United States Government Accountability Office

Testimony

Before the Special Committee on Aging, U.S. Senate

THE NATION'S RETIREMENT SYSTEM

A Comprehensive Re-evaluation Needed to Better Promote Future Retirement Security

Accessible Version

Statement of Gene L. Dodaro, Comptroller General of the United States

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GAO Highlights

Highlights of GAO-19-342T, a testimony before the Special Committee on Aging, U.S. Senate

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THE NATION'S RETIREMENT SYSTEM

A Comprehensive Re-evaluation Needed to Better Promote Future Retirement Security

Why GAO Did This Study

Strengthening the U.S. retirement system to be more accessible and financially sound is important to ensuring that all Americans can retire with dignity and security, and to managing the fiscal exposures to the federal government from various retirement-related programs. Currently, the U.S. retirement system, and many of the workers and retirees it was designed to help, face major challenges.

This testimony discusses (1) the fiscal risks and other challenges facing the U.S. retirement system, and (2) the need to re-evaluate our nation's approach to financing retirement. It is based on a 2017 report, GAO-18-111SP, on the nation's retirement system, with updated statistics when more recent estimates from publicly available sources were available.

What GAO Recommends

In the 2017 report, GAO recommended that Congress should consider establishing an independent commission to comprehensively examine the US retirement system and make recommendations to clarify key policy goals for the system and improve how the nation promotes retirement security.

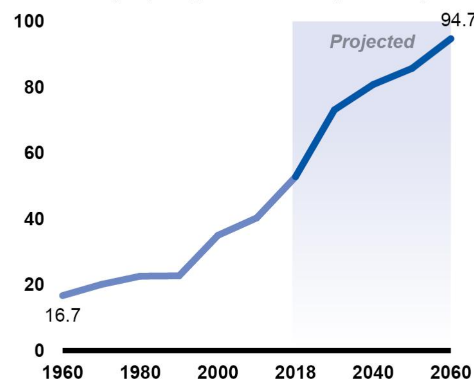
View GAO-19-342T. For more information, contact Charles A. Jeszeck at (202) 512-7215 or jeszeckc@gao.gov.

What GAO Found

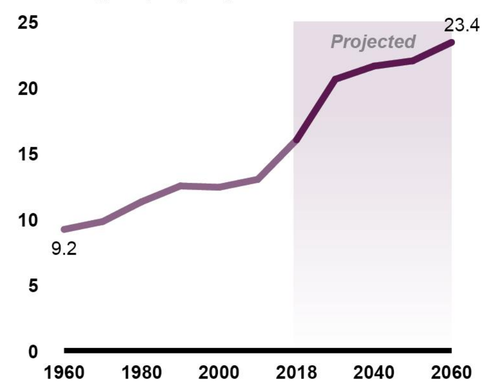
Fundamental changes over the past 40 years have led to various risks and challenges for the three main pillars supporting the U.S. retirement system. For example, current projections indicate that by 2034, the Old-Age and Survivors trust fund for Social Security's retirement program—the first pillar—will only be sufficient to pay 77 percent of scheduled benefits, due in part to the aging of the population (see figure). Other federal government retirement-related programs also face financial uncertainty. For example, the Pension Benefit Guaranty Corporation, which insures the pension benefits of most private sector defined benefit plans, estimates a greater than 90 percent chance the multiemployer program will be insolvent by 2025. Meanwhile, employer-sponsored plans—the second pillar—have experienced a shift from traditional defined benefit (DB) plans that generally provide set monthly payments for life, to defined contribution (DC) account-based plans, like 401(k)s. DC plans provide greater portability of savings that can be better suited to the needs of a more mobile workforce, but also require individuals to assume more responsibility for planning and managing their savings. While DC plans can provide meaningful retirement security for many, especially higher earners, lower earners appear more prone to having little or no savings in their DC accounts. Further, individuals' savings—the third pillar—may be constrained by economic trends such as low real wage growth and growing out-of-pocket health care costs. Combined with increased longevity, these challenges can put individuals at greater risk of outliving their savings and fiscal pressures on government programs will likely grow.

The U.S. Population Is Aging

Number of people age 65 and older (in millions)



Percentage of people age 65 and older



Source: GAO analysis of U.S. Census Bureau data. | GAO-19-342T

Accessible Data for The U.S. Population Is Aging (one of two)

Year	Number of people age 65 and older (in millions)
1960	16.7
1970	20.1
1980	22.6

Year	Number of people age 65 and older (in millions)
1990	22.7
2000	35
2010	40.3
2018	52.8
2020 (Projected)	56.1
2030 (Projected)	73.1
2040 (Projected)	80.8
2050 (Projected)	85.7
2060 (Projected)	94.7

Source: GAO analysis of U.S. Census Bureau data. | GAO-19-342T

Accessible Data for The U.S. Population Is Aging (two of two)

Year	Percentage of people age 65 and older
1960	9.2
1970	9.8
1980	11.3
1990	12.5
2000	12.4
2010	13
2018	16
2020 (Projected)	16.9
2030 (Projected)	20.6
2040 (Projected)	21.6
2050 (Projected)	22
2060 (Projected)	23.4

Source: GAO analysis of U.S. Census Bureau data. | GAO-19-342T

Congress generally has sought to address retirement-related issues in an incremental fashion. Also, no one agency is responsible for overseeing the U.S. retirement system in its entirety, so there is no obvious federal agency to lead a comprehensive reform effort. It has been nearly 40 years since a federal commission has conducted a comprehensive evaluation of the nation's approach to financing retirement. Without a more comprehensive re-evaluation of the challenges across all three pillars of the system, it may be difficult to identify effective, enduring solutions. Unless timely action is taken, many older Americans risk not having sufficient means for a secure and dignified retirement.

Chairman Collins, Ranking Member Casey, and Members of the Committee:

Thank you for the opportunity to discuss the state of our nation's retirement system. Fundamental changes to the U.S. retirement system have occurred over the past 40 years. Traditional pensions have become less common, and the number of defined contribution plans, such as 401(k)s, has been growing. These types of plans can provide meaningful retirement security for many; however, the U.S. retirement system, and many of the workers and retirees it was designed to help, are facing major challenges. Social Security's financial outlook is threatened by demographic trends, certain large pension plans face insolvency, and individuals are increasingly responsible for planning and managing their own retirement accounts. Strengthening the U.S. retirement system to be more accessible and financially sound is important to better ensuring that all Americans can retire with dignity and security, and to managing the fiscal risks to the federal government from various retirement-related programs.

My statement today will focus on two topics: (1) the fiscal risks and other challenges facing the U.S. retirement system; and (2) the need to re-evaluate our nation's approach to financing retirement.

My statement is based primarily on a report we issued in October 2017.[1] For that report, we began with an examination of our recently published work and supplemented it with additional information from various federal agencies, organizations, and institutions. We also obtained insights from a panel of 15 experts that we convened in November 2016, representing a range of organizations, subject matter expertise, and views (see app. I for a list of the panelists). For this testimony, we updated statistics when more recent estimates from publicly available sources were available. A detailed description of the methodologies used is included in our prior report. We conducted the work on which this statement is based in accordance with generally accepted government auditing standards.

[1] GAO, *The Nation's Retirement System: A Comprehensive Re-evaluation Is Needed to Better Promote Future Retirement Security*, GAO-18-111SP (Washington, D.C.: Oct. 18, 2017).

Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Social Security has been the foundation of retirement security in the United States. Enacted in 1935, Social Security provides for the general welfare of older Americans by, among other things, establishing a system of federal old-age benefits, including a retirement program. Officially titled Old-Age and Survivors Insurance (OASI), the Social Security retirement program provides benefits to retired workers, their families, and survivors of deceased workers.[2] About 51 million retirees and their families received $798.7 billion in Social Security retirement benefits in 2017, according to Social Security Administration (SSA), which is responsible for administering the program.[3]

Source: GAO. | GAO-19-342T.

About 40 years after the creation of Social Security, landmark legislation was enacted in 1974 that has played a major role in establishing the structure for private sector employers' involvement in sponsoring retirement plans for their workers: the Employee Retirement Income Security Act of 1974 (ERISA). ERISA is a complex law administered by multiple federal agencies including the Department of Labor (DOL), the Internal Revenue Service (IRS) within the Department of the Treasury (Treasury), along with the Pension Benefit Guaranty Corporation (PBGC), and has evolved with many significant amendments over the years (see app. II).

ERISA was enacted, in part, to address public concerns about the security of pension benefits, including the prominent failure of a couple of large, private sector pension plans. The act, as amended, does not require any employer to establish a retirement plan, but those who do

[2] For more about Social Security, see GAO, *Social Security's Future: Answers to Key Questions*, GAO-16-75SP (Washington, D.C.: Oct. 27, 2015).

[3] In addition, on the revenue side, about 174 million people were working and paying Social Security taxes in 2017. For more information, see The Board of Trustees, *The 2018 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds* (Washington, D.C.: June 5, 2018).

must meet certain requirements and minimum standards. For example, ERISA establishes certain requirements for all employer-sponsored plans, including responsibilities for plan fiduciaries (those who manage and control plan assets, among others), as well as minimum funding standards for defined benefit (DB) plans, which traditionally promise to provide a monthly payment to retirees for life. ERISA also established the PBGC, the government corporation responsible for insuring the pension benefits of nearly 37 million American workers and retirees who participate in nearly 24,800 private sector defined benefit plans. Under ERISA, tax-qualified DB plans (or the employers who sponsor them) may have to pay insurance premiums to the PBGC, based on the funding level of their plans. The IRS also administers the Internal Revenue Code (IRC), which has provisions that affect pensions and retirement savings.

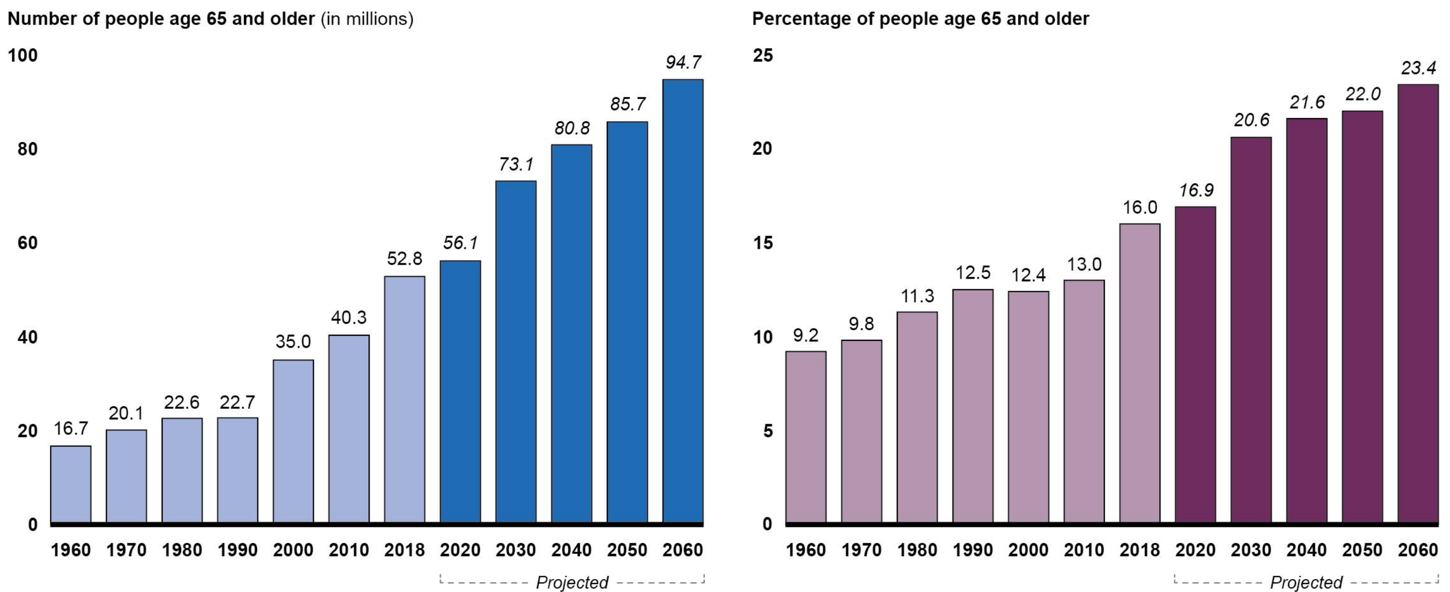
While SSA administers the Social Security program, and the DOL, PBGC, and IRS each are generally responsible for administering aspects of ERISA, several other agencies also have important roles in various parts of the retirement system. For example, the Department of Health and Human Services oversees the Centers for Medicare and Medicaid Services (CMS), which administers the major health care programs that provide coverage for retirees, as well as the Administration on Aging, which encourages and assists state grantees that provide services for older adults.

In addition, agencies such as the U.S. Department of Agriculture and the Department of Housing and Urban Development oversee food and housing programs for older adults. Other agencies also play a role in providing various services and supports for older adults. For example, the Department of Transportation administers a program that improves access and alternatives to public transportation for seniors and individuals with disabilities. The Consumer Financial Protection Bureau, as part of its mandate to provide financial literacy education, helps consumers navigate financial choices related to retirement. The Federal Trade Commission can have consumer protection and investor oversight roles and responsibilities related to individuals borrowing against their pensions. In addition, these federal agencies and others work together to help combat elder financial exploitation, which experts have described as an epidemic with society-wide repercussions. Citing our prior work on this topic, in October 2017, Congress enacted the Elder Abuse Prevention and Prosecution Act, calling on the Department of Justice to work with other federal, state, and local law enforcement agencies to improve data

collection and provide technical assistance focused on combatting elder abuse.[4]

The need for government services and support for older adults in retirement will continue to grow as the proportion of older adults in the United States continues to rise significantly in the future. In 1970, those age 65 and over accounted for about 10 percent of the population, but by 2060, they are expected to account for about 23 percent (see fig. 1). This reflects long-term decreases in birth rates and increases in life expectancy.

Figure 1: The U.S. Population Is Aging



Source: GAO analysis of U.S. Census Bureau data. | GAO-19-342T

Accessible Data for Figure 1: The U.S. Population Is Aging (one of two)

Year	Number of people age 65 and older (in millions)
1960	16.7

[4] Pub. L. No. 115-70, §§ 201-202, 131 Stat. 1208, 1211-12 (2017). For our prior work on this topic, see GAO, *Elder Justice: Stronger Federal Leadership Could Enhance National Response to Elder Abuse*, GAO-11-208 (Washington, D.C.: Mar. 2, 2011) and *Elder Justice: National Strategy Needed to Effectively Combat Elderly Exploitation*, GAO-13-110 (Washington, D.C: Nov. 15, 2012).

Year	Number of people age 65 and older (in millions)
1970	20.1
1980	22.6
1990	22.7
2000	35
2010	40.3
2018	52.8
2020 (Projected)	56.1
2030 (Projected)	73.1
2040 (Projected)	80.8
2050 (Projected)	85.7
2060 (Projected)	94.7

Source: GAO analysis of U.S. Census Bureau data. | GAO-19-342T

Accessible Data for Figure 1: The U.S. Population Is Aging (two of two)

Year	Percentage of people age 65 and older
1960	9.2
1970	9.8
1980	11.3
1990	12.5
2000	12.4
2010	13
2018	16
2020 (Projected)	16.9
2030 (Projected)	20.6
2040 (Projected)	21.6
2050 (Projected)	22
2060 (Projected)	23.4

Source: GAO analysis of U.S. Census Bureau data. | GAO-19-342T

Main Pillars of the U.S. Retirement System Face Fiscal Risks and Other Challenges

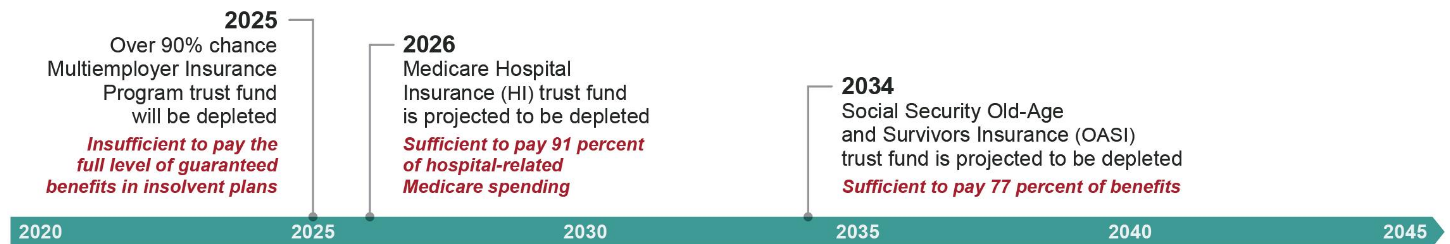
The U.S. retirement system is supported by three main pillars—Social Security, employer-sponsored plans, and individuals’ savings—that serve as important sources of retirement income for Americans. Currently, each of these pillars faces various risks and other challenges. If left unchanged, these risks present the federal government with significant

potential fiscal exposures, which may legally commit or create expectations for future federal spending.[5]

Pillar One: Social Security and Other Federal Programs

The first pillar, Social Security (specifically, Social Security's retirement program), is facing financial difficulties, as are other federal programs that provide essential supports to many older Americans, such as Medicare and the PBGC's insurance programs (see fig. 2). In addition, multiple federal agencies help fund a broad array of home and community-based services for older adults. As the number of older adults needing assistance continues to grow, the pressure to increase federal funding for these services is likely to increase.

Figure 2: Timeline of Projected Fiscal Risks for Certain Federal Programs



Source: GAO analysis of data from the Social Security Administration, the Centers for Medicare and Medicaid Services, and the Pension Benefit Guaranty Corporation. | GAO-19-342T

Accessible Data for Figure 2: Timeline of Projected Fiscal Risks for Certain Federal Programs

- **2025:** Over 90% chance Multiemployer Insurance Program trust fund will be depleted
  Insufficient to pay the full level of guaranteed benefits in insolvent plans
- **2026:** Medicare Hospital Insurance (HI) trust fund is projected to be depleted
  Sufficient to pay 91 percent of hospital-related Medicare spending
- **2034:** Social Security Old-Age and Survivors Insurance (OASI) trust fund is projected to be depleted
  Sufficient to pay 77 percent of benefits

Source: GAO analysis of data from the Social Security Administration, the Centers for Medicare and Medicaid Services, and the Pension Benefit Guaranty Corporation. | GAO-19-342T

[5] Long-term fiscal projections show that, absent fiscal policy changes, the federal government is on an unsustainable path, largely due to a projected growing gap between federal revenues and expenditures, driven by demographic changes, health care costs, and interest costs on the public debt. For more information on the nation's fiscal exposure and fiscal health more generally, see GAO, *The Nation's Fiscal Health: Action Is Needed to Address the Federal Government's Fiscal Future,* GAO-18-299SP (Washington, D.C.: June 21, 2018).

Notes: The Pension Benefit Guaranty Corporation insures most private sector defined benefit plans under one of two programs: the Single-Employer Insurance Program or the Multiemployer Insurance Program. Social Security's Old-Age and Survivors Insurance is Social Security's retirement program.

Social Security

As the foundation of retirement security in the United States, Social Security's retirement program, financed primarily by payroll taxes, helps reduce poverty among beneficiaries, many of whom rely on Social Security for the majority of their income once they retire.[6] Our analysis of data from the Federal Reserve Board's most recent Survey of Consumer Finances (SCF) showed that in 2016, among households age 65 and over, the bottom 20 percent, ranked by income, relied on Social Security retirement benefits for 81 percent of their income, on average.

But Social Security is facing financial difficulties that, if not addressed, will affect its long-term stability. During the many years that the revenue for Social Security's retirement program exceeded costs, the program built up reserves in the trust fund. However, since 2010, Social Security has been paying out more in benefits than it received and has relied on interest income to help cover expenses. For 2018, the cost of the program was expected to exceed total income by $2 billion and, as a result, asset reserves were expected to decline. If no changes are made, current projections indicate that by 2034, the retirement program trust fund will only be sufficient to pay 77 percent of scheduled benefits.[7]

The underlying cause of Social Security's financial difficulties is the aging population, driven by lower fertility rates and increased life expectancy, and accelerated by the ongoing retirement of the baby boom generation.[8] The first baby boomers began receiving Social Security retirement benefits in 2008, and growing numbers will become eligible for Social Security benefits in coming years. Our analysis indicates that the number of baby boomers turning 65 is projected to increase from an average of

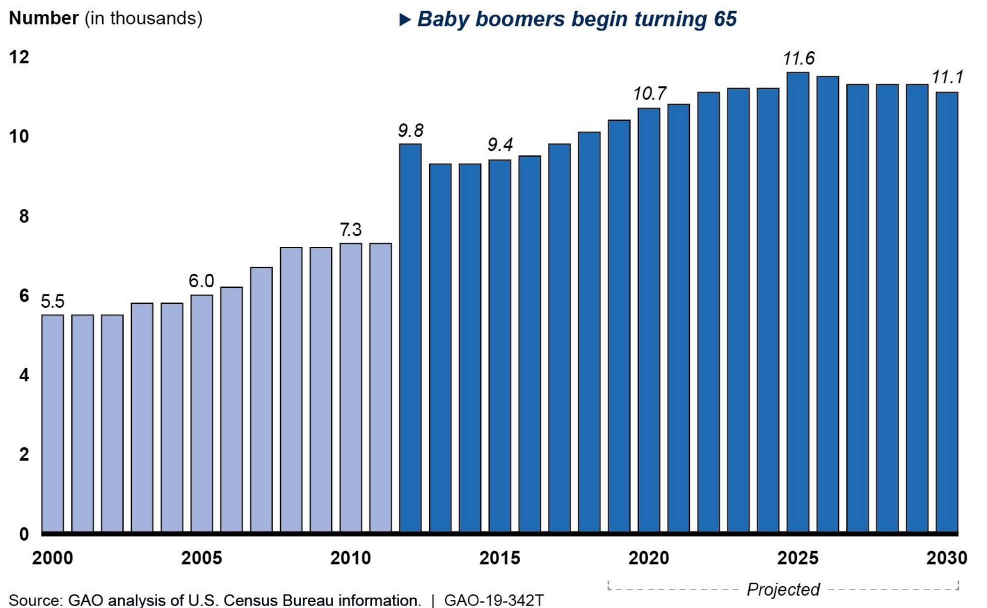
[6] Old-Age and Survivors Insurance, also known as Social Security's retirement program, provides benefits to retirees as well as their survivors and dependents.

[7] The Board of Trustees, *The 2018 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds* (Washington, D.C.: June 5, 2018).

[8] One measure of an aging population is the portion of a population above a certain age, such as 65. Two key drivers of the proportion of a population above a certain age are fertility rates and longevity.

about 10,200 per day in 2018 to more than 11,000 per day in 2029 (see fig. 3).

Figure 3: Average Daily Number of People Turning 65



Source: GAO analysis of U.S. Census Bureau information. | GAO-19-342T

Accessible Data for Figure 3: Average Daily Number of People Turning 65

Year	Number turning 65 (in thousands)
2000	5.5
	5.5
	5.5
	5.8
	5.8
2005	6
	6.2
	6.7
	7.2
	7.2
2010	7.3
	7.3
2012 (Baby boomers begin turning 65)	9.8
	9.3
	9.3
2015	9.4
	9.5

Year	Number turning 65 (in thousands)
	9.8
	10.1
	10.4
2020	10.7
	10.8
	11.1
	11.2
	11.2
2025	11.6
	11.5
	11.3
	11.3
	11.3
2030	11.1

Source: GAO analysis of U.S. Census Bureau information. | GAO-19-342T

Note: Census data estimates of population are as of July 1 in each year. For baby boomers, born between 1946 and 1964, the age at which Social Security pays unreduced retirement benefits gradually increases from 66 to 67.

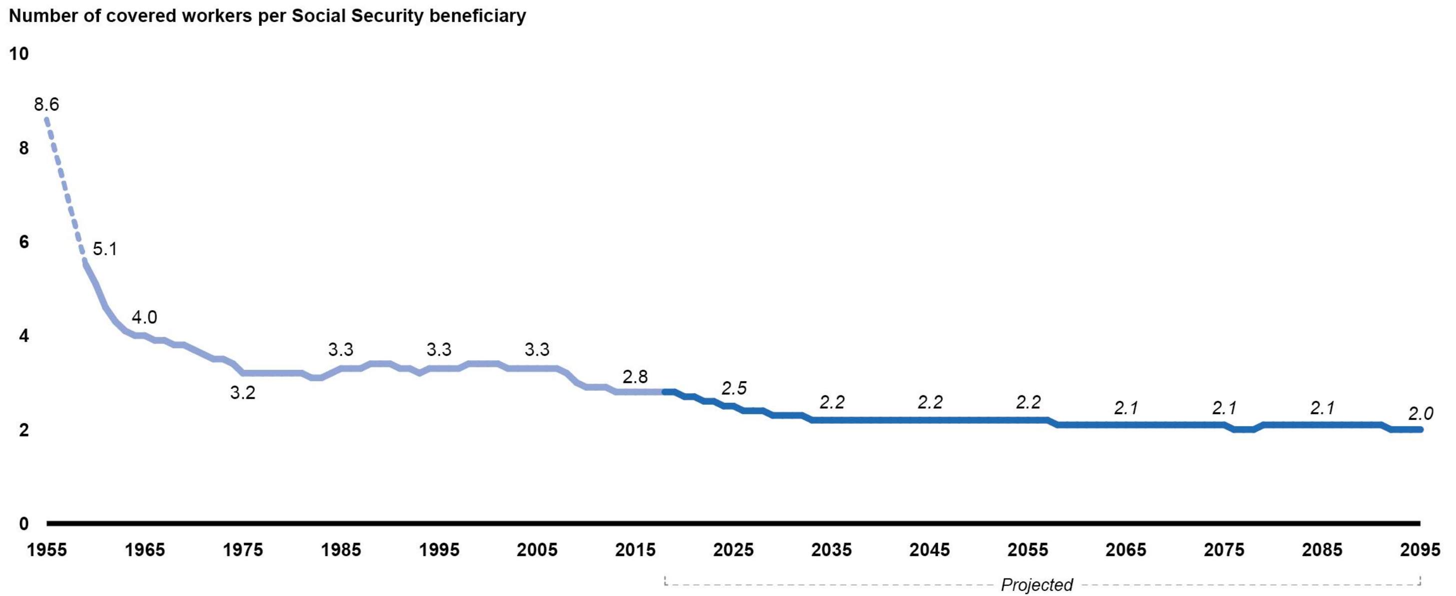
As with the Social Security retirement program, reserves had also built up over time in the trust fund for Social Security's disability program, but in 2005, the program began paying out more than it was taking in. To avoid benefit reductions, which were expected to begin in 2016, Congress passed a law in late 2015 that temporarily reallocated some payroll tax revenue from the retirement trust fund to the disability trust fund.[9] Even with this added boost, if no further changes are made, reductions in

[9] According to the Social Security Trustees, in 2016 and 2017, non-interest income and total income from the DI Trust Fund exceeded benefit payments due primarily to the temporary reallocation of some of the payroll tax revenue from OASI to DI for the years 2016 through 2018.

disability benefits are projected to be needed beginning in 2032, according to SSA's most recent report.[10]

For both the Social Security retirement and disability programs combined, the number of workers contributing to Social Security for each aged, disabled, dependent, or surviving beneficiary is declining, due to the aging population and other factors. While there are currently 2.8 workers contributing to Social Security per beneficiary, this ratio is expected to decline to 2.2 by 2035, and to 2.0 by 2095 (see fig. 4).

Figure 4: Past and Projected Social Security Covered Workers per Social Security Beneficiary



Source: 2018 Social Security Trustees' Report (intermediate assumptions). | GAO-19-342T

Accessible Data for Figure 4: Past and Projected Social Security Covered Workers per Social Security Beneficiary

Year	Number of covered workers per Social Security beneficiary

[10] According to recent SSA data, applications for SSA's Disability Insurance program have declined steadily in recent years from a peak of 2.9 million in 2010 to 2.2 million in 2017. At the same time the number of individuals being awarded benefits has also declined from a peak of 1 million in 2011 to 762,000 in 2017. Possible explanations for these trends include better labor market conditions, the availability of health care through the Patient Protection and Affordable Care Act, and lower award rates at all adjudicative levels of SSA's disability determination process. For more information, see Social Security, *Annual Statistical Supplement to the Social Security Bulletin, 2017*. SSA Publication No. 13-11700 (Washington, D.C. March 2018).

Year	Number of covered workers per Social Security beneficiary
1955	8.6
	5.5
	5.5
	5.5
	5.5
1960	5.1
	4.6
	4.3
	4.1
	4
1965	4
	3.9
	3.9
	3.8
	3.8
1970	3.7
	3.6
	3.5
	3.5
	3.4
1975	3.2
	3.2
	3.2
	3.2
	3.2
1980	3.2
	3.2
	3.1
	3.1
	3.2
1985	3.3
	3.3
	3.3
	3.4
	3.4
1990	3.4
	3.3

Year	Number of covered workers per Social Security beneficiary
	3.3
	3.2
	3.3
1995	3.3
	3.3
	3.3
	3.4
	3.4
2000	3.4
	3.4
	3.3
	3.3
	3.3
2005	3.3
	3.3
	3.3
	3.2
	3
2010	2.9
	2.9
	2.9
	2.8
	2.8
2015	2.8
	2.8
	2.8
DATA PROJECTED AFTER 2018	2.8
	2.8
2020	2.7
	2.7
	2.6
	2.6
	2.5
2025	2.5
	2.4
	2.4
	2.4

Year	Number of covered workers per Social Security beneficiary
	2.3
2030	2.3
	2.3
	2.3
	2.2
	2.2
2035	2.2
	2.2
	2.2
	2.2
	2.2
2040	2.2
	2.2
	2.2
	2.2
	2.2
2045	2.2
	2.2
	2.2
	2.2
	2.2
2050	2.2
	2.2
	2.2
	2.2
	2.2
2055	2.2
	2.2
	2.2
	2.1
	2.1
2060	2.1
	2.1
	2.1
	2.1
	2.1
2065	2.1

Year	Number of covered workers per Social Security beneficiary
	2.1
	2.1
	2.1
	2.1
2070	2.1
	2.1
	2.1
	2.1
	2.1
2075	2.1
	2
	2
	2
	2.1
2080	2.1
	2.1
	2.1
	2.1
	2.1
2085	2.1
	2.1
	2.1
	2.1
	2.1
2090	2.1
	2.1
	2
	2
	2
2095	2

Source: 2018 Social Security Trustees' Report (intermediate assumptions). | GAO-19-342T

Note: Beneficiaries include all those receiving benefits from Social Security's Old-Age and Survivors Insurance program and its Disability Insurance program combined. Data for the years between 1955 and 1960 are not available.

It is difficult to predict exactly what would occur if either Social Security's retirement or disability programs were to become insolvent because the

Social Security Act does not provide for any procedure for paying less than full benefits. According to SSA, benefits could be reduced across the board by a set percentage, certain benefits could be prioritized, or benefits could be delayed.

Medicare and Medicaid

The major health care programs that include coverage for retirees, Medicare and Medicaid, also face increasing financial challenges due to program and demographic changes. For example, over the years, Congress has made changes to Medicare so that more people have become eligible, even if under age 65.[11] Also, Congress has added two more parts to Medicare: one part allowing insurance under private plans approved by Medicare (Medicare Advantage),[12] and another part providing prescription drug coverage. As of 2017, over 58 million people were enrolled in one or more parts under Medicare. Projections indicate that in the coming decade, as more members of the baby-boom generation become eligible for benefits, the number of Medicare beneficiaries will rise to 75 million in 2027. Similar to the challenges facing Social Security, spending for Medicare Part A (Hospital Insurance) is projected to outpace revenue over time,[13] and the trust fund for Medicare Part A is projected to be unable to pay full benefits beginning in 2026. At that time, the Hospital Insurance trust fund will only be sufficient to pay 91 percent of hospital-related Medicare spending.[14]

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[11] These changes included covering individuals with specific illnesses, such as end stage renal disease. In addition, Medicare beneficiaries also include individuals under age 65 who are receiving benefits from Social Security or the Railroad Retirement Board on the basis of a disability.

[12] Medicare Advantage Plans (also known as Medicare Part C) are a type of Medicare health plan offered by a private company that contracts with Medicare to provide certain benefits. Medicare Advantage Plans include health maintenance organizations, preferred provider organizations, private fee-for-service plans, special needs plans, and Medicare medical savings account plans.

[13] Medicare is funded primarily by payroll taxes, general revenue, and premiums paid by Medicare beneficiaries.

[14] The Boards of Trustees, 2018 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds (Washington, D.C.: June 5, 2018). GAO designated Medicare as a high-risk program in 1990 due to its size, complexity, and susceptibility to mismanagement and improper payments, and it remains on GAO’s high-risk list for these reasons. See GAO, High-Risk Series: Progress on Many High-Risk Areas, While Substantial Efforts Needed on Others, GAO-17-317 (Washington, D.C.: Feb. 15, 2017).

Medicaid, which provides health care coverage and financing for millions of low-income individuals, including those age 65 or older, also faces financial challenges. Medicaid is the nation's primary payer for long-term services and supports, and the elderly—along with those with disabilities—are among the highest cost Medicaid beneficiaries. The federal government and states share in the financing of the Medicaid program, with the federal government matching most state expenditures for Medicaid services using a statutory formula. Estimated Medicaid outlays for fiscal year 2017 were $592.2 billion, of which $370.6 billion was financed by the federal government and $221.6 billion by the states. Over the next 7 years, Medicaid expenditures are expected to increase significantly, reaching just over $1 trillion in 2026.

PBGC

The PBGC insures the pension benefits of most private sector DB plans through one of its two programs: the Single-Employer Insurance Program and the Multiemployer Insurance Program. The single-employer program is the larger of the two programs. As of the end of fiscal year 2018, the single-employer program insured about 26 million workers and retirees participating in about 23,400 private sector single-employer DB plans. As of the end of fiscal year 2018, the multiemployer program insured about 11 million workers and retirees in about 1,400 private sector DB plans created through a collective bargaining agreement between two or more employers and a union.

Source: GAO. | GAO-19-342T.

Although PBGC is one of the largest of any federal government corporations, with over $110 billion in assets, its pension benefit guarantees are increasingly at risk due to its substantial liabilities. At the end of fiscal year 2018, PBGC's net accumulated financial deficit was over $51 billion, and its exposure to potential future losses for underfunded retirement plans was estimated to be nearly $185 billion.[15] We designated the single-employer program as high risk in July 2003 and added the multi-employer program to our high-risk list in January 2009. Concerns about PBGC's financial future have kept both programs on GAO's high-risk list. As long as PBGC's long-term financial stability remains uncertain, the retirement benefits of millions of U.S. workers and

[15] PBGC, *Annual Report 2018* (Washington, D.C.: Nov. 15, 2018).

retirees are at risk of greater reductions should their benefit plans be terminated below PBGC's current guaranteed benefit levels.[16]

In contrast to Social Security, PBGC is not funded by tax revenues, but by the premiums paid by plans or their sponsors, the assets acquired from terminated plans, and investment returns on these funds. The primary drivers of the government's fiscal exposure related to PBGC's deficit are the collective financial risk of the many underfunded pension plans insured by PBGC and the long-term decline in the number of participants covered by traditional DB plans. Since 1985, there has been a 78 percent decline in the number of plans insured by PBGC and more than 13 million fewer workers actively participating in PBGC-insured plans. There has also been a recent trend of single-employer plan sponsors transferring the liability for some of their participants to insurance companies via group annuity "buy-outs," further reducing the number of participants in PBGC-covered plans. As a result of these trends, even though PBGC premium rates have increased significantly in recent years, PBGC's premium base has been eroding over time as fewer sponsors are paying premiums for fewer participants.

In addition, more recently, PBGC's net accumulated financial deficit has escalated dramatically due to the critical and declining status of a number of large multiemployer pension plans.[17] As we previously reported, PBGC's multiemployer plan is projected to become insolvent in approximately 6 years, and if that happens, participants in the insolvent multiemployer plans who rely on PBGC guarantees will receive only a small fraction of current statutory guarantees. According to PBGC, most participants would receive less than $2,000 a year, and in many cases less.

Social Safety Net Programs

Our prior work has found that federally-funded services for older Americans were not reaching many older adults who may need them, and that the funding for these programs had decreased while the number of

[16] For more information on PBGC and the high-risk list, see GAO-17-317.

[17] GAO, *Central States Pension Fund: Investment Policy Decisions and Challenges Facing the Plan*, GAO-18-106 (Washington, D.C.: June 4, 2018) and *Central States Pension Fund: Department of Labor Activities under the Consent Decree and Federal Law*, GAO-18-05 (Washington, D.C.: June 4, 2018).

older adults had increased.[18] The federal government helps provide state and local governments with funding for a broad array of home and community-based services for older adults through multiple federal agencies and programs.[19] In addition to long-term care services funded by Medicaid, these programs also include services funded under the Older Americans Act of 1965, as amended, which provides grants to states for such services as home-delivered and congregate meals, home-based care, transportation, and housing. In our 2015 report, we recommended that the Department of Health and Human Services (HHS) should facilitate development of a cross-agency federal strategy to help ensure that federal resources are used effectively and efficiently to support a comprehensive system of home and community-based services and related supports for older adults. While HHS agreed with our recommendation, the agency has yet to develop a cross-agency strategy involving all five agencies that fund these services.[20]

As the number of older adults needing assistance continues to grow, the gap in services can only be expected to widen. Absent any changes, state and local governments are facing—and will continue to face—a gap between receipts and expenditures in the coming years, putting greater pressure on the federal government to increase funding.[21]

Pillar Two: Employer-Sponsored Retirement Plans

The second pillar of the U.S. retirement system, employer-sponsored retirement plans, is also an important source of income relied upon by many Americans in their retirement. However, not everyone has access to employer-sponsored plans, and among those who do, certain

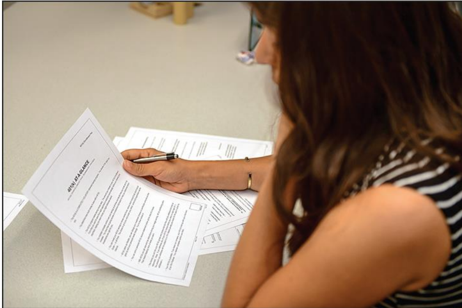
[18] See GAO, *Older Adults: Federal Strategy Needed to Help Ensure Efficient and Effective Delivery of Home and Community-Based Services and Supports*, GAO-15-190 (Washington, D.C.: May 20, 2015); and *Older Americans Act: Updated Information on Unmet Need for Services,* GAO-15-601R (Washington, D.C.: June 10, 2015).

[19] GAO, *State and Local Governments' Fiscal Outlook 2018 Update*, GAO-19-208SP (Washington, D.C.: Dec. 13, 2018).

[20] GAO is currently conducting a study on the accessibility of home and community-based services in rural areas. The report is expected to be issued in Spring 2019.

[21] Since 2007, GAO has published simulations of long-term fiscal trends in the state and local government sector, which have consistently shown that the sector faces long-term fiscal pressures. For the most recent of these reports, see GAO-19-208SP.

provisions and requirements of the plans can make it difficult for individuals to accumulate savings over time.[22]



Source: GAO. | GAO-19-342T.

Bureau of Labor Statistics data indicate that about one-third of private sector workers in the United States did not have access to an employer-sponsored retirement plan in 2016, and about two-thirds did.[23] Of those with access, the vast majority (about 76 percent) participated in the plan, either because they were automatically enrolled by the plan sponsor or they chose to participate.

Although individuals without access to an employer-sponsored plan can save for retirement on their own, having access to an employer-sponsored retirement plan makes it easier to save, and more likely that an individual will have another source of income in retirement beyond Social Security. Our prior work found that employees working for smaller firms and in certain industries, such as leisure and hospitality, are significantly less likely to have access to an employer-sponsored plan compared with those working in larger firms and in certain other industries, such as information services. Also, we found that low-income workers are much less likely than high-income workers to have access to an employer-sponsored plan.

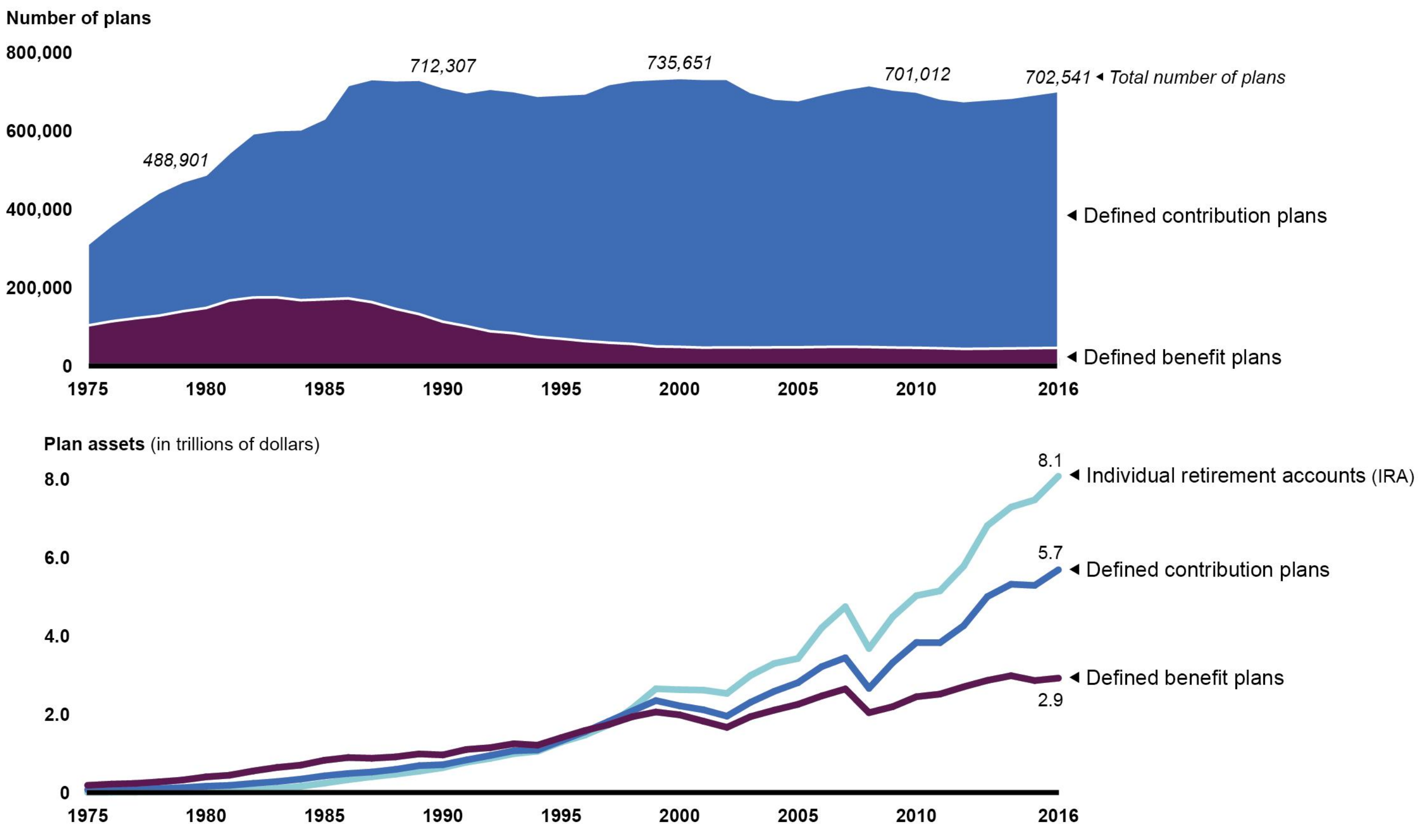
Among those individuals who have access to employer-sponsored plans in the private sector, the structure of plans has changed over time, with a shift from traditional DB pension plans to defined contribution (DC) plans, such as 401(k)s, as the primary type of retirement plan (see fig. 5). DB

[22] The challenges discussed here about employer-sponsored plans are applicable primarily to private sector workers, as the challenges faced by public sector workers are somewhat different. Virtually all public sector workers have access to employer-sponsored retirement plans, and in most cases, defined benefit plans. However, public sector plans are not governed by most of the substantive requirements under ERISA, including PBGC insurance.

[23] Bureau of Labor Statistics, *National Compensation Survey*, *Access, participation, and take-up rates for retirement benefits* (Washington, D.C.: July 2017. In this testimony, we define “access to an employer-sponsored retirement plan” to mean that a worker’s employer is offering a plan and that the worker is eligible to participate in the plan. In our 2015 report on retirement plan coverage, we found similar results using Survey of Income and Program Participation (SIPP) data matched with W2 tax data. We calculated that 61 percent of private sector workers had access to an employer-sponsored retirement plan, while 39 percent did not. In addition, in our 2015 report, we estimated that another 15 percent chose not to participate, even though they had access so that, overall, about half of private sector workers lacked coverage from a workplace plan. See GAO, *Retirement Security: Federal Action Could Help State Efforts to Expand Private Sector Coverage,* GAO-15-556 (Washington, D.C.: Sept. 10, 2015).

plans are traditional retirement plans that generally promise to provide a benefit for the life of the participant, based on a formula specified in the plan that typically takes into account factors such as an employee's salary, years of service, and age at retirement. DC plans are employer-sponsored account-based retirement plans, such as a 401(k) plan, that allow individuals to accumulate tax-advantaged retirement savings in an individual account based on employee and/or employer contributions, and the investment returns (gains and losses) earned on the account. The amount of assets held in individual retirement accounts (IRA) also has increased significantly. Most of the assets in IRAs are funded by assets rolled over from DC plans, and sometimes DB plans, when individuals change jobs or retire.

Figure 5: Trends in Private Sector Retirement Plans since 1975



Source: GAO analysis of data from the U.S. Department of Labor and the Investment Company Institute. | GAO-19-342T

Accessible Data for Figure 5: Trends in Private Sector Retirement Plans since 1975 (one of two)

Year	Number of Defined benefit plans	Number of Defined contribution plans	Total number of plans
1975	103346	207748	
	113970	246010	
	121655	280972	
	128407	314591	
	139489	331432	
1980	148096	340805	488,901
	167293	378318	
	174998	419458	
	175143	427705	
	168015	436419	
1985	170172	461963	
	172642	544985	
	163065	569964	
	145952	583971	
	132467	598889	
1990	113062	599245	712,307
	101752	597542	
	88621	619714	
	83596	618501	
	74422	615922	
1995	69492	623912	
	63657	632566	
	59499	660542	
	56405	673626	
	49895	683100	
2000	48773	686878	735,651
	46859	686611	
	47369	685943	
	47036	652976	
	47503	635567	
2005	47614	631481	
	48579	645971	
	48982	658805	
	48375	669157	
	47137	659530	

Year	Number of Defined benefit plans	Number of Defined contribution plans	Total number of plans
2010	46543	654469	701,012
	45256	638390	
	43601	633021	
	44163	636991	
	44869	640334	
2015	45609	648316	
2016	46300	656241	702,541

Source: GAO analysis of data from the U.S. Department of Labor and the Investment Company Institute. | GAO-19-342T

Accessible Data for Figure 5: Trends in Private Sector Retirement Plans since 1975 (two of two)

Year	Individual retirement accounts (IRA) plan assets (in trillions of dollars)	Defined contribution plan assets (in trillions of dollars)	Defined benefit plan assets (in trillions of dollars)
1975	186	74	3
	216	82	6
	234	91	9
	273	105	14
	320	126	20
1980	401	162	25
	444	185	37
	553	236	67
	642	281	106
	701	344	159
1985	826	427	241
	895	488	329
	877	525	404
	912	592	469
	988	688	546
1990	962	712	636
	1102	834	776
	1147	947	872
	1248	1068	993
	1211	1088	1056
1995	1402	1322	1288
	1585	1551	1467
	1736	1818	1728

	1937	2085	2150
	2058	2350	2651
2000	1986	2216	2629
	1825	2116	2619
	1666	1952	2532
	1941	2307	2993
	2106	2587	3299
2005	2254	2808	3425
	2468	3216	4207
	2647	3444	4748
	2041	2663	3681
	2194	3317	4488
2010	2448	3833	5029
	2516	3829	5153
	2702	4264	5785
	2866	5005	6819
	2985	5322	7292
2015	2862	5292	7477
2016	2923	5691	8080

Source: GAO analysis of data from the U.S. Department of Labor and the Investment Company Institute. | GAO-19-342T

With DB plans, participants can accumulate retirement savings simply by continuing to work for the employer offering the plan, and the employer is responsible for ensuring that the amount in the plan is sufficient to pay promised benefits at retirement. However, even when DB plans were more prevalent, many workers did not have access, and those with access to DB plans could still face challenges under certain circumstances. For example, when DB plan participants change employers, their accrued benefits are less portable than accrued savings in a DC plan. If the change in employers takes place before they have met vesting requirements, DB plan participants can lose all the benefits accumulated from employer contributions to that point, which in the private sector, generally means everything.[24] Also, for DB plans that base benefits on final average salary, benefit accruals are significantly

[24] ERISA requires that retirement plan participants' rights to their accrued benefit derived from their own contributions be nonforfeitable. However, as noted earlier, employees with private sector DB plans generally do not contribute to these plans, so, in most instances, all unvested accrued benefits would be lost when a change of employment takes place.

"backloaded." As a result, if a DB plan participant changes employers mid-career, it could result in missing out on the time when the biggest benefit accruals would have occurred. In addition, when entering retirement, although those with DB plans can generally rely on receiving a set monthly benefit for life, they may still face challenges. For example, participants in certain financially troubled plans—such as those in the multiemployer plans discussed earlier—could see their benefits being suspended or cut. In addition, if a DB plan participant is offered and accepts a lump-sum payment in place of a lifetime annuity, the participant may face challenges similar to those with DC accounts in terms of managing the spend down of their retirement savings.

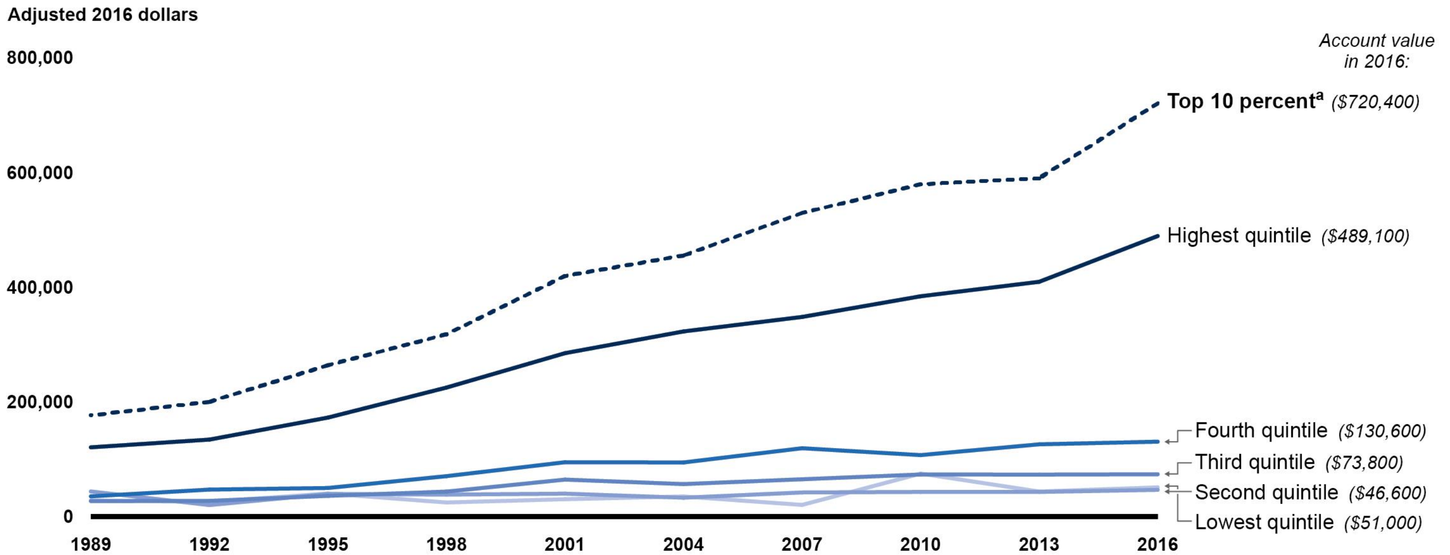
With DC plans, responsibility for planning and managing retirement savings is shifted from employers to employees. Participants in DC plans are often required to make complex financial decisions—decisions that generally require financial literacy and that could have significant consequences for their financial security throughout retirement. For example, workers with DC plans have to decide whether to participate in the plan, how much to contribute to their accounts and how to manage their investments to strike the right balance between risk and returns.

One way DC plan enrollment and contribution levels can be encouraged is by putting automatic mechanisms in place. For example, DC plan sponsors can encourage participation in the plan by adopting auto-enrollment, whereby eligible workers are enrolled into a plan automatically, unless they choose to opt out. DC plan sponsors can also encourage increases in contribution rates by adopting auto-escalation, whereby the employee's contributions are automatically increased to a predetermined level on a set schedule, unless they choose to opt out.

Participants in DC plans also have to decide whether to borrow from their accounts if other needs arise, or cash out their accounts when they change jobs. When leaving an employer, those with DC accounts may be allowed to transfer their accumulated balances into a new employer plan or an individual retirement account (IRA), but they may also be tempted to cash out their accounts, even though they may face associated tax consequences. Similarly, when entering retirement, those with DC accounts may decide to transfer the account balance into an IRA, or they may decide to receive the funds in a lump-sum payment. While some DC plans also offer monthly payments through an annuity, most do not provide lifetime income options or other options that can help participants draw down their retirement funds in a systematic way.

Findings from the most recent SCF indicate that an individual's ability to accumulate retirement savings depends on the individual's income level. In addition, the disparities in average account balances by income level have increased markedly over time (see fig. 6). For example, according to SCF data, households in the top 10 percent of income level appeared to be substantially better prepared for retirement than most others, with an average account balance of more than $720,000 in 2016. In contrast, households with below average income, in the second quintile, had an average account balance of about $47,000. Among lower-income households, our prior work suggests that cashing out accounts when changing jobs may be a significant drain on retirement savings, along with unexpected events that may also cause them to withdraw funds from their accounts prior to retirement.[25]

Figure 6: All Households' Average Retirement Account Balances, by Income Quintiles, 1989-2016



Source: GAO analysis of the Federal Reserve Board of Governor's 2016 Survey Consumer Finances Data. | GAO-19-342T

Accessible Data for Figure 6: All Households' Average Retirement Account Balances, by Income Quintiles, 1989-2016
Account value (adjusted 2016 dollars)

Year	Top 10 percent[a]	Highest quintile	Fourth quintile	Third quintile	Second quintile	Lowest quintile
1989	176600	120750	35300	27100	43800	28100

[25] GAO, *Retirement Security: Low Defined Contribution Savings May Pose Challenges*, GAO-16-408 (Washington, D.C.: May 5, 2016).

Year	Top 10 percent[a]	Highest quintile	Fourth quintile	Third quintile	Second quintile	Lowest quintile
1992	200100	134250	47100	27400	20100	25700
1995	263800	172600	49900	36200	39500	40200
1998	317800	224950	70500	43600	38300	24600
2001	419500	284900	94800	64500	40000	30300
2004	455300	322800	94400	56700	32900	35100
2007	529200	348050	119200	65100	42100	20400
2010	579299	384100	107200	73400	43000	75000
2013	589800	409300	126000	73200	43000	43700
2016	720400	489100	130600	73800	46600	51000

Source: GAO analysis of the Federal Reserve Board of Governor's 2016 Survey Consumer Finances Data. | GAO-19-342T

Note: Retirement account balances include savings in individual retirement accounts as well as 401(k) or other defined contribution account savings. The changes over time are cross-sectional comparisons, not longitudinal ones—that is, the households in a particular quintile in one year may not be the same households in that quintile in another year.

[a] The top 10 percent is also included in the highest quintile.

Retirement experts have posited a variety of reasons for employers' shift to DC plans. One oft-cited reason is that the structure of DC plans gives employers better control over how much they spend on wages and benefits packages. With DC plans, employers may choose whether to make contributions to participants' individual accounts; in contrast, DB plans promise a certain future monthly benefit to employees in retirement, and the employer must bear the risk of making adequate contributions to the plan to make good on that promise. Another reason retirement experts cite for the shift to DC plans was the introduction of 401(k) accounts in the Internal Revenue Code in 1978, which they credit with fostering the adoption of account-based plans by sanctioning the use of salary deferrals as a source of contributions. Some retirement experts have also suggested that employees' preferences and demands have changed over time, making DC plans more feasible and, in some respects, more appealing. For example, some analysts have noted that the portability of an account-based plan can be better suited to meet the needs of a more mobile workforce.

Pillar Three: Individuals' Savings and Other Resources

The third pillar of the retirement savings system—individuals' personal savings—is the remaining important source of retirement income, and it also faces certain risks and challenges. Personal savings can include a variety of assets, such as amounts saved from income or wages;

contributions to accounts outside of a retirement plan; non-retirement financial wealth that is inherited or accumulated over time; and equity from tangible assets such as a home. These savings are expected to augment any income from the first two pillars: Social Security and employer-sponsored retirement plans.

Over the past several decades, however, the personal saving rate—which is calculated as the proportion of disposable income that households save—has trended steeply downward, from a high of 14.2 percent in 1975, to a low of 3.1 percent in 2005, before recovering somewhat to 6.8 percent in 2018 (see fig. 7).[26]

Figure 7: Trend in U.S. Personal Saving Rate, 1959-2017

Sources: U.S. Bureau of Economic Analysis. | GAO-19-342T

Accessible Data for Figure 7: Trend in U.S. Personal Saving Rate, 1959-2017

April of each calendar year	Percentage of disposable income saved
1959	11.2
	8.4
	10.6

[26] It is important to note that the saving rate is an average, reflecting all households in the United States, across various stages of life.

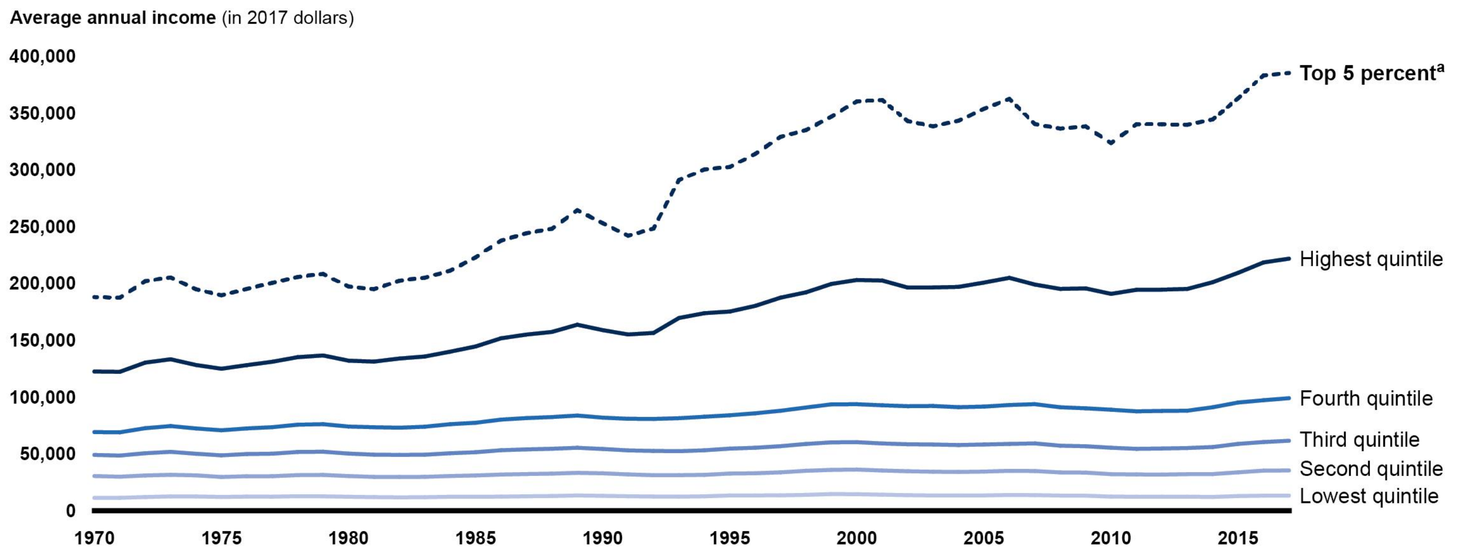
April of each calendar year	Percentage of disposable income saved
	11.7
	10.7
	12.4
1965	10.2
	10.3
	11.9
	12.3
	9.7
1970	13.3
	13.2
	11.5
	13.2
	13.1
1975	14.2
	11.7
	10.5
	10.8
	11
1980	11.3
	10.9
	12.9
	10.3
	11.5
1985	9.9
	9.7
	4.5
	8.8
	8.4
1990	8.8
	8.6
	9.9
	8.7
	6.4
1995	6.9
	5.7
	6.5
	7.2

April of each calendar year	Percentage of disposable income saved
	5.2
2000	5
	5
	5.8
	5.3
	5.3
2005	3.1
	4
	4.2
	3.4
	6.8
2010	6.4
	6.9
	8.7
	6.4
	7.4
2015	7.6
	7
	6.7
2018	6.8

Sources: U.S. Bureau of Economic Analysis. | GAO-19-342T

While the specific implications of a historically low national saving rate on any current or future retiree are less clear, the decline in the U.S. personal savings rate over time is concerning and could have implications for retirement security, particularly when coupled with the recent trend of low wage growth. After accounting for inflation, average wages remain near the levels they were in the 1970s for most individuals (see fig. 8), adding to the difficulty of increasing their level of saving.

Figure 8: Mean Household Incomes, by Quintiles and Top 5 Percent, 1970–2017



Source: U.S. Census Bureau. | GAO-19-342T

Accessible Data for Figure 8: Mean Household Incomes, by Quintiles and Top 5 Percent, 1970–2017

Year	Lowest	Second	Third	Fourth	Highest	Top 5%
1970	11254	30484	49088	69194	122497	188019
	11323	29925	48521	68980	122226	187471
	11997	30987	50572	72605	130344	202029
	12556	31570	51781	74495	133288	205305
	12511	31096	50113	72375	128229	194909
1975	12085	29686	48704	70771	124950	189614
	12382	30314	49853	72396	128133	195231
	12323	30332	50174	73515	131098	200553
	12742	31294	51671	75692	135136	205694
	12652	31470	51885	76142	136646	208401
1980	12242	30468	50276	74069	132065	197354
	11943	29752	49286	73469	131237	195018
	11723	29666	49106	73032	133947	202397
	11860	29793	49258	73918	135713	205049
	12250	30511	50563	76130	139986	211313
1985	12231	30995	51448	77390	144559	222992
	12363	31803	53219	80172	151746	237720
	12693	32258	53933	81521	155033	244255
	12916	32598	54522	82417	157344	248155

Year	Lowest	Second	Third	Fourth	Highest	Top 5%
	13387	33307	55365	83748	163711	264500
1990	13072	32889	54325	81906	158951	253112
	12719	31946	53064	80890	155114	242069
	12462	31224	52606	80754	156473	248352
	12328	31252	52386	81412	169616	291118
	12658	31545	53141	82694	173846	300359
1995	13371	32682	54648	84007	175310	302561
	13415	32927	55385	85719	180288	314053
	13504	33760	56796	87969	187549	329126
	13902	35102	58735	90839	192225	335049
	14633	35930	60142	93605	199613	346945
2000	14499	36201	60285	93716	203081	360286
	14068	35348	59166	92768	202596	361505
	13650	34706	58484	91994	196409	342977
	13355	34307	58236	92179	196503	338339
	13326	34099	57774	91097	197006	343303
2005	13407	34423	58260	91634	200800	353771
	13835	35073	58773	93028	204961	362469
	13690	34894	59220	93759	199073	340368
	13303	33688	57217	91032	195231	336358
	13231	33508	56732	90129	195668	338309
2010	12387	32147	55397	88872	190856	323594
	12276	31899	54442	87470	194448	340185
	12290	31764	54743	87814	194571	340198
2013 2	12280	32157	55148	88030	195210	339754
	12102	32221	56011	91037	201129	344465
2015	12889	33763	58803	95223	209384	363038
	13221	35246	60421	97225	218542	383154
2017	13258	35401	61564	99030	221846	385289

Source: Income and Poverty in the United States: 2017. | GAO-19-342T

Note: The changes over time are cross-sectional comparisons, not longitudinal ones—that is, the households in a particular quintile in one year may not be the same households in that quintile in another year.

[a] The top 5 percent is also included in the highest quintile.

In addition, many households have accumulated little wealth. SCF data show that among households in which the head of the household was working, the average value of all financial assets, excluding savings in

retirement accounts, was $70,700 in 2016.[27] For households in which the head was retired, this average was $89,700.

For those who become home owners and build up equity in a home, this equity can serve as an important asset, providing a potential income source in retirement either by selling the home or obtaining a reverse mortgage. However, increased household debt levels may affect the amount of income available from this source, as well as from other assets. Data on the make-up of debt indicate that home ownership has been declining, while education debt has been rising, especially since 2013.

Another challenge with implications for individuals' ability to accumulate personal savings is that economy-wide, aggregate health care expenditures are projected to continue to grow as a percentage of the overall economy, and individuals have to contend with rising health care costs as they strive to save for retirement. CMS projections estimate that the annual growth rate of out-of-pocket health care spending for the U.S. population, per capita, will increase from 3.0 percent in 2018 to about 3.8 percent by 2026. While these costs are projected to rise for the population as a whole, individuals age 65 and over face the highest out-of-pocket health-related expenses. Further, health care expenses can be larger relative to other expenses for many retirees and hard to predict, making the amount of income retirees need to plan to spend on health care difficult to determine.

Source: GAO. | GAO-19-342T.

Simultaneously, trends in longer life expectancy have the potential to increase economic vulnerability for retirees. Specifically, life expectancy for those age 65 or older has increased significantly over the past century and is projected to continue to increase. For example, a man turning 65 in 2030 is expected to live to age 85.0, on average, an additional 5.3 years compared to a man who turned 65 in 1980, who was only expected to live to age 79.7, on average. A woman turning 65 in 2030 is expected to live to age 87.2, on average, an additional 3.5 years compared to a woman who turned 65 in 1980, who was only expected to live to age 83.8, on average.

Moreover, these life expectancies are averages, with some individuals living well beyond their life expectancy. As a result, people must now

[27] This estimate includes retirement savings, which cannot be easily separated out. All amounts are in 2016 dollars.

prepare for this greater longevity risk—that is, the risk that they will spend more years in retirement and potentially outlive their savings. For those who lack sufficient personal savings or other assets to augment their Social Security benefit or income from any employer-sponsored plan, the only option to maintain a desired standard of living may be to continue working past age 65. Our prior work has found that labor force participation among older workers has increased during the last decade and that, compared to current retirees, workers age 55 or older were more likely to expect to retire later and to work during retirement. Our prior work has also identified challenges maintaining retirement savings should older workers become unemployed.[28]

The Need to Re-evaluate the Nation's Approach to Financing Retirement

Over the past 40 years, the nation has taken an incremental approach to addressing the U.S. retirement system; however, such an approach may not be able to effectively address the interrelated foundational nature of the challenges facing the system today. Without a more comprehensive re-evaluation of the myriad challenges across all three pillars of the retirement system, identifying effective, enduring solutions may be difficult, and the consequences could be significant. Unless timely action is taken, many older Americans risk not having sufficient means for a secure and dignified retirement in the future.

Retirement Issues Have Been Addressed with an Incremental Approach

Congress has generally sought to address retirement-related issues and concerns one issue at a time. As highlighted in appendix II, at least 25 laws pertaining to retirement have been enacted since ERISA.[29] Some laws—such as the Social Security Amendments of 1983 and the Pension

[28] See GAO, *Retirement Security: Most Households Approaching Retirement Have Low Savings*, GAO-15-419 (Washington, D.C.: May 12, 2015) and *Unemployed Older Workers: Many Experience Challenges Regaining Employment and Face Reduced Retirement Security*, GAO-12-445 (Washington, D.C.: Apr. 25, 2012).

[29] For further details and examples, see the chronology of retirement-related legislation since 1960 in app. II.

Protection Act of 2006—made large changes to the retirement system. Other laws were more targeted. For example in 1984, Congress amended ERISA to address concerns that women were not receiving their share of private pension benefits by, among other things, permitting certain breaks in service without loss of pension credits, and changing treatment of pension benefits for widowed and divorced spouses. Similarly, in 1996, Congress created a simplified retirement savings vehicle for employers with 100 or fewer employees to help address concerns that smaller employers were not sponsoring plans.

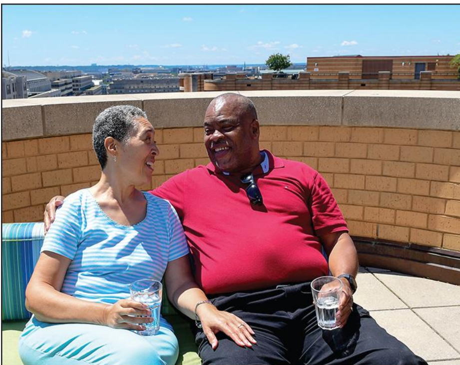
The number of agencies that play roles in the current retirement system has also contributed to the incremental approach to addressing concerns, with no single federal agency being responsible for taking a broad view of the system as a whole. As described earlier, there are at least 10 agencies that have a role in overseeing some part of the system, or that are involved in providing supports and services to older Americans. In addition to DOL, IRS, and PBGC, which are the agencies generally responsible for administering ERISA, SSA administers the Social Security program; and the Department of Health and Human Services oversees CMS, which administers the health care programs for retirees. In addition, various other agencies play a role in providing a range of services and supports to assist older adults through retirement.

Having multiple agencies involved in the system has also contributed to a complex web of programs and requirements. For example, our prior work identified more than 130 reports and disclosures stemming from provisions of ERISA and the Internal Revenue Code. Although each plan sponsor is required to submit only certain of these reports and disclosures, determining which ones can be challenging, and we found that the agencies' online resources to aid plan sponsors with this task were neither comprehensive nor up to date.[30] We made several recommendations to address these issues that have not been fully implemented.

[30] GAO, *Private Pensions: Clarity of Required Reports and Disclosures Could Be Improved*, GAO-14-92 (Washington, D.C.: Nov. 21, 2013).

Need for More Comprehensive Reform of the U.S. Retirement System

While three federal commissions have focused on various retirement issues (see app. III), it has been nearly 40 years since the last comprehensive evaluation of the nation's approach to financing retirement by a federal commission. The 1979 President's Commission on Pension Policy conducted a broad study of retirement-related issues and made a series of over-arching recommendations, such as creation of a minimum universal pension system that would provide a portable benefit for all workers that would be a supplement to Social Security. Other recommendations included federal protections for participants in state and local government plans, more consistent tax treatment of pension plans and retirement savings vehicles, provisions to strengthen Social Security, as well as proposals regarding employment of older workers and disability programs.[31] However, many of the commission's recommendations were not implemented.



Source: GAO. | GAO-19-342T.

The issues identified nearly 40 years ago by the 1979 commission's comprehensive re-evaluation of the U.S. retirement system continue to be issues facing the nation today. In fact, these issues have only become more complex and more urgent due to fundamental changes that have occurred since 1979—especially the growing fiscal exposure to the federal government and the shift from DB to DC plans, with its associated increase in risks and responsibilities for individual workers. Taken together, these changes may make it harder for retirees to achieve financial security in retirement, especially for those without access to employer-sponsored plans and at the lower end of the income scale.

A panel of 15 retirement experts convened by GAO in November 2016 agreed that there is a need for a new comprehensive evaluation of the U.S. retirement system.[32] They noted weaknesses in the current system's ability to help ensure that all individuals can provide for a secure retirement. They also discussed the burden that the current system's complexity places on individuals, employers, and federal government. Although there was agreement among many panelists that a more comprehensive approach would be needed to provide a secure retirement

[31] For more details on the 1979 commission, see app. III.

[32] For more information on the panelists, see app. I.

for future retirees, opinions varied on the types of solutions needed. For example, some panelists suggested that a new government-sponsored savings vehicle should be created, while others supported modifying the existing employer-sponsored system to make any needed changes.

In addition, several panelists commented on how the current system can be overly complex and confusing for employers, especially small employers. They discussed how the current private sector system poses financial and litigation risk for employers, especially with respect to investment decisions, fiduciary duty, and fees. For example, one panelist suggested that DC plan sponsors may welcome the federal government providing more guidance on the types of investments that would be regarded as prudent and safe as a way to reduce their litigation risk.

Panelists also noted that the experiences of other countries can provide useful insights for ways to improve U.S. retirement programs and policies. For example, some panelists described the approach being taken by the United Kingdom (UK) as a potential model for expanding access to retirement savings plans. In the UK model, universal access for workers was implemented by mandating that all employers automatically enroll employees in either their own or the government-sponsored retirement savings plan, the National Employment Savings Trust.[33]

In our 2017 report, we suggested five policy goals for a reformed U.S. retirement system as a starting point for discussion: (1) promoting universal access to a retirement savings vehicle, (2) ensuring greater retirement income adequacy, (3) improving options for the spend down phase of retirement, (4) reducing complexity and risk for both participants and plan sponsors, and (5) stabilizing fiscal exposure to the federal government (see table 1 for more detail on these goals).

Table 1: Policy Goals for Evaluating Potential Options for Reforming the U.S. Retirement System

Goals	Reasons for considering reform
Promote universal access to a retirement savings vehicle	About one-third of U.S. private sector workers do not have access to an employer-sponsored retirement plan
Ensure greater retirement income adequacy	Many Americans are at risk of relying solely on Social Security in retirement

[33] For further discussion of NEST, see GAO-15-556.

Goals	Reasons for considering reform
Improve options for the spend down phase of retirement	Plans may not provide sufficient tools to aid retirees in the spend down of their savings, including the absence of lifetime income options in most defined contribution plans.
Reduce complexity and risk for both plan participants and plan sponsors	Decisions related to managing retirement savings and plan sponsorship have reached a level of complexity that participants and plan sponsors, respectively, find difficult to navigate
Stabilize fiscal exposure to the federal government	As the number of retirees increases, so does the financial stress on government programs serving the aging population

Source: GAO analysis. I GAO-19-342T

Reforming the nation's retirement system to create a system that meets all of these goals, or others identified by the Congress, will require a careful and deliberative approach. For example, some type of consensus about the goals would need to be established as a first step. Broad questions are likely to be raised about how each of the goals should be achieved. The examination of relevant issues by past federal commissions, the discussions at our November 2016 panel, as well as what we can learn from the experiences of other countries, further illustrate how complex any reform effort is likely to be. Also, we recognize that some of these goals may compete with each other—in particular, ensuring greater retirement security and minimizing fiscal exposure to the federal government. Therefore, a balanced approach will be required, which can only result from a more holistic examination of the issues by those representing a broad range of perspectives.

As a result, we recommended that Congress consider establishing an independent commission to comprehensively examine the U.S. retirement system and make recommendations to clarify key policy goals for the system and improve the nation's approach to promoting more stable retirement security. We suggested that such a commission include representatives from government agencies, employers, the financial services industry, unions, participant advocates, and researchers, among others, to help inform policymakers on changes needed to improve the current U.S. retirement system.

Chairman Collins, Ranking Member Casey, and Members of the Committee, this concludes my prepared remarks. I would be happy to answer any questions that you may have.

GAO Contacts and Staff Acknowledgments

For further information regarding this testimony, please contact Charles A. Jeszeck at (202) 512-7215 or jeszeckc@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement.

In addition to the contact above, Margie K. Shields, Assistant Director; Jennifer Gregory, Analyst-in-Charge; Justine Augeri; and Gustavo O. Fernandez made key contributions to this publication. Also contributing to this report were Barbara D. Bovbjerg, Managing Director, Education, Workforce, and Income Security Issues; Oliver Richard, Chief Economist; Frank Todisco, Chief Actuary; James Bennett, Deborah Bland, Corinna Nicolaou, and Adam Wendel, with assistance from others who worked on our 2017 report.

Appendix I: GAO's Expert Panel on the State of Retirement

We convened a panel of retirement experts in November 2016 to obtain their insights on the condition of retirement in the United States and various options for a new approach to help ensure that all individuals can provide for a secure retirement. This appendix provides a description of our methodology for selecting the panel. (See text box for final list of 15 experts participating in our panel.)

State of Retirement Panel Participants (Positions are as of November 2016)

William Bortz
- Michael S. Gordon Fellow
- Pension Rights Center

Phyllis Borzi
- Assistant Secretary of Labor
- Employee Benefits Security Administration

Harry Conaway
- President & CEO
- Employee Benefit Research Institute

Warren Cormier
- CEO and Founder
- Boston Research Technologies

Teresa Ghilarducci
- Professor of Economics and Director of the Schwartz Center for Economic Policy Analysis
- The New School for Social Research

Bill Hallmark
- Vice President for Pensions
- American Academy of Actuaries

Will Hansen
- Senior Vice President for Retirement Policy
- ERISA Industry Committee

Cindy Hounsell
- President
- Women's Institute for a Secure Retirement

Regina Jefferson
- Professor of Law
- Columbus School of Law
- The Catholic University of America

David John
- Senior Strategic Policy Advisor
- AARP

Melissa Kahn
- Managing Director, Retirement Policy Strategist
- State Street Global Advisors

Hank Kim
- Executive Director & Counsel
- The National Conference on Public Employee Retirement Systems

Diane Oakley
- Executive Director
- National Institute on Retirement Security

Virginia Reno
- Deputy Commissioner for Retirement and Disability Policy
- Social Security Administration

Sita Nataraj Slavov
- Professor of Public Policy, Schar School of Policy and Government
- George Mason University

Source: GAO. I GAO-19-342T

Methodology for Selecting the Panel and Analyzing Their Remarks

To identify the experts to invite to this meeting, we compiled an initial list based on interviews with experts conducted during recent GAO retirement income security work and the organizations invited to participate in a 2005 GAO forum on the future of the defined benefit system and the Pension Benefit Guaranty Corporation.[1] Potential experts were identified based on the following criteria:

- Organizational type: To ensure that we considered the unique roles or situations of various entities involved in retirement income policy, we selected panelists from the federal government, state or local government, research institutes or universities, advocacy or membership organizations, and financial services firms.
- Organizational reputation: To ensure that our panelists span political perspectives, we selected panelists from organizations known to be conservative, moderate, and liberal (to the extent the reputation for the organization could be easily identified).
- Subject matter expertise: To ensure that the discussion considered as many aspects of retirement income security as possible, we selected panelists with expertise across a range of areas, including defined benefit (DB) plans, defined contribution (DC) plans, individual retirement accounts (IRA), demographic trends, vulnerable populations, actuarial science, income in retirement, financial literacy, and behavioral finance.
- Range of views: To ensure that our discussion was inclusive of different philosophies regarding the role of government with regard to the population and the economy, we selected panelists to represent the viewpoints of individuals and business.
- Representation of diverse groups: To ensure that the discussion benefited from different viewpoints, we selected panelists to reflect gender, racial, and ethnic diversity.

An initial list of 41 potential experts was shared with GAO management officials with expertise in retirement issues, actuarial science, and strategic planning, as well as GAO methodologists, for their comments

[1] GAO*, Highlights of a GAO Forum: The Future of the Defined Benefit System and the Pension Benefit Guaranty Corporation*, GAO-05-578SP (Washington, D.C. June 1, 2005).

and suggestions. From this, we developed a shorter list eventually arriving at our final group of 15, listed above. These final 15 panelists were also evaluated for conflicts of interest. A conflict of interest was considered to be any current financial or other interest that might conflict with the service of an individual because it (1) could impair objectivity and (2) could create an unfair competitive advantage for any person or organization. All potential conflicts were discussed by GAO staff. The 15 experts were determined to be free of conflicts of interest, and the group as a whole was judged to have no inappropriate biases.

Panelists engaged in a day-long discussion about our nation's approach to retirement policy (see text box). The discussion was guided by a list of questions developed in advance, and the meeting was conducted by a GAO moderator to ensure that all panelists had an opportunity to participate and provide responses.

State of Retirement Expert Panel Agenda

Welcome and Opening Remarks

Session 1: How Well Is Our Current National Approach to Retirement Security Working?

Preamble: Retirement income sources in the United States have often been referred to as a three-legged stool – Social Security, employer-sponsored retirement plans, and personal savings.

1. Can the U.S, retirement system today still be accurately described by these three retirement income sources? Why/why not?
2. Are there aspects of our nation's approach to retirement income security that are working well? If so, are these aspects functioning well for all, or only for particular populations?
3. Are there aspects of our nation's approach to retirement income security that are concerning? If so, what are your biggest concerns?
4. Are there any specific populations you are particularly concerned about? If so, which ones and why?

Session 2: Reevaluating the Roles of the Federal Government, Employers, and Individuals

Preamble: Key actors in assuring a secure retirement have traditionally included the federal government, employers, and individuals, but their roles have evolved over time.

- Are there ways roles could or should be adapted or modified to address the strengths and weaknesses that have been identified for:
    - Federal government?
    - Employers?
    - Individuals?

Session 3: Reevaluating Our Nation's Approach to Retirement Policy

Preamble: Various proposals for a broader, more cohesive approach to retirement policy have been made over time.

1. Do you believe there is a need for some type of national retirement policy?
2. If such a policy were to be proposed--
    a. What could or should be the primary goals of such a policy?
    b. What could or should be the roles of key actors in achieving those goals?
3. What do you believe could be the greatest benefits of a national retirement policy?
4. What do you believe could be the greatest risks or potential downsides of a national retirement policy?

What barriers exist to creating a national retirement policy and how could the federal government best address these barriers?

Source: GAO I GAO-19-342T

Appendix II: Selected Federal Legislation Related to Retirement Security from 1960-Present

The chronology highlights below selected federal legislation related to retirement security in the United States since 1960. It is based on a larger chronology included in our prior special product on the nation's retirement system (GAO-18-111SP). The chronology is intended to illustrate the incremental approach that the nation has taken to improving the U.S. retirement system and to convey the changes that the legislation enacted at the time. It is not intended to provide an exhaustive list of legislation that has impacted retirement in the United States, to make statements about current provisions of the law, or to provide comprehensive descriptions of each law.

Chronology of Selected Federal Legislation Shaping Retirement in the United States (1960–Present)	
1961	**Social Security Amendments of 1961** Selected provision: Enacted a provision for men, comparable to the provision enacted for women in 1956, concerning early retirement at age 62.
1962	**Self-Employed Individuals Tax Retirement Act of 1962** Selected provision: Imposed minimum distribution requirements for self-employed participants in a qualified plan generally beginning at age 70 ½.
1965	**Social Security Amendments of 1965** Selected provisions: Enacted new titles to the Social Security Act for Medicare and Medicaid. Medicare provided hospital, post-hospital extended care, and home health coverage to almost all Americans age 65 or older; Medicaid provided states with the option of receiving federal funding for providing health care services to certain low-income and medically needy individuals.
1967	**Age Discrimination in Employment Act of 1967** Selected provisions: Made it unlawful for an employer to discriminate against any individual with respect to compensation, terms, conditions, or privileges of employment because of age; and required the Secretary of Labor to carry on a continuing program of education and information, which could include research with a view to reducing barriers to the employment of older persons.

<table>
<tr><th colspan="2">Chronology of Selected Federal Legislation Shaping Retirement in the United States (1960–Present)</th></tr>
<tr><td>1974</td><td>Employee Retirement Income Security Act of 1974 (ERISA)
Selected provisions: Regulated private sector employers who offer pension or welfare benefit plans for their employees.
• Title I: Imposed reporting and disclosure requirements on plans; imposed certain responsibilities on plan fiduciaries.
• Title II: Strengthened participation requirements for employees age 25 and over; established vesting rules; required that a joint and survivor annuity be provided; and established minimum funding standards. In addition, provided individual retirement accounts (IRAs) for persons not covered by pensions.
• Title IV: Required certain employers and plan administrators to fund an insurance system to protect certain kinds of retirement benefits (i.e., to pay premiums to the federal government's Pension Benefit Guaranty Corporation (PBGC)).</td></tr>
<tr><td>1978</td><td>Revenue Act of 1978
Selected provisions: Established qualified deferred compensation plans called 401(k) plans after 26 U.S.C. § 401(k), which allowed for pre-tax employee contributions to such plans (known as elective deferrals).</td></tr>
<tr><td>1980</td><td>Multiemployer Pension Plan Amendments Act of 1980
Selected provisions: Strengthened the funding requirements for multiemployer pension plans; authorized plan preservation measures for financially troubled multiemployer plans; and revised the manner in which insurance provisions applied to multiemployer plans.</td></tr>
<tr><td>1982</td><td>Tax Equity and Fiscal Responsibility Act of 1982
Selected provisions: Reduced the maximum annual addition (employer contributions, employee contributions, and forfeitures) for each participant in a defined contribution (DC) plan; reduced the maximum annual retirement benefit for each participant in a defined benefit (DB) plan; introduced special rules for "top heavy" plans (i.e., plans in which more than 60 percent of the present value of the cumulative accrued benefits under the plan for all employees accrue to key employees, including certain owners and officers); and expanded minimum distribution requirements to all qualified plans.</td></tr>
<tr><td>1983</td><td>Social Security Amendments of 1983
Selected provisions: Gradually raised the normal retirement age from 65 to 67, depending on an individuals' year of birth; expanded coverage; increased the self-employment tax for self-employed persons; subjected a portion of Social Security benefits to federal income tax for the first time; and changed how cost-of-living adjustments are calculated when trust funds are low.</td></tr>
<tr><td>1984</td><td>Deficit Reduction Act of 1984
Selected provisions: Amended nondiscrimination testing requirements for 401(k) plans and required minimum distribution rules, and restricted prefunding of certain employee post-retirement welfare benefits (such as disability and medical benefits).</td></tr>
<tr><td>1984</td><td>Retirement Equity Act of 1984
Selected provisions: Changed participation rules by lowering the minimum age that a plan may require for enrollment (from age 25 to 21), and permitted certain breaks in service without loss of pension credits. Also, strengthened treatment of pension benefits for widowed and divorced spouses.</td></tr>
<tr><td>1986</td><td>Single-Employer Pension Plan Amendments Act of 1986
Selected provisions: Raised the per-participant PBGC premium from $2.60 to $8.50; established certain distress criteria that a contributing sponsor or substantial member of a contributing sponsor's controlled group must meet in order to terminate a single-employer plan under a distress termination; established certain criteria for PBGC to terminate a plan that does not have sufficient assets to pay benefits that are currently due (referred to as "involuntary terminations"); and created a new liability to plan participants for certain non-guaranteed benefits.</td></tr>
</table>

Chronology of Selected Federal Legislation Shaping Retirement in the United States (1960–Present)	
1986	**Federal Employees' Retirement System Act of 1986** Selected provisions: Established the Federal Employees' Retirement System (FERS). Unlike the existing Civil Service Retirement System (CSRS), retirement and disability benefits under FERS were structured to be fully funded by employee and employer contributions and interest earned by the bonds in which the contributions were invested. The DB under FERS was lower than under CSRS, but FERS also included a DC plan component: the Thrift Savings Plan.
1986	**Omnibus Budget Reconciliation Act of 1986** Selected provisions: Required employers that sponsor pension (DB plans) and retirement savings plans (DC plans such as a 401(k)) to provide benefit accruals or allocations for employees who work beyond their normal retirement age.
1986	**Tax Reform Act of 1986** Selected provisions: Established faster minimum vesting schedules; adjusted limitations on contributions and benefits for qualified plans; limited the exclusion for employee elective deferrals to $7,000; and amended nondiscrimination coverage rules. Also, restricted the allowable tax-deductible contributions to IRAs for individuals with incomes above a certain level and who participate in employer-sponsored pension plans, and imposed an additional 10 percent tax on early distributions (before age 59 ½) from a qualified retirement plan.
1987	**Omnibus Budget Reconciliation Act of 1987** Selected provisions: Strengthened funding rules for pension plans and the level and structure of PBGC premiums.
1993	**Omnibus Budget Reconciliation Act of 1993** Selected provisions: Reduced compensation taken into account in determining contributions and benefits under qualified retirement plans, and expanded taxation of Social Security benefits.
1994	**Retirement Protection Act of 1994** Selected provisions: Strengthened funding rules for pension plans.
1996	**Small Business Job Protection Act of 1996** Selected provisions: Created a type of simplified retirement savings vehicle for small employers; added a nondiscrimination safe harbor for 401(k) plans; amended the definition highly compensated employee; and modified certain participation rules for DC plans.
1997	**Taxpayer Relief Act of 1997** Selected provision: Established Roth IRAs, under which contributions are after-tax, but distributions after age 59½ are tax-free.
2000	**Senior Citizens' Freedom to Work Act of 2000** Selected provision: Amended the Social Security Act to eliminate the earnings limit for individuals who have reached their normal retirement age.
2001	**Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA)** Selected provisions: Increased the individual elective deferrals that may be made to a 401(k) plan; added "catch-up contributions" that allow individuals age 50 or older to make additional contributions; increased the maximum annual contributions to DC plans and individual retirement accounts; increased the maximum annual benefits under a DB plan; increased the compensation limit for qualified trusts; reduced the minimum vesting requirements for matching contributions; and changed the rules that permit plans to cash-out, without consent.
2002	**Sarbanes-Oxley Act of 2002** Selected provision: Added a new requirement that individual account pension plans provide notice to participants and beneficiaries in advance of periods during which the ability of participants or beneficiaries to take certain actions with respect to their accounts will be temporarily suspended, limited, or restricted (referred to as "blackout periods").
2005	**Deficit Reduction Act of 2005** Selected provisions: For plan years that begin after December 31, 2005, set the PBGC flat-rate premium for multiemployer plans at $8.00; and, for each plan year that begins after 2006, indexed future premium levels to the national average wage index.

Chronology of Selected Federal Legislation Shaping Retirement in the United States (1960–Present)	
2006	**Pension Protection Act of 2006 (PPA)** Selected provisions: Strengthened the minimum funding requirements for DB plans; set certain benefit limitations for underfunded DB plans; enhanced the protections for spouses; amended plan asset diversification requirements; changed provisions concerning the portability of pension plans; allowed the adoption of automatic enrollment and target date funds for DC plans; and increased reporting and disclosure requirements for plan sponsors.
2008	**Worker, Retiree, and Employer Recovery Act of 2008** Selected provision: Modified PPA's funding requirements to grant relief for single-employer DB plans.
2012	**Moving Ahead for Progress in the 21st Century Act** (MAP-21) Selected provisions: Provided funding relief for single-employer DB plans by changing the interest rates used to reflect a 25-year historical average; increased premium rates for sponsors of single-employer and multiemployer DB plans; and included other provisions intended to improve the governance of PBGC.
2012	**American Taxpayer Relief Act of 2012** Selected provisions: Extended the tax-free treatment of distributions from IRAs made for charitable purposes; allowed for certain in-plan transfers to a Roth account.
2014	**Multiemployer Pension Reform Act of 2014** (MPRA) Selected provisions: Allowed severely underfunded multiemployer plans, under certain conditions and with the approval of federal regulators, the option to reduce the retirement benefits of current retirees to avoid plan insolvency; and expanded PBGC's ability to intervene when plans are in financial distress.
2018	**Bipartisan Budget Act of 2018** Selected provisions: Established a temporary Joint Select Committee on Solvency of Multiemployer Pension Plans. The goal of the Joint Select Committee was to improve the solvency of multiemployer pension plans and PBGC.

Source: GAO I GAO-19-342T

Appendix III: Structure, Scope, and Recommendations of Three Past Federal Commissions on Retirement Issues

Since the enactment of ERISA, there have been three federal commissions on retirement issues: The President's Commission on Pension Policy, the National Commission on Social Security Reform, and the President's Commission to Strengthen Social Security (see table 2). We examined these commissions to gain insights on possible structures for federal commissions, the scope of work these commissions can take on, and the types of recommendations they can make.

Table 2: Federal Commissions Addressing Retirement-related Issues since 1974

Commission	President's Commission on Pension Policy	National Commission on Social Security Reform (known as the Greenspan Commission)	President's Commission to Strengthen Social Security
When and how established	In 1978, President Carter signed an executive order authorizing this commission and it was established when committee members were appointed in 1979, 5 years after the enactment of the Employee Retirement Income Security Act of 1974 (ERISA).	Established by the president and appointed by the Congress and President Reagan in 1981.	This bipartisan commission was established in May 2001 by President Bush.
Appointment of members	President Carter appointed all 11 commission members.	The President, the Majority Leader of the Senate and the Speaker of the House of Representatives at the time were each responsible for selecting five members of the commission in a bipartisan way.	President Bush appointed all 16 commission members.

Commission	President's Commission on Pension Policy	National Commission on Social Security Reform (known as the Greenspan Commission)	President's Commission to Strengthen Social Security
Scope of study	The commission was called upon to conduct a 2-year study of the nation's pension systems and the future course of national retirement-income policies, and issue a series of reports on short-term and long-term issues with respect to retirement, survivor, and disability programs.	The commission was to conduct a study and make recommendations regarding the short-term financing crisis faced by Social Security at the time.	The commission was to study and report, using six guiding principles, specific recommendations to preserve Social Security for seniors while building wealth for younger Americans.
Final report	The final report was issued in February 1981.	The final report was issued in 1983 and was the basis for the Social Security Amendments of 1983 which addressed the long-term financing problem by gradually increasing the retirement age from 65 to 67, among other things, and made other significant changes to Social Security such as expanding coverage.	The final report, "Strengthening Social Security and Creating Personal Wealth for All Americans," was issued in December 2001.

Source: GAO. I GAO-19-342T

Carter Commission (1979-1981)

In 1978, President Carter signed an executive order authorizing the Carter Commission, which was established when committee members were appointed in 1979. The commission was to conduct a 2-year sturdy of the nation's pension systems and the future course of national retirement income policies. President Carter appointed all 11 commission members. The commission also had an executive director and 37 staffers. Its final report, *Coming of Age: Toward a National Retirement Income Policy*, was released in February 1981.[1]

Charge to the Carter Commission

The commission was ordered to:

- Conduct a comprehensive review of retirement, survivor, and disability programs existing in the United States, including private, federal, state, and local programs.

[1] President's Commission on Pension Policy, *Coming of Age: Toward a National Retirement Income Policy* (Feb. 26, 1981).

- Develop national policies for retirement, survivor, and disability programs that can be used as a guide by public and private programs. The policies were to be designed to ensure that the nation had effective and equitable retirement, survivor, and disability programs that took into account available resources and demographic changes expected into the middle of the next century.
- Submit to the President a series of reports including the commission's findings and recommendations on short-term and long-term issues with respect to retirement, survivor, and disability programs. The commission was charged with covering the following issues in its findings and recommendations:
  - overlaps and gaps among the private, state, and local sectors in providing income to retired, surviving, and disabled persons;
  - the financial ability of private, federal, state, and local retirement, survivor, and disability systems to meet their future obligations;
  - appropriate retirement ages, the relationship of annuity levels to past earnings and contributions, and the role of retirement, survivor, and disability programs in private capital formation and economic growth;
  - the implications of the recommended national policies for the financing and benefit structures of the retirement, survivor, and disability programs in the public and private sectors; and
  - specific reforms and organizational changes in the present systems that may be required to meet the goals of the national policies.

Carter Commission's Recommendations

In its final report, the Carter Commission prescribed a goal for retirement income policy and made numerous recommendations. According to the report, a desirable retirement income goal is the replacement of pre-retirement income from all sources. Recommendations focused on strengthening four areas: employer pensions, Social Security, "individual efforts" (personal savings, employment of older workers, and disability), and public assistance. Recommendations were also made regarding the administration of the U.S. retirement system. Examples of ways to strengthen each area follow:

- **Strengthening Employer Pensions.** The commission recommended establishing a Minimum Universal Pension System (MUPS) for all workers. MUPS was intended to provide a portable benefit that was

supplemental to Social Security. It would have built upon existing employer plans and existing plans that did not meet the requirements would have needed to be amended. Another recommendation was to establish a Public Employee Retirement Income Security Act (i.e. a public sector version of ERISA) so that public and private sector employees would receive similar protections.

- **Strengthening Social Security.** The commission recommended mandatory universal coverage, raising the retirement age for workers who were not approaching retirement, re-examining or making adjustments to the special minimum benefit as well as the spousal benefit and other miscellaneous benefits.
- **Strengthening Individual Efforts.** The commission recommended that contribution and benefit limitations for all individuals should be treated more consistently for all types of retirement savings. The commission also recommended a refundable tax credit for low- and moderate-income individuals to encourage saving for retirement. For older workers, recommendations included improving unemployment benefits to provide short-term income maintenance and keep them in the labor force. The commission also recommended further in-depth study of the Disability Insurance program.
- **Strengthening Public Assistance.** The commission made recommendations to address inflation protection for retirement income and setting Social Security's Supplemental Security Income at the poverty line level and eliminating its assets test.
- **Administration.** The commission recommended consolidating the administration of all federal retirement systems as well as consolidating ERISA administrative functions under one entity. It also recommended an interdepartmental task force to coordinate executive branch agencies dealing with retirement income.

Greenspan Commission (1981-1983)

In 1981, President Reagan signed an executive order establishing the Greenspan Commission. The President asked the commission to conduct a 1-year study and propose realistic, long-term reforms to put Social Security on sound financial footing and to reach bipartisan consensus so these reforms could be passed into law. The President, the Senate Majority Leader, and the Speaker of the House of Representatives each made five appointments, with no more than three of the five appointments coming from one political party to ensure a bipartisan commission. The President was responsible for appointing the commission's chair. The

commission had a staff of 23. The final report, *Report of the National Commission on Social Security Reform*, was issued on January 20, 1983.[2]

Charge to the Greenspan Commission

The commission was ordered to

- Review relevant analyses of the current and long-term financial condition of the Social Security Trust Funds
- Identify problems that could threaten the long-term solvency of such funds
- Analyze potential solutions to such problems that would both assure the financial integrity of the Social Security system and appropriate benefits
- Provide appropriate recommendations to the Secretary of Health and Human Services, the President, and Congress.

Greenspan Commission's Recommendations

In its final report, the Greenspan Commission found both short and long-term financing problems and recommended that action should be taken to strengthen the financial status of the Social Security program. Twelve commission members voted in favor of a consensus package with 13 recommendations to address Social Security's short-term deficit, including, for example:

- Expand Social Security to include coverage for nonprofit and civilian federal employees hired after January 1, 1984, as well as prohibiting the withdrawal of state and local employees.
- Shift cost-of-living adjustments to an annual basis.
- Make the Social Security Administration its own separate, independent agency.
- Make adjustments to spousal and survivor benefits.
- Revise the schedule for Social Security payroll taxes.
- Establish the taxation of benefits for higher-income persons.

[2] National Commission on Social Security Reform, *Report of the National Commission on Social Security Reform* (Washington. D.C.: Jan. 20, 1983).

In addition, these 12 commission members agreed that the long-range deficit should be reduced to approximately zero, and their recommendations were projected to meet about two-thirds of the long-range financial deficit. Seven of the 12 members agreed that the remaining one-third of the long-range financial deficit should be met by a deferred, gradual increase in the normal retirement age, while the other 5 members agreed that it should be met by an increase in future contribution rates starting in 2010.

After the Greenspan Commission's final report was issued, Congress enacted the Social Security Amendments of 1983. The amendments incorporated many of the Greenspan Commission's recommendations and made comprehensive changes to Social Security coverage, financing, and benefit structure. These changes included addressing Social Security's long-term financing problems by gradually increasing the retirement age from 65 to 67, among other things.

President's Commission to Strengthen Social Security (2001)

In 2001, President Bush signed an executive order establishing the President's Commission to Strengthen Social Security. The President asked the Commission to produce an interim report describing the challenges facing the Social Security system and the criteria by which the Commission would evaluate reform proposals, as well as a final report to set forth the Commission's recommendations regarding how to strengthen Social Security with personal accounts. The commission had a staff of sixteen members appointed by the President, of which no more than eight members were of the same political party. The final report, *Strengthening Social Security and Creating Personal Wealth for All Americans*, was issued in December 2001.[3]

Charge to the President's Commission to Strengthen Social Security

The commission was asked to submit to the President bipartisan recommendations to modernize and restore fiscal soundness to the Social Security system according to the following principles:

[3] President's Commission to Strengthen Social Security, *Strengthening Social Security and Creating Personal Wealth for All Americans* (Washington. D.C.: Dec. 21, 2001).

- Modernization must not change Social Security benefits for retirees or near-retirees;
- The entire Social Security surplus must be dedicated to Social Security only;
- Social Security payroll taxes must not be increased;
- Government must not invest Social Security funds in the stock market;
- Modernization must preserve Social Security's disability and survivors components; and
- Modernization must include individually controlled, voluntary personal retirement accounts, which will augment the Social Security safety net.

The President's Commission to Strengthen Social Security Recommendations

In its final report, the Commission offered three models for Social Security reform. All three models shared a common framework whereby voluntary individual accounts were established in exchange for a reduction in the Social Security defined portion of benefit. According to the report:

- Reform Model 1 would have established a voluntary personal account option, but did not specify other changes in Social Security's benefit and revenue structure and was intended to achieve full long-term sustainability.
- Reform Model 2 would have enabled future retirees to receive Social Security benefits that would be at least as great as then current retirees and increased Social Security benefits paid to low-income workers. Model 2 would have established a voluntary personal account without raising taxes or requiring additional worker contributions. It was intended to achieve solvency and balanced Social Security revenues and costs.
- Reform Model 3 would have established a voluntary personal account option that generally enabled workers to reach or exceed then-current scheduled benefits and wage replacement ratios. It was intended to achieve solvency by adding revenues and by slowing benefit growth less than price indexing.

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