



Creating a National Retirement Policy

Achieving adequate and reliable income in retirement has become a growing concern in America, especially for many aging Americans as the U.S. population grows older, life expectancies have been increasing, and the nature of employer-sponsored retirement plans has changed. Because Americans rely on several interrelated yet distinct sources of retirement income, lawmakers and regulators face challenges developing and implementing policies to improve retirement security on a broad basis. A comprehensive national retirement policy that articulates guiding principles for the U.S. retirement system could help policymakers craft legislation and regulations that more effectively address Americans' retirement security needs including securing adequate lifetime income.

The Current Retirement Landscape

Many Americans rely on some combination of Social Security, employer-sponsored retirement plans, and/or personal savings to fund their retirement needs. These systems, sometimes called the “three-legged stool” of retirement security, are interrelated, and are overseen by different regulatory bodies that can span multiple levels of government. The result is a complex and disjointed retirement system that can be difficult to navigate for individuals preparing for retirement and policymakers alike.

The ‘Three-Legged Stool’ of Retirement Security

Social Security. A federal program funded primarily by employer and employee contributions, Social Security covers approximately nine in 10 working-age Americans, and its benefits serve as the main source of retirement income for three in five American seniors. Social Security benefits are progressive, with lower-income earners receiving larger benefits relative to their contributions; are adjusted annually to reflect inflation; and last until death. The Social Security system, which includes disability, spousal, and family protections in addition to retirement benefits, faces a long-term funding shortfall. According to the 2019 Social Security Trustees Report, the program is projected to be able to pay just 77 percent of promised old-age security benefits in 2035, absent any changes to address solvency.

Employer-Sponsored Plans. Two-thirds of private-sector workers had access to a retirement plan at work in 2017, with half of all workers participating in a plan. In recent decades, many employers have shifted from offering traditional, defined benefit (DB) pension plans to defined contribution (DC) plans, which means employees take on the majority of risks associated with funding their retirement benefits, which are most often distributed as a lump sum. Although DB plans typically shield employees from these risks and provide a guaranteed, lifetime monthly benefit, some DB plans face funding shortfalls, which may lead to cuts in promised benefits for some workers with traditional pensions.

Personal Savings. The average personal savings rate, including retirement savings, in the U.S. has declined in recent decades. Recent economic trends affecting Americans' ability to save include stagnant wage growth, increased student loan debt, and a decline in homeownership. Even those who set aside savings will not always accurately predict key retirement funding concerns, such as how long they will live or whether they will have significant health care needs. Growing health care costs and recent increases in life expectancy may also affect the amount of savings Americans will need in retirement.



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Over time, policymakers have made changes to each of these systems that have often addressed narrow issues and concerns, resulting in a piecemeal approach that does not always consider overall effectiveness or longer-term impacts on retirement security across the population. In recent decades, there have been several attempts to develop a cohesive framework providing guidance on the U.S. retirement system as a whole. Most recently, the U.S. Government Accountability Office recommended in 2017 that Congress establish an independent commission to examine the U.S. retirement system and provide public policy recommendations, and legislation introduced in the U.S. Senate in the spring of 2019 would establish such a commission.

The Role of a National Retirement Policy

Because Americans might rely on multiple sources of retirement income, it can be challenging for policymakers to implement changes that adequately and efficiently improve retirement security across the population. A national retirement policy offering a set of guiding principles could help policymakers assess how legislative and regulatory proposals will affect agreed-upon goals for retirement security in the U.S.

Possible elements of a national retirement policy could include, for example:

- **Availability.** An availability framework could set a goal for the proportion of employers that sponsor retirement plans.
- **Adequacy.** Targeted adequacy levels could focus on goals such as ensuring that retirees have sufficient income to maintain their standard of living in retirement, or that an individual's retirement income does not fall below the federal poverty level.
- **Risk allocation.** A risk allocation framework could determine how much risk, such as investment risk and longevity risk, is incorporated into the retirement system, as well as the degree to which risks are borne by individuals, employers, the government, or other entities. It could also offer guidance on whether adverse effects associated with these risks should result in reduced benefits or higher plan costs.
- **Income disparities.** A national retirement policy could provide guidance on the degree to which reliance on Social Security, employer-sponsored retirement plans, and/or personal savings should vary by income level.

- **Incentives.** A national retirement policy could include a framework for the use of tax incentives that favor the creation of retirement plans and savings in such plans.
- **Individual choice.** A framework setting guidelines for individual choice could offer Americans the option to customize their retirement income based on their individual needs, while balancing these choices against the risk that some individuals may make suboptimal decisions.
- **Cost.** A framework for balancing a retirement system's costs against the value it provides could help policymakers determine the financial sustainability of proposals intended to improve retirement security.
- **Portability.** As it becomes more common for Americans to work for several employers throughout their careers, a national retirement policy could provide a framework for policies that make it easier to transfer benefits between employers or into personal retirement accounts, and to prevent the use of benefits for other purposes so that they are efficiently preserved for retirement.

Developing a national retirement policy may not be easy, as policymakers take into consideration a large, diverse population with varying economic circumstances and needs. Decision-makers may have differing perspectives on the degree to which government or personal choice should play a role in individuals' retirement security. In addition, they have to navigate key economic concerns, such as balancing saving for the future against current consumption, or how new tax incentives for retirement savings would be financed and whether they might limit the government's ability to provide other services.

Establishing a national retirement policy commission could be an important step forward in addressing Americans' retirement security concerns. Such a commission could review the nation's current retirement systems and the factors affecting individuals' retirement security. Furthermore, it could develop recommendations for an articulated, cohesive policy to guide future retirement legislation and regulations.

A national retirement policy could provide focus and clarity on the current U.S. retirement system. Whether future reforms are undertaken piecemeal or as part of a comprehensive package, considerations discussed in a national policy could serve as a roadmap for policymakers considering ways to improve the effectiveness of the nation's retirement programs.

Additional Resources from the American Academy of Actuaries

National Retirement Policy & Principles (June 2019)

<https://www.actuary.org/sites/default/files/2019-07/NatRetirePolicy.pdf>

Lifetime Income Position Statement (October 2017)

[actuary.org/files/publications/Statement.RetireIncome.10.17.pdf](https://www.actuary.org/files/publications/Statement.RetireIncome.10.17.pdf)