The Cost of Doing Nothing

How the Retirement Savings Challenge Paved the Path to State Innovation

Boise, Idaho Chamber of Commerce
December 8, 2020

Angela Antonelli
Research Professor and Executive Director
Center for Retirement Initiatives
McCourt School of Public Policy

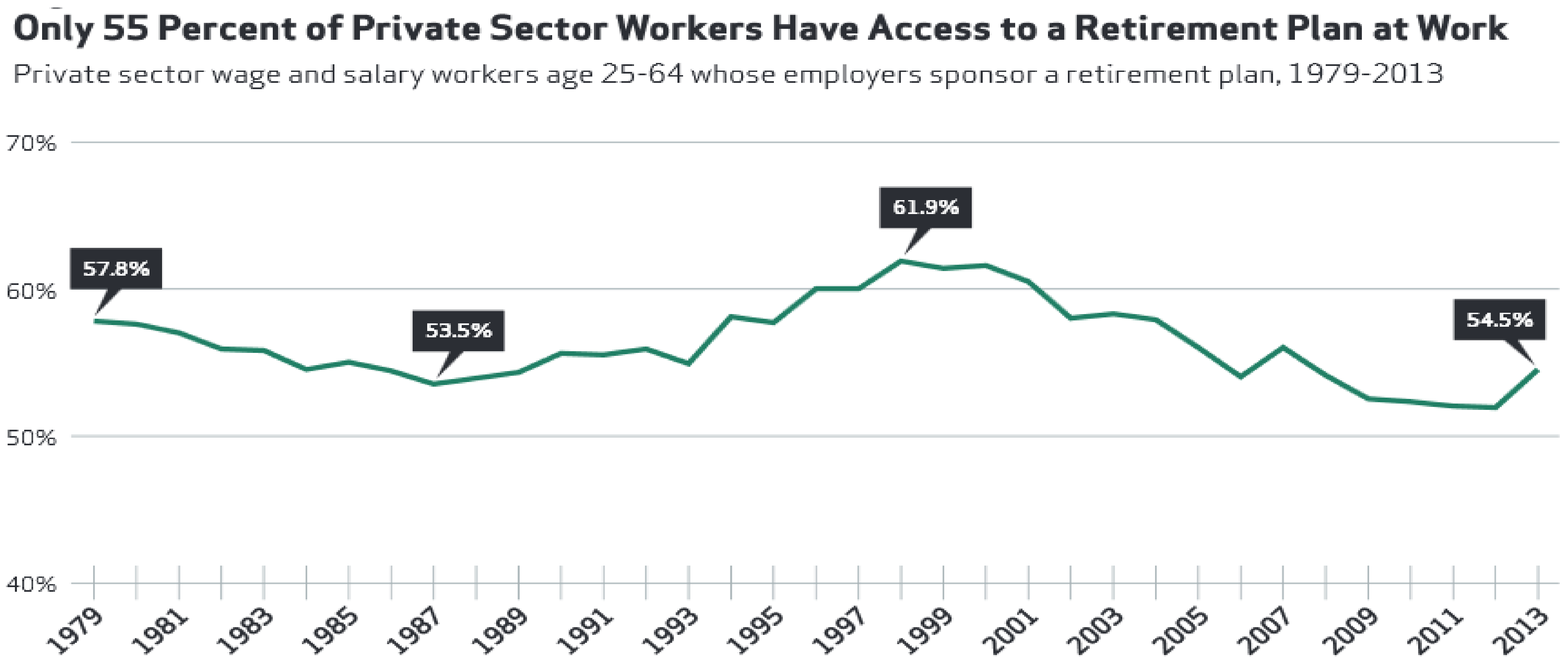
cri.georgetown.edu

GEORGETOWN UNIVERSITY

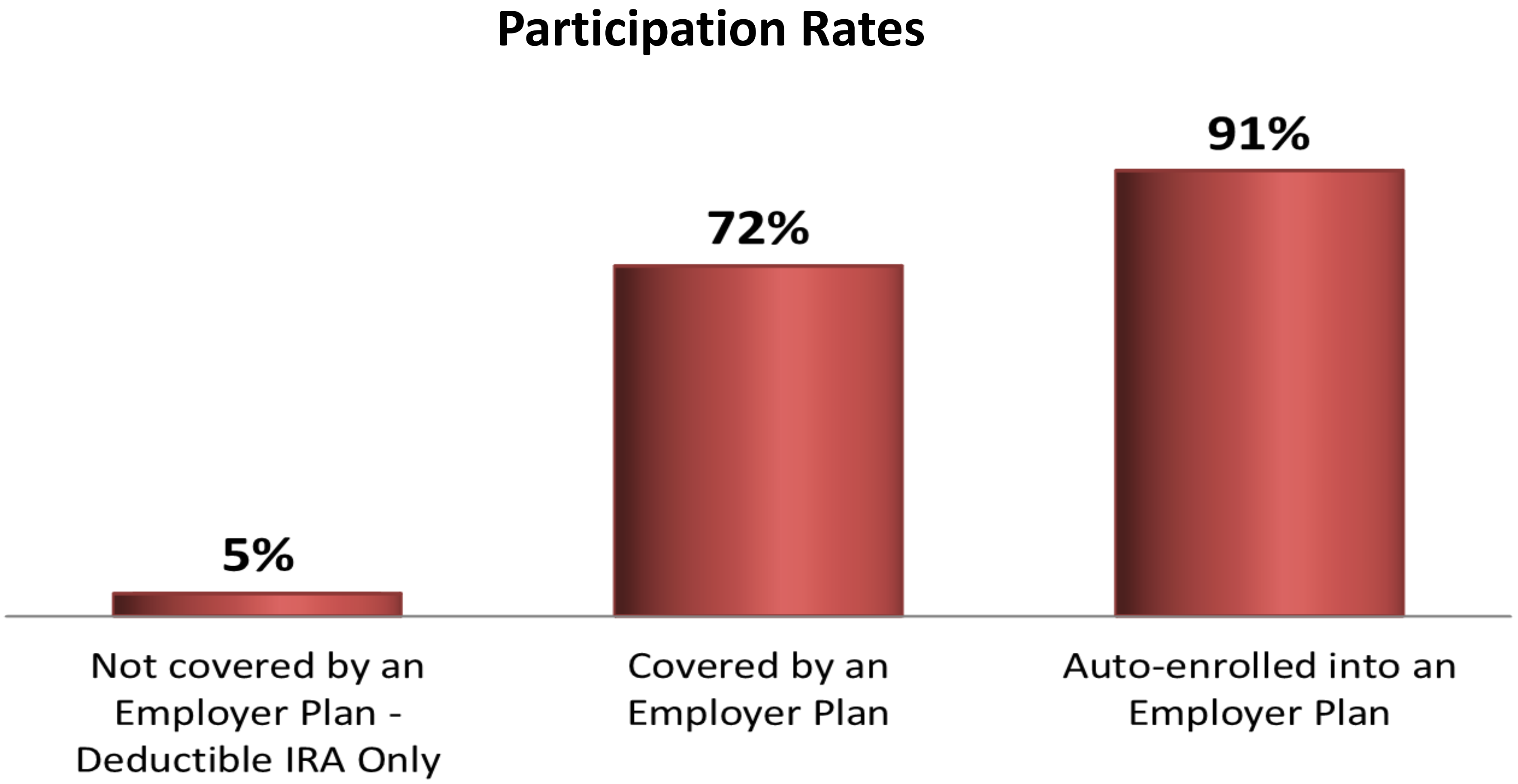
The COVID-19 Storm:
The Damage to Retirement Savings & Better Understanding of Its Importance

1. Retirement savings often the only savings
2. Retirement savings used as emergency funds
3. Weakening of existing employer retirement plans
4. Insufficient retirement income and/or working longer to make up for lost savings
5. Significant budget and economic consequences (paying now AND paying later)
6. Take a more holistic approach to savings to help protect retirement savings (emergency savings, etc.) & build financial resiliency

No Progress in 40 Years to Close Coverage Gap



Can’t People Already Save if They Want To?



SOURCE: AARP. Data compiled by AARP’s Public Policy Institute from unpublished estimates from the Employee Benefit Research Institute of the 2004 Survey of income and Program Participation Wave 7 Topical Module (2006 data). See also Brookings' Retirement Security Project, and WhiteHouse.gov. Automatic enrollment data estimates provided by Vanguard.

An Aging Population That's Living Longer

- 10,000 Americans are turning 65 every day from now until 2030
- By 2029, more than 20% of the U.S. population will be over the age of 65 (U.S. Census)
- Nearly a quarter of today's 65-year olds will live past age 90 (Social Security Administration)
- A baby born in 2007 in the U.S. is expected to live to age 104 (World Economic Forum)
- If you retire at age 65, you may need to have savings, pensions and other resources from your working life (40+ years) to generate enough income for another 20-30 years once you stop working
- Between 2008 and 2018, there was a *63% increase (5.7m to 9.4m)* in the number of people age 65 and older who are working (U.S. DOL)
- Between 2016 and 2026, there is a *projected 93% growth rate* in the number of people over the age of 75 who will be working (U.S. DOL)

Future Generations Unprepared for Retirement

- **Shift from DB to DC Landscape = Not Enough Saved for Retirement**
- **Retirement Savings Often the Only Savings to Weather Economic Emergencies**
- **Workers Increasingly Want Help Not Only Saving But Making it Last a Lifetime**

Near or at retirement	Millennials	Women
• Median amount of savings for households age 55+ was $109,000 in 2015 • 55% of households ages 55-64 had less than $25,000 in retirement savings and 41% had $0 • 27% have neither DB plan or retirement savings • Older Americans are carrying more debt into retirement. Debt held by Americans over 60 is now $3.09 trillion, up from $1.98 trillion a decade ago • The number of consumers over 60 with student loan debt quadrupled between 2005 and 2015, from 700,000 to 2.8 million *Sources: U.S. GAO; Federal Reserve Bank of New York; Consumer Financial Protection Bureau*	• 66% of millennial workers have nothing saved for retirement • 55% eligible to participate in an employer-sponsored retirement plan, compared to 77% for Gen X and 80% for Baby Boomers • Nearly 65% of the $1.4 trillion in outstanding student loan debt is held by those 39 and under • Those entering the workforce with $30,000 in student loan debt risk ending up with $325,000 less in retirement. The average student debt in 2015 was $33,000 • Taking out $3,000 could equal a loss of as much as $40,000 in savings at the time of retirement *Sources: NIRS; ValuePenguin; LIMRA*	• Account for 47% of the workforce, but almost two-thirds of part-time workers, often with fewer benefits • Career disruptions due to family caregiving results in lost income and ability to grow retirement savings • 41% drop in household income after divorce or separation near retirement, compared to a 23% drop for men • Nearly half of elderly unmarried women receiving Social Security relied on it for 90%+ of income, compared to 22% of all seniors *Sources: DOL; U.S. GAO; SSA*

The Costs to Government & Economy of Doing Nothing

AARP (state by state estimates)	Pennsylvania	Colorado
• Even a modest amount of savings can make a significant difference. • The fiscal savings to the U.S. if lower-income retirees could save enough to add at $1,000 more in annual retirement income would total at least $33 billion between 2018 and 2032. • ***Idaho is estimated to save at least $11.5 million in state funds between 2018 and 2032 if lower- income retirees can save enough to boost their retirement income by $1,000 per year.*** • The combined federal and state savings would be almost $54 million during this same period. Source: AARP, Idaho **Fact Sheet**, May 2017	• Between 2015 and 2030 the population age 65 and older is projected to grow by 42 percent, from 2.2 million in 2015 to 3.1 million. The largest increases in the elderly population between the years 2015–2030 will be among those 75–84 years old. • In 2015, retirees whose current incomes make them eligible for means-based assistance resulted in increased costs for social services of $702 million. This cost will grow to $1.12 billion per year in 2030. ***The projected cumulative cost adds up to more than $14 billion in additional state expenditures for retirees between 2015 and 2030.*** • Insufficient retiree income (less than 75% of pre-retirement income) means lower consumer spending and reduced economic activity, estimated to be $55 billion between 2015 and 2030. • The lower consumer spending reduces tax revenue by $70 million in 2015, an annual drop that will grow to $106 million in 2030. This will mean a cumulative loss of $1.4 billion in Pennsylvania tax revenues over the period from reduced consumer spending. Source: Econsult Solutions, "**The Impact of Insufficient Retirement Savings on the Commonwealth of Pennsylvania**," January 25, 2018.	• Between, 2020 and 2035, Colorado's elderly (65+) population is anticipated to grow by 50 percent, from 872,000 to 1.31 million. • The "dependency ratio" represented by the number of working age households for each elderly household is projected to fall from 3.0 in 2020 to 2.4 in 2035. • In 2020, the additional state costs due to insufficient savings is $335 million and is projected to grow to $779 million by 2035. ***The projected cumulative additional state expenditures for retirees adds up to almost $9 billion between 2020-2035.*** • The cumulative growth in federal spending due to insufficient savings in Colorado is estimated at over $8 billion between 2020-2035. • A modest level of annual retirement savings, about $1,200 a year over a person's working career, would significantly increase retirement savings in the state and improve the state's fiscal outlook. *Source:* Colorado Secure Savings Plan Board, "**Report to Governor Polis and the General Assembly: Recommendations to Increase Retirement Savings in Colorado**," February 2020.

State Program Model - Characteristics

- **Automatic** – workers are 20 times more likely to save when they are auto-enrolled
- **Voluntary** – workers have full control over their participation and can always opt-out of saving
- **Portable** – the savings account stays with the worker when changing jobs
- **No Cost**- to the state, taxpayers, or employers. Programs are self-sustaining from saver fees
- **Public-Private Partnerships** - professionally managed & advised by financial services firms with oversight by the state
- **Interstate Partnerships** – states beginning to explore joining together (as already the case with ABLE, etc.)

12 State-Facilitated Retirement Savings Programs

(& 1 city)

Trend Toward Auto-IRA Model

Since 2012, at least 45 states have acted to implement a new program, study program options, or consider legislation to establish state-facilitated retirement savings programs.

[GREEN=launched]

Auto-IRA ("Secure Choice")	**Voluntary Payroll Deduction IRA**
California	New York
Colorado	**Voluntary Marketplace – IRAs & 401ks**
Connecticut	Washington (recent bill to shift to Secure Choice)
Illinois	**Hybrid – Voluntary Marketplace & Payroll Deduction IRA**
Maryland	New Mexico
New Jersey (shifted away from a marketplace)	**Voluntary 401(k) Multiple Employer Plans (MEPs)**
Oregon	Vermont
Seattle (on hold pending action by the state)	Massachusetts

GEORGETOWN UNIVERSITY
McCourt School of Public Policy

CENTER FOR RETIREMENT INITIATIVES

		OregonSaves[1]	Illinois Secure Choice[2]	CalSavers[3]	
	Estimated *eligible* population of private sector workers in each state who lack access to an employer-sponsored retirement savings plan	*1 million*	*1.2 million*	*7.4 million*	
Program Design	Account Type	Roth IRA (traditional option available)	Roth IRA (traditional option available)	Roth IRA (traditional option available)	
	Employer Threshold	Employers that do not currently offer qualified plans	Employers with 25 or more employees in business for at least two years that have not offered a qualified plan in the last two years	Employers with at least 5 employees that currently do not provide qualified plans	
	Default Contribution	5%, automatically increasing 1% annually until reaching 10%	5%	5%, automatically increasing 1% annually until reaching 8%	
	Default Investment	First $1,000 in contributions held in a capital preservation option. Subsequent funds defaulted into a target date fund.	Funds for the first 90 days after initial contribution held in a money market fund, then defaulted into a target date fund.	First $1,000 in contributions held in a capital preservation option. Subsequent funds defaulted into a target date fund.	
Participant Data[4]	Total Assets (millions $)	$71.3	$42.8	$19.8	*Across all programs 10/31/20 OR 11/30/20 CA,IL*
	Average Contribution Rate	5.3%	5.02%	5.01%	**$134 million** Total Assets
	Average Monthly Contribution	$128	$90.27	$100.36	**219,419** Funded Accounts
	Effective Opt-Out Rate	33.4%	36.38%	30.82%	**26,408** Employers Registered

- All three programs launched an initial pilot program before official statewide launch.
- Employers always have the option to select a qualified plan in the private market.
- Employees may opt out, choose to save to a traditional IRA, or change their contribution level or investment fund option at any time.
- Individuals who are self-employed or gig workers are able to voluntarily join the program.

1: For more information about OregonSaves, go to the program website.
2:For more information about IL Secure Choice, go to the program website.
3: For more information about CalSavers, go to the program website.
4: Participant data as of October 31, 2020 for OregonSaves, and as of November 30, 2020 for IL Secure Choice and CalSavers.

Center for Retirement Initiatives
McCourt School of Public Policy

600 New Jersey Avenue NW, 4th Floor | Washington, DC 20001 | 202-687-4901
cri.georgetown.edu

Angela M. Antonelli
Research Professor
Executive Director, Center for Retirement Initiatives
ama288@georgetown.edu

Follow us on social media for updates:

GEORGETOWN UNIVERSITY