



401(k) Plan Participants Report More Confidence

Participants benefit from years of saving, healthy financial habits

January 2020

KEY INSIGHTS

- People who participate in 401(k) plans are more confident about their financial futures than those who don't participate—regardless of income or assets.
- Low income households save more if they participate in a retirement plan. For example, plan participants with a household income of less than \$25,000 had an average savings of \$10,000 as opposed to \$500 for eligible nonparticipants.
- People who choose not to participate in workplace savings plans struggle more financially than those who don't have access to workplace savings plans.

While there is no shortage of research about the range of emotions associated with retirement, we feel that the emotional benefits of participating in a 401(k) plan are still not well understood.

With this in mind, T. Rowe Price expanded its annual Retirement Saving and Spending Study beyond 401(k) participants to include people who don't participate in retirement plans—either by choice or because they don't have access. We hoped to isolate the value of participating in a 401(k) plan and highlight the financial and emotional challenges of eligible nonparticipants and those without 401(k) plan access.

We asked preretirees “How confident are you about retirement?” and used the responses in a regression framework to isolate what effect participating in a 401(k) plan has on their retirement confidence.

As a result, we have data to support what we have always surmised: Participating in a 401(k) plan can help set the tone for future healthy financial behaviors as well as ultimately result in more confident individuals.

We found that people who participate in a 401(k) plan are 16% more likely to be confident about their retirement than those who don't participate (even though they are eligible) or don't have access.¹



Sudipto Banerjee, Ph.D.
Senior Manager, Thought Leadership

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¹Based on results from an ordered logistic regression where level of confidence around retirement was regressed on plan participation, household income, investible household assets, age, gender, marital status, education, and race. Responses to “How confident are you about retirement?” on a scale of 1 (not at all) to 10 (very): 1 to 6 for non-confident, 7 to 10 for confident.

Isolated Effects of Assets and Plan Participation on Retirement Confidence

Plan participation increases confidence comparable to having more assets

	Kim	Emily	Omar	Peter
 Age	50	50	50	50
 Education	Some college	Some college	College graduate	College graduate
 Marital status	Married	Married	Married	Married
 Household assets	\$350,000	\$50,000	\$150,000	\$150,000
 Household income	\$80,000	\$80,000	\$80,000	\$80,000
 Participates in a retirement plan?	Yes	Yes	Yes	No
Kim is 22% more likely to be confident about retirement than Emily.		Omar is 16% more likely to be confident about retirement than Peter.		

Among those making \$25,000 or less, 401(k) participants saved **10 times more** on average than peers without access to a plan and **20 times more** than those who have access to a 401(k), but choose not to participate.”

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The regression results suggest that the effect on one's confidence when participating in a 401(k) plan is comparable to a significant increase in household investible assets. Here are two examples to illustrate our point.

As shown in the table above, Omar and Peter are the same in these respects: household income and assets, marital status, and education. The only difference is that Omar participates in a 401(k) plan. Our results say Omar is 16% more likely to be confident about his retirement.

But what does that *really* mean? For comparison's sake, let's consider Emily and Kim. Both participate in a 401(k) plan and household income, marital status, and education are the same. The only difference is Kim has \$300,000 more in household investible assets than Emily. Our regression results suggest that Kim is 22% more likely to be confident about retirement.

So, the effect of plan participation on confidence is only slightly less than having \$300,000 more in assets.

Retirement plans play a pivotal role in setting a savings foundation in place. Individuals can start seeing the value of paying themselves first and investing

in their future. The early jitters of a novice investor who often doesn't know where to start is gradually replaced over time with the confidence gained from investing regularly. The differences start showing up in a variety of numbers—increased income, higher assets, and lower amounts of debt.

401(k)s Facilitate Higher Savings, Even Among Low Income Households

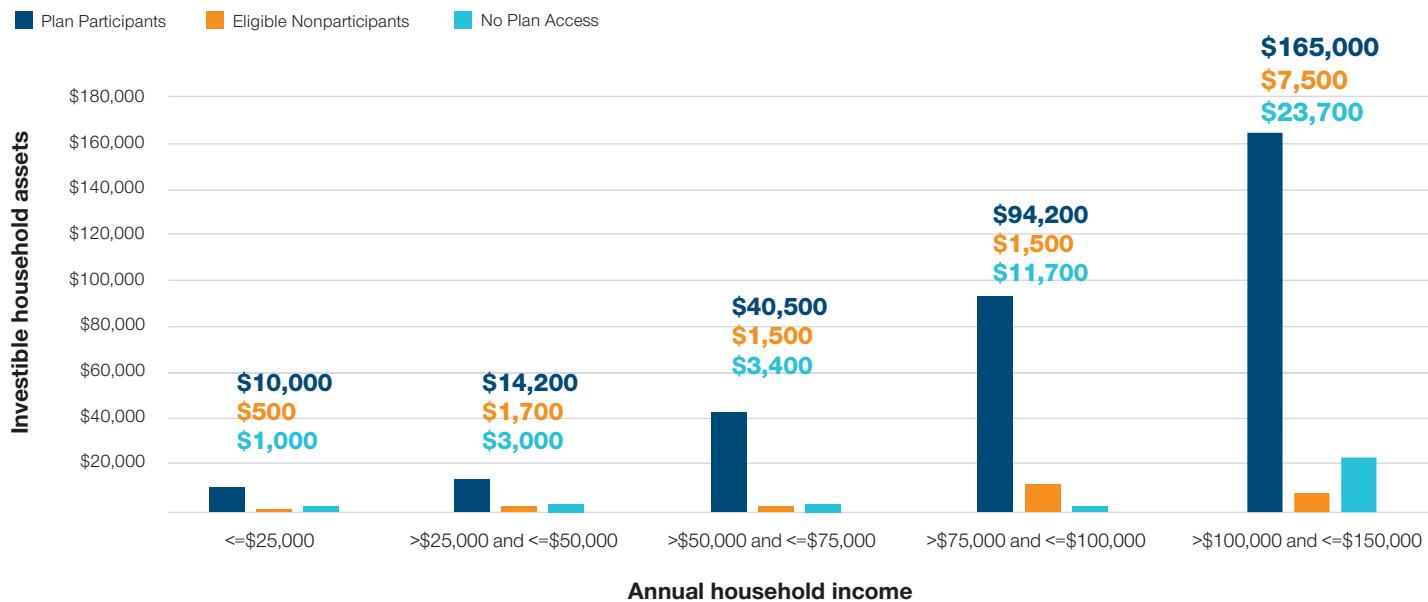
What drives savings behavior? Is it income, or does having access to a workplace plan make a difference? Of course, income has a large effect on how much someone can save. But low income doesn't appear to deter people from saving if they participate in a retirement plan.

We looked at participants, eligible nonparticipants and those without plan access who are within the same income range and examined savings behavior.

Figure 1 shows that even low income participants accumulate substantially greater savings than their non-saving peers. Among those making \$25,000 or less, 401(k) plan participants saved 10 times more on average than peers without access to a plan and

(Fig. 1) Employer Plans Help Workers Save More

Regardless of income, plan participants have higher investible assets, eligible nonparticipants have least amount saved



Source: Calculations from the T. Rowe Price Retirement Saving and Spending Study (2019).

20 times more than those who have access to a 401(k) plan, but choose not to participate. In middle income households (earning between \$50,000 and \$75,000), plan participants had an average savings of \$40,500 compared with \$1,500 and \$3,400 for eligible nonparticipants and those without access, respectively.

Even though people can save for retirement via individual retirement accounts (IRAs), they cannot save to the degree 401(k) participants can due to contribution limits. However, those

without access to 401(k)s aren't the most financially distressed group. Those who have access to 401(k)s but don't participate tend to have:

■ Lower household income:

Perhaps not surprising, eligible nonparticipants work in lower wage jobs. Median household income for participants is more than twice that of eligible non-participants. The lower household income certainly makes it harder for either the worker or his/her spouse/partner to save adequately for retirement.

401(k) Participants Have More Assets, Less Debt

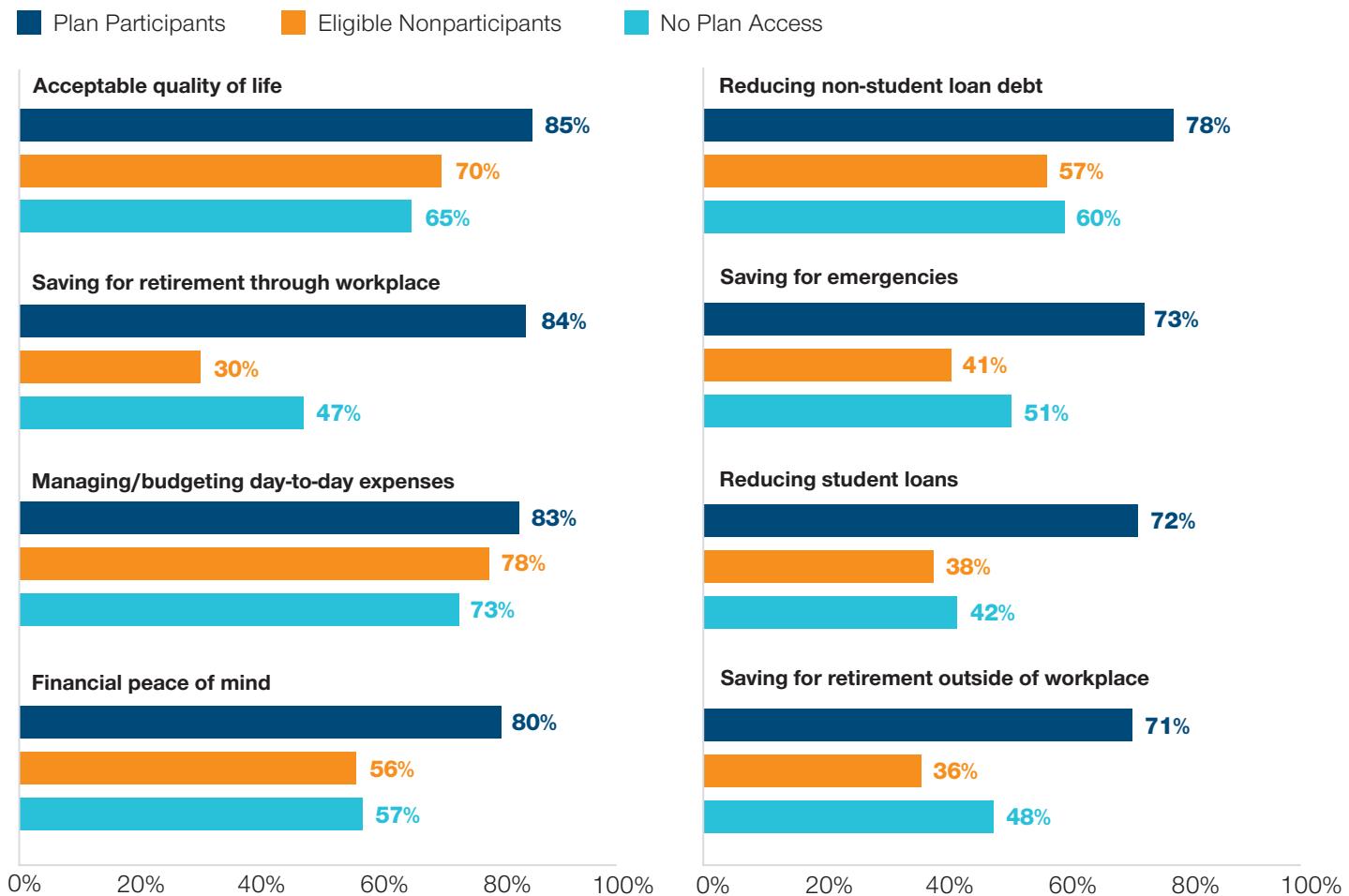
Eligible nonparticipants have higher debt-to-income ratio

	Plan Participants	Eligible Nonparticipants	No Plan Access
Median Household Income	\$125,000	\$58,000	\$65,000
Median Household Assets (includes 401(k) plans)	\$172,000	\$2,000	\$7,000
% of Savings to Income	137.6%	3.4%	10.7%
Median Household Debt (includes student loans, excludes mortgage)	\$13,800	\$18,400	\$5,700
% of Debt to Income	11.0%	31.7%	8.8%

Source: Calculations from the T. Rowe Price Retirement Saving and Spending Study (2019).

(Fig. 2) Plan Participants Report Higher Progress Toward Major Financial Objectives

Eligible nonparticipants, those without plan access show less improvement



Source: T. Rowe Price Retirement Saving and Spending Study (2019). Respondents report making a great deal or some progress toward financial objectives.

- **Lower market value of assets:** Eligible nonparticipants and those without plan access have lower assets than 401(k) plan participants.
- **Higher amounts of debt:** Of all three groups, eligible nonparticipants have the highest amount of debt. For participants, although the median debt amount looks high, they also have much higher income and report better progress against paying it off. When we look at the debt-to-income ratio it becomes clear that eligible nonparticipants face a much higher debt burden than the others.

Clearly, workers without access to workplace plans are falling behind in retirement savings because of the lack of access. On the other hand, eligible

nonparticipants seem to be saddled with debt and lower income, which hurts their short-term and long term financial prospects. In the short term, they have fewer assets to triage financial emergencies. In the long term, they aren't saving as much for retirement.

With Plan Participation Comes Progress

While the definition of retirement continues to evolve, so do indicators of success. There are tangible financial goals people may set for themselves (amount of money saved) as well as emotional goals (peace of mind, less worry around finances).

Plan participants consistently report progress at a high level against a variety of objectives, from the intangible (acceptable quality of life and financial peace of mind) to the tangible (saving for retirement, reducing debt, budgeting for daily expenses, and saving for emergencies). Eligible nonparticipants and those without access tend to report more progress with short-term goals like reducing debt and managing day-to-day expenses than with the long-term goal of saving for retirement.

While it's not surprising that eight in 10 plan participants report that they are making progress toward saving for retirement in a workplace plan, they are also twice as likely to additionally save for retirement via traditional IRAs or other accounts.

Participants are paying down student loans and other types of debt, which is likely attributable to their higher incomes. Also, participants are almost twice as likely to have a special account set aside for emergencies compared with those without an employer savings plan. Half of eligible nonparticipants were likely to ask

family members or friends for financial help in an emergency.

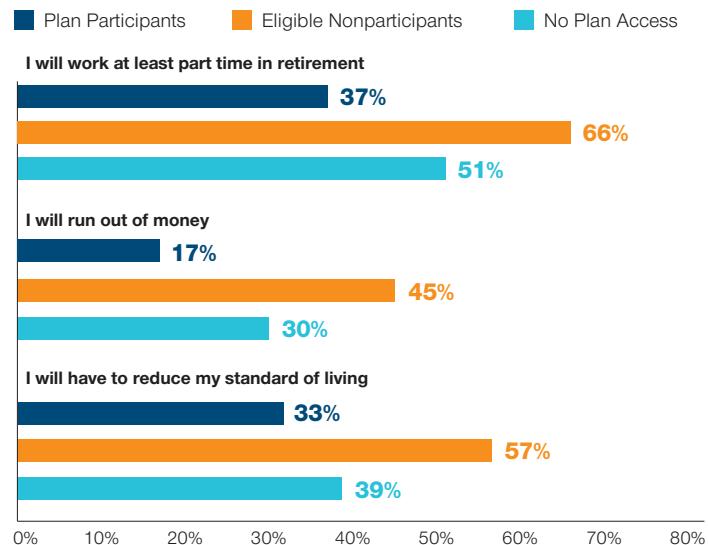
These findings support the finding that a 401(k) plan is a game changer in terms of shaping healthy financial habits. It provides the organizational structure that encourages saving by allowing people to pay themselves first. From there, people can replicate this saving and investing process outside of a retirement plan. Retirement plan participation creates a cycle of good financial behavior. One right decision forges the path for the next right decision.

Plan participants were more likely to be optimistic about having enough money for health care (39%) and unexpected expenses (32%) than those eligible, but not participating or those without plan access.

Figure 3 shows that eligible nonparticipants had more financial concerns about retirement saying that they were worried about running out of money (45%), needing to reduce their standard of living (57%) and having to work at least part-time in retirement (66%).

(Fig. 3) Retirement Expectations

Nonparticipants have more financial concerns than plan participants



Source: T. Rowe Price Retirement Saving and Spending Study (2019).

So, how can the retirement landscape be improved to help those who are not saving or don't have access to a retirement plan?

What Policymakers, Retirement Plan Stakeholders, and Individuals Can Do

There are three broad constituencies within the U.S. retirement system:

- Policymakers
- Retirement plan stakeholders (e.g., plan sponsors, consultants, advisors, service providers such as recordkeepers, third-party administrators, etc.)
- Plan participants and individuals

Clearly, some things are working. Specifically, the access of tax-advantaged savings accounts through workplace retirement plans are having the intended effect. Eligible workers who participate in

these plans are improving their chances of working towards more financially secure retirement and reporting more confidence within their finances.

For some, however, access to 401(k) plans is a real barrier. Others may not participate because another person in the household may be saving or they don't believe they can save for retirement due to lower income, high debt burden, or a combination of both.

For those who get a late start saving for retirement, trying to make up for missed savings opportunities can be hard to do.

Nearly one in five of those not participating to a plan are between 25 and 29 years old. They are losing out on potential employer contributions as well as the value of compounding returns by not saving in a 401(k).

So, how can employers, plan sponsors, and advisors meet individuals where they are and offer the right kind of support and solutions that can make them more

Possible Action Steps

	Current Participants	Eligible Nonparticipants	Individuals Without Plan Access
Challenge: Are they saving enough via plans?	Challenge: What will encourage them to save in plans?	Challenge: How can savings plans be more accessible?	
Action steps for:			
Policymakers (e.g., plan sponsors, consultants, advisors, service providers such as recordkeepers, third-party administrators, etc.)	<ul style="list-style-type: none"> ■ Increase limits for catch-up contributions 	<ul style="list-style-type: none"> ■ Evaluate legislative proposals that offer tax incentives for people to save for retirement as well as other needs (e.g., emergency savings, student loan repayment) 	<ul style="list-style-type: none"> ■ Increase IRA contribution limits
Retirement Plan Stakeholders (e.g., plan sponsors, consultants, advisors, service providers such as recordkeepers, third-party administrators, etc.)	<ul style="list-style-type: none"> ■ Align plan design (e.g., matching contributions, vesting, etc.) with employee behavior to maximize budgets and outcomes ■ Default auto-increase with auto-enrollment ■ Provide tools to track progress 	<ul style="list-style-type: none"> ■ Reenroll eligible non-participants ■ Restructure match to encourage participation ■ Provide financial wellness programs, access to debt management tools 	<ul style="list-style-type: none"> ■ Assess alternatives to employer plan sponsorship (e.g., state-sponsored retirement plans and multiemployer plans)
Individuals	<ul style="list-style-type: none"> ■ Take full advantage of employer matching contributions ■ Try to save at least 15% of income (including employer match) ■ If eligible, claim Saver's Credit 	<ul style="list-style-type: none"> ■ Prioritize paying off high-interest debt ■ Establish emergency savings ■ Participate in employer plan ■ If eligible, claim Saver's Credit 	<ul style="list-style-type: none"> ■ Maximize tax-advantaged savings in IRAs ■ If eligible, claim Saver's Credit

confident about their future? While there isn't a silver bullet solution, there are ways to build on what is working as well as identify areas that can be improved for different populations.

We believe that 401(k)s are the first step toward a successful retirement. These plans can help provide a foundation for long-term saving for people who wouldn't normally save on their own. Those who don't have access to employer savings plans have to bear more responsibility to seek out ways to save for retirement. Those who don't save through available employer plans due to financial constraints are making tough choices between funding the known needs of today and planning for the unknown needs of the future.

We believe all workers should look forward to—and be confident about—their financial goals. These goals range to and through retirement. Resources aimed at helping workers save for retirement only work when they are available and optimized. We encourage employers and policymakers to help improve retirement savings options so more people are encouraged to save.

ABOUT OUR STUDY

The Retirement Saving and Spending Study was conducted by NMG Consulting and included a sample of 3,016 retirement plan participants, 250 eligible non-plan participants, and 603 individuals without access to workplace savings plans. The survey was conducted online from June 13–25, 2019.

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