Summary: New Research on Retirement Savings among Workers

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The summary that follows provides highlights of recently published research on retirement savings among U.S. workers.
As several recent articles in *CWC Online* have documented,[1] the U.S. retirement system is changing. Among the more notable changes is a movement away from traditional defined benefit pension plans, which are financed by the employer and use a specific predetermined formula to calculate the amount of an employee's future benefits, toward defined contribution plans, which specify the amount of the employer's annual contribution and usually involve employee contributions as well. As BLS economist William J. Wiatrowski noted in a 2004 *CWC Online* article, "Retirement plans have seen many changes over the [last] decade, as participation in traditional defined benefit pension plans declined, while participation in defined contribution plans increased."[2] The basic difference between the old and new plans is that most workers must now assume greater responsibility for their retirement incomes by putting savings into special, tax-deferred retirement accounts. In many plans, employers match funds contributed by the employee and provide their workers with other incentives to save for their retirement.

In a recent National Bureau of Economic Research (NBER) working paper entitled "Turning Workers into Savers? Incentives, Liquidity, and Choice in 401(k) Plan Design,"[3] authors Olivia S. Mitchell, Stephen P. Utkus, and Tongxuan (Stella) Yang analyze a new dataset of about 500 pension plans covering nearly 740,000 workers. The goal of the study is to measure the effect of employer incentives on the savings behavior of employees. Rather surprisingly, the "analysis shows that the incentive effects of employer matching contributions are relatively minimal," especially among "non-highly-compensated workers" (those earning less than $85,000 in 2001).

Mitchell and her coauthors estimate that in a typical employer-sponsored 401(k) plan, about 60 percent of non-highly-compensated workers would participate in a tax-deferred retirement saving plan whether or not the employer provided matching contributions. In addition, only about 10 percent would join the plan as a result of incentives, and the remaining 30 percent would not participate at all. Moreover, this lack of responsiveness to incentives among employees does not appear to result from either liquidity or investment constraints.

The apparent ineffectiveness of employer-provided incentives presents a challenge to policymakers and plan sponsors seeking to increase employee participation in retirement savings plans. If the goal is to shift some of the responsibility for retirement savings to employees, how can that goal be achieved? The authors of the NBER study suggest that alternative strategies need to be developed to encourage workers to save more for their retirement. In addition to matching funds and other incentives, such alternative strategies as "automatic enrollment, employer or governmental nonelective contributions, and mandatory retirement plan contributions" could be considered.

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Notes

1 See, for example, Sharon A. DeVaney and Sophia T. Chiremba, "Comparing the Retirement Savings of the Baby Boomers and Other Cohorts" (January 24, 2005); John W. Thompson, "Defined Benefit Plans at the Dawn of ERISA" (March 30, 2005); William J. Wiatrowski, "Retirement Plan Design and the Mobile Workforce" (September 28, 2005); and Wiatrowski, "Preretirement Distributions: Can You Take Them with You?" (October 24, 2005); all are available on the *CWC Online* website at http://www.bls.gov/opub/cwc/home.htm.

2 William J. Wiatrowski, "Documenting Benefits Coverage for all Workers," *CWC Online* (May 26, 2004); available on the Internet at http://www.bls.gov/opub/cwc/cm20040518ar01p1.htm.

3 Olivia S. Mitchell, Stephen P. Utkus, and Tongxuan (Stella) Yang, "Turning Workers into Savers? Incentives, Liquidity, and Choice in 401(k) Plan Design," NBER Working Paper No. 11726 (National Bureau of Economic Research, October 2005); available on the Internet at http://www.nber.org/papers/w11726.

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