The National Summit on Retirement Savings

SAVER

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International Foundation of Employee Benefit Plans
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Introduction

Good Morning. This morning, I'm going to present a brief overview of the current state of retirement savings in the U.S. I'll be doing this by looking at the sources of income of those aged 65 and older and also talking a little bit about how those sources might shift in the future.

Overview

Income Sources of Aged Units (65 and Over), 2000

	Percent of Aggregate Income	Percent Receiving Income
Social Security	38%	90%
Retirement Plans	18%	41%
Asset Income	18%	59%
Earnings	23%	22%
Other	3%	--

Source: Income of the Population 55 and Older, 2000, Social Security Administration, February 2002

Several research studies say we are simply not saving enough for retirement.

One study, done in the year 2000 by a department at Ohio State University, found 56% of all households are inadequately prepared for retirement: they are not accumulating enough resources to maintain their pre-retirement standard of living.

Another study, done last year by Aon Consulting and Georgia State University, found retirees are spending at relatively high levels while workers are saving at quite a low level.

People need, the study determined, between 74% and 83% of their pre-retirement income to preserve their standard of living in retirement.

This and other research suggests, first, there is an urgent need for effective retirement savings education and second, personal savings are going to become an even more important source of retirement income.

Social Security

The four main sources of income for those aged 65 and older are:

Social Security, which makes up 38% of their income; retirement plan benefits, which make up about 1/5 of the aggregate income; asset income, contributing about 1/5; and earnings, contributing a little over 1/5. A small percent of aggregate income comes from other sources.

Although about 40% of the aggregate income of those 65 and older comes from Social Security, actual reliance on Social Security is highly dependent on income.

Social Security

Shares of Aggregate Income, by Quintiles of Total Income, 2000

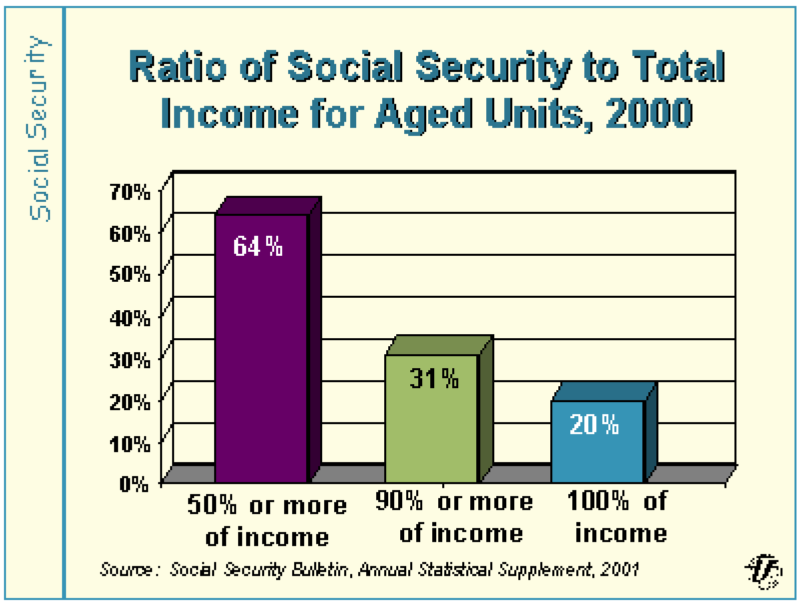
Source	Lowest	Second	Third	Fourth	Highest
Social Security	**82%**	**82%**	**64%**	**48%**	**19%**
Retirement Plans*	3%	7%	16%	24%	19%
Asset Income	3%	5%	9%	13%	24%
Earnings	1%	3%	7%	14%	35%
Public Assistance	8%	2%	1%	**	**
Other	2%	2%	3%	3%	2%

*Includes private pensions and annuities, government employee pensions, Railroad Retirement, and IRA, Keogh and 401(k) payments.
**Less than 0.5%.
Percents may not equal 100 due to rounding.

Source: Income of the Population 55 and Older, 2000, Social Security Administration, February 2002

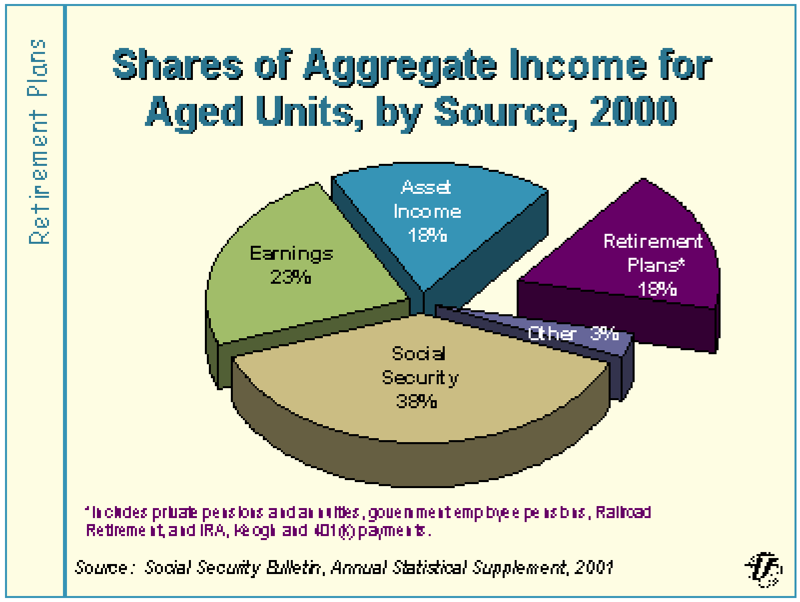
As you can see in this table, if you divide those 65 and over into quintiles of income, those in the lowest quintile receive 82% of their income from Social Security; while those in the highest quintile receive only 19% from Social Security.

Those in the highest quintile depend as much or more on retirement plans, asset income, and earnings as they do on Social Security.



You can't, however, underestimate the importance of Social Security. As you can see in the bar on the far right hand side of this chart, Social Security is the only source of income for almost 20% of Social Security beneficiaries. For 2 out of 3, shown on the bar on the left, Social Security provides more than half of their income.

Retirement Plans



While Social Security is the mainstay of most people's retirement income, retirement plan benefits make up 1/5 of the aggregate income.

Retirement plans in this chart include payments of private and public pensions, 401(k) plans, IRAs, and Keoghs.

Although coverage rates in employment-based plans haven't changed much, remaining at about 50% over the last 30 years for full-time workers in the private sector, what has changed, quite dramatically, are the type of plans employers are offering.

Comparing Defined Benefit and Defined Contribution Plans

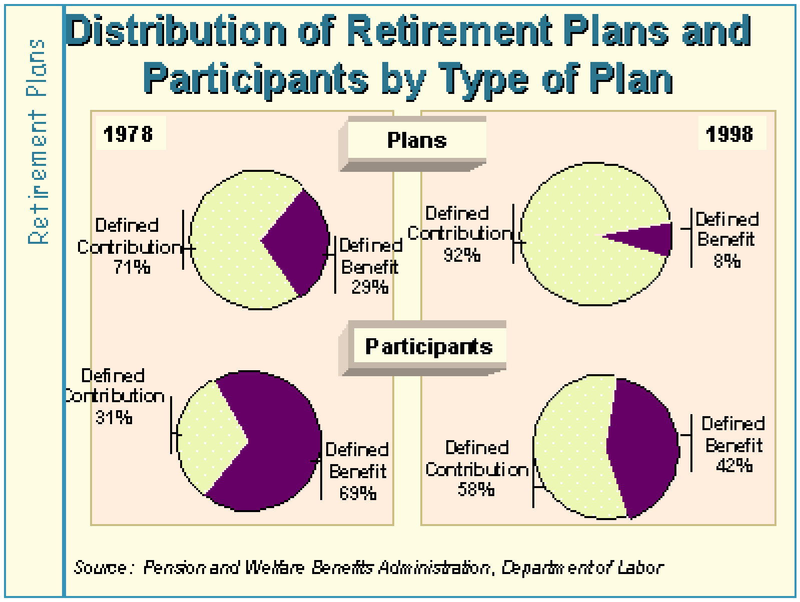
Defined Benefit	Defined Contribution
Participation usually automatic	Participation often voluntary
Fixed benefit related to pay and/or service, or flat dollar amount	Fixed or variable contribution related to pay or other variable, or flat dollar amount
Definitely determinable benefits: benefit formula stated in plan	Benefits not definitely determinable: contribution formula stated in plan but benefits dependent on performance of plan assets
Plan sponsor assumes investment risk and reward	Participant assumes investment risk and reward
Flexible funding: turnover, mortality, expected earnings, forfeitures, etc. determine employer contributions	Fully funded: contributions, forfeitures, gain/losses reflected in account balance
Typical distribution: annuity at retirement	Typical distribution: lump sum or annuity at retirement, separation, death or disability

Traditionally, employers sponsored defined benefit plans. Defined contribution plans have begun replacing and supplementing defined benefit plans at a rapid rate.

There are several important differences between these two types of plans, which I have listed here. The bottom line is that it is up to the participant in a defined contribution plan to make sure his or her retirement benefit is adequate by usually, contributing to the plan, and often, making investment decisions. In defined benefit plans, the plan sponsor funds the benefit and is responsible in making sure the promised retirement benefit will be there when the participant retires.

You can see from these two sets of pie charts, the first from 1978 and the second from 1998, how the number of defined contribution plans and participants have increased as a percentage of the total plans and participants over the last 20 years. In 1978, defined contribution plans were 71% of all retirement plans; they are now 92%.

In 1978, defined contribution plans covered 1/3 of plan participants, now they cover almost 60% of total participants.



For about ½ of all workers with retirement plans, a defined contribution plan is their only plan.

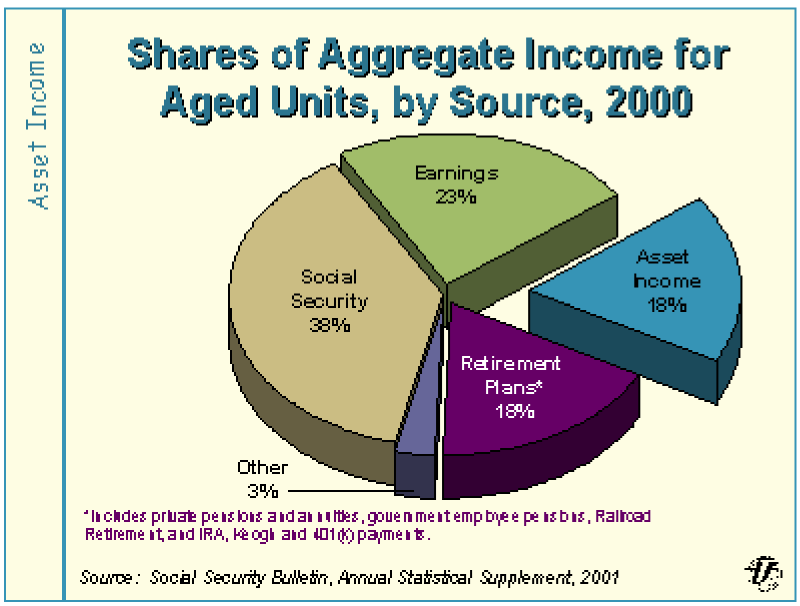
The implications of these statistics are significant: Risk and responsibility of retirement income from employment-based retirement plans has moved from employers to employees.

Personal Savings

As this chart shows, 3 out of 5 people age 65 and older have asset income but it makes up only about 1/5 of their aggregate income.

Asset income, here, includes interest, dividends, rent, royalties and income from estates or trusts.

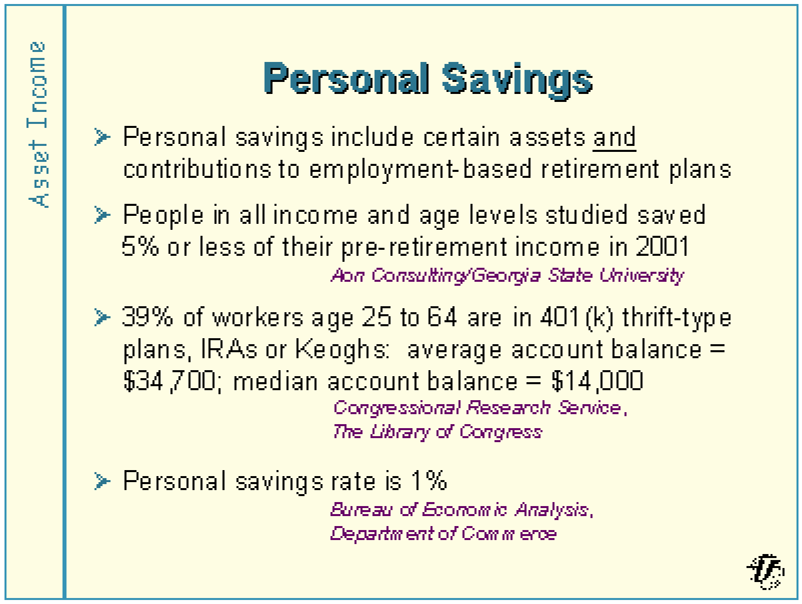
A person will be hard-pressed to reach a replacement ratio of 70 or 80% without personal savings to supplement Social Security and employment-based plans.



Personal savings include certain assets and contributions to retirement plans.

Aon Consulting found people across all incomes and age levels they studied saved 5% or less of their income.

The Congressional Research Service reports that about 40% of workers between 25 to 64 own retirement savings accounts to which they contribute, such as 401(k)s, IRAs and Keoghs, but the amount saved is quite small: the average saved by individuals was $34,000; the median was $14,000, meaning more than half had saved less than $14,000 in these accounts.



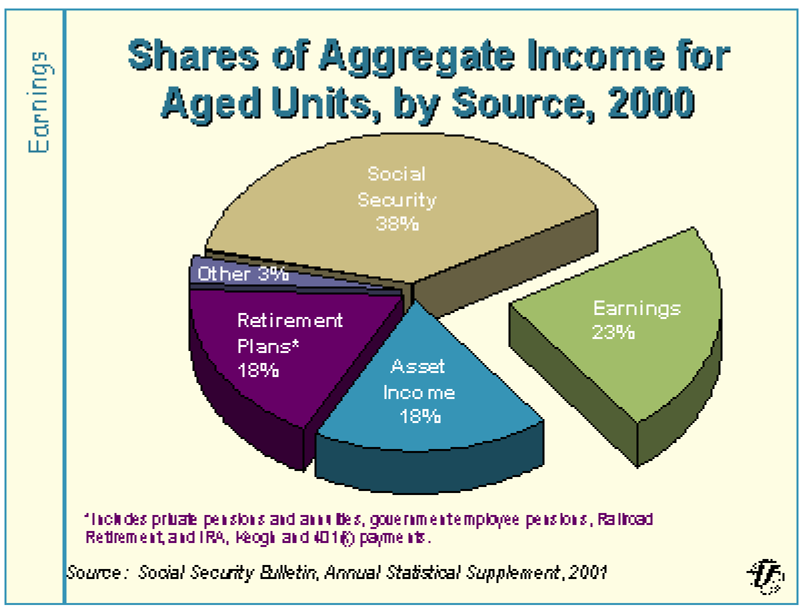
In the aggregate, Americans are saving only a penny of every after-tax dollar of disposable income.

Earnings

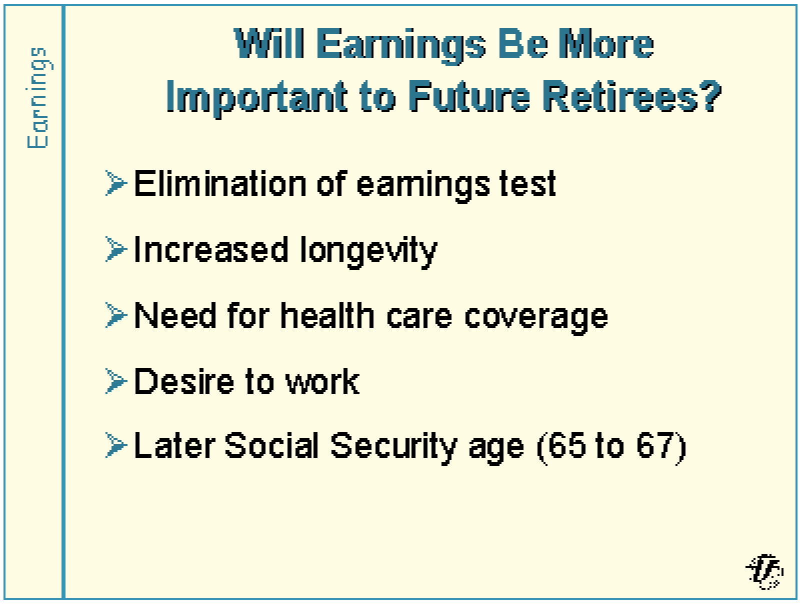
Earnings amount to about 1/5 of the aggregate income of those 65 and older.

Future retirees are more likely to work for several reasons, including the following:

The earnings test has been eliminated. When a person reaches age for full Social Security benefits, the Social Security benefits are no longer reduced for earnings. Previously, there was a $1 reduction in Social Security benefits for every $3 earned. These changes will encourage people to work after reaching their Social Security retirement age.



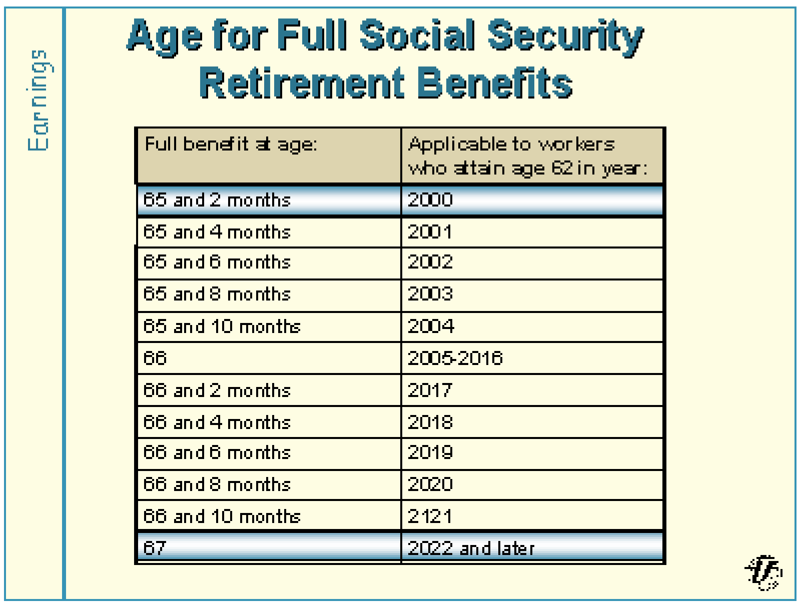
People are living longer. A woman retiring today at 65 can expect to live at least 19 more years; a man, about 16 years. If people continue to retire early and live longer, they have many more years in retirement to fund.



People are concerned about health care coverage and there has been an erosion in employment-based retiree health care coverage. People are likely to continue working to remain covered or to pay for health care coverage.

When asked in several recent surveys whether they plan to work in retirement, most people say they will. They don't plan to retire fully, but will work in some capacity.

Finally, the eligibility age for unreduced Social Security benefits has increased from 65 to 67. As you can see in this table, the Social Security age for those who turned age 62 in 2000 is 65 and 2 months. For those who turn age 62 in year 2022 and beyond, retirement age for Social Security is 67.

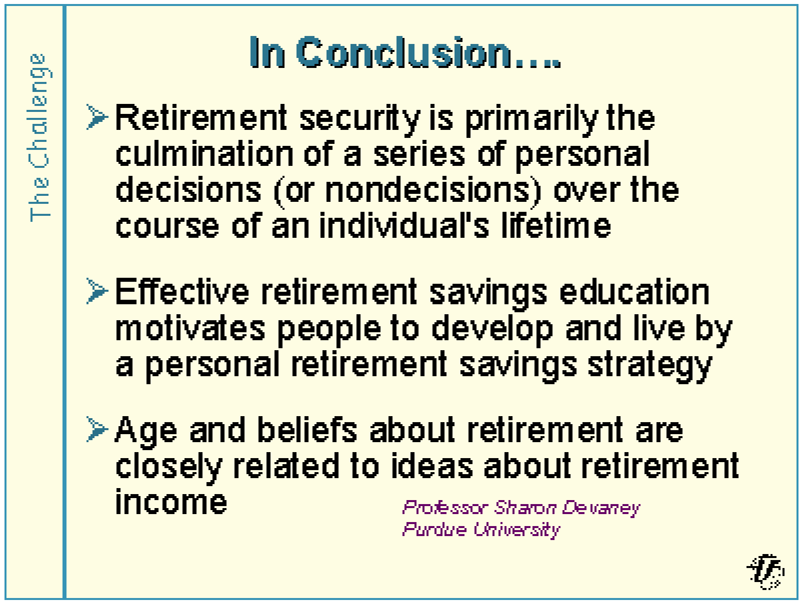


Full benefit at age:	Applicable to workers who attain age 62 in year:
65 and 2 months	2000
65 and 4 months	2001
65 and 6 months	2002
65 and 8 months	2003
65 and 10 months	2004
66	2005-2016
66 and 2 months	2017
66 and 4 months	2018
66 and 6 months	2019
66 and 8 months	2020
66 and 10 months	2121
67	2022 and later

This change is particularly important because it means not only waiting longer for unreduced benefits, but if a person retires early at age 62, his or her benefits will be reduced over a five year period rather than the previous three year period. This is equivalent to a 30% reduction versus a 20% reduction if you retire at age 62. Conversely, delayed retirement will increase benefits.

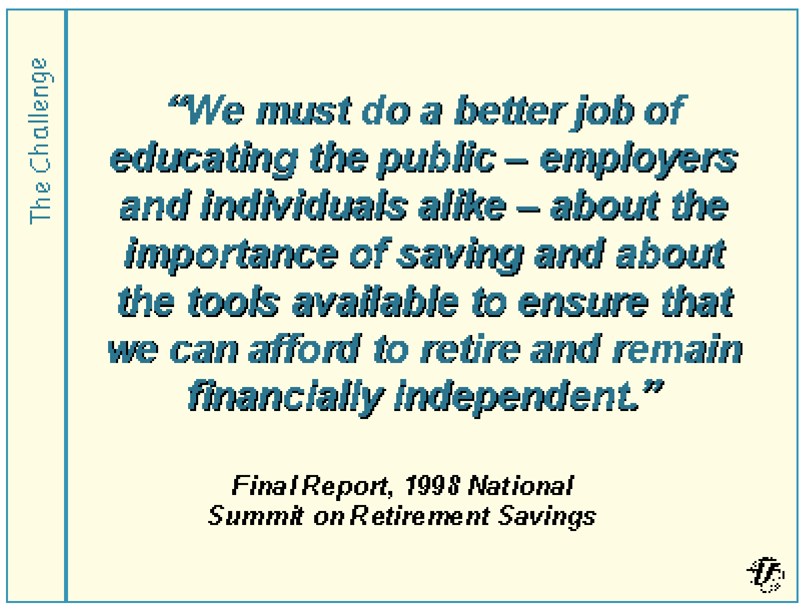
Conclusion

To conclude, although it's important to get a snapshot of what retirement income looks like in the aggregate, in the end, retirement security is primarily the culmination of a series of very personal decisions (or nondecisions) over the course of an individual's lifetime with a very personal financial impact.



The most effective retirement savings education will make it clear to people that they hold retirement security in their own hands and will motivate them to develop and live by their own personal retirement savings strategy.

We know, through research, ideas about retirement income are highly dependent on a person's age and beliefs about retirement itself. Older individuals believe Social Security and traditional employment-based plans will be important sources of income; younger people believe they will need to rely on personal savings.



It was with this generational and life stage perspective that the agenda for the 2002 Summit was framed.

Assistant Secretary of Labor Ann Combs will now introduce you to the generations and describe the expected outcomes of the Summit.