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COVID-19 and Its Impact on America's Retirement System

David M. English

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There is a long-standing debate over whether America's retirement system is in crisis.[1] The COVID-19 pandemic has resolved the debate. Perhaps the system was merely challenged prior to March 2020,[2] but it is certainly in crisis now. The pandemic has negatively impacted all four of the principal pillars of retirement: Social Security, employer-sponsored retirement programs, earnings from part-time work, and the worker's own savings. This short article will discuss the impact of the pandemic on the retirement system and discuss possible ways to restore the system to health or at least ameliorate the damage.

I. The Impact of the Pandemic

Social Security - Social Security is the largest source of retirement income, replacing on average 38% of an average recipient's pre-retirement income.[3] Social Security payments are not affected by the pan-

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1 *Compare* Charles D. Ellis et al., Falling Short: The Coming Retirement Crisis and What to Do About It 1-2 (2014) (explaining that due to changes in demographics and economics, retirement income systems are no longer providing the support to retirees needed to maintain their standard of living), *and* Teresa Ghilarducci & Tony James, Rescuing Retirement: A Plan to Guarantee Retirement Security for All Americans 1-2, 4 (2018) (explaining that due to the deeply confusing retirement system, and individuals living longer and saving less, many Americans will be forced to work until the end of their lives), *with* Andrew Biggs, *The Phony Retirement Crisis*, Wall St. J. (Feb. 28, 2019, 6:56 PM), https://www.wsj.com/articles/the-phony-retirement-crisis-11551398196 [https://perma.cc/JT2U-FXK7] (rejecting a retirement crisis because surveys show that most retirees have enough to maintain their standard of living, the elderly poverty-rate is lower than in 1990, and participation in retirement plans and retirement-plan contributions have increased).

2 For the challenge vs. crisis comparison, see Steve Vernon, *Is There Really a "Retirement Crisis"?*, Forbes (May 6, 2020, 7:31 PM), https://www.forbes.com/sites/stevevernon/2020/05/06/is-there-really-a-retirement-crisis [https://perma.cc/P2AS-JP5R].

3 The calculation is for a 65-year-old Social Security applicant with "medium" earnings ($49,366 in 2016). The replacement ratio is higher for a low earner and lower for a high earner, but in all cases will be at least 25% of the maximum wages subject to tax ($120,418 in 2016). For the various computations, see *How Do Benefits Compare to Earnings?*, Nat'l Acad. of Soc. Ins., https://www.nasi.org/learn/socialsecurity/benefits-compare-earnings [https://perma.cc/VU6J-WT3P].

demic. What is in greater peril is the Social Security Trust Fund. The 2020 annual report of the Social Security Trustees, which was published on April 22, 2020, projects that the Social Security Trust Fund will run dry in 2035,[4] the same year as projected in the 2019 report.[5] But this report is based on data that predates the pandemic. Taking the pandemic into account, one expert projects that the Trust Fund will run dry about two years earlier, or in 2033,[6] and another projects that the Trust Fund will be exhausted in 2033 if the economic recovery is V-shaped (relatively quick), but in 2031 if the recovery is U-shaped (longer term).[7] Congress will therefore need to address Social Security funding issues at least two years earlier than was anticipated prior to the pandemic.

Employer-Sponsored Retirement Programs - The traditional defined benefit pension is becoming a rarity. Only 13% of employees in corporate America participate in a defined benefit plans, down from 76% in the mid-1980s.[8] Among those which remain, 63% of companies are considering dropping guaranteed benefits to new workers within the next five years.[9]

The focus should therefore be on defined contribution plans, most commonly the 401(k). The news is not good. The most immediate concern is that more than one in four Americans are raiding their retirement accounts due to a coronavirus-related job loss, with an average

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4 BD. OF TRS., FED. OLD-AGE & SURVIVORS INS. & FED. DISABILITY INS. TR. FUNDS, THE 2020 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE AND FEDERAL DISABILITY INSURANCE TRUST FUNDS 3 (2020), https://www.ssa.gov/oact/tr/2020/tr2020.pdf.

5 BD. OF TRS., FED., OLD-AGE & SURVIVORS INS. & FED. DISABILITY INS. TR. FUNDS, THE 2019 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE AND FEDERAL DISABILITY INSURANCE TRUST FUNDS 3 (2019), https://www.ssa.gov/oact/tr/2019/tr2019.pdf.

6 Alicia H. Munnell, *How Will the Coronavirus Pandemic Affect Social Security's Finances?*, MARKETWATCH (Apr. 30, 2020, 9:42 AM), https://www.marketwatch.com/story/how-will-the-coronavirus-pandemic-affect-social-securitys-finances-2020-04-30 [https://perma.cc/E5QF-4JGC].

7 *See* Bob Carlson, *How Soon Will the Social Security Trust Fund Run Dry?*, FORBES (June 20, 2020, 10:00 AM), https://www.forbes.com/sites/bobcarlson/2020/06/20/how-soon-will-the-social-security-trust-fund-run-dry [https://perma.cc/DZ9P-DYK8] (discussing Wharton School model).

8 Reshma Kapadia, *The Pension Myth and the Financial Realities*, BARRON'S (Nov. 16, 2018, 4:32 PM), https://www.barrons.com/articles/the-pension-myth-and-the-financial-realities-1542403959 [https://perma.cc/T8EL-AHBM] (discussing data from Bureau of Labor Statistics).

9 Nathan Bomey, *'It's Really Over': Corporate Pensions Head for Extinction as Nature of Retirement Plans Changes*, USA TODAY (Dec. 10, 2019, 12:01 AM), https://www.usatoday.com/story/money/2019/12/10/corporate-pensions-defined-benefit-mercer-report/2618501001 [https://perma.cc/GN8Q-NL32] (discussing Mercer 2020 Defined Benefit Outlook).

withdrawal of $6,757.[10] While this amount may not sound like much to the more affluent, the median savings for the half of all families who have any kind of retirement savings is only $60,000.[11] Furthermore, between March and the end of May, 2020, 11.8% of employers had decreased or halted contributions.[12]

Job Losses - Even without employer contributions, a worker who has a job may make voluntary contributions to their 401(k) to hopefully grow their account. But this is where the pandemic has had its most cruel impact. During the pandemic, job losses among workers age 65 or older are greater than any other age group except for the very young.[13] A group of economists has concluded that almost all of the 7% drop in the labor participation rate during the pandemic is caused by older workers who have lost their jobs and are no longer looking for work.[14]

This is a reversal of what was an increasing desire by older workers to stay in the labor force past age 65.[15] For those who are laid off, savings are often inadequate. One in five individuals cannot live off their savings for more than two weeks.[16] One commentator projects that the cumulative effect of the COVID-19 shocks will result in a 31% reduc-

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10 Sharon Epperson, *More Than 1 in 4 Americans Are Raiding Their Retirement Accounts After a Coronavirus-Related Job Loss*, CNBC (May 23, 2020, 10:45 AM), https://www.cnbc.com/2020/05/23/26-percent-of-americans-are-raiding-their-retirement-accounts-after-job-loss.html [https://perma.cc/A3MR-VZCJ].

11 Shawn Langlois, *Here's Proof That 401(k) Plans Are Not Working for Most Americans – Can You Guess Who They ARE Working for?*, MarketWatch (Feb. 23, 2020, 10:30 AM), https://www.marketwatch.com/story/heres-proof-that-401k-plans-are-not-working-for-most-americans-can-you-guess-who-they-are-working-for-2019-12-12 [https://perma.cc/W3D9-GL6X] (discussing data compiled by Economic Policy Institute).

12 Christopher Robbins, *How Coronavirus Hit 401(k), 529 Contributions from Main Street Workers*, Fin. Advisor (July 1, 2020), https://www.fa-mag.com/news/how-coronavirus-hit-401-k----529-contributions-from-main-street-workers-56662.html [https://perma.cc/QN8E-LM3L].

13 Combined unemployment and underemployment for workers over age 65 was 26% in May 2020, 5% higher than for those 25-54, the largest gap between the two groups since record keeping began in 1948. Mark Miller, *A Pandemic Problem for Older Workers: Will They Have to Retire Sooner?*, N.Y. Times (June 26, 2020), https://nyti.ms/3hYm9Mt [https://perma.cc/5S8Z-CDAF].

14 Olivier Coibion et al., *Labor Markets During the Covid-19 Crisis: A Preliminary View*, Nat'l Bureau of Econ. Rsch. 5 (Apr. 2020), https://www.nber.org/system/files/working_papers/w27017/w27017.pdf.

15 A study conducted by the Boston College Center for Retirement Research found that the desire to continue working past age 65 had increased from 16% in 1991 to 48% in 2018. Alicia H. Munnell et al., Retiring Earlier Than Planned: What Matters Most, Ctr. for Ret. Rsch. at B.C. at 1 (Feb. 2019), https://crr.bc.edu/wp-content/uploads/2019/01/IB_19-3.pdf.

16 Ginger Szala, *Is America Worried About Retirement? Yes!*, ThinkAdvisor (July 14, 2020, 11:36 AM), https://www.thinkadvisor.com/2020/07/14/is-america-worried-about-retirement-yes [https://perma.cc/QL74-D2RF].

tion in retirement savings.[17] Another estimates that an additional 3.1 million older workers will fall into lifelong poverty and that older workers and their spouses as a whole will suffer a 7-9% reduction in their retirement income replacement rate.[18]

II. PRIOR TRENDS

Prior to the pandemic, the median retirement age had been increasing; it reached 64.6 years for men and 62.3 for women, figures not seen since the 1960s.[19] But this employment picture was not without problems. One study found that over a third of workers retired earlier than expected,[20] and another study found that it was more than half.[21] The two most significant reasons for an early departure are the employee's health and involuntary job separation.[22] More than half of full-time workers fifty or older have experienced an involuntary job loss from a long-term employer.[23] Of this group, only 10% are able to find a new position equaling their earlier salary.[24] One of the most significant impacts of the Affordable Care Act was to make health insurance available to older workers without employer health insurance.[25] But only

17 David Rae, *Will Coronavirus Spike the Rate of Poverty in Retirement?*, FORBES (May 24, 2020, 8:00 AM), https://www.forbes.com/sites/davidrae/2020/05/24/will-coronavirus-spike-the-rate-of-poverty-in-retirement [https://perma.cc/96VC-KYKP].

18 Michael Papadopoulos et al., *Recession Increases Downward Mobility in Retirement: Middle Earners Hit from Both Sides*, THE NEW SCH. RET. EQUITY REP., STATUS OF OLDER WORKERS at 1 (May 2020), https://www.economicpolicyresearch.org/images/Retirement_Project/status_of_older_workers_reports/Q1_2020_OWAG_Final_2.pdf.

19 Alicia H. Munnell, *Why the Average Retirement Age Is Rising*, MARKETWATCH (Oct. 15, 2017, 1:55 PM), https://www.marketwatch.com/story/why-the-average-retirement-age-is-rising-2017-10-09 [https://perma.cc/KZ5J-U3KT].

20 MUNNELL ET AL., *supra* note 15.

21 *52% of Older Workers Forced into Involuntary Retirement*, THE NEW SCH. SCHWARTZ CTR. FOR ECON. POL'Y ANALYSIS (Oct. 5, 2018), https://www.economicpolicyresearch.org/jobs-report/september-2018-unemployment-report-for-workers-over-55 [https://perma.cc/CU6K-YJGR].

22 Jacqueline Sergeant, *Majority of Americans Forced to Retire Early, Allianz Finds*, FIN. ADVISOR (Apr. 14, 2020), https://www.fa-mag.com/news/your-retirement-start-date-might-not-be-when-you-want-it--study-says-55167.html [https://perma.cc/X5K5-WKF6].

23 Richard W. Johnson & Peter Gosselin, *How Secure Is Employment at Older Ages?*, URB. INST. 2, 7-8 (Dec. 2018), https://www.urban.org/research/publication/how-secure-employment-older-ages/view/full_report [https://perma.cc/P5F2-FTPE].

24 *Id.* at 2, 13.

25 Sara Rosenbaum, *The Patient Protection and Affordable Care Act: Implications for Public Health Policy and Practice*, 126 PUB. HEALTH REPS., Jan.-Feb. 2011, at 130-31, https://www.ncbi.nlm.nih.gov/pmc/articles/PMC3001814/pdf/phr126000130a.pdf.

26% of workers are in a traditional job with benefits throughout their 50s and early 60s.[26]

These various shocks have contributed to an irregular pattern of savings. For the half of workers who have access to defined contribution plans through their employers, not all contribute or contribute on only a sporadic basis.[27] In addition, for every dollar contributed, over 20 cents is withdrawn prematurely.[28] This inconsistent participation and premature withdrawals have led to a substantial savings deficit:

> [T]he typical older worker has less than $100,000 in 401(k)/IRA assets, instead of the $364,000 he would have had under a system in which workers participated throughout their careers, paid zero fees on assets, and did not withdraw money prematurely from their accounts.[29]

More precisely, according to the Federal Reserve Survey of Consumer Finances, the median retirement account for a worker age 55-64 in 2019 was $120,000.[30] With Social Security replacing only 38% of pre-retirement income,[31] a $120,000 account can make up only a small portion of this 62% income deficit. It should not be surprising that even before the pandemic half of all retirees were unable to maintain their previous standard of living.[32]

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26 ALICIA H. MUNNELL ET AL., HOW DO OLDER WORKERS USE NONTRADITIONAL JOBS?, CTR. FOR RET. RSCH. AT B.C. at 2 (2019), https://crr.bc.edu/wp-content/uploads/2019/10/IB_19-15.pdf.

27 Elizabeth Bauer, *Is Retirement 'Out of Reach for Working Americans'?*, FORBES (Sept. 18, 2018, 9:12 AM), https://www.forbes.com/sites/ebauer/2018/09/18/is-retirement-out-of-reach-for-working-americans [https://perma.cc/J2VY-B749] (citing data from the National Institute on Retirement Security). In 2014, 50.9% of private sector workers had access to a retirement plan but the participation rate was 40.1%. *Id.*

28 Elena Botella, *For Every Dollar Saved for Retirement, at Least 20 Cents Is Withdrawn Too Early*, FORBES (Feb. 4, 2020, 6:34 PM), https://www.forbes.com/sites/elenabotella/2020/02/04/for-every-dollar-saved-for-retirement-at-least-20-cents-is-withdrawn-too-early [https://perma.cc/CV8W-KGYL] (citing a study by economists from the U.S. Department of Treasury and the Joint Committee on Taxation).

29 ANDREW G. BIGGS ET AL., WHY ARE 401(K)/IRA BALANCES SUBSTANTIALLY BELOW POTENTIAL?, CTR. FOR RET. RSCH. AT B.C. at 5 (2019), https://crr.bc.edu/wp-content/uploads/2019/10/IB_19-17.pdf.

30 Eric Reed, *What Is the Average Retirement Savings*, THE STREET (Mar. 3, 2019), https://www.thestreet.com/retirement/average-retirement-savings-14881067 [https://perma.cc/6VYX-AHET] (discussing data from the Federal Reserve Board Survey of Consumer Finances).

31 *See supra* text accompanying note 3.

32 ALICIA H. MUNNELL ET AL., HOW WOULD MORE SAVING AFFECT THE NATIONAL RETIREMENT RISK INDEX?, CTR. FOR RET. RSCH. AT B.C. at 1 (2019), https://crr.bc.edu/wp-content/uploads/2019/10/IB_19-16.pdf.

III. Solutions

America's retirement system can work well for workers who can afford to make significant contributions and who have long careers with employers with robust retirement programs. It does not work well for the more vulnerable such as workers with sporadic work histories or those who develop disabilities.[33] Many solutions have been proposed. One category are measures intended to incentivize employees to save and employers to create savings opportunities. The SECURE Act of 2019[34] is an example of this incentive approach. Provisions of the SECURE Act intended to encourage retirement savings include (1) requiring employer plans to provide participants with an estimate of the income their account balance would produce if converted to an annuity;[35] (2) making 401(k) plans available to part-time workers;[36] (3) making it easier for small employers to join multi-employer plans (MEP);[37] (4) making it easier to hold an annuity within a defined contribution plan;[38] (5) increasing the required minimum distribution date from age 70 ½ to 72;[39] and (6) repealing the age cap on IRA contributions.[40] To pay for these changes, the SECURE Act repeals the "stretch" IRA.[41] This repeal will discourage the use of IRAs but mostly among the better off and not among the less wealthy or more vulnerable. A preliminary analysis by the Employee Benefit Research Institute of three of the SECURE Act provisions (MEP, auto-enrollment, part-time workers) concluded that they could reduce the retirement savings deficit of $3.83 trillion by $115 billion, or only about 3%.[42]

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33 *See* Vernon, *supra* note 2.

34 Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019, Pub. L. No. 116-94, 133 Stat. 2534, 3137 (2019).

35 *Id.* §§ 109, 203-04.

36 *Id.* § 112.

37 *Id.* § 101.

38 *Id.* §§ 109, 203-04.

39 *Id.* § 114.

40 *Id.* § 107.

41 *Id.* § 401; Alessandro Malito, *The Secure Act Killed the Stretch IRA – Here Are Alternatives for Your Inheritance*, MarketWatch (Feb. 7, 2020, 11:58 AM) https://www.marketwatch.com/story/the-secure-act-killed-the-stretch-ira-here-are-alternatives-for-your-inheritance-2020-02-06 [https://perma.cc/QFK2-8EYV].

42 Nick Thornton, *How Much Will SECURE Act, Open MEPs Improve Retirement Security?*, Benefits Pro (Feb. 25, 2020, 4:16 PM), https://www.benefitspro.com/2020/02/25/how-much-will-secure-act-open-meps-improve-retirement-security [https://perma.cc/K83Z-FQ5X].

A more ambitious approach is the Auto-IRA.[43] Under the Auto-IRA, which has been enacted in several states in recent years, employers that do not otherwise offer retirement plans must automatically enroll employees in a payroll deduction program that would fund an IRA in the employee's name.[44] The best-known Auto-IRA is CalSavers, which was enacted in 2016.[45] The verdict is still out on how effective the Auto-IRA will be although the initial results are promising.[46]

The most ambitious approach but the one least likely to be enacted is the creation of a universal income program that could be structured as a supplement to Social Security. Perhaps the best known model would require that the employer and employee each contribute 1.5% by payroll deduction to a national investment fund that would pay a life annuity at retirement.[47] While such a program could go a long way to eliminate poverty among the elderly, Americans are not particularly fond of mandated programs, particularly one involving tax increases, so the solution that might actually substantially reduce the retirement savings deficit will likely remain a concept and not a reality.[48]

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43 Ted Godbout, *Auto-IRA Bill Resurfaces in the Senate*, NAT'L ASS'N OF PLAN ADVISORS (Aug. 20, 2019), https://www.napa-net.org/news-info/daily-news/auto-ira-bill-resurfaces-senate [https://perma.cc/B459-XAQF].

44 Stephen Miller, *State-Run Auto-IRAs Are Spreading While Critics Note Shortcomings*, SHRM (June 6, 2019), https://www.shrm.org/resourcesandtools/hr-topics/benefits/pages/state-run-auto-iras-are-spreading-while-critics-note-shortcomings.aspx# [https://perma.cc/U2T5-MR5E].

45 *See* Angela Antonelli, *9 Ways California's New Retirement Plan Changes the Retirement Savings Landscape*, MARKETWATCH (Aug. 18, 2019, 11:44 AM), https://www.marketwatch.com/story/9-ways-californias-new-retirement-plan-changes-the-retirement-savings-landscape-2019-08-16 [https://perma.cc/L656-88ZJ].

46 The Center for Retirement Research found that the participation rate in the Oregon program was between 48% and 67%. LAURA D. QUINBY, ET AL., PARTICIPATION AND PRE-RETIREMENT WITHDRAWALS IN OREGON'S AUTO-IRA, CTR. FOR RET. RSCH. AT B.C. at 1, 10 (rev. 2020), https://crr.bc.edu/wp-content/uploads/2019/11/wp_2019-15_-1.pdf.

47 The best-known model was devised by Teresa Ghilarducci and Tony James. *See* GHILARDUCCI & JAMES, *supra* note 1, at 50.

48 This is also the conclusion of Steve Vernon of the Stanford Longevity Center. *See* Steve Vernon, *3 Ways to Improve Americans' Retirement Readiness*, FORBES (June 15, 2020, 4:50 PM), https://www.forbes.com/sites/stevevernon/2020/06/15/3-ways-to-improve-americans-retirement-readiness [https://perma.cc/F73F-VJUY].