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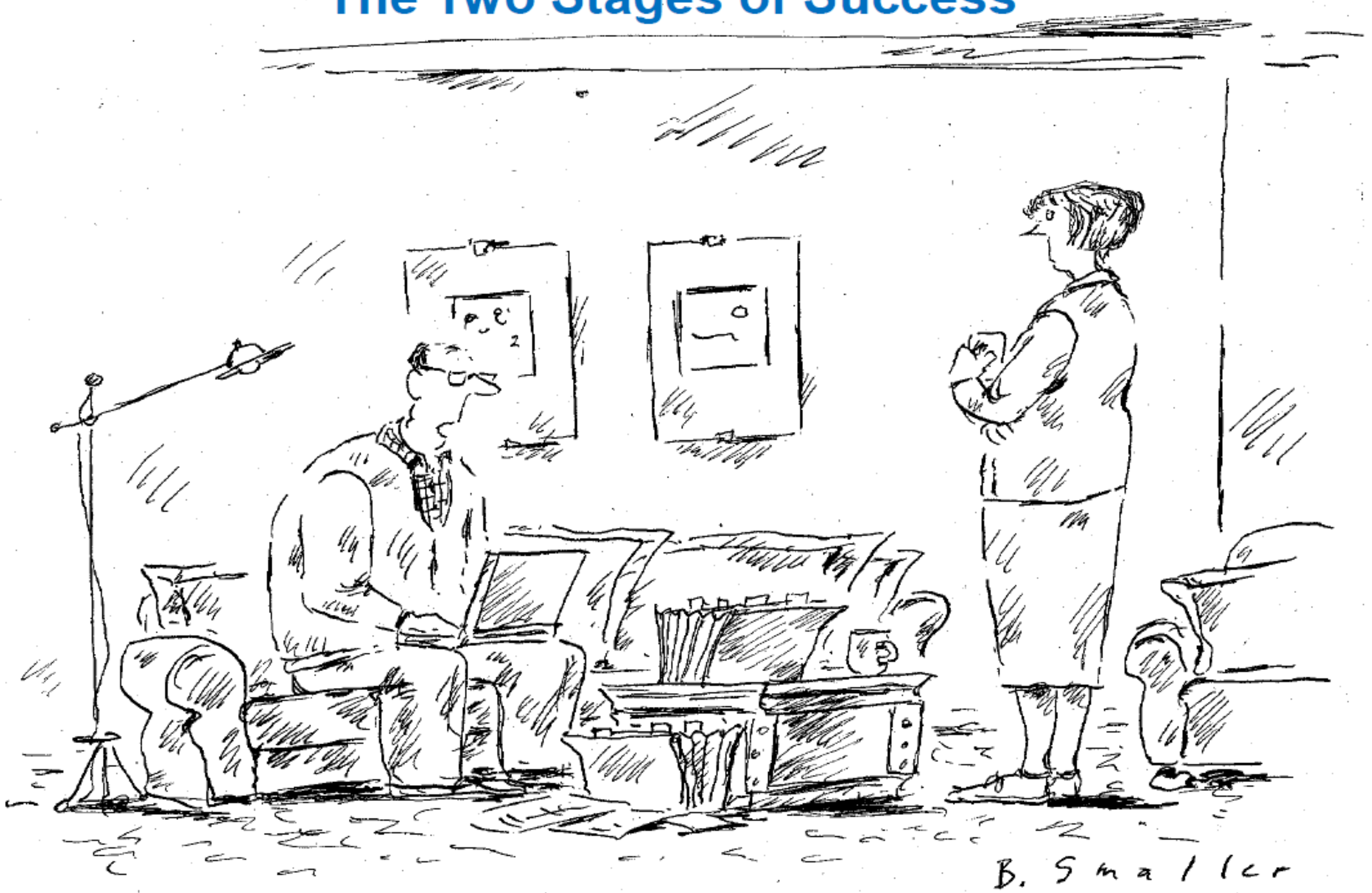
RETIREMENT CRISIS IN AMERICA

ROSE PANICO-MARINO, MANAGING DIRECTOR AND PRACTICE LEADER

The Two Stages of Success



"If we take a late retirement and an early death, we'll just squeak by."

What Americans Have Relied On…

- Economic Safety Net of the Past
  - Traditional Pension
  - Social Security
  - Home Equity

The Demise of Traditional Pension Plans

The PrivateBank

- In 1998, 53% of Americans over age 60 received income from pension plans. By 2010, the figure had fallen to 43%. In the private sector, the decline is more dramatic – 38% in 1979 to 14% in 2013

- Based on US Census Bureau data, poverty rates were 9x greater in 2010 in households without income from pension plans

Source: National Institute on Retirement Security

The Impact of Social Security Benefits

- Social Security is keeping seniors out of poverty
  - Center on Budget and Policy Priorities estimates that 45% of Americans over age 65 would fall below the government's official poverty line if they did not receive SS benefits
  - Without SS payments, the number of elderly in poverty would have been higher by almost 14 million

Source: National Institute on Retirement Security

2014 Poverty Calculation

The PrivateBank

Poverty Thresholds for 2014 by Size of Family and Number of Related Children Under 18 Years

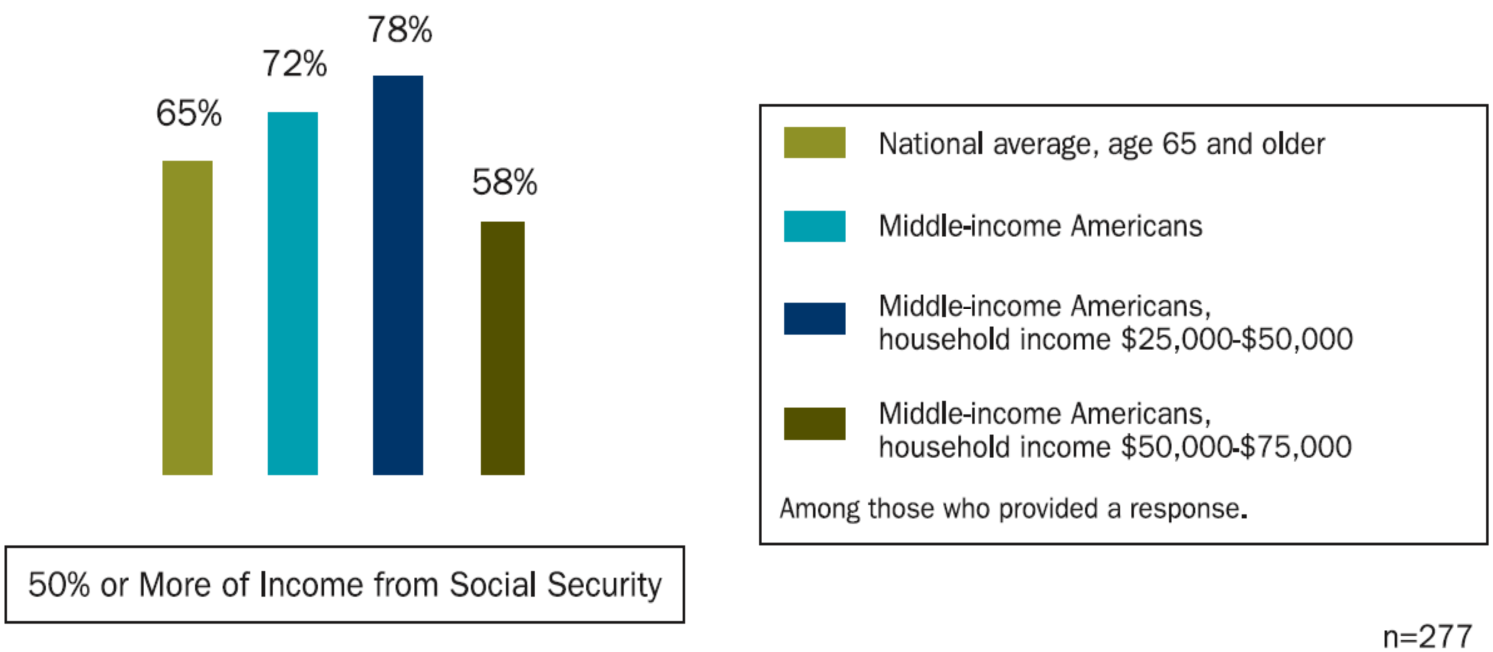
Size of family unit	Related children under 18 years								
	None	One	Two	Three	Four	Five	Six	Seven	Eight or more
One person (unrelated individual)......									
Under 65 years............................	12,316								
65 years and over.........................	11,354								
Two people.................................									
Householder under 65 years..........	15,853	16,317							
Householder 65 years and over.......	14,309	16,256							
Three people................................	18,518	19,055	19,073						
Four people.................................	24,418	24,817	24,008	24,091					
Five people..................................	29,447	29,875	28,960	28,252	27,820				
Six people....................................	33,869	34,004	33,303	32,631	31,633	31,041			
Seven people................................	38,971	39,214	38,375	37,791	36,701	35,431	34,036		
Eight people.................................	43,586	43,970	43,179	42,485	41,501	40,252	38,953	38,622	
Nine people or more.......................	52,430	52,685	51,984	51,396	50,430	49,101	47,899	47,601	45,768

Source: U.S. Census Bureau.

Social Security in Retirement

Social Security as Half or More of Total Retirement Income

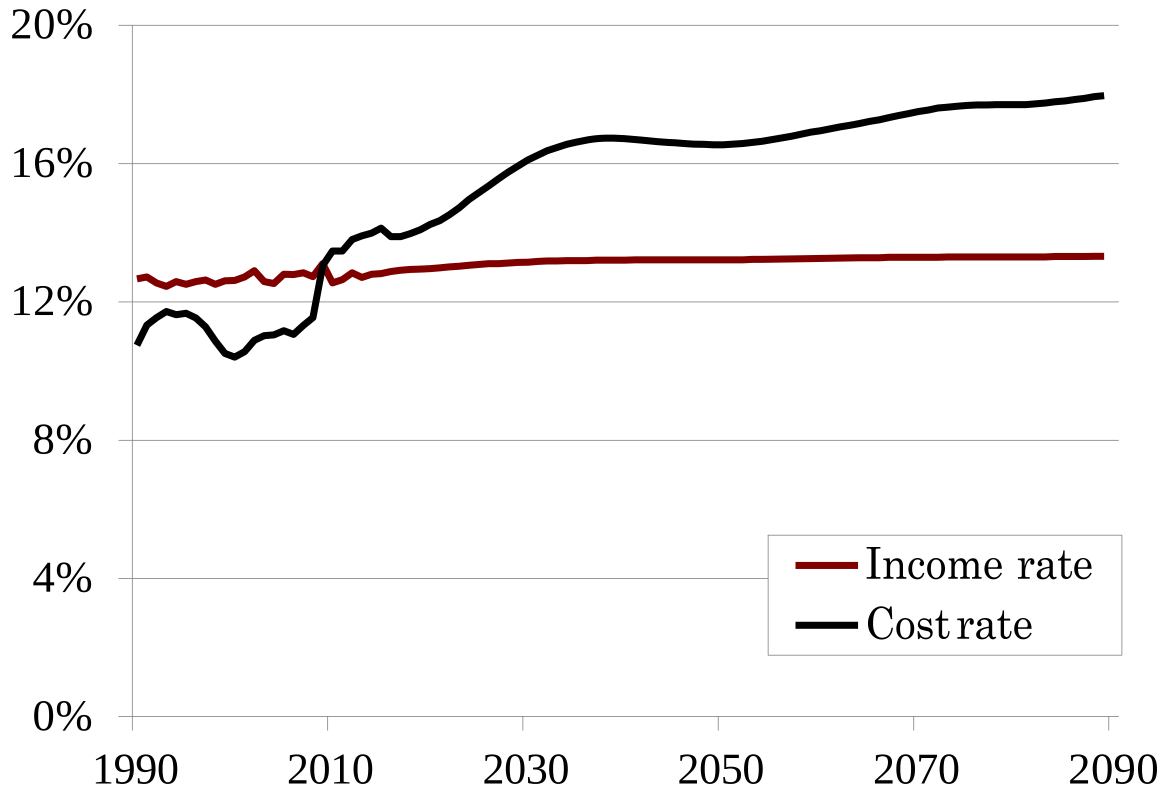
National average vs. Middle-income Americans receiving aged Social Security benefits



Source: Social Security Administration, 2012 and Bankers Life and Casualty Company Center for a Secure Retirement, *Longevity Risk and Reward for Middle-Income Americans*, 2013.

Future of Social Security

Figure 1. Projected Social Security Income and Cost Rates, as a Percentage of Taxable Payroll, 1990-2089



Source: 2015 Social Security Trustees Report, Table IV.B1.

Estimated Replacement Ratio

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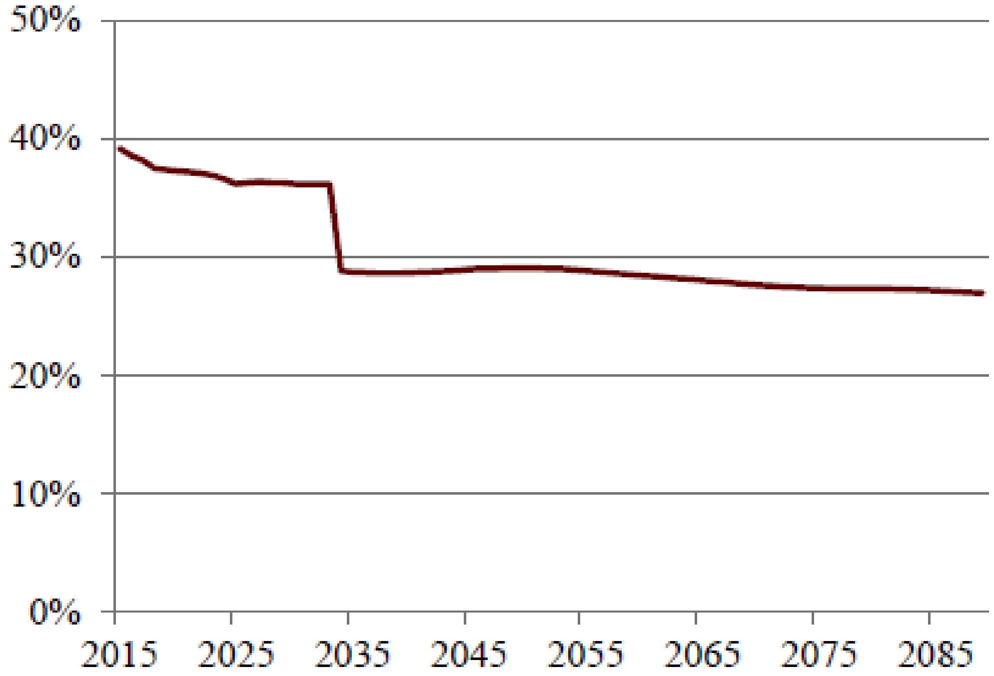
FIGURE 2. REPLACEMENT RATE FOR THE MEDIUM EARNER AT AGE 65 FROM EXISTING REVENUES, 2015-2089



Source: 2015 Social Security Trustees Report, Tables IV.B1 and "Annual Scheduled Benefit Amounts with Replacement Rates for Retired Workers with Various Pre-Retirement Earnings Patterns Based on Intermediate Assumptions, Calendar Years 1940-2090."

When Money Runs Out...

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What Are Key Dates in DI, OASI, and HI Financing? The 2015 reports project that the DI, OASI, and HI Trust Funds will all be depleted within the next 20 years. The following table shows key dates for the respective trust funds as well as for the theoretical combined OASDI trust funds.

KEY DATES FOR THE TRUST FUNDS

	OASI	DI	OASDI	HI
Year of peak trust fund ratio	2011	2003	2008	2003
First year outgo exceeds income excluding interest	2010	2005	2010	2021
First year outgo exceeds income including interest	2022	2009	2020	2024
Year trust funds are depleted	2035	2016	2034	2030

Home Equity as a Retirement Nest Egg

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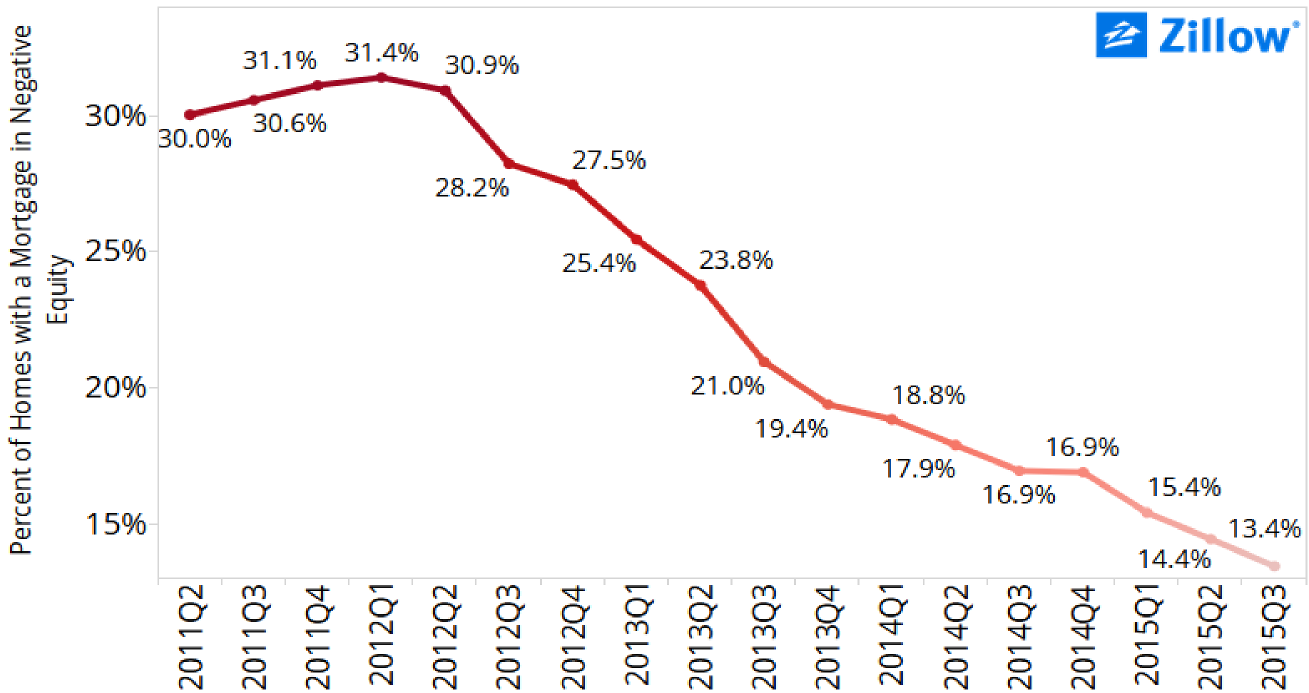
- Zillow reports that 6.5 million homeowners are still "underwater" on their mortgages – over $5 billion of so-called negative equity

Figure 1: Negative Equity Time Series (United States)



What Do We Know?

"Your 401(k) rolled over nicely, sat up briefly, then expired."

The Retirement Gap

- Nearly 40 million working-age households (45%) do not have any retirement account assets
- Near-retirement households: $14,000 median DC/IRA balance, a third have nothing saved and a third saved less than one times income
- Social Security, currently provides a replacement rate of roughly 35% for a typical household – leaving a huge gap based on a target replacement rate of 85%!
- Medical costs in retirement average $215k!
- Unexpected expenses:
  - Home repair
  - Care for adult child and/or parent
  - Moving expenses
  - And on, and on, and on…………

Source: National Institute on Retirement Security 2015 Survey

Longevity Risk

Longevity Risk

"To illustrate the unique financial complexities facing retirees, consider 10 high school friends who decide to retire at age 65.

Guess when the first of those 10 friends will die. As it turns out, the first death is likely to occur only four years into retirement, at age 69. Next, try guessing when the last person will die.

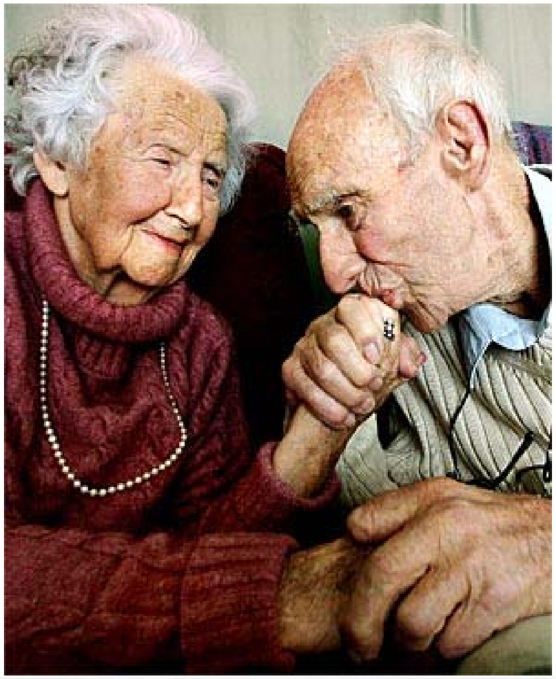
The answer is 34 years into retirement, at age 99!"

Shlomo Benartzi, UCLA Professor
April 2010

Longevity Risk

- Today, the average 65-year-old has an average life expectancy of 19 more years— approximately age 84. In fact, one out of every four 65-year-olds will live past age 90, and one out of ten will live past age 95.

- If a participant and his spouse are both 65, there is a 50% chance that one will live to age 92, and a 25% chance one will live to age 97.



Source: Social Security Administration 2012; "Building Your Future" Insured Retirement Institute, 2011

Changing the Course

Improving Retirement Outcomes

- Work longer – 88% of people 65 to 74 are healthy enough to work
- Delay full Social Security retirement age to 70 or older
  – A boomer starting benefits at age 70 would have approximately a 75% larger base benefit than starting to draw retirement benefits at age 62

Source: Center for Retirement Research at Boston College

USING PLAN DESIGN TO INCREASE OUTCOMES!

CREATIVITY CAN BRING SUCCESS

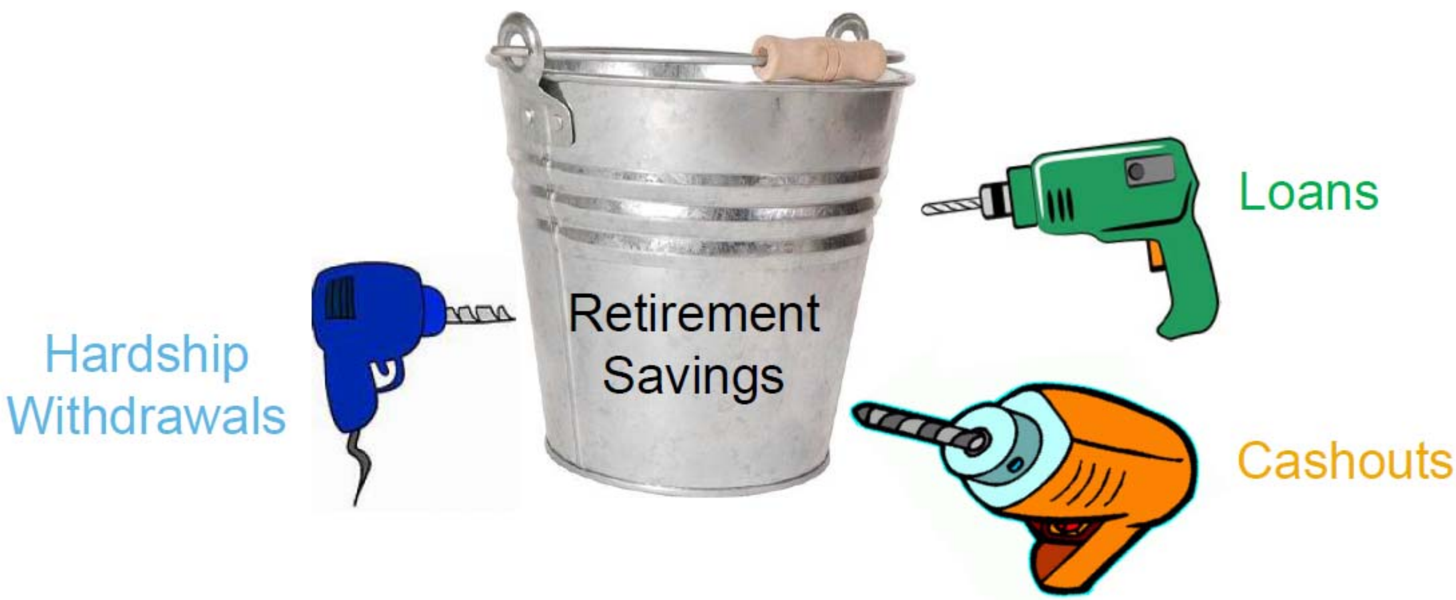
Improving Retirement Outcomes

The PrivateBank

- Employer Initiatives:
  - Automatic enrollment at 6% or greater (re-enroll)
  - Automatic annual increases up to 12%
  - Real-time retirement income adequacy calculation
  - Tighter cash-out and withdrawal provisions
  - Employee education
  - If matching contributions are being made, consider changing match to encourage higher employee contributions:
    - e.g.: if current match is 50% on the first 6%, change match to 25% up to the first 12% of employee contributions
  - **Changing the way we communicate with younger employees**
    - Is there a smartphone app that automatically sends text messages?

Stop the Leakage!

Retirement Plan Leakage: The Pothole on the Road to Retirement



Over **25%**

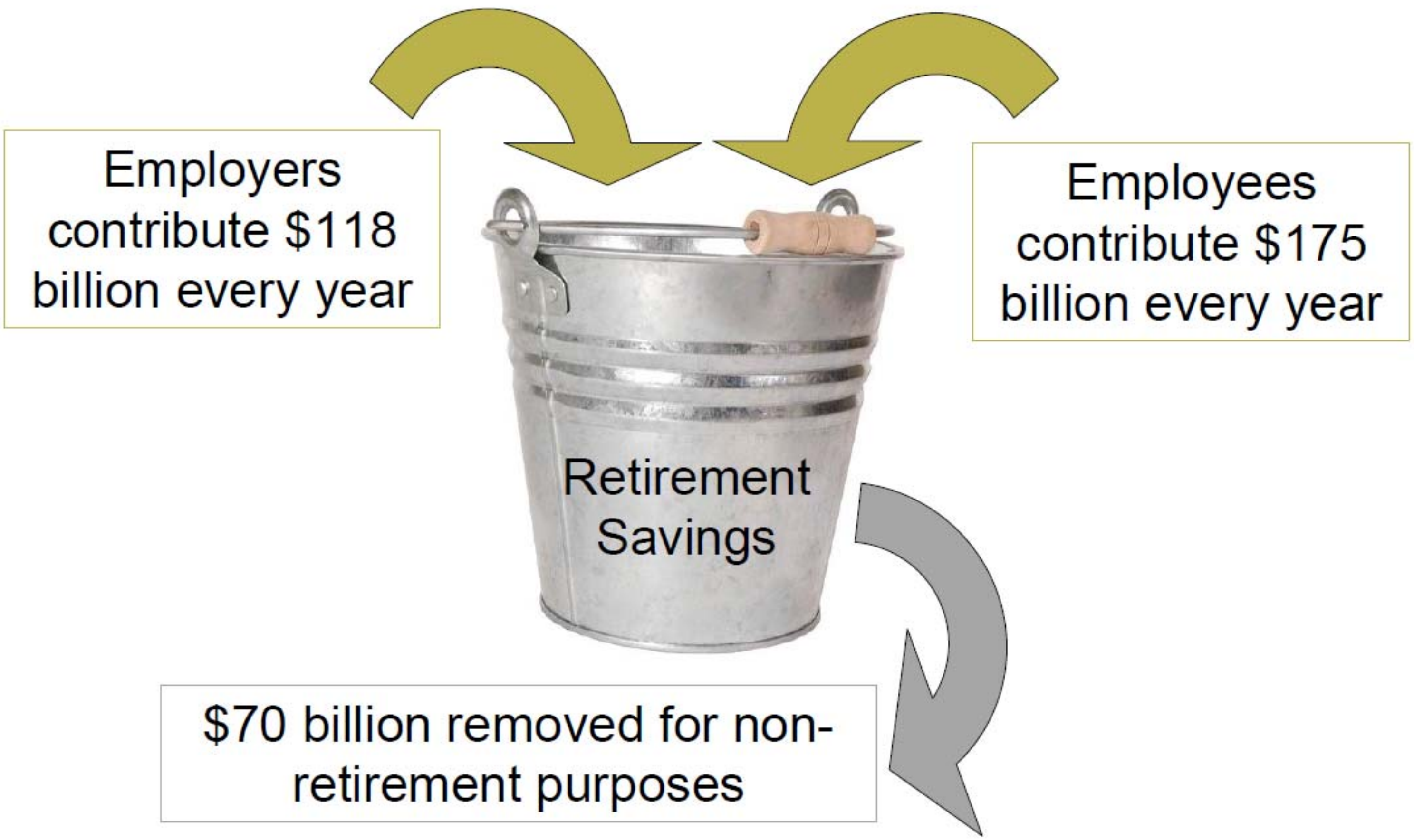
of DC participants use savings for non-retirement purposes

Source: Hello Wallet study *The Retirement Breach in Defined Contribution Plans*

Stop the Leakage!

The PrivateBank

Retirement Plan Leakage: The Pothole on the Road to Retirement

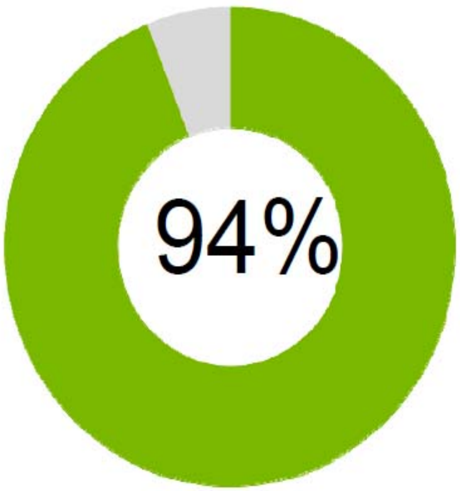


Source: Hello Wallet study *The Retirement Breach in Defined Contribution Plans*

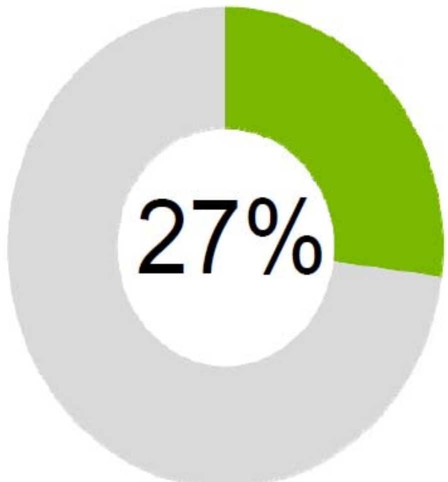
Stop the Leakage!

DC Leakage: Loans

Plans Allowing



Participants Using



Average Loan Outstanding:

$8,074

Percent of Balance:

21%

Advantages	Disadvantages
Encourages plan participation	69% of participants default when terminating
81% of participants continue contributions	Minorities are more likely to default

Sources: Aon Hewitt study *2011 Trends and Experience in 401(k) Plans*, Aon Hewitt study *2013 Universe Benchmarks*, Aon Hewitt and Ariel Investments study *401(k) Plans in Living Color*,

Stop the Leakage!

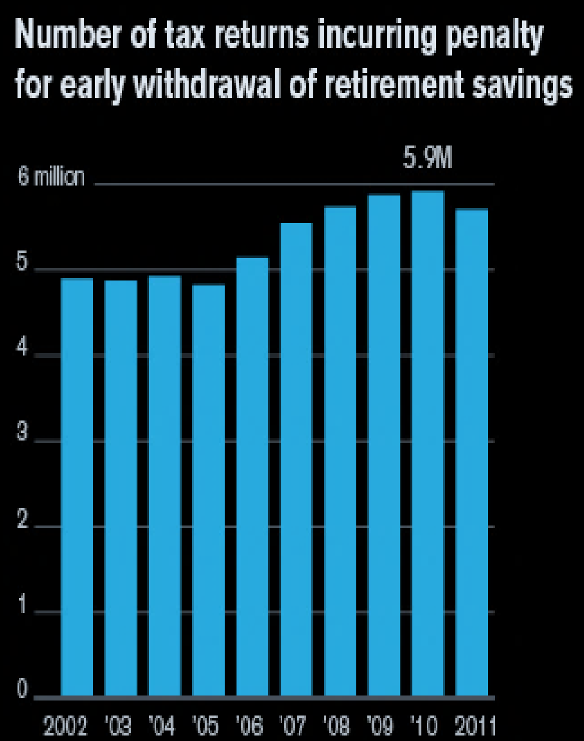
- The average American worker changes jobs more than 7 times over a 40 year career
- The Employee Benefit Research Institute estimates that over a 10-year period, 401(k) cash outs will remove $1.3 trillion from future retirement income streams
- 45% of participants cash out their plan balances despite having to pay steep penalties and taxes
- 55% cash out if their balance is less than $5,000
- Cash outs reduce aggregate 401(k)/IRA retirement wealth by approximately 25% according to the Boston Research Group

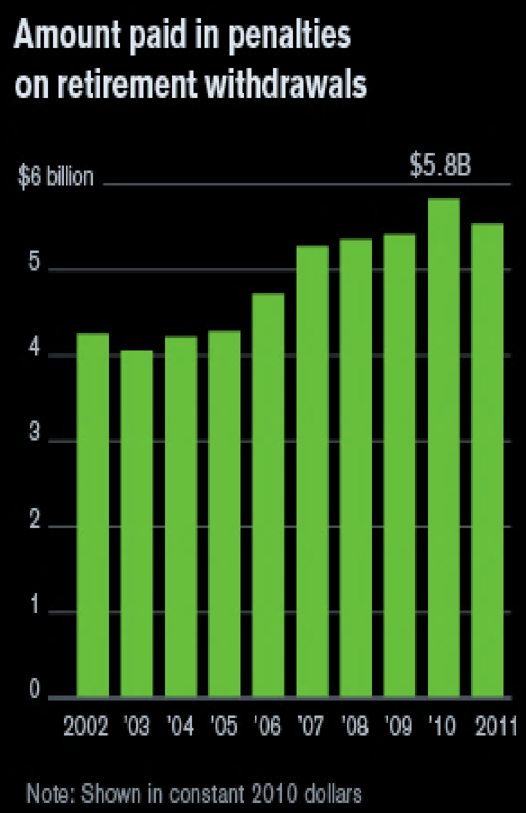
Stop the Leakage!

The PrivateBank

Cash-Out Penalties

The number of Americans who dipped into retirement savings reached a record high in 2010 following the financial crisis. The government collected $5.8 billion in penalties, suggesting that about $58 billion in retirement savings were withdrawn.





Sources: IRS, Fidelity Investments, Bloomberg research

GRAPHIC: RICHARD RUBIN & MARGARET COLLINS / BLOOMBERG NEWS, DAVE MERRILL / BLOOMBERG VISUAL DATA

Steps to Reduce Leakage

- Modify the availability of loans and withdrawals
- Limit the dollar amount available for loans and withdrawals
- Add a waiting period before another loan or withdrawal can be made
- Make it easier to make loan repayments after termination of employment
- Eliminate in-service withdrawals or increase the in-service withdrawal age to 62 instead of 59 ½
- Eliminate lump-sum distributions

On the Horizon..

State mandated IRAs

Part-time/temporary employees access to company plan

Increased Savers Credit

Maximum retirement savings

Rosemarie Panico-Marino, QPA, ERPA, AIF, c(K)p
Managing Director, The Private Bank

Rosemarie Panico-Marino is a Managing Director with the Private Wealth Group at The PrivateBank in Chicago. In this role, Panico-Marino oversees the Retirement Plan Services Group. Prior to joining The PrivateBank, Panico-Marino was a Managing Director with Verisight, where she was part of a leadership team focused on driving retirement solutions for clients. With over 38 years of experience, Panico-Marino has extensive knowledge in the benefits field with a focus on providing technical consulting, qualified and unqualified plan design, administration and compliance.

For over 20 years, she headed the national retirement practice at McGladrey (formerly American Express Tax and Business Services and Altschuler, Melvoin and Glasser).

Panico-Marino serves on the Board of Directors for the DePaul University Institute for Business and Professional Ethics, and a volunteer at Waterleaf Women's Center and Step Up for Women. She also is an active member with the Chicago Finance Exchange, American Society of Pension Professionals and Actuaries and the National Center for Employee Ownership. Panico-Marino earned a bachelor's degree from DePaul University, holds the AIF, ERPA and QPA designations and is a Certified 401(k) Professional.

Thank You

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Questions

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