Congressional Research Service
Informing the legislative debate since 1914

IN FOCUS

February 17, 2023

Retirement Income Security: Issues and Policies

Older Americans are an economically diverse group with differing degrees of retirement preparedness. Median household income for individuals ages 65 and older (or *aged individuals*) was $51,906 in 2017 (CRS analysis of 2017 income data from the Health and Retirement Study linked with Social Security records). One-fifth of individuals ages 65 and older had household incomes of less than $21,840, whereas another one-fifth had household incomes of at least $110,897. Many in Congress have expressed interest in improving retirement income security for groups that are not adequately prepared for retirement.

Retirement Income Sources

Older Americans receive income from a variety of sources, including public programs such as Social Security and Supplemental Security Income (SSI); pensions (e.g., employer-sponsored defined benefit [DB] and defined contribution [DC] plans) and retirement savings (e.g., Individual Retirement Accounts or IRAs); asset income (e.g., business income, interest, dividends, and rents); and earnings. Social Security was the largest source of income among the aged in 2017, accounting for 28.0% of aggregate income. Pensions and retirement savings constituted 25.8% of income, and earnings accounted for 23.8%. The remainder of aggregate income included income from assets, public assistance (mainly SSI), and other sources.

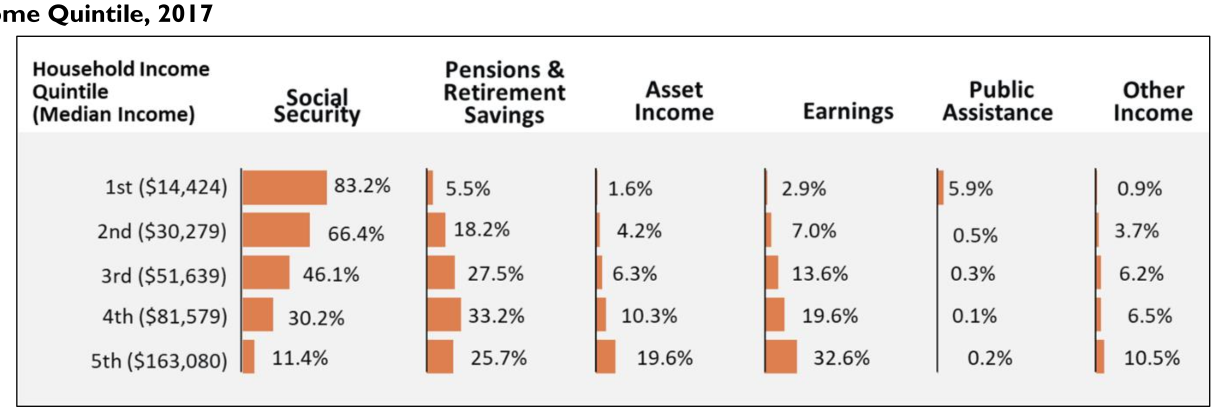
The sources of income differed for aged individuals at the lower end compared to the upper end of the household income distribution (**Figure 1**). Social Security was the largest source of income for aged individuals with relatively low household income. The share of aggregate income from Social Security significantly decreased as household income increased. Pensions and retirement savings provided between 18% and 33% of aggregate income for aged individuals with relatively higher household income. Asset income and earnings were important for those with higher household income. Public assistance accounted for a small percentage of aggregate income for most aged individuals except for those with the lowest income.

Retirement Income Adequacy

Whether people are financially adequately prepared for retirement is the subject of debate and research. While no standard definition exists, income adequacy in retirement could mean whether income can meet basic needs (e.g., being above the poverty line) or whether income is sufficient to maintain a preretirement standard of living. SSI and other public assistance programs are designed to ensure that eligible individuals have a minimum level of resources. In contrast, Social Security and pensions, which are based on earnings, are designed to help workers amass enough resources to maintain their preretirement standard of living in retirement. Social Security benefits replace a greater share of career-average earnings for low-paid workers than for high-paid workers. Therefore, Social Security benefits generally comprise a higher share of retirement income for low earners than for high earners who have other retirement income.

For lower-income households, Social Security and SSI may account for the largest share of a household's retirement resources, in part because some low-income families are typically unable to save for retirement after meeting regular daily expenses during their working years. Because Social

Figure 1. Share of Aggregate Income from Each Source Among Individuals Ages 65 and Older, by Household Income Quintile, 2017



Source: CRS analysis of data from the 2018 Health and Retirement Study (HRS), reflecting income received in 2017.

Notes: Each household income quintile represents 20% of the individuals. The first quintile includes those with the lowest household income. The fifth quintile includes those with the highest household income. Household income upper limits for quintiles one through four are $21,840, $39,700, $64,295, and $110,897, respectively. (Dollar amounts shown in figure refer to medians within quintile range.) Pensions and retirement savings include DB and DC pension plans and IRAs. Asset income includes business income, interest, dividends, and rent. Other income includes veteran benefits, workers' compensation, unemployment compensation, alimony, child support, and financial assistance from outside the household. Public assistance includes SSI and other welfare income. Values have been adjusted for population weights provided by the HRS. Individual quintiles may not sum to 100% due to rounding.

Security replaces a sufficient portion of their preretirement earnings, some low-income households may have less incentive to save for retirement than high-income households do. Policy changes in Social Security or SSI might better target these families to ensure they are able to meet their basic needs in retirement. (Since 2000, the official poverty rate for aged individuals has ranged from 8.7% to 10.4%.)

Some households with the ability to save for retirement might have little or no retirement savings beyond Social Security because they do not have access to employer-sponsored pensions and do not save elsewhere (e.g., through IRAs). These households might benefit from policies designed to increase access to, participation in, or contributions to retirement plans.

Policy Considerations

Social Security. Old-Age, Survivors and Disability Insurance (OASDI, or Social Security) is a mandatory federal social insurance program that replaces income lost to a family as a result of the retirement, death, or disability of an insured worker. Insured status is earned by working in jobs covered under Social Security and subject to payroll taxes that finance Social Security benefits. Once individuals work long enough in covered jobs to be insured, they and their families become eligible for benefits based on a worker's earnings and paid without a test of economic need. In January 2023, Social Security paid approximately $112 billion to about 66 million beneficiaries. The average monthly retired worker benefit was $1,828.

Social Security income was particularly important for aged individuals with relatively lower household income. In 2017, about 62.7% of aged individuals with the lowest household incomes relied on Social Security for 90% or more of household income. Some argue that Social Security could be redesigned to provide more protection for vulnerable groups, such as lifetime low earners, widowed or divorced beneficiaries, and the oldest old. Reforms could include changing the minimum benefit and survivor benefit, enhancing the progressivity of the benefit formula, and increasing the cost-of-living adjustment.

The OASDI trust funds are projected to be depleted in 2035, at which point continuing program tax revenue is projected to cover approximately 80% of scheduled benefits. For the trust funds to remain solvent, an increase in revenue, a decrease in benefits, or some combination of these approaches would be needed. No consensus has emerged on how best to approach reform. Reform may involve some combination of tax increases, benefit protections for low-earners, benefit cuts for high earners or high-income individuals, general revenue transfers, or an increase in the rate of return on Social Security revenues.

Supplemental Security Income (SSI). SSI is a federal means-tested program that provides monthly cash payments to aged, blind, and disabled individuals (including disabled children) with low incomes and limited resources to meet basic needs such as food and shelter. The maximum SSI benefit is below the poverty level. Recipients must have countable monthly income less than the monthly federal benefit rate of $914 for individuals and $1,371 for couples in 2023. Countable resources must not exceed $2,000 for individuals and $3,000 for couples. In January 2023, SSI provided $1.3 billion to 2.4 million seniors ages 65 and older. The average monthly payment for recipients ages 65 and older was $554.

In 2017, about 14% of aged individuals with the lowest household incomes received SSI, accounting for about 4% of the group's aggregate household income. Over half of aged SSI recipients also received Social Security benefits, and over one-third had no other source of income.

Recent reform options to improve the retirement income security of SSI recipients include increasing the federal benefit rates to equal the poverty guidelines, updating the resource thresholds and income exclusions and indexing them to inflation, and excluding certain retirement savings accounts from countable resources.

Pensions and Retirement Savings. A pension is a voluntary, tax-advantaged benefit that employers may offer to assist employees in providing for their financial security in retirement. The two types of pension plans are DB plans—in which benefits are generally funded by employers and paid according to a specified formula throughout retirement—and DC plans, such as 401(k) plans, in which employee and/or employer contributions are made to an individual's account and used as a source of retirement income. IRAs are retirement savings accounts established outside of the workplace. Workers can *roll over* DC savings or lump sum payments from DB pensions (if available) into IRAs at job change or retirement. Income from DB plans and distributions from DC plans and IRAs can be used to finance spending in retirement. In 2017, about 59.8% of individuals ages 65 and older received household income from pensions and retirement savings, with a median amount of $18,000 (or $1,500 monthly).

Over the past five decades, private sector employers have increasingly offered DC plans instead of DB plans. Unlike DB plans, DC plans require many decisions on the part of participants (e.g., whether to participate, how much to contribute, and how to invest) and do not guarantee lifetime income to retirees. Some Members of Congress have expressed concern that households without access to pension plans or with limited DC plan or IRA savings may not be adequately prepared for retirement. Recently enacted legislation focused on increasing pension plan sponsorship and savings in these plans (e.g., see the Setting Every Community up for Retirement Enhancement Act of 2019 [SECURE Act; P.L. 116-94] and the SECURE 2.0 Act of 2022 [P.L. 117-328]). For example, SECURE 2.0 included a provision aimed at promoting retirement savings among low-income households by repealing the Retirement Savings Contribution Credit and replacing it with a Saver's Match, effective starting in 2027.

Zhe Li, Analyst in Social Policy
Paul S. Davies, Specialist in Income Security
Elizabeth A. Myers, Analyst in Income Security

IF12330

Disclaimer