Are Minnesota Workers Ready for Retirement?

Trends in Plan Sponsorship, Participation, and Preparedness

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OVERVIEW

Minnesota workers, like all American workers, need workplace retirement accounts to achieve an adequate retirement income. But only a bare majority of workers in Minnesota have access to retirement accounts at work, and the share of workers who do have these accounts is falling. Though it is tempting to attribute the lack of retirement readiness for Minnesota workers to a recession, the reason for the lack of pensions is structural - not enough people have retirement coverage at work and, when they do, the amounts saved are often inadequate.

• Between 1999-2001 and 2009-2011, the availability of employer-sponsored retirement plans in Minnesota declined by six percentage points, from 68 percent to 62 percent.[1]

Even when an employer sponsored retirement plan is available, participation is not universal. As a result, over half (51 percent) of Minnesota residents of prime-age are not covered by a retirement plan as of 2009-2011.

• 46 percent of Minnesota workers (1 million people) did not participate in employer-sponsored retirement plans in 2009-2011, largely because their employer did not offer one. In addition, 222,516 prime-age people in Minnesota were not working in 2009-2011 and, by definition, did not participate in a current employer's retirement plan.

• Almost all workers experienced a decline in retirement plan sponsorship, but the size of the drop differed across worker demographics and classification. The only workers whose retirement plan sponsorship increased were the declining proportion of workers who are covered by a union contract at work.

• Workers covered by a union contract had an increase in retirement plan sponsorship of 1 percent, while workers who were not covered by a union contract had a decrease in sponsorship of 11 percent.

This paints a bleak picture of the future of retirement income security in Minnesota, and it has immediate implications for the financial preparedness of Minnesota's residents near retirement.

• 42 percent of households in which the head is near retirement age (55-64 years old) will have to subsist almost entirely on Social Security income or will not be able to retire at all due to negligible savings.[2]

The first section of this report looks at the decline in sponsorship of retirement plans by employers in Minnesota, including a demographic breakdown. The second section analyzes the rate of participation in employer-sponsored retirement plans. The third section examines if the group nearest retirement (those aged 55-64 years old) is prepared financially for post-work life. The technical appendix lays out the report's methodology in detail.

Both the first and second sections rely on 2000-2002 and 2010-2012 data from the Current Population Survey (CPS), a program administered jointly by the Census Bureau and the Bureau of Labor Statistics.[3] The third section uses data from the 10th and 11th waves of the 2008 panel of the Survey of Income and Program Participation (SIPP).[4]

The report findings suggest that the decline in employer sponsorship of retirement plans and the shift away from traditional pension, defined benefit-type plans and toward 401(k)-type defined contribution plans are jeopardizing the retirement income security of Minnesota residents. This will result in a greater number of workers experiencing a dramatic drop in living standards as they age.

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.

An employer who chooses to sponsor a retirement plan for its 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. A DB plan uses a formula that typically credits every year of service with a certain percentage of pay to determine lifetime pension benefits. The employer invests the assets and guarantees the pension, and the worker implicitly pays for the DB plan with reduced take-home earnings. With DC plans—most are 401(k)s—the employer provides access to a tax-advantaged savings account that employees can contribute to on a voluntary basis. The worker, not the employer, is in charge of investing the assets. Employers may also contribute to a DC plan, though the level of contribution can vary from year to year and employers are not required to contribute anything.

This employer-sponsored system of retirement savings has been an effective way to save for retirement income security in the U.S. in the past because the compensation devoted to retirement asset building is automatically deducted from an employee's paycheck, thereby reducing the temptation to spend this portion of the employee's compensation package on day-to-day consumption budget needs.

Employer Sponsorship of Retirement Plans in Minnesota is Declining

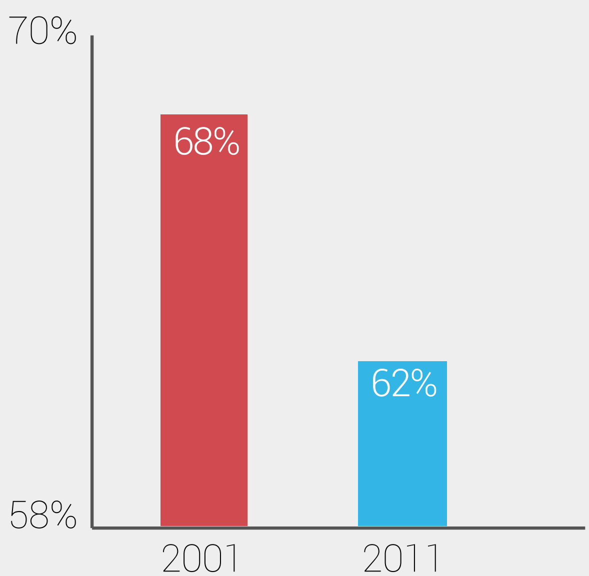
This report uses data from the Current Population Survey (CPS) to analyze employer sponsorship of retirement plans. The CPS asked Minnesota residents who worked in the previous calendar year[5] about their retirement plan coverage and participation.[6] Responses to these questions were used to examine sponsorship levels for Minnesota residents aged 25-64. To ensure all results are robust, three years of data are pooled together and averaged to yield information on each point in time. In other words, data from 2000-2002 (2010-2012) yield information on sponsorship levels in 1999-2001 (2009-2011); we refer to these years hereon as 2001 (2011).

The CPS data reveal that Minnesota workers' access to employer-sponsored retirement plans has fallen by six percentage points in the past ten years – signifying an overall downward trend in retirement security for Minnesota residents. As of 2011, only 62 percent of employed Minnesota residents aged 25-64 worked for an employer who offered access to a retirement savings plan (DB and/or DC plans described above). In other words, by 2011 about four out of ten workers residing in Minnesota did not have access to a retirement plan at work.

A Note on Sponsorship Rates

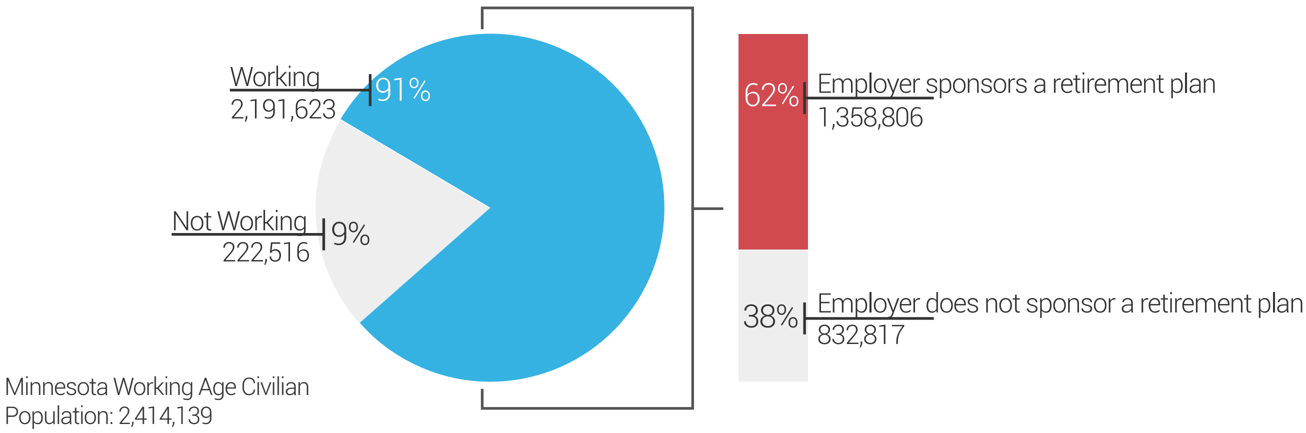
The Current Population Survey (CPS) asks respondents about their access to employer-sponsored retirement plans based on their job in the previous calendar year. Therefore, respondents who did not work in 2009-2011, or 9 percent of the Minnesota civilian population aged 25-64, were not asked about their retirement plan status. Since those who did not work did not have access to an employer-sponsored plan, the sponsorship rates in this report overstate the rate of sponsorship for the entire working-age population at any given point in time.

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 persons aged 25-64 who worked at some point in the last calendar year.

Figure 2: Employment Status and Sponsorship Rates for Minnesota Residents, 2010



Source: Current Population Survey, 2010, 2011 and 2012. March Supplement.[7] Percentages in chart are rounded. The sample is limited to Minnesota civilian residents ages 25 to 64, who worked at some point in the reference year. Figures based on three-year pooled averages of the data.

Analyzing the Downward Trend in Employer Sponsorship

As noted above, sponsorship rates in Minnesota fell from 68 percent in 2001 to 62 percent in 2011 (see Figure 1). However, the decline in retirement plan sponsorship was not identical across all social and economic groups, as illustrated in Table 1. While trends show sponsorship rates falling for workers in almost all social and economic categories, non-citizens suffered a 36 percent decline in sponsorship, compared with citizens whose sponsorship declined 10 percent. Middle age workers (45 to 54) had a 14 percent drop in sponsorship, the largest decline among all age groups surveyed. Younger workers (25 to 44) experienced a similarly significant decline of 13 percent, suggesting that the downward trend will continue as this population ages. A breakdown by race reveals that Black workers lost the most ground, with a 21 percent decline in sponsorship rates - more than double the decline experienced by White workers, who had a 10 percent decline in sponsorship. Asian workers also had a serious decrease in retirement plan sponsorship of 17 percent. Hispanic workers' retirement plan sponsorship was the lowest among racial groups to begin with, yet they suffered a further drop of 5 percent.

Retirement plan sponsorship also varied across industries. The biggest decline was for workers in Transportation, Communication and Utilities with a 29 percent decrease in sponsorship rates, a decrease within this industry from 74 percent sponsorship to only 57 percent. There was also a 24 percent decline in sponsorship for workers in Entertainment and Recreation Services and a 23 percent decline in sponsorship for workers in Business and Repair Services.

In 2011, there were 233,990 self-employed workers in Minnesota (10 percent of the working age population). Self-employed workers may establish retirement plans for themselves, their spouses, and other employees through several provisions of the federal tax code. Among those options are the "Solo 401(k)," the simplified employee pension plan (SEP), and the SIMPLE-IRA. Still, sponsorship rates for the self-employed remained among the lowest of all workers. In 2001, only 22 percent of self-employed workers in Minnesota had a sponsored plan, and that rate fell by a full seven percentage points by 2011, a decrease of two-fifths.

Decreasing sponsorship also varied by firm size. Firms with 100 to 499 employees showed the biggest proportional drop in sponsorship of 12 percent. These firms also had the largest absolute decline in sponsorship rates, dropping from 82 percent to 73 percent. Firms of all other sizes had a similar percentage change in sponsorship of 8 or 9 percent, but small firms had the lowest sponsorship levels (34 percent in 2001 and 31 percent in 2011).

Finally, unionized workers[8] in Minnesota experienced a 1 percent increase in their rates of retirement plan sponsorship, while their non-unionized counterparts suffered an 11 percent drop. Union members also have the highest rates of sponsorship - in 2011, their rate of sponsorship was 87 percent.

Table 1.
Retirement Plan Sponsorship Rates by Worker Characteristics in Minnesota

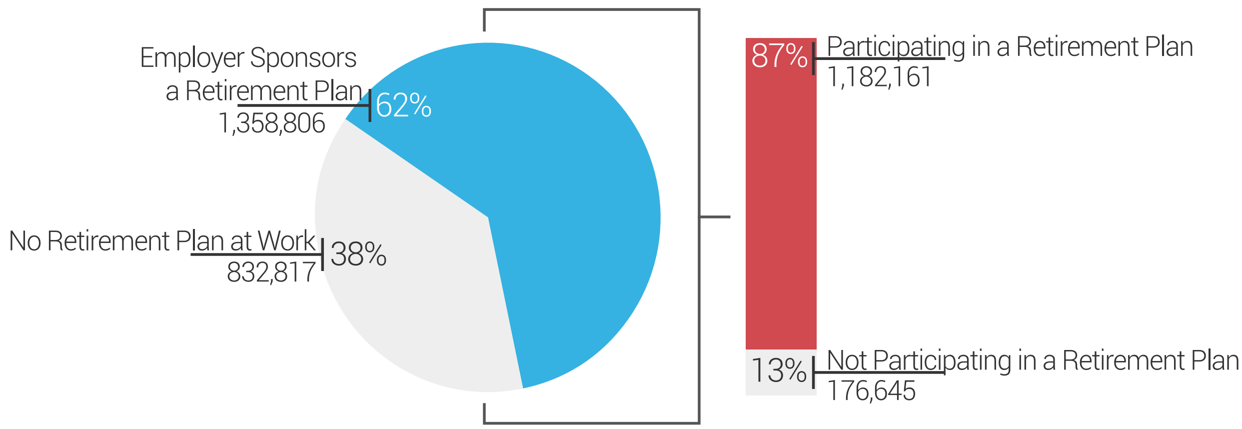
		2000	2010	% Change
Minnesota	*Working Age Population (Ages 25-64)*	2,427,956	2,387,653	-02%
	Total Sponsored	68%	62%	-11%
Gender	*Male*	68%	61%	-11%
	Female	69%	63%	-10%
Age	*25-44*	69%	61%	-13%
	45-54	71%	63%	-14%
	55-64	62%	63%	01%
Race	*White*	69%	63%	-10%
	Black	57%	47%	-21%
	Asian	67%	57%	-17%
	Hispanic	49%	47%	-05%
Firm Size	*1-24 Employees*	34%	31%	-08%
	25-99 Employees	64%	59%	-08%
	100-499 Employees	82%	73%	-12%
	500-999 Employees	84%	77%	-08%
	1000+ Employees	87%	80%	-09%
Citizenship	*Non-Citizen*	58%	43%	-36%
	Citizen	69%	63%	-10%
Worker Classification	*Private Sector: Self-Employed*	22%	15%	-40%
	Private Sector: Wage & Salary	72%	63%	-14%
	Public Sector	91%	87%	-04%
Industry	*Construction*	55%	55%	0%
	Manufacturing	80%	73%	-10%
	Transportation, Communication, Utilities	74%	57%	-29%
	Wholesale & Retail Trade	58%	54%	-07%
	Finance, Insurance & Real Estate	80%	70%	-15%
	Business and Repair Services	61%	50%	-23%
	Personal Services	37%	35%	-06%
	Entertainment & Recreation Services	50%	41%	-24%
	Professional Services	77%	68%	-13%
	Public Administration	89%	91%	03%
Union Status	*Not in Union*	72%	64%	-11%
	In Union	91%	86%	01%

Section Two: EMPLOYEE PARTICIPATION RATES

Even if an employer sponsors a retirement plan, participation is not guaranteed. An employer is permitted under the law to exclude employees from participating in a retirement plan if they have less than one year of service, are part-time, or are younger than 25.[9] Moreover, the structural differences between DB and DC plans impact employee participation. In a DB plan, worker participation is usually mandatory, guaranteeing that each worker has a retirement account if they are sponsored. Under a DC plan, workers choose to participate in the retirement plan.

Figure 3 summarizes participation rates for working Minnesota residents aged 25-64 in 2011 using data from the CPS.[10] Of the 62 percent of workers whose employers sponsored a retirement plan in 2011, 87 percent participated in the plan. This means only 54 percent (62%*87%) of Minnesota workers participated in an employer-sponsored retirement plan in 2011. Put another way, 46 percent of Minnesota workers (over 1 million people) in 2011 did not participate in employer-sponsored retirement plans either because their employer did not offer one or the employee did not participate for voluntary or involuntary reasons. Furthermore, as noted in the previous section, 222,516 working age people in Minnesota were not working in 2011 and, by definition, were not able to participate in an employer-sponsored retirement plan. As a result, over half (51 percent) of the civilian working age population do not have a retirement plan because they were not sponsored, they could not participate, or they were not working.

Figure 3: Sponsorship and Participation Rates for Working Minnesota Residents, 2009-2011



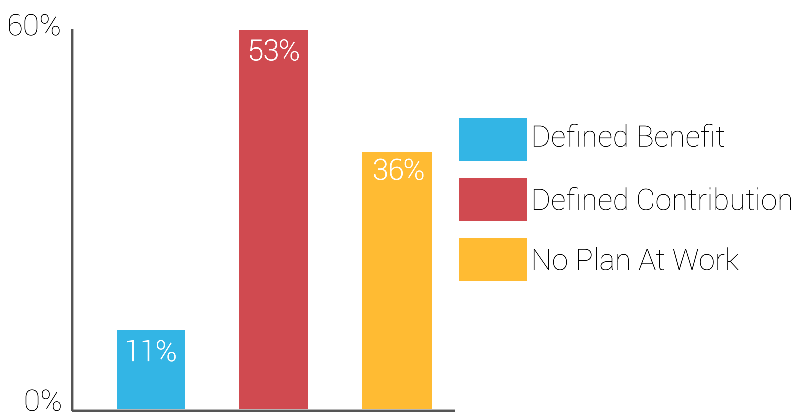
Source: 2010-12 Current Population Survey, March Supplement. Notes: Sample is limited to Minnesota residents aged 25-64 who worked at some point in the previous calendar year. Percentages in chart are rounded.

The CPS data does not give us additional specific information about the type of plan workers are enrolled in. For that information, we use data from the Survey of Income and Program Participation (SIPP).
The SIPP estimates that there are 1,381,931 workers in Minnesota whose employers sponsor a retirement plan. 11 percent of workers have a DB plan as their primary retirement plan and 53 percent have a DC plan as their primary retirement plan. 783,782, or 36 percent, of Minnesota workers are not sponsored by any plan.

Given the impact of the type of retirement plan on the likelihood of participating in a plan when it is offered, and therefore the probability of having adequate retirement savings, we analyze which workers have access to a DB plan at work and which workers are only offered a DC plan. A tabulation of DB/DC plan sponsorship by a worker's social, personal, and economic characteristics is available in the technical appendix (see Detailed Analysis of DB and DC Participation by Social, Economic, and Personal Characteristics). It reveals that age and classification of workers are the most important determinants of DB/DC plan type availability. Specifically, government workers are much more likely to have access to a DB plan at work, a fact that is particularly relevant to the Minnesota population given the lower prevalence of government workers compared to the average across the nation. [11]

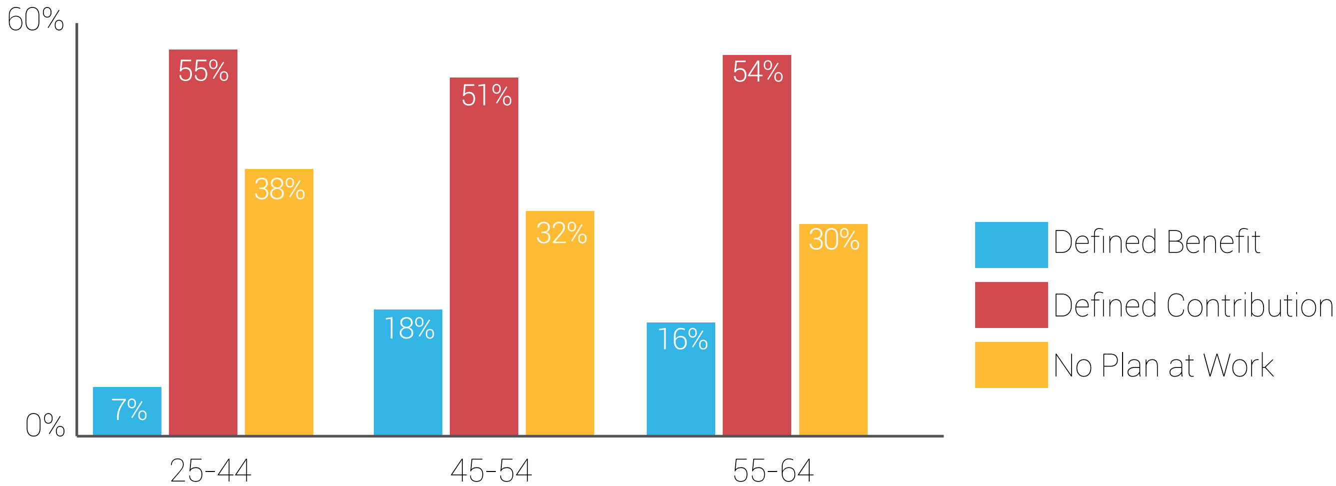
Younger workers are much more likely to be offered a DC plan at work rather than a DB plan. Figure 5 shows that younger workers aged 25 to 44 have the lowest rate of DB participation, with an 7 percent participation rate, and the rates of DB participation are higher in each subsequent age group.[12] Younger workers are also more likely to not have any retirement plan at work. 38 percent of workers aged 25 to 44 have no retirement plan at their current employer, whereas 32 percent of workers 45 to 54 and 30 percent of workers 55 to 64 have no retirement plan at their current employer. Therefore, in addition to being less likely to have access to a workplace retirement plan, younger workers who do have retirement plans at work are also less likely to have access to a DB plan.

Figure 4: Primary Retirement Plan Type in Minnesota (2011-2012)



Source: Authors' analysis of SIPP 2008 panel data. The data universe is all residents of Minnesota aged 25-64 who worked during the reference period (December 2011-March 2012) and had positive earnings.

Figure 5: Primary Retirement Plan Type by Age Group in Minnesota (2011-2012)



Section Three:
WHAT THE FUTURE HOLDS FOR THOSE NEAR RETIREMENT AGE

This report describes how a decline in employer sponsorship of retirement plans, coupled with the changing nature of plan design, has eroded rates of participation in retirement plans and, potentially, the retirement security of Minnesota workers. However, retirement plans provide only one source of income in retirement. A complete evaluation of Minnesota residents' readiness for retirement must take into account income from all sources.

The SIPP data offers a comprehensive listing 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 a household's total net worth to understand retirement preparedness based on household assets. These estimates do not factor in the present cash value of projected Social Security or DB pension benefits. For the purposes of the present discussion, only the financial preparedness of near-retirement households in Minnesota, whose reference person is aged 55 to 64, is considered. Since younger households have more time to accumulate savings for retirement, their current net worth may or may not reflect the level of preparedness they will have when they reach retirement.

According to the SIPP data, the average net worth of near-retirement households residing in Minnesota is $213,676 for single person households, $636,824 for married couple households, and $268,236 for other household types. This average net worth can be converted to a cash income stream of approximately $15,024 per year for single person households, $37,848 for married couple households, and only $8,304 for other household types.[13]

However, net worth among Minnesota's near-retirement population is highly concentrated. Average net worth numbers

Table 2: Household Net Worth by Age Group and Household Type, Minnesota (2011)

		Single Person	Married	Other Households*
55-64	*Mean*	$213,676	$636,824	$118,245
	Median	$154,700	$461,500	$100,700

Source: 2008 Survey of Income and Program Participation (SIPP) Panel
*consists of non-married couple households with more than one member, or households with the reference person living with a parent. 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.

are high because the few households with very high net worth bring up the average. Median asset values listed in Table 2 provide more relevant numbers. The cash income stream that would result from annuitizing the median net worth of the same households yields only $10,872 per year for single person households, $27,408 for married couple households, and $7,080 for other household types. This income would be in addition to any defined benefit pension and/or Social Security benefits,[14] if household members were eligible for such payments.[15]

It is also 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 the attachment most retirees have for their homes, in many cases it would be financially counterproductive to sell the home and subsequently pay rent.

Table 3: Total Liquid Assets of Near-Retirement Households Aged 55-64 in Minnesota, 2011

Total Household Liquid Assets	Number of Households	Proportion of Households	Mean Household Income	Median Household Income
Less than $10,000	92,965	21%	$37,399	$30,048
$10,000-$99,999	91,338	21%	$63,677	$48,660
$100,000-$299,999	110,168	25%	$61,778	$57,312
$300,000+	140,952	32%	$139,477	$124,296
Total	435,423	100%		

Source: 2008 Survey of Income and Program Participation (SIPP) Panel.
*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.
**Calculation of liquid assets and household income 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 3 shows the distribution of liquid assets of the near-retirement population in 2011. The figures represent financial assets that can be easily liquidated and converted to an annuitized income stream without necessitating the sale of a home. This table reveals that 21 percent of Minnesota households who are at or near retirement age have less than $10,000 in liquid assets— i.e. they have virtually no financial assets to annuitize. The next 21 percent - those who have assets between $10,000 and $99,999 – also have very little to annuitize (annuitizing $50,000 for a single male turning 65 in 2013 yields $68 per week, while for a married couple where both members turn 65 in 2013, they would receive $56 per week). In other words, 42 percent of near retirement households in Minnesota have too little saved up, and will rely almost exclusively on Social Security and any defined benefit pensions they may be eligible for to fund their retirement years.[16] On the other side of the spectrum, about 32 percent of the households have liquid assets in excess of $300,000. These households will be able to realize an adequate cash income stream from retirement savings.

Table 4 shows the SIPP data organized by the retirement plan status of households. It

Table 4: Total Assets of Near Retirement Households in Minnesota by Retirement Plan Status, 2011

	Households With DB Plans		Households with DC Plans		Households without a retirement plan through current employer	
Assets/Liabilities	Mean	Median	Mean	Median	Mean	Median
Investments	$46,035	$7,500	$89,573	$23,000	$58,359	$2,000
Other Assets	$78,349	$0	$92,175	$0	$135,122	$0
Retirement Savings	$179,644	$110,000	$194,746	$133,000	$71,257	$0
Debt	$3,071	$2,000	$2,929	$0	$4,108	$0
Total Assets Less Debt	$300,956	$115,500	$373,566	$156,000	$260,629	$2,000
Number of Households	69,620		190,803		175,000	
Home Equity	$95,166	$90,000	$144,150	$112,000	$73,852	$49,000
Household Income	$96,686	$75,084	$102,692	$80,040	$70,353	$48,996

*Calculation of assets and household income excludes the assets and income of children, other relatives, or non-relatives who reside in the household. Assets do not include business equity or moneys owed for the sale of a business. 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.

shows that many people have no retirement plan coverage. According to the SIPP data, almost 175,000 households out of 435,423, or 40 percent of households, have no coverage with their current employer.

In 2011, near-retirement households with at least one member participating in a DC plan had the highest income, followed by households with DB plans and households with no retirement plan at their current employer. In fact, the median household income of households with a DB retirement plan was more than 50 percent larger than the median household income of households with no retirement plan. Moreover, DC retirement plan households accumulated the most assets, followed by DB retirement plan households. The median household with no retirement plan only accumulated negligible assets; the median household without a retirement plan has amassed only $2,000 in assets, and they do not have a DB plan to fall back on. This sum is too low to be annuitized. It means these 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 type of plan they participate in, it does not reveal whether those savings will be enough to fund retirement. To do that, Table 5 computes replacement rates for individuals age 62 in 2013 by their primary retirement plan type taking into account estimated future Social Security benefits, DB plan benefits, and the value of retirement savings.. The replacement rate is the ratio of retirement income to pre-retirement earnings and is a way to understand how much money you will have to spend each year of retirement.

Workers with a DB plan had the highest replacement rates, followed by workers with DC plans and those with no retirement plan at work at all. These findings are in line with what has been found in previous research.[17] Most retirement experts agree that replacement rates should be at least 70 percent of final salary, meaning that individuals with a DB retirement plan will be able to retire comfortably. However, individuals who have a DC retirement plan will not be ready for retirement. In fact, they are no better off than those with no retirement plan from the point of view of being able to maintain their lifestyle in retirement. In other words, with the exception of those with access to a DB plan at work, most Minnesota workers will find themselves realizing low income replacement rates, even when they do everything right in their efforts to save for retirement.

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 accrue 90 percent more in assets (in terms of average current net worth) than single-person households and 45 percent more in assets than single-parent households. This puts unmarried households—some 42 percent of the Minnesota population—at a considerable disadvantage because they cannot supplement their own savings with those of a spouse.

Table 5: Replacement Rates of Near Retirement individuals by Primary Retirement Plan Type (2013)

	Primary Retirement Plan Type		
	DB	DC	None
Replacement Rate	70%	55%	54%

Source: 2008 Survey of Income and Program Participation (SIPP) Panel. Replacement rates were calculated using the AARP retirement calculator for a single male age 62 in 2013, assuming the basic economic assumptions provided by AARP with a rate of return on savings before retirement of 6%, after retirement of 3.6%, an annual raise rate of 2.5%, inflation rate of 3%, income tax rate of 11%, tax rate in retirement of 8%, and end of life at age 88. We used median values of earnings and retirement savings in the calculator. A complete table with the values of those inputs in available in the technical appendix.

Table 6: Retirement Plan Statistics and Asset Accumulation for Workers Aged 25-64 by Household Composition (2011)

Source: 2008 Survey of Income and Program Participation (SIPP) Panel.

Married Workers

	Count	Percentage
Total Population	1,116,496	
Participating Population	878,901	
Primary Plan is a DB Plan	163,346	19
Primary Plan is a DC Plan	715,555	81
Mean Net Worth	$223,025	

Married Workers With Neither Spouse Participating in a Retirement Plan

	Count	Percentage
Total Population	237,595	
Primary Plan is a DB Plan	0	0
Primary Plan is a DC Plan	0	0
Mean Net Worth	$285,500	

Married Workers With One Spouse Participating in a Retirement Plan

	Count	Percentage
Total Population	383,569	
Primary Plan is a DB Plan	79,700	21
Primary Plan is a DC Plan	303,869	79
Mean Net Worth	$218,581	

Married Workers With Both Spouses Participating in a Retirement Plan

	Count	Percentage
Total Population	495,332	
Primary Plan is a DB Plan	83,646	17
Primary Plan is a DC Plan	411,686	83
Mean Net Worth	$198,116	

Single Parent Workers 15

	Count	Percentage
Total Population	248,056	
Participating Population	111,851	
Primary Plan is a DB Plan	13,099	12
Primary Plan is a DC Plan	98,752	88
Mean Net Worth	$153,557	

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Single Workers

	Count	Percentage
Total Population	551,916	
Participating Population	308,095	
Primary Plan is a DB Plan	49,077	16
Primary Plan is a DC Plan	259,018	84
Mean Net Worth	$112,602	

CONCLUSION

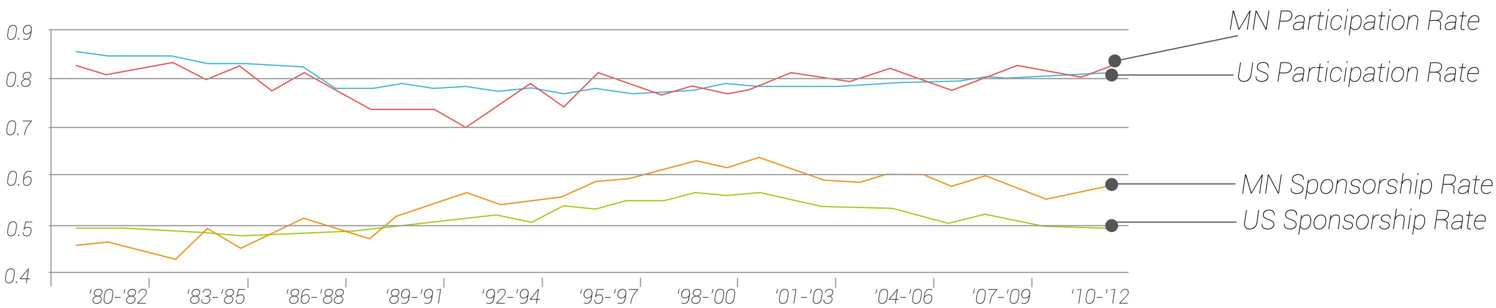
The analysis in this report has found that employer sponsorship of retirement plans has declined precipitously.[18] Overall participation in an employer-provided retirement plan is low. As a result, 42 percent of near retirement households in Minnesota will likely have to subsist almost exclusively on their Social Security income or be unable to retire at all.[19]   This paints a discouraging picture of retirement readiness for workers residing in Minnesota as of 2012. But how will things look in 10 or 20 years? Are the trends identified in the report likely to reverse themselves?

To help answer that question, Figure 5 plots retirement sponsorship and participation rates for Minnesota and the U.S. from 1980 through 2012. The trends are discouraging. Retirement plan sponsorship fell from 1995 to2011, with a slight uptick in 2012. Retirement plan participation rates seem to be rising, but with lower sponsorship rates, overall participation is down. Retirement plan sponsorship has also fallen nationally, a downward trend that started in 2000. This suggests that the declining sponsorship rates identified in this report are not a temporary artifact of the 2008-2009 recession, but are a product of persistent structural trends. If these trends continue, it is likely that retirement plan sponsorship and participation rates will continue to sink and the retirement readiness of Minnesota workers is likely to get worse absent efforts to improve the situation.

Employer sponsorship of retirement plans in Minnesota has eroded over the past decade, dropping from 68 percent coverage of active workers in 2001 to 62 percent coverage in 2011. For those Minnesota workers who are lucky enough to have employers that sponsor retirement plans, only 87 percent report actively participating in a retirement plan at work in 2011.

The consequences of declining sponsorship and low participation rates will be higher rates of poverty and a diminished ability for workers to maintain their standard of living in retirement. Our analysis further indicates

Figure 6:
Pension Sponsorship and Participation in Historical Perspective, US and Minnesota



Source: March Supplement data from the CPS, from the IPUMS[20] data.

that while defined contribution plans are an important part of many workers' retirement security, DC savings alone will not be sufficient to replace a significant part of pre-retirement earnings due to their high risk and unpredictable savings levels when the worker reaches retirement.[21] The only workers who are protected from a significant reduction in their living standards when they retire are the dwindling number of workers with traditional DB plans.

Further study of the declining retirement plan sponsorship rates in Minnesota is urgently needed. Why have retirement plan sponsorship rates declined so precipitously? Are there regulatory or other obligations that are causing employers to close or forego retirement plans? How can more small businesses be encouraged to sponsor plans? How can the unique retirement planning problems of the self-employed be addressed? Can retirement systems along the lines of traditional defined benefit retirement plans be revived? Policies that help all workers gain access to employment-based retirement savings vehicles can help to reverse some of the erosion in future retirement income that our findings portend.

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 pension 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. Pension sponsorship and participation from the CPS data refer to employer-based retirement plan status in 1999-2001 and 2009-2011, respectively. 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 10 and 11 of the 2008 panel of the Survey of Income and Program Participation. Specifically, we use data from the Retirement Expectations module in wave 11 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 10 of the 2008 SIPP panel. The reference period is different for wave 10 and wave 11. The data for these modules was collected in the 4th reference month for each rotation (from August-November 2011 for wave 10, and December 2011-March 2012 for wave 11). Because wave 10 and wave 11 are four months apart, their samples are not identical. Wave 10 contains 79,321 observations, while wave 11 contains 78,101 observations. The merged data set has 71,879 observations. There were 7,442 observations in wave 10 that were not in wave 11. There were 6,222 observations in wave 11 that were not in wave 10.

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 306.5 million for wave 10 alone, and 307.5 million for wave11 alone. We use weights from the fourth reference month of wave 10 data for the merged sample. The merged sample represents 278 million, which is less than the 313 million actually in the U.S. population as of March 1,2012.

The working sample in the SIPP is limited to residents of Minnesota, 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 sponsorship, participation rates, the respondent's primary plan type (DB or DC) and to calculate 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 $2500 per year. For such businesses, firm size was assigned to be less than 25 employees.

Sponsorship of a retirement plan is defined as the respondent answering affirmatively a question about whether their employer (at their most important job/business) offers a retirement plan, and/or later in the survey, the respondent says that their employer offers a 401K plan.

Participation in a retirement plan is defined as the respondent stating that their employer sponsors a retirement plan, they participate in such a plan, and/or they participate in a 401K plan through their employer.

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 2012. 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, once all 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 Minnesota, who was born on June 1, 1947 (they were 64 at the time the sample was collected in 2012). These calculations are for a lifetime annuity without beneficiaries. However, for married couple households, the annuity value was calculated for a couple residing in Minnesota, where one person is a male born on June 1, 1947 (they were 64 at the time the sample was collected in 2012), and the other person is a female born on June 1, 1947. These calculations are for a lifetime annuity where the survivor continues to receive 100% benefit, without beneficiaries.

Demographic, Social, and Economic Composition of the Working Population, Aged 25-64, 2011

		Minnesota	U.S.
Unionization	*Covered by Union Contract*	15%	14%
	Not Covered by Union Contract	85%	86%
Gender	*Male*	52%	53%
	Female	48%	47%
Citizenship	*Citizen*	96%	91%
	Non-Citizen	04%	10%
Age	*25-44*	51%	52%
	45-54	30%	28%
	55-64	19%	20%
Race	*White*	87%	67%
	Black	04%	11%
	Asian	04%	06%
	Hispanic	04%	15%
	Other	01%	02%
Industry	*Construction*	06%	07%
	Manufacturing	15%	11%
	Transportation, Communications, Utilities	04%	05%
	Wholesale & Retail Trade	16%	16%
	Finance, Insurance, Real Estate	09%	07%
	Business & Repair Services	07%	08%
	Personal Services	02%	03%
	Entertainment & Recreation Services	02%	02%
	Professional Services	29%	28%
	Public Administration	04%	06%
Worker Classification	*Public Sector*	07%	08%
	Private Sector: Self Employed	10%	10%
	Private Sector: Wage & Salary	77%	74%
Firm Size	*1-25 Employees*	32%	34%
	26-99 Employees	07%	07%
	100-499 Employees	14%	13%
	500-999 Employees	06%	05%
	1000+ Employees	42%	41%

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

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

		Defined Benefit		Defined Contribution		No Plan	
		Participating Population	Participation Rate	Participating Population	Participation Rate	Participating Population	Participation Rate
Gender	*Male*	106,747	12%	559,764	49%	468,411	41%
	Female	123,413	09%	592,007	57%	315,371	31%
Race	*White*	204,288	11%	1,054,338	57%	590,785	32%
	Black	5,001	08%	19,198	32%	35,373	59%
	Asian	4,493	06%	33,491	47%	33,386	47%
	Hispanic	12,934	08%	33,623	21%	115,650	71%
	Other	3,444	15%	11,121	48%	8,588	37%
Age	*25-44*	73,313	07%	612,863	55%	420,601	38%
	45-54	76,579	18%	221,364	51%	138,067	32%
	55-64	76,016	15%	260,225	54%	143,568	30%
Worker Classification	*Private Sector*	115,726	07%	929,988	57%	599,925	36%
	Public Sector	111,540	30%	208,831	55%	57,595	15%
Firm Size	*1-25 Employees*	5,975	04%	33,926	22%	116,674	75%
	26-99 Employees	3,733	04%	34,595	37%	55,307	59%
	100+ Employees	148,082	13%	782,728	69%	209,928	18%
Income Group	*Low (less than $22,000)*	7,227	02%	125,981	31%	279,271	68%
	Middle ($22,000-$60,000)	140,748	12%	603,227	53%	385,785	34%
	High (more than $60,000)	82,185	13%	422,563	68%	118,726	19%
Industry	*Construction*	2,947	02%	30,097	25%	85,391	72%
	Manufacturing	25,152	08%	222,604	68%	78,150	24%
	Wholesale Trade	2,894	03%	52,350	62%	29,631	35%
	Retail Trade	4,235	02%	103,915	54%	84,418	44%
	Transporation, Communications, Utilities	19,787	15%	85,263	63%	30,583	23%
	Information Services	9,021	17%	24,355	46%	20,081	38%
	Finance, Insurance, and Real Estate	11,952	09%	86,961	65%	34,718	26%
	Professional, Scientific, Management	12,087	06%	125,828	58%	78,324	36%
	Education, Health Care, Social Services	101,148	18%	310,208	54%	164,983	29%
	Arts, Recreation, Accomodation & Entertainment	3,242	02%	32,187	23%	104,889	75%
	Other Services	3,947	06%	21,704	32%	43,261	63%
	Public Administration	33,748	28%	56,299	47%	29,353	25%

Note: Sample includes all Minnesota residents aged 25-64 who have worked in the reference period (December 2011-March 2012), have positive earnings. Only breakdown with sufficient cell sizes were included.

Retirement Readiness of Individuals Based on Their Earnings Quintile and Retirement Plan Type

	Retirement Plan Type		
	DB	DC	None
Earnings	$55,500	$49,722	$32,214
Debt	$1,000	$0	$0
Liquid Assets	$12,450	$31,004	$7,500
Retirement Savings	$82,500	$89,596	$35,000
Home Equity	$43,200	$76,250	$40,000
DB Balance	$22,568	$0	$0
Replacement Rate	70%	55%	54%

Source: 2008 Survey of Income and Program Participation (SIPP) Panel. All debt, liquid assets, retirement savings, home equity, and value of the DB plan are median values of the sample aged 50-64 in 2009.

FOOTNOTES

1. All numbers from the pooled CPS data represent averages over the three years.

2. These are households where none of the members participate in a retirement plan at work, and who have saved too little to fund their retirement.

3. The CPS is a survey of households conducted each month to obtain comprehensive data on the labor force. Roughly 60,000 households are sampled across the United States by highly trained interviewers. Answers to survey questions from this representative group of households are used to make inferences about the entire population. For each point in time, we pool data from three years to increase the sample size at the state level.

4. The SIPP asks questions that are designed to capture the economic profile of people in the United States. Approximately 14, 000-36,700 households are interviewed in the United States over a 2½ - 4 year period about their cash and non-cash income, retirement plan participation, taxes, assets, liabilities, and participation in government transfer programs. The survey uses a 4-month recall period and interviews are conducted in person or over the telephone. We use data from waves 10 and 11 of the 2008 panel of the Survey of Income and Program Participation. The data for these modules was collected in the 4th reference month for each rotation (from August 2011-November 2011 for wave 10, and December 2011-March 2012 for wave 11).

5. Because the CPS data references a worker's situation in the previous year, data from 2000-2002 (and 2010-2012) is used to analyze sponsorship levels in 1999-2001 (and 2009-2011).

6.Specifically, respondents were asked if their employer or union for their longest job held during the preceding calendar year had a pension or other retirement plan for any of the employees, and, if so, whether they were included in that plan.

7. Unlike pension data which refer to jobs held the previous year, employment status data reference the same year they are collected. Since we use data from 2000-2002 (2010-2012) to get data on pension sponsorship and participation in 1999-2001 (2009-2011), employment status data are gathered from 1999-2001 (2009-2011) data for the sample who are 24-63 years old (since pension data are limited to workers ages 25-64 in 2000-2002 (2010-2012)).

8. Unionized workers were workers who were members of a union, or who were not members of a union, but were covered by a union contract.

9. 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

10. We use the CPS data to determine the fraction of Minnesota workers who are participating in an employer-sponsored plan. The CPS asks respondents if their union or employer sponsored a pension or other retirement plan for any of the employees, and, if so, whether they were included in that plan.

11. See Demographic Breakdown of the Minnesota Population in the technical appendix, page TK

12. When offered, participation in a DB plan is typically mandatory.

13. These numbers were computed from the Fidelity Guaranteed Income Calculator, given interest rate conditions on July 25, 2013. For a single person household and for 'other' households, the annuity value was calculated for a hypothetical male in Minnesota, who was born on June 1, 1947 (they were 64 during the reference period for the wave in 2011). These calculations are for a lifetime annuity without beneficiaries. However, for married couple households, the annuity value was calculated for a couple residing in Minnesota, where one person is a male born on June 1, 1947, and the other person is a female born on June 1, 1947. These calculations are for a lifetime annuity where the survivor continues to receive 100% benefit, without beneficiaries.

14. According to the Social Security Administration, Annual Statistical Supplement, 2012, the average monthly benefit awarded in 2012 for a retiree 65 years of age, we can estimate that the average male would receive $19,194 in annual Social Security income and the average female would receive $14,523 in annual Social Security income.

15. Note that the poverty threshold for single individuals aged 65 and over was $ 11,011 in 2012, while the threshold for two person households with the household head age 65 and over was $13.891. These thresholds are not adjusted to account for increased health costs as people age.

16. For anecdotal evidence of the financial difficulties facing those at or near retirement, see: Browning, E.S., "Retiring Boomers Find 401(k) Plans Fall Short," The Wall Street Journal, February 19, 2011; Farnham, Alan, "Record Pessimism About Retirement," ABC News, March 18, 2011; Farrell, Chris, "The Rising Price of Retirement," Bloomberg Businessweek, April 12, 2011.

17. See the following studies for a detailed analysis of the employer-sponsored pension 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 Pensions 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.

18. This finding is consistent with other studies of trends in retirement plan sponsorship. See: Purcell, Patrick, "Pension Sponsorship and Participation: Summary of Recent Trends" (2008). Federal Publications. Paper 543, http://digitalcommons.ilr.cornell.edu/key_workplace/543; United States Government Accountability Office. 2009a, "Retirement Savings: Automatic Enrollment Shows Promise for Some Workers, but Proposals to Broaden Retirement Savings for Other Workers Could Face Challenges," http://www.gao.gov/new.items/d1031.pdf; United States General Accounting Office. 2001. "Private Pensions: Issues of Coverage and Increasing Contribution Limits for Defined Contribution Plans," September. http://www.gao.gov/new.items/d01846.pdf.

19. If Social Security benefits erode any further because of policy changes and an ever increasing premium for Medicare, workers in their 20s and 30s will be much worse off when it is time to retire.

20. Miriam King, Steven Ruggles, J. Trent Alexander, Sarah Flood, Katie Genadek, Matthew B. Schroeder, Brandon Trampe, and Rebecca Vick. Integrated Public Use Microdata Series, Current Population Survey: Version 3.0. [Machine-readable database]. Minneapolis: University of Minnesota, 2010.

21. 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.

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