WOODSTOCK INSTITUTE

Advancing Economic Security and Community Prosperity

The Scope of Retirement Income Insecurity Among Illinois Workers

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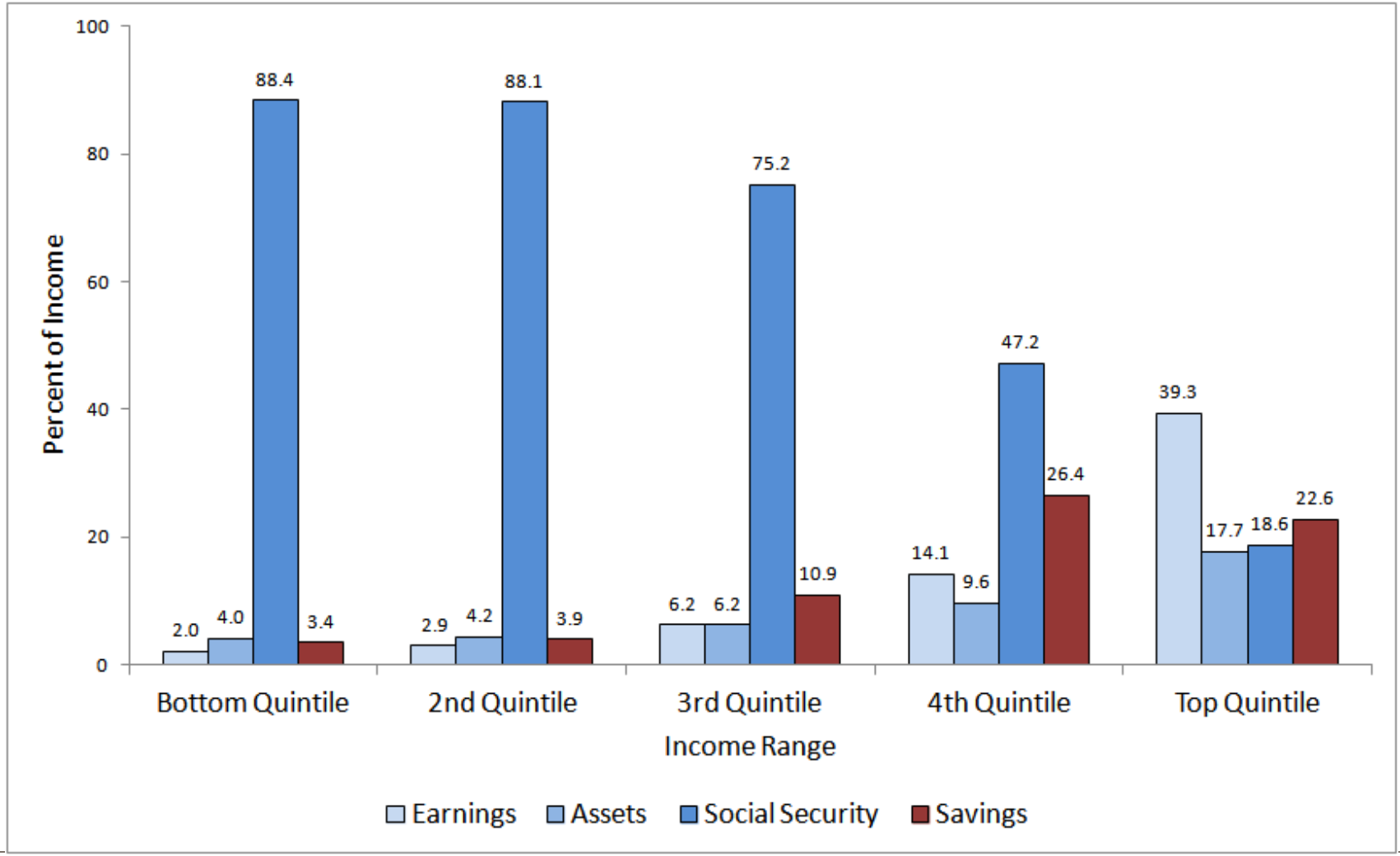
Overview

- Sources of retirement income
  - trends
- Access to employment-based retirement savings plans in Illinois
  - data and methodology
- Policy recommendations

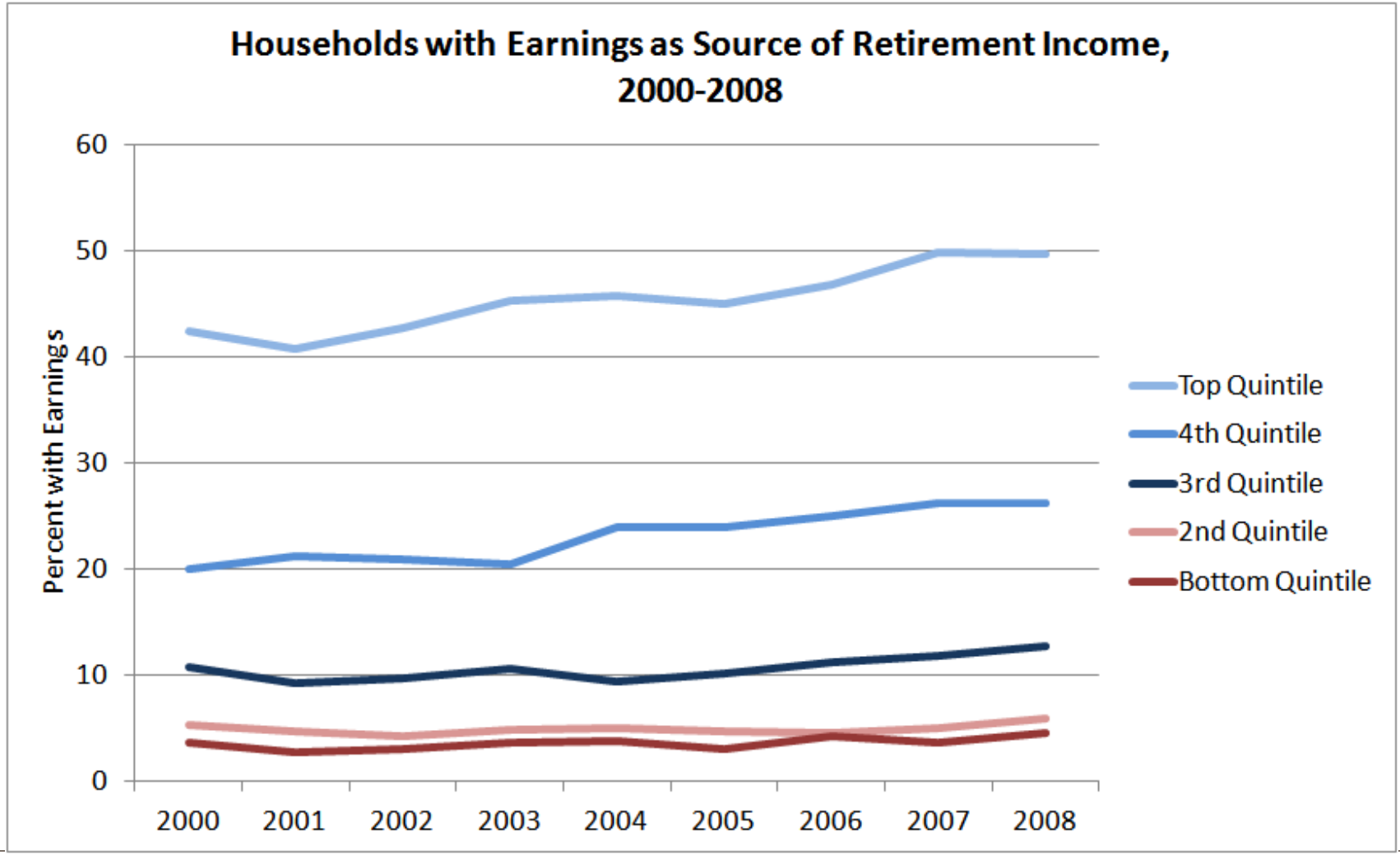
Sources of Retirement Income, 2008



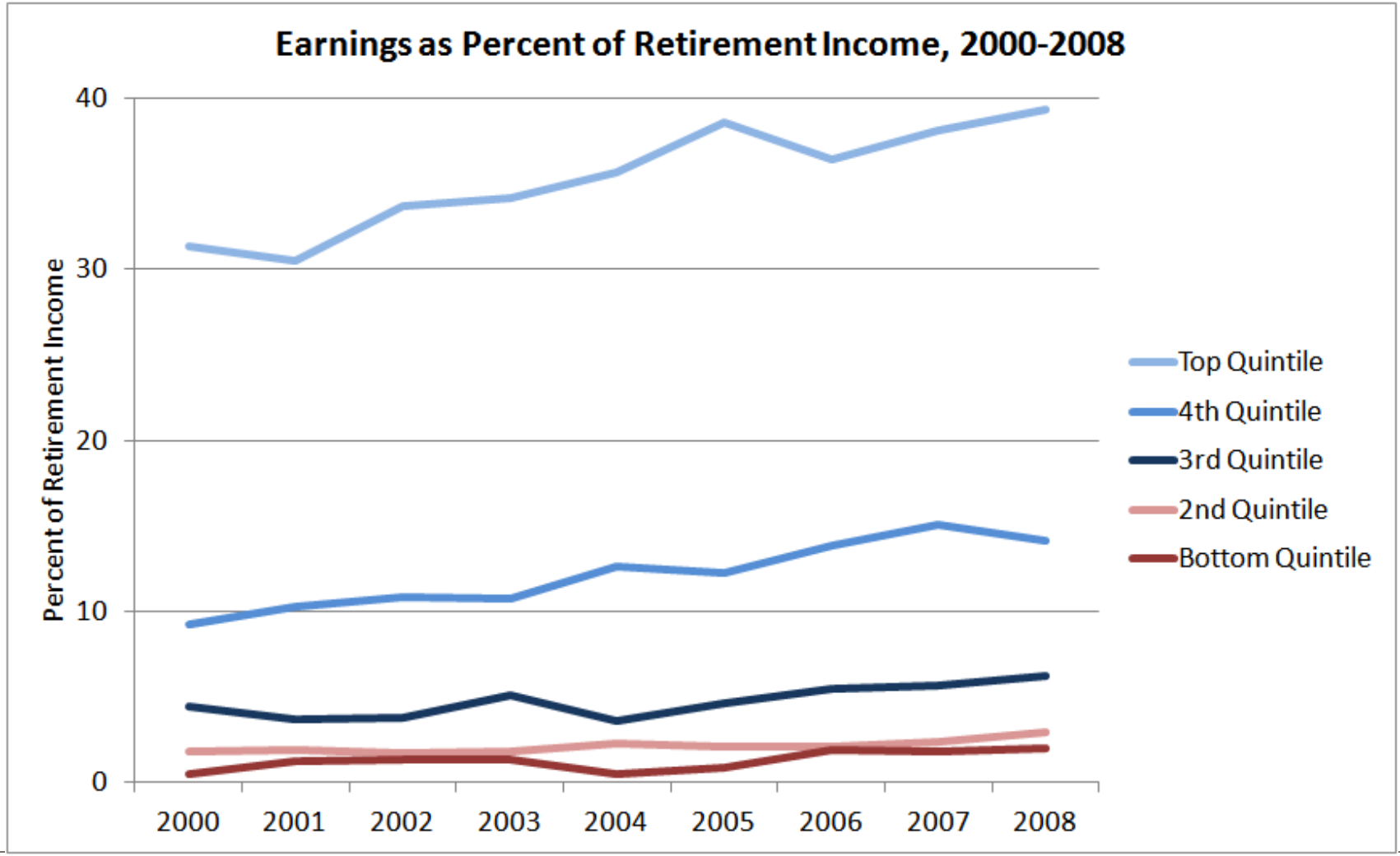
Trends

- 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

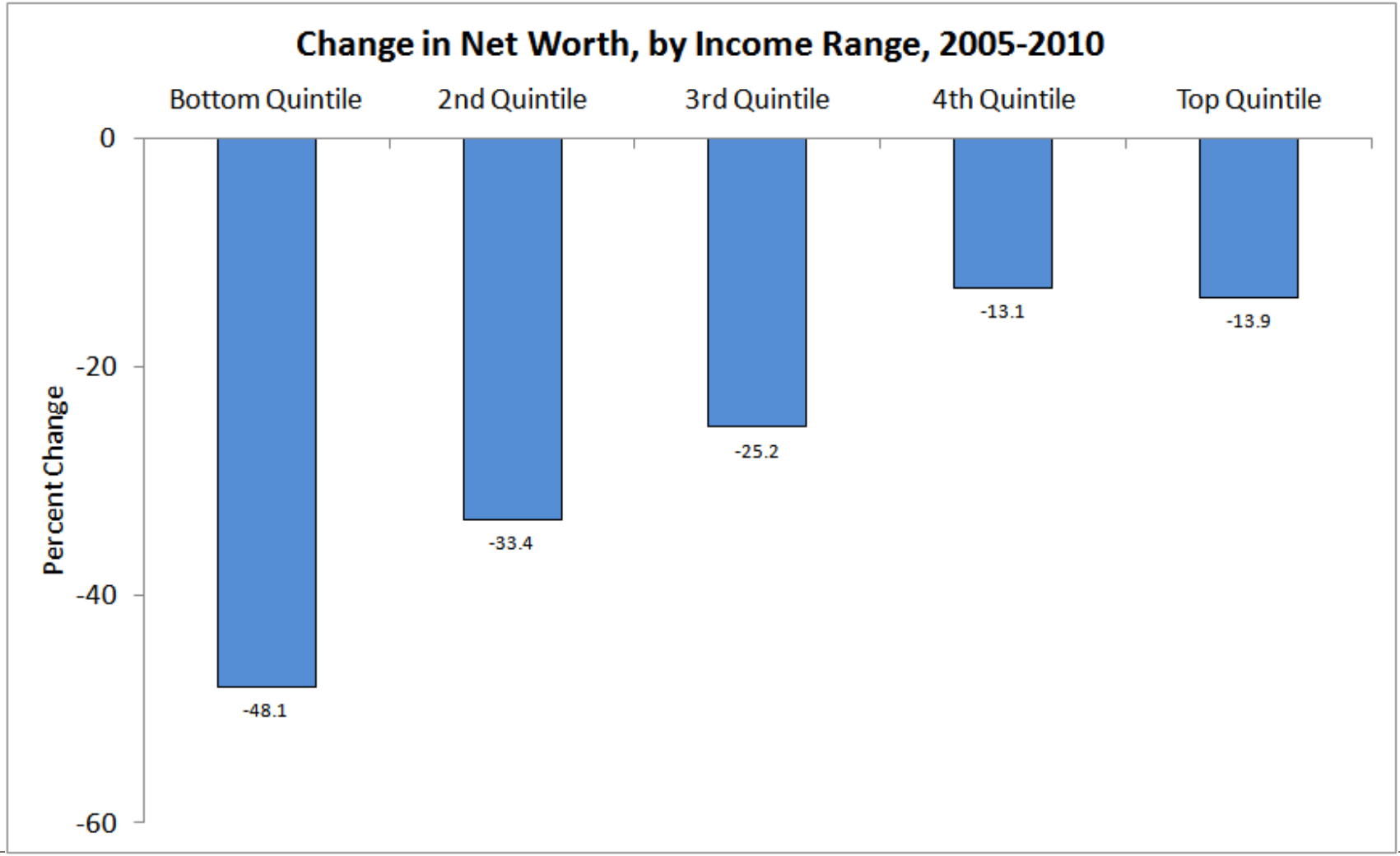
Earnings


Households with Earnings as Source of Retirement Income, 2000-2008
Percent with Earnings
60
50
40
30
20
10
0
2000
2001
2002
2003
2004
2005
2006
2007
2008
Top Quintile
4th Quintile
3rd Quintile
2nd Quintile
Bottom Quintile

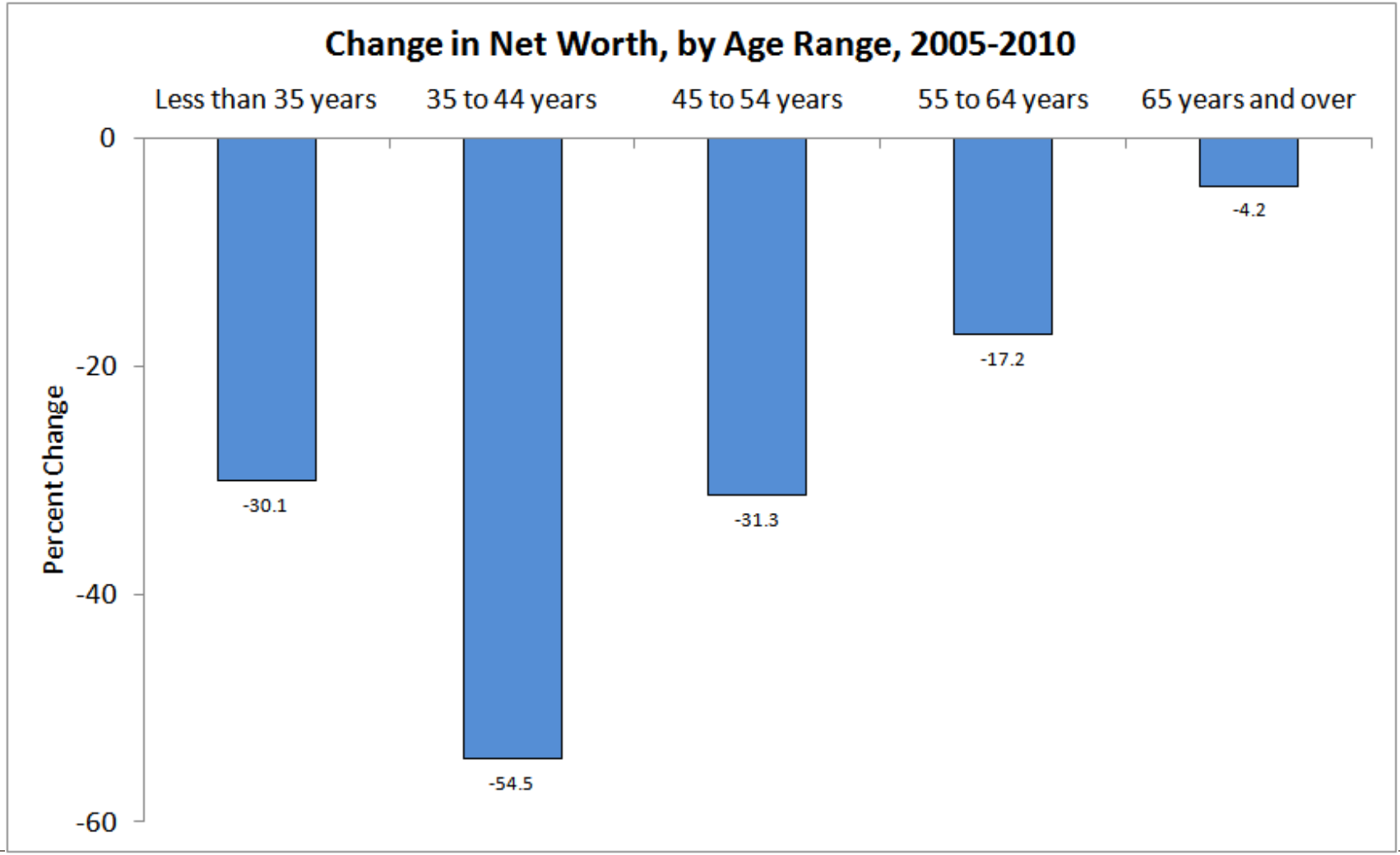
Earnings


Earnings as Percent of Retirement Income, 2000-2008
Percent of Retirement Income
40
30
20
10
0
2000
2001
2002
2003
2004
2005
2006
2007
2008
Top Quintile
4th Quintile
3rd Quintile
2nd Quintile
Bottom Quintile

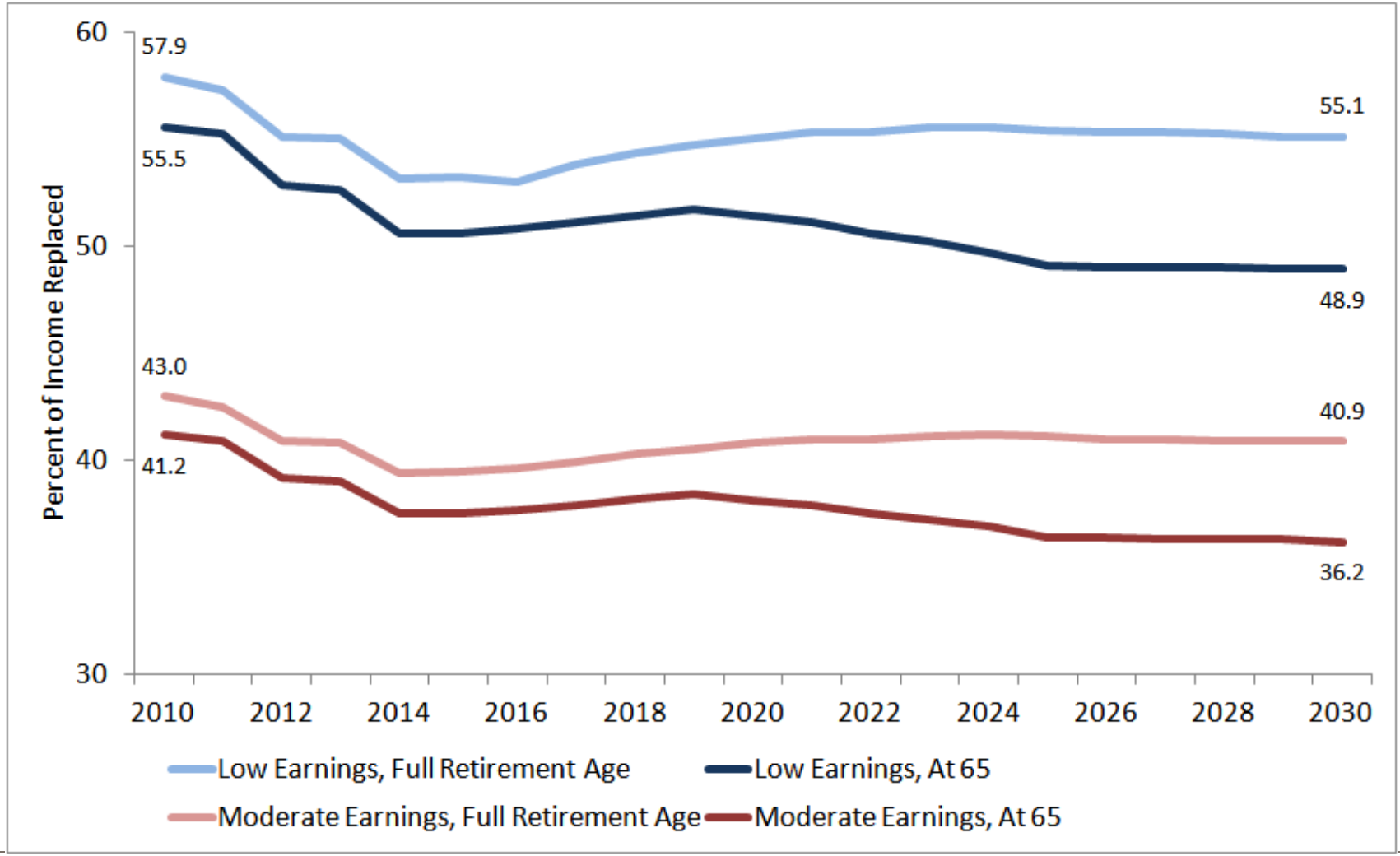
Assets


Change in Net Worth, by Income Range, 2005-2010
Bottom Quintile
2nd Quintile
3rd Quintile
4th Quintile
Top Quintile
0
-20
-40
-60
Percent Change
-48.1
-33.4
-25.2
-13.1
-13.9

Assets


Change in Net Worth, by Age Range, 2005-2010
Less than 35 years
35 to 44 years
45 to 54 years
55 to 64 years
65 years and over
0
-20
-40
-60
Percent Change
-30.1
-54.5
-31.3
-17.2
-4.2

Social Security Replacement Rate



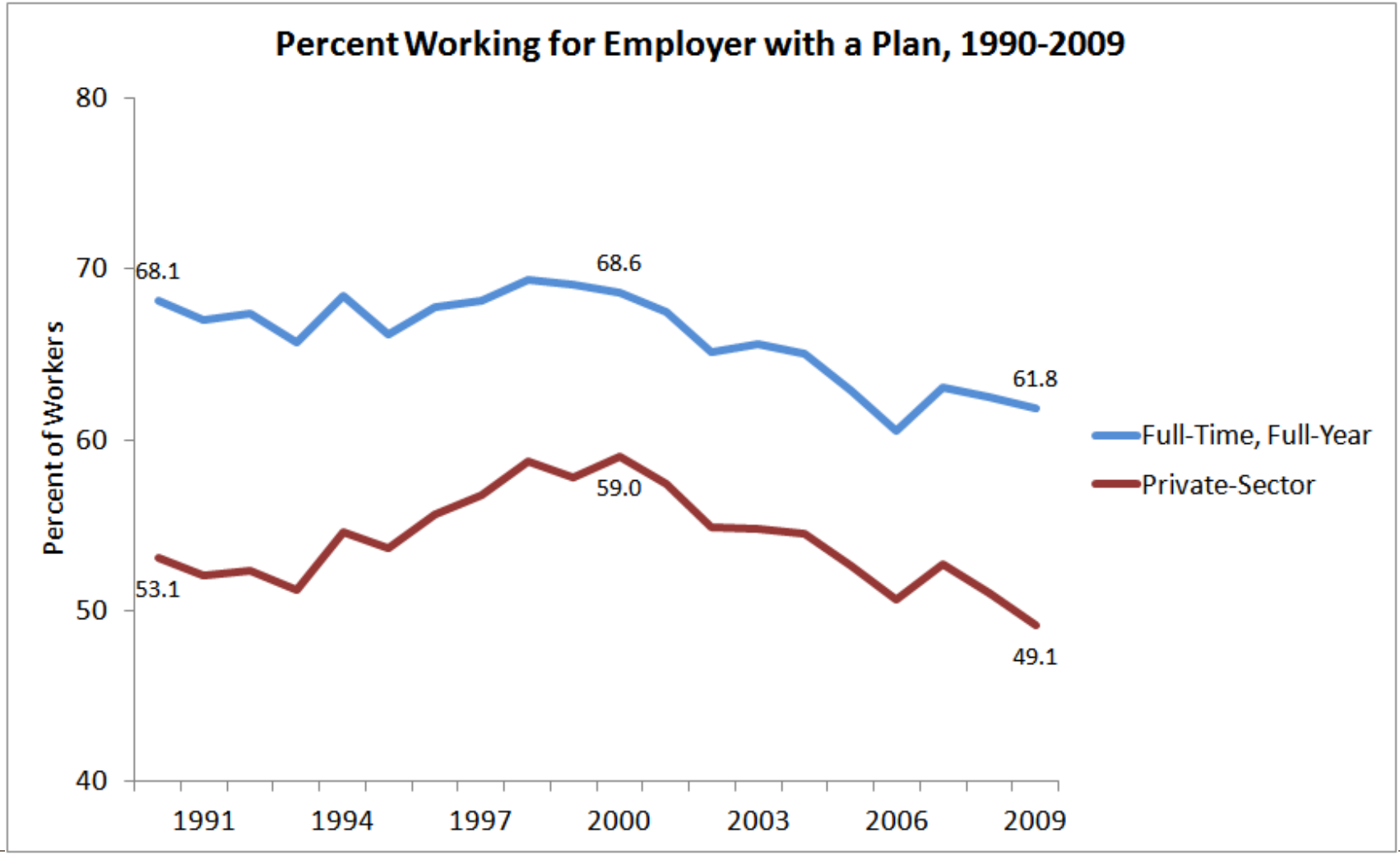
Summary of Trends

- 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



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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