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Solving the Retirement Crisis in West Virginia

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As thousands of West Virginians approach retirement age, workplace retirement plans, along with Social Security and personal savings, are of growing importance. A secure retirement allows retired workers to live independently, pay for healthcare, and continue to contribute to the state's economy.

But in West Virginia, more than 349,000 workers, over half of the private-sector workforce, do not participate in an employer-sponsored retirement plan. Of those 349,000, more than 287,000, or 82 percent, do not have access to a workplace retirement plan, as their employers do not offer one.

The lack of access to retirement savings is a growing problem for West Virginia, particularly as the population ages. To address the lack of access to retirement savings among West Virginia workers, the state could sponsor a system of Voluntary Employee Retirement Accounts (VERAs), which would expand access to retirement plans to all employees and employers who wish to participate. VERAs would give workers an affordable and portable option to save for their retirement and give businesses the option to offer more benefits, increasing retirement security while making the state a more attractive place to live, work, and do business.

Key Findings:

- Only 30 percent of workers working for small businesses (fewer than 50 employees) are offered a retirement plan by their employer.
- Over 66 percent of low-wage workers (less than \$25,000/year) work for an employer who does not offer a retirement plan.
- A lack of access to retirement savings has led to a growing reliance on Social Security as a source of income for West Virginia's seniors, particularly for low-income seniors.
- Young workers are less likely to participate in an employer-sponsored retirement plan.
- Less than 40 percent of working women are included in a workplace retirement plan.
- While the share of workers who are offered retirement plans by their employer has increased in recent years, it remains below historical levels.

Access to retirement plans benefits workers and businesses

It is no surprise that access to retirement plans benefits workers, helping meet their financial needs in their retirement years and build assets in the case of an emergency. But when workers have access to retirement plans, businesses benefit as well.

A number of studies have shown that employers who offer pensions or other workplace retirement plans have low turnover. Employees included in a workplace retirement plan are less likely to quit and have longer tenure than employees not covered. Longer-tenured workers lower turnover and training costs for employers, which can lower the costs of doing business, build profits, and allow businesses to grow.¹ There is also related evidence that employees with retirement plan

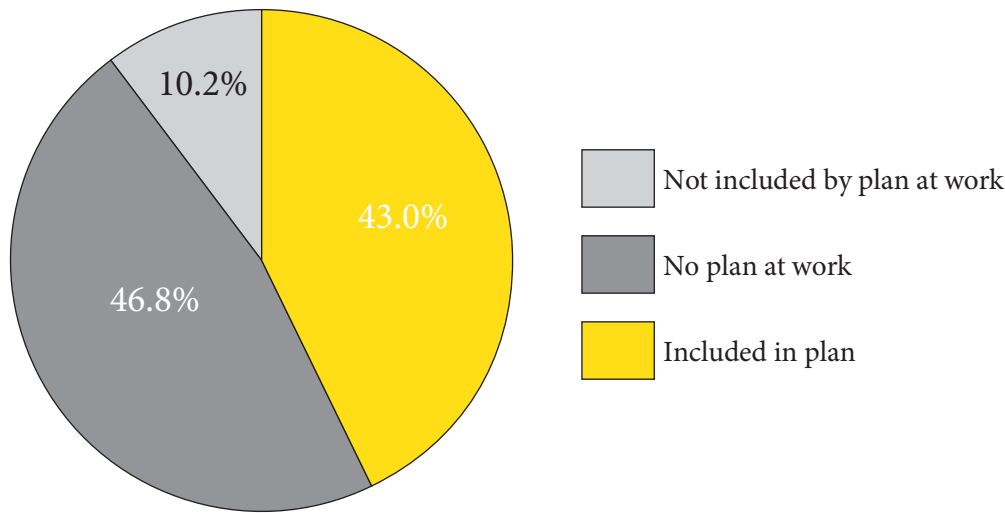
coverage are more productive than those without.²

Despite their benefits, administrative and costs hurdles prevent many businesses, small businesses in particular, from offering retirement plans³, leaving thousands of workers in West Virginia at risk of financial insecurity in retirement.

Less than half of West Virginia’s private sector workers are included in workplace retirement plans

In West Virginia, an estimated 287,645 workers, 47 percent of the private-sector workforce, work for employers who do not provide any type of retirement plan. Another 62,167 workers work for employers who offer plans, but are either ineligible for, or choose not to participate in, those plans. Overall, only 43 percent of private-sector workers in West Virginia are included in a workplace retirement plan (**Figure 1**).

Figure 1
Private sector employer-sponsored retirement plan coverage (2011-2013)



Source: WVCBP analysis of U.S. Census Bureau, Current Population Survey microdata. Three-year average, 2011-2013. Accessed from <https://cps.ipums.org/cps/index.shtml>

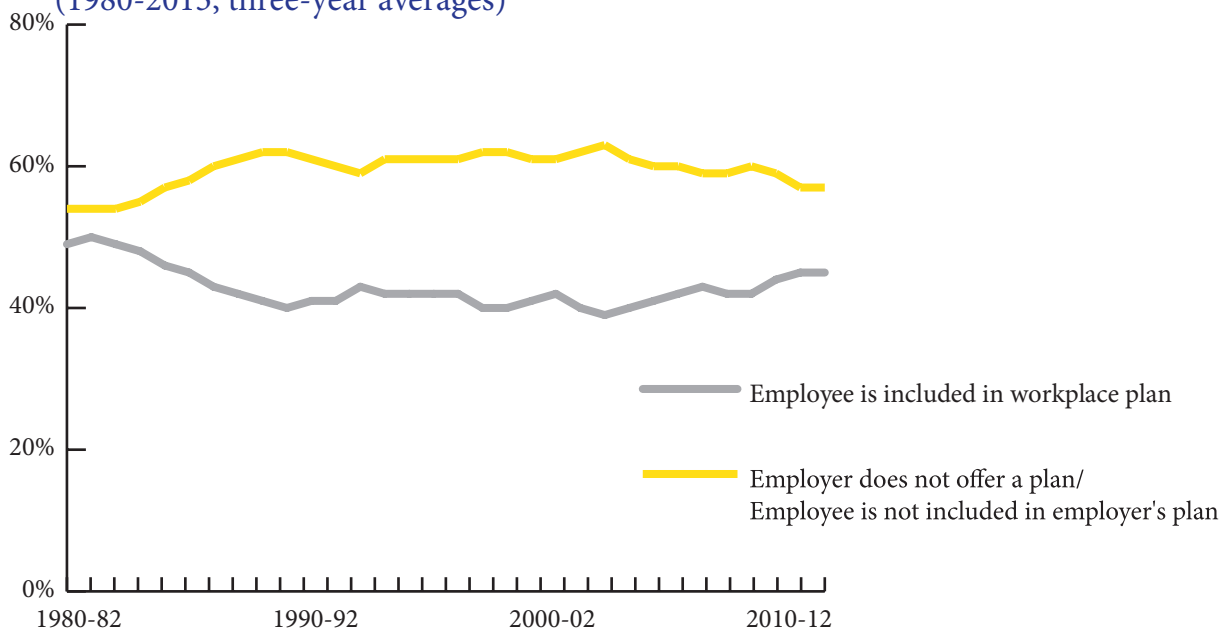
The share of private-sector workers in West Virginia who either work for employers who do not provide retirement plans or are not included in their employers’ plans grew sharply in the 1980s, from just over 54 percent in 1980-82 to over 62 percent in 1989-91. The share of workers who are included in a workplace retirement plan stayed at close to 40 percent throughout the 1990s and into the 2000s, before starting a slow increase to 45 percent today (**Figure 2**).

When employers do offer a workplace retirement plan, part-time workers are often left out. Approximately 85 percent of part-time workers (less than 20 hours per week) who work for an employer that offers a retirement plan are not included in it, compared to just 15 percent for full-time employees (35 hours or more per week). But overall, only 27 percent of part-time workers work for an employer who offers a workplace retirement plan in the first place, which means that only four percent of part-time workers are included in a workplace retirement plan.⁴

Low-wage workers are less likely to have access to retirement plans

Low- and moderate-income workers in West Virginia have far less access to workplace retirement plans than those workers with higher incomes. Less than 18 percent of workers earning less than \$25,000 a year are included in their employers’ retirement plans, while over 66 percent work for employers who do not offer a plan.

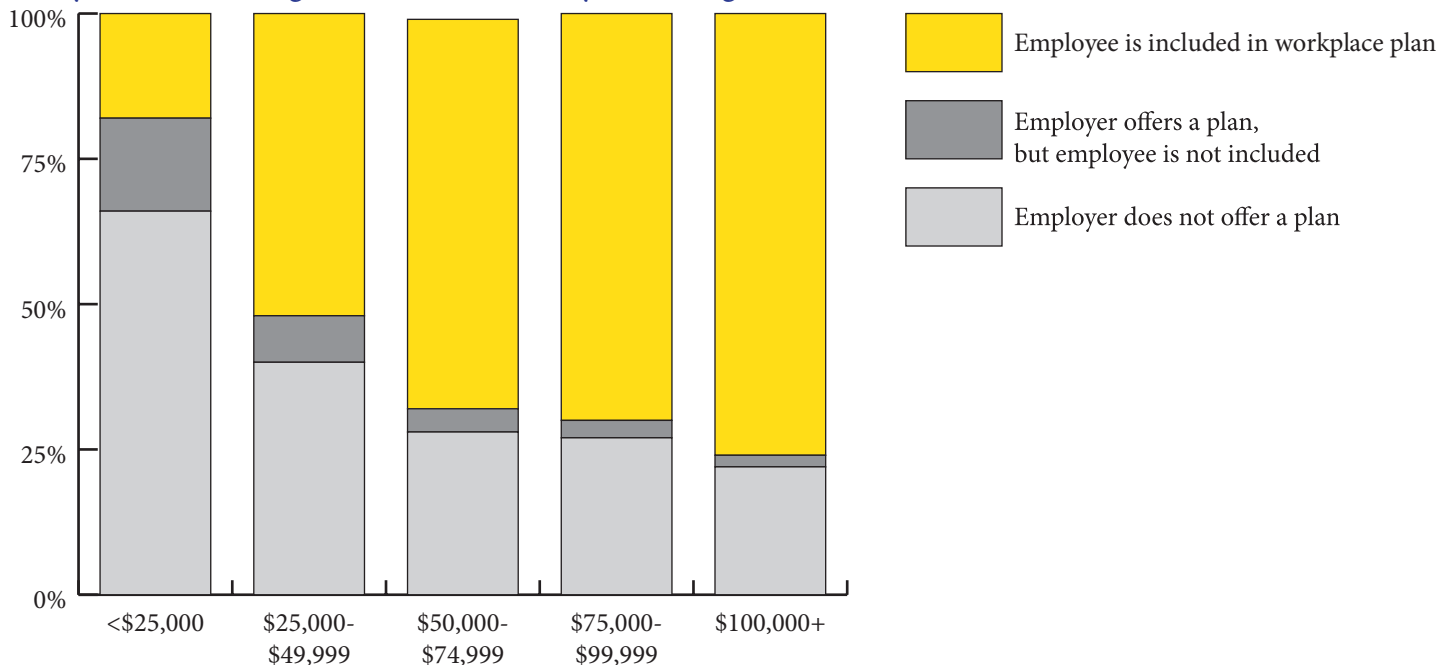
Figure 2
Private sector worker access to workplace retirement plans in West Virginia
(1980-2013, three-year averages)



Source: WVCPB analysis of U.S. Census Bureau, Current Population Survey microdata. Three-year average, 2011-2013. Accessed from <https://cps.ipums.org/cps/index.shtml>

Access to workplace retirement plans increases significantly as worker incomes rise. More than half of workers earning between \$25,000 and \$49,999 a year are included in their employer's retirement plan, and over 70 percent of those earning above \$50,000 a year are included. In comparison, 66 percent of workers earning less than \$25,000 a year work for an employer who does not offer any retirement plan (Figure 3).

Figure 3
Private sector worker participation in workplace retirement plans in West Virginia, by annual earnings (2011-2013, three-year average)



Source: WVCPB analysis of U.S. Census Bureau, Current Population Survey microdata. Three-year average, 2011-2013. Accessed from <https://cps.ipums.org/cps/index.shtml>

Over a quarter of West Virginia’s private-sector workers earn less than \$25,000 annually.⁵ Access to workplace retirement plans would help these low-wage workers increase their financial security as they reach retirement age.

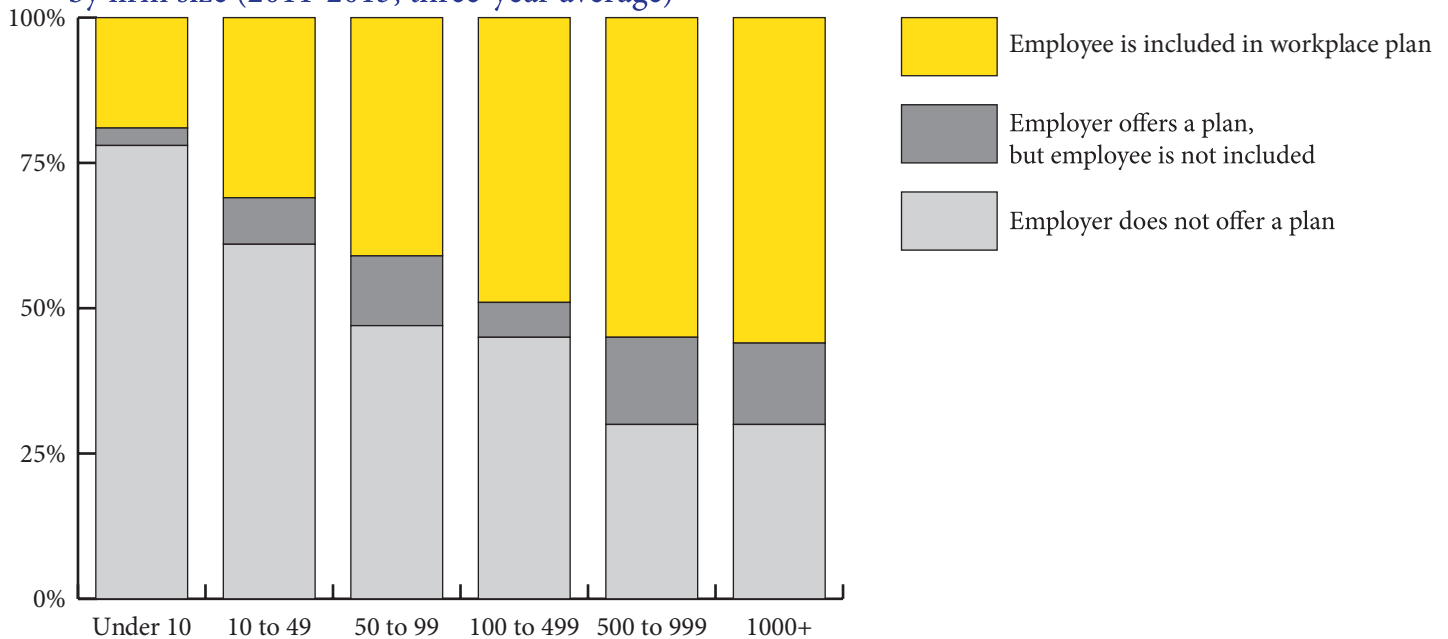
Small businesses less likely to offer retirement plans

Administrative and cost hurdles prevent many small businesses from offering retirement benefits.⁶ As a result, workers who are employed by small businesses in West Virginia are much less likely to be offered retirement plans than workers at large companies, particularly for those working in very small businesses.

More than a third of private-sector workers in West Virginia work for businesses with fewer than 50 employees⁷, making the lack of access to workplace retirement plans in small businesses a particular problem. More than three-quarters of workers in businesses with fewer than 10 employees, and 61 percent of those in businesses with 11 to 49 employees, work for an employer with no retirement plan. In comparison, 56 percent of workers in companies with 500 or more employees work for an employer who offers a workplace plan (**Figure 4**).

Figure 4

Private sector worker participation in workplace retirement plans in West Virginia by firm size (2011-2013, three-year average)



Source: WVCBP analysis of U.S. Census Bureau, Current Population Survey microdata. Three-year average, 2011-2013. Accessed from <https://cps.ipums.org/cps/index.shtml>

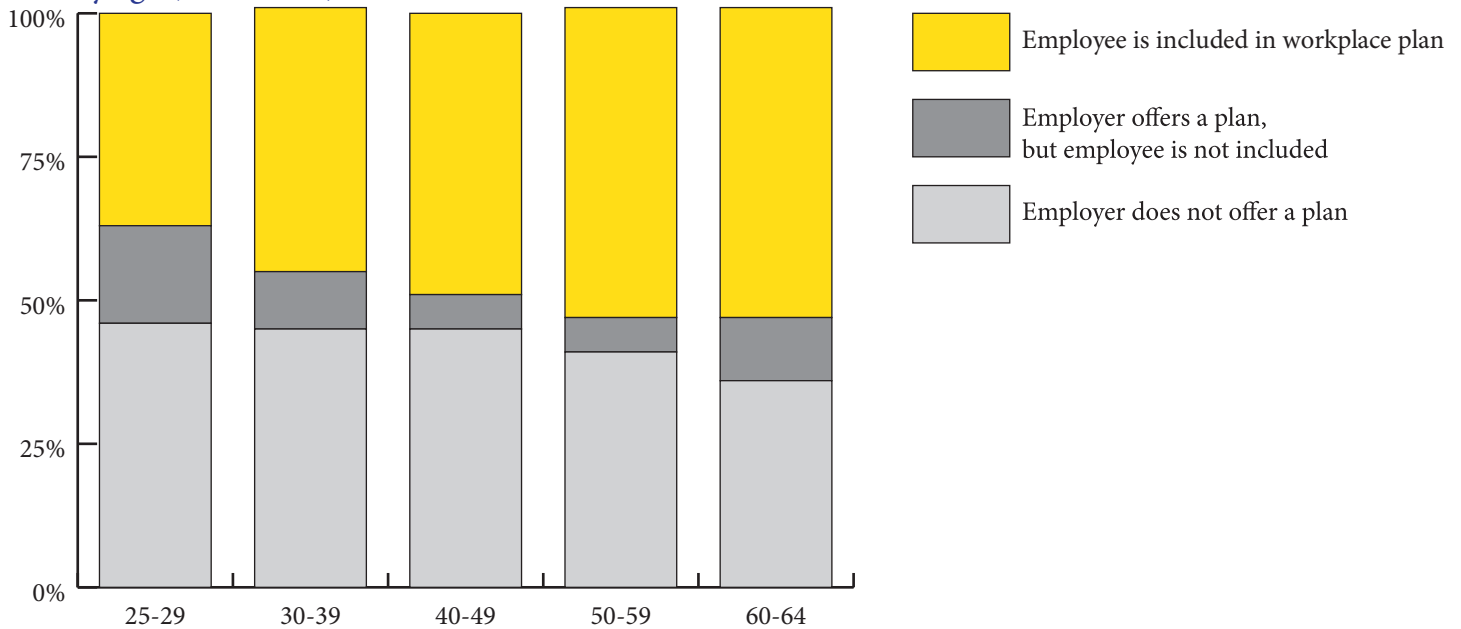
In addition, 85 percent of self-employed workers in businesses that are not incorporated - 32,299 West Virginians – are not saving for retirement through a workplace plan.⁸

Young workers less likely to be included in their employer’s plans

Workers under the age of 50 in West Virginia have about the same likelihood of working for an employer who does not offer a retirement plan as they do of working for an employer who does offer such a plan. But in the cases where an employer does offer a retirement plan, younger workers are less likely to be included. While over 53 percent of workers between 50 and 64 are included in a workplace retirement plan, only 37 percent of workers between the ages of 25 and 29 are included in a retirement plan where they work (**Figure 5**).

Figure 5

Private sector worker participation in workplace retirement plans in West Virginia by age (2011-2013)



Source: WVCBP analysis of U.S. Census Bureau, Current Population Survey microdata. Accessed from <https://cps.ipums.org/cps/index.shtml>

More than half of working women in West Virginia have no retirement plan at work

Women are more likely than men to work for an employer who does not offer a retirement plan. 51 percent of women working in the private sector in West Virginia do not have access to a retirement plan at work, while another 10 percent work for an employer who offers a plan, but are either ineligible or choose not to participate. Only 39 percent of working West Virginian women participate in a workplace retirement plan, compared to 47 percent of men (Figure 6).

More than half of working women and African Americans in West Virginia have no retirement plan at work

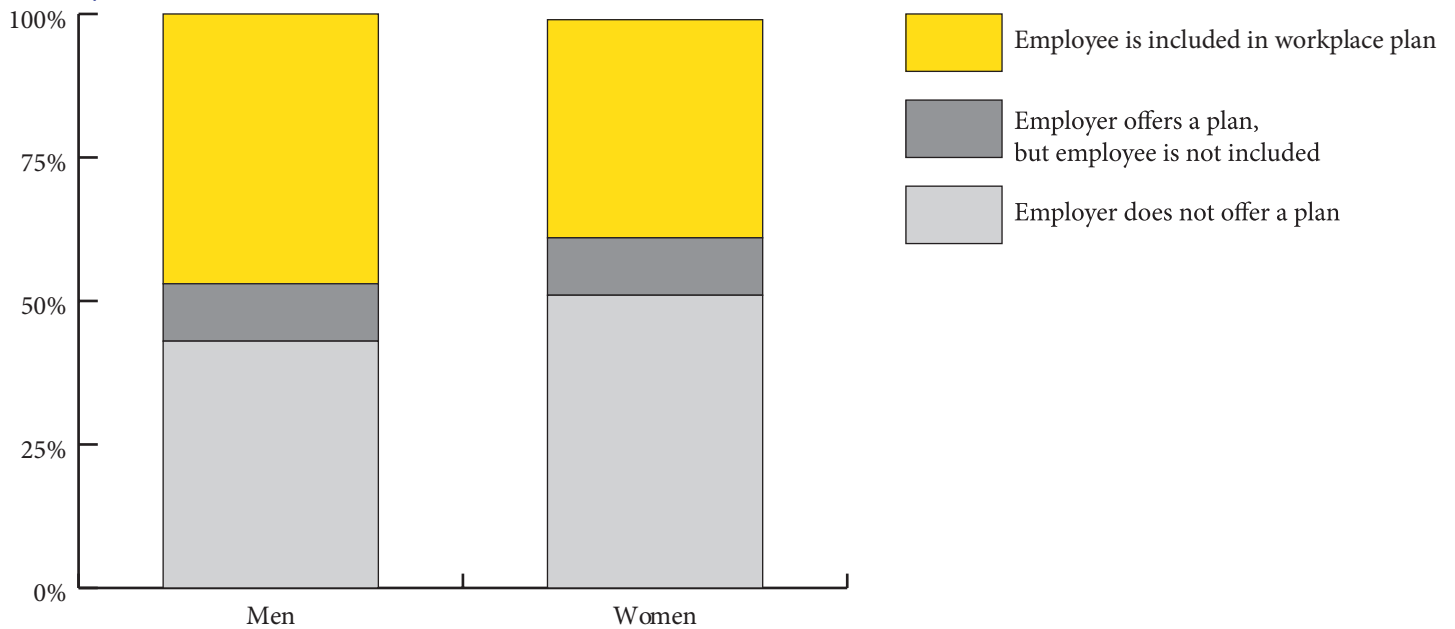
African Americans are also less likely to have a workplace retirement plan. Only 42 percent of African American private-sector workers in West Virginia are included in a workplace retirement plan, while over 47 percent work for an employer who does not offer a plan.⁹

Employees in the leisure and hospitality industry are the least likely to have access to a retirement plan

Employee access to retirement plans varies by private sector industry. In some industries, like mining and manufacturing, over 60 percent of employees are included in a workplace retirement plan. Other industries, however, offer far less access.

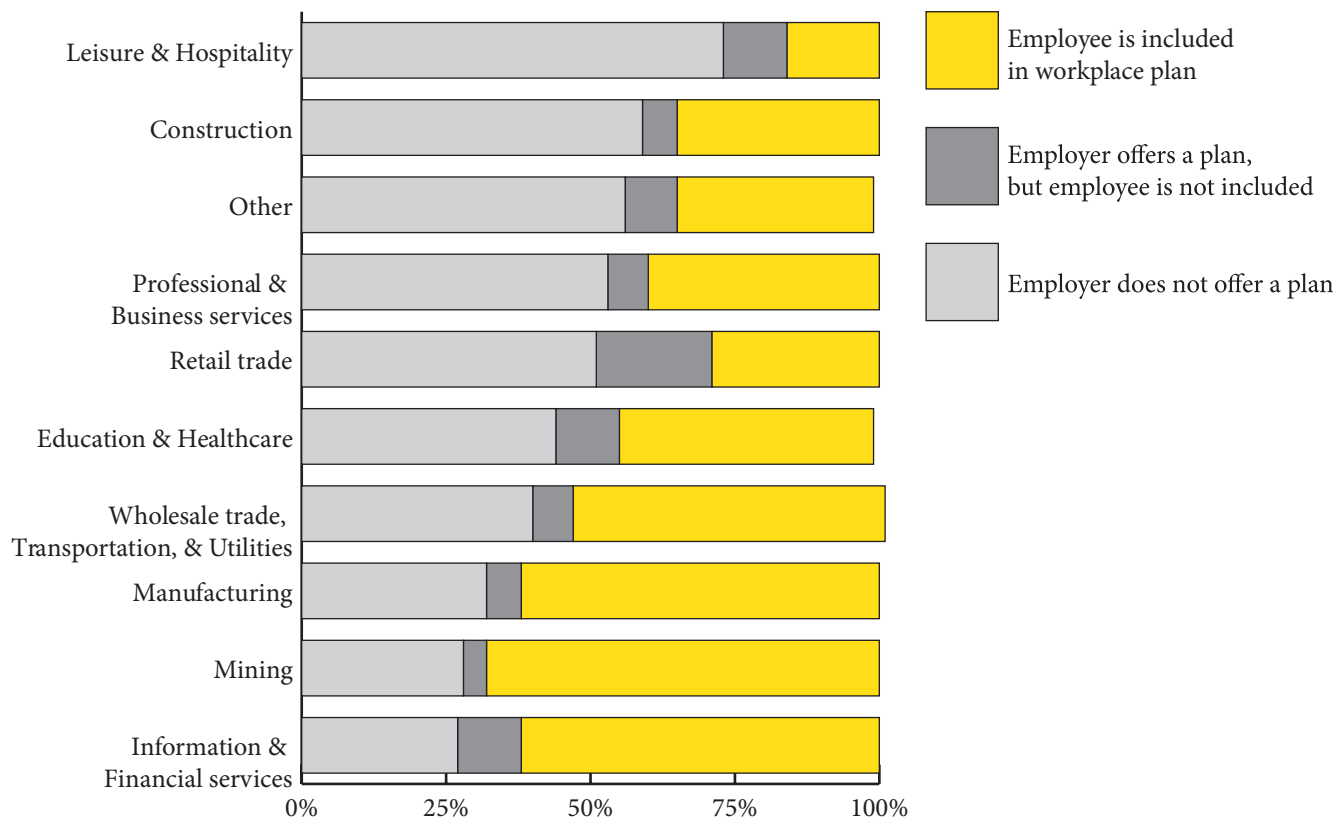
The leisure and hospitality industry, which includes restaurants, bars, and recreational facilities, employs nearly 10 percent of West Virginia's private-sector workforce. But nearly three-fourths of those employees work for an employer that offers no retirement plan. Less than 16 percent of leisure and hospitality workers are included in a workplace retirement plan (Figure 7).

Figure 6
Private sector worker participation in workplace retirement plans in West Virginia
by sex (2011-2013)



Source: WVCBP analysis of U.S. Census Bureau, Current Population Survey microdata. Accessed from <https://cps.ipums.org/cps/index.shtml>

Figure 7
Private sector worker participation in workplace retirement plans in West Virginia by age (2011-2013)



Source: WVCBP analysis of U.S. Census Bureau, Current Population Survey microdata. Accessed from <https://cps.ipums.org/cps/index.shtml>

Reliance on Social Security

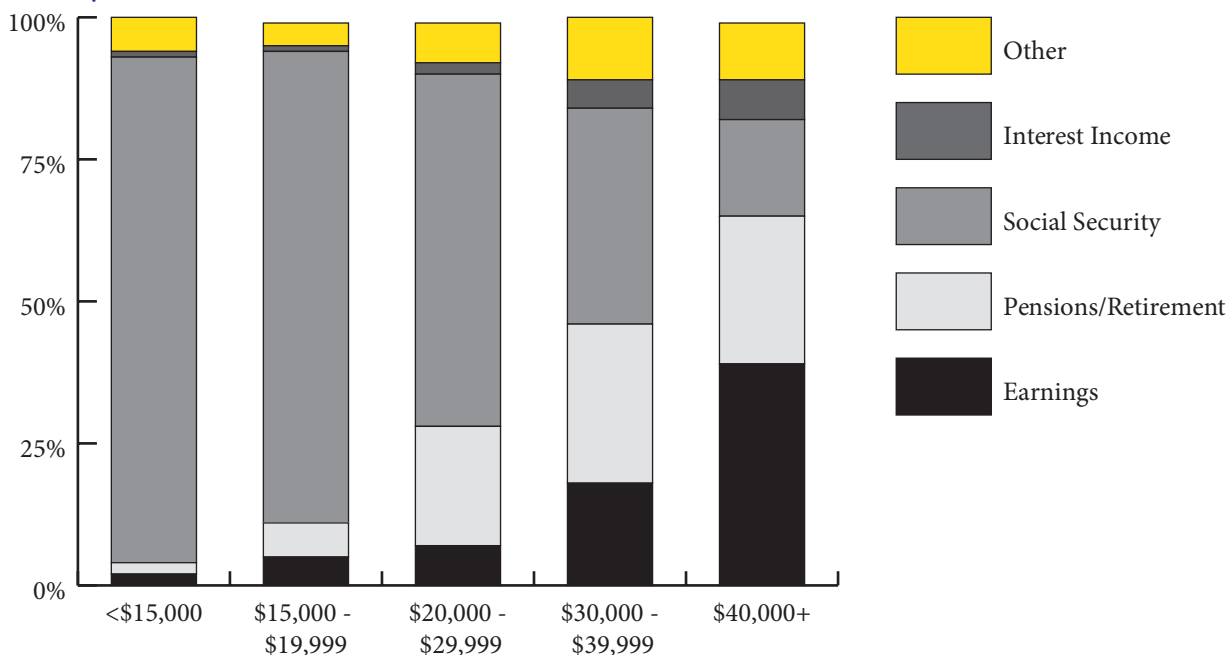
Without access to workplace retirement plans, thousands of West Virginia’s retirees are left with little other than Social Security as a source retirement income. For most seniors, Social Security is the largest single source of income. It makes up more than 44 percent of the average income of seniors in West Virginia, and 38 percent nationwide¹⁰, with an average monthly benefit of about \$1,300.¹¹

Despite its importance, Social Security is not designed to be the sole source of income for retirees. Instead, Social Security works best as a supplement to workplace retirement plans and personal savings.

With low-wage workers less likely to have access to retirement plans, it is no surprise that the relative importance of Social Security increases as senior income decreases. Social Security makes up an average of 89 percent of the total income for seniors with less than \$15,000 in annual income in West Virginia, while it comprises just 17 percent for those seniors with more than \$40,000 in annual income.

Pensions or other retirement plan income makes up less than two percent of annual income for low-income seniors, while wealthier seniors receive more than a quarter of their income from retirement plans (Figure 8).

Figure 8
Sources of Senior (ages 65+) income in West Virginia
by income (2011-2013)



Source: WVCBP analysis of U.S. Census Bureau, Current Population Survey microdata.
Accessed from <https://cps.ipums.org/cps/index.shtml>

Voluntary Employee Retirement Accounts can expand access to retirement plans in West Virginia

The existence of workplace retirement plans is important to building retirement security. Research has shown that access to a workplace retirement plan is second only to having a job as the most important factor in assisting moderate- and low-income workers to build retirement security.¹² But with less than half of West Virginia’s private workforce covered by a workplace retirement plan, it is clear that the private market has not succeeded in meeting the need for retirement security. Existing private options for retirement savings have not worked in providing coverage for low- and moderate-income workers and small businesses.

In theory, any worker without a workplace retirement plan could save for retirement through an IRA, but only one out of every 20 workers actually does so.¹³ But when workers are provided with a plan at work, they largely take advantage of it, even low-income workers. 86 percent of low-income workers and 95 percent of higher-income workers participate in retirement savings plans when they are offered one at work.¹⁴

Access to workplace plans is essential to creating retirement security. But most private-sector options are both expensive and complicated, and often require the employer to make a contribution and play an active role in the process. Small businesses pay much higher administrative costs for traditional and automatic enrollment 401(k) than those paid by larger employers, whose costs of administration and management can be spread over a large number of accounts.¹⁵

Small businesses are also not the preferred market of the financial industry. Small accounts, like the payroll deduction IRA that could be used by small businesses and low- and moderate-income workers, are less profitable for the industry, and are not as aggressively marketed by providers as are large accounts.¹⁶

In addition, the tax incentives designed to encourage retirement savings favor those with higher incomes, and offer little benefit to low- and moderate-income workers.¹⁷ These tax incentives consist primarily of deductions and exclusions from federal income tax. The value of those deductions depends on the taxpayer's tax bracket. For example, a taxpayer with \$6,000 in deductible IRA contributions saves \$1,500 in tax if he is in the 25 percent marginal tax bracket, but only \$600 if he is in the 10 percent bracket. This makes the incentive far more valuable for wealthier workers than it is for moderate- and low-income workers.

West Virginia could make it easier for workers to save for retirement and for businesses to offer retirement plans by sponsoring a system of Voluntary Retirement Accounts (VERAs). VERAs would provide a low cost and simple way for small businesses and their employees, self-employed workers and other workers without access to retirement plans to save for retirement.

Legislation introduced during the 2014 session would have established a VERA program under the State Treasurer's office. The Treasurer's office would oversee the program, much like the existing SMART 529 college savings program and the Retirement Plus 427 deferred compensation program.

Through the VERA program, West Virginia could provide a selection of low-cost investment options while also serving as a resource in assisting in enrollment, contributions rules, and investment performance, allowing workers and employers to make informed decisions about their investments. By pooling participants together, West Virginia could use its leverage to offer affordable investments with low fees.

The lower fees offered by VERA programs can substantially increase retirement savings, particularly for workers employed by small businesses. High 401k fees can cost workers tens of thousands of dollars. Plans with fewer than 100 participants have an average annual fee of 1.3 percent.¹⁸ A typical worker who starts saving at the age of 25 would pay \$166,420 in fees over his or her lifetime with at that rate. However, a worker in a low-cost plan, with a fee of 0.25 percent, would only pay \$42,309, saving over \$120,000.¹⁹ Low fees, along with the simplification of the process offered by a VERA program, could increase participation in retirement savings.

A VERA program would have no costs for the state and taxpayers. Initial start-up costs could be recouped through fees from participants, and the state would not be responsible for investment gains or losses, and would not guarantee savings. A state-sponsored VERA program is a practical way to meet an unfulfilled need in the market and help workers build their retirement assets. A VERA program would help ensure that all West Virginia workers and businesses have access to safe and affordable retirement options.

Endnotes

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