

IOPS PROFILE: UNITED STATES



DEMOGRAPHICS AND MACROECONOMICS

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| Nominal GDP (USD bn) | 18 569.1 |
| GDP per capita (USD) | 57 466.8 |
| Population (000s) | 323 127.5 |
| Labour force (000s) | 158 889.0 |
| Employment rate (%) | 95.1 |
| Population over 65 (%) | 15.2 |
| Dependency ratio ¹ | 31.0 |

Data for 2016.

1. Ratio of over 65-year-olds to the labour force.

Source: OECD, various sources.

COUNTRY PENSION DESIGN

STRUCTURE OF THE PENSION SYSTEM

Public pensions

- Publicly provided pension benefits, known as social security, has a progressive benefit formula.
- There is also a means-tested top-up payment available for low-income pensioners.

Private pensions: occupational (voluntary)

- Private pension funds: defined benefit
- Private pension funds; defined contribution
- State and local government employee retirement accounts
- Federal government retirement funds: defined benefit plans
- Federal government retirement funds : defined contribution plans

Private pensions: personal (voluntary)

- Individual retirement accounts (IRAs)
- Roth Individual retirement accounts (Roth IRAs)
- Annuity reserves at life insurance companies

Source: OECD Global Pension Statistics.

UNITED STATES: THE PENSION SYSTEM'S KEY CHARACTERISTICS

PUBLIC PENSION

The PAYG system (“Social Security”) covers most gainfully occupied persons, including self-employed persons. Not described here are special systems for railroad employees, federal government employees and state and local government workers.

Insured persons and employers each contribute 6.2% of earnings/payroll, with maximum earnings for 2017 capped at USD 127,200 for PAYG contribution and benefit purposes. The self-employed pay 12.4% of earnings; the same maximum earning applies. The government pays the total cost of means-tested old age benefits.

An old-age pension is available for workers retiring at age 66 (2017). The full retirement age will increase gradually over the period from 2017 to 2027 to age 67. Forty quarters of coverage are required to be eligible for a benefit. The pension is based on the insured's highest 35-year average covered earnings as indexed for past national average wage growth through age 60. The benefit formula is progressive, with different replacement rates for different earnings bands.

The maximum monthly pension for workers retiring at the full retirement age is USD 2,687 (2017). Upon the insured person's retirement, a dependant's allowance of 50% of the insured's primary insurance amount (derived from the insured's covered lifetime earnings) is paid to his/her spouse who is at least age 62 (offset by the benefit payable for the spouse's own covered lifetime earnings) or to each child under 18 or disabled.

A reduced early pension is available from age 62, with benefits reduced by 5/9 of one percent for each month before full retirement age, up to 36 months, and 5/12 of one percent for each additional month. The pension may also be deferred, in which case it is incremented every month up until age 70.

A means-tested old age supplemental income benefit is available to those aged 65 or older with low income and limited resources. The means test is based on earned and unearned income, including benefits. The maximum monthly benefit is USD 735 for an individual and USD 1,103 for a couple, respectively. State administrations may increase these federal benefits.

Benefits are indexed in line with changes in the cost of living.

OCCUPATIONAL VOLUNTARY

Coverage

Single employers, or a group of employers, may voluntarily establish a complementary occupational pension plan for their employees. The plan sponsor decides what type of plan to establish (see below). If a private employer offers a DB plan, participation is automatic and thus compulsory for covered employees. In the case of DC plans, participation may be automatic or voluntary for covered employees, depending on the type of plan and/or plan rules. Employers are not required to cover all employees, although they must meet minimum employee coverage and non-discrimination rules.

It is estimated that 66% of private-sector workers have access to employer sponsored pension plans. Eighteen percent of private-sector workers have access to DB plans and 62% to DC plans.

Typical Plan Design

One common type of DB plan offers benefits that might range from 1 to 1.5% of final average earnings for each year of service. The annual benefit a participant receives cannot exceed USD 215 000 in 2017. It also cannot exceed a participant's average compensation for his highest three consecutive years.

A typical DC plan would offer employer-matching contributions of 50% of any employee contributions up to 6% of earnings.

Employees can make contributions to 401(k) plans and some similar defined contribution plans. Employee contributions to 401(k) plans cannot exceed USD 18 000 in 2017, or USD 24 000 for participants age 50 and over. Other private sector retirement plans, including DB plans, are usually non-contributory for employees. While employers choose to offer a retirement plan on a voluntary basis, those who do are generally required to contribute to the plan. A notable exception is the 401(k) plan, where usually the employer makes a contribution into each participant's account that depends on how much the employee contributes. This is referred to as an employer match. Total employer and employee contributions to DC-type plans for 2017 are limited to USD 54 000 a year or, if lower, to 100% of salary.

Normal retirement is typically at age 65.

Taxation

In 401(k) plans, employee contributions are exempt from income tax up to a yearly ceiling in 2017 of USD 18 000 (USD 24 000 for employees age 50 or older). Employer contributions to DB plans are tax-exempt up to a level that allows an annual pension of USD 210 000 in 2017. Employer contributions are not subject to social security contributions. Investment income is tax-deferred. Benefits in retirement are taxed as income, except those benefits financed through taxable employee contributions. For example, in "Roth" 401(k) accounts, contributions are made after-tax, investment income is tax-exempt, and benefits in retirement are not taxed.

PERSONAL VOLUNTARY

Coverage

Eligibility rules vary by type of IRA. For a traditional IRA, an individual must be earning compensation sufficient to make contributions or married to a spouse earning sufficient compensation. For a Roth IRA, a individual must also have a modified Adjusted Gross Income which is less than USD 132 000 for a single person or USD 194 000 for a married couple.

Contributions

IRA owners can contribute up to USD 5 500 in 2017, or USD 6 500 if they are age 50 or older. This amount is the total that can be contributed to one or more IRAs, which can be traditional or Roth. For a Roth IRA, these contribution limits only apply to a single person with income less than USD 117 000 or a married couple with income less than USD 184 000. At higher income levels, the amount that can be contributed phases out.

Contributions to traditional IRAs are tax deductible for those who are not covered by a retirement plan at work. There are limits on how much is deductible that depend on whether an individual is covered by a retirement plan at work, whether their spouse is covered by a plan at work, and their income. Contributions to Roth IRAs are not tax deductible. In addition, assets from a traditional IRA can be transferred to a Roth IRA, though income tax must be paid on the transferred sum.

Funds can be rolled over from a retirement plan distribution to an IRA. The contribution limits do not apply to rollovers.

Benefits

In a traditional IRA, owners must start withdrawing benefits by age 70.5. The required minimum withdrawal for each year is calculated using the IRA account balance, the owner's life expectancy based on their age, and other factors, such as whether the beneficiary is a spouse and whether the spouse is at least ten years younger than the owner.

For IRAs, benefits withdrawn before age 59.5 are subject to a 10% income tax penalty, unless withdrawn for various reasons, such as first-time home purchase, higher education costs, or in the event of death or disability.

Taxation

Contributions to traditional IRAs are often tax-deductible – the phrases “money is deposited before tax” or “contributions are made with pre-tax assets” are often used. Transactions and earnings within the IRA are not taxed. Withdrawals at retirement are taxed as income (except for those portions of the withdrawal corresponding to contributions that were made on an after-tax basis).

Contributions to Roth IRAs are made with after-tax assets. No transactions within an IRA have any tax impact, and withdrawals are usually tax-free. Investment income and benefits are generally tax-exempt.

MARKET INFORMATION

Occupational voluntary

Plans are implemented under a written trust agreement or through an insurance contract. The trustees may manage the contribution and benefit administration or contract it to a pension management or insurance company. Under an insurance contract, the insurance company manages the contribution and benefit administration.

Total assets managed by occupational pension plans amounted to USD 15.0 trillion in 2016. The total number of participants in occupational voluntary plans was 170.4 million in 2014.

Personal voluntary

It is possible to have both a traditional IRA and a Roth IRA, but the maximum overall contribution limits apply to the owner across all their IRAs.

IRAs held assets worth USD 7.2 trillion in 2016. They covered 57.3 million participants in 2014.

REFERENCE INFORMATION

KEY LEGISLATION

2006: The Pension Protection Act sets new funding requirements for DB plans, and lays down additional rules for underfunded DB plans. It further clarifies the status of cash balance and

hybrid plans, and provides for automatic enrolment and a default investment option for 401(k) plan members.

2001: The Economic Growth and Tax Relief Reconciliation Act (EGTRRA) relaxes constraints on the conversion of IRAs into other types of plans.

1978: The Revenue Act of 1978, which establishes 401(k) plans.

1974: The Employee Retirement Income Security Act (ERISA) is the most important complementary occupational pension plan law in the United States. It has been amended on several occasions.

KEY REGULATORY AND SUPERVISORY AUTHORITIES

The Social Security Administration: administers the public pension system;

www.socialsecurity.gov.

The Treasury Department: supervises the collection of social security taxes through the Internal Revenue Service and supervises the payment of benefits and the management of social security funds;

www.treasury.gov.

The Internal Revenue Service (IRS): administers the Internal Revenue Code and determines the tax-qualified status of plans. It has jurisdiction over eligibility, vesting, and funding requirements under ERISA. The IRS is part of the Treasury;

www.irs.gov.

The Employee Benefits Security Administration (EBSA): enforces ERISA's standards concerning reporting, disclosure, and fiduciary matters. It is part of the Department of Labor;

www.dol.gov/ebsa.

The Pension Benefit Guaranty Corporation (PBGC): administers plan termination rules and an insolvency insurance program for private DB plans;

www.pbqc.gov.

SELECTED KEY STATISTICAL REFERENCES

Department of Treasury

www.ustreas.gov/

Federal Reserve Bank

www.federalreserve.gov/.

OECD, Global Pension Statistics project, www.oecd.org/daf/pensions/gps.