Exploring the Concept of a Retirement Crisis in the United States

Executive Summary

Whether Americans are financially prepared for retirement is a topic of debate among policymakers, stakeholders, and researchers. Many believe that a concerning percentage of workers and households are not on track for a financially secure retirement, labeling the current state of retirement in the United States a "retirement crisis." Others argue that the word "crisis" is a misnomer, contending that, while some identifiable groups are at risk of financial insecurity in retirement, the current retirement system in the U.S., including existing safety nets, is generally working well and is better than ever in many respects.

Defining and measuring a "crisis"

Experts usually determine retirement financial readiness by comparing a household's current or projected retirement savings to the amount needed to maintain a preretirement lifestyle or meet some other minimum standard. Because lifestyles and needs vary by household, there is no single measure or benchmark defining what level of resources is adequate. The degree of financial shortfall and the number of affected households that constitute a crisis are unavoidably subjective.

This policy paper was published by the Retirement Policy and Design Evaluation Committee: Lee Gold, *Chairperson*, MAAA, ASA, EA, FCA; Connie Rydberg, *Vice Chairperson*, MAAA, EA, FSA; Kyuman Lee, MAAA, EA, FCA, FSA; Lawrence Pollack, MAAA, FSA, FCA; Timothy Robson, MAAA, ASA, FI; Matthew Rustige, MAAA, MSEA, EA; Andrea Sellars, MAAA, FSA; Mark Shemtob, MAAA, EA, FSA, MSPA; Claire Wolkoff, MAAA, FSA; and Lina Xu, MAAA, FSA.

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AMERICAN ACADEMY OF ACTUARIES
1850 M STREET NW, SUITE 300, WASHINGTON, D.C. 20036
202-223-8196 | WWW.ACTUARY.ORG

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Factors pointing to a crisis

Those who warn of financial vulnerability among current and future retirees base their concerns on various factors, including:

- The potential depletion, by 2032, of the Social Security Old-Age and Survivors Insurance (OASI) Trust Fund, which, depending on how it is addressed, could result in sharp reductions in Social Security benefits;
- The long-term shift in private-sector plans from traditional defined benefit (DB) pension plans to defined contribution (DC) plans, which has transferred much of the responsibility for saving, investing, managing longevity risk, and drawing down assets from employers to individuals;
- Gaps in workplace plan access and participation, especially among part-time workers, gig and other nontraditional workers, small-business employees, lower-paid workers, and workers of color;
- Failure or inability of many workers to save enough of their income to retire comfortably, with the challenge potentially more acute for women and individuals in certain racial and ethnic groups;
- Unanticipated health care costs, especially when daily living support is needed, in part because Medicare does not cover long-term services such as nursing home care and certain other out-of-pocket medical costs.

Arguments that counter the crisis narrative

Those who challenge the broad crisis narrative point to the following considerations:

- Social Security remains an essential safety net and has helped many lower-income retirees maintain their living standards and avoid poverty;
- DB plan enrollment was never universal with most private-sector workers having never participated in a DB plan. Also, access to DC plans has been more widespread, and aggregate retirement resources have generally increased over time across demographic and income groups;
- Data indicating inadequate retirement plan access, which is often self-reported, may understate workplace plan access, participation, and retirement income when compared with employer surveys, administrative tax data, and measures of participation over an entire career;
- Some adequacy measures may overstate needs or understate resources by using wage-indexed (rather than consumer-price indexed) targets, omitting irregular plan distributions, or disregarding household circumstances and lifecycle saving patterns; and
- Health and long-term care costs in retirement are a factor, but only a small percentage of the elderly require significant long-term care expenditures over an extended period, and Medicaid and some other government programs provide coverage for those who meet financial and other requirements.

Populations at risk for retirement insecurity

Even without consensus that the United States faces a broad crisis, there is greater agreement that certain groups face elevated risks. In many cases, financial preparedness is contingent on an individual's income and ability to save. For example, many low- or middle-income workers may not save enough for retirement, especially those who are not enrolled in DC plans. Hispanic and Black individuals, part-time and gig workers, and single women are among the most likely to face financial challenges, as are people with long-term disabilities, widowed and divorced individuals. Also at heightened risk are Gen Xers (born between 1965 and 1980) who may have slipped through the cracks in the transition from fully employer-funded DB plans to DC plans and are also more likely than other generations to be financially supporting both young and elderly dependents.

Policy considerations

The Academy has published a variety of issue briefs and policy papers that discuss potential solutions to addressing retirement insecurity, including increasing access to employer-sponsored plans, encouraging automatic enrollment and savings escalation, making financial and investment tools more widely available, and enhancing the Social Security safety net.

Additional policy topics that may warrant research and analysis include offering plans that allocate risk more broadly between participants and/or plan sponsors, providing long-term services and supports benefits, expanding access to long-term care insurance, supporting continued employment in later life, and allowing workers to more easily roll over or take their retirement plans with them from one job to the next or from one retirement account to another.

All the topics described above are discussed in greater depth in the Academy's accompanying policy paper, *Exploring the Concept of a Retirement Crisis in the United States*, which also contains links to many other Academy publications on retirement security issues.