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Pensions Aren't the Only Way to a Secure Retirement

By THASUNDA BROWN DUCKETT

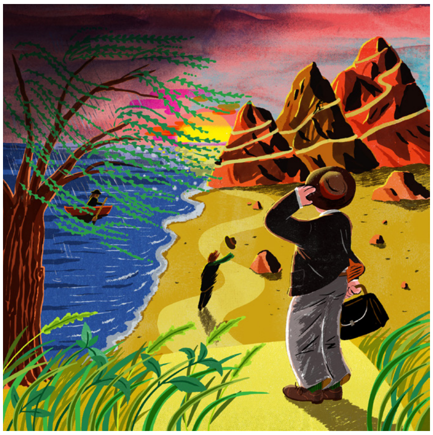
Americans are increasingly concerned that it's harder to secure the things that once represented economic progress and achievement — homeownership, a college education, a well-paying job and a decent retirement. This economic uncertainty is making many feel left out and left behind. People are casting a wide net for solutions, and policymakers should be ready with big, creative, new ideas.

One place for leaders in the public and private sectors to start is by fixing a problem we have solutions for: retirement insecurity. For decades, our nation has emphasized the importance of saving for retirement. But we've lost focus on an equally critical part of the equation: turning a lifetime of savings into lifelong retirement income.

Many Americans retire without knowing how long they will live or how long their savings will really last. Even people with generous retirement plans at large companies often don't have the security that comes with knowing they'll have a monthly income that will last the rest of their lives. As a result, about 45 percent of American households will run short of money in retirement, according to a projection from Morningstar, an investment research firm. Americans urgently need to put secure lifetime income back at the center of retirement planning.

This is a personal issue for me. Soon after I graduated from college, I had to tell my father that he wouldn't have enough money to retire when he wanted to. He had worked hard all his life in a warehouse and always provided for our family. He had access to a 401(k), but he never thought it was for workers like him, so he didn't contribute to it. His pension and Social Security wouldn't support the retirement he hoped for. That was a hard conversation, and it's one American families are having every day.

Pensions, which provide guaranteed monthly income in retirement, used to be common for American workers; in the mid-1970s, about 70 percent of private-sector employees participating in a retirement plan had pensions. They offered security for those workers but were expensive for companies and could leave out people who didn't spend the bulk of their careers with one employer. In 2022 only about 11 percent of private-sector workers had access to a pension.



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Social Security is the only form of guaranteed income most Americans have access to. Reinforcing the program will be crucial for future retirees, but even a fully solvent Social Security won't provide the retirement security Americans need. It provides only about 40 percent of the average worker's preretirement earnings.

True retirement security requires making sure that all Americans have access to a retirement savings plan with a guaranteed income component, like an annuity, to help their savings last the rest of their lives. As I often like to say, income is the outcome. We're already seeing movement in the right direction. In 2019, Congress passed legislation, with broad bipartisan support, that made it easier for employers to embed annuities in the workplace 401(k) plans Americans know well. (My company is one of several that offer these in-plan annuities.)

But despite that legislation, availability is limited, and embedded annuities are still a new concept for many employers and workers. Only about 25 percent of the commonly used target date funds in 401(k)-type plans offer embedded guaranteed income as an option, according to Cerulli Associates, a financial research firm.

Policymakers deserve credit for working across party lines to promote retirement security, and there's more they can do. Most retirement regulations today focus on how plans are managed during the years that people are accumulating savings. Regulators should pay more attention to the years — in some cases decades — when those savings will be spent in retirement. They can do this by broadening the types of annuities that retirement plans can offer and by requiring companies to educate their employees about how to make savings last all the way through retirement.

Of course, many American workers don't have access to any kind of retirement plan. As of 2022, roughly half of private-sector employees, particularly those who worked for small businesses, did not have access to an employer-sponsored retirement plan, such as a 401(k). Here, too, lawmakers have made progress. Incentives for small employers to start 401(k) plans — for instance, by providing tax credits to help cover plan administration costs — are making retirement plans more widely available.

For workers at very small companies, individual retirement accounts sponsored by state governments can help fill the gap. Roughly a dozen states have made these I.R.A.s available to workers. Unlike with a typical I.R.A., workers' contributions to state-government-sponsored I.R.A.s are deducted from their paychecks, so that saving happens automatically, just as with 401(k)s. Workers are more likely to save when they can do so directly from their paychecks.

A lot has changed since my father retired. Even though he missed decades' worth of retirement contributions, he was able to use 401(k) catch-up contributions to save as much as he could during his remaining years in the work force. Today many companies like his automatically enroll new employees in retirement plans and automatically increase their retirement savings each year, up to a certain limit. That's a small change, but it can make a big difference to retirement security for millions of Americans.

In the same way, making annuities more widely available may seem like a tiny fix. But it is a big step toward achieving the security that all American workers should enjoy in their retirement.

Thasunda Brown Duckett is the president and chief executive of TIAA, which provides insurance and financial services for retirement.

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