# RETIREMENT SECURITY

## AARP ISSUE BRIEF

### BACKGROUND

Lifetime retirement security is a top concern for AARP members. Recent deep losses in market value have raised fundamental questions about the security of individual retirement savings. At the same time, the crisis on Wall Street dramatically underscores how devastating it would have been to have private accounts in Social Security, and how critical it is to strengthen Social Security so that it can continue to provide a retirement income foundation for everyone, as it has done so successfully for the past 75 years.

Social Security is not designed to be the sole source of income in retirement. Planners say that retirees need a minimum of about 70 percent of the income they had when they were working in order to maintain their standard of living. The average worker will receive about 41 percent of that from Social Security (falling to 36 percent due to scheduled retirement age increases). For the remaining retirement income needs, individuals have to rely on employer-sponsored pensions or personal savings—and millions will fall short.

Over the past year, workers at or near retirement age have lost a large portion of their anticipated income. While it is difficult to accurately assess the decline, estimates suggest that losses in private retirement accounts over the past year may have reached $2.3 trillion, or 27 percent. Employer-sponsored pensions have also suffered great losses.

Older individuals have disproportionately suffered these losses. At the end of September 2008, households age 50 and older held 71.5 percent of all retirement account assets. Many retirees and those near retirement will not have time to wait for the market to recover and will have no choice but to reduce their standards of living.

### LEGISLATIVE AND REGULATORY ACTION

AARP urges that measures be taken to protect people who have diligently saved for their retirement, better balance the risks of our existing defined contribution system, encourage greater savings for those who have limited opportunities to do so, and shore up the funding of our pension system.

To protect those who have suffered large retirement savings losses, we urge that older individuals be provided some relief from the minimum required distribution rules. Under current law, individuals must begin to withdraw certain minimum amounts every year from their IRAs and 401(k) accounts when they reach age 70 ½, based on the fair market value of the account on the last day of the previous year. Failure to take a required distribution by year end results in a tax penalty equal to 50 percent of the amount of the distribution. Because many retirement account holders have experienced massive losses over the past year, it is reasonable to allow individuals a temporary waiver from these required distributions, in order to ensure that no one is unfairly forced to realize large distributions that are grossly disproportionate to current account values.

To reduce the risks associated with private savings and investments—risks that have been increased exponentially—we urge greater regulation of the financial markets; more transparency with respect to the products, fees, and services financial institutions offer; and significantly increased investor protections for individual investors. For example, AARP has supported legislation (S. 2473, H.R. 3765, H.R. 3185) that would provide transparency with respect to fees and expenses charged in defined contribution plans. We also have strongly opposed recently developed Department of Labor regulations relating to investment advice provided to participants in certain retirement savings plans, including 401(k) plans, because of inadequate restrictions on the provision of conflicted investment advice. We urge that these regulations not be finalized or implemented. These and other robust measures will be required in order to restore some balance to the risks individuals assume when they save and invest for their retirement.

To encourage greater savings for those who have limited opportunities to save today, we urge an expansion of the Saver's Credit and the enactment of an automated workplace savings plan for the 75 million workers who have no access to employer-provided retirement plans now. These workers need a retirement vehicle that is simple to use and to administer so that their employers—who are disproportionately small businesses with more limited capacity for administrative and fiduciary responsibilities—can easily make it available.

In the 110th Congress, AARP endorsed the Automatic IRA Act (S. 1141/H.R. 2167), which requires qualified employers who do not currently offer the benefit of retirement plans to allow employees to make automatic deposits in a retirement account through the employer's payroll processing. The legislation does not require small employers to match contributions, and employers are not liable for investment performance. Workers can opt out of saving but are automatically enrolled in a plan in order to encourage greater participation. Recognizing that limited income is a primary constraint in saving for retirement or any other goal, AARP also supports a robust expansion of the existing Saver's Credit, so that it can assist more individuals, especially those with more modest income who currently receive little if any benefit from this valuable tax credit.

Given the extremely poor performance of the current economy, there is a very real possibility that more employers may be forced into bankruptcy with under-funded defined benefit plans. As a result of poor economic conditions, the already under-funded Pension Benefit Guaranty Corporation (PBGC) may need to step in to assume the pension shortfall. We urge that options to shore up the PBGC be developed and implemented as soon as possible, so that individuals who have relied on the promise of a pension know that their retirement income is secure.

## THE COST OF DOING NOTHING

Millions of Americans are watching the value of their retirement savings dwindle. Millions of others who have no savings see fewer opportunities than ever to put money away for the future. Unless we address the retirement savings dilemma, more and more Americans will wind up depending on their children and grandchildren for support in retirement, or they will overwhelm our already overburdened low-income retirement assistance programs.

AARP

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