Financial Futures: How Working Americans Prioritize Retirement Savings

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Numerous scholars and policymakers are concerned with the future of retirement security in the United States (Bipartisan Policy Center, 2016; White House Retirement Security Policy Brief, 2015). Policies, such as Social Security and Medicaid, are supposed to mitigate poverty rates among the elderly, but an overreliance on these programs is problematic as they were never intended to be the sole source of retirement income. For many, retirement security depends on other sources, namely employer-sponsored retirement plans and personal savings. Saving via employer-sponsored retirement plans is not always possible: one-third of employees lack access to such plans, while 47 percent of those who do not participate in an available plan are ineligible to do so because of plan regulations, such as not working enough hours to qualify (The Pew Charitable Trusts, September 2016).

Policymakers are considering a range of proposed state-level policies which aim to increase access. Online marketplace exchanges and multiple employer plans are designed to encourage employers to voluntarily provide retirement plans to their workers. A third approach, sometimes known as an auto-IRA program, is a state-sponsored automatic enrollment of workers into an Individual Retirement Account managed by a private third-party, such as a mutual fund or insurance company. Employee contributions are made through the employer’s payroll system (The Pew Charitable Trusts, June 2016). These state policies assume the retirement savings are most easily facilitated through employers. However, it is possible that workers prefer to save by themselves or that even prefer not to save for retirement at all. Understanding the ways in which workers think about, and prioritize, saving for retirement would help shape more efficient policies aiming to increase retirement security. This paper identifies who is most and least likely to prioritize retirement savings and what inhibits and motivates retirement savings.

Using a sample of full-time, private-sector employees at small businesses that do not offer retirement benefits (n = 654), this paper presents empirical findings examining how working Americans prioritize retirement savings? Specifically, how do those most likely to lack access to employer-sponsored retirement plans fare when considering other markers of retirement readiness, such as retirement planning or participation in individual savings arrangements (e.g., IRA, *my*RA)?

Retirement plans through employers are incredibly important to building retirement savings. Fewer than one in three workers without access to a savings plan at work have ever tried to figure out how much retirement income they will need, and even have done so recently. Perhaps more worrisome is that one in five of these workers who have only “guesstimated” their needs. Further, few have savings from any plan outside of an employer-sponsored retirement plan. Of those with such savings, more than 40 percent report not contributing in the prior two years. Because “any plan” includes rolled over plans from previous employer-sponsored retirement plan, access to and participation in such plans continue to drive difference in retirement preparedness after leaving those jobs. Finally, respondents report they would ideally use a windfall to save for retirement, but, for many, paying down debt, building liquid savings, and meeting immediate needs are higher priorities.

Some groups are more likely to lack employer-sponsored retirement plans and be at risk for old age income insecurity than others, including those who are younger, less educated, Hispanic, or work for small businesses. This may be due to a number of potentially overlapping reasons, including competing financial interests, a lack of financial literacy, or trust in financial institutions. Workers need to build emergency savings and some may feel irresponsible—even foolish—to choose to save for long-term goals rather than meeting short-term needs.

Findings point toward two policy responses. Efforts that recognize competing financial interests and aim to provide clearly communicated education regarding retirement income needs may significantly increase saving.

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