DOWNLOAD PDF THE IMPACT OF THE FINANCIAL CRISIS ON WORKERS RETIREMENT SECURITY

Chapter 1 : Impact of the Financial Crisis on Retirement Security | HuffPost

(1) THE IMPACT OF THE FINANCIAL CRISIS ON WORKERS' RETIREMENT SECURITY Tuesday, October 7, U.S. House of Representatives Committee on Education and Labor.

Its impact on older Americans could be devastating. Variances Within a Demographic The AARP report made clear that within the senior population no one-size-fits-all financial reality exists. During the crisis fewer older people were expected to lose their jobs, thanks in part to the fact that a small percentage of that population had jobs in the first place. For those who did find themselves unemployed, the consequences were expected to be serious. Those with defined-benefit plans were generally considered to be better off than those with defined-contribution plans , although there was a real fear that some defined-benefit plans would be frozen or fail. People who had to supplement Social Security with k or IRA monies were among those expected to be the most adversely affected. Some savers who had not moved out of equities into bonds had already seen large losses. Seniors not yet old enough for Medicare were at risk of losing their health insurance. People who owned their homes outright were expected to fare better than those who still had mortgages, especially those who saw their mortgages go underwater. Older citizens, like all demographic groups, spent less, reduced savings and cut back on medical care during this period. The number of unemployed seniors more than doubled between November and August For more, see How did the Great Recession affect structural unemployment? Impact on Wealth Despite unemployment, lower home values and a general decline in retirement savings accounts, poverty rates for those with access to Social Security benefits remained unchanged, according to the PRB report. Older people had more wealth to lose. Ultimately, the impact of the recession on the wealth of older adults was modest. After considering the future value of Social Security and defined-benefit pensions, Baby Boomers in their 50s had a 3. By older adults overall had recovered most of the wealth lost during the Great Recession. But that depended on how they responded to the initial declines. Where Are Home Prices Now? In fact, older seniors were more likely to increase spending, a sign that they were somewhat insulated financially. Some older Americans who did cut back spent time cooking at home instead of money eating out. Impact on Employment and Retirement While unemployment increased sharply during the recession, many Baby Boomers were able to stay on the job, softening the overall numbers. The overall age of the workforce did increase during and just after the recession. The reason for the uptick in older workers was likely due to seniors who stayed in the workforce or re-entered it to rebuild their retirement savings. Other factors included the need to support younger family members who had lost jobs or homes. Seniors close to retirement age at the end of the recession who elected to remain in the workforce did so for an additional four years on average. The percentage of wealth lost during the recession did not appear to be a factor. Older workers had been staying in the workforce longer for several years before the recession. Impact on Health Economic and physical health are linked. Some older people who saw a decrease in wealth during the recession put off doctor visits, cut back on medications and experienced more stress, which in and of itself is a health factor. One study found that people aged 45 to 66 who lose their jobs during a recession have a greater risk of dying than those who lose their jobs during a non-recessionary period. As of , however, 9. Historically, when older people file for bankruptcy, medical debt is the main reason. With the financial crisis, lost income, unemployment and depleted retirement accounts also were factors. The increase in bankruptcy among older Americans continues to the present day, with a recent study indicating that the rate of bankruptcy among those 65 and older is three times what it was in Not all of this can be blamed on the Great Recession. The IFL study suggests that a year shift in financial risk from government and employers to individuals â€” mostly through the replacement of defined-benefit pensions with defined-contribution plans, such as k s â€” is a big part of the problem, along with declining income and more out-of-pocket spending on healthcare. All of them went through the Great Recession. While no two stories are the same, there are some common themes: Most saw a loss in the value of their retirement savings and home values, but by most had recovered nearly all of that. Cutbacks in spending were modest, with older seniors actually spending more. Decisions to remain in the workforce and when to retire were largely unaffected by the amount of wealth lost. Health does seem to take a hit during economic downturns, primarily due to a tendency to cut back on doctor visits and medication. Although bankruptcy has increased among seniors since the financial crisis, it may be tied to an increase in financial risk taken on by individuals rather than to the recession itself. One in 10 seniors currently lives in poverty. Trading Center Want to learn how to invest? Get a free 10 week email series that will teach you how to start investing. Delivered twice a week, straight to your inbox.

Chapter 2 : Full text of "THE IMPACT OF THE FINANCIAL CRISIS ON WORKERS' RETIREMENT SECU

This statement was made today by Chairman George Miller at the House Education and Labor Committee's hearing on the "Impact of the Financial Crisis on Workers' Retirement Security.". Good.

Duke Share It is an honor to be invited to deliver the annual Sandridge lecture to the Virginia Association of Economists. This series has a long history of important discussions, including the now-famous global savings glut speech by then-Governor Ben Bernanke in I confess to being quite intimidated by this illustrious history, but I hope to heighten interest in my own contribution by offering you something prized by economists everywhere--fresh data. As the recent financial crisis unfolded, I kept coming back to two questions that seemed central to understanding the way consumers and small businesses might respond to changes in their own circumstances during the crisis and, importantly, how their attitudes toward spending and investing might change going forward. The first question had to do with the relationship between household wealth and the saving rate. And as a baby boomer myself, I wondered whether the relationship between wealth and savings might be especially important as the baby boomers faced a change in wealth just as most were planning to retire. So I am going to talk first about how changes in wealth impacted the spending plans and risk tolerance of consumers closest to retirement. The other question that continually arises is whether the sharp reduction in small business credit was due to changes in the supply of credit, demand for credit, or creditworthiness of potential borrowers. While the SCF data do not offer any definitive answers, they do give some previously unavailable insight into the role of creditworthiness, if we use changes in wealth as proxies for changes in creditworthiness. I want to apologize in advance. I found that the rich data set offered some occasionally surprising insights into both of these questions, and I was unable to choose between the two topics. The result is a somewhat overpacked discussion. Despite that, I warn you: These results are the tip of a very large iceberg and may spur more questions than answers in your minds. The survey is normally conducted every three years by selecting a new sample of consumers willing to provide detailed responses to questions about their personal finances. Because aggregate data consistently indicated that the crisis was having severe negative effects on households, the Federal Reserve thought a follow-up survey of survey participants would offer a unique opportunity to understand the impact of the financial crisis on individual families and the resulting changes in the financial decisions and outlooks of those families. Although we are only beginning to mine the data, I believe the richer understanding of individual circumstances provided by the data set will prove invaluable in its ability to help us understand how consumers are approaching a number of important decisions, such as spending, saving, and wealth accumulation. In , we launched a program to conduct follow-up interviews with participants in our SCF to update their information. We are extremely grateful for the public-spirited people who dredge through their financial statements, pension accounts, credit card bills, and tax returns to give us the most accurate information possible. And we are particularly grateful to the nearly 90 percent of the participants in the survey who did so a second time in The panel interviews were concluded in early , and Board staff spent most of the rest of the year preparing this complex set of data for analysis. Earlier today, the Federal Reserve published a research paper providing an overview of the data, and further results are expected to follow. The initial shocks to housing and to financial assets wiped out most of the wealth gains realized since the aftermath of the tech crash in There has been some recovery in wealth since the trough, but since early it has remained fairly flat. The personal saving rate, which had been trending downward before the recession, jumped during the crisis as spending retreated figure 2. Traditional macroeconomic analysis would attribute at least some of the increase in the saving rate and corresponding drag in the recovery of consumer spending to diminished household wealth. For example, workers on the cusp of retirement might need to work longer than they had planned and business owners might be unable or unwilling to leverage their personal assets to fund or expand their businesses. In addition, if attitudes toward risk have shifted, households might make different decisions about spending, or about saving, than they have in the past. Diversity of Wealth

Outcomes in The overall pattern of wealth decline, however, masks the stark differences in outcomes for individual families. Income is one such possible measure, but it can be quite "noisy" because income may be affected by a variety of transitory factors. In the SCF, we include a measure of the level of income that families consider their usual income. Almost a third saw a loss greater than an entire year of their usual income not shown. However, more than a fifth of families saw a gain in wealth that was greater than six months of their usual income. To put these changes in wealth in perspective, it is useful to consider the level of household wealth relative to normal income before the crisis. In , more than one-quarter of families had total wealth equal to or less than six months of their usual income, so a change of this magnitude would be quite significant for those families figure 4. In contrast, for nearly one-third of households, their wealth was more than five times their usual income. At the level of individual families, changes in wealth appear to have been driven primarily by changes in asset valuation, not by changes in ownership that is, by changes in portfolio composition. Comparisons of patterns of ownership in and do show some differences, but the dominant pattern across families is no change in portfolio holdings. Moreover, responses to a question we asked about changes in portfolio composition over the crisis indicate that 54 percent of all families made no change at all in their portfolios over the period covered by the panel SCF. This is perhaps surprising, given the large change in asset values that occurred during the crisis. Preretirement Age Group In this dataset, the preretirement group includes families whose household head was between 50 and 61 years old in This age group traditionally has a particularly strong effect on the overall economy because the preretirement years are typically characterized by peak earnings, peak saving, and peak spending. The baby-boom generation, by virtue of its sheer size, has had an outsized influence on the economy as it has entered every stage in the life cycle, and its magnification of the preretirement effect is no exception. In addition, in , this group held more than one-third of all household net worth. Because wealth is a key driver of household decisions about spending, saving, and investment, we might expect behavioral shifts in response to wealth changes to have significant effects on the performance of the U. We will look at changes from to in the attitudes of this group and how those changes might vary depending on whether they experienced gains or losses in wealth during the crisis. I chose the preretirement group to examine because of its significant size and wealth, but also because this seemed like the group most likely to be affected by changes in wealth and to feel the need to change behavior as a result of any such changes. The preretirement group must accumulate assets to sustain itself through retirement, continue working, or rely on their children or the government for support. Given their vast numbers, the adjustments they make can affect the course of the economy. So it is informative to look at how the finances of this group were impacted by the crisis and how they have changed their outlook as a result. As was the case for families overall, experiences varied widely. The share of families in the to age group that saw a substantial increase in their net worth--more than six months of their usual income--was nearly the same as for families overall figure 5. But 49 percent of the age group saw a decline of more than six months of their usual income, compared with 42 percent of families overall. But in comparing responses from boomer families that lost wealth to those that gained wealth, we found remarkably similar answers. In , more than two-thirds of the preretirement group reported that their expected retirement age was at least a year later than what they reported in The share of families expecting to extend their working life was very similar regardless of their change in wealth. This likely suggests increased uncertainty about the future, no matter what their experience during the financial crisis, as also suggested by other results in the survey. In terms of asset management, more than half of the preretirement families reported that they plan to make no changes at all in the next few years; this result holds across all wealth-change groups. But among those who do expect to make changes, increased savings was the most commonly reported goal. Regardless of the change in their wealth, these families were more likely to report being more unwilling to take financial risk in than in figure 6. This sense of increased caution is reinforced by the answers to questions the survey posed to families about the amount of money they think they need to cope with emergencies and other unexpected events. The median value of this measure of desired precautionary savings increased substantially from to for the preretirement groups that experienced large changes in wealth, regardless of whether the change was a gain or a loss, and was virtually unchanged for others figure 7. Furthermore, the largest percentage increase was for families that experienced wealth gains. The large changes in asset prices over the period may have had an effect on the willingness of the families in this age group to consume out of gains to assets or to reduce spending in response to asset losses. In other words, it made them more cautious. In the boom years leading up to the crisis, many economists believed that increases in wealth, especially increases in home equity, helped fuel consumer spending. However, fewer than 30 percent of boomer families reported in that they would be willing to spend out of any increase in asset values. In , that willingness declined for boomer families that experienced losses as well as for boomer families that experienced only small gains. Somewhat counterintuitively, boomer families that experienced significant gains in their net worth from to gains greater than the equivalent of six months of income--also remained largely unwilling to spend out of increases in asset values. In fact, they were among the least willing in and they remained among the least willing two years later. Thus, boomer families remained cautious, or grew more cautious, about spending out of their asset gains--regardless of whether they experienced significant losses during the crisis figure 8. However, the response of spending plans to the prospect of asset losses appears to be stronger than the response to the prospect of asset gains. Every wealth-change group reported being more than twice as likely to decrease spending if asset values declined than they were to increase spending if asset values rose figure 9. All of this evidence may help explain the sharp drop in consumer spending as household wealth declined and the continued sluggishness of consumer spending even as asset values have recovered. This asymmetry in responses holds over all age groups as well. The varied change in wealth for preretirement families, taken together with the changes in retirement plans, risk attitudes, and willingness to spend in response to changes in wealth, imply that some of the effects of recent economic turmoil may result in a longer period of economic adjustment than has been the case in past recessions, as fundamental attitudes appear to have shifted. I think the higher level of caution displayed by all households in the group, regardless of whether the change in their individual circumstances was positive or negative, is especially interesting. Responses regarding attitudes toward modifying spending as asset values rise and fall suggest that the relationship between the saving rate and household wealth might be even more persistent than in the past. Such an impact would be further magnified if changes in wealth also impacted borrowing patterns and credit approval. To look at credit indicators, I decided to focus on business owners in order to examine the impact of changes in wealth on access to business as well as consumer credit. Business Owners The preretirement and business owner groups I have chosen are not mutually exclusive. Indeed, there is quite a bit of overlap. More than 30 percent of small business owners in were part of the preretirement group, and they tended to be among the wealthier members of that group. In fact, the business owner group held nearly half of all household wealth in Small businesses employ roughly half of private-sector workers, they fill critical niches throughout the economy, and they are often seen as sources of innovation. For many, the ability to leverage personal assets is a critical factor in developing their businesses. Concern over credit availability for small businesses has appropriately been a recurring worry throughout the crisis, but information about the intersection between business performance, personal finances, and credit has been hard to find. Although the SCF is focused on families, not businesses, it does collect substantial information on the closely held businesses families own. The survey clearly shows a high degree of interdependence of personal and business finances for many families with businesses. For example, families make loan guarantees for their businesses using personal assets as collateral, and loans between business owners and their businesses are common in both directions. The spread of gains and losses from to was sharper for business owners than for the population overall figure Fifty-seven percent of business owners saw substantial losses in their net worth relative to their usual income, compared with 43 percent of the overall population; but the percentage of business owners who saw large wealth gains relative to their income was also larger than for the overall population. The industry in which the business operated had a significant impact on whether the business owner gained or lost wealth. Families with businesses primarily engaged in mining or construction--among small businesses in the survey, this was overwhelmingly construction-related businesses--were the most likely to see a substantial decline in net worth figure In contrast, families with a wholesale or retail business were more likely to see a substantial gain. Those involved in utilities, transportation, and services--in the survey, this was predominantly services--saw the largest gains and the largest losses, but losses exceeded gains for the group. Only 82 percent of the consumers who reported owning a business in also reported owning a business in And some of those who remained business owners may have scaled back their operations while awaiting recovery. We do not have the detail necessary to assess the importance of reduced operations directly, but we have some suggestive evidence.

Chapter 3 : How to solve the retirement crisis

The financial crisis of and the subsequent slump in the general economy have hit many Americans hard, but none more so than those approaching retirement.

Last week, Congress approved an emergency rescue plan in response to the worst financial crisis our country has seen since the Great Depression. We know that this plan alone will not magically turn the economy around. But we are confident that without it we will not have the chance to move forward. Immediately after the plan was approved, Speaker Pelosi announced that the House would conduct a series of hearings to investigate the causes of the current financial crisis and what steps we should take next to protect homeowners, workers and families struggling today. As part of that commitment, the Committee on Education and Labor today is holding a hearing to explore how this financial crisis is impacting the retirement security of American families. Yesterday, the House Oversight and Government Reform Committee launched the first of many oversight hearings examining the toxic mix of corporate greed, recklessness, and deregulation that created this financial crisis. Fuld, showed no remorse for his catastrophic mismanagement of the company. In fact, he repeatedly denied responsibility for running the storied Lehman Brothers investment house into financial oblivion. All the while, he insisted on taking obscene multi-million dollar bonuses for his executive teammates. The current financial and housing crises are stripping wealth from American families at a record rate. A new poll just found that 63 percent of Americans are worried that they will not have enough savings for their retirement. Tragically, they may very well be right. Due to the collapse of the housing market and the financial crisis, trillions of dollars that Americans were counting on has been lost. Americans were counting on much of this wealth for their retirement. Now it is gone - as is their ability to adequately fund their retirement. Even before the current meltdown, middle-income families were losing ground due to the decline in middle-class wages over the last decade - making it harder for them to save for their retirement and family emergencies. Retirement and financial experts now predict that retirees and older workers who rely on financial investments for retirement income may suffer more than any portion of the American population in the coming years. According a survey released today by the AARP, one in five middle-aged workers stopped contributing to their retirement plans in the last year because they had trouble making ends meet. One in three workers has considered delaying retirement. Now, the number of investors taking loans on their k accounts is increasing. And hardship withdrawals are also increasing. Rowe Price estimates a 14 percent increase in hardship withdrawals just in the first eight months of And, all the signs point to an increased frequency of k loans and hardship withdrawals in the coming year. It makes sense that more Americans will be raiding their retirement accounts as they deal with rising unemployment and increasing costs of basic necessities. Unfortunately, these drastic measures taken by workers today will have a long-lasting impact by significantly reducing account balances once these workers reach retirement age. Over the past 12 months, more than a half trillion dollars have evaporated from k plans as a direct result of the crisis in the markets. Some experts say that it will take as long as 3 years to recover market losses in k -style accounts - but only if the market turns around soon. Just like consumer directed retirement plans, traditional pension plans are not immune from the financial crisis. Although pension plans hire professional money managers and are required to be diversified, these plans will likely lose value as a result of the weak performance of the investment markets. Sophisticated pension funds lost 20 to 30 percent of their value during the recession and took several years to overcome those losses. While this crisis began on Wall Street, much of the financial burden will ultimately be borne by Main Street. And this did not happen overnight. As Congress continues our investigations into this crisis, we cannot allow those responsible to emerge unscathed. The American people are paying the price of this go-go, Wild West approach to governing. In the coming months, this committee will examine what measures may be needed to ensure a safe and secure retirement for workers, retirees and their families. For starters, we know that k holders lack critical information about how their money is managed and what fees they pay. We must have more transparency in k investment practices. The Wall Street veil of secrecy must end. I would like to thank all of our witnesses for joining us today. I look forward to their testimony. And I expect that we will be back here repeatedly until we can ensure greater security for the retirement of hard-working Americans.

Chapter 4 : 10 Years Later: How the Financial Crisis Affected Seniors | Investopedia

Testimony for the House Education and Labor Committee The Impact of the Financial Crisis on Workers' Retirement Security Oct. 7, Rayburn HOB, Washington, DC.

Print The American ideal of a happy, secure retirement is under threat as the economy changes and the financial foundations that supported previous generations erode. Social Security is on track to become insolvent in another decade or so, raising the possibility that even the marquee national safety-net program will have to reduce benefits to millions. As a result, older workers are postponing retirement, and businesses are feeling the effects in the form of reduced productivity. Washington created the incentives that have shaped retirement for nearly a century. Now, who is responsible for safeguarding the financial well-being of older Americans? The answer is critical to our national future. Social Security was one of the great policy successes of the 20th century, but it was never intended as a full solution to the retirement puzzle. Solving it will get only more complicated for future generations, where more workers will have spent their careers without a long-term employer offering traditional benefits. Download a copy of the report here. To chart a realistic path forward, POLITICO convened a bipartisan group of 15 leading thinkers and policymakers to clarify the problem and identify solutions. When it comes to solutions, they identified a broad framework for improving the systemâ€"but also several red lines when it comes to what kinds of changes are politically possible. Although they come from different sectors and political perspectives, the group members reached broad agreement on four key problems and potential solutions. An independent commission could help build political consensus. One way to move forward would be for Congress to establish a high-profile independent commission. Though not a policy change in itself, a commission would bring needed attention to the issue, set an official baseline for the problem and launch the conversation on reforms, from small-scale adjustments to a wide-ranging revamp of the U. More Americans need access to retirement savings plans. The retirement system is still highly dependent on employers, and far more dependent on the k than even its inventor envisioned. A simpler and portable account would give workers more consistent access to tax-advantaged savings and leave them less vulnerable to gaps caused by job changes and financial emergencies. Social Security could provide political cover. Any changes to the retirement system are more likely to get political support if they are undertaken as part of a revamp of Social Security, which enjoys broad support in American society from across the political spectrum. This POLITICO working group report summarizes the discussion and details the solutions the group arrived at, as well as some of the obstacles it identified. Under the ground rules of the discussion, the list of participants is public and appears at the end of this document, but POLITICO is not attributing specific views and comments to individuals. Today, millions of Americans face declining standards of living in the final stage of life, and projections suggest that even middle-class retirees could find themselves living in poverty. Retirement as most Americans have experienced it has its roots in the Great Depression, when the United States decided to urge older workers to retire, creating more jobs for younger adults, by providing a baseline level of old-age income through Social Security. In the decades since, Americans generally had three potential sources of income after leaving the workforce: Social Security, private pensions and personal savings. Traditional pensions that guarantee a fixed monthly sum for life have largely disappeared for Americans younger than baby boomers. And personal savings, including in employer-sponsored k plans, have funds well short of what most Americans will need to maintain their standard of living after leaving the workforce. Our participants saw Americans falling into two basic groups, with two different issues: Roughly half of Americans have no access to retirement savings plans and have saved little or nothing toward retirement. The other half has socked away some money in retirement accountsâ€"but even most of this group has saved far too little to maintain their preretirement standard of living. Meanwhile, traditional pensions are largely disappearing. As one participant pointed out, only a fraction of Americans, perhaps 30 percent, ever had access to a traditional pensionâ€"but those often provided the bedrock of retirement for many working-class and middle-class retirees. That would be fine if Americans were saving more, but they are saving less. In fact, each generation of Americans seems to do worse at saving for retirement: Millennials, who have higher student debt burdens than their parents, are falling even further behind. And the number of years of retirement has been growing: Several participants noted that business managers are already seeing the retirement crisis impact their bottom line in the form of reduced productivity. The financial pressures on the system are growing, and sooner or later will have to drive some kind of large-scale solution, participants said. One noted that the ratio of working-age Americans to retired Americans is going to fall dramatically, from about 5-to-1 today to 3-to-1 by And the more resources directed toward retirees, the less available for the generations coming behind them. Stagnant wages are locking in lower incomes. Americans have less and less to live on in retirement, in part because wages have not risen while other costs, particularly health care expenses, have increased dramatically. Higher Medicare premiums are draining retirement income. Medicare premiums are rising faster than Social Security cost-of-living increases, meaning that in real terms, the value of Social Security income has been declining. Providing health insurance for employees is usually the top priority for employers and for their workers when it comes to benefits. And with the costs of health care rising faster than inflation and wages , employers have less money and administrative capacity to think about providing retirement plans, which are generally a lower priority. Since most retirement plans are open only to permanent, full-time employees, the growth of contract, part-time and temporary workers means the number of Americans with access to an employer-sponsored plan is diminishing. In fact, they tend to take out as much as 40 percent of what they put in. Many cash out their accounts when they change jobs, or draw on the accounts during emergencies, or to buy a house. Longevity is a problem. Longer lives are a medical success story but an economic challenge. More and more Americans are living past 85, and by then, many if not most retirees have used up their personal savings. And uncertainty about lifespan means that retirees have trouble figuring out how much or how little of their savings to spend. What mix of strategies do you use? A strategic spend down? How much do you annuitize? How much do you keep as a lump sum for emergencies? By their 80s, a majority of single and widowed women are living in poverty, another said: The net worth of nonwhites remains significantly depressed compared with whites, particularly in terms of housing equity, which forms a significant part of the assets available to many Americans for retirement. Housing policies that restricted the availability of mortgages in nonwhite communities and charged them higher interest than whites are having knock-on effects on retirement to this day. Simplification is also necessary for employees. Participants agreed that many k plans are needlessly complex, forcing employees and retirees to make difficult decisions about investments and withdrawal rates. Many employees, daunted by the choices involved, never get started. Others with limited financial literacy could make poor investment choices. And even those who manage to save a lot during their working years may have little idea how much they can afford to draw down their savings during retirement; many may find themselves quickly outliving their assets. How do you manage your savings when you change jobs, which for many workers happens multiple times over their career? How do you manage your money during an economic shock or health shock? These are all issues that individuals now have to negotiate. Later in life, there are important decisions that older Americans need to make in terms of deciding when to retire, when to start collecting Social Security and how to draw down their savings, but those complex calculations come at a time when cognitive abilities are often declining. And these decisions are harder and more consequential for Americans with the fewest resources. With a wholesale expansion of the social safety net politically unlikely at the moment, the experts in our working group focused on fixes to the current employer-sponsored, savings-driven retirement system. They agreed that any reform will have two main goals: And they also agreed that policies that address the first goal and expand access to retirement accounts will largely help meet the second goal. Research and experience have shown, many participants said, that without an employer-based savings plan based on payroll deductions, Americans are usually unable to save significant retirement funds on their own. One participant cited an analysis suggesting that employees who gain access to a retirement plan through their employers increase their savings by 50 percent. But the group also identified a clear red line when it came to the politics: What kind of retirement account would be practical, and politically palatable, under such a law? Some thought access to a state-sponsored plan in states that are setting up such plans could be a good option, particularly for smaller employers. Others suggested that large financial-services firms would be willing to step in with simpler plans designed for smaller employers, if Washington made the right tweaks to lift the regulatory burden. That would allow employers to offload much of the administration onto firms better able to manage it, leaving employers responsible only for the payroll deduction process. Yet another idea was to separate retirement accounts from employer sponsorship altogether, instead creating portable retirement accounts that follow the worker, not the job. That would be particularly beneficial for the growing number of temporary, contract and contingent workers in the economy. Whatever they look like, participants agreed, they should be simpler than most of the retirement accounts offered today, featuring standardized, low-cost investments that anyone could figure out. The simpler the account, the more workers are likely to become savers. If, as part of a broader revamp of Social Security, lawmakers also required expanded access to retirement savings plans and other reforms, that might be politically more palatable, participants agreed. Even so, there was little consensus around the table on just what a Social Security revamp might look like. Participants pointed to several ways that Social Security could be used to solve some of the more specific problems in the current retirement system, such as the disproportionate impacts on women and minorities as well as longevity risk. For women, some participants said that adjusting options for Social Security survivor benefits could help keep some older women from falling into poverty after the death of a spouse. For disadvantaged minority groups, programs that address discriminatory housing and lending policies could help families build wealth faster. Another solution for longevity risk favored by some participants was converting some portion of k savings into a monthly annuity that would pay until death â€” a fix that would require changes to laws and regulations that make it difficult for financial firms to offer hybrid financial products of that sort. At the same time, the government should increase incentives for workers to save in accounts other than retirement accounts, so they have other funds to draw on in case of emergencies. Finally, the one proposal that gained the most overall support from the group was that Congress should establish an independent commission to explore political pathways to shore up the retirement system, including addressing the long-term solvency of Social Security. But with a growing disconnect between the world the retirement system was created for and the world in which Americans are struggling, and largely failing, to save enough for retirement, a complete rethink of retirement is needed on a national level. Perhaps the biggest impact a commission could have would be to draw needed public attention to the retirement crisis. The truth is that ordinary Americans tend not to think about their retirement until they are too close to it to be able to do much about it. Employers tend to focus on benefits of more immediate concern to their employees, such as health care. And public officials are notoriously short term in their focus, rarely spending time and political capital on a policy problem that has been decades in the making and will play out over decades to come. In that light, the simple fact that a high-profile commission is created would have a lot of value in just launching a national conversation on the topic, participants concluded.

Chapter 5 : EBRI Testimony: The Impact of the Financial Crisis on Workers' Retirement Security (PDF)

"The Impact of the Financial Crisis on Workers' Retirement Security", pp. (Statement by Mark A. Davis, Kravitz Davis Sansone, Inc., Encino, CA, House Committee on Education and Labor) Chapter 6.

Chapter 6 : How are retirees doing a decade after the financial crash?

Full text of "THE IMPACT OF THE FINANCIAL CRISIS ON WORKERS' RETIREMENT SECURITY" See other formats.