Retirement Savings: What Can the U.S. Learn from Australia and Asia?

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U.S. Retirement Saving Incentives

- Typically employment-based
- Regressive
  - About 70 percent of the benefits go to the top quintile.
  - Incentives raise after-tax income by 1.4% for top quintile, compared to 0.7% for middle quintile and not at all for bottom quintile.
- Primary based on deferral
  - Exemption for contributions, non-taxation of inside build-up, and taxation of withdrawals.
- Not particularly effective for low- and middle-income workers.

But many Americans manage anyway

Saving Adequacy in the U.S.		
Income Decile	Percentage Below Optimal Target	Mean Conditional Deficit
1st	30.4	$4,084
5th	16.9	$11,482
10th	5.4	$42,557

Source: Scholz, Seshadri, and Khitatrakun 2006; dollars converted to 2012.

- Most Americans are decent retirement savers.
- Mean deficit is not overwhelming.

The Promise of Automatic Enrollment

- Designed to increase participation; recognizes the need to go beyond incentives.
- Benefits are spread across income groups
  - Take-up is higher amount middle-income groups
  - Benefit per participant is higher for upper-income taxpayers.
- Uses existing saving infrastructure
- Not without drawbacks: low-balance accounts, lower saving for some; maintains regressive incentives.

Active Automatic Enrollment Proposals

- PPA06 expanded access to Auto 401(k)s.
- President's budget proposed Auto IRAs; similar Congressional proposals.
- States are taking the lead:
  - California legislated a framework for automatic enrollment, pooled contributions, guaranteed accounts.
  - Illinois legislated a framework for automatic enrollment.

Decumulation Often Overlooked

- High rates of accumulated saving does not necessarily equate to high levels of retirement security.
- Opportunities for more robust insurance:
  - Long-term care
  - Reverse mortgages
  - Annuities, especially longevity annuities
- Role for economists to help inform the debate.