BCG Retirement News Roundup

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Boomershine Consulting Group (BCG) has launched this monthly news roundup of highlighted significant articles from the retirement industry – for clients and friends. Retirement plan news has become increasingly pertinent for many audiences these days, including:

- Retirement Plan Sponsors – addressing both private and public sector issues
- Employers – dealing with complicated decision making for their plans
- Employees – educating the Boomer generation that is nearing retirement
- Industry Practitioners - helping to understand and resolve today's significant challenges

We review numerous industry news services daily and will include a collection of timely and significant articles each month concerning compliance, actuarial plan costs (including assumption debates), plan design change issues and benefit trends, as well as other related topics.

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CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM FILES OBJECTION TO SAN BERNARDINO BANKRUPTCY

SACRAMENTO, Calif., Dec. 14 -- The California Public Employees Retirement System issued the following press release:

The California Public Employees' Retirement System (CalPERS) today filed a preliminary objection to the City of San Bernardino's eligibility for bankruptcy.

CalPERS requested that the City be given additional time to adopt a real pendency plan to solve its financial difficulties and is encouraging the court to press the City to improve its management and accounting procedures.

"San Bernardino's plan assumes that the City can stay in bankruptcy without paying its post petition obligations and complying with applicable laws, including laws pertaining to the payment of employee benefits," said Robert Glazier, Deputy Executive Officer for External Affairs.

A debtor in a bankruptcy case may suspend payments of prepetition debts, those debts that incurred before the filing of the bankruptcy petition. However, debtors are required to pay its post petition debts that incurred after filing for bankruptcy and during the pendency of the bankruptcy. Failure to pay the post petition debts is grounds for dismissal of the bankruptcy case.

The City of San Bernardino filed its petition on August 1, 2012 and has yet to pay CalPERS approximately $7 million in post-petition debts.

"The City's employees are going to work each day and making contributions to CalPERS believing they are earning pension benefits," said Glazier. "CalPERS is doing its job to protect the employees and the promises made."

CalPERS continues to pay benefits to approximately 1100 retirees in the City of San Bernardino.

CalPERS, with approximately $241 billion in assets, is the largest public pension fund in the U.S. It administers retirement benefits for more than 1.6 million active and retired California State, public school, and local public agency employees and their families on behalf of more than 3,000 public employers; and health benefits for more than 1.3 million enrollees. The average CalPERS pension benefit is $2,420 per month. The average benefit for those who retired in the fiscal year that ended June 30, 2012, is $3,025 per month. More information about CalPERS is available at www.calpers.ca.gov.

US State News
December 14, 2012 Friday 6:43 PM EST

Michigan delivers big blow to unions

Political lightning struck America's stronghold of organized labor Tuesday, when Michigan state lawmakers endorsed two bills to "liberate" workers from mandatory union membership after less than a week of debate.

But more than 12,000 placard-waving protesters who thronged the streets around the Capitol building in Lansing, Mich., said they felt anything but free. They were flanked by a phalanx of riot-geared police, who kept many out of the building, while other protesters shouted their opposition from the gallery.

"I just felt a strange sadness tinged with anger at what's happening in our state," said Dawn Kettinger of the Michigan Nurses Association. "The government decided to declare war on workers and the state itself."

The speed and success of the two bills to ban mandatory membership in public and private-sector unions shocked many in the union movement, who believed Republican Gov. Rick Snyder's earlier contention that the bills would be too socially divisive to put forward. Pre-vote polls showed public opinion split, with a slight edge in favor of the bills. Only 17.5 percent of Michigan workers belong to unions.

Snyder and top Republicans announced their plans for the bills on Thursday. The law is expected to take effect in April.

Although Snyder delivered a blow to unions - which will no longer be able to form "closed shops" in workplaces and force employees to join and pay dues - it is not yet clear if it's a knockout punch. Defenders of the legislation say it will boost the economy by creating jobs, attract new companies to Michigan and give workers more choices for employment.

It could threaten jobs in Canada, if auto companies opt to flee to lower-waged plants in Michigan. Canadian Auto Workers president Ken Lewenza, who spent the day at the protests, said that will not happen if the U.S. unions "do their work" in convincing employees that union membership is the best protection from a "race to the bottom."

"What happens in Michigan does have a trickle-down effect," he said in a phone interview. "But the (United Auto Workers) contract has two years to go. There will be no impact immediately."

Unionists were puzzled at Snyder's sudden about-face on the anti-union bills.

Some blamed it on revenge for a failed union bid to pass a constitutional amendment that would enshrine collective bargaining rights. Others saw it as a corporate sellout that follows from a too-cozy relationship between lawmakers and big business.

"(Snyder) transferred $1.8 billion to corporations for tax breaks while our schools and seniors are suffering," Kettinger said in a phone interview. "We're looking after patients who are hurting in this economy. Through their collective voice nurses are able to say, 'Our patients come first - not your profit margins.' "

In a speech in Detroit on Monday, U.S. President Barack Obama said the laws would only give workers "the right to work for less money," and that they "don't have anything to do with economics. They have everything to do with politics."

They also replicate efforts of the corporate-dominated American Legislative Exchange Council (ALEC), whose "library of bills not only includes a 'model' right-to-work bill and other measures to disempower and defund unions, but a raft of measures to crush wages for the benefit of corporate CEOs," says Mary Bottari of PR Watch.

Although the bills' effects on unions are still to be tallied, the biggest blow is to the pride of Michigan supporters who point to the state's history as the birthplace of the United Auto Workers, formed after a violent clash between Ford plant workers and security forces left five protesters dead in 1932.

"In Michigan you have unions that have demonstrably shown that members are better paid, have better benefits and a higher standard of living," said Bruce Pietrykowski, director of the Center for Labor and Community Studies at University of Michigan-Dearborn. "It's different from most other right-to-work states, which are typically places with a low rate of unionization."

Michigan is the 24th U.S. state to pass right-to-work laws.

"The question now is, how will workers react?" Pietrykowski said. "Will they opt out because they can, or remain loyal?"

With files from Star wire services

Protesters rally outside Michigan's capitol Tuesday. The new union laws deal a major blow to organized labor in the heart of the U.S. auto industry. A protester rallies in front of Michigan State Police at the George W. Romney State Building Tuesday, after lawmakers endorsed two bills aimed at eliminating workers' mandatory membership in unions. Rebecca Cook/REUTERS James Fassinger/REUTERS Paul Sancya/The Associated Press

The Toronto Star
December 12, 2012 Wednesday

Illinois Governor Seeks Fast Vote on State's Long-Troubled Pension Systems

CHICAGO — As Illinois lawmakers head back to work this week, Gov. Pat Quinn is seeking to use the practical advantages of a lame-duck legislative calendar to fix the state's pension systems — the most underfinanced in the nation — in a matter of days.

Over the years, leaders here have fretted over the shortfall even as they watched it grow and grow, now reaching, by some estimates, $96 billion. Mr. Quinn, a Democrat, has come to describe the situation as the state's "rendezvous with reality" and Illinois's own "fiscal cliff." He has tried — to somewhat mixed results and at least a degree of mocking — to stir up public concern by releasing videos, including one featuring an orange cartoon snake named Squeezy the Pension Python.

"We're trying to do fundamental pension reform that has confounded 12 governors, 13 speakers of the House and 13 Senate presidents over the last 70 years," Mr. Quinn said in a recent interview, adding that despite that troubled history, he believed that a meaningful overhaul of the state's pension systems could be passed through the current legislature in a single week — after lawmakers begin returning to Springfield on Wednesday and wrapping up before newly elected lawmakers are sworn in at noon on Jan. 9.

"We have come to the moment," Mr. Quinn said.

But whether the calls by Mr. Quinn and other leaders here — not to mention dire warnings from financial ratings agencies — will now suddenly make a difference remains uncertain.

Cartoon snakes aside, the task of shoring up the pension systems is legally and politically vexing, pitting a state legislature that is controlled by Democrats against the wishes of one of the party's staunchest support blocs, public sector unions. The showdown is certain to ignite regional tensions over the way the pensions of public schoolteachers outside of Chicago are paid for, and could run up against legal barriers with a state Constitution that limits how pensions can be changed in the first place.

Mr. Quinn urged action on an overhaul last year with little success. The sudden push now comes, in part, because of the practical advantages these few days in January offer. More than 30 departing members of the State House and Senate are seen as having little to lose in casting politically difficult votes in their final days in office, and passage now would need only simple majorities rather than larger margins needed at some other points of the legislative calendar.

Still, those same advantages are prompting advocates for a long list of often-divisive causes — same-sex marriage, driver's licenses for illegal immigrants, the expansion of gambling — to push for votes on their issues before the next legislature is sworn in.

Numerous ideas being weighed in Springfield to lower the pension shortfall would affect state workers, university employees, judges and others; such proposals include cutting cost-of-living increases in retirees' paychecks and increasing the retirement age for workers and employee contributions to their pensions. Some lawmakers have also called for pension costs for teachers outside of Chicago — traditionally financed by the state — to gradually become the responsibility of local school districts.

Labor leaders have objected to two formal proposals being considered, questioning whether they violate a provision of the state Constitution barring pensions from being diminished or impaired. "Very simply put, all of them are unconstitutional," Cinda Klickna, president of the Illinois Education Association, said of the proposals.

In recent weeks, a coalition of labor groups said that workers would be willing to increase contributions to their pensions if the state pledged to always make its pension payments, and it suggested closing corporate tax loopholes as a way to raise revenue. Some labor leaders wondered why workers should pay a penalty for the failure of state leaders to properly finance the systems for decades, and complained that in the scramble to pass a bill in a week, they were not being included in the discussions.

"There's no reason to rush into this, and on the contrary, you want to be deliberate," said Henry Bayer, executive director of the American Federation of State, County and Municipal Employees Council 31 here.

Among Mr. Quinn's explicit wishes for a pension systems overhaul is that it have bipartisan support, a notion that may reflect the only practical way such a shift in public sector workers' pensions could survive in Springfield.

"We should do it in a bipartisan manner — it really needs to get done," said Tom Cross, the Republican leader in the House. "But they can do it by themselves, you know," he said of the Democrats, who hold majorities in both chambers. "At the end of the day, they don't want to irritate the unions."

And few here seemed willing to say whether Mr. Quinn's vision of an overhaul by next week is truly realistic. "I don't think he or I would venture a guess on that," said Steve

Brown, a spokesman for Michael J. Madigan, a Democrat and the longtime speaker of the State House.

By MONICA DAVEY
Published: January 1, 2013

California's pioneering pension law

The private sector has an inadequate retirement system. It is too small and too risky. With the decline of defined benefit pensions, most private sector workers will end up with Social Security and the balances in their 401(k) plans. In 2010, according to the Federal Reserve's Survey of Consumer Finances, the median 401(k)/IRA holdings for households that had a plan and were approaching retirement (age 55-64) was $120,000. (IRA balances are included because the bulk of the assets in these accounts have been rolled over from 401(k) plans.) Moreover, at any moment in time, only 42% of private sector workers have any form of employer-sponsored retirement plan, be it defined benefit or 401(k). Some of these individuals will pick up some coverage along the way, but a full one-third of households will have nothing but Social Security.

State and local employees have nearly universal coverage under defined benefit plans, despite some recent moves to introduce a defined contribution component. Public employees recognize that their counterparts in the private sector may feel that public pension benefits are too generous relative to private sector benefits and, therefore, public pensions should be scaled back. Therefore, the future security of public sector workers hinges on private sector workers having access to a retirement system that ensures adequate retirement income. In response, the National Conference on Public Employee Retirement Systems (NCPERS), the largest trade association of public sector funds, released a proposal in 2011 to build on the public sector infrastructure to provide a plan to uncovered workers in the private sector. That proposal provided the impetus for recent California legislation.

Governor Brown recently signed legislation that creates a California Secure Choice Retirement Savings Trust, authorizes a major feasibility study, and seeks approval from federal regulators. The Department of Labor must determine that the California law is not preempted by ERISA, the federal law that sets standards for private pensions, and the Internal Revenue Service needs to rule that the contributions to the retirement plan could be made on a pre-tax basis. While the final legislation only provides for a study and requires another bill to specifically authorize such a program, it is an exciting notion that innovation may occur at the state level.

The goal of the proposal – should it pass all the hurdles and a second bill be enacted – is to create a plan for California's private sector employees who have no retirement coverage at work. Eligible employees would have 3% of pay deducted from their earnings unless they opt out. The state would collect their money and hand it over to professional investment managers selected by the state through a competitive bidding process. The managers could be either private sector firms or the California Public Employees Retirement System (CalPERS). The plan also calls for a minimum guaranteed return to be purchased in the private sector. Since private sector firms cannot guarantee more than the riskless rate without enormous expense, the guarantee would be modest. The whole program would be overseen by a seven-person board, consisting of the state treasurer, director of finance, comptroller, and four people appointed by the governor and the legislature.

Although opponents have tried to link the proposed plan to public pensions – which face serious financial challenges, especially in California – it is essentially an automatic IRA that would not cost the state a dime.

The California proposal is important for two reasons. First, it draws attention to the fact that the majority of private sector workers are not covered by any type of employer-sponsored plan and takes the first step to solve the problem. Second, if finally enacted, it would be very efficient in that it uses automatic enrollment to maximize participation and professionally-managed pooled investments to minimize administrative costs and the risk of making investing mistakes.

It is an exciting initiative. If it works, more states may take on the retirement crisis.

November 20, 2012, 5:35 PM
By Alicia Munnell

Private Sector

Social Security Update for 2013

It has been my custom for most of the past 15 years to write a year-end column that summarizes the Social Security changes and updates scheduled to take place the following year.

Almost all Social Security beneficiaries are familiar with the most popular and publicized upcoming change: the increase in monthly benefit checks for 2013 due to the automated cost-of-living adjustment, or COLA. In fact, Social Security recipients have probably already received a notice from the Social Security Administration telling them of the expected increase.

All Social Security checks are going up 1.7 percent in 2013. The COLA is based on something called the Consumer Price Index for Urban Wage Earners and Clerical Workers. This is the official measuring stick SSA has used to determine COLAs for the past 40 years. If you want to learn more about this measure, check out the website of the folks who maintain it: the Bureau of Labor Statistics. You'll find them at www.bls.gov. I always dread mentioning COLAs in this column because every single time I do, I am flooded with emails from readers complaining that the increase is not enough. (Curiously, not once in 15 years has anyone ever written to me to say that their COLA increase was too high!)

Yet here's the rub: many economists and social planners believe Social Security COLAs are too generous! (I've explained why in past columns, but don't have the space to get into that argument today.) That's why most discussions of long range reforms for Social Security include proposals to reduce cost of living increases.

Due to these increases, the average monthly retirement check will be $1,261 in 2013, a $21 increase from the 2012 level. The maximum Social Security check for a worker retiring at age 66 next year will be $2,533, compared to $2,513 in 2012. And please note that is the maximum for someone turning 66 next year. That does not mean it is the maximum Social Security payment anyone can receive. There are millions of Social Security beneficiaries who get much more than that, primarily because they work well past age 66.

Another measuring stick, called the national wage index, is used to set increases to other provisions of the law that impact Social Security beneficiaries and taxpayers. Specifically, this includes increases in the amount of wages or self-employment income subject to Social Security tax; the amount of income needed to earn a "quarter of coverage;" and the Social Security earnings penalty limits.

The Social Security taxable earnings base will go up from $110,100 this year to $113,700 in 2013. In other words, anyone who earns more than $113,700 next year will no longer have Social Security payroll taxes deducted from their paychecks once they hit that threshold. This has always been a very controversial provision of the law. (Donald Trump pays the same amount of Social Security tax as his plumber.) I will bet a year's worth of my pension checks that any Social Security reform package will include a big increase in that wage base. I don't think it will be eliminated. But it will increase rather sharply.

Most people need 40 Social Security work credits (sometimes called "quarters of coverage") to be eligible for monthly benefit checks from the system. In 2012, people who were working earned one credit for each $1,130 in Social Security taxable income. But no one earns more than four credits per year. In other words, once you made $4,520, your Social Security record has been credited with the maximum four credits or quarters of coverage. Next year, the one credit limit goes up to $1,160, meaning you will have to earn $4,640 in 2013 before you get the maximum four credits assigned to your Social Security account.

People under age 66 who get Social Security retirement or survivor's benefits but who are still working, are subject to limits in the amount of money they can earn and still receive all their Social Security checks. That limit was $14,640 this year and will be $15,120 in 2013. For every two dollars a person earns over those limits, one dollar is withheld from their monthly benefits.

There is a higher earnings threshold in the year a person turns 66 that applies from the beginning of the year until the month the person turns 66. (The income penalty goes away once a person reaches that "full retirement age.") That threshold goes up from $38,880 in 2012 to $40,080 next year.

A couple other Social Security provisions are also impacted by inflationary increases. For example, people getting disability benefits who try to work can generally continue getting those benefits as long as they are not working at a "substantial" level. In 2012, the law defined substantial work as any job paying $1,010 or more per month. Next year, that substantial earnings level increases to $1,040 monthly.

Finally, the Supplemental Security Income basic federal payment level for one person goes up from $698 this year to $710 in 2013. SSI is a federal welfare program administered by SSA, but it is NOT a Social Security benefit.

If you have a Social Security question, Tom Margenau has the answer. Contact him at thomas.margenau@comcast.net To find out more about Tom Margenau and to read past columns and see features from other Creators Syndicate writers and cartoonists, visit the Creators Syndicate website at www.creators.com.

PBGC Announces 2013 Premium Payment Instructions Update

Pension Benefit Guaranty Corporation (PBGC) announced an update to the 2013 premium payment instructions. The instructions (including illustrative forms) for both the estimated flat-rate filings and comprehensive filings for plan year 2013 are posted to the Premium Payment Instructions and Addresses web page. They expect that My Plan Administration Account (My PAA) will be ready to handle the 2013 online premium filings by early January 2013.

United States: IRS Extends Deadline For Defined Benefit Plans To Adopt Code Section 436 Amendments

Kary Crassweller, Stephen Pavlick, PC and Susan Peters Schaefer

The Internal Revenue Service (IRS) issued Notice 2012-70, extending the deadline for plan sponsors of defined benefit plans to adopt amendments to comply with Section 436 of the Internal Revenue Code (the Code), which generally imposes plan benefit payment and amendment restrictions if a defined benefit plan's funding dips below specified levels.

Background

Code Section 436 sets forth a series of limitations on the accrual and payment of benefits under an underfunded defined benefit plan (see " New Notice Requirements Effective November 1, 2012 for Single Employer Pension Plans with Funding-Related Restrictions" for more information). Under previous IRS guidance, (see " IRS Extends Year-End Deadline for Pension Plan Amendments Under Code Section 436" for more information), the deadline for adopting the Code Section 436 amendment to reflect such funding-based restrictions was generally the last day of the plan year beginning on or after January 1, 2012 (e.g., December 31, 2012, for calendar year plans).

New Deadlines

On November 21, the IRS extended the deadline for adopting the required Section 436 amendment to the latest of the following:

The last day of the plan year beginning on or after January 1, 2013 (e.g., December 31, 2013, for calendar year plans)The last day of the plan year for which Code Section 436 is first effective for the plan The due date (including extensions) of the employer's tax return for the tax year that contains the first day of the plan year for which Code Section 436 is first effective for the plan

However, plan sponsors submitting determination letter applications on or after February 1, 2013, for individually designed plans must adopt the Code Section 436 amendment prior to submitting the application. Determination letter applications that are filed prior to February 1, 2013 (Cycle B plans), do not need to include provisions complying with Code Section 436.

Notice 2012-70 also extends the relief period under the anti-cutback requirements of Code Section 411(d)(6), which generally provide that a tax-qualified defined benefit plan may not be amended to reduce or eliminate a participant's accrued benefit.

Defined benefit plan sponsors should review the new guidance to determine the proper deadline for Code Section 436 amendments for their plans. For more information on this guidance, please contact your regular McDermott attorney or one of the listed authors.

The content of this article is intended to provide a general guide to the subject matter. Specialist advice should be sought about your specific circumstances.

SAVVY SENIOR;
Losing track of a pension is quite common

Dear Savvy Senior,

How does one go about tracking down a lost pension? About 35 years ago, I worked at a manufacturing company for a few years that offered employee pensions, and I want to find out if I'm eligible for any money now that I'm about to retire. - Searching Steven

Dear Steven,

Losing track of a small pension from years ago is actually quite common, especially if you've had a lot of jobs throughout your working life. To help you locate a lost pension, here are the steps to take along with some free resources that can help you search if your previous employer has gone out of business, changed names or merged with another firm.

Pension proof

If you think you have a pension from a previous employer, and the company is still in business, your first step is to call their human resources department and ask them to give you the contact information of the pension plan administrator. Then you'll need to contact them to find out how much your pension is worth and how to claim it.

Depending on how complete the plan administrator's records are, you may need to show proof that you once worked for the company and that you are pension eligible.

Your old income tax returns and W-2 forms from the years you worked at the company will help you here. If you haven't saved your old tax returns from these years, you can get a copy of your earnings record from the Social Security Administration, which will show how much you were paid each calendar year by each employer.

Call 800-772-1213 and ask them to mail you the Request for Social Security Earnings Information form SSA-7050, or you can download it at www.ssa.gov/online/ssa-7050.pdf. You'll pay a small fee for the report, depending on the number of years of data you request.

Some other old forms that can help you prove eligibility are your Summary Plan Descriptions (SPD) that you should have received from your employer when you worked there, or any individual benefit statements.

Check the PBGC

If you can't find your former employer because it went out of business, or, if the company ended its pension plan, you need to check the Pension Benefit Guaranty Corp.'s (PBGC) online pension search directory at search.pbgc.gov/mp/mp.aspx. Or, you can call 800-400-7242 and get help over the phone.

The PBGC is a federal agency that guarantees pensions of bankrupt companies. The agency also maintains information on any pension plan that has been terminated, even if the company is still in business.

The PBGC, however, does not cover or have information on lost pensions that are still active, nor will they help you locate lost 401(k) plans.

Get help

The best resource to help you track down a lost active pension from a company that has moved or merged with another firm is the U.S. Administration on Aging Pension

Counseling and Information Program. This free program encompasses seven pension assistance programs around the country that serve workers in 30 states. To get the contact information of these counseling programs and the states they serve, visit the Pension Rights Center website at pensionrights.org.

If your pension happens to be outside the area served by the pension counseling centers, or if you're trying to locate a federal or military pension, use Pension Help America at pensionhelp.org. This resource can connect you with government agencies and private organizations that provide free information and assistance to help your search.

For more information, the PBGC has a free publication called "Finding a Lost Pension" that provides in-depth information that can aid in your search. Go online at pbgc.gov or call 800-400-7242 and ask them to mail you a copy.

Send your senior questions to: Savvy Senior, P.O. Box 5443, Norman, OK 73070, or visit SavvySenior.org.

Jim Miller is a contributor to the NBC Today show and author of "The Savvy Senior" book.

Charleston Gazette (West Virginia)
December 10, 2012, Monday

ICI Analysis of U.S. Retirement System: It Is Working and Serving Each Generation Better Than Previous

The Investment Company Institute issued the following news release:

An ICI examination of research and data on the U.S. retirement system finds that it has successfully provided adequate retirement resources to Americans and that successive generations of retirees have been better off than previous generations.

Specifically, the new analysis, "The Success of the U.S. Retirement System, (http://www.ici.org/pdf/ppr_12_success_retirement.pdf)" looks at the U.S. retirement system broadly and finds that most households maintain their standard of living when they retire. In addition, analysis shows that, on average, more recent retirees have higher levels of resources to draw on in retirement than previous generations and that the U.S. retirement system has become better at providing resources. For example:

Adjusted for inflation and the number of U.S. households, assets earmarked for retirement were nearly three times larger in mid-2012 than in 1985.

Poverty among people aged 65 or older has fallen from nearly 30 percent in the mid-1960s to 9 percent in 2011.

"This study examines the empirical evidence and finds that, contrary to what we too often hear, the U.S. retirement system has successfully provided generations of Americans the resources they need in retirement," said ICI President and CEO Paul Schott Stevens. "The future presents us with many challenges, such as an underfunded Social Security system and rising health care costs. As policymakers respond to these challenges, it is critical that they have research like this that analyzes the entire system. ICI believes we must preserve the best attributes of the system, including tax deferral and portability, and build on the system's success by strengthening Social Security for the long term, expanding coverage, and continuing to allow innovation in plan design."

It's a Retirement Pyramid (Not a Three-Legged Stool)

ICI economists suggest that, rather than the traditional three-legged stool analogy, retirement resources are better thought of as a pyramid with five basic components: Social Security, homeownership, employer-sponsored retirement plans (defined benefit [DB] and defined contribution [DC]), individual retirement accounts (IRAs), and other personal savings. The composition of the retirement resource pyramid varies from one household to another. The way in which resources vary by household wealth is as illustrated in the chart below.

Estimates of the Components of the Retirement Resource Pyramid for Households Approaching Retirement

Percentage of augmented wealth by augmented wealth quintile in 2006 for households with at least one member born between 1948 and 1953

For more details click here:
(http://www.ici.org/pressroom/news/12_news_success_rtrmt_sys)

* Approximate average level of augmented wealth in 2006 for augmented wealth quintile, which includes estimates of Social Security and DB benefits as assets.

Note: See Figure 16 in The Success of the U.S. Retirement System for definitions of the components. Percentage of augmented wealth in each category is represented by the height of the category rather than by the area of the category. Components may not add to 100 percent because of rounding.

Source: Investment Company Institute tabulation derived from Gustman, Steinmeier, and Tabatabai 2009 using Health and Retirement Study (HRS) data

"The pyramid is a better way to think about retirement resources because households do not need to rely on each part of the retirement pyramid equally to maintain their standard of living in retirement," said Peter Brady, ICI Senior Economist. "The composition of the retirement resource pyramid varies to reflect the resources available to an individual household. Social Security provides resources to nearly all retirees, but provides a higher replacement rate to retirees with low lifetime earnings. Because Social Security benefits typically replace a smaller share of earnings for higher-income households, these households rely more on other retirement resources, such as employer-provided retirement benefits and IRAs."

Households Save for Different Reasons at Different Times

This paper also illustrates that households save for a variety of reasons throughout their lives. Households' focus on savings change as they age, with the emphasis shifting to retirement over time. For example:

In 2010, only 14 percent of households younger than 35 reported that retirement was their primary savings goal, compared with nearly half of households aged 50 to 64.

Younger households typically are focused on other goals: 32 percent of households younger than 35 reported that saving for education, homes, or other large purchases was their primary saving goal.

"While households save for multiple goals, this report makes clear that the focus on retirement saving changes over the life cycle. Younger and lower-income households tend to be more focused on saving for other goals than retirement," said ICI Senior Director of Retirement and Investor Research, Sarah Holden. "Building the retirement resource pyramid is a career-long endeavor that starts with the foundation of Social Security earned through working. Younger households then may focus on saving for homes, which will provide shelter during their working careers and in retirement. Then, retirement saving through employer-sponsored plans or IRAs typically takes center stage. In fact, in 2010, eight in 10 near-retiree households had employer-sponsored retirement benefits, IRAs, or both."

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December 6, 2012