Closing the Retirement Savings Gap:

An Update on State Initiatives

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Executive Summary

Almost half of U.S. employees do not participate in a retirement savings program in their workplace. Access and participation vary by employment type, occupation, firm size, wage income, and race, and the gaps have resulted in inadequate savings for retirement and increased wealth inequality. This brief presents updated estimates for employee access and participation in employer retirement savings plans from the March 2021 Bureau of Labor Statistics National Compensation Survey. Part-time and low-wage employees, and those employed by small businesses and in service occupations, have the lowest access and participation rates. While federal policies have focused on providing incentives to employers to expand access and participation, 14 states have enacted state-level retirement savings programs, and most other states have considered legislation in the last several years. The most common retirement savings program is an Auto-IRA, with mandatory enrollment for eligible employers and automatic contributions for employees with an opt-out option. A few states have also introduced voluntary IRA programs, state-level multiemployer plans, and marketplaces. The state programs have a great potential to improve retirement savings particularly for the most disadvantaged groups. Coupled with other retirement policy provisions (e.g., Saver's Credit, auto portability) they can significantly reduce the retirement savings deficits and improve retirement security.

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Introduction

In an ideal world, individuals would prefer to smooth consumption over their lifetime by allocating income during their working years among different types of retirement savings, typically including a mandatory government pension, employer retirement savings plans, and individual savings. In the United States, Social Security is the first pillar in the retirement system, with mandatory payroll contributions by both employees and employers generating a guaranteed pension for life, including survivor and dependent benefits. While Social Security provides an income guarantee and a lifetime pension, given the current benefit structure, it is not sufficient as the sole source of retirement income. The second largest source of retirement savings, employer retirement plans, have also transitioned from defined-benefit (DB) pensions to employee directed defined-contribution (DC) plans. While DC plans have evolved in recent years to include automatic enrollment, default contribution rates, and in some cases, auto-escalation of contributions, overall participation and contributions in those plans remains low when compared to DB plans. In 2020, about 57 million workers (about half of the employed population) were not covered by an employer retirement plan.[1] Finally, individual retirement savings through IRA accounts tend to be utilized mostly by high-income individuals, and contributions have been steady at 12 percent of households for the last two decades.[2]

There has been extensive research on the extent of the retirement savings gap, its sources, and policy options to close the gap. This brief focuses on the most current estimates of access and participation in employer retirement plans from the March 2021 Bureau of Labor Statistics National Compensation Survey, and describes differences by firm size, occupation, income, and race. In recent years, most states have either enacted or proposed legislation to address access and participation disparities, and this study updates the map of state legislative activity through 2021 and summarizes the features of the state programs. The brief concludes with a discussion of the advantages and limitations of state retirement savings programs to date and policy considerations going forward.

Measuring the Retirement Savings Gap

The obvious question that needs to be addressed in the discussion of the retirement savings gap is "what constitutes sufficient savings?" The replacement rate, i.e., the ratio of retirement income relative to pre-retirement earnings, is one concept used to measure the adequacy of retirement savings. The model takes into account the reduction of certain expenditures during retirement (e.g., taxes, mortgage payments, work-related expenses) to calculate target replacement rates. For lower-income families, the replacement rate is close to 100 percent, while for middle- to upper-income households, it is 80 percent.[3] These targets are built into retirement planning calculators, used to project savings and investment returns to achieve a specific level of retirement income.[4]

The current Social Security benefit structure generates progressive replacement rates, averaging about 55 percent for low earners, 40 percent for medium earners, and 30 percent for high earners.[5] A Center for Retirement Research (CRR) report simulated the required saving rates to make up the difference between projected Social Security income and the target replacement rate. The baseline model recommends a 10 to 15 percent annual saving rate, assuming normal retirement age (age 65 to 67 depending on year of birth) and an early start (at age 25).[6] If younger workers cannot start saving on time, they need to set aside larger amounts later. However, delaying retirement helps substantially with catching up. The CRR also calculates a National Retirement Risk Index (NRRI), which shows the percentage of households below their target replacement rate by more than 10 percent. Using the 2019 Survey of Consumer Finances, they found that 49 percent of households were at risk of not having enough assets for retirement.[7] For low-wealth households, the at-risk proportion increases to 73 percent. The NRRI includes all household assets, not only Social Security and retirement savings accounts, and assumes that housing wealth will be used for retirement income.

2021 Access and Participation in Employer Retirement Plans

Access and participation in employer retirement plans varies by employment type, occupation, firm size, and wages. These factors are also correlated with access and participation differences by race, collected with the 2019 Survey of Consumer Finances. We first present data from the 2021 National Compensation Survey,[8] an employer benefit survey including both full-time and part-time employees. Overall, 72 percent of all employees had access to an employer retirement plan, and 56 percent participated in one. These rates are much higher for state and local employees (92 percent and 82 percent respectively). Only 68 percent of private sector employees are offered a retirement plan, and 51 percent participated in one. The effective take-up rate (the percent participating as a share of those offered a plan) is highest for state and local employees (89 percent), while private industry take-up is only 75 percent.

Link to the data table for the information in Figure 1 on page 12

Figure 1: Access, Participation and Take-up rates for All workers

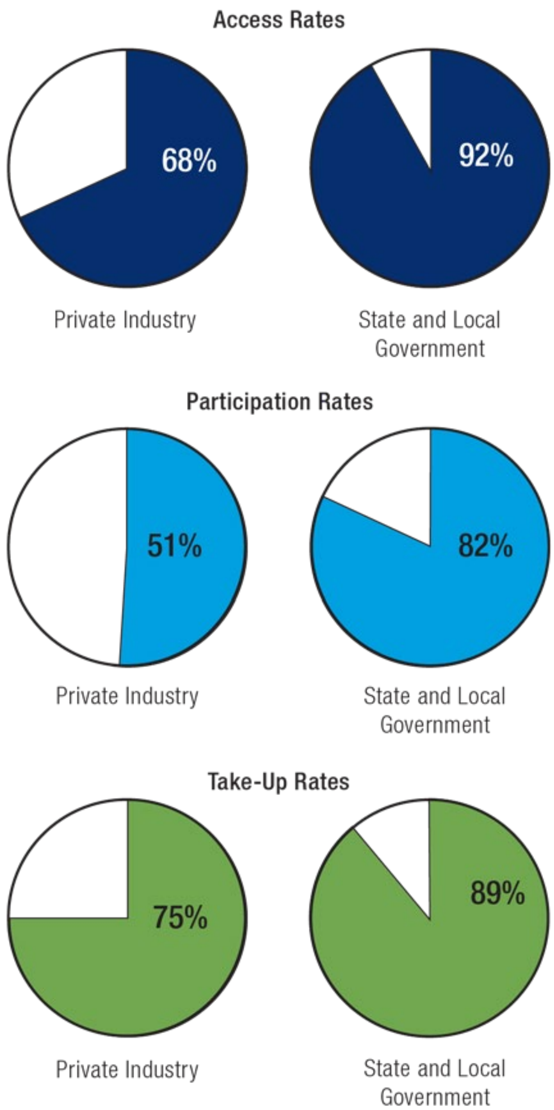
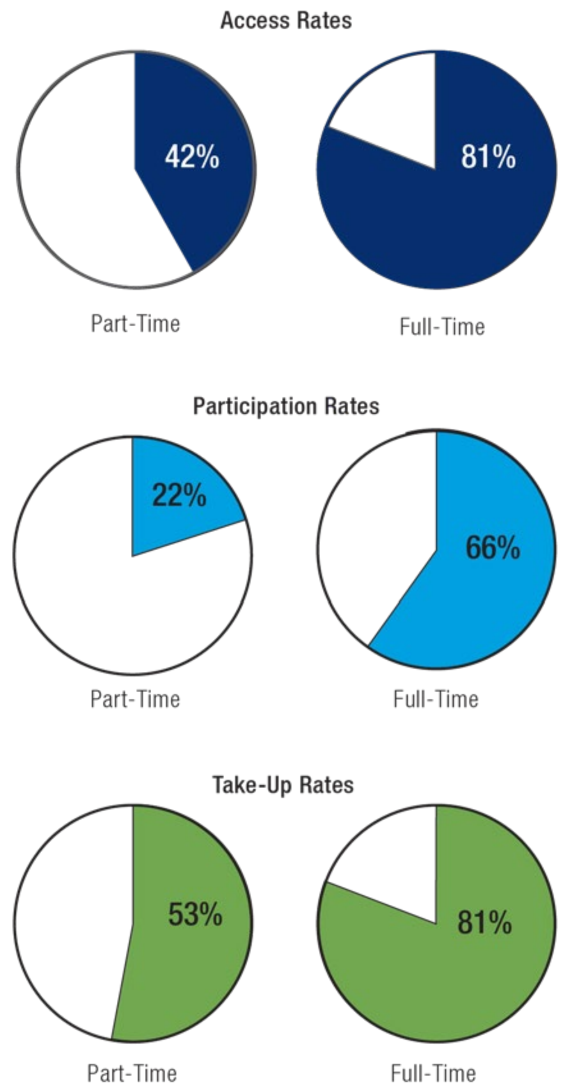


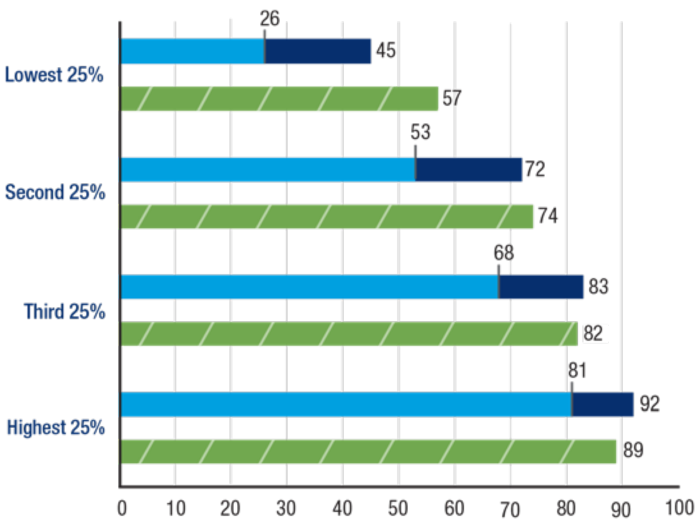
Figure 2: Access, Participation and Take-up rates for Full-Time and Part-Time Workers



As a result of most employer benefits being offered with full-time employment, access and participation are much lower for part-time employees. Overall, 81 percent of full-time employees had access to a program, and 66 percent participated in one, compared to only 42 percent of part-time employees with access to a program, and 22 percent participating in one. The take-up rate for full-time employees is 81% compared to 53% for part-time employees.
Link to the data table for the information in Figure 2 on page 12

The access and participation of part-time employees are strongly correlated with lower-income access and participation rates. For those earning in the lowest wage quartile, 45 percent had access and 26 participated in a retirement program. There is a significant increase in the second quartile to 72 percent with access and 53 percent participating. For the third and fourth quartiles, access increases to 83 percent and 92 percent respectively. The effective take-up rates increase from 57 percent at the lowest quartile, to 74 percent for the second quartile, 82 percent for the third quartile, and 89 percent for the top quartile.
Link to the data table for the information in Figure 3 on page 12

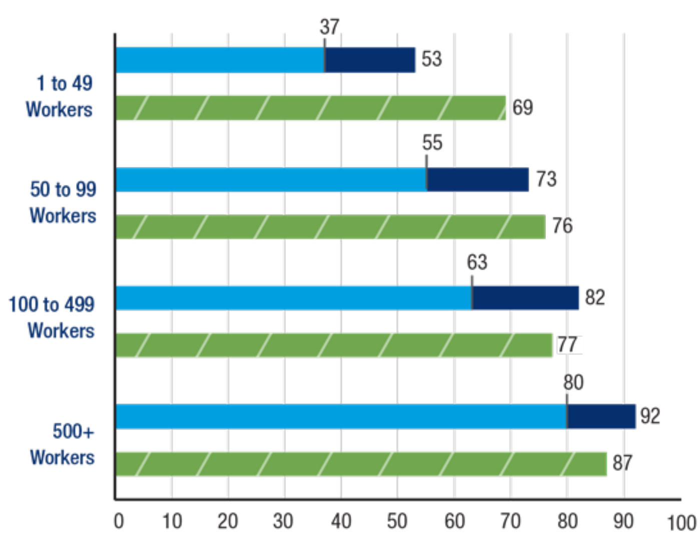
Figure 3: Access, Participation and Take-up rates By Average Wage



Large employers are more likely to offer a retirement option, but the costs and administrative burdens, coupled with uncertain revenue, can prevent small business owners from doing so at a comparable rate. The lowest rates are for businesses with fewer than than 50 employees, where 53 percent of workers had access, with 37 percent participating and a take-up rate of 69 percent. Access and participation steadily increase with firm size, with the biggest jump in the 50-99 employees category. In the largest firms (500+ employees), there is almost universal access (92 percent), with 80 percent participating in the plans, and a take-up rate of 87 percent.

Link to the data table for the information in Figure 4 on page 12

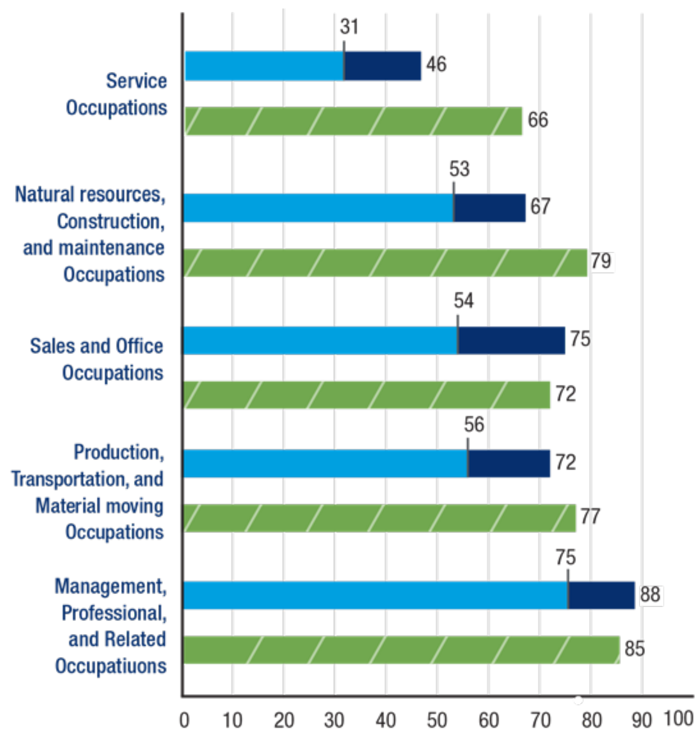
Figure 4: Access, Participation and Take-up rates By Firm Size



There are also significant differences by occupation, with the biggest disparity for those working in service industries, where only 46 percent had access, and 31 percent participated in a retirement program. Service employees also have the lowest take-up rate at 66 percent. The second lowest rates are for the natural resources, construction, and maintenance occupations, where 67 percent of employees had access and 53 percent participated, with a take-up rate of 79 percent. The middle of the range is occupied by sales and office, and production and transportation occupations, which have similar access and participation rates. The highest rates of access and participation are in the management and professional occupations, where 88 percent of employees are offered a retirement plan and 75 percent participated, for a take-up rate of 85 percent.

Link to the data table for the information in Figure 5 on page 12

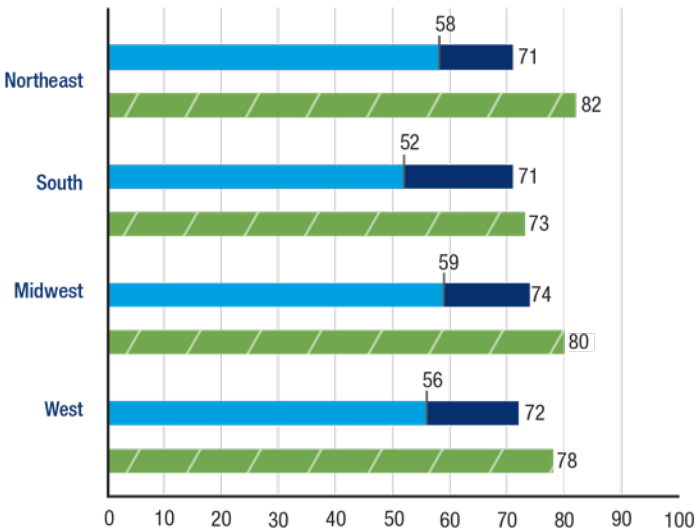
Figure 5: Access, Participation and Take-up rates By Occupation



There are some regional differences, that although minor, are worth presenting. The Midwest has the highest access rate (74 percent), while the Northeast has the highest take-up rate (82 percent). The South has the lowest access, participation, and take-up rates (71 percent, 52 percent, and 73 percent, respectively).

Link to the data table for the information in Figure 6 on page 12

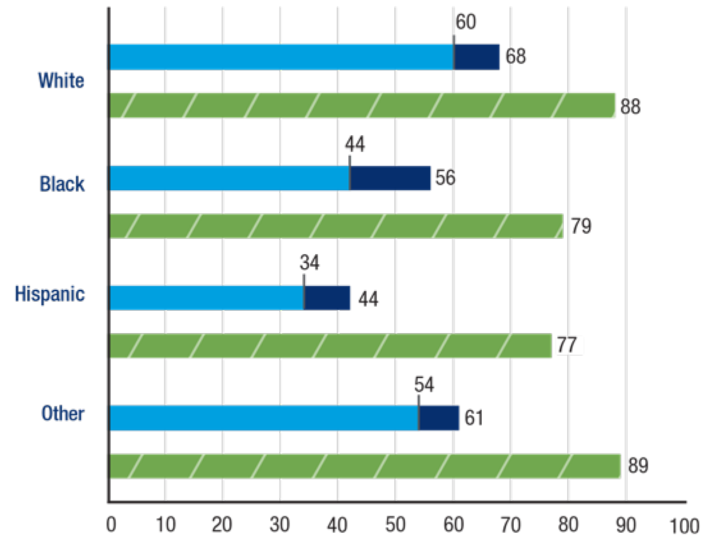
Figure 6: Access, Participation and Take-up rates By Geographic Area



Finally, there are significant differences by race, as shown by the data from the 2019 Survey of Consumer Finances[9]. White and multiracial households have better access and participation rates than Black and Hispanic households. Sixty-eight percent of White families reported having access to a retirement program, and 60 percent participated in one, for a take-up rate of 88 percent. Families who selected “Other” for their race identification have slightly lower participation and access rates, but a similar take-up rate as White families. While only 56 percent of Black households and 44 percent of Hispanic households had access to an employer plan, the take-up rates approach 80 percent for both groups, which indicates a great potential to improve their retirement savings once they have access to a program.

[Link to the data table for the information in Figure 7 on page 12]

Figure 7: Access, Participation and Take-up rates By Race

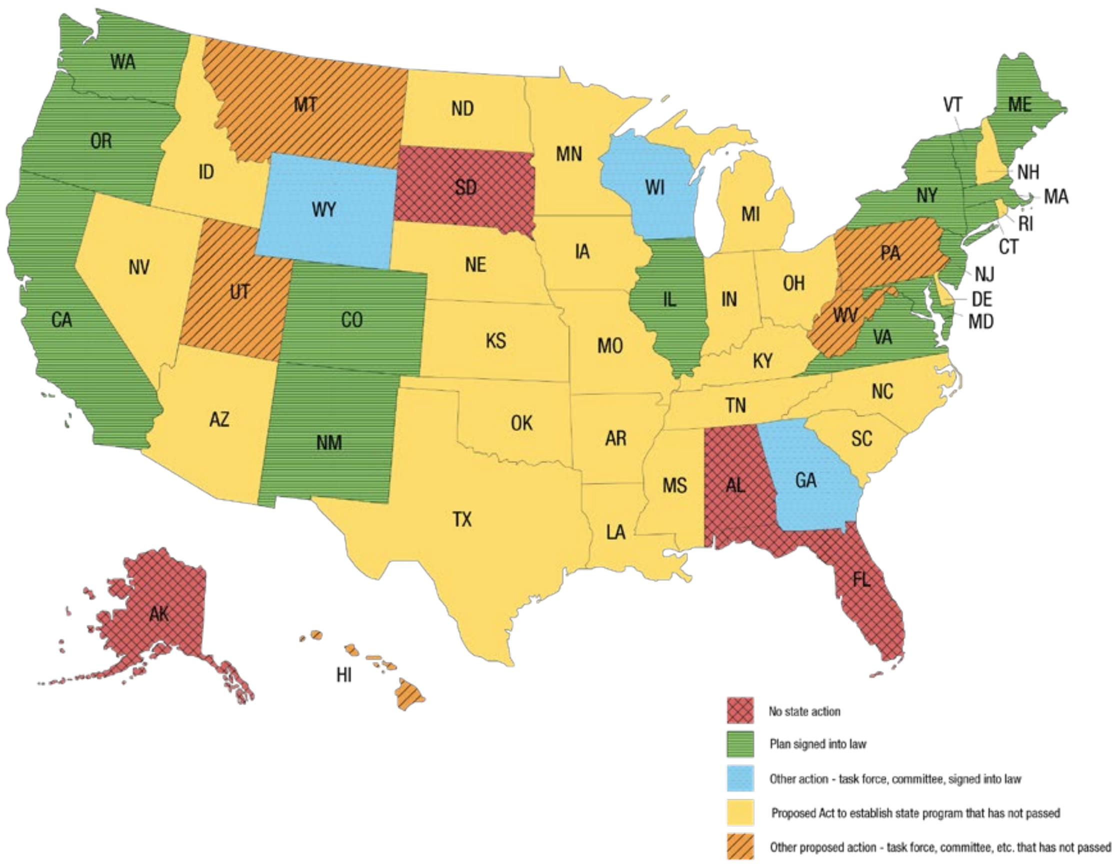


Although this brief updated the most current access and participation gaps, the general trends have been present for many years and have contributed to the growth of wealth inequality, in addition to retirement insecurity. However, progress to address these gaps has been slow and incremental. Federal policies have focused on providing employer incentives and cost credits, and most recently allowing more open multi-employer plans known as pooled-employer plans (PEPs). In the meantime, the states have moved to initiatives to provide more universal access, which are discussed in the next section.

State Retirement Savings Programs

As of 2022, 14 states have passed legislation to implement a state retirement savings program. These programs have been structured in four different ways: Auto-IRA (CA, CO, CT, IL, ME, MD, NJ, NY, OR, VA), Voluntary Open Multiple Employer Plan (MEP) (MA, VT), a hybrid model used by New Mexico, and a Voluntary Marketplace (WA). The retirement accounts are portable as employees change jobs within the state. In Connecticut, Colorado, Maine, Maryland, New Jersey, New York, Virginia, and New Mexico, the state program has been signed into law but has not officially launched for enrollment yet.

Figure 8: 2022 Legislative Map



State Auto-IRA's share common features; they are state-run, mandatory for qualified employers, employers cannot contribute, and enrollment is automatic—it is up to employees to opt-out. Part-time and self-employed workers can enroll in the state plans by setting up an automatic bank withdrawal if they do not have access through an employer. Auto-IRAs have a default contribution rate (currently, states vary between 3 to 5 percent) that will be automatically deducted from each paycheck, unless the employee selects a different contribution rate. Many of the programs also have 1 percent automatic contribution increases per year up to a total of 8 to 10 percent (see Table 1 on pages 10 and 11 in the Appendix for detailed information about plan features and rules).

The default accounts are Roth IRAs, where contributions are made with after-tax income and withdrawals in retirement are then tax-free. There are also traditional IRA options, where contributions may be tax deductible for individuals who do not have access to an employer-sponsored plan. State-administered IRA programs are subject to federal IRA contribution limits[10]. Auto-IRA programs are the only model that has been mandatory for qualified employers to participate in, the other program structures are voluntary for employers. Voluntary payroll deduction IRA's mirror Auto-IRAs, except that they are voluntary.

States that have enacted MEP's have utilized defined-contribution plans. This plan allows the employee, or employer, to contribute to the employee's individual account, sometimes at a set rate. A qualified employer may voluntarily choose to participate as a "adopting employer" of the MEP. Once an employer joins the MEP, employees are automatically enrolled in the program and given a 401(k) unless they choose to opt out.

In the Voluntary Marketplace, both employees and employers can comparison shop for retirement savings plans that have been verified by state officials to have met state eligibility requirements. Participation by employers and employees, as well as financial service firms, is voluntary. Individuals can search through plans linked on the marketplace to determine the best option.

While many other states have proposed retirement security legislation—only four states, Alabama, Alaska, Florida, and South Dakota, have never proposed legislation on this issue. Some states, like Indiana, Kentucky, and North Dakota, have not seen progress on state retirement security legislation since 2015, while other states have seen legislation proposed within the last year. Iowa last saw proposed legislation for the Iowa Retirement Savings Plan Trust introduced in the Senate in 2018 [11] and in the House in 2019 [12]. Both pieces of legislation kept the program features vague, establishing a trust, designating the treasurer of the state as trustee, and stating that the purpose of the legislation was to help Iowans save for retirement.

Across the country proposed legislation varies in completion, with some proposed legislation being a comprehensive plan for the program, and other state's legislation keeping the plans vague. Many states' proposed programs are similar to those of other states with enacted programs: Auto-IRAs (AZ, DE, KY, LA, MI, MS, MO, NV, OH, OK, TX), MEPs (AR, MN, NH), voluntary payroll deduction IRAs (IN, NC), and Voluntary Marketplaces (NE, TN). Additionally, some states have opted for alternative measures. Wisconsin, Wyoming, and Georgia passed legislation creating task forces, or study committees, to study retirement programs and preparedness.

Discussion and Policy Recommendations

State retirement savings programs are a welcome addition to the policy toolkit to shrink the gaps in access, participation, and wealth. By the end of 2021, they added $420 million in assets, the bulk of which is from the three mandatory state Auto-IRA programs that are currently active (CA, IL, OR).[13] Public support for these programs is strong, with 72 percent of Americans believing the programs are a good idea, and 75 percent open to participating in a state plan.[14] State plans improve the portability of individual accounts when employees change jobs within the state and their employers are enrolled in the state plan, and they have lower fees through economies of scale. There are opportunities for further improvements in portability and costs through state partnerships, with the first one recently announced by Colorado and New Mexico. [15] Portability, however, is not extended to standalone employer plans, as the Roth IRA accounts cannot be rolled into those employer plans due to different tax treatments. But the state IRA plan can be used as a vehicle to transfer small retirement savings accounts from private sector employers after job separation.

Compared to employer-sponsored plans, state mandatory programs cannon require or allow employer contributions, which would require greater regulations as outlined in ERISA. To the extent that employers may have been willing to match some of the employee contributions, the lack of that option will result in lower retirement savings. On the other hand, a state program may become an incentive for some employers to start offering their own plans. State Auto-IRAs have also had larger opt-out rates than other employer plans, with reported opt-out rates near 30 percent. However, the state plans cover more lower-income employees, as well as part-time employees, and the participation rates are consistent with observed income participation gaps (as illustrated in the BLS results in this brief). This is also illustrated by survey analysis of OregonSaves opt-outs, where the main reason cited was "I can't afford to save at this time," followed by those opting out because they had another retirement plan.[16]

One option to address the lack of an employer matching contribution and improve the level of contributions overall is to reform the federal Saver's Tax Credit. The credit was designed to serve as a match for retirement savings for lower-income earners, but has not been an effective and visible tool, and is not refundable. Proposals to enhance the credit by adjusting income thresholds and to make it refundable were included in the federal Secure 2.0 legislation and the Build Back Better Act, but are deemed too expensive to be viable. Employee Benefit Research Institute (EBRI) simulations on the effect of the proposed federal legislation, including both automatic enrollment and enhanced Saver's Credit, project 17 to 26 percent reduction (depending on race) in the retirement savings deficit for individuals who are 35 to 39 years old.[17] The improved Saver's Tax Credit is also expected to help reduce the racial savings gaps.

In addition to access and participation, which have been the focus of this report, retirement plan portability and leakage also contribute to the retirement savings gap. As workers have become more mobile, the median number of jobs a person holds over their career has increased to 12.[18] Every job change requires a decision about the retirement savings accumulated with the previous employer (if offered). Many times, employees choose to cash out what at first glance appear to be small accounts, with the largest concentration of cash-outs in accounts under $10,000 [19]. The cumulative effect, though, totals billions of dollars per year. Younger workers, and Black and Hispanic households, are more likely to have small accounts, and therefore, are more negatively impacted by lack of portability or cashing out.[20] Expanded access with the state programs will also increase the number of small accounts potentially at risk of leakage, undermining the goals of these programs. Auto portability has attracted increased attention as a strategy to reduce leakage resulting from job turnover. In 2021, Vanguard announced it would offer auto portability to 401(k) participants as part of its services, in partnership with Retirement Clearinghouse[21]. Studies of the potential impact of auto portability show significant reductions of the retirement savings deficit (e.g., the EBRI simulations estimate a 14 percent reduction due to auto portability alone).

While there is a lot more to strive for, the state Auto-IRA programs are a significant first step to improving access and participation in employer and individual retirement plans. As these programs grow, policymakers will have more information about optimal design features, and employer and employee behavior, and can consider additional policies to enhance the effectiveness of these programs. It is important to emphasize that the benefits of improving access and participation in retirement plans do not only accrue to individuals and their families, although that is a worthy goal in itself. EBRI estimates the total amount of the retirement savings deficit in 2020 at $3.68 trillion [22]. Any increases in the accumulation of retirement savings will be crucial for economic growth and capital investment, and will reduce dependence on government programs with significant implications for state and federal budgets.

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Appendix

Table 1: State Retirement Programs Features and Rules

State	Participation Rules	State Auto-IRA Plan Features	Timeline	Cost Rules & Regulations
Common Features	• Mandatory • No employer fees	• Default: Roth IRA • Alternative: Traditional IRA • No employer contribution	Phased employer enrollment	Cost limits under 1%
California – Website Link	• Firm size: 5+ employees • If eligible: Employers of providers of in-home supportive services	• Default Contribution rate: 5% with auto-escalation of 1% per year to a maximum of 8% • Employer contribution permitted if would not trigger ERISA	• Enacted: 2016 • Enrollment complete except: 5+ employees -06/30/2022	Year 6: Less than 1%
Colorado – Website Link	Firm size: 5+ employees	Default Contribution rate: 5% with auto-escalation of 1% per year to a maximum of 8%	• Enacted: 2020 • Rulemaking begins: 03/2022 • Rules Finalized: 07/2022 • Pilot program launches: 10/2022 • Enrollment beings: 2023	• Year 1-5: Less than 1% • Year 6: Less than 0.75%
Connecticut – Website Link	Firm size: 5+ employees	Default Contribution rate: 3%	• Enacted: 2016 • Enrollment: 2022	• Program management fee: 0.20%, plus a flat $24 annual fee • Year 5: Less than 0.75%
Illinois – Website Link	• Firm size: 5+ employees • 2-year deferral for new businesses	Default Contribution rate: 5% with auto-escalation of 1% per year to a maximum of 10%	• Enacted: 2015 • Enrollment complete except: 16-24 employees -11/1/2022; 5-15 employees - 11/2/2023	• Less than 0.75% • Breakdown: 0.05% state fee, 0.61% program administration fee, 0.09% investment fee
Maine – Website Link	• 2-year deferral for new businesses • Firm size: 5+	Default Contribution rate: 5% with auto-escalation of 1% per year to a maximum of 8% of wages	• Enacted: 06/2021 • Enrollment: 25+ employees - 04/1/2023, 15-24 employees- 10/1/2023, 5-14 employees - 04/1/2024	
Maryland – Website Link	• All employers • 2-year deferral for new businesses	Default Contribution rate: 5% with auto-escalation of 1% per year to a maximum of 10%	Enacted: 2016 Planned to launch mid-2022	Administrative expenses less than 0.5% of program assets
New Jersey – Website Link	• Firm size: 25+ employees • 2-year deferral for new businesses	Default Contribution rate: 3%	• Enacted: 2019 • Start 03/28/2022, 9 months to complete the roll out	• Year 1-3: Less than 0.75% • Year 4: Less than 0.6%
New York – Website Link	• Firm size: 10+ employees • 2-year deferral for new businesses	Default Contribution rate: 3%	• Enacted: 2021 • Enrollment to begin within 24 months of the effective date	
Oregon – Website Link		Default Contribution rate: 5% with auto-escalation of 1% per year to a maximum of 10%	• Enacted: 2015 • Enrollment complete	• Less than 1.05% • Breakdown: 0.15% state administration, 0.75% program administration, 0.09% investment management

State	Participation Rules	State Auto-IRA Plan Features	Timeline	Cost Rules & Regulations
Virginia – [Website Link]	• Firm size: 25+ employees • 2-year deferral for new businesses		• Enacted: 2021 • Enrollment to begin 07/1/2023	

States with similar proposed legislation: Arizona, Delaware, Idaho, Kentucky, Louisiana, Michigan, Mississippi, Missouri, Nevada, Ohio, Oklahoma, Texas

State	Participation Rules	Voluntary Open MEP	Timeline	Cost Rules & Regulations
Common Features	Voluntary	• Defined contribution 401(k) plan, ERISA-covered • Employer contribution permitted but not required		
Massachusetts – [Website Link]	Nonprofits with 20 or fewer employees	Default: 6% with auto escalation of 1% or 2%, up to 12%	• Enacted: 2012 • Open for enrollment	$65 participant fee $2,500 installation fee $200 administrative fee $150 employer contribution election $750 deferral only fee
Vermont – [Website Link]	Firm size: up to 50 employees		• Enacted: 2017 • Possible pilot and program launch in 2022	

States with similar proposed legislation: Arkansas, Minnesota, New Hampshire

State	Participation Rules	Hybrid Voluntary IRA & Marketplace	Timeline	Cost Rules & Regulations
New Mexico – [Website Link]		• Voluntary IRA: Default: Roth IRA; other IRA options permissible • Marketplace: SIMPLE IRA, payroll deduction IRA, MEP • ERISA plans allowed in the marketplace with ERISA requirements applying to participating employers	• Enacted: 2020 • Implementation must occur on or before 7/1/2024	• Voluntary IRA: Less than 1% • Marketplace: administrative fees to be established by Board

States with similar proposed legislation: Indiana, North Carolina (Voluntary Payroll Deduction IRA)

State	Participation Rules	Voluntary Marketplace	Timeline	Cost Rules & Regulations
Washington – [Website Link]	Fewer than 100 employees, Self-employed, or sole proprietors	• ERISA plans allowed in the marketplace with ERISA requirements applying to participating employers • 9 plans currently offered: 5 types of 401(k) plans, 2 Roth IRA, and 2 Traditional IRA	• Enacted: 2015 • Marketplace opened in 2018	• Less than 1% • No employer administrative fee • Financial services firms may charge enrollees a de minimis fee

States with similar proposed legislation: Nebraska, Tennessee

Figure Data Tables

Figure 1: Access, Participation and Take-up rates for All workers

Characteristics	Access Rate	Participation Rate	Take-up Rate
Private industry	68%	51%	75%
State and local government	92%	83%	89%

Figure 2: Access, Participation and Take-up rates for Full-Time and Part-Time Workers

Characteristics	Access Rate	Participation Rate	Take-up Rate
Full-Time	81%	66%	81%
Part-Time	42%	22%	53%

Figure 3: Access, Participation and Take-up rates By Average Wage

Characteristics	Access Rate	Participation Rate	Take-up Rate
Lowest 25%	45%	26%	57%
Second 25%	72%	53%	74%
Third 25%	83%	68%	82%
Highest 25%	92%	81%	89%

Figure 4: Access, Participation and Take-up rates By Firm Size

Characteristics	Access Rate	Participation Rate	Take-up Rate
1 to 49 workers	53%	37%	69%
50 to 99 workers	73%	55%	76%
100 to 499 workers	82%	63%	77%
500+ workers	92%	80%	87%

Figure 5: Access, Participation and Take-up rates By Occupation

Characteristics	Access Rate	Participation Rate	Take-up Rate
Service occupations	46%	31%	66%
Natural resources, construction, and maintenance occupations	67%	53%	79%
Sales and office occupations	75%	54%	72%
Production, transportation, and material occupations	72%	56%	77%
Management, professional, and related occupations	88%	75%	85%

Figure 6: Access, Participation and Take-up rates By Geographic Area

Characteristics	Access Rate	Participation Rate	Take-up Rate
Northeast	71%	58%	82%
South	71%	52%	73%
Midwest	74%	59%	80%
West	72%	56%	78%

Figure 7: Access, Participation and Take-up rates By Race

Characteristics	Access Rate	Participation Rate	Take-up Rate
White	68%	60%	88%
Black	56%	44%	79%
Hispanic	44%	34%	77%
Other	61%	54%	89%