

Pensions crisis

US building up to pension crisis

Roughly 45% of working-age households have no retirement savings



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by: **Robin Wigglesworth** in New York

Every two weeks, Jo Johnson, a 54-year-old digital media project manager in Philadelphia, takes a third of her salary and stashes it away in a retirement account on top of the money contributed by her employer. Her thrift is driven by necessity.

Ms Johnson has bounced between different jobs. Patchy contributions to her pension plan has meant that retirement was looking far leaner than she would have liked, spurring a more thrifty approach three years ago. Her husband, Andrew Marshall, a consultant, makes a good living, but “when I look at the numbers they are a little scary”, she admits.

“We’re doing extremely well, but we’re still playing catch-up. We’re being as frugal as we can be,” she says. “Our retirement plan has simply been glued together over the years.”

The modern [US pension system \(http://www.ft.com/pensions-crisis\)](http://www.ft.com/pensions-crisis) was largely built when people tended to work in one job or company their entire lives. But a mish-mash of unemployment, part-time employment or self-employment is now the norm, and Ms Johnson's predicament of sporadic contributions is increasingly common. Worse, many Americans have no retirement savings at all, setting the stage for a social crisis as they retire in near-penury.

The numbers are severe. According to the [National Institute on Retirement Security \(http://www.nirsonline.org/index.php?option=com_content&task=view&id=882&Itemid=48\)](http://www.nirsonline.org/index.php?option=com_content&task=view&id=882&Itemid=48), nearly 40m working-age households — 45 per cent of the total — had no retirement savings whatsoever in 2013, whether an employer-sponsored 401(k) plan or an individual retirement account (IRA).

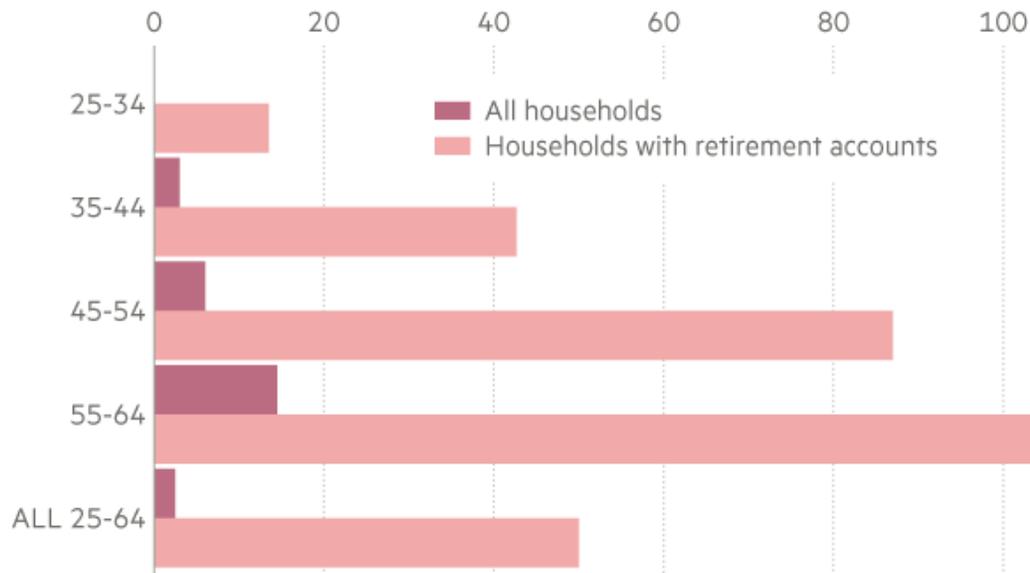
The pensions industry has lately focused on the negative impact of [low bond yields \(http://next.ft.com/content/8a54a0c6-648b-11e6-a08a-c7ac04ef00aa\)](http://next.ft.com/content/8a54a0c6-648b-11e6-a08a-c7ac04ef00aa) and subdued investment return expectations on “defined benefit”, [public pension plans \(http://next.ft.com/content/456172b4-6b11-11e6-ae5b-a7cc5dd5a28c\)](http://next.ft.com/content/456172b4-6b11-11e6-ae5b-a7cc5dd5a28c) and individual “defined contribution” plans like the US 401(k). But the real brewing US retirement crisis is the number of people that have no nest egg whatsoever, argues David Hunt, chief executive of PGIM, Prudential Financial's asset management arm.

“If you look for the real black hole in the pension system, this is it,” he says. “And these are the most vulnerable people in society.”

Indeed, while younger people are less likely to have some sort of a retirement nest egg than older Americans, the biggest factor is income. Households with a retirement account have a median income of \$86,235, while those without one have a median income of \$35,509, according to the NIRS.

US retirement savings by age

Median account balances (\$ '000)



Source: National Institute on Retirement Security, 2013

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Many are self-employed or work in smaller companies, which in many cases do not have the organisational heft to set up a 401(k) plan. Big companies in low-wage industries are also less likely to offer a retirement plan. And on modest wages, it becomes harder to set aside money for an IRA.

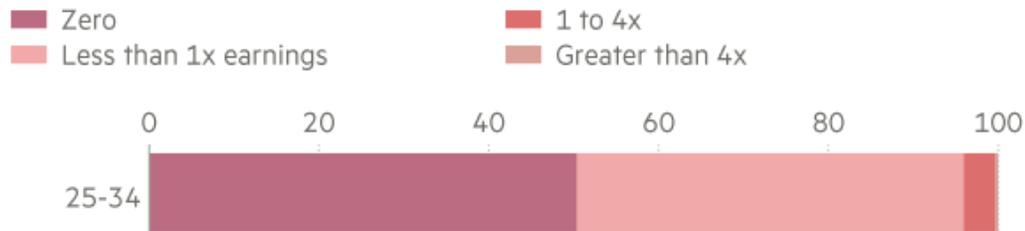
“We have a crisis unfolding here,” says Russ Kamp, a pensions consultant. “We’re asking people to set aside precious resources they don’t have ... For millions and millions of Americans, the only thing they’ll have is Social Security.”

Social Security is a federal system originally set up by Franklin Delano Roosevelt in 1935 and financed through payroll taxes. Together with the Supplement Security Income programme, it accounts for over 90 per cent of the income for the bottom quarter of retirees, according to the NIRS.

But Social Security only provides about 35 per cent of a typical household’s pre-retirement income. This is inadequate for most retirees, and especially so for those without some other savings to fall back on. “Because Social Security is so limited, we are far more dependent on 401(k) plans,” Mr Hunt points out. “In an era where people change jobs often and do more gig type jobs, this is a huge challenge.”

Many US households have no retirement savings

US retirement savings as a proportion of annual household income (%)



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Includes households of working adults ages 25 to 64
Source: National Institute on Retirement Security, 2013

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But Social Security's future is as uncertain as it is politically divisive. When it was set up, retirees would only have to be supported for less than 13 years on average. These days the average American can expect to draw Social Security for almost two decades, and unlike traditional public sector pension plans, it operates on a pay-as-you-go basis.

That has left the system facing long-term liabilities that are not fully funded, a preoccupation for mainstream Republicans worried about budget deficits, who have repeatedly called for belt-tightening to make it more solvent. Citi estimated earlier this year that the unfunded liabilities were over \$10tn.

Democrats take a very different tack, with Hillary Clinton pledging to protect and expand social security as a means for Americans to "retire with dignity". Donald Trump's stance is not that all that far away, because he has broken from the Republican party line by vowing not to make any cuts to social security, another case of him turning political convention upside down.

The NIRS argued in a report earlier this year that it is necessary to bolster the programme to prevent destitution in the elderly population.

"When people say there's no crisis, I just ask: 'Have you looked at the numbers?'" says Diane Oakley, executive director of NIRS. She predicts that elderly poverty rates will rise sharply in the coming years, causing social dislocations.

“I come from a family where mothers would move in with their daughters. I don’t have any children, but I’m being very nice to my nieces and nephews,” she says.

additional reporting by Barney Jopson in Washington

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