

The Coming Retirement Crisis

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What me worry?

Lack of Retirement and Confidence

| | <u>White</u> | <u>Black</u> | <u>Hispanic</u> |
|--------------------------|--------------|--------------|-----------------|
| No Retirement Savings | 20% | 34% | 39% |
| Perceived to be on track | 43% | 25% | 28% |

We humans tend to be overconfident in our knowledge and abilities—this is especially true with Americans

Source: Report on the Economic Well-Being of U.S. Households in 2017

Topics

- Current situation
- Can we count on Social Security?
- Have Baby Boomers save enough? What about Gen X and the Millennials?
- Future of 401(k)s, and IRAs
- Will retirees have sufficient funds for health care and nursing home care?
- Possible solutions

“Saving Social Security and Medicare now seems
hopeless” Megan McArdle, *Washington Post*, 6/6/2018

“There’s an incredible amount of overconfidence out there,
based on erroneous assumptions about what life will be like
after retirement. Many people may be in for an unexpectedly
rough ride when the reality of retirement sets in.” Jack VanDerhei, EBRI,
Forbes

“By 2030, one in five Americans will be of retirement age, and most of them won’t have the financial means to pay for those erstwhile Golden Years.”

Melissa Castro, *The Daily Progress*, September 16, 2018

Joys of Retirement



Joys of Retirement

Gold
Watch
and
Pension

At 65
Signup for
Social
Security and
Medicare

No Mortgage

Joys of Retirement

Gold Watch and Pension

11% of private sector employees have a defined benefit and defined contribution plan.

Only 2% have only a defined benefit plan.

Joys of Retirement

At 65

Signup for Social
Security and Medicare

If born after 1942, “full
retirement” age is at least 66.

Average Retirement Age is 63

Joys of Retirement

No Mortgage

44% still have mortgage when retire.

2.8 million of 60 years olds have a student loan.

More 75 and older have more debt today than in 2007.

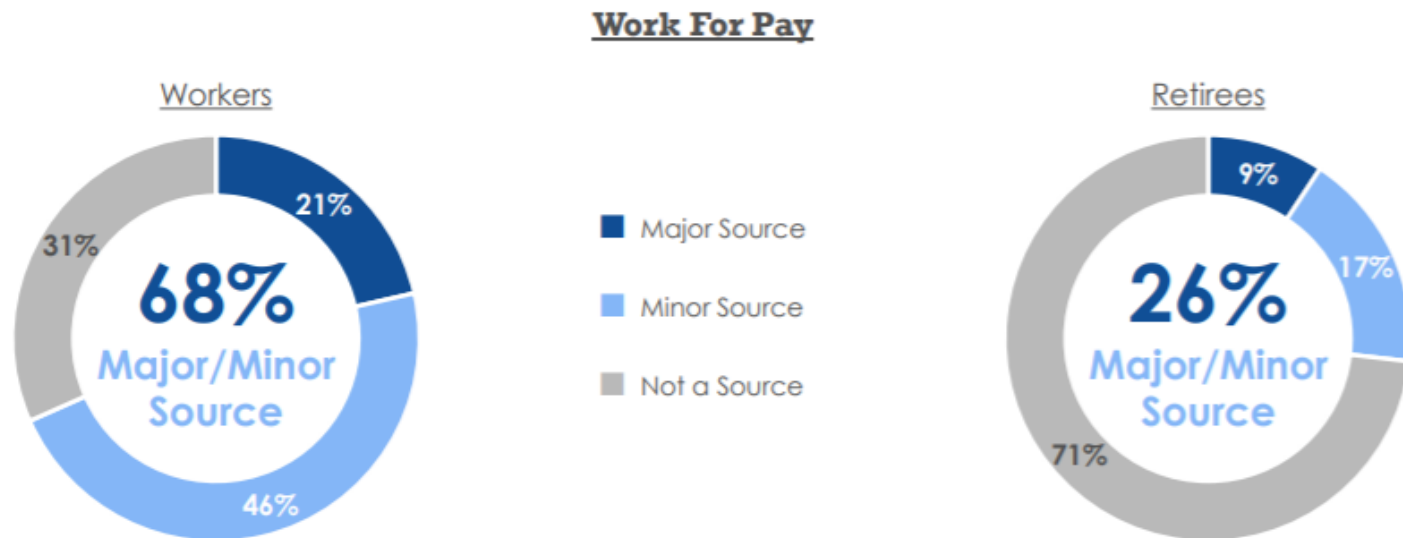
Overconfidence

Expected vs. Actual Retirement Age

- Average Retirement Age is 63
- Most retire before they expect—i.e. the University of Michigan found that someone expecting to retire at 69 actually retired at 65
- Gallup poll found that 50 to 64 years old expect to retire at 67.

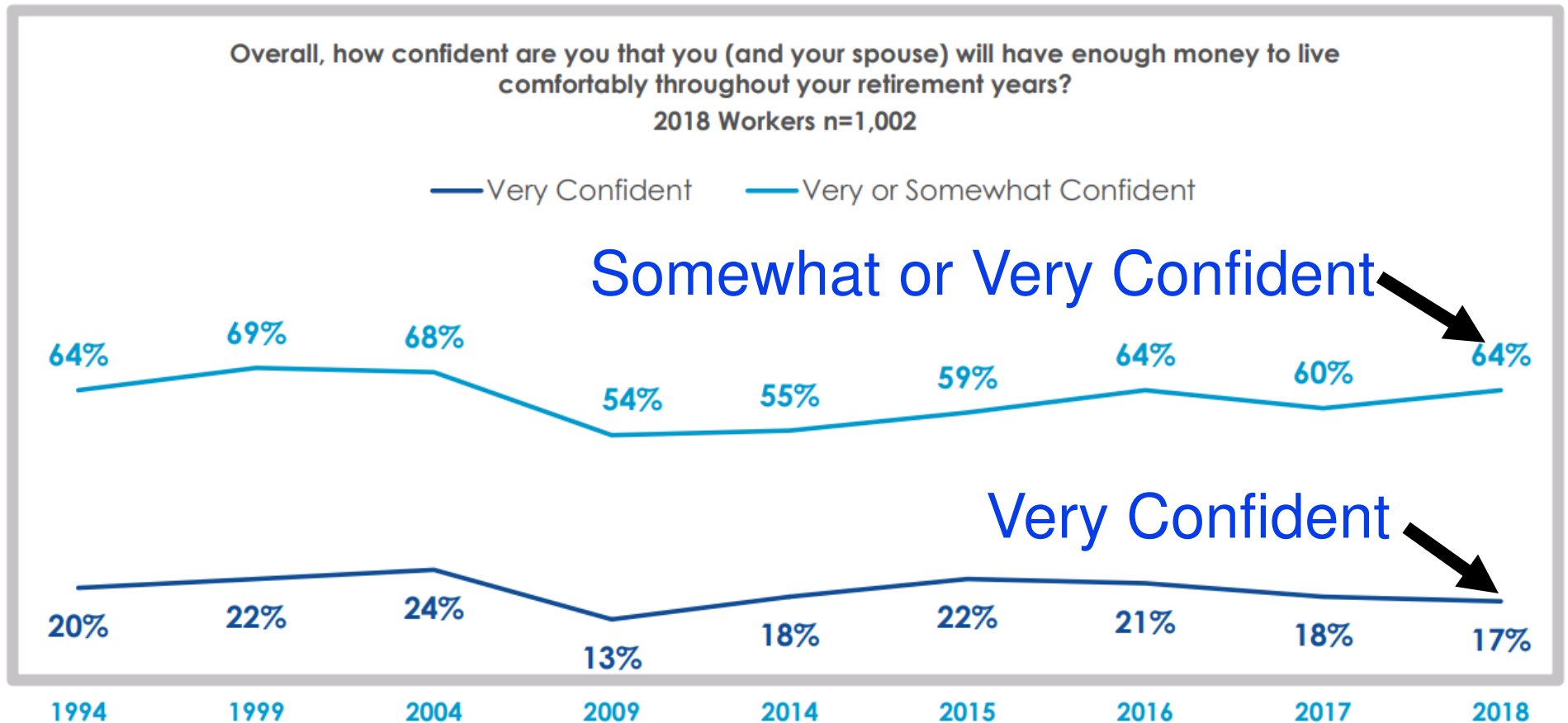
Source: University of Michigan Health and Retirement Study, Morningstar.com, and Gallup Poll

A Majority of Workers Expect to Work in Retirement, but Few Do



Source: 2018 EBRI/Greenwald Retirement Confidence Survey

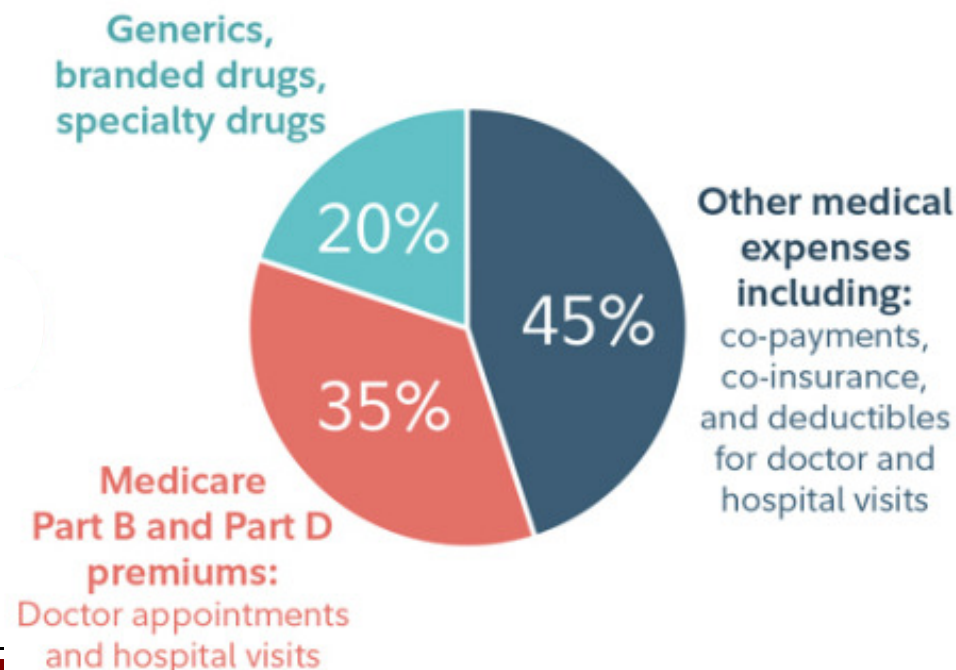
17% of Workers Are Very Confident that They Will Have Enough to Retire Comfortably



Source: 2018EBRI/Greenwald Retirement Confidence Survey

Health Care Costs

- 42% of retirees say health care costs are more than they expected*
- Fidelity estimates that post-65 years old will spend \$280,000 after tax on health care



* 2018 EBRI/Greenwald Retirement Confidence Survey & Fidelity.com

Long-term Care

- Only 51% of retirees thought they had sufficient money to cover nursing home and other long-term care*
- **Medicare doesn't covered long-term care**
- Nursing Home Care average cost in C'ville is \$79,205**
- Do retirees need Long-Term Care insurance?

Source: *2018 EBRI/Greenwald Retirement Confidence Survey &
**Genworth.com

Federal Reserve Survey

- **25% of non-retired adults have no retirement or pension plan**
- **18% of 60+ have no retirement or pension plan**
- **Less than 40% of non-retirees think their retirement savings are on track**
- **Only 49% of 60+ year olds think their retirement savings are on track**

Source: Report on the Economic Well-Being of U.S. Households in 2017, Federal Reserve, May 2018

Federal Reserve Literacy quiz

- 60% of non-retirees have little or no comfort in managing their investments in their 401(k) or IRA
- Less than half were able to answer 3 of 5 basic financial literacy questions correctly
 - T or F House prices can never go down.--60% correct
 - T or F Buying one company is safer than a stock mutual fund--46% correct
 - Which has the highest long-term return (stocks, bonds, savings accounts, or precious metals)--40% correct
 - Interest of 1% and inflation of 2% more or less money-62%
 - at 2% annual interest, would you have more or less than \$102 in five years--71% correct

Source: Report on the Economic Well-Being of U.S. Households in 2017, Federal Reserve, May 2018

Social Security

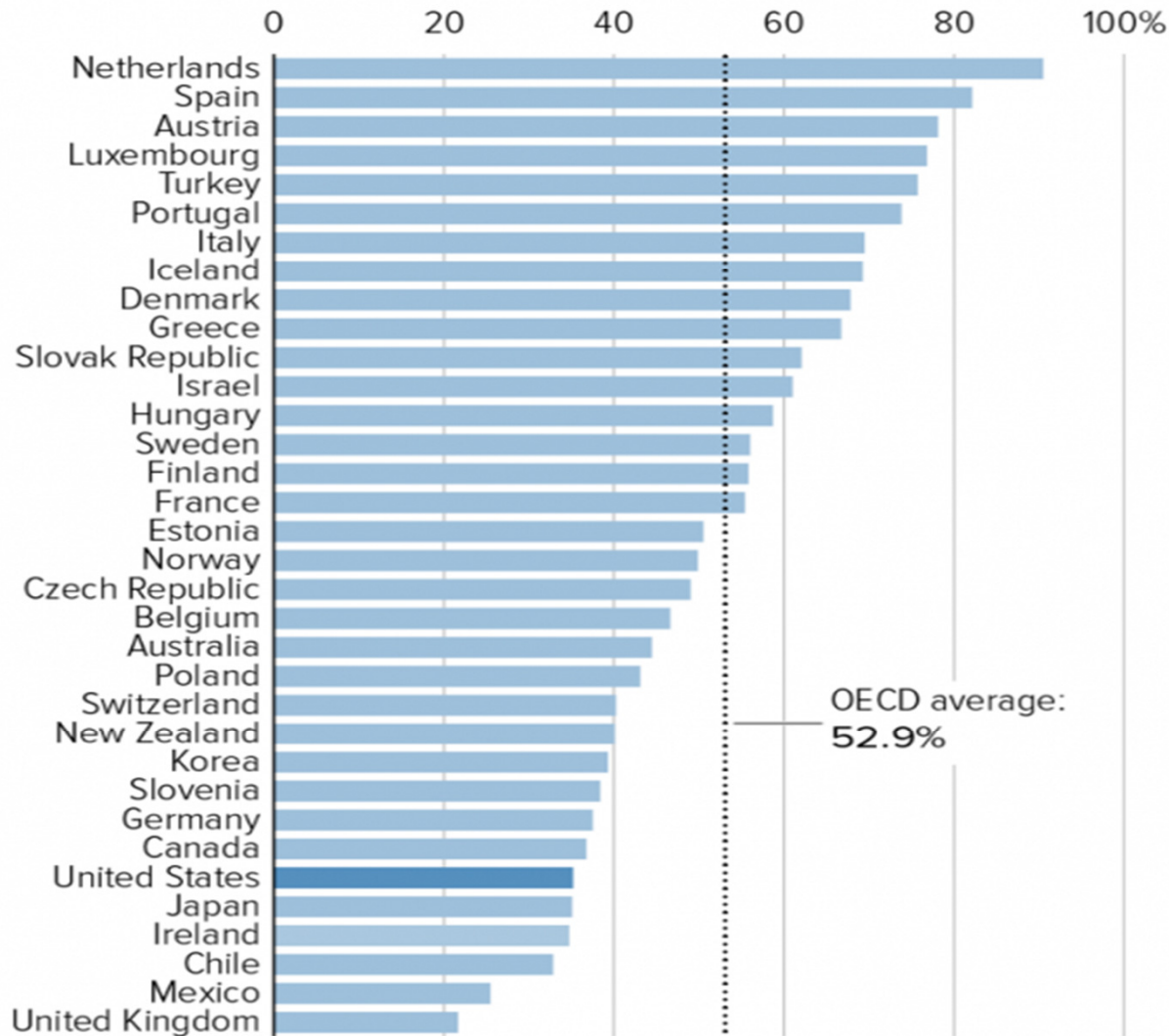
Life Expectancy at Birth

| | <u>Men</u> | <u>Women</u> | <u>Number of Workers per Beneficiaries</u> |
|---------------|------------|--------------|--|
| ▪ 1940 | 57 | 61 | 159 |
| ▪ 1982 | 71 | 78 | 3.15 |
| ▪ 2018 | 83 | 87 | 2.76 |
| ▪ At 70 today | 89 | 91 | |

Source: Social Security (SSA.gov) and Berkely.edu

Social Security Benefits Are Low Compared With Other Advanced Countries

Social Security benefits for average worker as a percentage of earnings

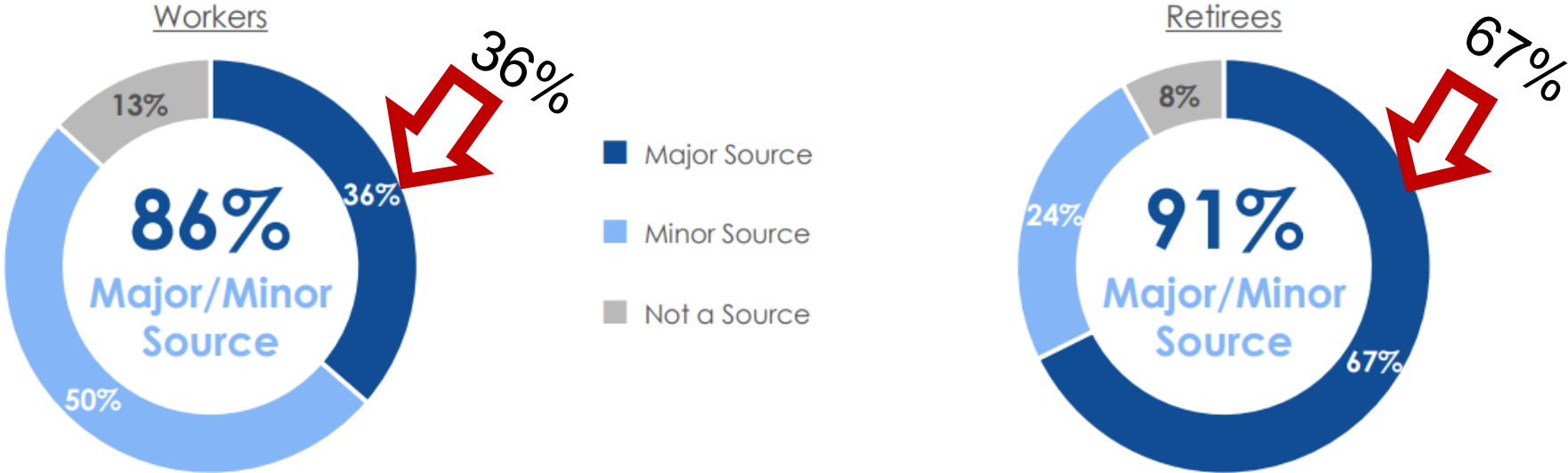


Source: Organisation for Economic Co-operation and Development, Pensions at a Glance 2015: Retirement Income Systems in OECD Countries.

Data depict the gross public-pension benefit (in the U.S. context, Social Security) for an average worker in each country who enters the workforce today and works steadily until full pension age (in the U.S., age 67), as a percent of pre-tax earnings.

Social Security Is an Important Source of Income

Social Security



Source: 2018 EBRI/Greenwald Retirement Confidence Survey

Average Social Security (Retired Worker)

- **\$16,848** minus Medicare Part B of \$1,608 and minus Part D premium \$695
= \$14,545 or \$1,212 a month
 - For Women the average is **\$14,511** minus Medicare B & D
 - = **\$12,816 or \$1,068 a month**

About 50% Social Security recipients pay taxes on Social Security benefits

Source: SSA.gov and CMS.gov and AARP and author's est. for 2018

Solutions for Social Security

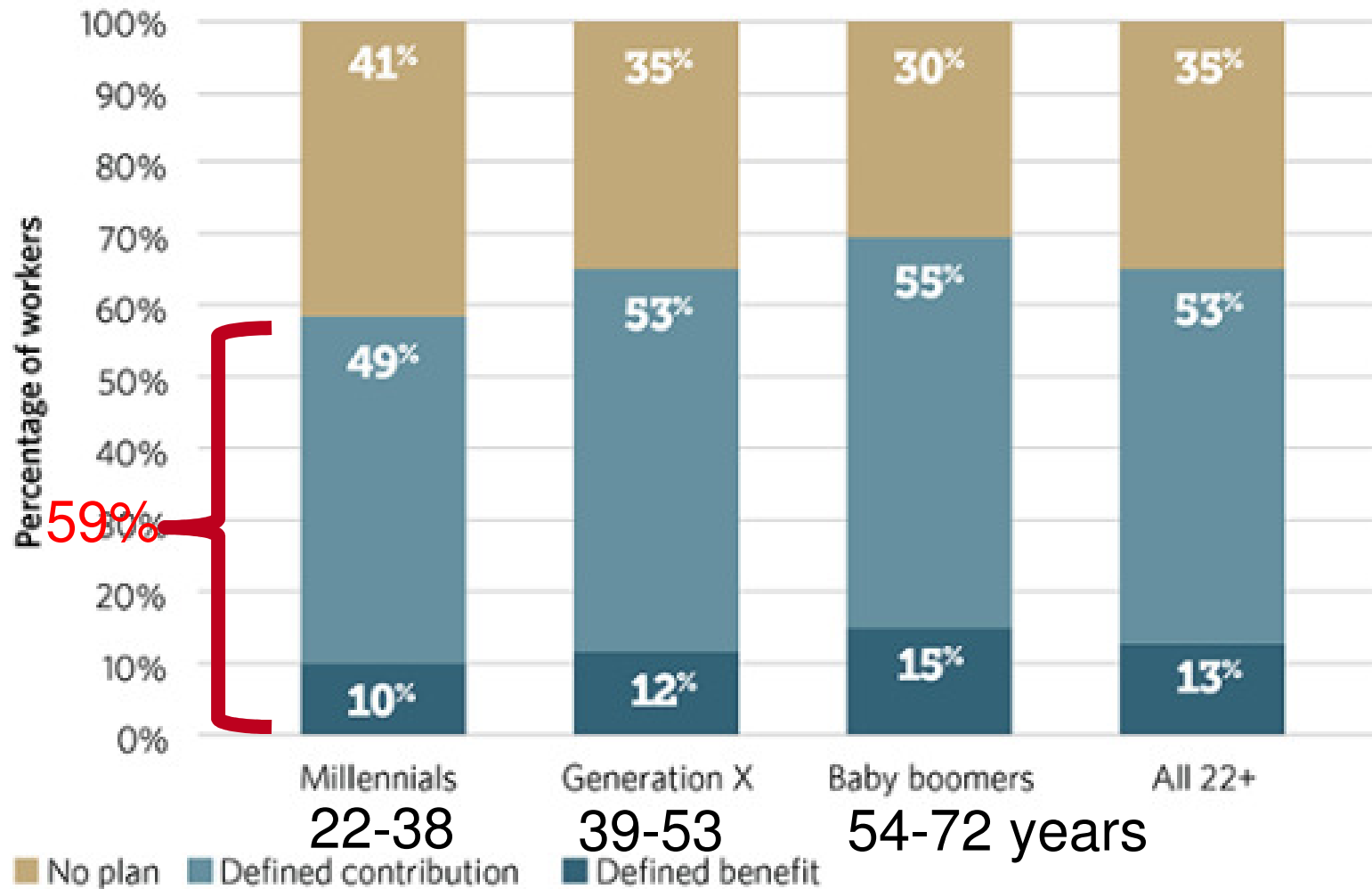
- Remove or raise FICA cap
- Raise Retirement age
- Change calculation of inflation adjustment before retirement
- Longevity Indexing
- Recalculate COLA
- Reduce benefits for high earners (means testing)
- Increase payroll tax rate
- Payroll tax on all salary including deferred
- Include all state and local government workers

Source: AARP

401(k) and 403(b)

Access to Employer-Sponsored Retirement Plans Rises With Age

More than a third of private sector workers do not have a plan available



Note: Percentages may not total 100 due to rounding.

Source: Pew analysis of 2012 Census Bureau Survey of Income and Program Participation data

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Only 32% of Employees Have 401(k)

- Not all employers offer
- Senator Warner estimates that 40% of workers are nontraditional long-term employment (contingent workers, part-time workers, temporary, gig employees)
 - Portable Benefit bill
- 40% don't pay income tax
- Difficult to defer gratification
- Lack of planning skills
- Overwhelmed--no decision
- Inertia and procrastination--if unsure wait
- Best solution is employer education sessions

Average 401(k) Balance 55-64 in 2017

- \$71,000 (Median)
- \$71,000 will generally sustainably generate \$2,840 per year or \$237 monthly

401(k) Designs

- Some have employer match (usually 50 cents per \$ up to 6%)
 - Only 2/3 of employees receive full match
 - Full match increases with automatic rate increase (79% at full match after three years)
- Trending toward automatic enrollment
- Some have automatic contribution rate increase up to 6%

Traditional 401(k) or Roth 401(k)

- Advantages of Traditional 401(k)
 - Contributions are before tax, so greater take-home pay
 - Your tax bracket may be lower in retirement so deferring tax payment may be better
- Advantages of Roth 401(k)
 - Earnings grow without taxes if you are 59 ½ or become permanently disabled or die
 - More spending income in retirement
 - Tax-diversification—hedge against future tax rates
 - Can be rolled into Roth IRA, then you do not have to start taking withdrawals at 70 ½
 - More for beneficiaries
 - Can effectively contribute more if you are maxed out

IRAs and Roth IRAs

Median IRA Balance

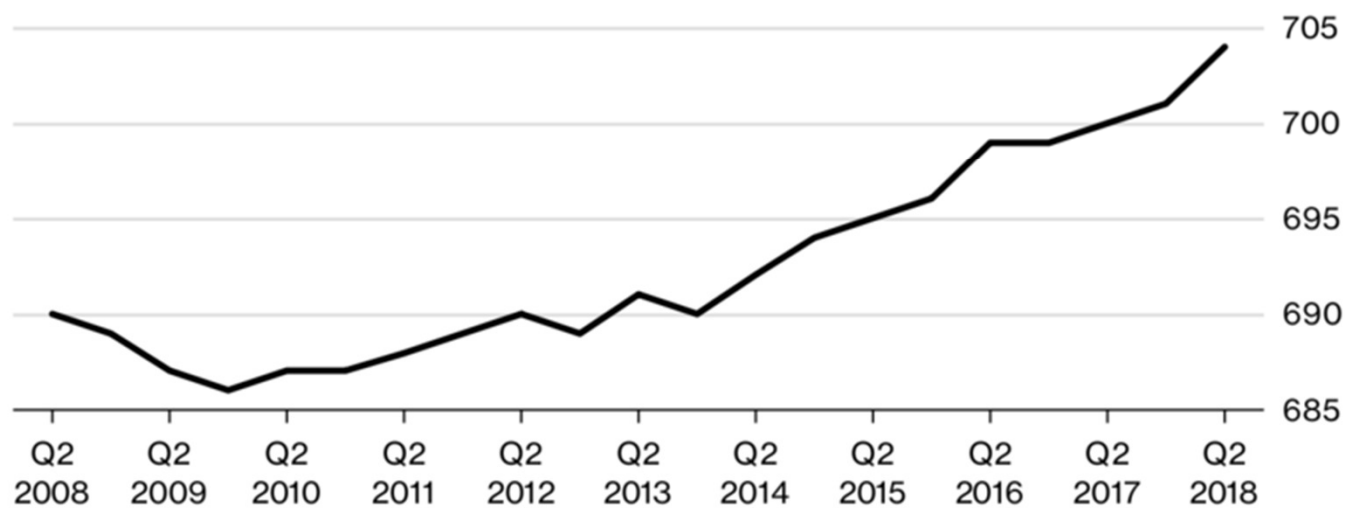
- In 2015, early 60s year olds have \$55,807 in 2015, which will usually, sustainably, generate \$186 a month

Good News

Credit Scores Rise

The average U.S. FICO score rose for the eighth consecutive year in 2018. The lowest average score since 2005—686—was back in October, 2009.

✓ Avg. FICO score



713 for 50-59 old
747 for 60-69

Source: FICO

Bloomberg

Source: Bloomberg.com
09/24/2018

Good News--Continued

- Consumer Confidence highest in 70 years—
Bloomberg.com 9/24/18
- Unemployment near 50 year low—Bloomberg.com 9/24/18

Good Retirement News

- Auto-Savings 401(k) plans increase participation rates (92% participation)
 - 46% of Vanguard plans have auto savings plans
- 58% of Vanguard participants use professionally managed allocation (often called target-date plans)
- Many plans have automatic increase savings rates (66% of those with automatic enrollment)
- (Vanguard's median savings rate is 6% plus employer contribution of 4%)

Troubling News

- Mortgage balances growing at similar rate before 2008 crash—Lending Tree as quoted in Bloomberg.com 9/24/2018
- Personal savings rate down to 6.7% in June 2018 from 7.4% in Feb 2018—Bloomberg.com 9/24/2018
- Auto Lending climbed steadily since crash and borrowers taking longer to repay—Bloomberg.com 9/24/2018
- Total Household Debt record \$13.3 trillion; previous record \$12.7 trillion just before crash—NY Federal Reserve
- 58% of Vanguard's retirement plan participants are male

Solutions for Individuals

- Plan ahead, calculate expected retirement income
- Save more
- Work longer
- Downsize
- Let your children borrow college education
- Maximize your Social Security—wait until 70 years
- Don't cash out 401(k) when leave job
- Be cautious borrowing from 401(k)
- Health Savings Accounts—triple savings
- Reverse Mortgages, downsize, work, cutback

Policy Solutions

- Modify Social Security
- Better education of employees
- Less complicated retirement plans
- Tax credits rather than deductions
- Retirement Enhancement and Savings Act
 - Bipartisan support
 - Group retirement plans
 - Automatic savings features and accounts
 - Mandatory plans
 - Lifetime income

Source: <https://www.aarp.org/work/social-security/info-05-2012/future-of-social-security-proposals.html>

QUESTIONS?

References

1. “Report on the Economic Well-Being of U.S. Households in 2017,” Board of Governors of the Federal Reserve, <https://www.federalreserve.gov/publications/files/2017-report-economic-well-being-us-households-201805.pdf>
2. “2018 Retirement Confidence Survey,” EBRI and Greenwald & Associates, https://www.ebri.org/pdf/surveys/rcs/2018/2018RCS_Report_V5MG_Achecked.pdf
3. AARP, <https://www.aarp.org/work/social-security/info-05-2012/future-of-social-security-proposals.html>

Seventeen Years Dow Jones Industrial Average

- Dec. 31, 1964 **874.12**
 - Dec. 31, 1981 **875.00**
- + 4% annual dividends**