

RESEARCH SUMMARY

Is There a Retirement Crisis? Examining Retirement Planning in the Household and Government Sectors

There is a widespread perception that Americans aren't saving enough for retirement. Some policymakers propose to increase the government's role in retirement saving and income provision through measures such as expanding Social Security benefits and establishing state and local supplementary retirement saving plans.

In "Is There a Retirement Crisis? Examining Retirement Planning in the Household and Government Sectors," American Enterprise Institute Resident Scholar Andrew G. Biggs reviews studies of household retirement saving and also of government-run retirement plans' funding shortfalls. He concludes that private households do a substantially better job of saving for retirement than the government has done of funding public retirement programs.

PRIVATE RETIREMENT SAVING

A number of studies have attempted to estimate the size of the private retirement savings shortfall in the United States. The most pessimistic of these, from the National Institute for Retirement Security, estimates that 84 percent of US households fall short of reasonable retirement savings and that this results in a national retirement savings shortfall of \$14 trillion. On the other hand, the most optimistic studies estimate that more than 70 percent of Americans are saving adequately and that the shortfall is closer to \$615 billion.

PUBLIC RETIREMENT PROGRAM FUNDING

In spite of public attention and sporadic reform efforts since the late 1980s, Social Security remains underfunded.

- As of 2016, Social Security Administration actuaries, using economic and demographic assumptions from Social Security's trustees, projected a 75-year funding shortfall of \$11.4 trillion in present value.
- The Congressional Budget Office, using somewhat different assumptions, projected a 75-year funding shortfall estimated by the author at about \$18.9 trillion.

Public employee pensions include both defined benefit pensions and 401(k)-style defined contribution plans. Defined contribution plans cannot have obligations in excess of their assets, but many defined benefit plans are dramatically underfunded.

- Defined benefit pensions for civilian federal employees face a funding shortfall of approximately \$800 billion.
- Another federal program, the Military Retirement System, faces a funding shortfall of about \$868 billion.
- The Governmental Accounting Standards Board estimates that state and local defined benefit pensions have unfunded liabilities of about \$1.2 trillion. But measuring these pensions' liabilities using the same

discount rates that private sector pensions must use suggests that the plans are actually underfunded by \$3.4 trillion, and some estimates suggest they are underfunded by as much as \$5.5 trillion.

CONCLUSION

Comparing estimates of private retirement undersaving to estimates of the underfunding of government retirement plans can help provide a picture of how well each sector fulfills its responsibilities for retirement saving. Both households and the government have a role to play in contributing to retirement security, but the data show that—even according to the worst-case estimates of the private retirement savings shortfall—households are better at funding retirement benefits than the government is. Rather than expanding already unfunded benefits, governments should focus on funding their existing obligations and facilitating household retirement saving by encouraging employers to offer optional but automatic-enrollment defined contribution saving plans.