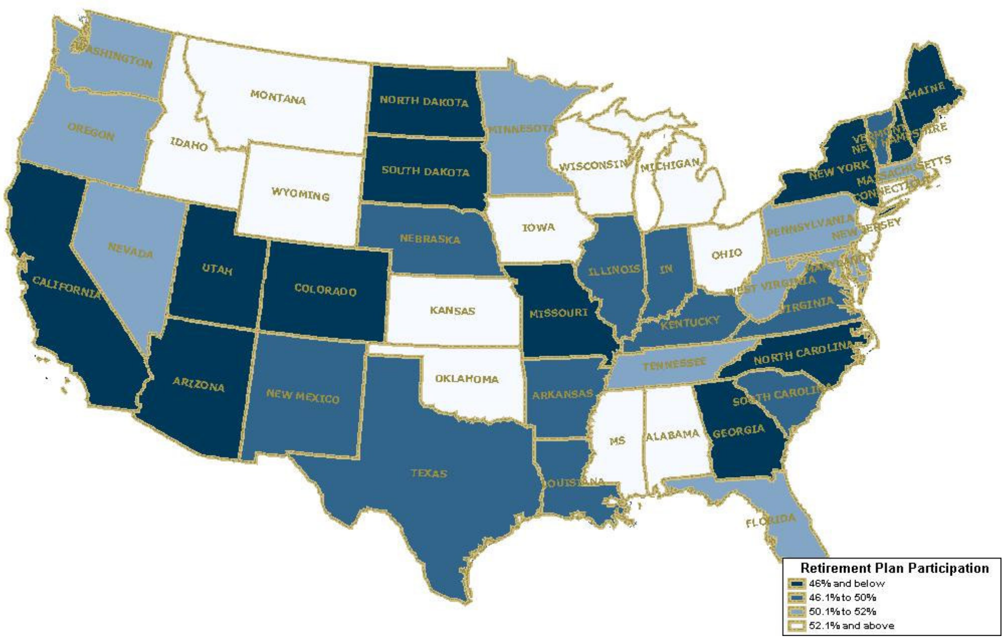
CFED Assets & Opportunity Scorecard for North Carolina

SPOTLIGHT

Retirement Plan Participation

The Numbers

North Carolina ranks 44th among states for its low level of retirement plan participation.[1] Low-levels of participation can be due to both the lack of employers' offering a retirement plan and to the low take-up by employees even when plans are offered. However, recent analysis suggests that the major factor in the lack of retirement plan coverage for full-time workers was due to lack of employer sponsorship.[2]



Low-income workers, young workers, part-time workers and workers employed by smaller companies are less likely to have access to a retirement plan through their employer. Nationally, 71 percent of those working in small businesses do not have an employer-sponsored retirement plan.[3]

Pensions guaranteed by employers—long a standard benefit at a good job--have given way to private investment vehicles, such as a 401(k), which employees must often manage on their own and at their own risk. In North Carolina, 61 percent of workers lack an employer-provided pension, as compared to 58 percent nationally.[4]

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[1] A rank of 50 reflects the lowest retirement plan participation and 1 reflects the highest retirement plan participation according to analysis in CFED 2009-2010 Assets & Opportunity Scorecard, accessed at: http://scorecard.cfed.org/

[2] General Accounting Office, September 2008, Pension Sponsorship and Participation: A Summary of Recent Trends, Congressional Research Service.

[3] General Accounting Office, September 2008, Pension Sponsorship and Participation: A Summary of Recent Trends, Congressional Research Service. P. 5.

[4] Working Poor Families Project, PRB Analysis of the 2007 Current Population Survey.

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Behavioral economists have demonstrated that take-up rates and savings amounts are directly linked to the institutional rules governing retirement plans. For example, studies have found that automatic enrollment rather than opt-in policies can increase participation in some cases up to 95% from the average of 50%. However, only 16% of plans currently offer automatic enrollment.[5] In addition, research has demonstrated that savings rates strongly reflect employer match rates and are unlikely to keep pace with improvements in earnings if not facilitated by automatic contributions.[6]

The Implications

Retirement savings are increasingly necessary to ensure a dignified retirement. The average annual income of a retiree on social security alone is $13,770 while a retiree with social security and a private pension doubles their annual income to $28,262.[7]

The transition from defined-benefit plans to defined-contribution plans leaves many workers on the verge of retirement vulnerable to the latest economic downturn. As a result of the economic downturn, it is estimated that many workers saw their 401(k) plans lose 30 to 40 percent of their value.

Key Policy Connection

In both its Middle Class Task Force Annual Report and its FY 2011 budget, the Obama Administration proposes to implement automatic retirement plans, greater transparency in 401(k) plan management, and improvements to the Saver's Credit.[8]

An **automatic retirement plan** policy would require all employers to automatically enroll their employees in a payroll deduction IRA and allow for employees to opt-out, thereby bringing more people into the retirement savings system. **Transparency in 401(k) plan management** would require disclosure of fees, the provision of unbiased investment advice to all workers and ensure the availability of a guaranteed income option. The **Savings for American Families' Future Act**, H.R. 1961, would expand retirement savings incentives to more than 50 million Americans by improving and strengthening the Saver's Credit. The bill makes the Saver's Credit refundable (which is key to making it useful to those with lower incomes), provides a flat 50% match on qualified contributions, increases the income eligibility requirement, and automatically deposits matching contributions into a designated retirement account.

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[5] General Accountability Office. October 2009. "Automatic Enrollment Shows Promise for Some workers, but could face challenges from others."

[6] Choi, James and Brigitte Madrian. June 2004. "Plan Design and 401(k) Savings Outcomes." National Tax Journal, 57(2) and Choi, James, Brigitte Madrian, and Andrew Metrick. 2002. "Defined Contribution Pensions: Plan Rules, Participant Decisions and the Path of Least Resistance." Tax Policy and the Economy. 16, and Thaler, Richard H. and Shlomo Benartzi. 2004. "Save More Tomorrow: Using Behavioral Economics to Increase Employee Saving." Journal of Political Economy. 112.

[7] Social Security Administration, "Income of the Population 55 or Older, 2006." February 2009. Table 3.6 [Unpublished Supplemental Table]

[8] Office of the Vice President of the United States, February 2010. Annual Report of the White House Task Force on the Middle Class.