IOPS COUNTRY PROFILE: UNITED STATES

DEMOGRAPHICS AND MACROECONOMICS

Nominal GDP (USD bn)	23 315.1
GDP per capita (USD)	70 523.4
Population (000s)	331 894
Labour force (000s)	161 203.9
Employment rate (%)[1]	69.4
Population over 65 (%)	16.8
Dependency ratio[2]	29.5

Data for 2021

1 69.4% is the total employment rate for the population ages 15-64 in 2021 as reported on the OECD website. The employment rate is defined as the ratio of employed people to the working age population. (This is a different definition than that most commonly used in the United States.) https://data.oecd.org/emp/employment-rate.htm

2 The number of individuals aged 65 and over per 100 people of working age, defined as ages 20 to 64.

Sources: OECD, various sources.

UNITED STATES 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 : occcupational (voluntary)

- Private pension funds: defined benefits
- Private pension funds: defined contribution
- State and local government employee retirement accounts
- Federal government retirement funds: defined benfit plans
- Federal government retirement funds: defined contributions plans

private pensions : personal (voluntary)

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

Source: OECD Global Pension Statistic

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 2023 capped at USD 160 200 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[2] (2023). The full retirement age will increase gradually over the period 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 3 506 (2023). 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 914 for an individual and USD 1 371 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 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 69% of private-sector workers have access to employer sponsored pension plans. Fifteen percent of private-sector workers have access to DB plans and 66% to DC plans.

[2] Age 66 and 4 months for workers born in 1956 and age 66 and 6 months for workers born in 1957.

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 265 000 in 2023. 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 22 500 in 2023, or USD 30 000 for participants aged 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 2023 are limited to USD 66 000 a year or, if lower, to 100% of compensation[3].

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 2023 of USD 22 500 (USD 30 000 for employees aged 50 or older). Employer contributions to DB plans are tax-exempt up to a level that allows an annual pension of USD 265 000 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.

VOLUNTARY PENSION SCHEME

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, an individual must also have a modified Adjusted Gross Income which is less than USD 138 000 for a single person or USD 218,000 for a married couple.

Contributions

IRA owners can contribute up to USD 6 500 in 2023, or USD 7 500 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 138 000 or a married couple with income less than USD 218 000. 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

[3] Compensation is the term used by IRS, see https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-401k-and-profit-sharing-plan-contribution-limits

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 72. 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% penalty[4], 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 22.7 trillion in 2021. The total number of participants in occupational voluntary plans was 184.3 million in 2019.

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 13.9 trillion in 2021. They covered 62.8 million participants in 2019.

[4] This penalty is independent of an individual's income and income tax. It depends on the size of the withdrawal and whether they qualify for an exemption.

REFERENCE INFORMATION

Key Legislation

2019: The SECURE Act revises rules around retirement savings to make it easier for employers to establish and maintain retirement savings plans, including allowing unrelated employers to join pooled employer plans, offering tax credits to small employers for plan startup costs, and providing various safe harbors related to plan administration. It further raises the age for required minimum distributions (RMDs) to 72 and eliminates age limits for traditional IRA contributions.

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 authority of pension scheme:

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.pbgc.gov .

Key statistical reference and sources on pension schemes:

Department of Treasury: www.ustreas.gov/
Federal Reserve Bank: www.federalreserve.gov/.
OECD, Global Pension Statistics project, www.oecd.org/daf/pensions/gps .