Director's Corner  John P. Laitner

The August Retirement Research Consortium conference at the National Press Club was stimulating and well-attended. The panel topics on disability insurance, health care costs, and consequences of the current recession were timely.

Two important goals of the RRC are to foster communication between research scholars and the policymaking community, and to attract new scholars to the study of the Social Security system and the well-being of retired citizens more generally. The conference illustrated RRC efforts in both dimensions: it enlisted the participation of distinguished practitioners as discussants, and the presenters discussed their findings and fielded questions from the audience. Also, the RRC invited junior researchers from the Sandell scholars program to present their work.

SSA Deputy Commissioner David Rust’s opening remarks emphasized the role of communication, as did Mark Iwry’s lunchtime address. Applications of behavioral economics have been an important RRC topic. The private pension system in the US has been changing from defined benefit to defined contribution plans. The latter can offer workers a larger menu of choices and provide greater portability; however, they also generally burden employees with more decision making. One class of findings from behavioral research emphasizes the importance of the way pension options are presented. Workers may interpret default options, for example, as recommendations. Mark Iwry discussed the practical importance of default options, and he noted the role that research has played in informing recent default designs.

In times of change, investments in research can yield especially valuable returns. I look forward to continued participation in the RRC in the coming year.

2011 RRC Conference: Innovations in Retirement Security

The 13th annual Retirement Research Consortium (RRC) conference, *Innovations in Retirement Security*, was held on August 4-5, 2010, at the National Press Club in Washington, DC. Researchers presented papers from projects funded by the Social Security Administration on the financial crisis; demographic shifts and retirement income; older workers; Social Security and redistribution; health costs; and the Disability Insurance program.

In his opening remarks, Deputy Commissioner of Social Security David Rust applauded the RRC’s contributions. “The RRC has generated numerous research products that have informed Social Security’s policies and broadened our understanding of how our programs affect the lives of retirees, workers, individuals with disability, and children.”

He underscored the importance of researchers’ efforts to relate their findings to Social Security policy, saying, “I would like to urge you – even push you – to connect the dots for us. I would ask you to explain in non-technical language what your research findings may mean to Social Security’s programs.” David Rust also noted the helpfulness of the quarterly research seminars provided by researchers for SSA staff.

See “RRC Conference” p. 2
Private Retirement Savings

Deputy Assistant Treasury Secretary for Retirement and Health Policy J. Mark Iwry opened his talk by acknowledging the contributions of RRC research over the years, saying it has “added great value to the thinking about policy in this area.”

He went on to address innovations in retirement saving in recent decades. The private pension system, he noted “supplements the fundamental bedrock protection that the Social Security system provides to the American workforce.” Iwry spoke about the increased 401k enrollment rates resulting from automatic enrollment and promoted proposed legislation to automate employee IRA contributions through payroll deductions. “Our private pensions system right now is in a state that one might fairly characterize as glass half-full, glass half-empty,” said Iwry. The glass is half-full in that “65 or more million American workers are covered by private pension and retirement programs. Millions of middle income and lower income families have been receiving benefits for decades now from defined-benefit pensions, from defined-contribution, 401k, and other plans.” In addition, “IRAs have supplemented the retirement saving opportunity on a tax-favored basis for folks that don’t have an employer plan available to them.”

According to Iwry, the United States Federal Reserve estimates that for the first quarter of 2011 there are “11 trillion dollars in the combination of defined-benefit, defined-contribution, and IRA programs.” About 2.3 trillion of these investments are in defined-benefit pensions, 4 trillion in 401k and defined-contribution plans, and 4.7 trillion in IRAs. “The glass is half-empty in the sense that the employer-sponsored system covers about half the workforce,” said Iwry. Those who do not benefit from the employer-sponsored system “are disproportionately minorities, lower-income people, and women who are not in the workforce steadily for 40 years on end.”

The takeup rate for Individual Retirement Accounts (IRAs) is currently only about 1 in 10. Iwry noted that Congress passed a saver’s tax credit in 2001 to reward low earners for saving. This was meant to increase tax incentives for those in the lowest tax brackets to save as they typically have little to no tax incentives to do so, compared to those in higher tax brackets who enjoy greater tax incentives.

Lack of initiative is another reason, said Iwry, for low participation in retirement savings opportunities. “The choices, as behavioral economics has demonstrated, can be daunting; they can keep people in a state of inertia where they don’t make decisions. Somewhere between 2/3 and 3/4 of those who are eligible to contribute to 401k plans do, and the rest do not. Some are thus leaving money on the table and not getting the employer contribution,” he said.

A key innovation in recent years has been automatic 401k enrollment. Larger plans are increasingly adopting automatic election for their employees, who are allowed to opt out. As a result, the takeup rate in these plans “has dramatically increased to 90-95% of eligible employees.” Iwry noted the role of economic research, including research conducted through the RRC, in identifying the importance of defaults that enter workers into retirement plans, as opposed to assuming they do not want to enroll unless they do so by active choice.

Current legislation before the House and Senate proposes extending auto enrollment to IRAs through employer payroll deductions. Iwry explained that employers would be given a tax credit to defray any administrative costs of payroll deduction.

In closing, he noted that financial education would be even more crucial with the proliferation of automatic features. He welcomed input on efforts to promote retirement security for all Americans.

Solvency of the Social Security and Medicare Trust Funds

The keynote speakers on the second day of the RRC conference addressed the 2011 Social Security Trust Fund Report. Public trustee Charles Blahous warned that the financial viability of Social Security presented challenges and urged that action be taken sooner rather than later to address solvency issues.
Blahous singled out a graph on page 10 of the report (see Figure II.D.2. of the report, included here) that expresses the Trustees’ projections most succinctly: OASDI Income, Cost, and Expenditures as Percentages of Taxable Payroll. The graph shows that Social Security expenditures are projected to rise considerably over the next 25 years as the Baby Boomers leave the workforce and become beneficiaries. In 2036, the report projects that trust funds will be exhausted and revenues will only be sufficient to cover 77% of scheduled benefits, with the percentage declining in subsequent years.

As of 2011, noted Blahous, “the 75 year actuarial imbalance is 2.2% of taxable payroll.” Tasked with running budget scenarios with different assumptions, the trustees also describe the worst case scenario. If decision makers waited until 2036 to correct the trust fund shortfall, “we would face terrible choices,” cautioned Blahous. “You’d have to reduce benefits across the board by 23%, including people already in retirement as well as those coming onto the rolls, or you’d have to include a payroll tax hike up to 16.4%.” Hence, it is essential to take action now so that drastic measures are not needed in the future, he said.

Robert Reischauer noted that public trustees were supposed to ensure the integrity and objectivity of the Trustees’ Report. He suggested that perhaps the report should include “short summary explanations of the changes that take place from year to year in the metrics” to make it more understandable to the media, who interpret it for the general public. The 2011 report revised the projected Medicare trust fund exhaustion date from 2029 to 2024. Reischauer attributed most of the change to the weaker economy in 2010.

Projecting the actuarial balance in the Medicare trust fund is particularly problematic, he said, because of the challenges inherent in containing medical costs and because Medicare projections are based on current law. Yet, 75 years into the future the laws and adherence to the laws will have changed. “The obvious example is the SGR, the sustainable growth rate mechanism, under which physician fees will be reduced by 29.4% in January of 2010 and then held down to a moderate rate of growth for the next 75 years. For the last 9 years, these cuts have been part of the law, but Congress and the President have waived the discipline of the SGR, and it’s almost certain that that will happen again.”

![Figure II.D2.—OASDI Income, Cost, and Expenditures as Percentages of Taxable Payroll](http://www.ssa.gov/oact/tr/2011/index.html)

**MRRC Researchers in the News**


**MRRC Researchers in Publication**


**Key Findings: 2011 MRRC Papers**

**The Effects of Changes in Women’s Labor Market Attachment on Redistribution Under the Social Security Benefit Formula**  
*by Alan L. Gustman, Thomas L. Steinmeier and Nahid Tabatabai (WP 2011-248)*

- Despite the highly progressive Social Security benefit formula and the rapid growth of women’s earnings over the preceding decade, as of 2004 there is less redistribution of benefits from high to low earning households than from high- to low-earning individuals.
- Among the reasons for this finding:  
  - Women in high income households continue to earn less than their husbands, thereby enjoying redistribution from the benefit formula as low earners.
  - Spouse and survivor benefits accrue disproportionately to households with one high earner.
- Nevertheless, with the closing of the gap in earnings between men and women, in 2004 there was greater redistribution of Social Security benefits from high- to low-earning households than there was in 1992.