America’s Retirement System is Broken

1. Accumulate? No
   • 53% are covered

2. Invested Well? No
   • Assets are mismatched
   • Subpar returns

3. Annuities? No
   • Lump sum
Percent of Working-Age Households Able to Maintain Their Standard of Living in Retirement

<table>
<thead>
<tr>
<th>Year</th>
<th>1986</th>
<th>2013</th>
<th>2034</th>
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<tbody>
<tr>
<td>%</td>
<td>69%</td>
<td>48%</td>
<td>32%</td>
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</tbody>
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The National Retirement Risk Index is generously funded by Prudential.
American Retirement Savings Gap

$14,500 Median Savings

$411,000 Savings Needed

25 million poor and near-poor retirees by 2050

Individuals Retirement Accounts are Badly Designed

The Impact fees, leakages, and other factors on retirement savings balances for a hypothetical 60 year old worker

Lopsided Tax Credit Distribution

Income Distribution and Tax Credit Reimbursement

- Bottom 80%: 21%
- Top 20%: 79%
Pooled Investment vs. Individual Accounts

Median Public Pension Fund’s Annualized Rates of Return (as of 2014)

- 11.3% in 3 Years
- 8.5% in 25 Years

Historical Annualized Rates of Return (2002-2012)

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<thead>
<tr>
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<th>2002-2012 Annualized Rates (%)</th>
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<tbody>
<tr>
<td>IRA</td>
<td>2.2%</td>
</tr>
<tr>
<td>401(k)</td>
<td>3.1%</td>
</tr>
<tr>
<td>Defined Benefit</td>
<td>4.7%</td>
</tr>
</tbody>
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Distortion Between Assets and Liabilities

Growth in Assets from 1996 to 2016

- Mutual Funds: 391%
- Life Insurance: 135%
- Pension Funds: 280%

Proletarization of US Labor Force: Only the Middle Class is Expected to Work More in “Retirement”

Share of Income Earnings

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>30%</td>
</tr>
<tr>
<td>20%</td>
</tr>
<tr>
<td>10%</td>
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<tr>
<td>0%</td>
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</tbody>
</table>

Middle Class (Middle 20% of the Income Quartiles)

- Depression Babies: 14%
- Gen X (Projected): 24%

GRAs: Builds On Social Security

Assets

Social Security Benefits

401(k)

Assets

401(k) & Existing DB
Guaranteed Retirement Accounts

Social Security Benefits
Solution: Guaranteed Retirement Accounts (GRAs)

- Joint proposal of SCEPA’s Teresa Ghilarducci and Blackstone President Tony James
- 1.5% Contributions from Workers and Employers
- Every worker would own and control his/her own GRA and receive a guaranteed 2% return
- Individually Owned and Effectively Invested
- A 25-year old saving $600 a year could expect an additional $75,000 by age 65
- Guaranteed Lifelong Income
The Principles of GRAs

Universal Coverage
- Every worker would own and control his/her own GRA.
- Workers contribute 1.5% of their annual income, which is matched by a 1.5% contribution from their employer. (This plus social security is the minimum needed to close the gap.)
- This is mandatory, but cost-neutral for almost all workers below median income. The 1.5% employee contribution is offset by a deficit-neutral tax credit.

Individually Owned, Effectively Invested
- Participants own their fund and select their portfolio manager.
- Assets are invested with long-term, low-fee strategies to generate better returns. While 401(k)s earn only 3-4% annually, GRAs will be able to target a return of 6-7%.
- The government guarantees a minimum return of the principal investment.

Guaranteed Lifelong Income
- Upon retirement, savings are returned through guaranteed recurring payments, no matter how long you live.
- Payments are coordinated through existing Social Security infrastructure, meaning no new bureaucracy.
- For those who want to work longer, GRA and Social Security contributions made in years worked past 65 would enjoy a doubled tax credit—up to the age of 72.
Wide Support for Comprehensive Change

- A new, privately run, universal, portable pension plan: 75%
- Require companies provide guaranteed pensions: 79%
- An Automatic IRA: 79%

Source: David Madland (2008) and (2013)