Ask the Expert: An Interview with Stephen Kay

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How Americans prepare for retirement has long been a focus for policymakers, and with the baby boomers entering retirement in ever-increasing numbers, the focus is growing. Economy Matters *recently spoke with Stephen Kay, director of the Atlanta Fed's Americas Center and an expert on pension reform, about the changing pension environment and what those changes might mean for people in the workforce now—and for those just entering it.*

EM: *Let's consider a scenario once very conventional: After spending 30 years at a large corporation, a typical worker retired with a nice defined benefit pension. But today, an employee might have a nice 401(k) plan—a defined contribution pension, but not a defined benefit pension. Do companies still offer corporate pensions like the one yesteryear's workers commonly had? In your view, is this shift significant?*

SK: Calling it a "shift" doesn't begin to capture the changes. In fact, a Towers Watson study found that from 1998 to 2013, the number of Fortune 500 companies offering traditional defined benefit plans dropped 86 percent, from 251 to 34. And even the plans still in existence are often closed to new employees.

The Society for Human Resources Management surveyed employers, and they found that less than a quarter—24 percent —continue to provide a traditional pension plan open to all employees. In contrast, 89 percent of the employers offer a 401(k) plan or similar type of retirement account, and most of them, 74 percent, provide an employer contribution to the retirement account.

EM: *That begs the next question: are Americans saving enough for retirement?*

SK: Americans are not saving nearly enough for retirement. The Federal Reserve's Survey of Consumer Finances found that a typical working family headed by someone on the cusp of retirement—defined as someone age 55 to 64—has only $104,000 in retirement savings, hardly enough to fund decades of retirement. The Center for Retirement Research projects that more than half of all U.S. households will not have enough retirement income to maintain their preretirement living standards. Furthermore, households aren't paying enough attention. Researchers at the Center for Retirement Research find that Americans at all ages and income levels are shortsighted about their finances and, on their own, can't be expected to devote much effort to addressing distant financial problems. For many people, consulting a retirement savings calculator can be a sobering experience. Given our collective myopia, they argue that we need to come up with new means to allow people to save for retirement. The brand-new MyRA is one such tool.

EM: *Can you discuss the concept behind the MyRA?*

SK: The MyRA, which launched in November 2015, is a new government-sponsored program that seeks to bridge the savings gap, and it's aimed at workers whose employers do not offer a 401(k) type of savings plan. It is open to anyone earning less than $131,000, or $193,000 if married and filing jointly. Workers can save up to $5,500 per year—$6,500 if age 50 or over—with a guaranteed return equal to the Government Securities Fund, which earned an average return of 3.19 percent through the 10-year period that ended in December 2014. The guaranteed return is in place until $15,000 has been accumulated or for 30 years, at which time the funds are required to be transferred to a Roth IRA. The government doesn't require a minimum investment, and there is no fee to open the account.

Editor's note: For an in-depth discussion of the economic implications of an aging population, please read the Atlanta Fed's 2015 Annual Report, now available in *Economy Matters*.

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