

# Saving for Retirement

One reason retirement confidence has remained low, despite a brightening economic outlook, may be that some workers are waking up to the realization of just how much they need to save.

– EBRI Retirement Survey, March 2013



# The Growing Need for Retirement Savings

- In 2012, 15.7% of Vermont's population was 65 years old and older - nationally, 13.7%. (U.S. Census)
- By 2030, more than 29% of Vermont's population will be age 60 and older. (U.S. Census)
- In 1940, the life expectancy of a 65-year-old was almost 14 years; today it is more than 20 years.  
(Social Security Administration)

**Vermont's retirement-age population is growing.**

- As of December 2012, 89,351 retired workers in Vermont received Social Security benefits. The average monthly benefit received was **\$1,263**.
- Nationwide, Social Security is the major source of income for most of the elderly.

**53% of married couples and 74% of unmarried persons receive 50% or more of their income from Social Security**

Source: Social Security Administration.

- An estimated 163 million American workers are covered under Social Security.
- 51% of the workforce has no private pension coverage.
- 34% of the workforce has no savings set aside specifically for retirement.

Source: Social Security Administration.

# Are people saving?

NIRS Research Report on Retirement Savings: June, 2013. Utilized data from the Federal Reserve's Survey of Consumer Finances to analyze retirement plan participation, savings, and overall assets of U.S. households age 25 to 64, not just those with retirement account assets.

- Typical working-age household has \$3,000 saved for retirement.
- More than 38 million working-age households (45%) do not own any retirement account assets, whether in an employer-sponsored 401(k) type plan or an IRA.

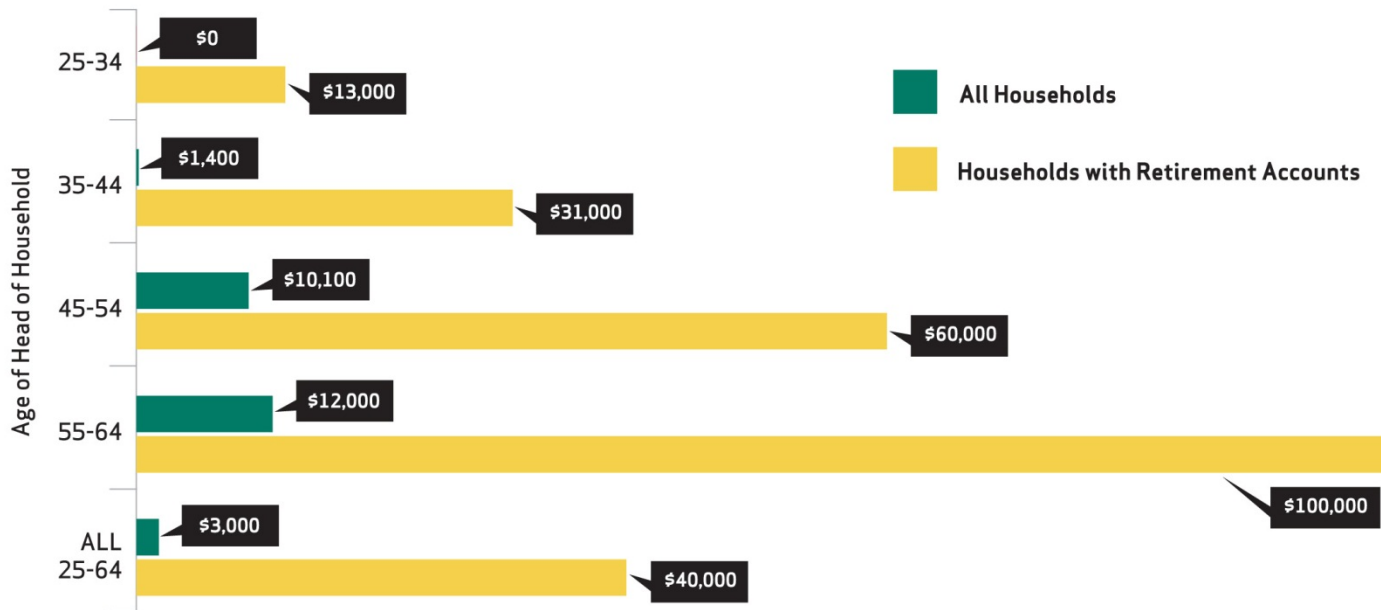


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## Figure 9: Typical Working-Age Household Has Only \$3,000 in Retirement Account Assets; Typical Near-Retirement Household Has Only \$12,000

Median retirement account balances, households with retirement accounts vs. all households, 2010



Source: Author's analysis of 2010 SCF.

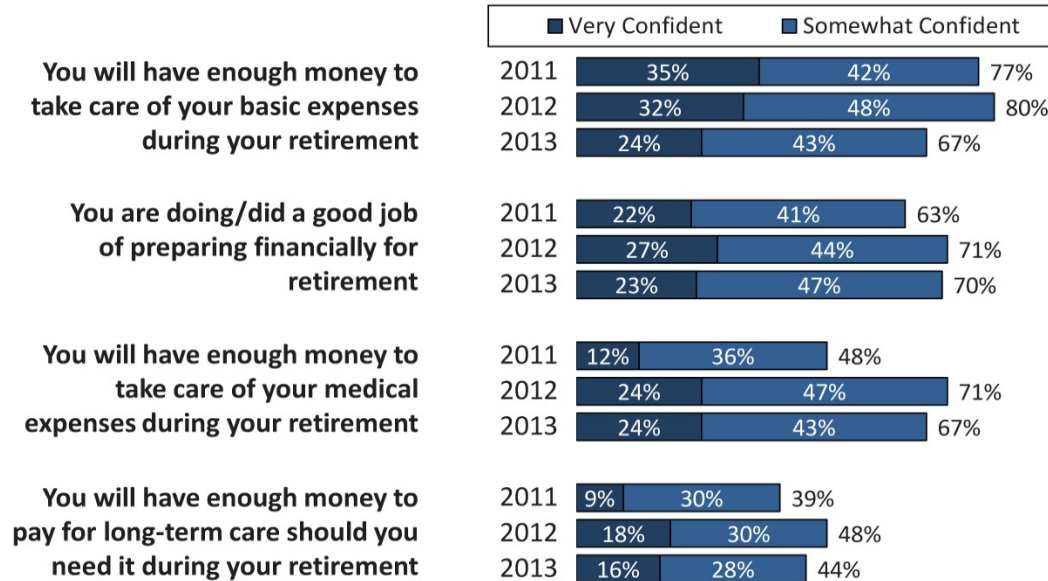
The average amount of savings among those households *with* retirement accounts was just \$40,000.

# Are people saving?

- Retirement savings may be taking a back seat to immediate financial concerns. Just 2% of workers and 4% of retirees identify saving or planning for retirement as the most pressing financial issues facing Americans today. Both groups are most likely to identify job uncertainty and making ends meet as more pressing concerns.
- Debt is another factor. 55% of workers and 29% of retirees report having a problem with their level of debt.

## Figure 4 Retiree Confidence in Other Financial Aspects of Retirement

Next, I would like to know how confident you (and your spouse) are about certain aspects related to retirement. (2013 Retirees n=251)



Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2011-2013 Retirement Confidence Surveys.

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**Confidence by retirees in being able to afford basic expenses has dropped from 2011 and 2012 levels.**



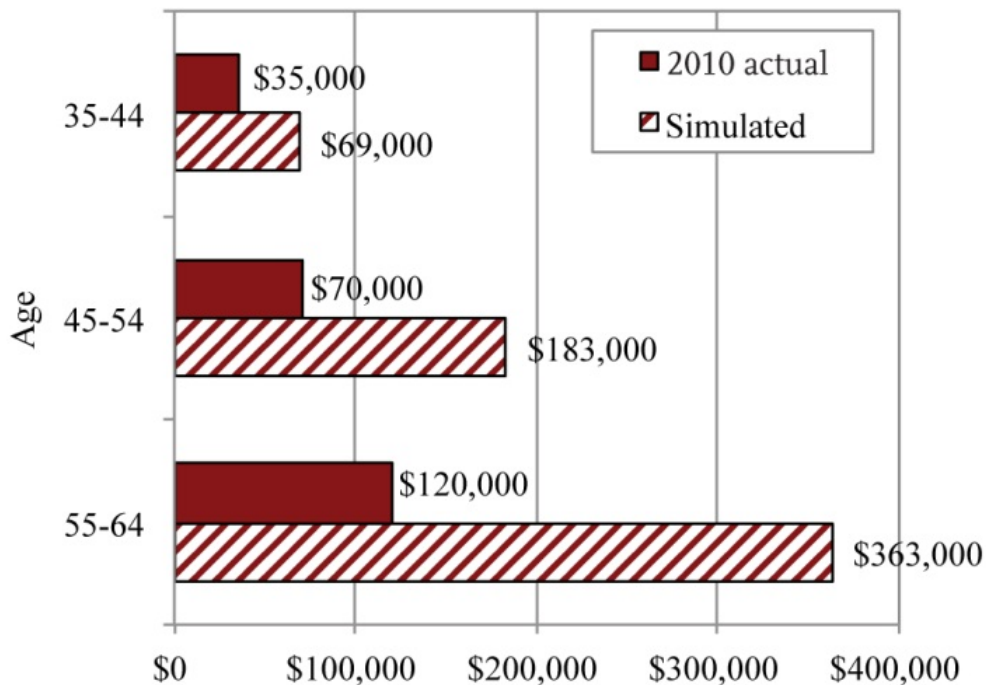
# Are people saving?

- Only 42% of private sector workers are covered by any type of employer-provided retirement plan.
- More than a third of households are not covered at all during their whole work life and are entirely dependent on Social Security.
- Our mobile workforce, which causes people to move in and out of employer-based coverage, leads to only **modest** savings in 401(k) plans.

September 2012, “The Pension Coverage Problem in the Private Sector” by Alicia H. Munnell, Rebecca Cannon Fraenkel & John Hurwitz.

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FIGURE 5. MEDIAN 401(K)/IRA BALANCES FOR HOUSEHOLDS WITH 401(K) PLANS AND SIMULATED ACCUMULATIONS, BY AGE GROUP, 2010



Source: Munnell (2012).

**Actual retirement savings in 401(k) plans are much lower than projected due to mobility of the workforce and moving in and out of coverage. Other factors for lower asset accumulation include failure to participate at a young age and a tendency to withdraw small balances.**

# How do we pay for services for older Vermonters?

- The sharp rise of older populations means states will be forced to dedicate higher percentages of their budgets to social services. The federal government pays the costs of Medicare, the program that provides health care to senior citizens, but states subsidize housing, transportation, home care and other costs. With higher percentages of seniors, states have smaller tax bases to draw from to pay for those services.

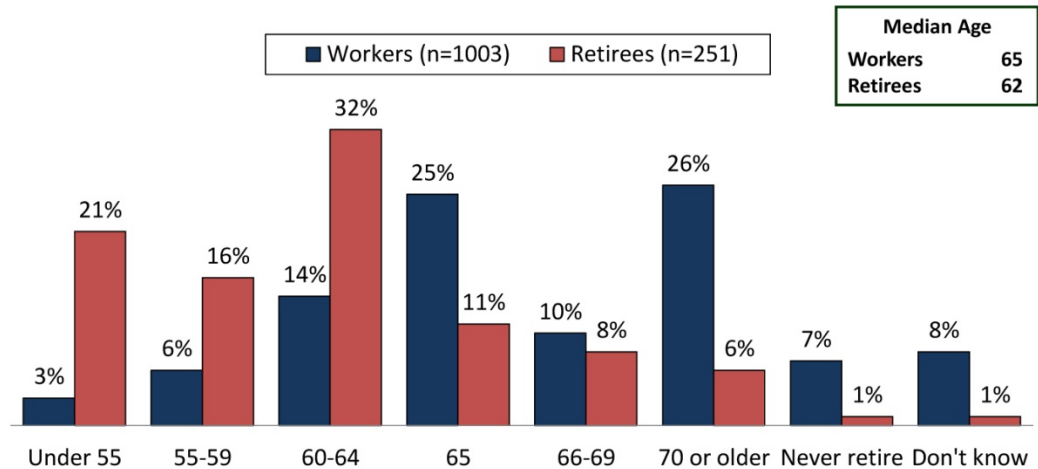
– GovBeat, The Washington Post, Sept. 12, 2013, “The Northeast is getting older, and it’s going to cost them”

# Delayed retirement not a complete solution

- 22% of workers say the age at which they expect to retire has increased. Workers most frequently cite the poor economy (22%), lack of faith in Social Security or the government (19%) and the inability to afford retirement (19%) as reasons for postponing retirement.
- 69% of workers say they plan to work for pay after they retire. However, nearly half (48%) are not at all confident about finding paid employment in retirement.

Figure 3  
Expected Retirement Age

Realistically, at what age do you expect to retire?/How old were you when you retired?



Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2013 Retirement Confidence Survey.

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**Despite planning to work, a sizeable proportion of retirees report each year that they retired sooner than planned (47% in 2013) due to a health problem or disability.**

# Status of retirement plan availability through employers

- SIPP data from the U.S. Census Bureau shows 61% of all workers over age 16 had an employer that sponsored a pension or retirement plan for any of its employees in 2012. Workers participating in a plan increased to 46% in 2012, up from 45% in 2009.
- Among workers with access to a retirement savings plan, the primary plan for 78% of workers was a 401(k)-type defined contribution plan and the primary plan for 21% of workers was a pension or defined benefit plan.

# Retirement plan participation rates

- Participation levels in workplace retirement plans increase with age through age 60, then decrease.

## COMPARISON PARTICIPATION RATES IN 2012

21-30 years old	34%
31-40 years old	53%
41-50 years old	57%
51-60 years old	62%
65 years or older	36%

Employee Benefit Research Institute, Aug. 2013, Retirement Plan Participation: Survey of Income and Program Participation (SIPP) Data, 2012.

# A look at small businesses

- Almost 72% of workers in small companies have no retirement plan available through the company; an additional 9 percent have a company-sponsored plan, but do not participate.
- In Vermont, small businesses represent **96.3%** of all employers and employ 59.7% of the private-sector labor force. (2010 data)
- Most of Vermont's small businesses are very small, as 76.3% of all businesses have no employees and most employers have fewer than 20 employees.

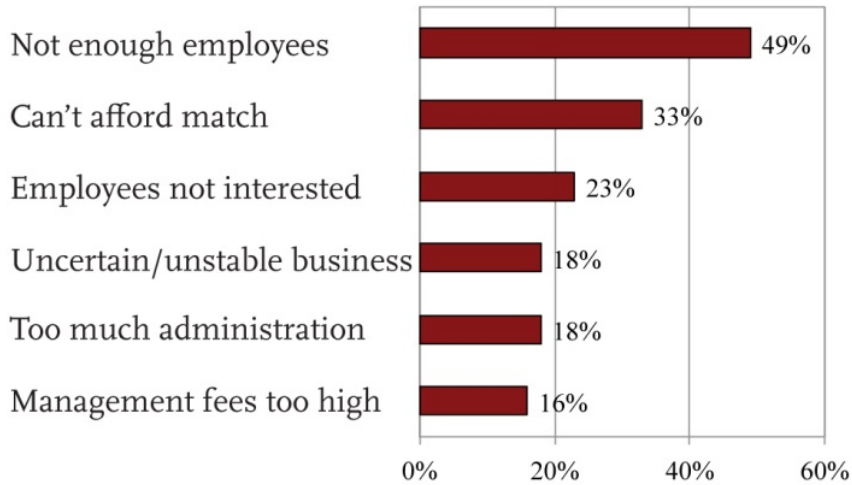
SBA, Office of Advocacy, Small Business Profile, published Feb. 2013 by U.S. Small Business Administration; and Research summary, "Small Business Retirement Plan Availability and Workplace Participation," 2009.





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FIGURE 7. REASONS CITED BY SMALL EMPLOYERS AS THE MOST IMPORTANT FOR NOT OFFERING A RETIREMENT PLAN, 2007



Source: Sharebuilder Advisors, LLC, *Small Business Annual Retirement Trends Survey*, 2007.

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**Administrative considerations are not the main reason small businesses do not offer plans.**

**A new framework is needed to encourage individual retirement saving.**

# Treasurer's Office Commitment to Retirement Security

- **Ongoing:** Administration of retirement programs for approximately 47,000 members – vested and retired members of the State, teachers and municipal retirement programs.
- **Ongoing:** Administration of voluntary supplemental savings programs for public employees.
  - Deferred compensation
  - Teacher 403b program
- Vermont State Treasurer Retirement Savings Plan Proposal, 2006: While not adopted, then Treasurer Spaulding proposed a voluntary retirement savings plan option for employers and employees, or self-employed Vermonters, sponsored by the State of Vermont at no cost to taxpayers. We believe the current proposal is consistent with this long-standing concern and will benefit from our previous efforts.

# Treasurer's Office Commitment to Retirement Security

- **Treasurer's Office Financial Literacy Initiatives, 2007- Present.** Our efforts have been directed in three areas:
  - ADVOCACY**—We work to promote financial literacy for Vermonters and raise awareness;
  - COLLABORATION**—we work with local, state and national groups to support and participate in financial literacy initiatives; and
  - DEVELOPMENT**—as we see an unmet need, we work with our partners to offer new financial literacy activities and educational products.
- **Legislatively Authorized Fund Supports Financial Literacy, 2008.**

The General Assembly authorized the establishment of a trust fund to finance financial literacy in Vermont. The Treasurer's Office reports on these activities annually to the General Assembly.

# Treasurer's Office Financial Literacy Programs

## Retirement Savings:

- Personal retirement savings workshop, “Keeping the Gold in Your Golden Years,” developed in 2008 and offered statewide, 928 people have attended a class.
- Web resources offered at [MoneyEd.Vermont.gov](http://MoneyEd.Vermont.gov). Pages on saving for retirement and retirement plan resources for businesses, along with other personal finance information.

## Arising Issues Support:

- Financial readiness workshop presented for deploying VT National Guard troops.
- *Managing Your Money in a Challenging Economy* program for public access TV and public libraries .
- Support for 1<sup>st</sup> annual Chittenden County Saves week and awareness building for EITC and statewide volunteer network of free tax preparation sites.

# Treasurer's Office Financial Literacy Programs

## Youth Programs:

- **Reading is an Investment** is now used in 130 Vermont elementary schools. Now in its 4<sup>th</sup> year, the program teaches students personal finance through age-appropriate lessons and activities and featured books sent to school librarians each year. A personal reading challenge drawing awards 20 students with college savings account.
- **Vermont Treasury Cup Challenge** is offered to high schools. The annual academic competition tests student knowledge of personal finance and economics and is now in its 6<sup>th</sup> year.
- **Be MoneyWi\$e Financial Literacy Poster Contest** is now in its 7<sup>th</sup> year. The contest is open to students in 3<sup>rd</sup>-12<sup>th</sup> grades and provides a creative outlet for students to demonstrate their knowledge of personal finance.

# Recommendation:

## Establish Study Committee on Retirement Options

**Senate Bill , S.193 , addresses these issues and proposes a review of:**

- The access Vermont residents currently have to employer-sponsored retirement plans and the types of employer-sponsored retirement plans available;
- Data and estimates on the amount of savings and resources Vermont residents will need for a financially secure retirement;
- Data and estimates on the actual amount of savings and resources Vermont residents will have for retirement, and whether those savings and resources will be sufficient for a financially secure retirement;
- Current incentives to encourage retirement savings, and the effectiveness of those incentives;
- Whether other states have created a public retirement plan and the experience of those states;
- Whether there is a need for a public retirement plan in Vermont;
- Whether a public retirement plan would be feasible and effective in providing for a financially secure retirement for Vermont residents; and
- Other programs or incentives the State could pursue in combination with a public retirement plan, or instead of such a plan, in order to encourage residents to save and prepare for retirement.

# Recommendation:

- The Treasurer's Office supports the concept and strategy put forth in S.193.
- The Treasurer's Office supports a mix of private and public membership on the study committee.
- The Treasurer's Office encourages solicitation of input from diverse groups of private and public sector retirement and pension specialists and members of underserved groups.
- The Treasurer's Office supports a policy goal to encourage and facilitate retirement savings for non-public sector citizens in Vermont.

# Discussion.

