

# SAVING FOR YOUR GOLDEN YEARS: TRENDS, CHALLENGES AND OPPORTUNITIES

MARCH 1-2, 2006

THE WILLARD INTERCONTINENTAL  
WASHINGTON  
WASHINGTON, D.C.



The  
2006  
NATIONAL  
SUMMIT ON  
RETIREMENT  
SAVINGS



**SECRETARY OF LABOR**  
**WASHINGTON, D.C. 20210**

March 1, 2006

Dear Friends:

Welcome to the 2006 National Summit on Retirement Savings, the third quadrennial event designed to expand public awareness of the value of personal savings. I am pleased to welcome such a distinguished group of delegates to consider retirement security initiatives that encourage more American workers to understand and plan for their retirement.

The Summit is particularly timely this year as the first Baby Boomers reach the age of 60. The Summit features experts on a wide range of important issues, including public education programs, identifying barriers to savings, and recommendations for appropriate action. Our openness to new ideas and willingness to embrace change will determine our ability to ensure the retirement security of the 21<sup>st</sup> century workforce. This Summit is an important part of that effort.

I encourage you to take maximum advantage of this opportunity to gain new insights, share best practices, and explore innovative savings strategies so that even more workers can build the safe and secure retirement they deserve.

Thank you for joining us. I hope that you find this Summit useful and beneficial!

Sincerely,

A handwritten signature in black ink that reads "Elaine L. Chao". The signature is written in a cursive style with a large, stylized "E" and "L".

Elaine L. Chao



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The opinions expressed in this publication are solely those of the authors and do not necessarily reflect the official views or policies of the International Foundation of Employee Benefit Plans or the U.S. Department of Labor.

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## SECTION 1

# THE SAVER SUMMIT CHALLENGE

*To educate, to persuade*

**T**o advance the public's understanding of the importance of retirement savings, Congress enacted the Savings Are Vital to Everyone's Retirement (SAVER) Act of 1997. In accordance with that act, the U.S. Department of Labor (DOL) is required to maintain a public outreach program and hold three bipartisan national retirement savings summits.

The national summits have three primary objectives:

1. To improve the public's knowledge and understanding of the vital importance of retirement savings to the future well-being of individual American workers and their families
2. To facilitate the development of a broad-based public education program to inspire and enhance individual commitment to a personal retirement savings strategy
3. To develop recommendations for further research, reforms and actions in the field of private pensions and individual retirement savings.

At the first National Summit on Retirement Savings, convened June 4-5, 1998 in Washington, D.C., delegates focused on identifying barriers faced by individuals saving for retirement and by employers trying to help workers save. The critical importance of retirement savings education emerged as the central theme of the 1998 Summit.

The second National Summit on Retirement Savings, convened February 27-March 1, 2002, focused on a generational approach to retirement savings education: targeting specific action plans to workers based on their age and life stage. Common themes that emerged were the importance of investment education for all individuals regardless of their age; the need to simplify and encourage implementation of employment-based retirement plans, especially among small businesses; and the need for government agencies, business groups, unions and others to work together to develop effective action plans.

The 2006 National Summit on Retirement Savings will be held in Washington, D.C., March 1-2, 2006 at the Willard InterContinental Washington. The summit will be hosted by Elaine L. Chao, U.S. Secretary of Labor, and will be convened by President George W. Bush and co-hosted by leaders of the United States Congress.

The 2006 Summit welcomes the participation of approximately 250 delegates. Statutory delegates include the congressional leadership and officials of the executive branch. In addition, the summit includes 200 appointed del-

legates, half appointed by President Bush and the Republican leaders in Congress and half appointed by the Democratic leaders in Congress. This diverse group of delegates represents state and local governments, professionals and other individuals with expertise in the fields of employee benefits and retirement savings, private sector employers, financial educators, the general public and members of Congress.

The 2006 Summit delegates share a common goal: to help all Americans retire with security and dignity. The summit challenges delegates to produce action plans that develop the most important and compelling messages and to explore the best means and methods of delivering those messages to those who need to hear them.

## **SAVING FOR YOUR GOLDEN YEARS: TRENDS, CHALLENGES AND OPPORTUNITIES**

The theme of the 2006 SAVER Summit is “Saving for Your Golden Years: Trends, Challenges and Opportunities.” The key factor in successful retirement planning is to make savings a “spending” priority. The obstacles and challenges of life—bills, car payments, mortgages and the like—seem immediate and insurmountable. But the reality is that saving for retirement is an immediate priority as well, and the summit will focus on how to make targeted groups of Americans aware of this fact and able to overcome the challenges to savings by making them aware of their current savings opportunities. This summit will focus on the challenges faced by four distinct, targeted groups.

### **TARGETED GROUPS**

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- A. Low-Income Workers
- B. Small-Business Employees
- C. New Entrants to the Workforce
- D. Workers Nearing Retirement

These cohorts were identified by the U.S. Department of Labor and the International Foundation of Employee Benefit Plans as groups facing specific challenges to achieving adequate savings for retirement. New entrants to the workforce tend to be younger, primarily in their twenties, while workers nearing retirement tend to be older, primarily in their fifties and sixties. Low-income workers and small-business employees, however, can be any age.

By examining the challenges facing these groups, discussing ways to reach them with the retirement savings message, and recommending solutions to assist them in overcoming their savings obstacles, the summit will address the central issues facing real workers and real families.

In focusing on these target groups, the 2006 Summit recognizes that certain life circumstances have a powerful influence on individuals’ attitudes,

concerns and behaviors regarding both retirement in particular and life in general. As a result, many members of these targeted groups share similar interests, outlooks, goals and behavior.

Low-income workers, for example, tend to focus much more on the pressing, here-and-now difficulty of making ends meet and therefore pay less attention to the future concern of saving for retirement. One challenge in reaching this cohort, therefore, is to help low-income workers see saving as a spending priority when they already struggle to heat their homes and put food on the table.

Similarly, many employees of small businesses see the immediate need for higher wage or a health insurance plan as more important than a pension plan. So one important challenge in reaching this group rests on helping small-business employees recognize retirement planning as a high priority.

Of course, any attempt to categorize people—whether according to life circumstance, generation or any other shared criteria—must acknowledge the diversity that exists within any segment. Using specific life circumstances to help develop appropriate action plans for different segments of the workforce does not presuppose uniformity in these segments, only the existence of meaningful similarities among people based on income levels, life stage or the size of their employers.

Each of the factors on which the 2006 Summit will focus—income, size of employer, new entrants and the number of years until retirement—has a demonstrable impact on retirement savings. For this reason, any effective action plans for improving retirement planning need to take these life circumstances into account.

The best action plans go beyond providing information to inspiring new ideas, attitudes and behaviors. A combination of public education and social marketing both informs and persuades the public, changing not only what people *know*, but also what they *do*. In order to be persuasive, public education campaigns need to make use of proven “sales” techniques used by commercial marketers. Public health campaigns have already demonstrated the effectiveness of this strategy. One of the most successful sales techniques involves targeting specific groups and then tailoring campaigns to the interests, needs, concerns and lifestyles of those groups. The 2006 Summit aims to develop these kinds of targeted campaigns to encourage retirement savings plans.

## HOW TO PREPARE

The summit is organized as two days of working sessions, including plenary sessions and breakout sessions, which will divide delegates into four teams, one for each targeted group:

- 
- Low-Income Workers
  - Small-Business Employees
  - New Entrants to the Workforce
  - Workers Nearing Retirement.

To prepare for the summit, delegates should read more about each targeted group. In the pages that follow, delegates will find a discussion of general retirement security trends and concerns, followed by a brief description of each cohort that outlines the status of the group's retirement savings and identifies some key obstacles that the group will need to overcome in order to achieve retirement security.

The 2006 Summit is the final summit mandated by the SAVER Act of 1997. Delegates to the summit are therefore urged to build upon the successes of the first two summits. To learn about the issues addressed and progress made at both prior summits, delegates can read the background materials and final reports from both the 1998 and 2002 Summits, available at [www.saversummit.dol.gov](http://www.saversummit.dol.gov). By first taking a constructive look at past accomplishments, delegates can then look forward and develop effective action plans to achieve their common goal for the future: retirement security for all Americans.

## SECTION 2

# RETIREMENT SECURITY

*A national priority, a personal responsibility*

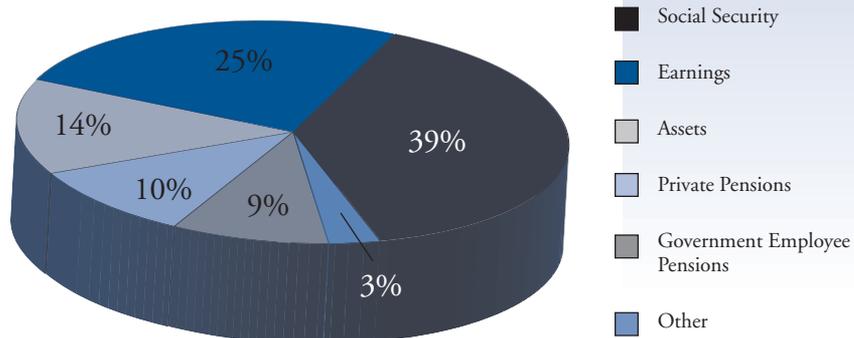
**R**etirement security has become a national priority. A quick look at the overall picture shows why:

- Nearly one-third (33%) of American employees work for employers who do not sponsor a retirement plan.<sup>1</sup>
- Nearly half (49%) of American workers do not participate in an employment-based retirement plan.<sup>2</sup>
- Employees today shoulder a larger burden of risk and responsibility for their retirement savings, as more and more employers shift from defined benefit plans to defined contribution plans.
- Many Americans will not be able to maintain their preretirement standard of living with their current rate of saving toward retirement.

Today, every American must assume responsibility for developing a personal retirement savings plan. Government, employers and policy makers will help, but individuals will increasingly need to turn to earnings, personal savings, and their own contributions to individual or employment-based retirement plans to maintain a comparable standard of living after they retire. (See Illustration 1 for sources of aggregate income of the aged in 2003.)

People aged 65 and over are very dependent upon Social Security benefits as a source of income. The typical family aged 65 and over received 60% of its income from Social Security in 2002. On average, 65 and over families in the highest quintile of money income received only 24% of money income from Social Security, 32% from work earnings and 17% from assets. Conversely, those 65 and over in the lowest quintile received on

**ILLUSTRATION 1:  
AGGREGATE INCOME OF THE AGED BY SOURCE,  
2003**



Source: Fast Facts and Figures About Social Security, September 2005.

average, 78% of money income from Social Security benefits.<sup>3</sup> (See Illustration 2 for income sources of the aged by income quintile.) Tomorrow's retirees, if they want their aged years to be golden, will need to rely more on earnings, pensions and other retirement plans.<sup>4</sup>

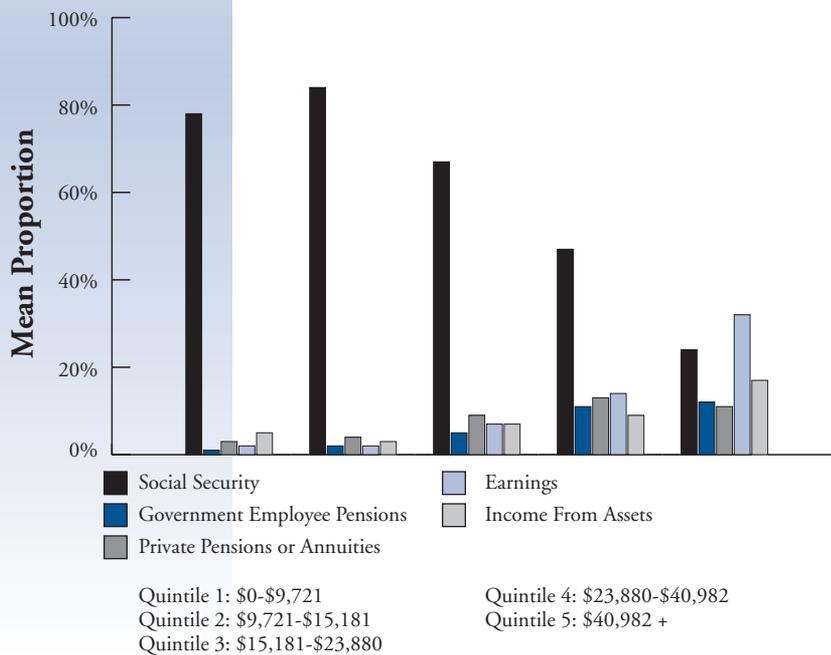
## EMPLOYMENT-BASED RETIREMENT PLANS

In 2004, 67% of all wage and salary workers in the United States worked for an employer that sponsored a retirement plan.<sup>5</sup> Yet not all employees of these firms are eligible to participate in their employers' retirement plans. The workers most likely either to work for an employer that does not sponsor a plan or to be ineligible to participate in the retirement plan offered by their employer include low-income workers, younger workers, employees of small businesses and part-time or temporary employees.<sup>6</sup>

Increasingly, the retirement plans offered by employers are defined contribution plans—to which the employee contributes part of his or her salary, often matched to some degree by the employer—rather than defined benefit plans, which are usually funded and managed solely by employers.<sup>7</sup>

Even with employment-based retirement plans, then, employees are shouldering a growing share of the responsibility for accumulating adequate retirement savings. With many defined contribution plans, employees determine both the level of contribution from their salaries and often where and how to invest and allocate these funds. Employees can choose to entirely liquidate these accounts—rather than rolling over their funds into another retirement account—when they leave an employer. Retirement *security* is thus increasingly in the hands of the employee.

**ILLUSTRATION 2:  
RELATIVE IMPORTANCE OF INCOME SOURCES  
FOR FAMILIES 65 OR OLDER, 2002**



Source: Income of the Population 55 or Older, 2002. SSA Publication No. 13-11871, Table 6.A2., March 2005.

## INDIVIDUAL RETIREMENT PLANS

Despite the growing responsibility to plan for their own retirements, many Americans have not yet done so. Americans are spending more, saving less, and accumulating more and more debt—not the best way to prepare for retirement.

**The personal savings rate is very low.** After holding steady at 7-11% from 1960 to the early 1990s, America's personal savings rate—the percentage of personal disposable income not spent on personal outlays—has fallen in the last seven years to levels not seen since the Great Depression, and was negative at the close of 2005.<sup>8</sup>

**Less than half of all Americans own an IRA.** In this no-savings climate, it is not surprising that a minority of Americans have opened individual retirement accounts (IRAs). According to the Investment Company Institute, about 40% of American households owned IRAs in 2004, with total assets reaching \$3.5 trillion in 2005.<sup>9</sup> Unfortunately, only one-fourth of these IRA owners made contributions to them that year. Overall, the Employee Benefit Research Institute (EBRI) estimates that only about 3% of Americans make annual IRA contributions.

**Many Americans are not saving enough for retirement.** Among American workers, retirement is the single most common savings goal—with 69% naming it as one of their savings goals in 2005. Yet just 69% of workers reported having saved *any* money for retirement—and even less (62%) reported they were currently saving toward retirement. Despite their good intentions, then, many Americans are not saving—or not saving enough—to preserve their preretirement lifestyles.<sup>10</sup>

**Many Americans have false confidence in their retirement planning.** Nearly two-thirds of American workers are very confident or somewhat confident that they will have enough money in retirement to live comfortably.<sup>11</sup> This false confidence—and Americans' low savings rate—may arise from a variety of misperceptions regarding both investments and retirement. Common misperceptions include overestimating returns on investments, underestimating life expectancy and longevity, underestimating the amount of savings needed to preserve one's lifestyle, underestimating health care costs, and counting too much on Social Security.

## RETIREMENT INCOME ADEQUACY

Beginning to save for retirement is a critical first step—but how much does one need to save to ensure adequate retirement savings? According to a recent General Accounting Office study, “workers from Generation X are estimated to have similar levels of retirement income in real terms (adjusted for inflation) at age 62 as their counterparts in the Baby Boom, but Generation X may be able to replace a smaller percentage of their preretirement income.”<sup>12</sup> The General Accounting Office estimated that the median

household income replacement rates for Baby Boomers would range from 71% to 75% depending on the assumptions, whereas the corresponding replacement rates for Generation X would range from 60% to 68%.

A 2000 study by Moore and Mitchell, based on data from the Health and Retirement Study, estimated the median household would need to increase its annual savings to 16% of annual income to achieve a 69% replacement of household wealth at age 62.<sup>13</sup>

The key question, however, is whether a 70% household income replacement rate will be adequate for people nearing retirement given increasing health care costs and longevity, and whether a 60% replacement rate will be adequate 30 or more years from now.

## THE FUTURE OF RETIREMENT

Workers today are already retiring later than those in the past. Starting in 2000, the eligibility age for unreduced Social Security benefits began a phased increase from 65 to 67. This increase will reduce early Social Security benefits and may also help reverse the decline in average retirement age seen in the 1990s. Social Security also offers workers an incentive to work longer by increasing recipients' benefits for each year they delay retirement after normal retirement age.

**Retirees are still working!** Earned income has become increasingly important to older Americans in recent years. The average annual earnings from work for individuals aged 65 to 69 is more than \$10,000 a year. As a result, in 2004, earnings accounted for the largest share of the average annual income of 65- to 69-year-olds: earnings provided 37% of the average individual income, up from 26% in 1987. Social Security accounted for the second largest share (32%), followed by pensions and annuities (18%), and income from assets (12%).<sup>14</sup>

Significantly, many Americans are even working—although not necessarily full time—beyond age 70. Earnings accounted for 24% of the income of those individuals ages 70 to 74 in 2004—nearly double the 12% share they provided in 1987 and second only to Social Security (41%) as a source of income for this individual cohort.

**Health care coverage keeps people working.** One important factor that keeps people working beyond normal retirement age is the desire to maintain or pay for health care coverage. With health care costs rising significantly every year, many older workers want to supplement Medicare coverage, which begins at the age of 65. Yet the number of employers that offer retiree health benefits steadily dwindled throughout the 1990s before leveling off over the last five years. Surveys conducted by Mercer Human Resource Consulting found that just 28% of larger employers (those with 500 or more employees) offered health benefits to Medicare-eligible retirees in 2004—down from 44% in 1993.<sup>15</sup>

The combination of sharply increasing medical costs and declining employer-provided health benefits for retirees has posed a serious threat to many Americans' retirement security.

**Phased retirement provides a gradual transition.** More and more retirees are stepping down gradually to retirement. Rather than going from full employment to full retirement, they are using bridge jobs or phased retirement as a transitional phase. At first, most workers who chose phased retirement did so as a transition to early retirement. In recent years, however, workers aged 65 and older—whether prompted by financial necessity, rising health care costs, or simply the desire to continue working—have chosen phased retirement *after* retirement age. Rising longevity, coupled with higher retirement costs, has made working after retirement age an appealing option.<sup>16</sup>

## CHALLENGES TO SAVING FOR RETIREMENT

At the first National Summit on Retirement Savings in 1998, delegates dedicated their efforts to identifying the biggest barriers to retirement savings for individuals and their employers, as well as the barriers to raising public awareness of the value of saving. Many of the barriers they identified, as you will see at the 2006 Summit, apply to one or more of the four targeted groups:

- Low-income workers
- Employees of small businesses
- New entrants to the workforce
- Workers nearing retirement.

Here are some of the barriers for individuals identified by the 1998 SAVER Summit delegates:

- **Difficulty Saving:** Especially for low-income workers, struggling to make ends meet, saving can be difficult.
- **Competing Priorities:** Workers seem more willing to save for more concrete items—a car, a house, college education—than for retirement.
- **Short-Term Thinking:** People don't think they'll live that long and don't appreciate that the length of retirement is increasing for most individuals.
- **Consumer Culture:** American culture encourages spending, living beyond one's means, misusing credit and accumulating debt—rather than saving.
- **False Sense of Security:** Social Security creates complacency, since people expect that the government will take care of them if they don't do it themselves.
- **Limited Access:** Half of U.S. workers do not participate in employment-based retirement plans.
- **Financial Illiteracy:** Many Americans lack the knowledge, education and skills needed to save. Workers need better, clearer information on the importance of saving, the greater responsibility and risk of workers under defined contribution plans, the investment choices they will face in 401(k) plans, when (and when not) to invest conservatively, the impact of inflation, and money management in general.

- **Complexity:** Retirement planning and saving are complicated. Most people don't have the tools they need to digest so much information and make so many difficult choices. Workers need some focused information to avoid feeling overwhelmed.
- **Enormity:** The problem seems too big. The large numbers on retirement needs—intended to scare people into action—instead paralyze them. Workers don't see how small amounts now will make any kind of difference in the long run.
- **Health Care Costs Neglected:** Most retirement plans do not address postretirement health issues.
- **Few Tax Incentives:** The government does not offer enough incentives (tax breaks) to save. The tax system promotes spending more than saving.\*
- **IRA Restrictions:** The difficulty of applying IRA deduction rules has made them disincentives.\*
- **Low Limits on Retirement Savings:** The tax code limits what people can save in an employer-based retirement plan.\*
- **No Chance to Catch Up:** Rules regulating IRAs and pensions have no “catch-up” provisions that would allow older workers to save faster as they near retirement.\*
- **Limited Portability:** Portability of pensions is not encouraged, making it too easy for workers to spend their retirement savings when they change employers.

Besides the barriers individuals face, employers confront barriers too. Here are some of the barriers identified by the 1998 SAVER Summit delegates:

- **“What's in It for Me?”:** Many employers don't appreciate that sponsorship of retirement plans gives them a competitive advantage. They fail to see that employee pensions make good business sense by helping them to retain and recruit the best employees and to keep morale high.
- **High Costs:** Small employers shy away from the setup, administrative and employer contribution costs of retirement plans—especially on top of the costs of other benefits. Many seem unaware of the declining costs required to set up plans, or of low-cost alternatives.
- **Hard to Manage:** Complex administrative burdens, accounting rules, IRS, DOL and SEC regulations, reporting requirements, and possible penalties make it difficult to manage retirement plans, scaring off many smaller employers.\*

*\* Progress has been made on overcoming some of the barriers such as contribution limits, catch-up contributions, rollovers and safe harbor rules. But not all barriers have been overcome.*

- 
- **Fiduciary Risk:** Many employers, especially small businesses, fear employee litigation accusing them of giving bad financial advice or mismanaging pension accounts. They also fear inadvertent non-compliance with regulations.
  - **Merged Plan Complexity:** Merging plans after companies merge adds administrative complexity.
  - **Understanding Options:** Too many employers don't know much about available retirement programs such as SIMPLE and SEP.

As you consider the barriers that remain, think of how they apply in particular to the four groups on whom the 2006 Summit will focus. What are the best ways to overcome these challenges and both encourage and make it easier for these groups in particular—and for all Americans in general—to save more toward a secure retirement?

*\* Progress has been made on overcoming some of the barriers such as contribution limits, catch-up contributions, rollovers and safe harbor rules. But not all barriers have been overcome.*

## SECTION 3

# LOW-INCOME WORKERS

*Trying to make ends meet*

**U**nder pressure simply to pay for day-to-day expenses, low-income workers have managed to save little toward retirement.

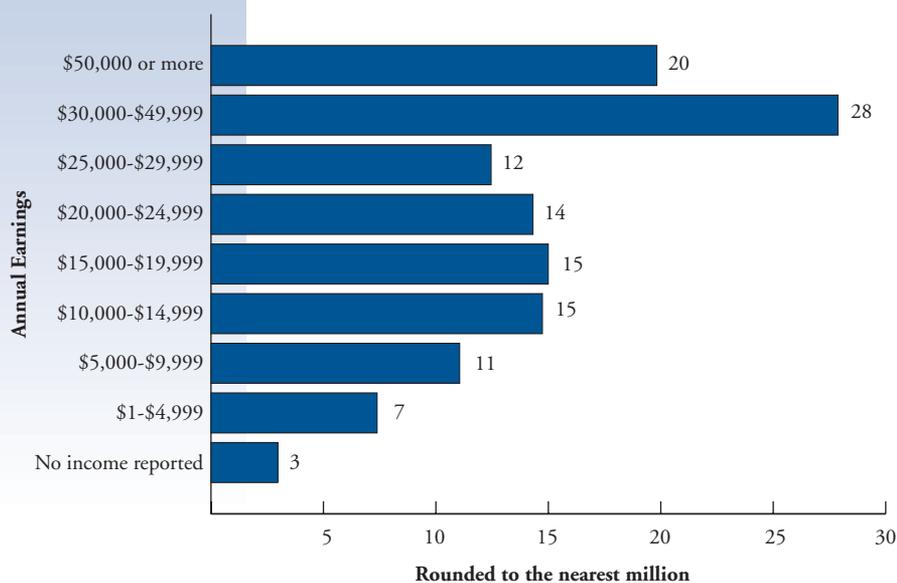
**Low Participation in Employment-Based Retirement Plans:** In general, the greater the annual salary workers earn, the more likely they are to participate in an employment-based retirement plan. The reverse, however, is also true: the less money workers earn, the less likely they are to participate in an employment-based retirement plan. Among all workers who earned less than \$20,000 in 2003, for example, less than 30% participated in an employment-based retirement plan.<sup>17</sup>

**Low Participation in Individual Retirement Savings Plans:** What's more, low-income workers have very few individual retirement savings plans either.

Again, the smaller the annual earnings, the less likely a person is to have an IRA or Keogh. Among all workers, less than 10% of those with annual earnings below \$20,000 had an IRA or Keogh in their name in 2002—and less than one-quarter of those who owned a retirement account actually made tax-deductible contributions that year.<sup>18</sup>

**Low Participation in Any Type of Retirement Plan:** Looking at all types of retirement plans, again a direct correlation exists between annual earnings levels and participation in retirement

**ILLUSTRATION 3:  
TOTAL WAGE AND SALARY WORKERS  
BY INCOME GROUP, 2003**



Source: EBRI Issue Brief No. 289 (Employee Benefit Research Institute, January 2006).

plans. In fact, more than 60% of those making less than \$20,000 have *never* participated in an employment-based retirement plan or a private retirement plan of any kind, including IRAs.<sup>19</sup> Only one-third of all workers who earned less than \$20,000 participated in any type of retirement plan in 2003, while just 38% of these workers had ever participated in a retirement plan.

## LOW-INCOME WORKERS BY THE NUMBERS

### PARTICIPATION OF WORKERS IN EMPLOYMENT-BASED RETIREMENT PLANS, 2003

Annual Earnings	Participation Rate
<b>All workers</b>	<b>51%</b>
\$1-\$4,999	13%
\$5,000-\$9,999	19%
\$10,000-\$14,999	28%
\$15,000-\$19,999	40%
\$20,000-\$24,999	52%
\$25,000-\$29,999	60%
\$30,000-\$49,999	71%
\$50,000 or more	78%

Source: EBRI Issue Brief No. 289 (Employee Benefit Research Institute, January 2006).

### OWNERSHIP AND CONTRIBUTIONS TO IRA OR KEOGH PLANS, 2002

Annual Earnings	Owned	Contributed
<b>All workers</b>	<b>17%</b>	<b>5%</b>
\$1-\$4,999	10%	3%
\$5,000-\$9,999	9%	2%
\$10,000-\$14,999	9%	3%
\$15,000-\$19,999	11%	3%
\$20,000-\$24,999	13%	4%
\$25,000-\$29,999	15%	5%
\$30,000-\$49,999	21%	6%
\$50,000 or more	32%	9%

Source: EBRI Issue Brief No. 289 (Employee Benefit Research Institute, January 2006).

## CHALLENGES TO RETIREMENT SAVING FOR LOW-INCOME WORKERS

Many low-income workers are tagged with an inaccurate preconception: that the poor are either unwilling or unable to save. Given the opportunity and the right incentives to save, however, many low-income workers have

shown themselves to be both willing and able. So what gets in the way of low-income workers who want to save toward retirement?

**Limited Access to Employment-Based Retirement Plans:** Many low-income workers have no access to employment-based retirement plans. In 2003, for example, 79% of all employees whose employers did not sponsor any pension or deferred compensation programs made less than \$30,000.<sup>20</sup> Even if their employer sponsored a plan, many of these workers were ineligible to participate. For example, more than half of those earning less than \$20,000 were ineligible to participate in a 401(k) or similar type of salary reduction arrangement offered by their employers, many due to part-time status or short employment periods.<sup>21</sup> They didn't work enough hours, didn't have enough job tenure, or weren't allowed to participate.

When offered the chance to participate in employment-based retirement plans, however, a majority of low-income workers take advantage of the opportunity. Among those low-income workers who are eligible to participate in their employer's 401(k) plans, for example, the participation rate is nearly as high as those who earn more money. Given the opportunity, more than two-thirds of workers earning less than \$20,000 participated in a 401(k) or similar salary reduction plan.<sup>22</sup>

#### **PARTICIPATION RATES (NOW OR EVER) IN SOME TYPE OF RETIREMENT PLAN, 2003**

<b>Annual Earnings</b>	<b>Currently Participating</b>	<b>Ever Participated</b>
<b>All workers</b>	<b>55%</b>	<b>59%</b>
\$1-\$4,999	22%	27%
\$5,000-\$9,999	26%	31%
\$10,000-\$14,999	33%	37%
\$15,000-\$19,999	45%	49%
\$20,000-\$24,999	57%	60%
\$25,000-\$29,999	64%	68%
\$30,000-\$49,999	75%	78%
\$50,000 or more	81%	83%

*Source:* EBRI Issue Brief No. 289 (Employee Benefit Research Institute, January 2006).

**No Incentives to Save:** Although the government offers many tax breaks to encourage savings, many low-income individuals either are not eligible or have limited incentives to participate in these tax breaks. For example, a recent simulation estimates that, although 40% of all income tax filers would qualify for the Savers Credit in 2005, only one-seventh of them would benefit from the credit by contributing to an IRA or 401(k) because the credit is nonrefundable.<sup>23</sup> For these workers, tax-based savings incentives that reduce tax liability but are not refundable provide limited incentive to save. In

addition, households that accumulate \$2,000 or more in assets, including retirement savings, become ineligible for some basic welfare programs.<sup>24</sup>

**Other Priorities:** Many low-income workers struggle to pay their day-to-day bills: rent, food, clothing, medical bills. It all adds up. So when low-income workers receive their paychecks, many have already committed all or most of the money to covering these day-to-day expenses. Making savings a spending priority by setting aside money in a personal retirement account seems next to impossible. Even those low-income workers who do save money may place a higher priority on saving toward a home purchase or their children's education costs than on saving for retirement.

## REACHING LOW-INCOME WORKERS

Given the right incentives and financial counseling, many low-income workers have already demonstrated a willingness to arrange for payroll deductions in order to save money toward the down payment on a house, their children's college education, job training or starting a business. The same strategy could be used to spur retirement savings, if that became a spending priority for them.

**IDAs and FSAPs:** Throughout the country, programs have shown that low-income workers can and will save. Michigan's Individual Development Accounts (IDAs), for example, use state and foundation funding to provide matching funds (matching deposits of up to \$1,000 by two- or three-to-one) for low-income savers. The program, open only to those with incomes at or below 200% of the poverty level, has led to 451 home purchases, 128 higher education or training programs and 89 business startups since its inception in 2001. Pennsylvania's Family Savings Account Program (FSAP), which uses state and federal funds, has had similar success. This program requires participants to deposit at least \$10 every week in their accounts and attend a series of financial-planning classes in order to receive matching funds. Throughout the United States, more than 20,000 low-income participants in 33 states have taken advantage of over 500 programs like these to start building assets toward home buying, education or training, or the founding of small businesses. Asset-building programs have also worked in other nations as diverse as Canada and the Philippines. Similar programs to make retirement savings a spending priority might prove effective.<sup>25</sup>

**Automatic Enrollment in 401(k) Plans:** Automatic enrollment programs make participation the default option for employers' retirement programs, requiring workers to "opt out" to avoid participating rather than "opt in" if they decide they do want to participate.<sup>26</sup>

**Incentives for Automatic Tax Refund Deposits:** According to a 2005 study by the National Bureau of Economic Research in association with H&R Block, a significantly higher percentage of low- and middle-income taxpayers will take advantage of H&R Block's Express IRA product, which

allows the deposit of all or part of an individual's tax refund into an IRA that can be set up by the tax preparer, if given financial incentives to do so. Given no financial incentives, just 3% of filers used the express IRA. Among filers offered a 20% match on any deposit, however, participation increased to 8%; among those offered a 50% match, participation increased to 14%. This type of program could effectively increase savings since, for many low-income workers, their tax refund is the single largest sum of money they receive during the year.<sup>27</sup>

**Savers' Tax Credit:** The Savers' Tax Credit, enacted in 2001 and set to expire in 2006, encouraged savings by offering low-income taxpayers a 50% tax credit on their savings. Because it was nonrefundable, however, it provided little incentive to those who had little or no tax liability.

### **INELIGIBILITY CITED AS REASON FOR NONPARTICIPATION IN AN EMPLOYER-SPONSORED SALARY REDUCTION PLAN, 2003**

<b>Annual Earnings</b>	<b>Ineligibility as Reason for Not Participating</b>
\$1-4,999	81%
\$5,000-\$9,999	70%
\$10,000-\$14,999	55%
\$15,000-\$19,999	47%
\$20,000-\$24,999	44%
\$25,000-\$29,999	37%
\$30,000-\$49,999	37%
\$50,000 or More	41%

*Source:* EBRI Issue Brief No. 289 (Employee Benefit Research Institute, January 2006).

### **PARTICIPATION RATE AMONG THOSE ELIGIBLE FOR A COMPANY-SPONSORED SALARY REDUCTION PLAN, 2003**

<b>Annual Earnings</b>	<b>Participation Rate if Eligible</b>
\$1-\$4,999	71%
\$5,000-\$9,999	67%
\$10,000-\$14,999	68%
\$15,000-\$19,999	73%
\$20,000-\$24,999	79%
\$25,000-\$29,999	80%
\$30,000-\$49,999	86%
\$50,000 or More	91%

*Source:* EBRI Issue Brief No. 289 (Employee Benefit Research Institute, January 2006).

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## SECTION 4

# SMALL-BUSINESS EMPLOYEES

### *Offered few options*

**F**inancial constraints and requirements of administering retirement savings plans discourage many small businesses from offering them to their employees. As a result, less than one-third of small-business employees have a retirement plan.

**Low Participation in Employment-Based Retirement Plans:** Only 23% of all workers at firms with fewer than 25 employees participated in an employment-based retirement plan in 2003, compared to the average participation rate of American workers (51%). In addition, just 33% had ever participated in an employment-based retirement plan, compared to the American average of 58%. The participation rate among businesses with 25-99 workers, although higher, is still significantly less than the American averages: 41% participated in 2003 and 49% had ever participated in an employment-based retirement plan.<sup>28</sup>

**Low Participation in Individual Retirement Savings Plans:** In 2002, 18% of workers at firms with fewer than 25 employees owned an IRA or Keogh. Among firms who employed 25 to 99 workers, 17% of employees owned an IRA or Keogh—the same rate as for the average American worker. A significantly higher percentage of employees of the smallest firms (fewer than 25 employees) actually contributed to their IRA or Keogh accounts in 2002. Six percent of these employees—nearly one-third of those who own an account—added to it in 2002. Yet, among firms that employed 25 to 99 workers, the percent of employees who contributed to their personal accounts was slightly less than the U.S. average.<sup>29</sup>

**Low Participation in Any Retirement Savings Plans:** Only 33% of workers employed by firms with fewer than 25 workers and just 49% of workers at firms with 25 to 99 workers had any type of private retirement plan in 2003—compared to 55% of all workers. Furthermore, just 38% of workers employed by firms with fewer than 25 employees have ever participated in any type of private retirement plan, whether employment based or individual. This is significantly less than the American worker (59%).<sup>30</sup>

## SMALL-BUSINESS EMPLOYEES BY THE NUMBERS

### PARTICIPATION OF WORKERS IN EMPLOYMENT-BASED RETIREMENT PLANS, 2003

Firm Size (Employees)	Participation Rate
<b>All workers</b>	<b>51%</b>
Fewer than 25	23%
25-99	41%
100 or more	58%
Public sector	74%

Source: EBRI Issue Brief No. 289 (Employee Benefit Research Institute, January 2006).

### OWNERSHIP AND CONTRIBUTIONS TO IRA OR KEOGH PLANS, 2002

Firm Size	Owned	Contributed
<b>All workers</b>	<b>17%</b>	<b>5%</b>
Fewer than 25	18%	6%
25-99	17%	4%
100 or more	16%	4%
Public sector	18%	5%

Source: EBRI Issue Brief No. 289 (Employee Benefit Research Institute, January 2006).

### CHALLENGES TO RETIREMENT SAVING FOR SMALL-BUSINESS EMPLOYEES

Employees of small businesses who are afforded the opportunity have shown a marked willingness to save toward retirement. Their participation rate in employment-based retirement plans offered to them exceeds that of employees of large businesses and a higher percentage of them own personal retirement accounts, too. But, for employees of small businesses, their options for participating are limited.<sup>31</sup>

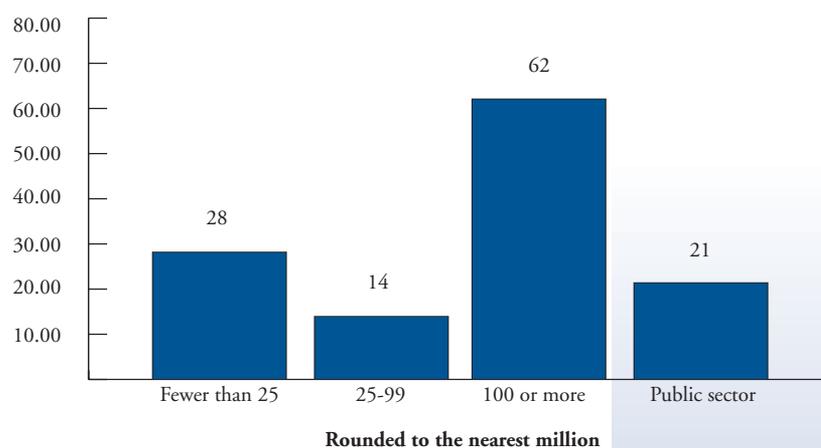
**Limited Access to Employment-Based Retirement Plans:** For employees of smaller businesses, the single biggest obstacle to retirement savings is the lack of savings options offered by their employers. In the case of the smallest businesses—firms that employ fewer than 25 workers—only 31% of employees worked for companies that sponsored retirement plans in 2003. The picture gets better for smaller businesses—companies that employ 25 to 99 workers—where 57% of employees worked for companies that sponsored retirement plans. Neither figure, however, approaches the average American employer's sponsorship rate of 67% for American workers as a whole.<sup>32</sup>

More than half of small-business employees who do not participate in their

employer's plans are not eligible to do so. The net result of this limited access: Nearly four-fifths of employees of smaller businesses and more than 90% of employees of the smallest firms have no access to employment-based salary reduction retirement plans.

Six of every seven employees of small businesses, who were eligible to participate in salary reduction plans in 2003, actually did so. This participation rate—85% of eligible workers in smaller businesses and 86% of eligible workers in the smallest firms—exceeds that of eligible workers in firms that employ more than 100 workers (81%) as well as eligible workers in the public sector (80%).<sup>33</sup>

**ILLUSTRATION 4:  
TOTAL WAGE AND SALARY WORKERS BY FIRM SIZE, 2003**



Source: EBRI Issue Brief No. 289 (Employee Benefit Research Institute, January 2006).

### **PARTICIPATION RATES (NOW OR EVER) IN SOME TYPE OF RETIREMENT PLAN, 2003**

Firm Size	Currently Participating	Ever Participated
<b>All workers</b>	<b>55%</b>	<b>59%</b>
Fewer than 25	33%	38%
25-99	49%	53%
100 or more	63%	66%
Public sector	78%	80%

Source: EBRI Issue Brief No. 289 (Employee Benefit Research Institute, January 2006).

### **EMPLOYERS' SPONSORSHIP OF RETIREMENT PLANS, 2003**

Firm Size	Sponsorship Rate
<b>All workers</b>	<b>67%</b>
Fewer than 25	31%
25-99	57%
100 or more	79%
Public sector	87%

Source: EBRI Issue Brief No. 289 (Employee Benefit Research Institute, January 2006).

## REACHING SMALL-BUSINESS EMPLOYEES

Those employees of small businesses who are afforded the opportunity have shown a willingness to participate in 401(k) or similar salary reduction plans. With this cohort, reaching out to small-business employers rather than employees is key.

In 2003, just 29% of small-business owners said they were very or somewhat likely to start a retirement plan for their employees within the next two years. This figure, down from 42% in 1998, suggests a steadily declining willingness on the part of small-business owners to initiate employee retirement plans.<sup>34</sup>

**Educating Small-Business Owners:** According to a 2003 survey of small-business owners, the single biggest factor that would motivate them to sponsor a retirement plan for their employees would be increasing profits. Next on the list, however, was “a plan that requires no employer contributions,” which 67% of small-business owners said would make them much more or somewhat more likely to sponsor a plan. In addition, 60% said they were more likely to sponsor a plan if a plan could be customized to their business needs. Such plans do exist, however, which points to the necessity of educating small-business owners about the options available to them and their workers. Although new retirement plans have been introduced specifically for small businesses, many

small-business owners know little or nothing about them. The need to educate small-business owners is also demonstrated by the 55% who said they would be more likely to sponsor a plan if easy-to-understand information were available.

**Incentives for Small Businesses, Their Owners and Employees:** The third biggest motivator for small-business owners was “increased business tax credits for starting a plan,” which would make 66% of those surveyed more likely to sponsor a retirement plan. But 58% of small-business owners would also more likely sponsor a plan if it provided greater tax advantages to their employees.

**R**ob Zeldenrust, general manager of the Fremont Co-Operative Produce Company—a farm supply cooperative with just 36 employees that serves farmers in western Michigan—recognizes how a good benefits package can help his company hold on to the best employees. “The farmers we deal with want to work with people who know what’s going on with their farms,” he explains. “If I had a lot of employee turnover, I would lose the confidence of our members.” In an industry with an average annual turnover rate of 32%, Fremont has held its turnover to just 7%. “I rarely have employee turnover,” says Zeldenrust. “I don’t have to spend a lot of time training employees. I can attract good people and expect results from them. A lot of that is due to the benefits package.”

In addition to medical insurance for employees and retirees, Fremont offers its employees a profit-sharing plan, a defined-benefit pension plan, and a 401(k) plan with an employer match of 20% on up to 5% of an employee’s pay. Seventy-nine percent of Fremont’s employees participate in its 401(k) plan and the average deferral is the full 5%. “We’re a farm supply co-op, so we operate on a very thin profit margin,” admits Zeldenrust. “Others like us have dropped benefits, but we’re committed to keeping our benefits package intact.” And he has no doubt that he’s making a winning investment.<sup>35</sup>

**Reducing Administrative Requirements:** Another factor that would prompt more than half of small-business owners to be more likely to sponsor a retirement plan for employees would be a reduction in administrative requirements. Making it easier to start and administer a plan would make 57% of those surveyed more likely to sponsor one.

### **PARTICIPATION RATE AMONG THOSE ELIGIBLE FOR A COMPANY-SPONSORED SALARY REDUCTION PLAN**

<b>Firm Size</b>	<b>Participation Rate if Eligible</b>
Fewer than 25	86%
25-99	85%
100 or more	81%
Public sector	80%

*Source:* EBRI Issue Brief No. 289 (Employee Benefit Research Institute, January 2006).

### **SMALL-BUSINESS OWNERS' KNOWLEDGE OF RETIREMENT PLANS, 2003**

<b>Plan</b>	<b>Never Heard of</b>	<b>Not Too Familiar</b>
SEP	47%	26%
Defined benefit	37%	21%
Deferred profit sharing	24%	32%
SIMPLE	32%	20%
401(k) plans	2%	13%

*Source:* Findings from the 2003 *Small Employer Retirement Survey (SERS)*, EBRI, September 2003.

## SECTION 5

# NEW ENTRANTS TO THE WORKFORCE

### *Needing to think long term*

**E**ligibility to participate in employment-based retirement plans often depends upon length of service with the employer, so people with brief job tenures generally have less access to retirement plans. Yet more than half of American workers (54%) have worked their current job for less than five years. The net result: nearly two-thirds of these employees do not participate in employment-based retirement plans.<sup>36</sup>

**Low Participation in Employment-Based Retirement Plans:** Just 36% of workers with less than five years' tenure with their current employer participated in an employment-based retirement plan in 2003. That's considerably less than the participation rate for all American workers (51%) and less than half the rate of workers with 15 or more years of tenure (76%).<sup>37</sup>

**Low Participation in Individual Retirement Savings Plans:** Relatively few workers with less than five years' tenure on the job make contributions to individual retirement savings plans to compensate for their lack of an employment-based retirement plan. Just 13% of these short-term employees owned a Keogh or IRA in 2002 and only 3% made a contribution to it that year. Both these figures fall short of the national averages of 17% who owned an individual retirement savings plan and 5% who deposited funds in the account in 2002. Long-term employees—those with 15 or more years of tenure with their current employer—have nearly twice the ownership rate (25%) and more than twice the contribution rate (7%) of short-tenure employees.

## NEW ENTRANTS TO THE WORKFORCE BY THE NUMBERS

### PARTICIPATION OF WORKERS IN EMPLOYMENT-BASED RETIREMENT PLANS, 2003

Job Tenure	Participation Rate
All workers	51%
Less than 1 year	25%
1-4 years	43%
5-9 years	60%
10-14 years	68%
15 or more years	76%

Source: EBRI Issue Brief No. 289 (Employee Benefit Research Institute, January 2006).

**Low Participation in Any Retirement Savings Plans:** Fewer than half of short-tenure workers have ever participated in any type of retirement plan, whether employment based or individual. This figure is significantly less than the American average of 59%, and it pales in comparison to the nearly 80% of long-term employees who have participated in retirement plans.

### OWNERSHIP AND CONTRIBUTIONS TO IRA OR KEOGH PLANS, 2002

Job Tenure	Owned	Contributed
<b>All workers</b>	<b>17%</b>	<b>5%</b>
Less than 1 year	11%	3%
1-4 years	14%	4%
5-9 years	18%	5%
10-14 years	20%	6%
15 or more years	25%	7%

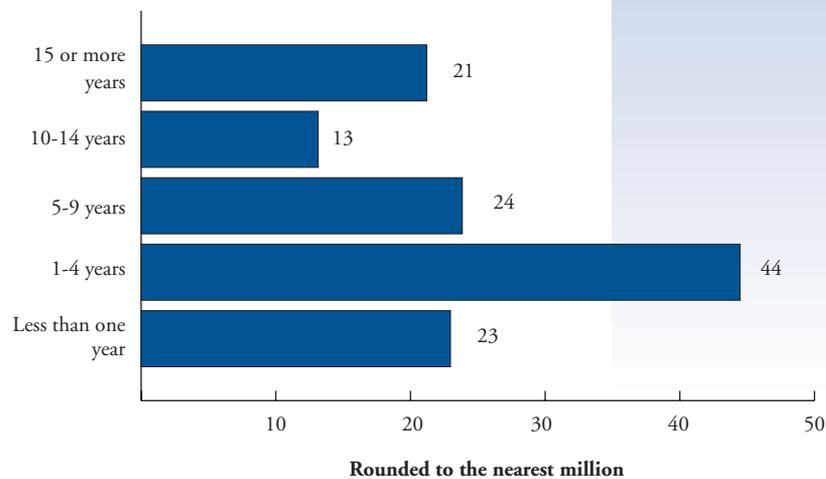
Source: EBRI Issue Brief No. 289 (Employee Benefit Research Institute, January 2006).

### CHALLENGES TO RETIREMENT SAVING FOR NEW ENTRANTS TO THE WORKFORCE

New entrants to the workforce—most of them young and perhaps not yet ready to settle into a long-term job—tend to give less thought to the distant prospect of retirement than veteran employees. New entrants also may have fewer employment options. Full-time wage and salary employees between 21 and 24 are less likely to work for an employer that sponsors a plan, and even less likely to participate.<sup>38</sup>

**Limited Access to Employment-Based Retirement Plans:** The vast majority of workers whose employers do not sponsor pension or deferred compensation programs have relatively short job tenures. In 2003, 82% of these workers had been with their employer for less than ten years. Yet, although two-thirds of all employers today offer employment-based retirement plans, the

**ILLUSTRATION 5:  
WAGE AND SALARY WORKERS BY JOB TENURE**



Source: EBRI Issue Brief No. 289 (Employee Benefit Research Institute, January 2006).

majority of employees with short job tenures, especially those employed for less than a year, are not eligible for them. Among workers whose employers offer 401(k) or other salary reduction plans, for example, only 26% of first-year employees are eligible to participate—the majority due to their brief length of service with their employers. For workers with one to four years of job tenure, the eligibility rate rises to 54%; and, among those who are ineligible, the number of hours worked is more often the cause than their job tenure.<sup>39</sup>

**Their Youth Works Against Them:** Many workers with brief tenure in their current jobs are relatively young; and, when it comes to retirement planning, their youth works against them. Whether these workers see retirement as too distant to worry about or they have more pressing financial concerns (e.g., paying off student loans, saving for the down payment on a house), retirement planning seems less of a priority for them. In 2004, fewer than half of full-time workers aged 21-24, for example, worked for employers that sponsored a retirement plan and fewer than one-third participated in one.<sup>40</sup> The percentage of workers whose employers sponsor retirement plans—and the percentage of workers who participate in those plans—rises with both the age and the tenure of the employee. But, for those just starting to earn, or those with short job tenure, participation in retirement planning remains very small. Saving for retirement has yet to become a spending priority.

#### **PARTICIPATION RATES (NOW OR EVER) IN SOME TYPE OF RETIREMENT PLAN, 2003**

<b>Job Tenure</b>	<b>Currently Participating</b>	<b>Ever Participated</b>
<b>All workers</b>	<b>55%</b>	<b>59%</b>
Less than 1 year	33%	39%
1-4 years	48%	52%
5-9 years	63%	65%
10-14 years	69%	72%
15 or more years	75%	78%

*Source:* EBRI Issue Brief No. 289 (Employee Benefit Research Institute, January 2006).

#### **INELIGIBILITY CITED AS REASON FOR NONPARTICIPATION IN AN EMPLOYER-SPONSORED SALARY REDUCTION PLAN, 2003**

<b>Job Tenure</b>	<b>Ineligibility as Reason for Not Participating</b>
Less than 1 year	74%
1-4 years	46%
5-9 years	33%
10-14 years	32%
15 or more years	24%

*Source:* EBRI Issue Brief No. 289 (Employee Benefit Research Institute, January 2006).

## REACHING NEW ENTRANTS TO THE WORKFORCE

New entrants to the workforce, who are often young, may need a nudge to help them see the importance of retirement savings and to participate in the opportunities available to them. Programs that make it easier to join by requiring them to opt out if they *don't* want to participate rather than opt in if they do, as well as programs that educate new workers about the importance of retirement savings, have been the most successful in reaching these workers.

**Automatic Enrollment:** Automatic enrollment, discussed earlier in relation to low-income workers, could increase enrollment for new entrants, too. Employees who have to “opt out” are much more likely to participate in an employment-based retirement plan than those who have to “opt in.” The Moran Towing Corp., for example, a maritime-services provider based in New Canaan, Connecticut, provides its employees with an automatic 3% contribution into their 401(k) plans—and then matches employee contributions up to 2%. The average employee deferral is 9%. The employer match becomes fully vested after just one year of service. The company, named by the Principal Financial Group as one of the Principal 10 Best Companies for Employee Financial Security in 2005, has had enormous success with this program—achieving a 95% participation rate.<sup>41</sup>

“Benefits are very important,” says Jeff McAulay, vice president of finance and administration for Moran. “They are attracting and retaining our employees.” The program works for both the employees and their employer: Moran’s voluntary turnover rate is less than the industry average. This saves the company the substantial cost of recruiting and training new employees.

**Educating Short-Tenured Employees:** New and short-term employees need to be made aware that the sooner they start putting money into a retirement account, the more time it will have to grow. Moran Towing offers its new employees educational material that shows how it pays to put money in a 401(k) plan at an early age. The company also educates its workers about asset allocation, encouraging younger workers to avoid putting all of their money in fixed income investments. “We want to get to employees and say, ‘Hey, even when you are first starting out, it is important to save,’ ” says McAulay.

**Automatic Rollovers:** Workers with short tenure who quit, are fired or change jobs often take any retirement plan savings with them in the form of a lump-sum payment. Education campaigns that inform workers of the tax liabilities they will incur by accepting a lump sum instead of rolling over their pension could encourage rollovers.

## SECTION 6

# WORKERS NEARING RETIREMENT

### *Escalating health costs threaten savings*

**C**ompared to the other at-risk cohorts under consideration at the 2006 Summit—and compared to younger workers—workers nearing retirement would seem at first glance to be much better off. After all, 73% of workers in their 50s and 70% of workers in their early 60s have participated in some type of retirement savings plan, whether employment based or personal, at some point in their lives. No other age groups have a higher participation rate. In addition to employment-based retirement plans, older workers also have the highest percentage of ownership of personal retirement savings accounts. Two of every seven workers (28%) over the age of 50 owned an IRA or Keogh in 2002, and 7% made tax-deductible contributions that year—much better rates than the American averages.<sup>42</sup>

**Inadequate Participation in Retirement Savings Plans:** Look at these numbers from the other side and they present quite a different picture. Nearly 30% of workers over the age of 50 have *never* participated in any type of private retirement plan. More than one-third (36%) of all workers over the age of 60 have *never* participated in an employment-based retirement plan. Five of every seven workers over the age of 50 do *not* own an IRA or Keogh! And they are running out of time.

**No Cushion for Phased Retirement:** Many workers nearing retirement have expressed interest in phased retirement, gradually cutting down their hours until fully retired. As originally conceived, phased retirement referred to the years leading up to retirement age. But for those with inadequate retirement savings, phased retirement means something quite different: working full time until the age of 65 or 67 and only then beginning to cut back on their work hours. Although some workers will continue to work after retirement age because they enjoy it, many will continue to work because they have no other choice. In a 2003 survey, “of those (over the age of 40) who are currently covered by health insurance but who do not expect to receive coverage from a former employer or union, 62% plan to work longer than they would like in order to continue receiving health insurance.”<sup>43</sup>

**Rising Health Costs Eating Into Retirement Savings:** As the cost of health care in the United States continues to rise and the extent of retiree health benefits shrinks, aging baby boomers increasingly sense that they may not have saved enough to cover health costs in retirement. The Employee Benefit Research Institute estimates that those who retired in 2004 will need \$72,000

to \$580,000 to cover their health costs in retirement—depending on how long they live, how fast premiums increase and the extent of their health care needs—and that’s only if they also have access to employment-based health benefits in retirement. It is important to note that this survey did not take into account the new Medicare Part D. In 2002, just 13% of private sector employers offered such benefits to retirees; and, according to a 2004 survey, 85% of employers said they were very or somewhat likely to increase retiree contributions to health insurance premiums in 2005.<sup>44</sup>

## WORKERS NEARING RETIREMENT BY THE NUMBERS

### OWNERSHIP AND CONTRIBUTIONS TO IRA OR KEOGH PLANS, 2002

Age	Owned	Contributed
<b>All workers</b>	<b>17%</b>	<b>5%</b>
16-20	1%	0%
21-30	7%	2%
31-40	15%	4%
41-50	19%	6%
51-60	28%	8%
61-64	31%	8%
65+	30%	5%

Source: EBRI Issue Brief No. 289 (Employee Benefit Research Institute, January 2006).

## CHALLENGES TO RETIREMENT SAVING FOR WORKERS NEARING RETIREMENT

For workers approaching retirement age, the biggest obstacle to overcome in accumulating retirement assets is the sheer lack of time they have to correct any shortfall in savings. Most workers in their late 50s and early 60s plan on retiring within the next decade.

**Little Time to Supplement Savings:** Those workers in their late 50s and early 60s who do not have adequate retirement savings have little time in which to correct their course. Making retirement savings a spending priority may be difficult at this stage of their lives, especially if they are still paying for their children’s college education. The 29% of workers over the age of 50 who have never participated in any private retirement plan should start, but lack of time will make it almost impossible for them to accumulate adequate retirement savings through this route.<sup>45</sup>

**Little Time to Correct for Rising Health Costs:** Health savings accounts (HSAs) provide the opportunity to set aside money to defray some of the soaring health costs expected after retirement. Unfortunately, a 55-year-old individual who opened an HSA in 2004 could save a maximum of only \$44,000 by the age of 65. This amount will not come close to covering the

## FAST FACT:

According to a 2004 survey, 44% of those aged 55 and older had less than \$100,000 in total savings and investments (not including their primary residence). The picture gets grimmer if you leave out the 30% of those surveyed who said they didn’t know or refused to answer. Among those who provided a concrete response, 63% had assets worth less than \$100,000.<sup>46</sup>

Source: EBRI, ASEC, and Mathew Greenwald & Associates, Inc., 2004 Retirement Confidence Survey.

## FAST FACT:

Among retirees who have returned to work, the average “retiree” works 29 hours a week.

Source: “New Retirees: One-Third Go Back to Work, Putnam Study Shows,” Putnam Investments, December 9, 2005.

anticipated cost of health insurance premiums and out-of-pocket medical expenses of the typical retiree. (Assuming a 7% annual increase in costs, a retiree who lives to the age of 80 would need \$137,000.)<sup>47</sup>

**Little Chance of *Early Phased Retirement*:** Already, Americans over the age of 65 depend on earnings for 25% of their aggregate income. In the future, they may need even more earnings to cover their retirement spending needs. In order to conserve assets needed for retirement, phased retirement for those approaching retirement age today will probably commence after the age of 65 rather than before.

### WORKERS NEARING RETIREMENT WHO HAVE NEVER PARTICIPATED IN ANY TYPE OF RETIREMENT PLAN, 2003

Age	Never Participated
41-50	31%
51-60	27%
61-64	30%
65 and older	42%

Source: EBRI analysis of data from EBRI Issue Brief No. 289 (Employee Benefit Research Institute, January 2006).

### TOTAL SAVINGS AND INVESTMENTS (NOT INCLUDING THE VALUE OF A PRIMARY RESIDENCE) OF THOSE AGED 55 AND OLDER, 2004

Value of Assets	Percentage of Those Aged 55 and Older
Less than \$25,000	29%
\$25,000-\$49,999	5%
\$50,000-\$99,999	10%
\$100,000-\$249,999	13%
\$250,000 or more	13%
Don't know/refused	30%

Source: EBRI, ASEC, and Mathew Greenwald & Associates, Inc., *2004 Retirement Confidence Survey*.

## REACHING WORKERS NEARING RETIREMENT

For workers nearing retirement, the biggest challenges to a secure retirement are the lack of time to accumulate savings and the rise of health care costs. Overcoming these challenges will require encouraging these workers to extend their time as earners through phased retirement, to save more in the time they have left as earners and to protect themselves against rising health care costs.

**Encouraging Phased Retirement After Retirement Age:** With both life expectancy and the costs of life in retirement on the rise, it may be time for a new vision of retirement. Many workers who are nearing retirement are saying they actually want to keep working.

The desire to continue working can be seen in the number of retirees today who have come out of retirement. According to a 2005 study by Putnam Investments, seven million retirees—almost one-third of all American retirees—had returned to work after an average of 18 months of full retirement. Just over one-third (36%) of these workers worked full time, while 54% worked part time and 10% were still looking for work. Although one-third of retirees who return to work cite financial need as the reason, twice as many say they wanted to work.<sup>48</sup>

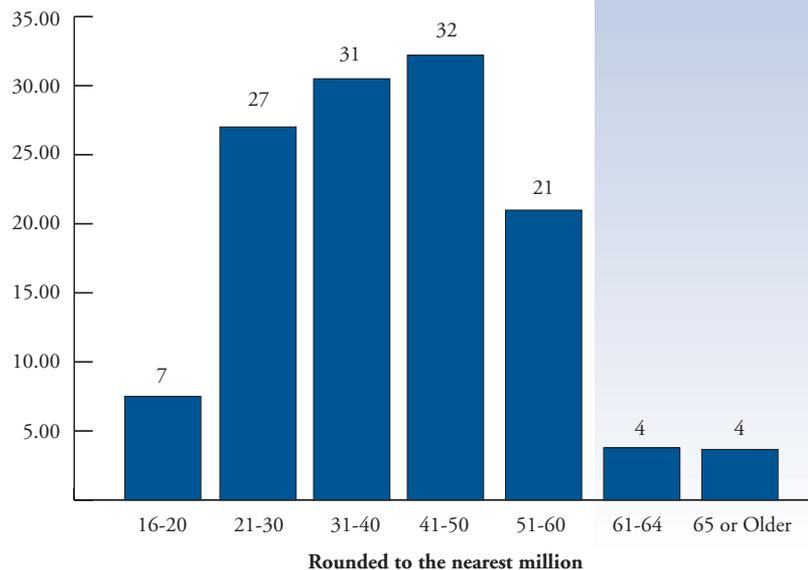
For those who want to work, encouraging phased retirement *after* normal retirement age can not only satisfy their desire to work, but also defer or diminish the depletion of their retirement savings.

**Encouraging Workers Nearing Retirement to Save More:** Workers in their 50s and 60s who have inadequate retirement savings need to save as much as possible, as fast as possible, while they are still earning. If implemented while workers are still in their early 50s, programs like Save More Tomorrow—which encourages workers to commit to devoting a significant portion of each pay raise to increasing their contribution to their retirement plan—could greatly enhance the savings rate of workers nearing retirement. Although tried at only one firm thus far, Save More Tomorrow—introduced to workers on a one-to-one basis by a financial consultant retained by the employer—has had very impressive results. Among those offered the plan, 78% chose to join. Eighty percent of participants remained in the program through four pay raises, increasing their average savings rate from 4% to 14% in just 40 months.<sup>49</sup>

## IN CONCLUSION

This review has shown that the four targeted groups—low-income workers, small-business employees, new entrants to the workforce and workers nearing retirement—face real challenges, but also have real opportunities to save and achieve security for their golden years.

**ILLUSTRATION 6:  
TOTAL WAGE AND SALARY WORKERS BY AGE, 2003**



Source: EBRI Issue Brief No. 289 (Employee Benefit Research Institute, January 2006).

## ENDNOTES

1. EBRI Issue Brief No. 289, Employee Benefit Research Institute, January 2006.
2. EBRI Issue Brief No. 289, Employee Benefit Research Institute, January 2006.
3. *Income of the Population 55 or Older 2002*, Social Security Administration, 2005.
4. Calculations based on the data contained in EBRI Issue Brief No. 289 suggest that actual pension plan participation is slightly higher in 2003 than it was in 1998. These data are drawn from the *Survey of Income and Program Participation*. Another analysis done by the Employee Benefit Research Institute (EBRI Issue Brief No. 286) based on the March 2005 *Current Population Survey* suggests that pension plan participation among full-time wage and salary workers between the ages of 21 and 64 has declined since 1998. Therefore it is uncertain whether current employees are positioned to generate more retiree income from pension plans.
5. EBRI Issue Brief No. 289, Employee Benefit Research Institute, January 2006.
6. EBRI Issue Brief No. 289, Employee Benefit Research Institute, January 2006.
7. *The State of Private Pension: Current 5500 Data*, Center for Retirement Research at Boston College, February 2006. Based on the calculations contained in the report, the number of defined benefit plans with more than 100 participants has declined from more than 20,000 in 1990 to just under 12,000 in 2003, whereas the number of defined contribution pension plans with more than 100 participants has increased from approximately 33,000 in 1990 to 59,000 in 2003.
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24. Requirements vary from \$1,000 for TANF to \$2,000 for Medicaid in some states.
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