



STATEMENT of

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Before the:

United States House of Representatives
House Committee on Education and the Workforce
Washington D.C. 20515

Hearing on: "Preparing for Retirement: Strengthening Pension Security for All Americans"

The "Retirement Readiness" Crisis in the United States

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Thank you very much for having me here today to speak on behalf of the National Retirement Planning Coalition. It is an honor. I have testified many times before Congressional Committees and I am always mindful of the advice my father gave me about such testimony. His name was Herbert Stein and he had testified before Congressional Committees hundreds of times. His main advice was, "These hearings can go on a long time. If they put a big glass of water in front of you, don't drink it all."

There is a crisis haunting this nation, and I am here this morning to discuss it. Tens of millions of Americans are seriously under-prepared to meet their financial needs in retirement.

These men and women expect and want to have a decent, comfortable retirement, at least roughly similar to the way of life they have before retirement. Yet the amount that the ordinary, average American family has saved for retirement is less than \$50,000 – a startlingly large fraction of pre-retirees, perhaps as much as 40 percent, have almost nil savings for retirement.

My testimony is in three parts. First, I will discuss the problem the country is facing and some of the underlying causes of this problem. Second, I will share a number of alarming statistics we have found that demonstrate the seriousness of this problem. Third, I will discuss some of the things Americans can do today to better plan for retirement.

Part I: Background

In the United States today we are facing a crisis in “retirement readiness.” More than 77 million “baby boomers” are rapidly approaching retirement. The majority are seriously under-prepared to meet the huge financial needs they will face. Other millions are in the “war baby” cohort already at retirement age and likewise have seriously under funded pension provisions on a personal level.

There are a number of factors fueling this crisis. Comprehensive pension plans, so called defined benefit plans, are rapidly becoming an endangered species. Instead, the responsibility for funding and managing retirement is now in the hands of the future retirees themselves through vehicles including 401(k)s, IRAs and other retirement vehicles.

While Social Security, which we assume you in government will maintain in a vital, strong form, was never intended to be the primary source of an individuals’ retirement income, it may play a diminishing role in the future for a variety of reasons.

At the same time, Americans are living longer, healthier lives. This means that retirement incomes will need to last longer than ever. In addition, healthcare costs are rising dramatically, putting a further demand on individuals' retirement income needs.

And, on top of all of this, the stock market drop between 2000 and 2003 dramatically reduced a significant portion of many Americans' accumulated assets earmarked for retirement.

In other words, there is a very large gap between what Americans have in the way of income for retirement and what they are going to need to retire. In the aggregate, the amount is in the trillions. On a per family basis, it is in the hundreds of thousands.

As a result, millions of Americans will fall short of accumulating the assets necessary to maintain the standard of living they have grown accustomed to when they retire. For many, this will require that they retire later than planned, try to find some form of employment in retirement to generate additional income or dramatically scale back their retirement lifestyles. None of these is desirable.

Part II: Key Statistics

There are a number of alarming statistics underscoring the seriousness of the retirement readiness crisis.

Many Americans assume that their retirement income will come primarily from Social Security. The reality is that Social Security was never intended to be the sole means of an individual's retirement income. According to the Social Security Administration, in 2001, Social Security supplied only 39 percent of total retirement income for persons 65 and older.¹ This percentage is likely to fall in the future.

Thus, the ability of Social Security to fully support the desired lifestyles of large numbers of baby boomers approaching retirement is clearly inadequate.

In the past, many Americans could depend on employer-sponsored pension programs to fund their retirement, but these programs are becoming less and less common. In 2001, only 30 percent of participants in private sector retirement plans were in defined benefit plans.² And, according to Wilshire Associates, a global investment advisory firm, a significant majority of corporate pension plans are under funded.

Individually, many Americans have failed to plan for two key retirement income risk factors that may cause their retirement resources to run out well before their retirement objectives are fulfilled.

The first is “Longevity Risk,” the risk of outliving retirement assets. According to the Society of Actuaries, for those individuals that reach 65, more than 50 percent of single women and more than 40 percent of single men will still be alive at age 85. For married couples, in over 70 percent of the cases at least one spouse will still be alive at age 85. Consequently, if these survivors had planned to have their retirement income last just until their life expectancy of 85, they would have depleted their retirement savings considerably before they die, again, a highly undesirable situation.

The second, “Financial Market Risk,” is the risk that capital market fluctuation may result in the reduction and/or depletion of the value of one’s retirement assets. Unfortunately, there are market events, such as the recent three-year sustained market downturn, where a constant withdrawal strategy combined with prolonged negative market forces can result in a complete depletion of assets far sooner than planned.

The dramatically rising costs of healthcare have added to the problem. AARP estimates that 46 percent of people over 65 will live in nursing homes for some time during the next 20 years, costing as much as \$100,000 per year.³ This is a devastating drain on resources for many retirees. The reality is that all healthcare costs are increasing year-to-year at a staggering pace. And it is clear that many pre-retirees have not planned for these costs.

For women, these challenges are even more dramatic. Since women live, on average, considerably longer than men, their money will need to last longer in retirement. Yet there is no sign that they have saved accordingly.

Probably the biggest factor fueling the retirement readiness crisis is that Americans simply are not saving enough. Charles Schwab estimates that individuals need to save \$230,000 for every \$1,000 they will need in monthly retirement income. However, only 31 percent of working Americans have saved \$100,000 or more for retirement in total.⁴ Obviously, a major disconnect between needs and resources is in the making.

In addition, only about 15 percent of working-age Americans have an IRA, and only 22 percent contribute to a 401(k) plan,⁵ according to the Employee Benefit Research Institute and the U.S. Census Bureau.

Part III: What Can Be Done to Avert the Crisis

To address the retirement readiness crisis, it is imperative that all Americans develop a personal retirement plan. Americans need to understand that they must take personal responsibility for their financial futures.

Our group, The National Retirement Planning Coalition, is traveling around the country teaching that the solution to this problem will come from individual action by tens of millions of American families: making a retirement savings plan; finding a competent, respectable financial advisor to help with the plan; substantially adding to savings to make the plan a reality; and sticking to the plan during and after retirement.

A personal retirement plan enables each American to set specific retirement goals, put specific mechanisms in place to help them reach those goals and ensure a steady stream of income to support their retirement lifestyles. While each person's retirement plan will be unique, most retirement plans will include a mix of savings and investment strategies.

We believe these plans should call for diversification of savings: mutual funds, bonds, real estate, stocks, and annuities. I especially like variable annuities because I saw them work so well in my parents' lives and because they shift the risk of outliving one's savings from the retiree to the insurer – and outliving your savings is a highly undesirable situation to be in.

The first place Americans should start is to evaluate their personal finances. Uncontrolled debt, particularly from credit cards, can significantly hinder retirement savings efforts. Reducing or eliminating such debt – which may first require evaluating personal spending patterns – will help ensure more money is available each month to put aside for retirement. This should be a top priority for prospective retirees.

Americans should also be sure to take advantage of available tax-deferred investment opportunities. Many companies offer 401(k), profit sharing or defined benefit retirement plans. These offer tax advantages and often incorporate matching contributions made by the employer. This option also makes it easy for Americans to save since the money is taken directly from their paychecks.

Other tax-deferred vehicles, such as IRAs, Roth IRAs and Keogh plans, should also be considered. And, by diversifying investment vehicles to include lifetime income-producing financial instruments, retirees can significantly minimize the impact of longevity and financial market risks to their accumulated assets. It is hard to overestimate the value of transferring risk from oneself to a large insurer where issues of lifetime financial security are concerned.

With the complexity of financial options available today for retirees, many people will need help and guidance. For many Americans, this will mean consulting with a certified financial advisor or retirement planner. Keeping current with tax law changes, private letter rulings and complicated tax planning can be a difficult task. In addition, portfolio risk exposure may need to be reduced as retirement nears. There are thousands of qualified financial professionals who can help Americans get started developing a plan,

or direct them to the appropriate person. These people include bankers, life insurance agents, investment brokers, accountants, and estate-planning attorneys. They are there to help, and should be called upon.

The main requirement is to address the problem in one's head, then take action, and to start now. Any amount of planning and preparation is better than none, and none is what far too many Americans are doing. People always ask me if it's not too late to start when you're in your late forties or fifties. I always say, "It is never too late to do better than not starting at all." And for younger workers, the earlier they start, the easier the entire process will be.

But it will take some sacrifice and self-discipline. It is impossible to both spend as much as you want and save as much as you want for most people. We are a nation that is unmatched in spending. Now we have to learn about savings – and for the baby boomers, we have to learn fast. The prospect of being old and without adequate funds should be more than sufficient inducement to all but the very most resistant boomers.

The National Retirement Planning Coalition stands ready to help, especially with our website, www.retireonyourterms.org. There is a wealth of information there, including an extremely ingenious retirement calculator that tells users how much they need to save to reach their goals. We hope people will use it and take heed of its numbers.

In America, the greatest of free countries, we create our own reality in large measure. The National Retirement Planning Coalition's goal is to educate Americans to create the reality of a comfortable, secure retirement by planning and action to increase and diversity their retirement savings.

Americans need to begin planning for their retirements immediately to make sure they will have the income necessary to achieve their desired retirement lifestyles, and also to have the peace of mind knowing that their financial futures are secure. My message to Americans is that it is not too late to ensure that you can Retire On Your Terms.

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Thank you very much. I welcome any questions you might have.

Respectfully submitted,

Ben Stein

Honorary Chair, National Retirement Planning Coalition

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¹ Social Security Administration, 2003

² Form 5500 Series Reports filed with the Internal Revenue Service for plan years beginning in 1998

³ AARP

⁴ Charles Schwab, Inc.

⁵ Employee Benefit Research Institute (ERBI) and the U.S. Census Bureau