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Fellowship Capstone | Policy Brief

Retirement Insecurity

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I. Executive summary

Retirement insecurity is a growing societal issue, deeply rooted in a failing retirement system that has evolved over decades. In recent years, this problem has intensified with rising costs of living and a lack of traditional safety nets like pension plans, leaving millions of Americans uncertain about their financial future. This brief will examine how these structural flaws of our current retirement system impact an individual's ability to retire securely and address these issues through two comprehensive policy solutions.

Overview

Retirement insecurity in the United States is an issue that continues to worsen, entrenching economic inequality and continuously undermining the financial stability of American workers. This issue has been manifesting in limited savings and weakening safety nets. Many individuals now remain trapped in a cycle of financial instability. Despite increases in productivity and economic output, workers have struggled to build sufficient retirement savings, leaving many working to their deaths. As a result, a large portion of the population will now approach the retirement age with little to no savings in their retirement accounts, lacking the financial resources needed to sustain any standard of living at all. Hence, this paper will look into thecauses of retirement insecurity, including rising costs and inflation, declining support systems like traditional pensions, in order to understand how these challenges have developed and how they can be addressed through effective policy solutions.

A. Relevance

According to data from the Federal Reserve's Survey of Consumer Finances, nearly half of American households have no retirement savings at all. The concept of retirement security traditionally referred to a system in which workers could rely on a stable income after leaving the workforce, often through employer-sponsored pensions and government support. Yet, this system has changed so muchover time, leaving many Americans financially vulnerable. Prices have risen by 22.7 percent since 2021, [1] and this compounds the struggle of the loss of retirement support systems. Take Social Security, which is projected to run out by 2034, or the defined-benefit pension plans, where over half of our workers had access in 1980, but now only around 15 percent do[2]. These examples demonstrate that retirement insecurity isn't a future problem that future generations will need to worry about, but a present reality that needs a desperate solution that impacts millions of Americans who are unable to achieve the stable retirement they were promised.

II. History

A. Current Stances

Retirement insecurity in the United States cannot be fully understood without examining the historical evolution of the labor system and who it was designed to benefit. In the mid-20th century, retirement security was built on three things: employer-sponsored pensions, personal savings, and government support through Social Security. This system was largely aligned with workers' economic contributions. As productivity grew, wages and benefits tended to rise alongside it, creating a relatively stable relationship between productivity and compensation.

However, over the past several decades, this relationship has significantly broken down. This can be understood through the "hockey stick" divergence between productivity and real wages. A hockey stick graph is a line chart that shows periods of stability followed by a sudden, substantial increase. For much of our history, productivity and wages grew together, but over the last sixty years, they have sharply diverged: while productivity has nearly tripled, real wages have remained stagnant or even declined. This means that although workers were generating substantially more economic value, they, for some reason, are no longer receiving proportional compensation.

The harm has worsened in the last couple of decades as we now see a structural shift away from traditional employer-sponsored defined-benefit pension plans. These pensions once guaranteed workers a fixed income in retirement based on salary, years of service, and the productivity and economic output they generate. Beginning in the late 20th century, however, employers increasingly replaced these plans with defined-contribution systems such as 401(k)s through the 1978 Revenue Act[3]. This transition shifted both the responsibility and risk of retirement savings from the employers who were profiting to individual workers.

Today, the American retirement system is viewed as structurally strained and increasingly inadequate in meeting the needs of modern workers. Most workers now rely on defined-contribution plans such as 401(k)s instead of stable, employer-guaranteed pensions and predictable wage growth. Current stances argue that retirement outcomes should primarily depend on personal saving behavior, as reflected in the status quo's 401(k)-style systems, which remain widely supported in the status quo retirement landscape. Yet, how can they personally save when wages have not kept pace with productivity, the cost of living continues to rise, systems like pensions are disappearing, while Social Security is almost depleted, and prices are still rising? To put it simply, it's impossible, and it is why we need to answer this problem immediately with policy.

III. Policy Problem

A. Stakeholders

It is given that the primary stakeholders are the American workers themselves, especially those who are nearing retirement age or are currently in the later stages of their careers. Systemic barriers like rising inflation and the disappearance of reliable pensions have prevented the financial transition into retirement, leaving millions of American workers in a perpetual cycle of labor that limits their ability to achieve a secure post-work life and the valuable time with their loved ones. As a result, they are often left to remain as part of our labour force rather than the retirees they worked to become. Ideally, these workers should have a stake in the policies that govern their savings and safety nets.

Local government and social service agencies are also stakeholders. When American workers are unable to retire and their savings fail, the resulting poverty places a direct strain on local resources, local programs, and agencies like subsidized housing and emergency medical care. These public entities have a stake in proactive retirement policy to ensure that the aging population does not become a burden to the local taxpayer.

Local businesses are also stakeholders because they rely on a healthy, motivated workforce to maintain peak productivity and innovation. However, when employees are financially unable to retire, it creates hidden costs like higher healthcare premiums and a lack of advancement opportunities for younger talent. Therefore, it is pivotal that we integrate businesses into retirement policy to ensure that they remain competitive in the global market while fulfilling their role in providing the financial infrastructure that makes our economies profitable.

B. Risks of Indifference

The risk of indifference to retirement insecurity lies in the perpetuation of financial instability. If we continue to ignore the widening gap between productivity and pay, it is a given that societal conditions of poverty and elder vulnerability already seen in the status quo will worsen further. The cycle of exhaustion that workers continue to face will be left unhindered. This will increase the amount of newly unhoused; as of 2026, adults age 50 and older have already become the fastest-growing group experiencing homelessness, now making up nearly half of the single-adult homeless population[4]. Also, inaction would place a severe strain on the local labor market because it could block younger generations from advancement, as older workers cannot afford to vacate their roles, leading to decreased workforce morale and innovation. Inaction means that millions of Americans will enter their final years without the resources to afford basic independence, forcing them into overstretched assisted-living facilities where they may wait hours for essential physical help. Therefore, it is imperative for there to be action, rather than inaction.

C. Nonpartisan Reasoning

Because retirement insecurity doesn't just affect some American workers, but rather the stability of the entire economy and job market, we need to ensure that nonpartisan intervention will take place. The benefits of such intervention include, but are not limited to, the following:

1) Economic stability and purchasing power: Ensuring workers have a reliable chance to retire benefits the entire economy. When retirees possess sufficient disposable income, they can continue to participate in local economies and support small businesses and services. On the other hand, a society that does not save is a society that will lead to a contraction in GDP as a nation and a decrease in local, state, and federal tax revenue. We need to fight retirement insecurity because it is a highly strategic economic safeguard.

2) Labor market efficiency and innovation: A robust retirement system improves workforce fluidity by allowing older employees to exit the labor market when they are ready. In the status quo, many

elderly are now being forced to stayy in jobs, not out of passion, but out of genuine financial necessity, and this creates a system where labour market cycles cannot naturally exist. However, if we fight for change in the status quo and the retirement insecurity plaguing our workers, more technologically adept workers will now have the chance to take over and transfer to higher-leadership roles, and organizations will now be able to maintain higher levels of innovation and productivity, so making change would pave the way for a more dynamic workforce.

3) Reduced local taxpayer burden: Proactive intervention encourages financial independence, which reduces long-term dependency on government-funded social safety nets. If we don't act, it will force local and federal governments to implement massive tax hikes to fund emergency geriatric care and subsidized housing. Promoting self-sufficiency is a strategy that protects the public purse of future generations.

IV. Tried Policy

A prominent legislative effort to address retirement insecurity was the Pension Protection Act of 2006(PPA)[6]. This federal law required companies with underfunded traditional pensions to accelerate their contributions to hit a 100% funding target within seven years, while technically allowing them to build savings cushions during good economic years.

However, the policy received a fair share of backlash for many different reasons. First, the PPA forced companies to calculate their debts using unpredictable market interest rates, creating sudden costs that threatened business survival. Also, following the 2008 financial crash, Congress had no choice but to repeatedly pass emergency relief laws to artificially change and weaken the PPA's strict rules just to keep companies from going bankrupt. Additionally, rather than fostering a stable retirement system, this law was more imposing, and it heavily punished businesses without fixing retirement insecurity as a whole.

V. Policy Options

Social Security Revenue Expansion
A lack of long-term funding and an unbalanced tax structure are currently preventing many individuals from relying on the federal support they work for, as many accounts are being depleted under the status quo due to a lack of funding. The current payroll tax system works similarly, where high earners completely stop paying Social Security taxes once they hit a specific income limit, which clouds long-term stability and is a reason why Social Security is projected to run out by 2034[7].

To overcome this, I recommend a standardized policy that eliminates the payroll tax cap so that high earners pay taxes on 100% of their wages and will also expand revenue by taxing investment income, which helps limit funding shortages and protects seniors against sudden benefit cuts. Although this practice will be put into action primarily by the IRS to collect the adjusted revenue, it can be proposed so that such a system is overseen by the Social Security Administration to safely distribute benefits and ensure long-term solvency.

Guaranteed Retirement Accounts
A lack of employee plan access and complex investment options can ruin one's ability to have a clear retirement track. The current 401(k) system works in a similar way, where financial risks can cloud security, which leads to unstable decisions. This prevents low-income workers from advancing and leaves them trapped.

To overcome this, I recommend a standardized, automatic enrollment system to a Guaranteed Retirement Account, which helps limit financial risks and instability that many workers are facing and struggling with.

VI. Conclusions

In this paper, I have explored a plethora of topics underlying retirement insecurity and the structural barriers faced by many American workers, going into an in-depth analysis of the historical divergence between productivity and compensation, the decline of traditional pensions, and consequent policy options. However, out of these options, the one that is the most implementable in its scope is the implementation of universal guaranteed retirement accounts, which would automatically enroll workers to mitigate private market risks and bridge the savings gap.

With that said, retirement security is a vital concept, and to study it, taking even the most trivial detail into account is essential to gain an adequate understanding of it. Though we have a long way to go in achieving absolute financial stability for aging populations and overcoming these huge system disparities, it is possible, and it can be achieved through the policy options and structure that this brief explores. I believe these barriers can be overcome through working together to implement such solutions through comprehensive policy actions.

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