



Are Washington Workers Ready for Retirement?

Trends in Plan Sponsorship, Participation, and Preparedness

Joelle Saad-Lessler, Teresa Ghilarducci, Kate Bahn and Anthony Bonen

**SCHWARTZ CENTER FOR
ECONOMIC POLICY ANALYSIS
THE NEW SCHOOL**

OVERVIEW

In addition to Social Security, Washington workers depend on the accessibility and affordability of employer-sponsored retirement plans to support them in retirement. This report reveals that Washington employers are offering fewer retirement plans to their employees today than in 2000-02.

The structure of retirement plans is also changing. Those that do sponsor a plan for their employees have followed a nation-wide trend in switching from traditional defined benefit (DB) plans to defined contribution (DC) plans. DC plans now account for two-thirds of all sponsored retirement plans in Washington. Unlike DB retirement plans, DC plans charge high management fees and do not protect employee assets from the short and medium-term volatility of financial markets.

The overall decline in plan sponsorship, coupled with the shift from DB to DC plans, represents a real threat to workers' retirement security. Left unchanged, Washington's residents will face increasing downward mobility in retirement.

The main findings of the report are:

- Employer sponsorship of retirement plans in Washington is declining. Sponsorship rates fell 2 percentage points from 62 percent in 2000-02 to 60 percent in 2010-12.
- Nearly half (48 percent) of near-retirement households ages 55 to 64 have no retirement plan at all.
- Workers covered by a union contract experienced an increase in access to retirement plans at work. Retirement plan coverage for these workers went from 83 percent to 89 percent between 2000-02 and 2010-12. This represents the highest level of retirement plan sponsorship of any group.
- Women have experienced a greater reduction in access to employer-sponsored retirement plans than men. Sponsorship of female workers' retirement plans fell at twice the rate of the decline for all workers from 2000-02 to 2010-12.

- Employer sponsorship is not sufficient to guarantee coverage. In 2010-12, 18 percent of workers who were offered a retirement plan at work did not participate. The stated reasons for opting out include: “can’t afford to contribute,” “don’t want to tie up money,” “employer doesn’t contribute or contribute enough,” etc.

This report details the above findings. The first section looks at the overall decline in employer sponsorship of retirement plans and includes a breakdown of retirement sponsorship by demographics and income levels. Next, we analyze the rate

of participation in employer-sponsored retirement plans. The third section examines whether and how the oldest group of “prime age” workers (55-64 years old) are financially prepared for post-work life. The technical appendix lays out the report’s methodology in detail.

The first two sections rely on 2000-02 and 2010-12 data from the Current Population Survey (CPS), a joint program administered by the Census Bureau and the Bureau of Labor Statistics. The third section uses data from the 2008 panel of the Survey of Income and Program Participation (SIPP).

SECTION ONE: RETIREMENT PLAN SPONSORSHIP BY EMPLOYERS

Employers have traditionally played an integral role in the U.S. retirement system. They have contributed to their employees' retirement plans as part of a benefits package designed to attract and keep quality workers, bolstering their workers' assets and easing the burden of saving for retirement. Retirees receiving income from a workplace retirement plan are more likely to retain middle class lifestyles than retirees without income from an employer-sponsored plan.¹

An employer who chooses to sponsor a retirement plan for their employees plays a significant role in the administration and function of the plan. They decide what type of plan to offer, how much they want to contribute to the plan, and, in the case of defined benefit plans, the investment strategy of the accumulated funds.

The employer also decides whether to offer a defined benefit (DB) and/or defined contribution (DC) retirement plan. Since the early 1980s, there has been a significant structural shift in the type of employer-sponsored retirement plans offered, as employers increasingly offer DC plans in lieu of DB plans.

Employers sponsoring DB plans typically use a formula crediting years of service and rate of pay to determine lifetime retirement benefits, which are paid to a retiree in set (usually monthly) stipend payments. Funds contributed to a DB plan's pool of assets are invested by professional fund managers responsible for ensuring consistent returns on a diversified portfolio over a long time horizon. At retirement, the employee begins receiving annuitized income from their DB plan. This pooled-asset structure reduces risk and cost.

DC plans - 401(k)s, IRAs, Keoghs and 403(b)s - are tax-advantaged investment vehicles into which employees and employers contribute, usually with a pre-specified level of contribution matching. As individual accounts, each worker has direct oversight in the investment decisions of his or her funds. At retirement, the employee has tax-free access to a lump-sum of their accumulated funds.

The DC structure increases both risk and costs for the employee. Because the worker, not the employer, invests the funds, market risk is shifted to the employee. Additionally, since employees receive their DC savings in a lump sum, they risk either running out of funds or living more frugally than needed and leaving funds in their retirement plan.

DC plans have higher per unit costs based on the need to manage separate investment portfolios for each employee. Additionally, with each 401(k) existing as its own small investment vehicle, only high-priced financial services firms offer to manage these small investment portfolios.²

The employer-sponsored system of retirement savings has been an effective way to save for retirement income security in the United States in the past. However, the increasing likelihood of being offered a more costly, risk-based DC plan has meant that workers' ability to save enough to maintain their standard of living in retirement is less guaranteed than when offered a DB plan.

Employer Sponsorship of Retirement Plans in Washington is Declining

To fairly assess retirement plan sponsorship, we isolate our study to Washington residents who were working during the reference period of the survey and were between the ages of 25 and 64. For this 'prime working age' group, there is a decline over the past decade from 62 percent in 2000-02 to 60 percent in 2010-12 (Figure 1). In other words, 4 out of 10 workers do not have access to an employer-sponsored retirement plan at work.

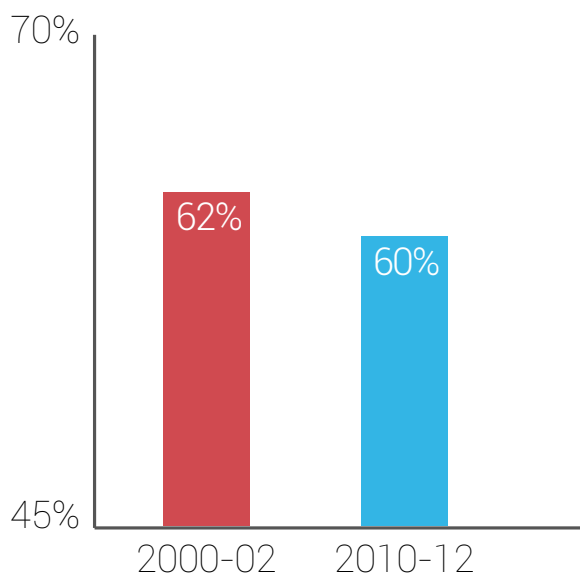
While this decline is smaller than in some other states, it follows a downward trend across the country.³ This trend means that, upon retirement, workers without access to a retirement plan during their working years will rely solely on Social Security and Medicare to survive. The support from these federal programs can be supplemented by personal savings, but, as we document below, workers without employer-sponsored retirement plans tend to be less financially secure overall and less able to save sufficiently (if at all) for retirement.

A Note on Sponsorship Rates

The Current Population Survey (CPS) asks respondents about their access to employer-sponsored retirement plans based on their job in the previous calendar year. Therefore, respondents who were not working in 2010-12 – representing 27 percent of Washington civilians between 25 and 64 years old – were not asked about their retirement plan status. Those not

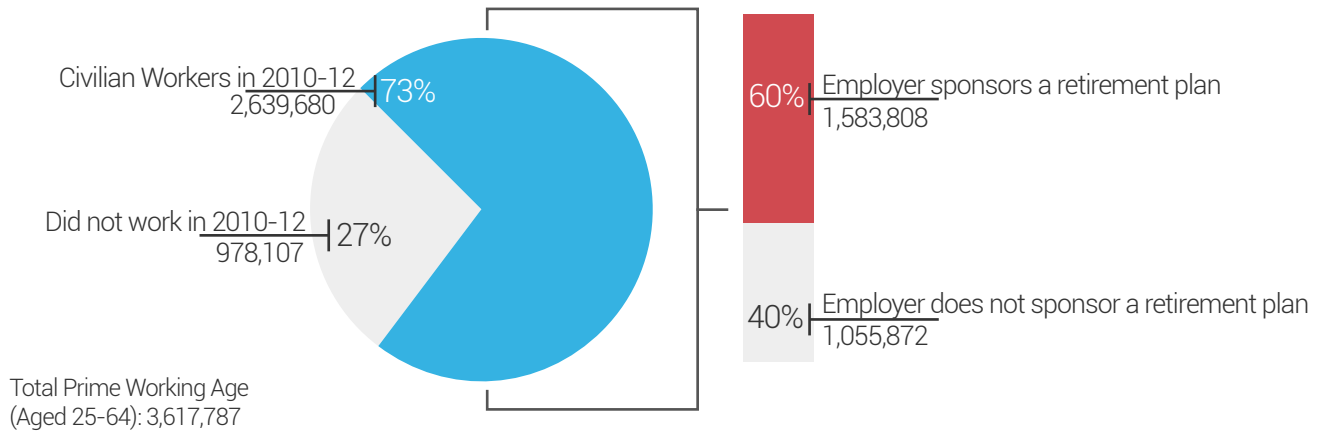
working (including students, the disabled and unemployed) do not have access to an employer-sponsored plan. Therefore, the calculation that 40 percent of Washington's prime age workers do not have access to a retirement plan underestimates the proportion of the total population vulnerable to downward mobility in retirement.

**Figure 1:
Employer-Based Retirement
Plan Sponsorship Rates**



Source: Current Population Survey, March Supplement, 2000-2002 and 2010-2012. Sponsorship rates are three-year pooled averages of the data. Sample is limited to people ages 25 to 64 who worked at some point in the reference year. The CPS March supplement used here asks respondents about their working status for the previous calendar year. Therefore the data for 2010, for example, is the average of the 2010, 2011 and 2012 March supplement figures, for which the reference years are 2009, 2010 and 2011, respectively.

Figure 2: Employment Status and Sponsorship Rates for Washington Residents, 2010-12



Source: Current Population Survey, 2010, 2011 and 2012. March Supplement. Percentages in chart are rounded. The sample is limited to Washington civilian residents ages 25 to 64. Figures based on three-year pooled averages of the data.

Analyzing the Downward Trend in Employer Sponsorship

Most workers had less access to retirement plans in 2010-12 than they did in 2000-02 (see Table 1), but the decline has not been equal across social and economic groups.

Particularly stark is the drop in the sponsorship rate for female workers, whose access decreased from 65 percent to 60 percent. This represents a sponsorship reduction of eight percent from 2000-02 to 2010-12. In other words, female workers in Washington experienced a decline in sponsorship at more than double the rate of workers' overall sponsorship reduction.

This trend is especially alarming due to women's longer life spans, leaving them more vulnerable to outliving their savings than men.

The oldest working group – those 55 to 64 years old – saw little change in their sponsorship rate. The younger two age cohorts, ages 25 to 44 and 45 to 54, saw declines of 3 percent and 6 percent, respectively. Although the middle group (45-54) saw the largest proportional drop, these workers have retained the highest level of plan sponsorship among the age

categories, or 63 percent in 2010-12. However, as discussed below, younger age groups are increasingly offered DC plans, rather than DB plans.

In 2010-12, approximately 11 percent of Washington workers were self-employed (see Table A1 in the Technical Appendix). Self-employed workers may establish retirement plans for themselves, their spouses, and other employees through several provisions of the federal tax code, including the 'Solo 401(k),' the simplified employee retirement plan (SEP), and the SIMPLE-IRA. Still, sponsorship rates for the self-employed remain among the lowest of all workers. In 2010-12, Washington's self-employed experienced a one-third drop in retirement plan sponsorship, falling to 14 percent from 20 percent in 2000-02.

Retirement plan sponsorship also varied across industries. The manufacturing sector, in particular, saw a large absolute decline: the sponsorship rate fell from 78 percent in 2000-02 to 67 percent by 2010-12. The personal service sector saw the largest relative decline from 30 percent in 2000-02 to 21 percent in 2010-12, a drop of 30 percent. These large declines in the manufacturing and personal services industries reflects a widespread drop of sponsorship across all industries, with the

exception of the wholesale and retail trade sectors, which maintained a consistent sponsorship level, and construction, public sector, and entertainment and recreation services, which experienced an increase in sponsorship.

A breakdown of the data by race shows that from 2000-02 to 2010-12, Hispanics increased their access to employer-sponsored retirement plans by 11 percent, whereas Asian residents experienced a decrease of 16 percent. Non-citizen residents had a decline of 13 percent in relative terms, going from 46 percent to 40 percent, in comparison to a 2 percent decline for citizens.

Finally, workers covered by a union contract experienced an increase in retirement plan coverage. One quarter of Washington's prime age workers were covered by a union contract in 2010-12 – an increase from 20 percent in 2000-02. This increase in unionization coincided with an increasing rate of retirement plan coverage for union workers, up from 83 percent sponsored in 2000-02 to 89 percent in 2010-12. Significantly, workers covered by a union contract represent both a higher relative growth rate and the highest absolute level of retirement sponsorship in Washington state.

Table 1: Sponsorship Rates by Demographics

		2000-02	2010-12	% Change	
Washington	Total Sponsored	62%	60%	-03%	
	Gender	<i>Male</i>	61%	61%	0%
		<i>Female</i>	65%	60%	-08%
	Age	<i>25-44</i>	60%	58%	-03%
		<i>45-54</i>	67%	63%	-06%
		<i>55-64</i>	59%	60%	02%
	Race	<i>White</i>	64%	63%	-02%
		<i>Black</i>	62%	60%	-03%
		<i>Asian</i>	64%	54%	-16%
		<i>Hispanic</i>	38%	42%	11%
	Firm Size	<i>1-24 Employees</i>	22%	17%	-23%
		<i>25-99 Employees</i>	53%	49%	-08%
		<i>100-499 Employees</i>	70%	69%	-01%
		<i>500-999 Employees</i>	82%	76%	-07%
		<i>1000+ Employees</i>	83%	82%	-01%
	Citizenship	<i>Non-Citizen</i>	46%	40%	-13%
		<i>Citizen</i>	63%	62%	-02%
	Worker Classification	<i>Private Sector: Self-Employed</i>	20%	14%	-30%
		<i>Private Sector: Wage & Salary</i>	63%	60%	-05%
<i>Public Sector</i>		86%	89%	03%	
Industry	<i>Construction</i>	46%	48%	04%	
	<i>Manufacturing</i>	78%	67%	-06%	
	<i>Transportation, Communication, Utilities</i>	76%	70%	-08%	
	<i>Wholesale & Retail Trade</i>	55%	55%	0%	
	<i>Finance, Insurance & Real Estate</i>	57%	57%	0%	
	<i>Business and Repair Services</i>	55%	50%	-09%	
	<i>Personal Services</i>	30%	21%	-30%	
	<i>Entertainment & Recreation Services</i>	46%	52%	13%	
	<i>Professional Services</i>	70%	69%	-01%	
	<i>Public Administration</i>	91%	89%	-02%	
Union Status	<i>Not in Union</i>	64%	67%	05%	
	<i>In Union</i>	83%	89%	07%	

Source: Current Population Survey, 2010, 2011 and 2012. March Supplement. Percentages are rounded. The sample is limited to Washington civilian residents ages 25 to 64, who worked at some point in the reference year. Figures are based on three-year pooled averages of the data.

SECTION TWO: EMPLOYEE PARTICIPATION RATES

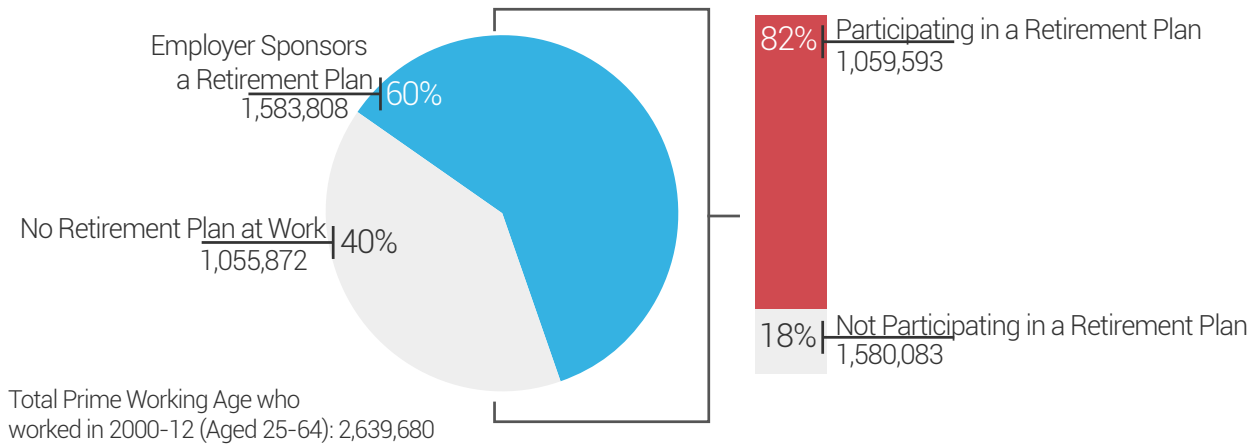
Sponsorship of a retirement plan does not guarantee that a worker is able and willing to participate in the plan. Employers are legally permitted to exclude employees from participating in a retirement plan if they have less than one year of service, are part-time employees or if they are younger than 25.⁴ If these regulations are not binding, DB plans are most often embedded in employment contracts and are therefore mandatory. Under a DC plan, however, workers may opt out of the plan.

Workers opting out of retirement plans offer several reasons for doing so. When workers are questioned in the Survey of Income and Program Participation, the reasons for not participating include the statements: "I can't afford to contribute," "I don't want to tie up money," and "My employer doesn't contribute or contribute enough" to the retirement plan.

Figure 3 summarizes participation rates among Washington's working residents aged 25 to 64 in 2010-12.⁵ In 2010-12, 4 out of 10 workers did not have access to a retirement plan at work and, as Figure 3 highlights, 18 percent of workers who work for an employer offering a retirement plan did not participate. Therefore, a majority (51 percent) of workers are not investing in a retirement plan at work (See Table A2 in the Technical Appendix). In absolute terms, Figure 3 indicates that nearly 1.6 million workers are without an active retirement plan.

The CPS does not ask respondents whether they have a DB or DC plan at work, nor is the survey specific enough to delve into the assets and liabilities of households. For such data, we turn to the 2008 Survey of Income and Program Participation (SIPP).

Figure 3: Sponsorship and Participation Rates for Working Washington Residents, 2010-12



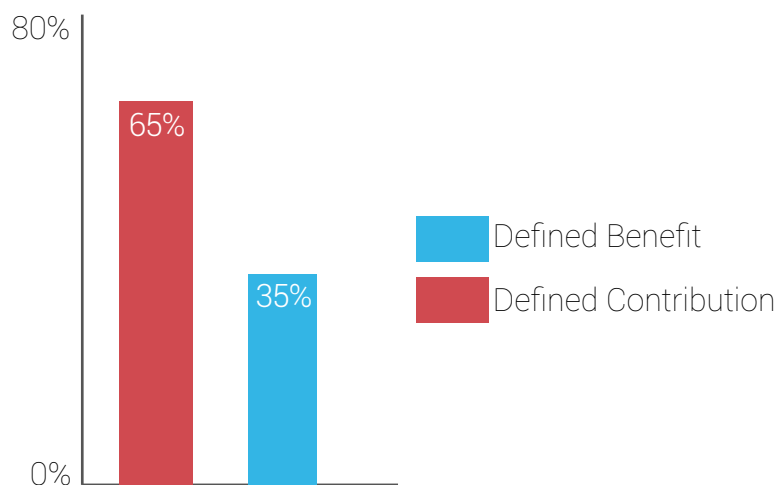
Source: 2010-12 Current Population Survey, March Supplement. Sample is limited to Washington residents aged 25-64 who worked at some point in the previous calendar year. Percentages in chart are rounded.

Figure 4 shows that among Washington's prime age workers with employer-sponsored retirement plans (60 percent of workers), two-thirds of these plans are DC plans, with the remaining one-third of Washington workers offered traditional DB plans.

The result is that younger workers (ages 25-44) are more likely (69 percent) to be offered high-cost DC plans than older workers (ages

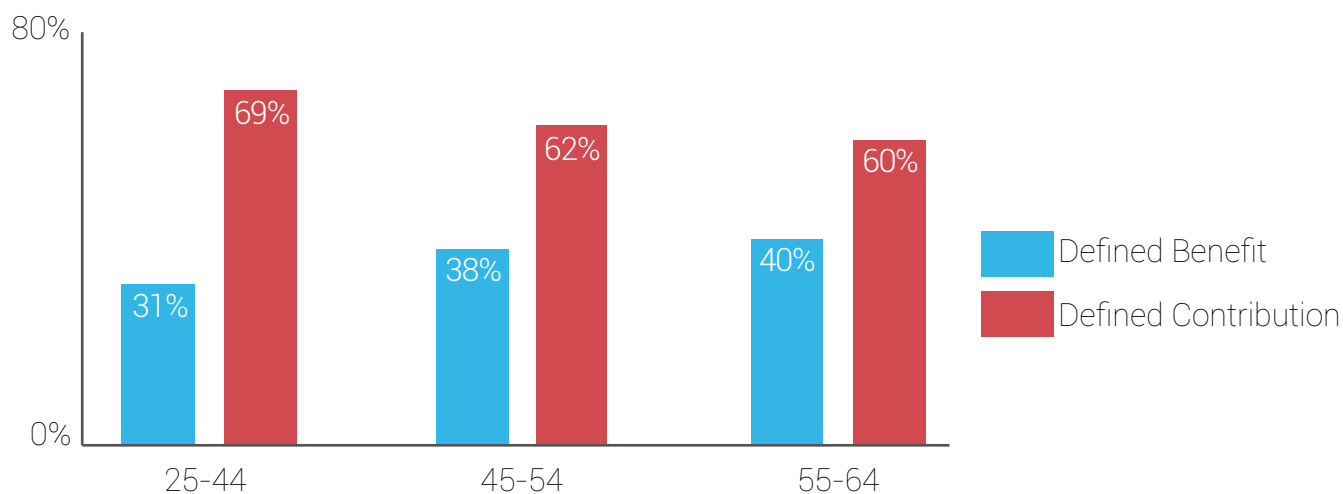
55-64, 60 percent), as reported in Figure 5. Sponsorship rates of DB versus DC plans vary according to other social and demographic groupings. These variations are reported in full in the Appendix, Table A2. We do not discuss these variations here since they reflect the generalized shift from DB to DC plans and are similar to the decline in sponsorship discussed in the previous section.

Figure 4: Primary Retirement Plan Type, Washington



Source: Authors' analysis of SIPP 2008 panel data. The data universe is all residents of Washington aged 25-64 who worked during the reference period (April-July 2009), had positive earnings, and had a retirement plan at work.

Figure 5: Primary Retirement Plan Type by Age Group, Washington



Source: Authors' analysis of SIPP 2008 panel data. Data universe is all residents of Washington aged 25-64 who worked during the reference period (April-July 2009), had positive earnings, and had a retirement plan at work.

SECTION THREE: WHAT THE FUTURE HOLDS FOR THOSE NEAR RETIREMENT AGE

Employer-sponsored retirement plans provide only one source of income in retirement. For a more complete evaluation of Washington residents' retirement readiness, this section considers other sources of income and accumulated assets for near-retirement age Washington households (with a 'head of household' between the ages of 55 and 64).

The SIPP data offers a comprehensive list of survey respondents' financial assets, including the value of their bank accounts, bonds and securities, savings bonds, stocks and mutual funds, life insurance policies, IRA/KEOGH accounts, DC accounts, real estate holdings, home equity, and business equity. There is also information on total debt owed. This data allows us to compute the net worth of households nearest to retirement (55 to 64 years old).

The results for net worth are broken down by age group and household type in Table 2. According to the SIPP data, the average net worth of near-retirement households

residing in Washington is \$238,580 for single person households, \$741,446 for married couple households, and \$187,841 for other household types. The average net worth of near-retirement households in Washington can be converted to a cash income stream of approximately \$15,516 per year for single person households, \$40,008 for married couple households, and \$12,216 for other household types.⁶

However, net worth among those nearing retirement is highly concentrated because a small number of households with very high net worth raises the average. To get a better picture, the median asset values are listed in Table 2. The cash income stream that would result from annuitizing the median net worth of the same households yields only \$8,604 per year for single person households, \$33,516 for married couple households, and \$7,116 for other household types. This income would be in addition to any DB retirement balance and/or Social Security.

Table 2: Household Net Worth by Type and Age

		Single Person	Married	Other Household
25-44	<i>Mean</i>	\$89,763	\$282,338	\$129,494
	<i>Median</i>	\$20,800	\$146,602	\$30,728
45-54	<i>Mean</i>	\$114,195	\$455,447	\$236,143
	<i>Median</i>	\$43,000	\$319,000	\$139,700
55-64	<i>Mean</i>	\$238,580	\$741,666	\$187,841
	<i>Median</i>	\$132,400	\$621,000	\$109,500

Source: SIPP 2008 panel data. Author's calculations. Data universe is all households of Washington with head of household aged 25-64. The calculation of household net worth excludes the net worth of children, other relatives, or non-relatives who reside in the household, but does include net worth of parents and unmarried partners who reside in the household. *The "other" category of households consists of non-married couple households with more than one member, or households with the reference person living with a parent.

It is important to note we have included home equity in the net worth calculations. In theory, all the financial assets of a household can be liquidated, including the home, and its entire net worth can be "annuitized" through the purchase of a guaranteed income annuity from a private financial institution. However, it is unrealistic to assume that most retired homeowners will sell their homes and annuitize the value of their equity. Aside from personal attachment to one's home, it would often be financially counterproductive to sell a home and subsequently pay rent. For this reason, assets that can be used for consumptive purposes, i.e. households' liquid assets, provide a more useful measure of wealth.

We find that households with DB plans are more likely to maintain a middle class lifestyle throughout their retirement years. However, those with DC plans and those without a retirement plan at work will likely need to consider selling or annuitizing their house to obtain adequate retirement income.

Table 3 shows the distribution of liquid assets of the near-retirement population in 2009. The figures represent financial assets that can be easily converted to an annuitized income stream. One-fifth of households (20 percent) have almost no liquid assets available for retirement (less than \$10,000). The next 23 percent – those with less than \$100,000 in liquid assets – also

Table 3: Liquid Assets for Households Between 55-64

Total Household Liquid Assets	Number of Households	Proportion of Households	Mean Household Income	Median Household Income
<i>Less than \$10,000</i>	89,160	20%	\$33,970	\$27,888
<i>\$10,000-\$99,999</i>	104,099	23%	\$52,847	\$45,120
<i>\$100,000-\$299,999</i>	100,851	22%	\$65,178	\$60,828
<i>\$300,000+</i>	158,043	35%	\$106,267	\$94,956

Source: SIPP 2008 panel data. Author's calculations. Data universe is all Washington households with head of household aged 55-64. Liquid Assets are defined as dollar balances in savings and checking accounts, IRA, KEOGH or 401(k) accounts, holdings of government or corporate bonds, stocks and mutual funds, the cash value of life insurance policies, real estate holdings, equity in rental properties, the value of non-primary residence mobile homes, amounts owed for sale of business, and other financial assets. This calculation excludes the liquid assets and income of children, other relatives, or non-relatives who reside in the household. The liquid assets and income of parents and unmarried partners who reside in the household are included.

Table 4: Total Assets of Near-Retirement Households in Washington by Retirement Plan Status, 2009

Assets/Liabilities	Households With DB Plans		Households with DC Plans		Households without a retirement plan through current employer	
	Median	Mean	Median	Mean	Median	Mean
<i>Investments</i>	\$54,500	\$135,419	\$104,353	\$189,644	\$5,000	\$67,624
<i>Other Assets</i>	\$0	\$102,193	\$0	\$94,752	\$0	\$163,596
<i>Retirement Savings</i>	\$63,018	\$101,108	\$100,600	\$177,334	\$0	\$49,681
<i>Debt</i>	\$2,300	\$8,357	\$0	\$4,053	\$30	\$14,664
<i>Total Assets Less Debt</i>	\$115,218	\$330,364	\$204,953	\$457,676	\$4,970	\$266,237
<i>Number of Households</i>	93,646		141,651		216,856	
<i>Home Equity</i>	\$140,000	\$158,268	\$172,000	\$185,797	\$80,000	\$153,499
<i>Household Income</i>	\$71,580	\$77,944	\$85,692	\$97,491	\$34,956	\$49,752

Source: SIPP 2008 panel data. Author's calculations. Data universe is all Washington households with head of household aged 55-64. *Calculation of assets and household income excludes the assets and income of children, other relatives, or non-relatives who reside in the household. The assets and income of parents and unmarried partners who reside in the household are included, though. A household is identified as a DB household if one of its members has a DB plan as their primary retirement plan. A household is identified as a DC household if none of its members has a DB plan, and at least one of the members has a DC plan as their primary retirement plan. A household is identified as having no retirement plan if none of the members has a retirement plan of either kind at their current employer. Household members include the reference person, a spouse or unmarried partner, and a parent residing in the household. Children, other relatives, or other non-relatives living in the household are excluded.

have little savings to annuitize (annuitizing \$50,000 for a single male turning 65 in 2013 yields \$63 per week, a married couple where both members turn 65 in 2013 would receive \$52 per week). In other words, 43 percent of near retirement households in Washington have too little saved and will rely almost exclusively on Social Security and any defined benefit retirement plans they may be eligible for to fund their retirement years.⁷ At the other end of the spectrum, about 34 percent of households have liquid assets in excess of \$300,000. These households will be able to realize an adequate cash income stream from retirement savings.

The next step is to assess near retirement age households' net worth according to the family's primary retirement plan. We define the primary retirement plan as DB if either member of household has a DB plan. If not, we define the primary retirement plan as a DC plan if at least one member participates in such a plan. If neither working household member participates in any plan, it falls into the 'no plan' category. The households listed with DB plans may also hold a DC plan. Households with a DC only have that type of plan and do not have access to a DB plan at work.

Table 4 reports the mean and median values of broad portfolio categories (investments, retirement savings, other assets, and debt) according to the household's primary retirement plan for near retirement age households (55 to 64). For these groups, we also report the mean and median home equity and income. The results show that families without either a DB or DC retirement plan also tend to be poorer in terms of net worth and current income.⁸ Near retiree households without any retirement plan at work have an average net worth less than 60 percent that of households with a DC retirement plan. Current income reveals more of a disparity. Households with no retirement plan earn 64 percent of DB households' and 51 percent of DC households' average income. Furthermore, 'no plan' households are the largest single household type, representing 48 percent of all Washington families nearing retirement.

The median household without a retirement plan has amassed only \$4,970 in assets and does not have a DB plan to fall back on. This meager sum means that half of Washington households will have to rely exclusively on Social Security benefits to fund their retirement years.

While Table 4 shows the retirement savings of households based on the types of plans they participate in, it does not reveal whether those savings will be enough to fund retirement. To do that, Table 4a computes replacement rates for individuals age 60 in 2009 according to their primary retirement plan type.⁹ The “replacement rate” measures retirement income in proportion to previous working income, and provides a key metric for retirees’ well being. Experts

agree that a retiree can maintain their standard of living in retirement with a replacement rate of approximately 70 to 80 percent of pre-retirement earnings. Households with DC retirement plans have a replacement rate of 61 percent; those who do not currently participate in any retirement plan at work can expect a replacement rate of 56 percent of current income. Neither of these groups will reach the recommended replacement rate in retirement of 70 to 80

Table 4a: Replacement Rates by Plan Type

	Defined Benefit	Defined Contribution	None
<i>Earnings</i>	\$41,568	\$53,352	\$21,624
<i>Retirement Savings</i>	\$29,000	\$84,000	\$0
<i>Liquid Assets</i>	\$65,750	\$85,200	\$15,600
<i>Debt</i>	\$500	\$0	\$320
<i>Net Assets</i>	\$94,250	\$169,200	\$15,280
<i>DB Balances</i>	\$14,486	\$0	\$0
<i>Replacement Rate</i>	84%	61%	56%

Source: 2008 Survey of Income and Program Participation (SIPP) Panel, waves 2,3. Replacement rates were calculated using the AARP retirement calculator for a single male age 60, assuming a 3% rate of return on savings before and after retirement, an annual raise and inflation rate of 1%, income tax rate of 11%, tax rate in retirement of 8%, expecting to work until age 65, and end of life at age 87. We used median values of earnings, liquid assets, retirement savings and debt, as well as the projected value of DB pension annuity in the calculator.

percent. The replacement rate for individuals with DB plans is higher at 87 percent.

As DB plans become increasingly rare, a growing portion of Washington households will realize low income replacement rates even when they save for retirement and do everything right. We conclude that households with DB plans are more likely to maintain a middle class lifestyle throughout their retirement years. However, those with DC plans and those without a retirement

plan at work will likely need to consider selling or annuitizing their house to obtain adequate retirement income.

A Note on Retirement Planning and Household Composition

Household composition (whether one is single or living with a spouse) influences net worth and the availability of assets that can be used in retirement to provide financial support.

Married workers are more likely than single workers or single-parent workers to work for an employer that sponsors a retirement plan. Accordingly, married households in Washington have accrued net worth nearly 1.5 times greater than single person households and 2.2 times greater than the average for single-parent households. This puts unmarried households — approximately 38 percent of the Washington's families — at

a considerable disadvantage in terms of savings available to supplement retirement income (see Table 5).

Moreover, married households in which both spouses participate in a retirement plan at work tend to have a much higher average net worth (22 percent) than married households in general. Conversely, married households with neither spouse participating in a retirement plan at work have a net worth nearly 40 percent below the average for married couples between the age of 25 and 64 in Washington.

19

Table 5: Retirement Plan Statistics and Asset Accumulation for Workers Aged 25-64 by Household Composition (2009)

Source: 2008 Survey of Income and Program Participation (SIPP) Panel. Sample is limited to residents of Washington aged 25-64 who worked at some point in the reference period and had positive earnings.

Married Workers

	Count	Percentage
Total Population	1,467,221	
<i>Primary Plan is a DB Plan</i>	314,683	36.38
Primary Plan is a DC Plan	550,294	63.62
<i>Mean Net Worth</i>		\$229,543

*Married Workers With
Neither Spouse Participating
in a Retirement Plan*

	Count	Percentage
Total Population	406,336	
<i>Primary Plan is a DB Plan</i>	0	0
Primary Plan is a DC Plan	0	0
<i>Mean Net Worth</i>		\$141,188

*Married Workers With
One Spouse Participating
in a Retirement Plan*

	Count	Percentage
Total Population	623,769	
<i>Primary Plan is a DB Plan</i>	151,423	35.39
Primary Plan is a DC Plan	276,438	64.61
<i>Mean Net Worth</i>		\$251,154

*Married Workers With
Both Spouses Participating
in a Retirement Plan*

	Count	Percentage
Total Population	437,116	
<i>Primary Plan is a DB Plan</i>	163,260	37.35
Primary Plan is a DC Plan	273,856	62.65
<i>Mean Net Worth</i>		\$280,835

Single Parent Workers

	Count	Percentage
Total Population	264,884	
<i>Primary Plan is a DB Plan</i>	44,607	38.77
Primary Plan is a DC Plan	70,453	61.23
<i>Mean Net Worth</i>		\$104,912

Single Workers

	Count	Percentage
Total Population	638,195	
<i>Primary Plan is a DB Plan</i>	104,322	30.89
Primary Plan is a DC Plan	233,425	69.11
<i>Mean Net Worth</i>		\$153,885

CONCLUSION

The analysis in this report finds that employer sponsorship of retirement plans is on the decline.¹⁰ Overall, participation in an employer-provided retirement plan is low – only 49 percent of Washington's workers are enrolled in a retirement plan at work. This is particularly worrisome since, as we have now seen, households without a retirement plan tend to be ill-prepared for retirement. Even those with employer-sponsored retirement plans may not be able to reach a comfortable replacement rate.

This paints a discouraging picture of retirement readiness for Washington workers. Will this downward trend in the sponsorship and quality of retirement plans continue? If so, what can be done about it?

To help answer these questions, Figure 6 shows the trend in retirement sponsorship and participation rates for Washington and the United States from 1980 through 2012. Again, the trends are discouraging: sponsorship and participation rates fell from 2000-02 to 2010-12 in Washington. This suggests that the declining sponsorship

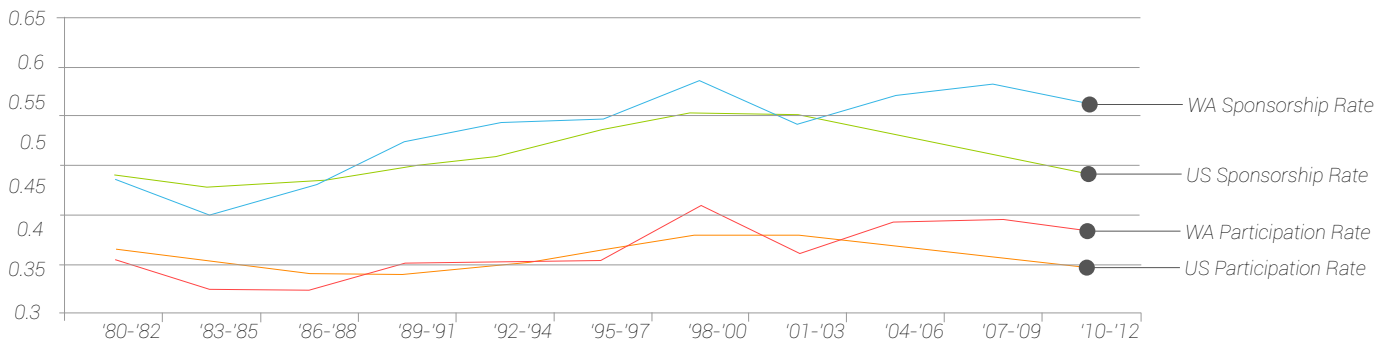
and participation rates identified in this report are not a temporary artifact of the 2008-2009 recession, but are a product of persistent structural changes.

This trend is having an outsized effect on female workers and non-citizen residents, the self-employed, and those working in the manufacturing and personal service sectors. The latter three represent areas of employment for middle class entrepreneurs and skilled workers. The severe reduction in their access to retirement plans should be a cause for concern among Washington's lawmakers.

All workers deserve a retirement plan. Workplace retirement plans are a fundamental means to ensure retirement income security. The leadership in Washington state can lead the nation in the effort to protect seniors against downward mobility in retirement by implementing policies to expand safe and secure retirement plans through the workplace.

21

Figure 6: Plan Sponsorship and Participation in Historical Perspective, US and Washington, 1980-2012



Source: 2010-12 Current Population Survey, March Supplement. The sample is limited to Washington civilian residents ages 25 to 64, who worked at some point in the reference year. Percentages in chart are rounded.

TECHNICAL APPENDIX

Methodology

For the purposes of this study, we use pooled data from the March Supplements of the 2000-2002 and 2010-2012 Current Population Survey (CPS). In particular, we use the variable PENSION which asks whether the respondent's union or employer for his or her longest job during the preceding calendar year had a retirement or other retirement plan for any of the employees, and, if so, whether the respondent was included in that plan. The question specifically excluded retirement support from Social Security. Retirement sponsorship and participation from the CPS data refer to employer-based retirement plan status in the preceding year. This question was only asked of respondents who worked in the previous calendar year. All tabulations reflect weighted counts using the March Supplement weights.

We also use data from waves 3 and 4 of the 2008 panel of the Survey of Income and Program Participation (SIPP).

Specifically, we use data from the Retirement Expectations module in wave 3 of the 2008 SIPP panel, as well as data from the Assets and Liabilities, Real Estate, Stocks and Mutual Funds, Value

of Business, Rental Properties, Interest Earning and Other Financial Assets modules in wave 4 of the 2008 SIPP panel. The reference period is different for wave 3 and wave 4. The data for these modules was collected in the 4th reference month for each rotation (from April 2009-July 2009 for wave 3, and August 2009-November 2009 for wave 4). Because wave 3 and wave 4 are four months apart, their samples are not identical. Wave 3 contains 95,252 observations, while wave 4 contains 91,219 observations. The merged data set has 84,994 observations. There were 10,258 observations in wave 3 that were not in wave 4. There were 6,225 observations in wave 4 that were not in wave 3.

Since the merged data set drops a number of observations, it does not exactly mimic population numbers in the general population. For example, the weighted population count for the U.S. is 301 million for wave 3 alone, and 302 million for wave 4 alone. But the merged sample represents 282 million, which is less than the 301 million actually in the U.S. population. Therefore, we had to choose which weights to use. We use weights from the fourth reference month of wave 4 data for the

merged sample following the advice of statisticians at the SIPP. The logic behind this choice is that since there is attrition in the sample, the wave 4 sample reflects the population that remained in the sample as of November 2009.

The working sample in the SIPP is limited to residents of Washington, aged 25-64, who stated that they worked at some point in the reference period (the past four months) and who had positive earnings. This sample was used to calculate the respondent's primary plan type (DB or DC) and current net worth.

The Retirement Expectations module asks respondents whether their primary source of income in the previous four months was from a job or a business. Based on that answer, occupation, industry, firm size, and class of worker status was assigned from the most important job/business for that person. Our sample does not drop businesses that were unincorporated or that earned or expected to earn less than \$2,500 per year.

The worker's most important retirement plan was deemed to be a Defined Benefit (DB) plan if they answered that the plan was based on earnings and years on the job, or if it was a cash balance plan, or

they stated that the plan benefits would be increased or decreased because of participation in the Social Security program. Alternatively, the most important plan was determined to be a Defined Contribution (DC) plan if the respondent stated that they had an individual account plan, or they had a 401K plan. For those who had only one plan, the most important plan was classified as a DC plan if they stated that they could choose the investments in the plan, or if they could take (or had already) taken out a loan against the plan, or if the contributions to the plan are tax deferred and employer contributions depend fully or in part on the employee's contributions. The latter characteristics were asked about all retirement plans, not just the primary plan; therefore they could only be used to ascertain the nature of the most important retirement plan for those who had only one retirement plan.

Respondents in the sample were asked about the value of their assets. This is the main value of the SIPP data over CPS data. The SIPP sample gives us a snapshot of earnings and assets for workers aged 25-64 in 2009. Assets include non-interest earning checking accounts (jointly owned and solely owned), interest earning accounts (jointly owned and solely owned), bonds

and securities (jointly owned and solely owned), savings bonds (solely owned), equity in stocks and mutual funds (jointly owned and solely owned), cash value of life insurance policies, equity in other financial investments, market value of IRA/KEOGH accounts, the value of solely-owned retirement DC accounts, the equity in rental properties not on the land of residence jointly-owned and solely-owned, home equity (adjusted for share of ownership), mobile home (adjusted for share of ownership), other real estate (adjusted for share of ownership), business equity (adjusted for share of ownership), and money owed to the respondent for the sale of a business. We then subtract the debt owed jointly and solely for loans, store bills/credit cards, and other debt. This gives us a measure of current net worth.

Household Calculations

Household members include the reference person, a spouse or unmarried partner, and a parent residing in the household. Children, other relatives, or other non-relatives living in the household are excluded. Therefore, there are three kinds of households: single person households only contain the

reference person; children, other relatives and non-relatives are excluded; married couple households contain the reference person and their spouse, and maybe a parent; other households are not married couples, and yet have more than one member – this could include unmarried couples living with or without a parent, or a single individual living with a parent.

Given who is included among members of the household, calculation of household net worth excludes the net worth of children, other relatives, or non-relatives who reside in the household, but does include net worth of parents and unmarried partners who reside in the household.

Households are identified as a DB household if one of the members of the household has a DB plan as their primary retirement plan. Households are identified as a DC household if none of the members has a DB plan, and at least one of the members has a DC plan. Households are identified as having no retirement plan if none of the members has a retirement plan of either kind at their current employer.

When calculating the annuity value of assets, for a single person household and

for other households, the annuity value was calculated for a hypothetical male in Washington, who was born on June 1, 1945 (they were 64 at the time the sample was collected in 2009). These calculations are for a lifetime annuity without beneficiaries. However, for married couple households, the annuity value was calculated for a couple residing in Washington, where one person is a male born on June 1, 1945 (they were 64 at the time the sample was collected in 2009), and the other person is a female born on June 1, 1945. These calculations are for a lifetime annuity where the survivor continues to receive 100 percent benefit, without beneficiaries.

Table A1: Demographic, Social, and Economic Composition of the Working Population Aged 25-64, 2010-12

		Washington	U.S.
Unionization	<i>Covered by Union Contract</i>	22%	14%
	<i>Not Covered by Union Contract</i>	78%	86%
Sponsorship	<i>Sponsorship</i>	58%	53%
Gender	<i>Male</i>	53%	53%
	<i>Female</i>	47%	47%
Citizenship	<i>Citizen</i>	91%	91%
	<i>Non-Citizen</i>	09%	09%
Age	<i>25-44</i>	52%	53%
	<i>45-54</i>	26%	28%
	<i>55-64</i>	22%	20%
Race	<i>White</i>	75%	68%
	<i>Black</i>	03%	11%
	<i>Asian</i>	09%	5%
	<i>Hispanic</i>	09%	14%
	<i>Other</i>	04%	02%
Industry	<i>Farming</i>	03%	02%
	<i>Mining</i>	0%	01%
	<i>Construction</i>	08%	07%
	<i>Manufacturing</i>	10%	11%
	<i>Transportation, Communications, Utilities</i>	05%	05%
	<i>Wholesale & Retail Trade</i>	09%	17%
	<i>Finance, Insurance, Real Estate</i>	06%	07%
	<i>Business & Repair Services</i>	09%	08%
	<i>Personal Services</i>	02%	03%
	<i>Entertainment & Recreation Services</i>	03%	02%
	<i>Professional Services</i>	27%	30%
	<i>Public Administration</i>	07%	06%
	Worker Classification	<i>Public Sector</i>	19%
<i>Private Sector: Self Employed</i>		11%	10%
<i>Private Sector: Wage & Salary</i>		70%	74%
Firm Size	<i>1-25 Employees</i>	21%	20%
	<i>26-99 Employees</i>	19%	21%
	<i>100-499 Employees</i>	12%	13%
	<i>500-999 Employees</i>	04%	05%
	<i>1000+ Employees</i>	44%	40%

Source: 2010-12 Current Population Survey, March Supplement. Notes: Sample is limited to Washington residents aged 25-64 who worked at some point in the previous calendar year. Percentages in chart are rounded.

Table A2: Detailed Analysis of DB and DC Participation by Social, Economic, and Personal Characteristics

	Defined Benefit		Defined Contribution		
	Participating Population	Participation Rate	Participating Population	Participation Rate	
Gender	<i>Male</i>	215,314	37.43%	359,927	62.57%
	<i>Female</i>	252,461	34.73%	474,474	65.27%
Race	<i>White</i>	397,133	37.62%	658,378	62.38%
	<i>Black</i>	14,685	38.98%	22,991	61.02%
	<i>Asian</i>	28,599	30.38%	64,167	69.17%
	<i>Hispanic</i>	11,382	19.19%	58,935	83.81%
	<i>Other</i>	15,976	34.80%	29,930	65.20%
Age	<i>25-44</i>	184,618	31.54%	400,701	68.46%
	<i>45-64</i>	268,268	39.25%	415,169	60.75%
	<i>65+</i>	14,889	44.55%	18,531	55.45%
Worker Classification	<i>Private Sector</i>	257,519	28.30%	651,455	71.70%
	<i>Public Sector</i>	204,131	55.7%	162,151	44.30%
Firm Size	<i>1-25 Employees</i>	12,452	30.86%	27,902	69.14%
	<i>26-99 Employees</i>	17,917	32.49%	37,225	67.51%
	<i>100+ Employees</i>	344,173	36.80%	591,026	63.20%
Income Group	<i>Low (less than \$22,000)</i>	41,016	30.67%	92,696	69.33%
	<i>Middle (\$22,000-\$60,000)</i>	264,555	39.19%	410,005	60.81%
	<i>High (more than \$60,000)</i>	162,504	32.88%	331,700	67.12%
Industry	<i>Mining</i>	1,944	100%	0	0
	<i>Construction</i>	30,258	46.09%	35,393	53.91%
	<i>Manufacturing</i>	64,827	36.19%	114,293	63.81%
	<i>Wholesale Trade</i>	8,455	28.64%	21,066	71.36%
	<i>Retail Trade</i>	38,694	33.86%	75,590	66.14%
	<i>Transportation, Communications, Utilities</i>	38,702	41.33%	54,948	58.67%
	<i>Information Services</i>	5,311	18.79%	22,951	81.21%
	<i>Finance, Insurance, and Real Estate</i>	7,626	10.39%	65,788	89.61%
	<i>Professional, Scientific, Management</i>	31,463	17.87%	144,589	82.13%
	<i>Education, Health Care, Social Services</i>	151,403	49%	219,697	59.20%
	<i>Arts, Recreation, Accommodation & Entertainment</i>	23,484	59.73%	15,832	40.27%
	<i>Other Services</i>	9,647	43.05%	12,760	56.95%
	<i>Public Administration</i>	57,905	53.91%	49,500	46.09%

Source: SIPP 2008 panel data. Author's calculations. Data universe is all Washington households with head of household aged 55-64. Sample includes all Washington residents aged 25-64 who have worked in the reference period (April-July 2009), have positive earnings. Only breakdown with sufficient cell sizes were included.

FOOTNOTES

1. Social Security Administration. 2008. "Income of the Population 55 and Older." Washington DC; William G. Gale. 1998. "The Effects of Pensions on Household Wealth: A Reevaluation of Theory and Evidence." *The Journal of Political Economy*, Vol. 106, No. 4. (Aug.), pp. 706-723.
2. Hiltonsmith, Robert. (2012). *The Retirement Savings Drain: The Hidden and Excessive Costs of 401(k)s*. Demos. Available at <<http://www.demos.org/sites/default/files/publications/TheRetirementSavingsDrain-Final.pdf>>
3. Ghiladucci et al. (2013). "Are Illinois Workers Ready for Retirement?" and "Are Maryland Workers Ready for Retirement?", SCEPA. Available at <<http://www.economicpolicyresearch.org/index.php/guaranteeing-retirement-income>>
4. See U.S. Department of Labor. *What You Should Know About Your Retirement Plan*. "Federal law allows employers to include certain groups of employees and exclude others from a retirement plan. For example, your employer may sponsor one plan for salaried employees and another for union employees. Part-time employees may be eligible if they work at least 1,000 hours per year, which is about 20 hours per week." <http://www.dol.gov/ebsa/publications/wyskapr.html#chapter2>
5. We use the CPS data to determine the fraction of Washington workers who are participating in an employer-sponsored plan. The CPS asks respondents if their union or employer sponsored a retirement or other retirement plan for any of the employees, and, if so, whether they were included in that plan.
6. These numbers were computed from the Fidelity Guaranteed Income Calculator, given interest rate conditions on May 7, 2013. For a single person household and for 'other' households, the annuity value was calculated for a hypothetical male in Washington, who was born on June 1, 1948 (they were 61 at the time the sample was collected in 2009 and turning 65 in 2013). These calculations are for a lifetime annuity without beneficiaries. However, for married couple households, the annuity value was calculated for a couple residing in Washington, where one person is a male born on June 1, 1948, and the other person is a female born on June 1, 1948. These calculations are for a lifetime annuity where the survivor continues to receive 100% benefit, without beneficiaries.
7. According to the Social Security Administration, Annual Statistical Supplement, 2010, the average monthly benefit awarded in 2009 for a retiree 65 years of age, we can estimate that the average male would receive \$18,720 in annual Social Security income, the average female \$13,848 in annual Social Security income, and the average married couple, \$32,568.
8. See the following studies for a detailed analysis of the employer-sponsored retirement system in the U.S. and for evidence that employer-sponsored retirement plans are correlated with higher savings rates and individual wealth accumulation: Bailliu, Jeannine N. and Helmut Reisen. 1998. "Do Funded Retirements Contribute to Higher Aggregate Savings? A Cross-Country Analysis." *Review of World Economics*. Volume 134, Number 4, 692-71; Bloom, David E., David Canning, Richard K. Mansfield, and Michael Moore, 2007. "Demographic Change, Social Security Systems, and Savings." *Journal of Monetary Economics*. Volume 54, Issue 1, 92-114; Gale, William G., John Sabelhaus, and Robert E. Hall. 1999. "Perspectives on the Household Saving Rate." *Brookings Papers on Economic Activity*, Vol. 1999, No. 1, 181-224.
9. We calculate replacement rates for individuals aged 60 in 2009 because these individuals represent the median age of the population aged 55-64 in 2009.
10. See Browning, E.S., "Retiring Boomers Find 401(k) Plans Fall Short, *The Wall Street Journal*, February 19, 2011.

Credit for typefaces: Android Open Source Project for Roboto, exljbris Font Foundry for Museo Slab 500, and Ten by twenty for Nevis.

Schwartz Center For Economic Policy Analysis

6 East 16th Street, 11th Floor

New York, NY 10003

212.229.5901 x1

scepa@newschool.edu

www.economicpolicyresearch.org