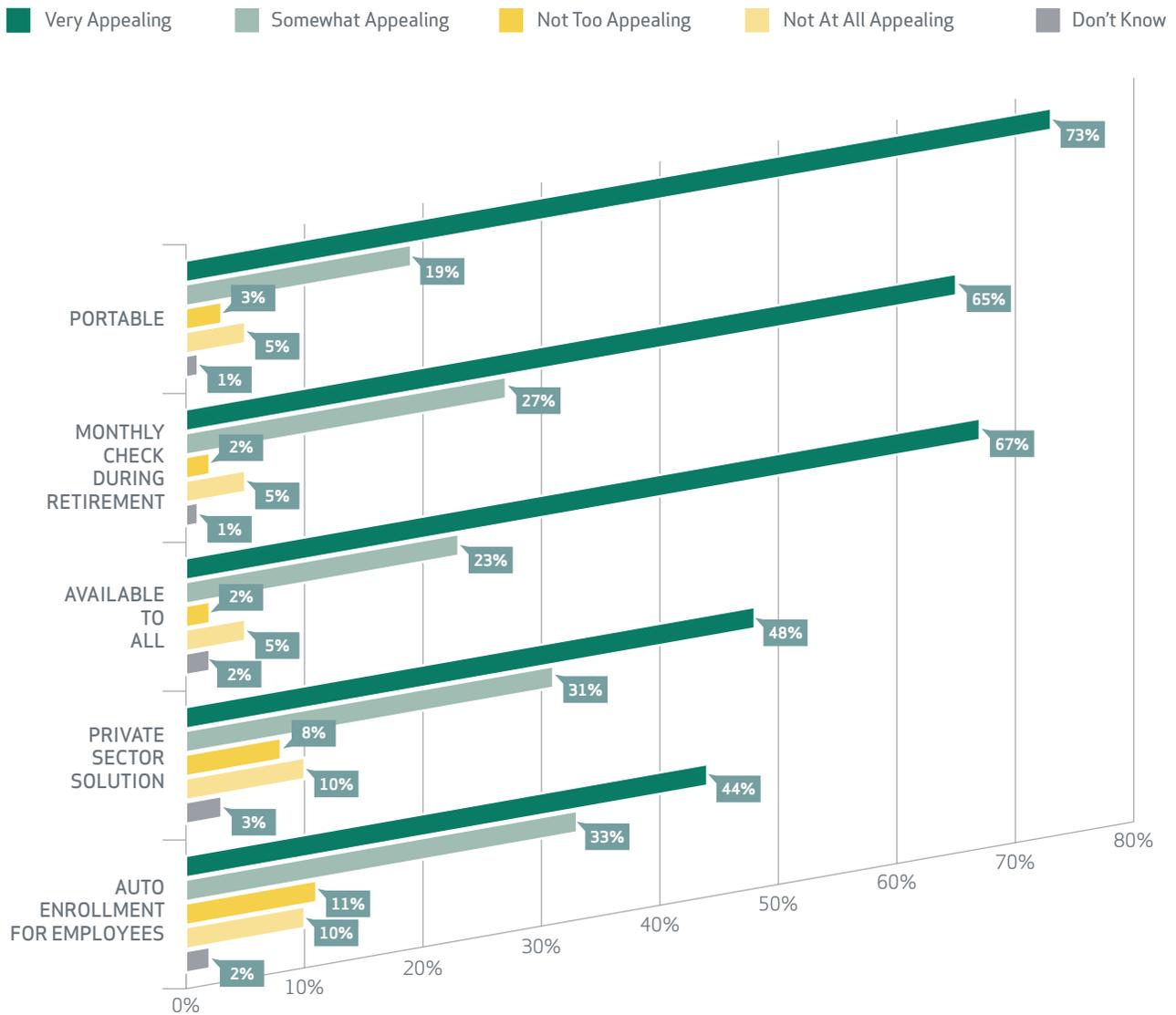
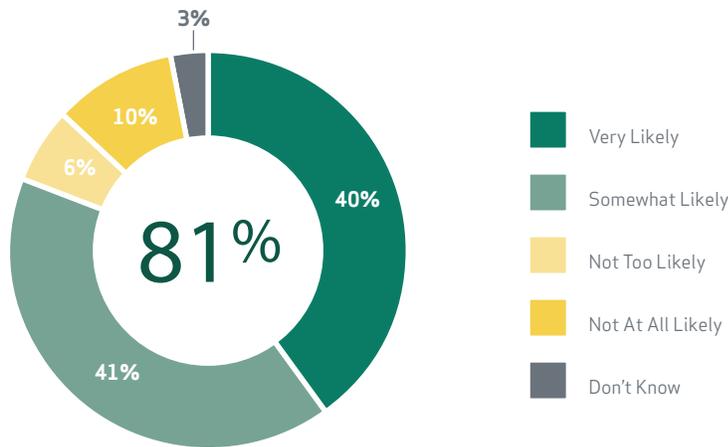


Figure 19: Most Americans Would Participate in a New Pension System

How likely do you think you would be to consider participating in this plan if it were available?



MILLENNIALS HIGHLY DISSATISFIED WITH BROKEN RETIREMENT INFRASTRUCTURE

Generations—Millennials, GenX, Boomers, and the Silent Generation for example—have distinct characteristics. Older generations have been studied extensively, and much analysis now is beginning to emerge on the Millennial Generation—those born after 1976 for the purposes of this study.

Deriving their name from a generation moving into adulthood at the start of the millennium, recent research finds that these Americans are confident, self-expressive, liberal, upbeat and open to change.¹⁶ But while this generation probably will be the most educated in American history, these 50 million Americans also have the highest share who are unemployed or out of the workforce in almost four decades.¹⁷

The Great Recession has heightened their sense that something is wrong with the U.S. economy. Their reality is

that it is harder to either work or educate the way into the middle class. Take for example recent research by Demos that finds Millennials believe they may be worse off than their parents, and that it is harder to make ends meet since the Great Recession. Much of this generation is suffering from stagnant or decreasing earnings, as well as high debt from school loans, credit cards, and medical bills. They believe Congress should focus on jobs, education, and on ensuring that Social Security is available for their generation.¹⁸

Virtually all Millennials agree that the retirement system is under stress and needs repair (95 percent), and that lawmakers need to make it a higher priority (90 percent). Although their retirement is in the distant future, Millennials are quite cognizant of the broken retirement infrastructure, and dissatisfied with the state of retirement and policymaker efforts (Figure 20).

Specific to pensions, we find that Millennials strongly agree that those with pensions will have a more secure retirement (89 percent), and they also overwhelmingly believe (94 percent) that the lack of pensions for Baby Boomers is creating stress for families and the economy.

In terms of retirement solutions, 88 percent of Millennials believe that government should make it easier for employers to offer pensions. This generation highly supports a possible new pension system—USA Retirement Funds—with 88 percent indicating they would likely participate in such a system.

Figure 20: Millennials Highly Concerned About Retirement, Support Pensions



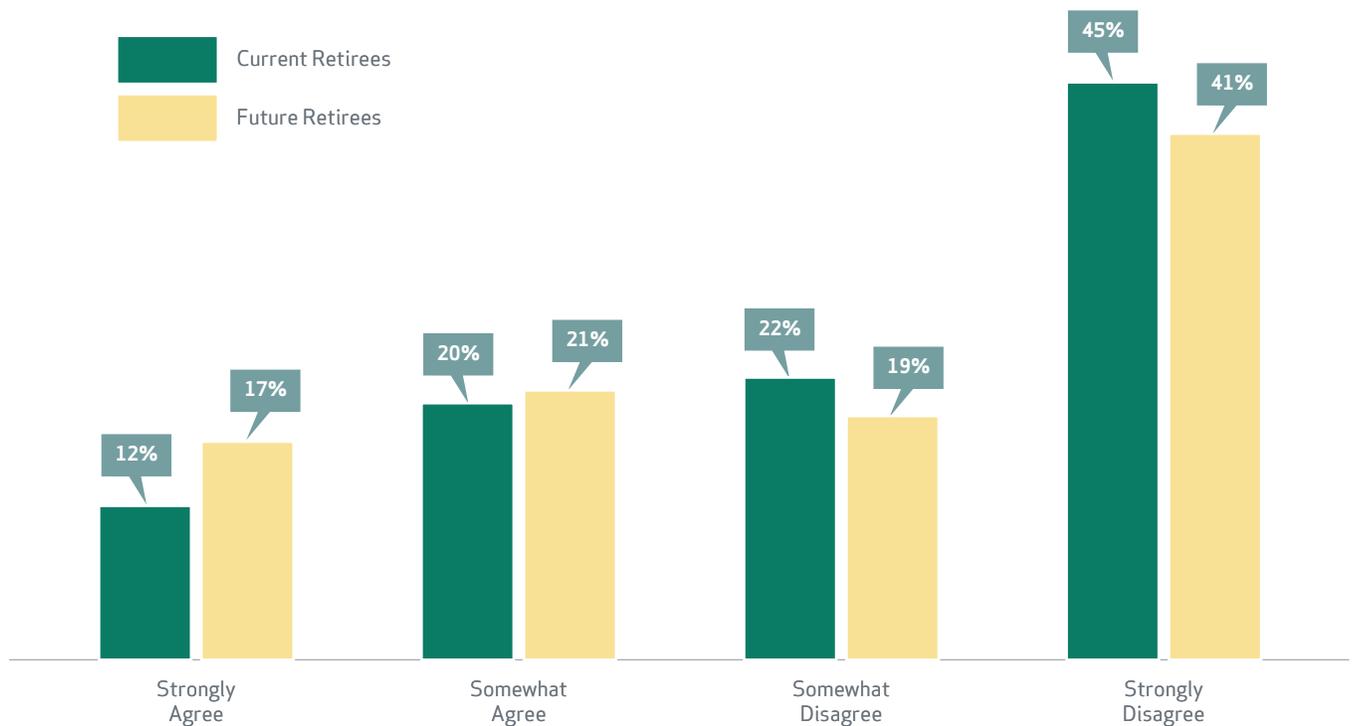
PROTECTING SOCIAL SECURITY IMPORTANT

Americans remain extremely supportive of Social Security benefits, with clear majorities disagreeing that government should cut spending even if it means cutting benefits for current or future retirees. More specifically, 67 percent disagree with the notion that government should

cut spending even it means reducing current retiree benefits, consistent with 2011 polling. Nearly as many disagree with the notion of cutting spending even if it means reducing benefits for future retirees (60 percent) (Figure 21).

Figure 21: **Americans Oppose Cutting Spending to the Detriment of Social Security**

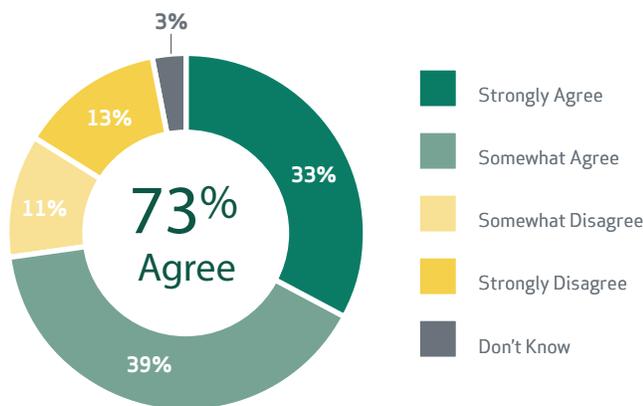
To what extent do you agree that government should cut spending in all areas, even if it means reducing Social Security benefits for current/future retirees?



AMERICANS SUPPORT PUBLIC PENSION BENEFITS

Figure 22: Strong Support for Public Pensions Because Employees Contribute to Cost

To what extent do you agree or disagree that state and local government employees deserve these benefits because they help finance part of the cost by contributing money out of every paycheck?



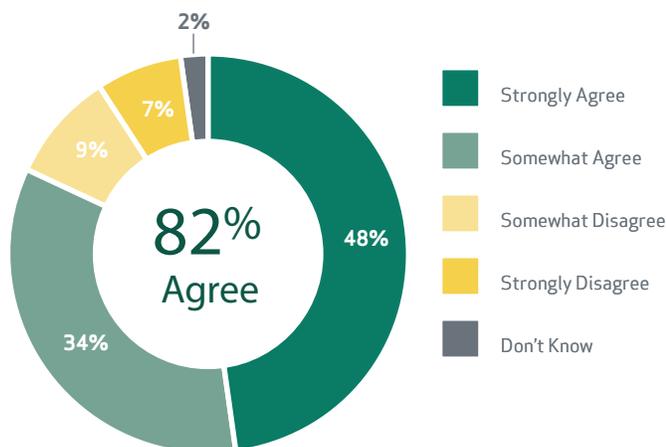
In recent years, pension benefits have come under intense scrutiny. This can be attributed to the lingering fallout from the financial crisis that resulted in steep investment losses for all investors, including pension funds. Closing the funding gap garners public attention because solutions can involve increased costs to taxpayers, along with impacts to employees including higher costs and reduced benefits.

Nearly all states have adopted reforms to adjust benefits and costs. The debate has been charged, and attempts have been made to drive a wedge between public and private sector workers. Some have argued that the real issue is that private sector workers have too little retirement security, rather than the public sector having overly generous benefits.¹⁹

Against this backdrop, a high level of misinformation is in the public domain regarding public pensions – including funding levels, the level of taxpayer contributions, the amount of benefits, investment processes and everything in between. Thus, NIRS asked Americans their views about public pensions.

Figure 23: Americans Want Pensions for Everyone

To what extent do you agree or disagree that all workers, not just those employed by state and local governments, should have access to a pension?



As to whether public pensions are recovering from losses suffered as a result of the financial crisis, 59 percent agree recovery is underway. About half (52 percent) agree that public pensions are making changes to continue providing promised benefits. For both of these questions, a fair number of respondents said they didn't know the answer (12 and 15 percent, respectively), which may indicate public pensions are not on their radar.

Interestingly, nearly three-quarters of Americans (73 percent) support these public pensions because employees contribute from every paycheck to their pension (Figure 22). Typically, public pensions are a shared responsibility, with the employee, employer and investment income funding the benefits. In the private sector, federal regulations prevent employees from contributing to their pension benefit.²⁰

Notably, an overwhelming majority of Americans, 82 percent, believe all Americans should have access to a pension, not just state and local employees (Figure 23). Nearly half, or 48 percent of Americans, strongly agree with this notion. This seems to provide evidence that Americans “envy” public pensions because they too want the retirement security afforded by these retirement plans, not that they want public employees to lose their benefits.

This support for all Americans having access to pensions is up sharply from polling conducted in 2011, when 68 percent indicated all Americans should have pensions. It’s also worth noting that support this year is high among Millennials, with 88 percent believing that all Americans should have a pension. Private sector workers supported this notion at 81 percent, and those who work in government also believe all workers should have pensions (88 percent).

Respondents report high support for pensions for teachers (Figure 24), and for public jobs that involve risk such as police officers and firefighters (Figure 25).

For teachers, 72 percent of Americans indicate pensions are needed to compensate for low pay. Support is high among women, possibly because women dominate the profession. Across generations, there is high support from Generation X (80 percent) and Millennials (81 percent).

For police and firefighters, an overwhelming majority (86 percent) of Americans say these employees should receive a pension given the risks in their job, with 62 percent strongly agreeing. Support is high among Americans with annual income less than \$75,000 (89 percent). Americans not employed in the public sector supported pensions for police and fire at high levels – 84 for private sector and 92 percent for other non-government sectors.

A majority of Americans also feel that the average monthly benefit of about \$2,150 provided to public employees is fair (55%), while 31 percent believe this amount is too low. Only nine percent find it to be too high (Figure 26).

Figure 24: Teachers Should Have Pensions

To what extent do you agree or disagree that public schoolteachers deserve pensions to compensate for lower pay?

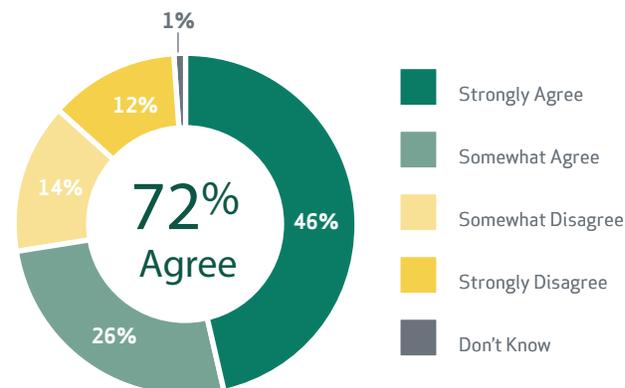


Figure 25: American Support Pensions for Public Employees in Risky Jobs

To what extent do you agree or disagree that police and firefighters have agreed to take jobs that involve risks and therefore deserve pensions that will afford them a secure retirement?

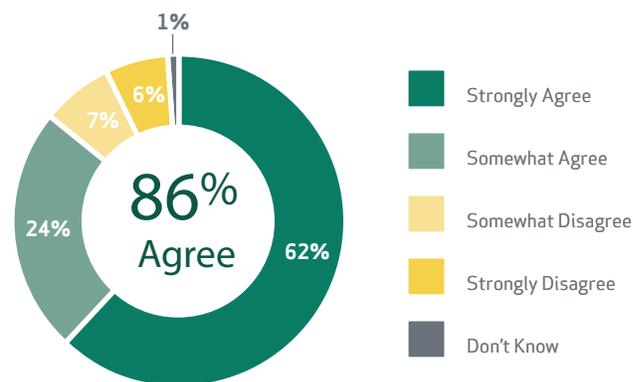
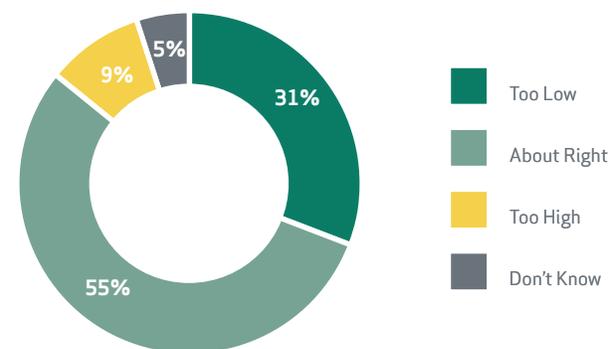


Figure 26: Most Americans Believe Public Pension Benefits are About Right or Too Low

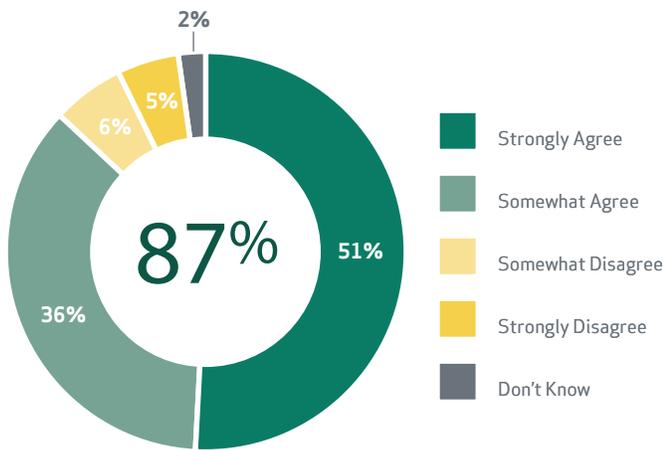
The average retirement benefit for public workers is about \$2,150 a month, though some may receive more or less depending on their local cost of living. Judging based on what you think is reasonable, do you think that this amount of retirement income is too high, low, or about right?



ECONOMIC IMPERATIVE TO PROVIDE PENSIONS

Figure 27: Americans Say Boomers Retiring Unprepared Creating Economic Stress

To what degree do you agree or disagree that the increasing numbers of Baby Boomers retiring without pensions and inadequate savings is putting stress on families and the economy?



It's intuitive that when Americans lack adequate income to be self-sufficient in retirement, it creates economic hardship for individuals and families.²¹ Older Americans without sufficient individual savings and stable income from pensions and Social Security face tough economic choices and a lower standard of living. It also can put pressure on families who must provide assistance to aging parents while simultaneously trying to meet their own daily expenses, save for retirement, and put their children through college.

Less intuitive are the impacts of retirement insecurity on the broader economy. Consider that in 2010, government spent about \$7.9 billion less on public assistance to older households because of pension income, or about 6.4 percent of aggregate public assistance dollars received by all American households from similar benefit programs.²²

Our polling indicates that Americans seem to understand there is an economic imperative to ensure Americans have adequate income when they reach retirement age. An overwhelming majority of Americans, 87 percent, say that the increasing number of Baby Boomers now retiring without pensions and inadequate savings is straining families and the economy (Figure 27).

The road to retirement has deteriorated dramatically. Pensions for private sector workers continue to disappear under an unworkable regulatory environment,²³ Social Security benefits have been cut, and Americans just aren't saving enough in their individual accounts. The situation has grown more dire with the “doubly whammy” of the global financial crisis and Baby Boomers reaching retirement age with inadequate retirement income.

The nationwide public opinion research to assess how average Americans feel about retirement and their views on possible retirement policy solutions finds that:

1. **Americans remain highly anxious about their retirement outlook** despite stabilization of the financial markets, declining unemployment and increased consumer confidence. An overwhelming majority of Americans (85 percent) continue to report concern about their retirement prospects, with more than half (55 percent) very concerned.
2. **Americans are highly supportive of pensions and see these plans as a solution to improving retirement readiness.** Some 83 percent of Americans report favorable views of pensions, 82 percent say those with pensions are more likely to have a secure retirement, and 84 percent indicate that all Americans should have access to a pension to be self-sufficient in retirement.
3. **Americans believe that leaders in Washington do not understand their struggles to save for retirement.** Americans overwhelmingly would support Congressional action to provide all Americans with access to a new type of privately run pension plan described in the poll.
4. **When looking across generations, Millennials are quite cognizant of the broken retirement infrastructure and highly dissatisfied with the state of retirement and policymaker efforts.** Even though their retirement is in the distant future, virtually all Millennials agree that the retirement system is under stress and needs repair (95 percent), and that lawmakers need to make it a higher priority (90 percent).
5. **Protecting Social Security benefits remains important.** Some 67 percent of Americans say it is a mistake to cut government spending in such a way to reduce Social Security benefits for current retirees.
6. **Americans support pension benefits for the public sector** because these employees contribute to the costs, and because some segments of the public workforce have high-risk jobs and lower pay. Nearly three quarters of Americans (73 percent) support these pensions because public employees contribute from every paycheck to their pension.
7. **Americans seem to understand there is an economic imperative to ensure Americans have pensions and sufficient income to retire.** An overwhelming majority of Americans, 87 percent, say that the increasing number of Baby Boomers retiring without pensions and inadequate savings is straining families and the economy.

Clearly, Americans are supportive of finding ways to restore pensions to relieve their retirement anxiety and to minimize the negative economic impacts of retirement

insecurity. At the same time, Americans feel strongly that not enough is being done to address the breakdown of the retirement system, especially given the added stress created by retiring Boomers and the Wall Street crisis.

It appears, however, that policymakers may be heeding the call. Some lawmakers on the federal and state levels are beginning to examine avenues to create pensions that

make sense for 21st century employers, employees, and the broader economy.

As the debate continues, we hope that these research findings help inform the policy debate and serve as a valuable tool for policymakers, thought leaders, and retirement service providers as they work to improve the U.S. retirement infrastructure.

METHODOLOGY

The survey was conducted as a nationwide telephone interview of 800 Americans age 25 or older between December 3 and 22, 2012 to assess their sentiment regarding retirement and actions the new Congress and Administration could take. Mathew Greenwald & Associates balanced the data to reflect the demographics of the United States for age, gender, and income. The margin of error is plus or minus 3.5%. Sums of two or more figures may not equal an expected total due to rounding.

In this report, the following age groups were used for the generational definitions:

- Silent Generation: Born before 1946
- Baby Boomers: Born between 1946 and 1964
- Generation X: Born between 1965 and 1976
- Millennial: Born after 1976

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The National Institute on Retirement Security is a non-profit research and education organization established to contribute to informed policymaking by fostering a deep understanding of the value of retirement security to employees, employers, and the economy as a whole.

Vision

Through our activities, NIRS seeks to encourage the development of public policies that enhance retirement security in America. Our vision is one of a retirement system that simultaneously meets the needs of employers, employees, and the public interest. That is, one where:

- employers can offer affordable, high quality retirement benefits that help them achieve their human resources goals;
- employees can count on a secure source of retirement income that enables them to maintain a decent living standard after a lifetime of work; and
- the public interest is well-served by retirement systems that are managed in ways that promote fiscal responsibility, economic growth, and responsible stewardship of retirement assets.

Approach

Our approach involves:

- High-quality research that informs the public debate on retirement policy. The research program focuses on the role and value of defined benefit pension plans for employers, employees, and the public at large. We also conduct research on policy approaches and other innovative strategies to expand broad based retirement security.
- Education programs that disseminate our research findings broadly. NIRS disseminates its research findings to the public, policy makers, and the media by distributing reports, conducting briefings, and participating in conferences and other public forums.
- Outreach to partners and key stakeholders. By building partnerships with other experts in the field of retirement research and with stakeholders that support retirement security, we leverage the impact of our research and education efforts. Our outreach activities also improve the capacity of government agencies, non-profits, the private sector, and others working to promote and expand retirement security.

The **National Institute on Retirement Security** is a non-profit research institute established to contribute to informed policy making by fostering a deep understanding of the value of retirement security to employees, employers, and the economy as a whole. NIRS works to fulfill this mission through research, education, and outreach programs that are national in scope.



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