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Retirement Readiness in North Carolina: Trends in Plan Sponsorship, Participation and Projected Retiree Poverty Rates

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Summary

American retirement income is based on a pyramid of layered income sources: the base source of retirement income is Social Security, the middle-tier source is employer-sponsored retirement plans, and at the top of the pyramid is personal savings. Each layer is a different size for every person—low income workers have a much larger Social Security base, and fewer personal assets than higher income workers. However, all workers depend on employer-sponsored retirement plans to supplement their income in retirement; employer-based retirement benefits have been the primary retirement savings vehicle for the majority of Americans over the past 30 years. However, this system is on the decline.

This report finds that:

- Between 1999 and 2009 sponsorship of employer provided retirement plans in North Carolina declined by 7 percentage points from 63% to 56%—a comparable drop in sponsorship to the rest of the nation, which dropped from 61% to 54%.

- Only 45% of North Carolina workers report actively participating in a retirement plan through their workplace in 2009, due to voluntary and involuntary reasons.

Moreover, even if workers participate in a retirement plan, they are not accumulating enough savings to maintain their living standards in retirement. We use the current value of assets and earnings for North Carolina workers aged 55-64 to project their future income when they retire at age 65. We then compare this projected future income with the absolute minimum amount of income needed in retirement—the federal poverty threshold ($11,161).

Our findings show that a large share of workers nearing retirement will not be financially prepared:

- 47% of workers will be poor or near poor, meaning their annual income will be at or below 200% of the poverty threshold at age 65. This means their assets, including all of their savings for retirement in employer-sponsored plans and Social Security built up over their lifetime will not be sufficient to keep them above the federal poverty level.

1. Employer Sponsorship of Workplace Retirement Plans is on the Decline in North Carolina

This study utilizes data from the Current Population Survey (CPS) to compute sponsorship trends in North Carolina.[i] The Current Population Survey (CPS) asked North Carolina residents who worked either full time or part time in the previous calendar year about their retirement plan coverage and participation. Specifically, the CPS asked respondents whether or not their employer or their 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. Using responses to this question, we examine sponsorship rates for North Carolina residents ages 25-64 in 1999 and 2009.[ii]

The trends are alarming. In North Carolina, retirement plan sponsorship fell dramatically from 63% to 56% over the decade—a seven percentage point drop; as a comparison, retirement plan sponsorship in the US dropped from 61% to 54%, meaning North Carolina is close to the national average.

Table 1. Sponsorship and Participation in Workplace Retirement Plans is on the Decline in North Carolina

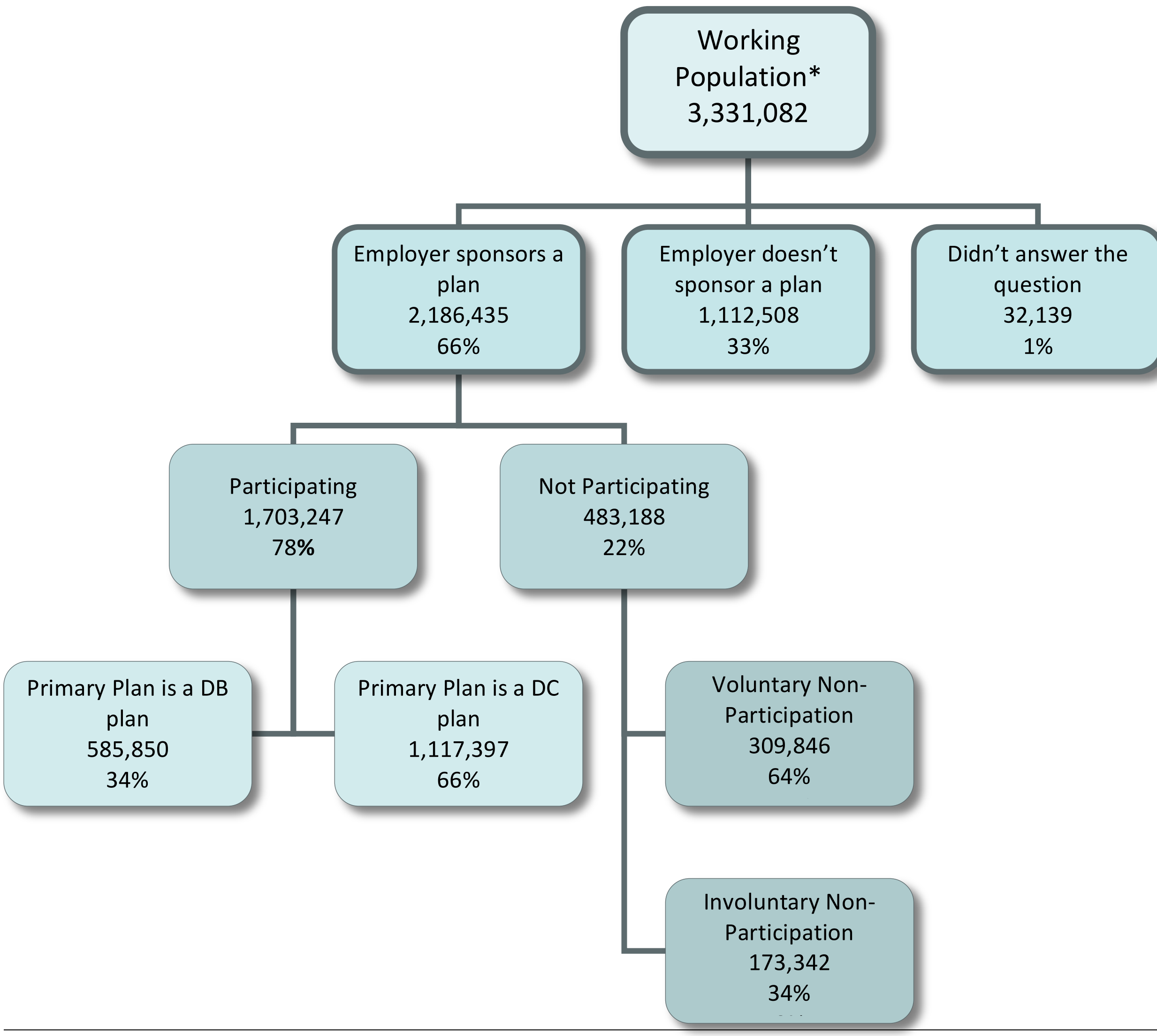
	Employer Sponsors a Workplace Retirement Plan		*Employee Participates in a Workplace Retirement Plan*	
Year	**North Carolina**	**United States**	**North Carolina**	**United States**
1999	63%	61%	52%	51%
2009	56%	54%	46%	45%

A Snapshot of the retirement plan landscape in North Carolina

The CPS data does not give us information regarding the type of plan workers are enrolled in and, if they don't participate in a plan, their reasons for not participating. For that information, we use data from a specialized survey called the Survey of Income and Program Participation (SIPP).

The SIPP reports slightly different numbers for sponsorship and participation of workplace retirement plans. Sixty-six percent of the working population reports working for an employer who sponsors a workplace retirement plan while 51% (66%*78%) report actually participating in that plan. If a worker participates, 66% report have a defined contribution, or 401(k)-type plan, and 34% report having a traditional pension, or defined benefit plan.

Figure 1: North Carolina workers: A breakdown of retirement plan sponsorship, participation, and plan type[iii]



Among workers who do not participate in a retirement plan at work, 64% cited voluntary reasons, while 34% cited involuntary reasons.[iv] The reasons for non-participation change as workers get older and closer to retirement. According to the SIPP data, two-thirds of workers aged 25-44 do not participate for voluntary reasons, while only half of older workers aged 45-64 voluntarily opt out. Since participation in most DB plans is mandatory, the majority of workers who chose not to participate were those offered a DC plan. This implies the plan design chosen by the employer (i.e., DB vs. DC) has a significant impact on participation rates. An employer's choice of a DC plan, which allows for greater "leakage" (voluntary non-participation), is more likely to result in lower participation rates.[v]

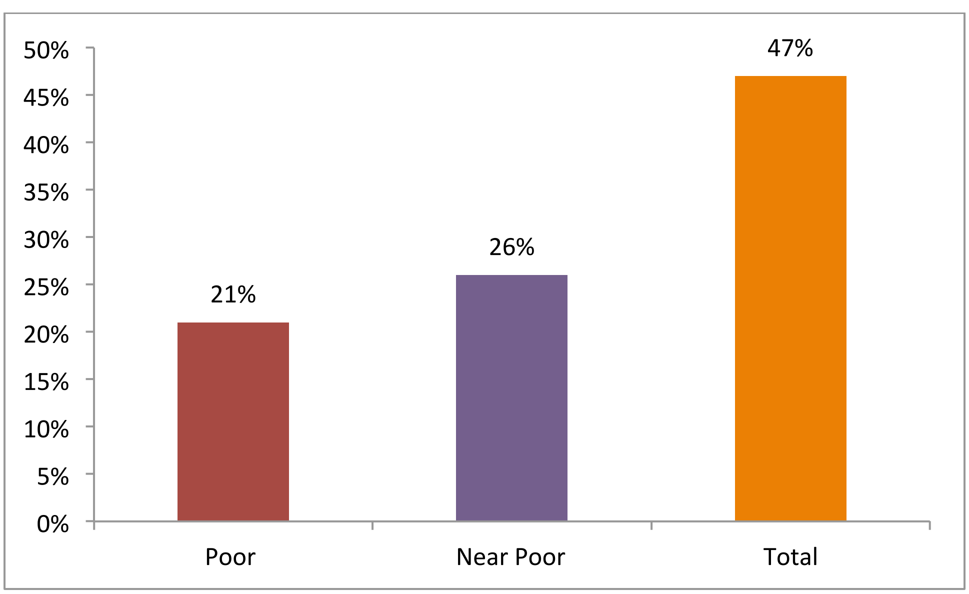
2. Projected Poverty Rates

The 2008 SIPP Panel also 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.

Using this data set, we look at individuals' total assets and liabilities, and compute a projected stream of income in retirement from their current net worth. We also compute the stream of income they will get from retirement savings, and we project their Social Security benefits. This allows us to assess workers' overall retirement readiness at age 65.

We use the federal poverty threshold ($11,161) as a minimal benchmark for adequacy of resources in retirement. Using this minimal level of income, we project poverty rates for the elderly given their current net worth and earnings. We find that a shocking 47% of North Carolina workers nearing retirement, or those aged 55-64, will not have the assets they need to prevent them from being poor or near poor—i.e. at or below 200% of the poverty threshold—when they retire at age 65. This means their assets, including all of their savings for retirement in employer-sponsored plans and Social Security built up over their lifetime will not be sufficient to keep them above the poverty level.

Projected Poverty Rates of North Carolina Workers Nearing Retirement at Age 65[vi]



Poor: At or below federal poverty threshold (annual income at or below $11,161)
Near Poor: 100% to 200% of poverty threshold (annual income between $11,161 and $22,322)
Total: All workers at or below 200% of the poverty threshold (annual income at or below $22,322)

The decrease in sponsorship rates, coupled with low rates of participation in retirement accounts and inadequate accumulated savings to sustain one's living standards in retirement are cause for concern. The numbers in this report indicate that 47% of North Carolina workers nearing retirement will be poor or near poor if they retire at age 65. Moreover, workers nearing retirement without any type of retirement plan are at a higher risk of being poor or near poor in retirement. Sixty-three percent of workers aged 55-64 without any workplace retirement plan are projected to be poor or near poor, compared to 27% of workers who have a retirement plan and are actively participating. As a result, policy proposals that create low-cost and secure ways for workers to save for retirement are essential to the future income security of North Carolina workers and their families.

ENDNOTES

[i] The CPS, a joint program administered by the Census Bureau and the Bureau of Labor Statistics (BLS) is a household level survey that is conducted each month to obtain comprehensive data on the labor force. Roughly 60,000 households are sampled across the US by highly trained interviewers. Answers to survey questions from this representative group of households are used make broader inferences about the entire population.

[ii] We focus on this age group because by age 25 most workers have finished their schooling and have started their career. Moreover, many workers can be legally excluded from retirement plans if they are younger than 25. We also calculate retirement plan sponsorship in the US to evaluate how RI residents are faring relative to the rest of the nation.

[iii] Data is from the 2008 Survey of Income and Program Participation (SIPP) Panel. Notes: Workers refers to civilian residents of North Carolina ages 55-64 who worked at some point in the reference period, who had positive earnings, were not unpaid family workers, and were not in the agriculture, forestry, or fishing sectors.

[iv] Voluntary reasons for non-participation cited by survey respondents include that they "can't afford to contribute," "don't want to tie up money," "employer doesn't contribute or contribute enough," "don't plan to be in the job long enough," "don't need it," "have an IRA or other pension plan coverage," "spouse has a pension plan," "haven't thought about it," or "some other reason." Involuntary reasons for non-participation cited include "no one in my type of job is allowed in the plan," "don't work enough hours, weeks, or months per year," "haven't worked long enough for this employer," "started job too close to retirement date," or "I am too young."

[v] Other studies also found that the switch from the DB form of pension—that which mandates coverage—to the DC form—that which lets participation be voluntary—reduced coverage among people who are more likely to state they do not have enough income to save for retirement. On this point see: Karamcheva, Nadia and Geoffrey Sanzenbacher. 2010. "Pension Participation and Uncovered Workers." Issues in Brief. Center for Retirement Research. Boston College. IB#10-13.

[vi] Data is from the 2008 Survey of Income and Program Participation (SIPP) Panel. Notes: The US Census Bureau's poverty threshold for individuals ages 65 and over was $10,289 in 2009. Workers refers to civilian residents of North Carolina ages 55-64 who worked at some point in the reference period, who had positive earnings, were not unpaid family workers, and were not in the agriculture, forestry, or fishing sectors. Total income available in retirement includes Social Security, an annuitized version of total net worth, and income from a DB plan when applicable.