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# Fiscal trouble ahead for most future retirees

**By Michael A. Fletcher, Published: February 16**

For the first time since the New Deal, a majority of Americans are headed toward a retirement in which they will be financially worse off than their parents, jeopardizing a long era of improved living standards for the nation's elderly, according to a growing consensus of new research.

The Great Recession and the weak recovery darkened the retirement picture for significant numbers of Americans. And the full extent of the damage is only now being grasped by experts and policymakers.

There was already mounting concern for the long-term security of the country's rapidly graying population. Then the downturn destroyed 40 percent of Americans' personal wealth, while creating a long period of high unemployment and an environment in which savings accounts pay almost no interest. Although the surging stock market is approaching record highs, most of these gains are flowing to well-off Americans who already are in relatively good shape for retirement.

Liberal and conservative economists worry that the decline in retirement prospects marks a historic shift in a country that previously has fostered generations of improvement in the lives of the elderly. It is likely to have far-reaching implications, as an increasing number of retirees may be forced to double up with younger relatives or turn to social-service programs for support.

"This is the first time that Americans are going to be relatively worse off than their parents or grandparents in old age," said Teresa Ghilarducci, director of the Schwartz Center for Economic Policy Analysis at the New School for Social Research.

Advocates for older Americans are calling on the federal government to bolster Social Security benefits or to create a new layer of retirement help for future retirees. Others want employers and the government to do more to encourage retirement savings and to discourage workers from using the money for non-retirement purposes.

But those calls have been overwhelmed by concern about the nation's fast-growing long-term debt, which has left many policymakers focused on ways to trim Social Security and other retirement benefits rather than increase them.

The economic downturn exacerbated long-term factors that were already eroding the financial standing of aging Americans: an inexorable rise in health-care costs, growing debt among older Americans and a shift in responsibility from employers to workers to plan for retirement.

The consequence is that the nation is facing a huge retirement savings deficit — as much as $6.6 trillion, or about $57,000 per household, according to a U.S. Senate report.

Using data on household finances collected by the Federal Reserve, the Center for Retirement Research estimates that 53 percent of American workers 30 and older are on a path that will leave them unprepared for retirement. That marks a sharp deterioration since 2001, when 38 percent of Americans were at risk of declining living standards in old age. In 1989, 30 percent faced that risk.

The center's findings are similar to those recently uncovered by researchers at the New School, the Heritage Foundation and the Senate's Committee on Health, Education, Labor and Pensions.

"There is a mismatch between retirement needs rising and retirement benefits contracting," said Alicia H. Munnell, director of Boston College's Center for Retirement Research.

The precarious situation comes after a long period of change that improved life for the nation's seniors starting with the enactment of Social Security in 1935.

By the 1960s, retirees also benefitted from universal health insurance through Medicare and Medicaid, sharp increases in Social Security benefits and new protections enacted by the federal government for workers who received traditional pensions, which for decades were a standard employee benefit.

The changes rescued millions of retirees from poverty, while lifting millions of others to prosperous retirements symbolized by vacation cruises, recreational vehicles and second homes.

But now problems for future retirees seem to be closing in from all sides. Half of American workers have no retirement plans through their jobs, leaving people on their own to save for old age.

Meanwhile, four out of five private-sector workers with retirement plans at work have only 401(k)-type defined contribution accounts, rather than traditional pensions that pay retirees a fixed benefit for life. Numerous studies have found that workers with defined-contribution accounts often put aside too little money, make too many withdrawals or employ the wrong investment strategies to save enough for old age. Overall, people ages 55 to 64 have a median retirement account balance of $120,000, Boston College researchers have found, which is enough to fund an annuity paying about $575 a month, far short of what they will need.

Officials at money-management firms that handle 401(k)-type investments argue that the tools are in place for Americans to retire comfortably. The problem, they say, is that employers and workers are not using them correctly.

Robert L. Reynolds, president and chief executive of Putnam Investments, noted that 2006 changes in federal law gave employers the power to automatically enroll workers in retirement accounts. But too few choose to do that and even when they do, companies typically set aside only 3 percent of pay — far less than the estimated 10 percent that experts say workers need to set aside to fund a sound retirement.

"I would be adamant that there is nothing wrong with 401(k)s that can't be fixed by taking better advantage of the current system," Reynolds said.

Daniel J. Houston, president of retirement, insurance and financial services at the Principal Financial Group, contended that defined contribution accounts are better tailored than old-fashioned pensions to today's highly mobile workforce. Workers can take them when they switch jobs. But that control also is a weakness, allowing Americans to tap them for non-retirement purposes.

The retirement savings shortfall is revealing an economic divide separating those who are well prepared for retirement from those who are not. Recent policy changes aimed at bolstering Americans' retirement prospects have only contributed to the growing inequality.

The government grants at least $80 billion a year in tax breaks to encourage retirement savings in 401 (k)-type accounts. But the biggest benefits go to upper-income people who can afford to put aside the most for retirement, allowing them to reap the biggest tax breaks.

Someone making $200,000 a year and contributing 15 percent of pay to a retirement account would receive about a $7,000 subsidy from the federal government in the form of a tax break, whereas workers earning $20,000 making the same 15 percent contribution would get nothing because they don't earn enough to qualify for a deduction. Someone making $50,000 and making the 15 percent contribution would receive only about a $2,100 tax deduction.

Even many of the diminishing share of workers who are enrolled in traditional pension programs face uncertainty as an increasing number of plans are underfunded, causing employers to freeze benefits.

The hits to retirement income come as many Americans are living longer and health-care costs continue to grow, meaning they need to salt away more money for retirement.

Workers have limited options for closing the gap. More are going to have to work longer. After many decades of decline, average retirement ages have already been creeping up in the past 20 years.

A recent survey by the Conference Board found that nearly two-thirds of Americans ages 45 to 60 say they plan to delay retirement. Two years earlier, 42 percent said they would work longer.

Some lawmakers and other advocates say the best way to cope with the growing gap would be to further expand Social Security and Medicare benefits, or to add another layer of taxpayer-subsidized savings that workers could use only for retirement.

"We need to do more to help American families cope with this looming retirement crisis," Sen. Tom Harkin (D-Iowa), chairman of the Committee on Health, Education, Labor and Pensions, said at a hearing late last month. "Hardworking Americans deserve to be able to rest, take a vacation and spend more time with their grandkids when they get older."

But many policymakers are pushing to rein in the nation's debt by trimming Medicare, Medicaid and Social Security benefits. Those programs are the primary drivers of the long-term deficit but are also financial mainstays for the vast majority of the nation's retirees.

Both Medicare and Social Security already are on course to provide reduced benefits for future retirees — reductions that will grow deeper if lawmakers follow through on new proposals to further trim the programs.

With the Social Security retirement age moving to 67 under a federal law passed in 1983, people who leave the workforce earlier — and the vast majority do — will see smaller payouts.

Health-care costs continue to outpace inflation, meaning more out-of-pocket expenses for future seniors. Retirees are also slated to pay more for their health care with Medicare premiums, which are deducted from the Social Security checks of senior citizens, set to rise from 12.2 percent to 14.9 percent by 2030.

James G. Marzano, 60, was on his way to a comfortable retirement when he lost his job at a telecommunications firm in 2002. "People talk about a lost decade; that's what I've been through," he said.

Marzano, a Tampa resident who is married to a retail worker and has a son who is a high school senior, spent most of the past decade in and out of contract jobs and other posts that paid far less than he was used to. He was forced to dip into his 401(k) account to make ends meet, and even now that he has found a good job, he says, his savings is maybe 60 percent of what it was 10 years ago.

"If everything had stayed status quo from 2002 until 2012, I might be doing what I wanted to do today," he said. "But, as it stands, I am nowhere near ready to retire."