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Retirement Crisis or Media Creation?

Separating Fact from Sensationalized Fiction

Give them an inch, and they'll take a mile.

In recent weeks, media sources have picked up on ongoing research out of the U.S. Census Bureau which is notably identified as "preliminary and incomplete". Analysis contained in the report has been distributed and misrepresented by several news outlets and translated as substantial findings to the public.

Preliminary Research

What's the big news? According to several sources, which cherry-picked pieces of the analysis to precipitously report, two-thirds of Americans are not saving for retirement. Before we overreact to this harrowing claim, let's analyze the basis for this presumed fact.

U.S. Census Bureau Researchers, Michael Gideon, PhD and Joshua Mitchell, PhD, used W-2 tax records and Form 5500 data to estimate retirement plan sponsorship by employers and usage by employees. In November of 2016, they released their research in its draft state. The paper has not yet been finalized. To their knowledge, as well as to the knowledge of many industry experts, this method has never been used to determine retirement plan coverage and participation. Generally, analysis of employer-sponsored retirement plans is a result of surveys or Form 5500 data alone. Using 2012 tax records and filed plan data, the researchers came to the following conclusions.

- Nearly 80% of all wage and salary employees work for an employer who sponsors a defined contribution plan.
- Of these workers, 41% made a deferral to a defined contribution plan, equating to a defined contribution plan participant rate of only 32% of the working population.

These statistics show a vast difference from the results shown by typical industry studies. For example, the Plan Sponsor Council of America's 57th Annual Survey[1] of plans, based on 2013 data, showed that 89.4% of U.S. employees are eligible to participate in an employer-sponsored retirement plan. This statistic covers Profit Sharing, 401(k), and Combination (401(k) and Profit Sharing) plans. PSCA found that 88.6% of eligible U.S. employees have an account balance and 80.3% made contributions to their account in 2013. A similar annual study by PlanSponsor[2] found that, in 2012, the average participation rate for eligible employees was 72.6%. PSCA and PlanSponsor both use surveys to gather data while the research done by the Census Bureau analyzes U.S. tax data. In theory, tax data should allow the

[1] PSCA's 57th Annual Survey of Profit Sharing and 401(k) Plans. Copyright 2014.
[2] 2012 Defined Contribution Survey: Looking to the Stars. PLANSPONSOR. November 2012.

Researchers to reach a more concrete conclusion of the retirement plan landscape since tax filings are not voluntary. In reality, though, this method has its shortcoming.

The Researchers have noted numerous limitations to their analysis including that it does not measure defined benefit participation or Roth, after-tax contributions or take into account contributions made by employers when the employee does not contribute to a plan. Another substantial limitation is that ineligible employees are treated as non-contributing, eligible employees because the group is not discernible using this method. In light of these limitations, the Researchers have emphasized that *actual participation rates in any retirement plan type are likely higher than observed* in this study and additional information is required to draw concrete conclusions about savings adequacy and preparation for retirement.

Retirement Crisis or Sensationalized Media Coverage?

Regardless of the incomplete nature of this report or its noted shortcomings, media outlets are spreading the news like wildfire. Bloomberg was among the first to cover this analysis in a February 21st article titled “Two-Thirds of Americans Aren’t Putting Money in Their 401(k): A dark, detailed new look at why many employees may never be able to retire.” This title is a perfect example of media sensationalism, designed more to garner readers than convey fact. The article continues with phrases such as “Two-thirds of all Americans don’t contribute anything to a 401(k) or other retirement account available through their employer” which continues to be misleading and overemphasize specific pieces of the preliminary data. Similarly, an article from MarketWatch, entitled “It’s worse than you thought: Americans are drastically under-saved for retirement”, focuses on the same data point without explaining the limitations of this analysis or that it is incomplete. While these companies may just want to get a jump on the story, it is imprudent to report preliminary, out of date analysis as factual and current.

This is certainly not the first or last time retirement plan data has been obscured to garner reaction, even outside the realm of traditional media. A similar offense occurred when Professor Ian Ayres of Yale Law School mailed thousands of letters to Plan Sponsors, claiming exorbitant fees discovered in his research based on out of date, incomplete data that didn’t consider all pertinent factors. Quoted from our December 2013 feature article on this topic, “The most pressing issue that we find with this study… is that a major conclusion was formed from incomprehensive data. Ayres’ took potentially incomplete and outdated information…and caused potentially undue concern among plan sponsors.”

The Bottom Line

With the current status of the Fiduciary Rule, heightened bouts of plan litigation, a new President in office, and new officials in government, the media has a lot to say about the financial and retirement plan industries. For Plan Sponsors and Participants, it is important to take these media reports with a grain of salt. Remember that news outlets are trying to garner attention and gain readers. Media sensationalism is no reason to derail a well-planned, long-term retirement strategy.