The Scope of Retirement Income Insecurity Among Illinois Workers

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Overview

• Sources of retirement income
  – trends

• Access to employment-based retirement savings plans in Illinois
  – data and methodology

• Policy recommendations
Sources of Retirement Income, 2008

The bar chart illustrates the sources of retirement income for different quintiles in 2008. The chart breaks down income sources into four categories: earnings, assets, social security, and savings. Each quintile is represented, and the percentage of income from each source is indicated.

- **Bottom Quintile**:
  - Earnings: 2.0%
  - Assets: 4.0%
  - Social Security: 3.4%
  - Savings: 3.4%

- **2nd Quintile**:
  - Earnings: 2.9%
  - Assets: 4.2%
  - Social Security: 3.9%
  - Savings: 3.4%

- **3rd Quintile**: Income Range
  - Earnings: 6.2%
  - Assets: 6.2%
  - Social Security: 10.9%
  - Savings: 3.4%

- **4th Quintile**: Income Range
  - Earnings: 14.1%
  - Assets: 9.6%
  - Social Security: 26.4%
  - Savings: 3.4%

- **Top Quintile**: Income Range
  - Earnings: 39.3%
  - Assets: 17.7%
  - Social Security: 18.6%
  - Savings: 22.6%
Trends

• Earnings up slightly
  – more older people working

• Assets down in a recession
  – most in lower quintiles
  – workers under 55

• Social Security replacement rate declining
  – 45% fully retired at 65, reducing benefits
Earnings

Households with Earnings as Source of Retirement Income, 2000-2008

- Top Quintile
- 4th Quintile
- 3rd Quintile
- 2nd Quintile
- Bottom Quintile
Earnings

Earnings as Percent of Retirement Income, 2000-2008

Percent of Retirement Income


Top Quintile
4th Quintile
3rd Quintile
2nd Quintile
Bottom Quintile
Assets

Change in Net Worth, by Income Range, 2005-2010

<table>
<thead>
<tr>
<th>Income Range</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bottom Quintile</td>
<td>-48.1</td>
</tr>
<tr>
<td>2nd Quintile</td>
<td>-33.4</td>
</tr>
<tr>
<td>3rd Quintile</td>
<td>-25.2</td>
</tr>
<tr>
<td>4th Quintile</td>
<td>-13.1</td>
</tr>
<tr>
<td>Top Quintile</td>
<td>-13.9</td>
</tr>
</tbody>
</table>
Assets

Change in Net Worth, by Age Range, 2005-2010

Less than 35 years: -30.1
35 to 44 years: -54.5
45 to 54 years: -31.3
55 to 64 years: -17.2
65 years and over: -4.2
Social Security Replacement Rate
Summary of Trends

- For workers in the bottom 60 percent of incomes
  - few have earnings in retirement
  - net worth has declined since 2005
  - most retire before becoming eligible for full Social Security benefits
  - Social Security will provide less in the future
Employment-based Retirement Savings

• Will be increasingly important as a source for retirement income

• Changing landscape of employment-based retirement savings
  – from defined benefit to defined contribution
  – declining percentages of employers offer a plan
  – fewer workers have access to a plan
Access to a Savings Plan at Work

Percent Working for Employer with a Plan, 1990-2009
Access Varies

• Some workers more likely to have access
  – public-sector
  – heavy industries
  – unionized industries

• Some workers less likely to have access
  – high turn-over
  – low-skill
  – non-union
Calculating Access, Methodology

- EBRI analysis of percent of employers within industry with a plan
  - 2 digit industry (NAICS) code
  - national

- Workers in industry
  - 2 digit industry (NAICS) code
  - all private-sector jobs
  - three wage ranges
Example

• EBRI data
  – 49.0 percent of employers in the Retail Trade industry (NAICS 44-45) sponsor a plan
• Employment data
  – 599,149 worker in Illinois are employed in the Retail Trade industry
• 293,583 workers have access (49.0%)
• 305,566 do not have access (51.0%)
Findings

• Over 2.5 million private-sector workers in Illinois (53.4%) do not have access to an employment-based retirement savings plan
  – 315,604 in accommodation and food services
  – 245,392 in admin and support services
  – 357,611 in health care and social assistance
  – 305,566 in retail trades
Policy Implications

• If nothing is done
  – many retirees will face decreased standard of living
  – many adults will need to help support their aging parents
  – government will face increased pressure to bolster the social safety net
  – business will face diminished investment from retirement plans
Policy Recommendation

• Create an automatic employment-based retirement savings plan
  – with opt-out provision
• Portable and immediately vested
  – to deal with more frequent job changes
• Tax advantaged
  – either deductible contribution or tax-free distribution and tax-free accumulation
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