

A Closer Look at the Facts Shows a More Optimistic Outlook for the US Retirement System

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Employer plans and individual retirement accounts (IRAs) are an important source of income for all but the lowest-income retirees. Either directly or through a spouse, more than 70 percent of Americans over age 70 receive income from retirement plans. That share increases rapidly with income, however, to nearly 90 percent for those outside the bottom quartile of the income distribution.



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These statistics, and other results from our new [research](#) analyzing tax data, challenge assertions that the voluntary component of the US retirement system is failing and leaving retirees too reliant on Social Security. These misleading narratives rely on official government income statistics, which are derived from household surveys. But studies comparing household surveys with administrative tax data, by [us](#) and [others](#), have shown that these surveys substantially undercount income from employer plans and IRAs.

Tax data provide a more accurate and optimistic assessment of the current state of the US retirement system.

The System Is Working as Designed

Most retirees rely on a combination of Social Security benefits and income from retirement plans, but the relative importance of the two varies considerably across the income distribution. At age 75, for example, the typical individual gets about half their income from Social Security. The median Social Security income share, however, ranges from 100

percent for the bottom 15 percent of the population to less than one-third for the top 15 percent. Retirees with moderate to moderately high income get the largest share of income from retirement plans, as neither Social Security nor retirement plans are as important at the top of the income distribution.

Most Retirees Get Income from Employer-Sponsored Retirement Plans or IRAs

Share of individuals over age 70 with own or spouse income from retirement plans (DB, DC, IRA), 2016 (percentage)



Source: Peter Brady and Steven Bass, "A Day in the Life Cycle: Using Tax Data to Measure Changes in Income by Age"

The composition of retiree income is driven largely by the [design of the US retirement system](#). Social Security is a mandatory pension with a progressive benefit formula that replaces a much higher portion of earnings for lower-income workers. Income from employer plans and IRAs is meant to supplement Social Security benefits. Not surprisingly, higher-earning workers rely more on retirement plan distributions because Social Security benefits replace a lower share of their pre-retirement earnings.

Retirement Isn't an Event, but a Transition Period

For many individuals, the transition from relying on wages to relying on Social Security benefits and retirement plan income takes a number of years. Many will stop working or have a spouse who stops working long before they claim Social Security. Others will continue to work for many years after claiming Social Security. Some begin receiving income from retirement plans before they are eligible for Social Security, with most of these individuals continuing to work. Others claim Social Security but delay drawing down retirement accounts until legally required to do so.

The transition from work to retirement tends to occur at younger ages for those with lower incomes. For those at the bottom of the income distribution, the transition often occurs before age 62, the early claiming age for Social Security retirement benefits. For most, the transition occurs after the early claiming age, with higher-income individuals more likely to work longer and to delay claiming Social Security benefits.

Spendable Income Does Not Decline Rapidly at Older Ages

For the typical individual, spendable income does not drop at the ages normally associated with the transition from work to retirement. Spendable income is akin to take-home pay: it is the amount of income available after paying taxes and saving for retirement. Rather than falling from ages 61 through 70, we find an increase in both the share of the population with income and the median amount of spendable income that those individuals have. After age 70, median spendable income declines slowly with age.

Despite relying more on Social Security, the lowest-income groups experience the smallest declines in spendable income in retirement. Median spendable income actually increases between ages 61 and 70 for the bottom 60 percent of the income distribution. In contrast, it

declines by 11 percent for the top 5 percent of the population.

The Bottom Line

The voluntary retirement plan system, in combination with Social Security, is working as designed, buoying American seniors' finances and preventing steep drops in their spendable income. As policymakers consider future reforms, they should start with an accurate assessment of how the system is currently working.

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