Retirement Readiness

How prepared are Washingtonians for retirement?[1]

"Washingtonians aren't saving enough for retirement, at the risk of spending their later years with diminishing standards of living and more reliance on public safety net programs."

Washington State Retirement Preparedness Study, Department of Commerce
Report to the Legislature, November 2017

1. Washington's senior population will more than double in number by 2040.

As Baby Boomers age into retirement, our senior population will be more concentrated in the oldest of the old, those aged 85+.[2]

2. Workers are increasingly on their own to plan for retirement.

Since the mid-1970s, the kind of retirement plans most employers sponsor shifted from Defined Benefit (DB – traditional pensions) to Defined Contribution (DC – such as 401ks).

Today, more than 3 in every 4 workers who have a plan are in DC plans.[3]

DB plans result in a guaranteed retirement income with few decisions left to individuals to make.

On the other hand, turning a DC plan into a secure retirement depends on adequate contributions, good investment choices, market performance, fees and decumulation decisions.

3. Household financial capability is lacking.

56% of households aren't able to set aside money on a month-to-month basis because they're either spending more than they make or breaking even.[4]

55% of households report they are very or somewhat anxious about their retirement security.[5]

They expect most of their retirement income to come from personal savings and retirement plans, yet 3 in 5 have never calculated how much money they need to set aside for retirement.[5]

4. Household budget volatility makes it harder to save.

The median US family saw a 29% change in month-to-month expenses between 2013 and 2015.[6]

4 in 10 US households had large unexpected medical, car, tax or other payments to make within a 12-month period.[6]

1 in 4 US participants in Defined Contribution plans will use some or all for non-retirement needs. A $5k hardship withdrawal from a 401k at age 35 could cause a $30k reduction in cash on-hand at retirement.[6]

5. The majority of workers lack a retirement plan at work.

Workers with access to a retirement savings plan at work are 15 times more likely to save for retirement than those without it.[7]

Yet, 2 million (61%) workers don't have access to a retirement plan at work. Hispanic workers are particularly disadvantaged: 79% aren't covered.[8]

Smaller and newer employers are least likely to provide retirement plans. Overwhelmingly, workplace plan coverage declined since the Great Recession.[8]

6. Workers closest to retirement don't have enough saved in the 2 main types of plans.

83% of workers age 55-64 have nothing or very little saved in Defined Benefit (DB) and Defined Contribution (DC) plans.[9]

41% of these workers have no expected retirement income from DB or DC plans. They will rely entirely on Social Security, any savings they have in IRAs, non-retirement assets, and public assistance.[9]

Another 42% of these workers have DC plans projected to replace a median of just 10% of their pre-retirement income.[9]

7. Washingtonians need help preparing for life after retirement.

Future retirees face complex decisions: timing their final separation from work, converting savings into a reliable income stream, dispensing with assets in order to gain eligibility for assistance programs, and deciding at what age to claim Social Security retirement benefits.

Even if starting late, saving for retirement can pay off by enabling retirees to delay claiming full Social Security retirement benefits until age 70.

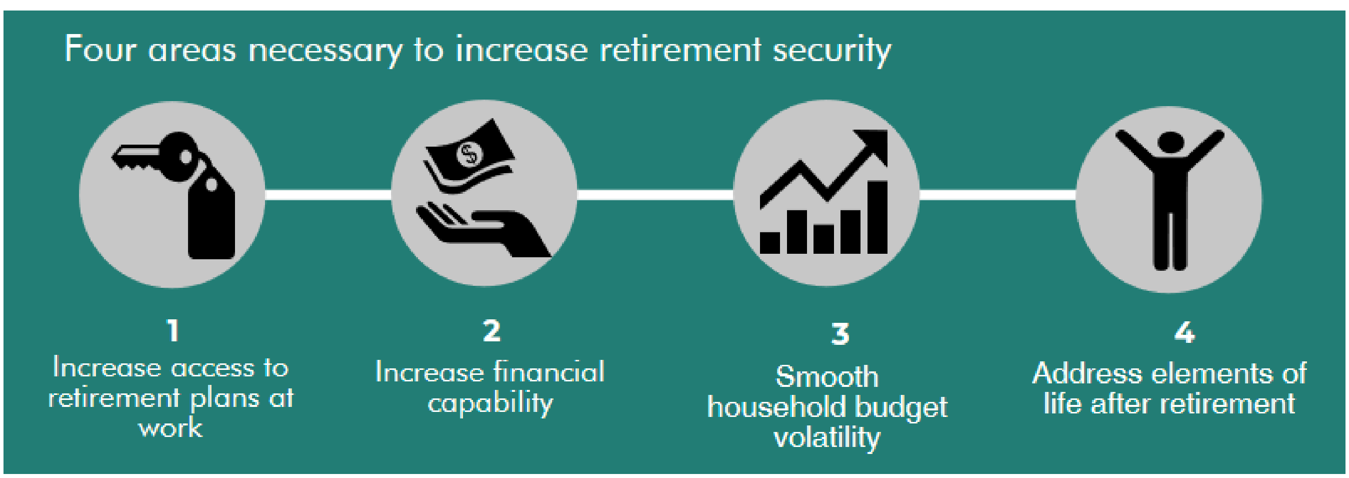
8. Retirement security for Washingtonians makes fiscal sense.

For the US's lowest income households, each additional $1 of retirement income reduces public assistance costs by 22 cents.[10]

If our lowest income workers save enough to increase retirement income by $1,000/year, the state would save $298 million on public assistance programs from 2018-2032.[11]

If non-covered workers begin saving for retirement now, state Medicaid expenditures would be $58.6 million less over a 10-year period.[12]

Taking action can meaningfully increase retirement security.



"A population that's prepared for retirement will have retirement income sufficient to maintain standards of living enjoyed before retirement while obtaining the necessary medical and supportive services without becoming impoverished.

Success will require working Washingtonians at all income levels to save a greater portion of their current earnings into retirement savings vehicles."

Washington State Retirement Preparedness Study, Department of Commerce

Retirement Readiness

How prepared are Washingtonians for retirement?

This is an executive summary of *Retirement Readiness: Washington State Retirement Preparedness Study* produced by the Washington Department of Commerce and reported to the Legislature in November 2017. The full study is available online at: http://bit.ly/retireWA

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Coming Soon: Washington's Retirement Marketplace
Established by the Legislature in 2015 as Washington's primary retirement security initiative, the Retirement Marketplace is an online portal where employers and individuals can comparison shop for state-verified low-cost retirement savings plans.

Department of Commerce

The Department of Commerce's mission is to strengthen communities. We administer a diverse portfolio of over 100 programs and several boards and commissions, all focused on promoting sustainable community and economic vitality. We convene stakeholders around retirement security issues and administer the Retirement Marketplace.

Notes

[1] Unless otherwise noted, all facts cited in this summary are for Washington State.
[2] WA Office of Financial Management Forecasting & Research Division (February 2017). November 2016 Forecast of the State Population.
[3] US Department of Labor. (September 2016). Private Pension Plan Bulletin Historical Tables and Graphs 1975-2014.
[4] FINRA National Financial Capability Study. (2015).
[5] AARP-Washington 2016 Survey: *Ready or Not? Retirement Readiness among Washington State Adults Ages 18-64 in the Workforce*.
[6] Mitchell, D., Lynne, G. (June 2017). *Driving Retirement Innovation: Can Sidecar Accounts Meet Consumer' Short- and Long-Term Financial Needs?* The Aspen Institute Financial Security Program. Issue Brief.
[7] Employee Benefit Research Institute, unpublished estimates of the 2004 Survey of Income and Program Participation Wave 7 Topical Module (2006 data) for workers earning between $30,000 and $50,000, 2006, as cited in AARP Public Policy Institute Fact Sheet: *Access to Workplace Retirement Plans by Race and Ethnicity*, February 2017.
[8] Boston College Center for Retirement Research. (2016). Calculations from Current Population Survey, March Supplement 2015 (reflecting 2014 calendar year data). Note: Weighted using the Current Population Survey, March Supplement weights. Workers are not in the military, are not unpaid family workers, and are in the pension universe. Includes both private and public sector workers. All public sector workers are considered as working for an employer offering a plan.
[9] Schwartz Center for Economic Policy (SCEPA) calculation based on CPS Annual Earning File 2013 and SIPP 2014. Notes: 1) Assumes workers retire from their current job at age 65, and receive a DB pension of 1.5 percent of salary for each year of service. 2) Assumes that 401(k) participants contribute 6 percent of salary, plus a 50 percent match, if they are not also covered by a DB plan. 3) Assumes a 4.5 percent real rate of return on plan assets, zero percent real wage growth, and that plan participants draw down DC wealth at retirement at 4 percent a year. 4) Some workers covered by only a DB plan have IRA plans as a result of rollover from prior DC employment or direct contribution. Assumes no future direct contributions to IRAs. 6) Calculations of replacement rates for older workers only due to the difficulties of projecting contributions, leakages, and returns over many decades.
[10] Trostsel, Phillip. (February 2017). The Fiscal Implications of Inadequate Retirement Savings in Maine. The University of Maine Margaret Chase Smith Policy Center.
[11] Shiflett, William and Catherine Harvey. (May 2017). Fact Sheet: Washington Could Save $298 Million by Helping People Save for their Own Retirement. AARP Public Policy Institute
[12] Segal Consulting. (April 2016). Estimated Offset Medicaid Cost Based on Increased Retirement Savings. Memorandum to Sarah Gill Dated April 29, 2016.