Retirement in America:
Why Aren't We Saving More?

First…The State of Things:

Americans continue to struggle with saving

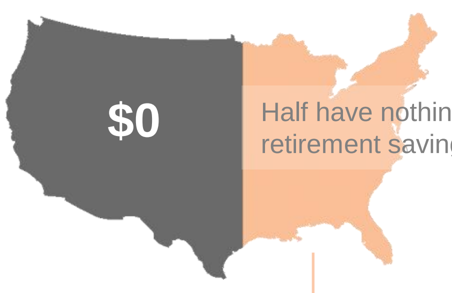
How much money do you need to retire?

Estimates vary widely, but common thinking says you will need 70-90% of your annual pre-retirement income (including savings and Social Security) to maintain your standard of living.

So, if you make: **$63,000** per year → You'll need at least: **$44,000** per year

https://www.nerdwallet.com/investing/retirement-calculator.

So, are Americans prepared? Some are. Most aren't.



Median savings (all families): **$5000**

EPI analysis of Survey of Consumer Finance data, 2013.

Pew Research analysis of 2012 Census Bureau Survey of Income and Program Participation Data.

The percent of employees <u>not</u> contributing to their retirement savings has increased sharply in the last year.

17% (2015) → **28%** (2016)

PWC, "Employee Financial Wellness Survey: 2016 Results."

Defined benefit plans (e.g., pensions) have declined sharply over the last 15 years.

1989: <40% of families participating in retirement plans had a defined benefit plan

2013: 21%

EPI analysis of Survey of Consumer Finance data, 2013.

Job change has become the norm.

4.1 years median tenure

BLS, Economic News Release, "Table 5: Median years of tenure with current employer for employed wage and salary workers by industry, selected years, 2004-14."

11 Average number of jobs held by 18-48 year-olds

Bureau of Labor Statistics data from the National Longitudinal Study of Youth 1979 (NLSY79), March 31, 2015. | GAO-17-69.

Traditionally, employer retirement benefits have been based on work longevity.

Often, there is a one-year waiting period before enrollment.

Cliff vesting rescinds any matching if an employee leaves before a set period, often requiring 3-6 years for 100% vesting.

What are the implications?

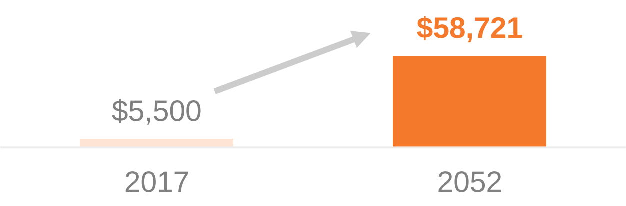
Short tenure + Waiting periods = Small accounts

And while it's quite hard to justify cashing out a large retirement account, it's not so painful to cash out a small one. The penalty percent might be the same, but the real-dollar loss for a small account can seem like a reasonable cost—especially for those needing ready cash after a job loss.

50% of people making $20K-$30K cash out their retirement accounts upon job change.

"Beware of cashing out a 401(k)," Fidelity Viewpoints, June 2, 2017.

These "leaks" can add up to huge losses of compound interest, particularly for the young. Assuming a 7% rate of return…



"Cashing Out Can Derail Retirement," Fidelity Study, 2014.

To sum up:
A large portion of Americans aren't saving for retirement, and when they are, they're not saving enough. In addition, frequent job turnover often results in loss of both opportunity—in the short term—and compound interest over the long term.

Many Americans are in danger of money troubles in their twilight years.

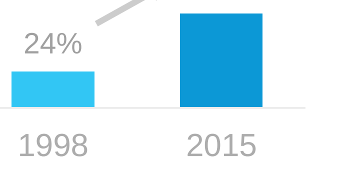
New ideas

Solutions that simplify and automate savings are proliferating.

> *"Americans are open to a nudge. They might even be grateful for one."*
>
> —Richard H. Thaler & Cass R. Sunstein, *Nudge*

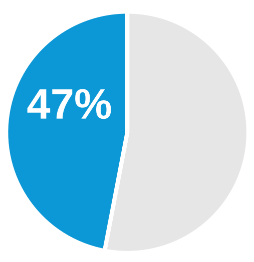
A change in 401(k) plans

Immediate enrollment in 401(k) plans is becoming more normal.



"Benchmark Your 401k Plan – 2015." 401khelpcenter.com.

Almost half of plans now offer auto-enrollment.



And auto-enrollment results in 32% more employees participating in the program.

Kadlec, Dan. "These Simple Moves By Your Employer Can Dramatically Improve Your Retirement," Money.com. May 12, 2015.

Help from technology

Investment apps abound, from those that facilitate actual investing (Betterment) to those supporting sound decision-making through the crowd-sourcing of earnings estimates (Estimize). Not all of these apps are geared specifically to retirement, but they do encourage and normalize savings.

> *"We...recognize that changing behavior is really difficult."*
>
> —Noah Kerner, Acorns CEO

The investment app Acorns was introduced in 2015. It automates investment by rounding up purchases made via bank cards and putting the difference into one of several ETFs. Today, the company has 1.5 million customers (many under age 35) who have invested $310 million.

Jen Wieczner. **"The Acorns Investing App Actually Encourages You to Splurge On That Starbucks Latte," Fortune.com. February 14, 2017.**

Questions we're asking:

- What strategies and new tools have the greatest potential to nudge consumers toward greater savings?
- Beyond the 401(k), are companies willing to promote innovative savings tools? Would their employees save more as a result?
- What are the potential unintended consequences to employees saving more for retirement (e.g., an increase in personal debt)? What can industry do to mitigate these risks?

©2017 Willow Research, LLC. All Rights Reserved.

WILLOW