

## GAO/CBO Weigh In: State of Retirement in America

Two reports recently released by the Government Accounting Office and Congressional Budget Office reflect the current state of the nation’s retirement system and explore how adequate retirement income is measured. In tandem, the reports offer insight for employers and policy makers looking to achieve a sustainable retirement system and adequate retirement income for the U.S. workforce.

### Background

The U.S. Government Accountability Office’s (GAO) special report, “The Nation’s Retirement System,” calls upon Congress to establish an independent commission to perform a comprehensive evaluation of the nation’s retirement system, and makes recommendations so that policy goals can be clarified to make improvements in how retirement security is promoted at the national level. A second report, “Measuring the Adequacy of Retirement Income: A Primer,” released by the Congressional Budget Office (CBO), provides an in-depth examination of what constitutes adequate retirement income, what measurements are used to determine income adequacy, and what the measures reveal about retirement income savings in general. Both reports establish a framework for employers and policy makers to use as they consider how to best promote the kind of financial wellness that will ensure workers can live in comfort throughout their retirement years.

### The GAO Study

According to the GAO, the traditional three pillars that make up retirement savings – Social Security income, employer pensions, and individual savings – are no longer reliable savings vehicles. This is attributed to fiscal risks associated with predictions that federal program assets critical to retirement savings will eventually be depleted. These programs include the Multiemployer Insurance Program trust fund, the Social Security Disability Insurance trust fund, the Social Security Old Age and Survivors Insurance (OASI) trust fund and the Medicare Hospital Insurance (HI) trust fund. Additionally, the changing retirement landscape over the past 40 years – as more employers shift from defined benefit plans

#### GAO Predictions for Depletion of Federal Program Trust Funds

- 2025:** Multiemployer Insurance Program fund depleted
- 2028:** Social Security Disability Insurance fund depleted
- 2029:** Medicare Hospital Insurance fund depleted
- 2035:** Social Security Old-Age and Survivors Insurance fund depleted

to defined contribution plans – is creating added risk for individuals faced with planning and managing their own retirement savings. Lack of access to an employer-sponsored plan and complex plan structures and policies pose an obstacle to sufficient savings accumulation. These risks, along with societal and economic trends such as increasing health care costs, rising debt, and stagnated wages, also affect the ability to save.

The GAO's recommendation that Congress establish an independent commission to evaluate the U.S. retirement system is based on both an in-depth analysis of retirement trends and advice garnered from a panel of 15 retirement experts, who added their vision in developing the following key policy goals for re-evaluating how retirement is financed at the national level:

- Promote universal access to a retirement savings vehicle
- Ensure greater retirement income adequacy
- Improve options for the spend-down phase of retirement plans
- Reduce complexity and risk for both plan participants and sponsors
- Stabilize fiscal exposure to the federal government

The report also makes a convincing case that a comprehensive examination of the U.S. retirement system is a matter for congressional consideration. Given the complexity of the system and the past piecemeal approaches to address retirement security challenges, the GAO concludes that Congress – along with an independent commission made up of members from government agencies, employers, the financial services industry, unions, advocacy groups, and researchers – can help policy makers make informed decisions about how to shape a secure and stable retirement system for the nation.

## **CBO's Primer**

Growing concern over an aging population, with the number of those age 65 and older expected to increase from 15% to 22% over the next 30 years, prompted the Senate Budget Committee chairman to ask the CBO to conduct an in-depth analysis on how retirement income is measured. The resulting primer provides a thorough explanation of definitions, measures, and revelations about the current state of U.S. workers' retirement savings. The information is insightful and reflects the complexities involved in forecasting the amount of retirement savings needed to last throughout a retiree's lifetime.

Two different definitions of income are used by researchers in evaluating adequate retirement savings, and the conclusions reached hinge on the definition selected. One definition is centered on retirement income that satisfies basic needs; the other addresses income that allows retirees to enjoy the same standard of living experienced during their working years.

The measures most commonly used to determine adequate retirement income are: single-year measurement, target replacement rate, and multiyear analysis. Each measure has advantages and disadvantages in forecasting accurate savings outcomes.

According to the report, outcomes will vary according to the definition used, the measure selected, and the threshold amounts factored into the analysis. Most studies have found that although less than one-tenth of retirees will be unable to meet basic needs, with income below the poverty level, a large percentage of the retiree population will still fall short of being able to maintain their preretirement standard of living. The CBO also noted that recent literature focusing on the ability of retirees to maintain a preretirement standard of living found a wide range of conclusions, but that overall one-third to two-thirds of workers are at risk of having inadequate retirement income.

The primer includes extensive details, figures, and examples of how the measures are applied, citing numerous reliable reports that address this topic.

## In Closing

These complimentary reports will appeal to employers seeking to attract and retain employees by offering well-designed retirement plans and achievable savings goals for their current and future workforce. By gaining an understanding of the inherent challenges facing today's American retirement system and the potential policy solutions at the national level, as well as an increased familiarity with the factors involved in determining adequate retirement income, employers can help better position themselves to make beneficial decisions regarding their retirement plan offerings.

## Measurements Commonly Used to Evaluate Retirement Income Adequacy:

### *Single-Year Measurement*

- Evaluates retirement for a single year based on either of the two definitions of adequacy
- Includes official federal poverty thresholds (compiled by U.S. Census Bureau)
- Uses supplemental poverty thresholds (compiled by the U.S. Census Bureau)
- Uses elderly specific thresholds (retirees' living expenses)

### *Target Replacement Rate*

- Most widely used measure
- Common rule of thumb – replacing at least 70% of gross preretirement income is enough to maintain a retirees' standard of living
- A range of target rates with variables for individual characteristics (i.e., marital status, homeownership, etc.) have been developed by researchers

***Multiyear Analysis*** – Incorporates health care expenses into calculations

- Limited multiyear analysis – Applies basic needs thresholds or target replacement rates for several different years of retirement to determine changes over discrete points in time
- Comprehensive simulation – Evaluates income adequacy in every year of retirement until end of life. This method requires complex projections and more detailed data

**Authors**

Teresa Wilkins, MS (LIS)

Julie Masal, JD, MA

**Produced by the Knowledge Resource Center of Conduent Human Resource Services**

The Knowledge Resource Center is responsible for national multi-practice compliance consulting, analysis and publications, government relations, research, surveys, training, and knowledge management. For more information, please contact your account executive or email [fyi@conduent.com](mailto:fyi@conduent.com).

You are welcome to distribute *FYI*® publications in their entirety. To manage your subscriptions, or to sign up to receive our mailings, visit our [Subscription Center](#).

This publication is for information only and does not constitute legal advice; consult with legal, tax and other advisors before applying this information to your specific situation.