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The State of American Retirement Savings

How the shift to 401(k)s has increased gaps in retirement preparedness based on income, race, ethnicity, education, and marital status

By Monique Morrissey • December 10, 2019

Overview

Today, many Americans rely on savings in 401(k)-type accounts to supplement Social Security in retirement. This is a pronounced shift from a few decades ago, when many retirees could count on predictable, constant streams of income from traditional pensions (see "Types of retirement plans" box). This chartbook assesses the impact of the shift from pensions to individual savings by examining disparities in retirement preparedness of working-age families, focusing especially on retirement account savings. The trends exhibited in these figures paint a picture of increasingly inadequate retirement savings for successive generations of Americans—and large disparities by income, race, ethnicity, education, and marital status.

Retirement wealth has not grown fast enough to keep pace with an aging population and other changes, and the shift from traditional pensions to individual savings has widened retirement gaps. Decades after the number of active participants in 401(k)-style plans edged out those in traditional pensions, 401(k)s are not delivering substantial income in retirement, and that income is not equally shared.

The shift from pensions to account-type savings plans has been a disaster for lower-income, black, Hispanic, non-college-educated, and single workers, who together add up to a majority of the American population. But even among upper-income white college-educated married couples, many do not have adequate retirement savings or benefits. And women, who by some measures are narrowing gaps with men, remain much more vulnerable in retirement due to lower lifetime earnings and longer life expectancies. The evidence presented in this chartbook—that the retirement system does not work for most workers—underscores the importance of preserving and expanding Social Security, defending defined benefit pensions for workers who have them, and seeking new solutions for those who do not.

The online version of the chartbook provides numbers underlying the charts.

A quick note about the data: The charts focus on families headed by someone age 32–61, a 30-year period before the Social Security early eligibility age of 62 when most families should be accumulating pension benefits and retirement savings. Except for one, all charts in this section are based on data from the Federal Reserve Board's Survey of Consumer Finances (the first chart uses the Federal Reserve Board's Financial Accounts data). In the Survey of Consumer Finances, a family consists of an "economically dominant" single person or couple, whether married or living together as partners, and all other persons in a household who are financially interdependent with that person or couple. The family's age and education level are based on the age and education of the male in a mixed-sex couple or older spouse in a same-sex couple (Bricker et al. 2014).

Most of the charts focus on retirement account savings, a measure that includes savings in 401(k)-style defined contribution (DC) plans and individual retirement accounts (IRAs). The measure excludes assets held by defined benefit (DB) pension funds, which are not account-type plans.

In addition to other demographic factors, the charts show trends in retirement preparedness by six-year age group or birth cohort from 1989 to 2016. Six-year groups were chosen because the Survey of Consumer Finances is conducted every three years, but six-year groups produce larger sample sizes. All charts use inflation-adjusted dollars and, where possible, are shown on comparable scales. Dollar amounts in charts may reflect rounding by survey respondents.

Types of retirement plans

401(k) and similar plans are referred to as **defined contribution (DC) plans** because employer contributions, rather than retirement benefits, are determined in advance and employers incur no long-term liabilities. Participants in these plans are responsible for making investment decisions and shoulder investment and other risks. In contrast, in traditional **defined benefit (DB) plans** (pension plans, in layman’s terms), employers are responsible for funding promised benefits, making up the difference if the contributions are insufficient due to lower-than-expected investment returns, for example.

401(k)s are an accident of history. In 1980, a benefit consultant working on revamping a bank’s cash bonus plan had the idea of adding an employer matching contribution and taking advantage of an obscure provision in the tax code passed two years earlier clarifying the tax treatment of deferred compensation. Though 401(k)s took off in the early 1980s, Congress did not intend for them to replace traditional pensions as a primary retirement vehicle, and 401(k)s are poorly designed for this role (Sahadi 2001; Tong 2013).

The term “defined contribution” is somewhat misleading because employers may not contribute anything to these plans, and employer contributions most often take the form of matching contributions contingent on employee contributions. In contrast, under traditional defined benefit plans in the private sector, employers are generally responsible for the entire cost, though public-sector workers often share in pension costs.

Because they are employer-sponsored plans, defined contribution plans are usually differentiated from **Individual Retirement Accounts (IRAs)**. However, the line between employer-sponsored and individual plans is blurry because employers are not required to contribute anything to employee 401(k) accounts, because most funds in IRAs are rolled over from 401(k)s, and because employers do contribute to some types of IRAs.

Like defined benefit plans, defined contribution plans and IRAs receive preferential tax treatment intended to encourage employers to provide retirement benefits and help individuals to save for retirement. However, tax incentives for retirement savings are poorly targeted and ineffectual, as most of the subsidies go to high-income taxpayers who steer savings to tax-favored accounts rather than increase the amount they save (see Benjamin 2003; Chetty et al. 2014; Chernozhukov and Hansen 2004; Engen and Gale 2000; Engen, Gale, and Scholz 1996; Heim and Lurie 2014).

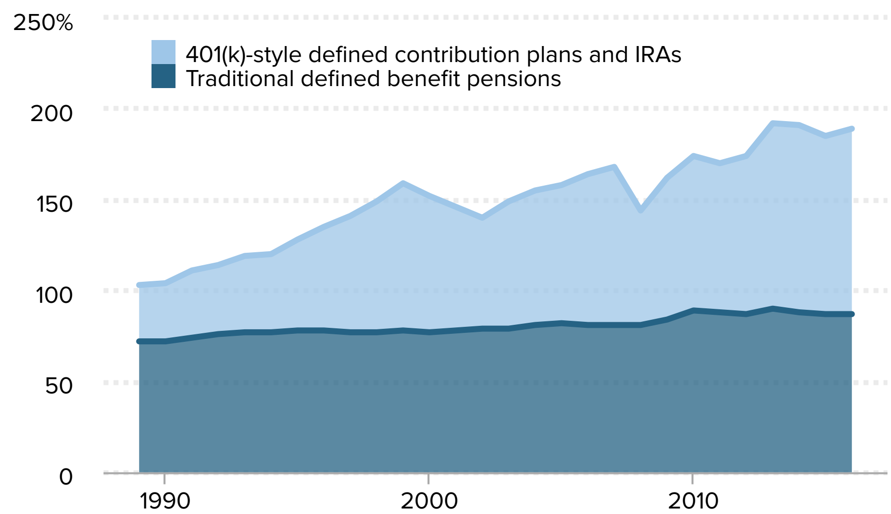
Throughout the chartbook, we use “retirement account savings” to refer to savings in defined contribution plans (such as 401(k)s), IRAs, and other plans in which participants accrue account balances, such as Keogh plans used in the past by self-employed workers. We reserve the word “pension” for benefits that take the form of income streams starting at retirement and ending when beneficiaries die. While some 401(k) participants may opt to convert account balances to life annuities, and some pension beneficiaries opt to withdraw lump sums at retirement, neither is the normal payout option for these plans.

Two of the charts refer to a family’s “participation” in an employer-based retirement plan, which means that at least one worker in the family (the survey respondent, spouse, or both) currently has access to and is signed up for a plan, not necessarily that the family has accumulated any benefits or balances in the plan. Conversely, in charts showing the share of families with retirement account savings, respondents and their spouses may or may not be currently participating in a plan—account holdings could be from past participation. The phrase “active participants” is used, when appropriate, to exclude retirees.

1

Retirement wealth has grown nearly twice as fast as income

Assets in retirement plans as a percent of personal disposable income by type, 1989–2016



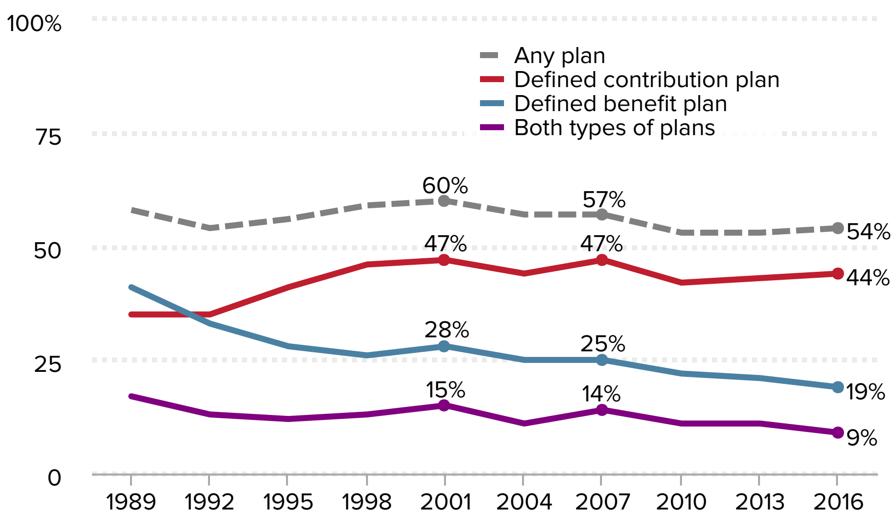
Source: EPI analysis of Federal Reserve Financial Accounts of the United States (December 2017 release).

With an aging population, aggregate retirement wealth (assets in pension funds plus savings in retirement accounts such as 401(k)s) nearly doubled as a share of personal disposable income between 1989 and 2016, even as rising inequality worsened retirement insecurity for most families. Retirement account savings in defined contribution plans and IRAs have exceeded pension fund assets since 2012, as well as briefly in the late 1990s and mid-2000s. Assets in retirement accounts are more affected by economic downturns than pooled pensions since contributions to these plans are voluntary and funds may be withdrawn in hard times. In addition, individual retirement account investments are less diversified and investment returns more volatile.

2

Retirement plan participation declined even as baby boomers approached retirement

Share of families age 32–61 participating in retirement plans by type, 1989–2016



Note: Since DC and DB shares include families with both kinds of plans, the share with both types is subtracted from the total to produce the share with any plan. Shares indicate whether either the respondent or his or her spouse participated in such a plan or plans on a current job (individual participation rates are lower).

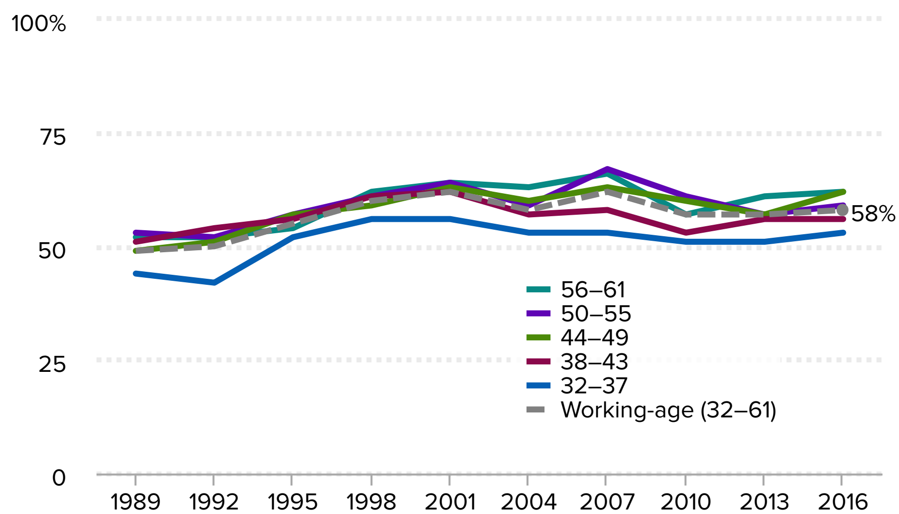
Source: EPI analysis of Survey of Consumer Finance data, 2016.

Participation in retirement plans has declined in the new millennium, with a steeper decline for workers in traditional defined benefit pensions than in 401(k)-style defined contribution plans. For families headed by prime-age workers (age 32–61), participation in any type of plan fell from 60% in 2001 to 54% in 2016. We would have expected participation to increase in the new millennium as the large baby boomer cohort entered their 50s and 60s, when participation rates tend to be high.

3

The share of families with retirement savings grew in the 1990s but declined after the Great Recession

Share of families age 32–61 with retirement account savings by age, 1989–2016



Note: Retirement account savings include funds in 401(k)-style defined contribution plans and in IRAs but not in defined benefit pensions.

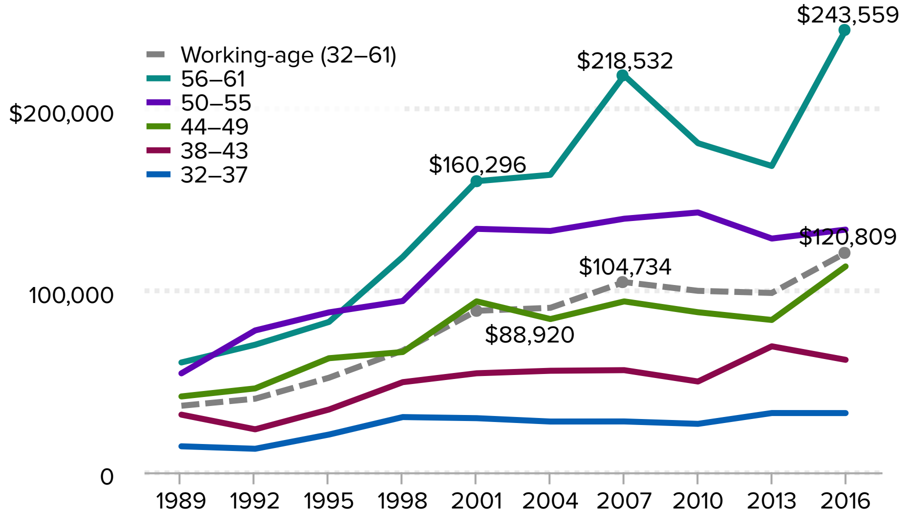
Source: EPI analysis of Survey of Consumer Finance data, 2016.

The share of prime-age families with retirement account savings rose in the 1990s as employers replaced traditional pensions with 401(k)s. But it contracted after the 2001 and 2007–2009 recessions, and remains below the 2001 and 2007 peaks. This drop-off reflects the fact that retirement account contributions are voluntary and funds may be tapped before retirement, making retirement savings more vulnerable than traditional pension benefits to economic downturns. The post–Great Recession drop is particularly worrisome for older workers who will have less time to make up losses.

4

Retirement savings have stagnated in the new millennium

Mean retirement account savings of families by age, 1989–2016 (2016 dollars)



Note: Retirement account savings include funds in 401(k)-style defined contribution plans and in IRAs.

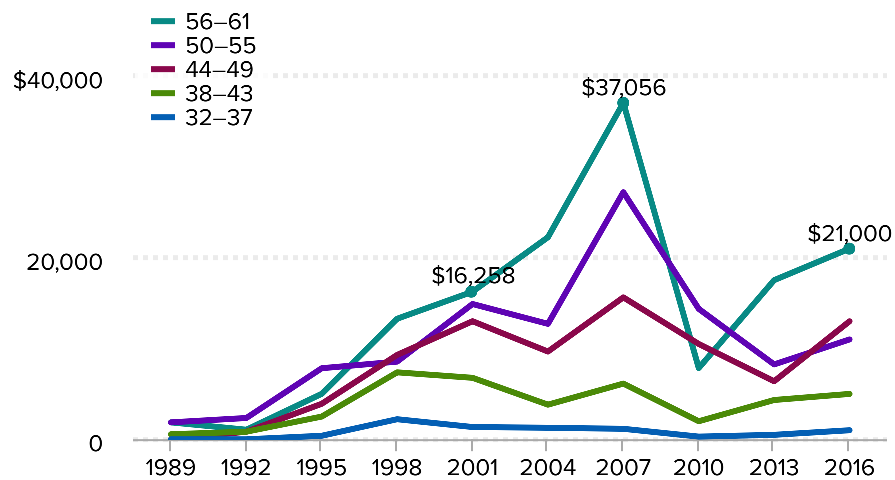
Source: EPI analysis of Survey of Consumer Finance data, 2016.

While average (mean) retirement account savings grew between 2001 and 2016, this was due in part to the aging of the large baby boomer cohort, as older families have had more time to accumulate savings. The results are mixed when age is taken into account. Workers in their early 50s are slightly behind their counterparts in 2001, while those in their late 50s and early 60s are far ahead. Other age groups have seen only modest improvements in the new millennium. Rather than stagnation, we should be seeing rising 401(k) and IRA account balances at all ages to offset declines in defined benefit pension coverage and Social Security cuts.

5

Most families—even those approaching retirement—have little or no retirement savings

Median retirement account savings of families by age, 1989–2016 (2016 dollars)



Note: Scale changed for visibility. Retirement account savings include funds in 401(k)-style defined contribution plans and in IRAs.

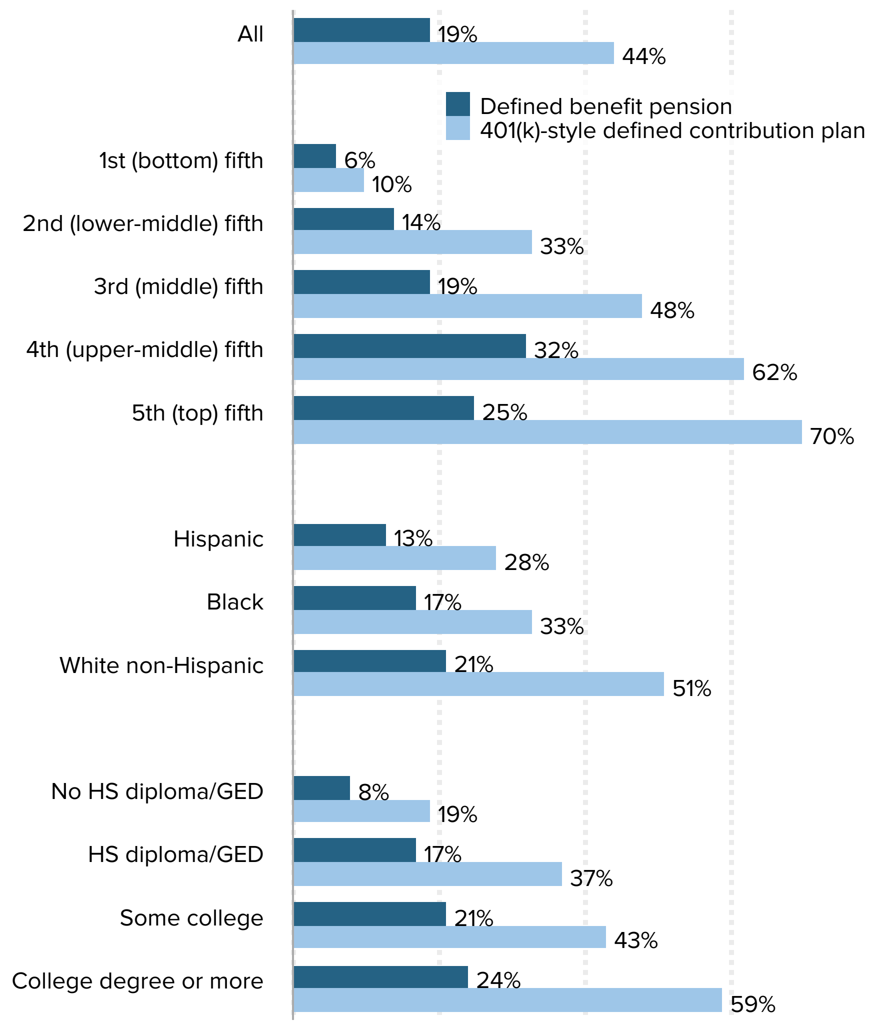
Source: EPI analysis of Survey of Consumer Finance data, 2016.

Nearly half of families have no retirement account savings at all. That makes median (50th percentile) values low for all age groups, ranging from $1,000 for families headed by people in their mid-30s to $21,000 for families approaching retirement in 2016. For most age groups, median account balances in 2016 were lower than at the start of the new millennium.

6

More people have 401(k)s, but participation in traditional pensions is more equal

Retirement plan participation of families age 32–61 by family income, race and ethnicity, education, gender, and marital status, 2016



Note: "College degree" includes associate degrees.

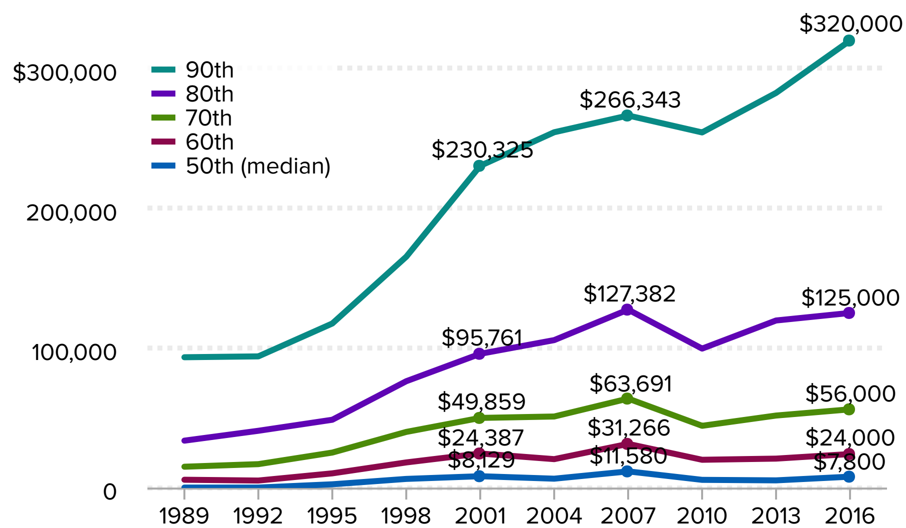
Source: EPI analysis of Survey of Consumer Finance data, 2016.

More than twice as many families have defined contribution plans as defined benefit pensions, but participation in pensions is more equal across education, race, and income groups. Thanks in large part to unionized workers, who place a high value on pensions, the share of high-school graduates with pensions (17%) is not far below the share of college graduates (24%); and the gap between the share of blacks with pensions (17%) and the share of non-Hispanic whites with pensions (21%) is also not large.

7

The gap between the retirement 'haves' and 'have-nots' has grown since the recession

Retirement account savings of families age 32–61 by savings percentile, 1989–2016 (2016 dollars)



Note: Retirement account savings include funds in 401(k)-style defined contribution plans and in IRAs. Scale changed to accommodate larger values.

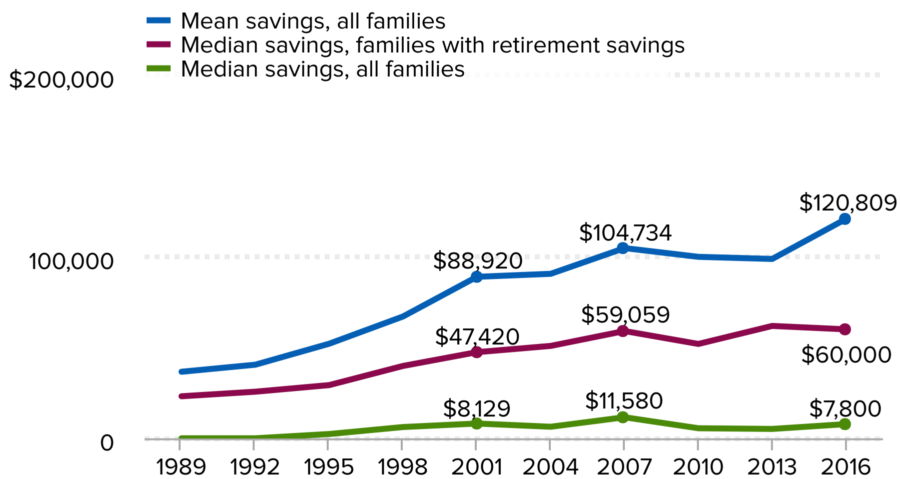
Source: EPI analysis of Survey of Consumer Finance data, 2016.

Nearly half of working-age families have nothing saved in retirement accounts, and the median working-age family had only $7,800 saved in 2016. Meanwhile, the 90th percentile family had $320,000 and the top 1% of families had $1,663,000 or more (not shown on chart). These huge disparities reflect a growing gap between haves and have-nots since the Great Recession as accounts with smaller balances have stagnated while larger ones rebounded.

8

Retirement account savings are inadequate and unequal

Retirement account savings of families age 32–61, 1989–2016 (2016 dollars)



Note: Retirement account savings include funds in 401(k)-style defined contribution plans and in IRAs.

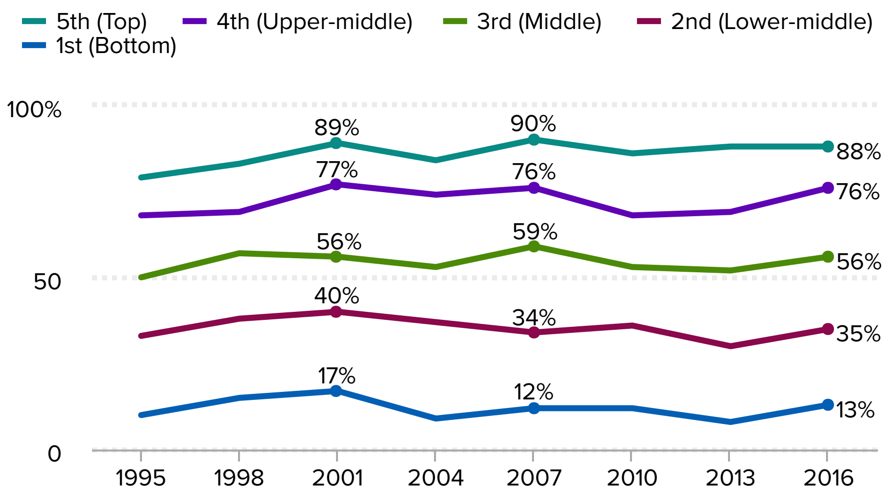
Source: EPI analysis of Survey of Consumer Finance data, 2016.

Since nearly half of all working-age families have zero retirement account savings, it is not surprising that the median (50th percentile) family had only $7,800 saved in these accounts in 2016. Even families with retirement savings have inadequate savings in these accounts—the median for families with savings was $60,000. The large gap between mean retirement savings ($120,809) and median retirement savings ($7,800) reflects inequality—that the large account balances of families with the most savings are driving up the average for all families.

9

High-income families are seven times as likely to have retirement account savings as low-income families

Share of families age 32–61 with retirement account savings by income quintile, 1995–2016



Note: Retirement account savings include funds in 401(k)-style defined contribution plans and in IRAs. Family-income quintiles are based on "normal income," a measure that ignores temporary fluctuations and is not available for years prior to 1995.

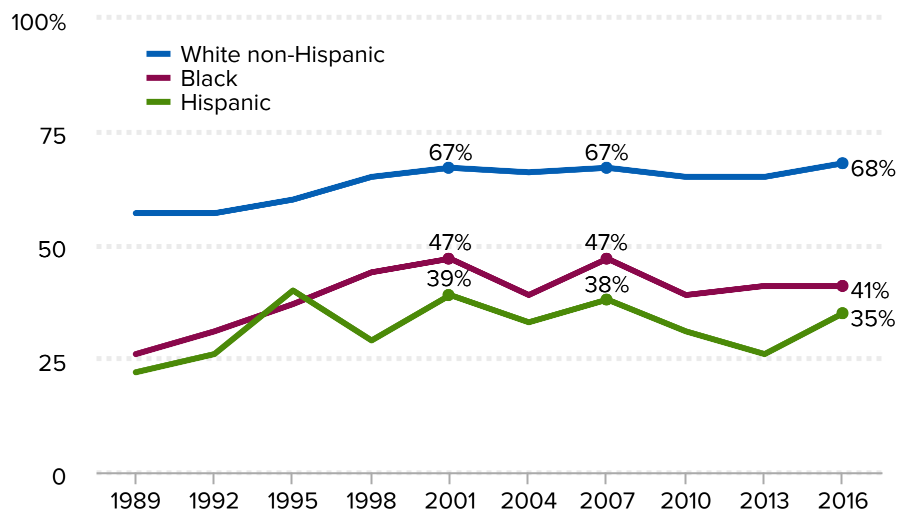
Source: EPI analysis of Survey of Consumer Finance data, 2016.

Almost nine in 10 families in the top income fifth had savings in retirement accounts in 2016, compared with about one in eight families in the bottom income fifth.

10

Most black and Hispanic families have no retirement account savings

Share of families age 32–61 with retirement account savings by race, 1989–2016



Note: Retirement account savings include funds in 401(k)-style defined contribution plans and in IRAs.

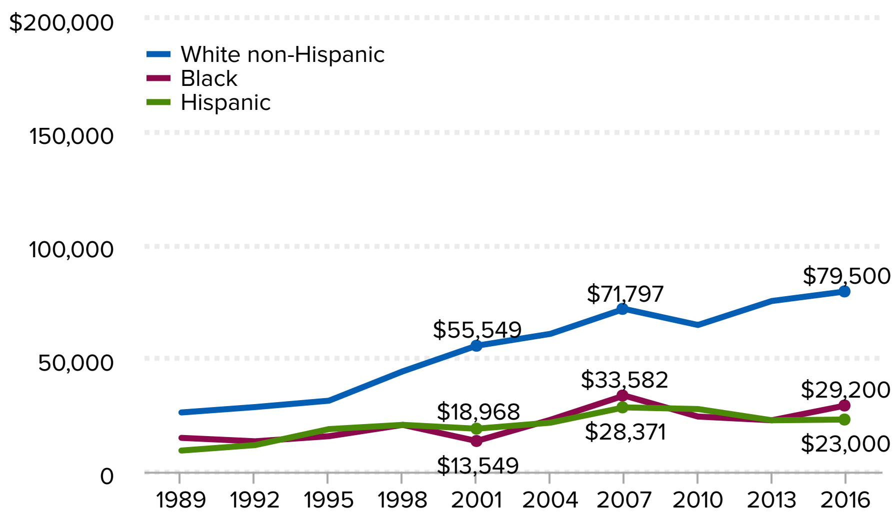
Source: EPI analysis of Survey of Consumer Finance data, 2016.

The share of Hispanic families with retirement account savings declined in the wake of the Great Recession, from 38% in 2007 to 35% in 2016, while the share of black families with retirement savings declined from 47% to 41%. In contrast, two-thirds (68%) of white non-Hispanic families had retirement savings in 2016, a share that was not much affected by the Great Recession (it was 67% in 2007).

11

Racial and ethnic gaps are large even among families with retirement savings

Median savings for families age 32–61 with retirement account savings by race, 1989–2016 (2016 dollars)



Note: Retirement account savings include funds in 401(k)-style defined contribution plans and in IRAs. Scale changed for visibility.

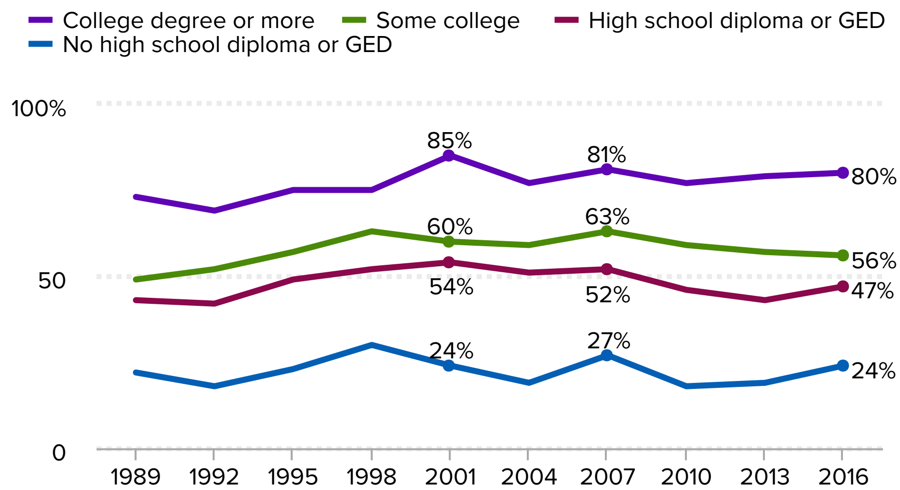
Source: EPI analysis of Survey of Consumer Finance data, 2016.

Large racial and ethnic disparities are evident even among families with retirement account savings. In 2016, the median white non-Hispanic family with retirement savings had over three times as much saved in a retirement account ($79,500) as the median Hispanic family with savings ($23,000) and nearly three times as much as the median black family with savings ($29,200). While white non-Hispanic families with savings have recovered from the Great Recession, black and Hispanic families have not.

12

College-educated families are much more likely to have retirement savings

Share of families age 32–61 with retirement account savings by education, 1989–2016



Note: Retirement account savings include funds in 401(k)-style defined contribution plans and in IRAs. "College degree" does not include associate degree, which is a change from the previous version of this chartbook.

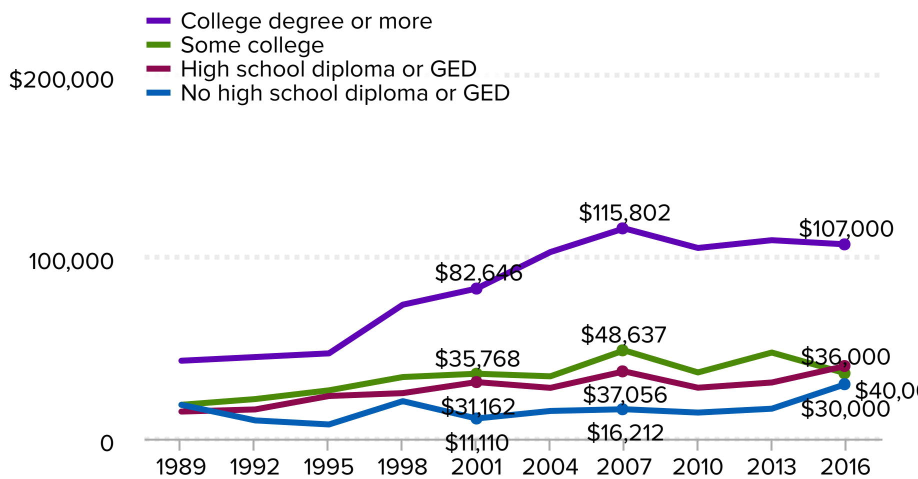
Source: EPI analysis of Survey of Consumer Finance data, 2016.

The share of families with retirement account savings increased across education groups in the 1990s and declined across most groups in the 2000s. Over three-fourths (80%) of families headed by someone with a four-year college degree or more education had savings in retirement accounts in 2016, compared with 47% and 24%, respectively, of families headed by someone with and without a high school diploma or GED.

13

College-educated families have much larger retirement account balances

Median savings for families age 32–61 with retirement savings by education, 1989–2016 (2016 dollars)



Note: Retirement account savings include funds in 401(k)-style defined contribution plans and in IRAs. "College degree" includes associate degrees.

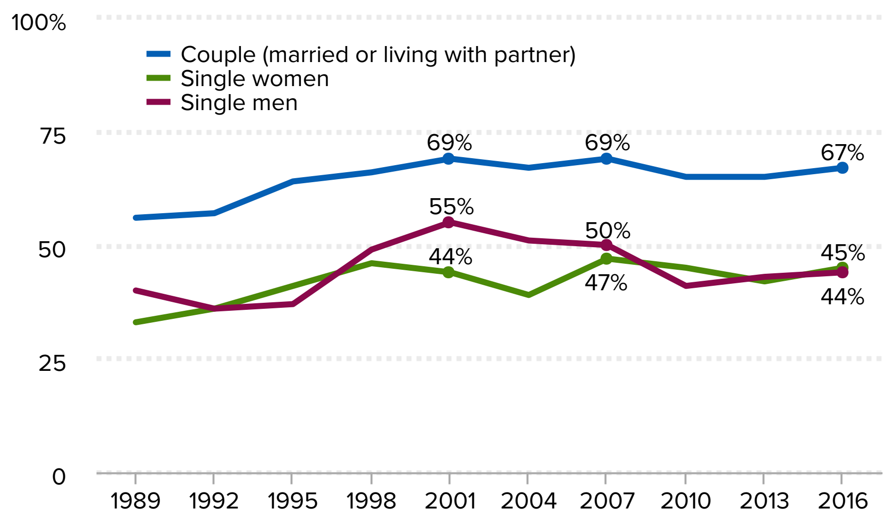
Source: EPI analysis of Survey of Consumer Finance data, 2016.

As shown in Chart 12, only families headed by someone with at least some college experience are more likely than not to have retirement account savings. But even among families with retirement account savings, there are large differences in account holdings by education. The typical family with retirement savings headed by someone with a four-year college degree or more education had more than twice as much ($107,000) as the typical family headed by someone with no more than a high school diploma or GED ($40,000), which in turn had more than the typical family headed by someone without a high school diploma or GED ($30,000) in 2016.

14

Single people are less likely to have retirement savings

Share of families age 32–61 with retirement account savings by gender and marital status, 1989–2016



Note: Retirement account savings include funds in 401(k)-style defined contribution plans and in IRAs.

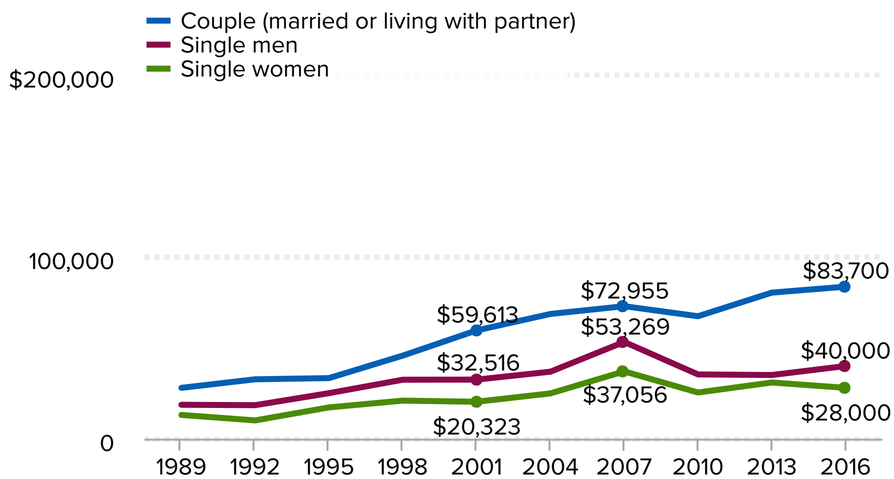
Source: EPI analysis of Survey of Consumer Finance data, 2016.

Just over two-thirds (67%) of couples had retirement account savings in 2016, compared with 44% of single men and 45% of single women. The share of single men with retirement savings declined significantly in the new millennium. While single women are about as likely as single men to have savings, they remain more vulnerable in retirement than single men due to lower lifetime earnings and longer lifespans.

15

Single people have less, but retirement savings are too low across the board

Median savings for families age 32–61 with retirement account savings, by gender and marital status, 1989–2016 (2016 dollars)



Note: Retirement account savings include funds in 401(k)-style defined contribution plans and in IRAs.

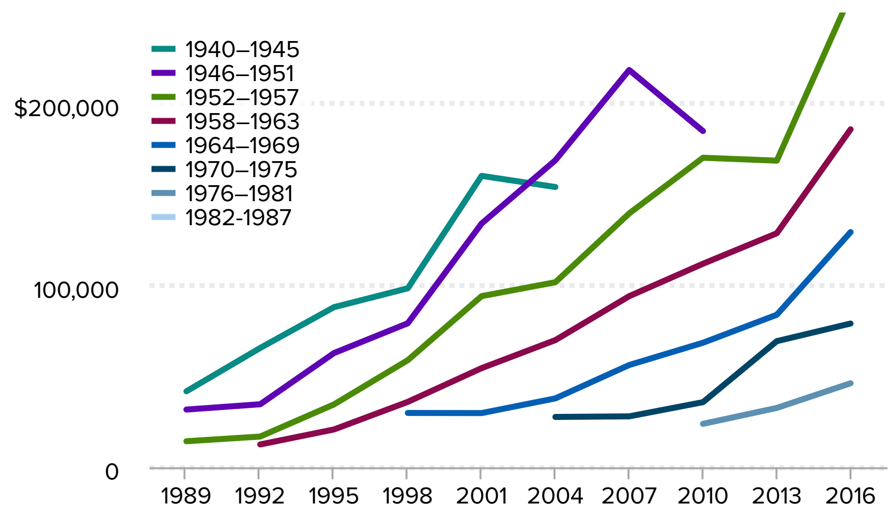
Source: EPI analysis of Survey of Consumer Finance data, 2016.

Single people are less likely to have retirement account savings than couples. Among those with savings, the typical single man ($40,000) and single woman ($28,000) had lower balances than the typical married couple ($83,700) in 2016. However, much if not all of this difference reflects family size and income. Thus, the problem is primarily one of lower participation for single people (Chart 14) and low account balances across the board. In addition, women should be saving more than men because they live longer.

16

Recessions are most damaging to workers nearing retirement

Mean retirement account savings of families by birth cohort, 1989–2016 (2016 dollars)



Note: Retirement account savings include funds in 401(k)-style defined contribution plans and in IRAs.

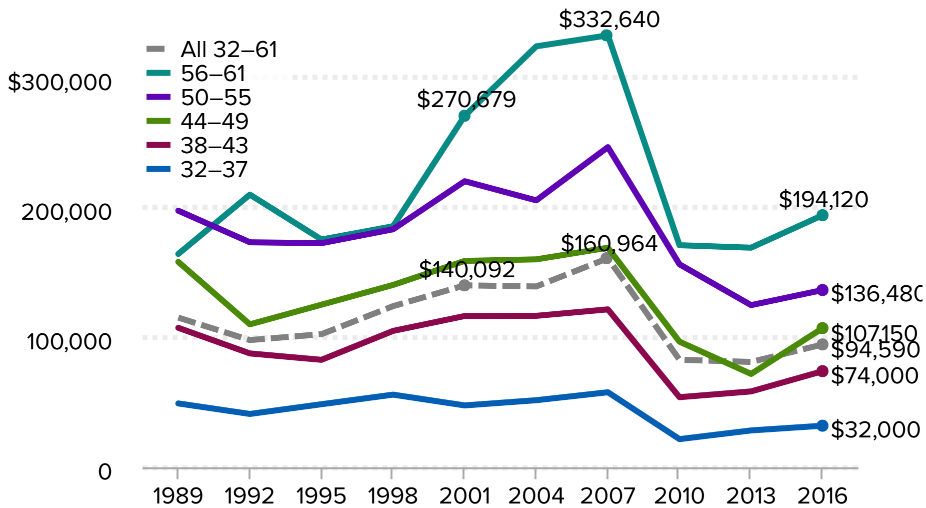
Source: EPI analysis of Survey of Consumer Finance data, 2016.

This chart shows savings trajectories by birth cohort over their working-age years (age 32–61). Families headed by war babies (born 1940–1945) and early baby boomers (born 1946–1951) had the misfortune to be nearing retirement when the 2001 and 2007–2009 recessions hit. Older savers are more affected by market downturns because investment returns outweigh new contributions. Another factor that may explain why early boomers were more affected than middle boomers (born 1952–1957) by the Great Recession is that many older workers who lose jobs tap retirement savings.

17

Family finances still have not recovered from the collapse of the housing bubble

Median net worth of families age 32–61, 1989–2016 (2016 dollars)



Note: Scale changed to accommodate larger values.

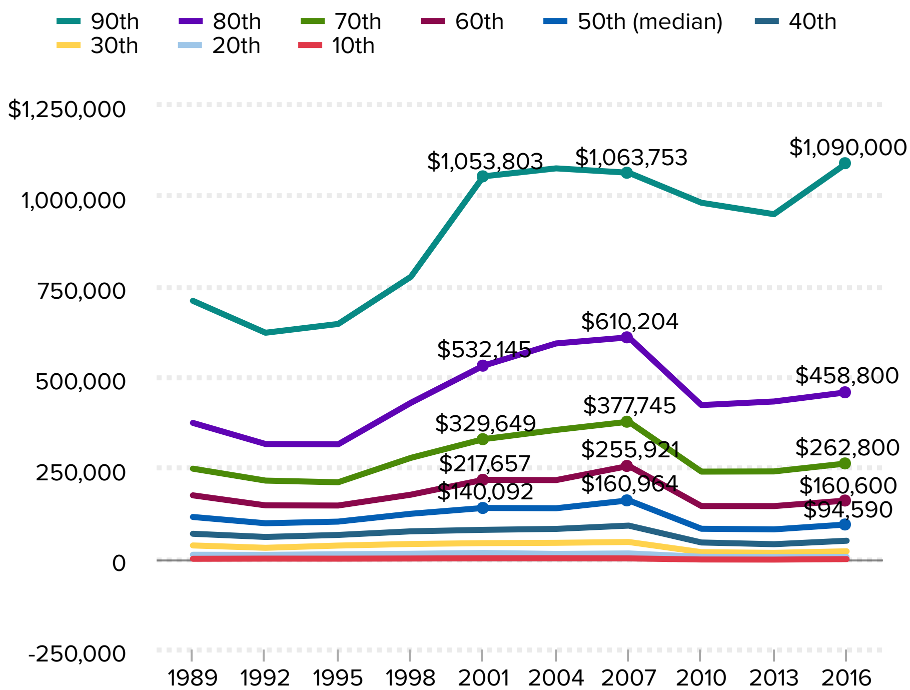
Source: EPI analysis of Survey of Consumer Finance data, 2016.

The typical family has more home equity than retirement account savings, if they have either. Thus it is no surprise that family finances were devastated by the collapse of the housing bubble. Working-age families' median wealth, or net worth, fell by almost half during the Great Recession and its immediate aftermath and remains far below pre-recession levels despite rebounds in stock and housing prices. The large drop in the net worth of older families is especially worrisome since they have less opportunity to make up losses before retirement.

18

The recession did not halt the decades-long growth in wealth inequality

Net worth of families age 32–61, by net worth percentile, 1989–2016 (2016 dollars)



Note: Scale changed to accommodate larger values.

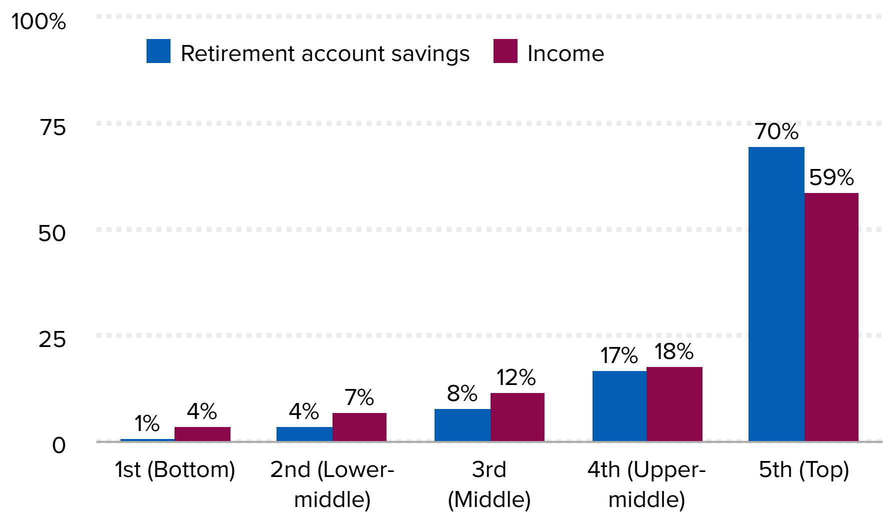
Source: EPI analysis of Survey of Consumer Finance data, 2016.

Net worth declined across the board after the Great Recession, leaving the bottom 60% of working-age families with less wealth in 2016 than their counterparts had in 1989—a devastating setback. The bottom 10% have had negative net worth since the Great Recession. The top 10%, meanwhile, are the only group that has recovered from the downturn. Thus, wealth inequality has continued to grow.

19

401(k)s magnify inequality

Share of total retirement account savings and total income for families age 32–61 by income quintile, 2016



Note: Based on "normal income," which may differ from actual income if a family's income in the past year was unusually high or low. Retirement account savings include funds in 401(k)-style defined contribution plans and in IRAs.

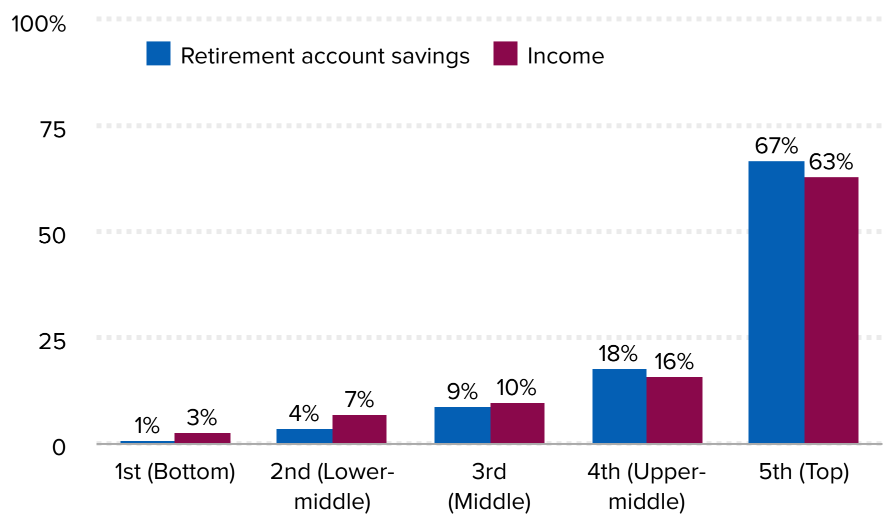
Source: EPI analysis of Survey of Consumer Finance data, 2016.

Despite rules intended to ensure that high-income families do not disproportionately benefit from tax subsidies for retirement saving, our savings-based retirement system does not simply reflect, but also magnifies, inequality. The bottom 60% of working-age families receive 23% of total income but hold 13% of retirement account balances. Meanwhile, the top 20% receive 59% of income and hold 70% of retirement account balances.

20

Retirement inequality is greater than income inequality even in peak earning years

Share of total retirement account savings and total income for families in peak earning years (age 50–55) by income quintile, 2016



Note: Based on "normal income," which may differ from actual income if a family's income in the past year was unusually high or low. Retirement account savings include funds in 401(k)-style defined contribution plans and in IRAs.

Source: EPI analysis of Survey of Consumer Finance data, 2016.

The fact that retirement savings are more unequal than incomes in part reflects the fact that older workers tend to earn more and also have had longer to accumulate savings. However, upper-income families hold a disproportionate share of retirement account balances even within specific age groups, such as workers in their peak earning years (age 50–55). The bottom 60% of families in this age group receive 20% of total income but hold only 14% of account balances (numbers in chart may not add up to 100% due to rounding).

About the author

Monique Morrissey joined the Economic Policy Institute in 2006. Her areas of interest include Social Security, pensions, savings, tax expenditures, older workers, public employees, and unions.

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