

Finding Two: There Will Likely be a Retirement Crisis...for Those Who Do Not or Are Unable to Participate in a Defined Contribution Plan

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Finding Two Summary

- A. In our study,¹ we found that retirement funding ratios were dramatically better for those who are simulated to participate in a DC plan for 10 or more years in the future.
- B. Specifically, we found that 57% of those not participating at all in a DC plan in the future may run short of money in retirement, compared with only 21% for those with 20 or more years of future participation in a DC plan. Results are displayed in Exhibit 2 below.

Exhibit 2: Percentage of Gen Z, Millennials, and Gen X with Retirement-Funding Ratio Less than Displayed Value by Number of Years of Future Participation in a DC Plan

Funded Ratio	No Years in a DC Plan	1 to 9 Years in a DC Plan	10 to 19 Years in a DC Plan	20+ Years in a DC Plan
0.5	16%	12%	8%	4%
0.6	23%	18%	12%	6%
0.7	32%	25%	16%	9%
0.8	41%	33%	22%	12%
0.9	49%	41%	28%	16%
1	57%	48%	34%	21%
1.1	68%	62%	48%	30%
1.2	77%	72%	58%	39%
1.3	82%	78%	66%	46%
1.4	85%	83%	72%	53%
1.5	100%	100%	100%	100%

Source: Authors' calculations using v1.0 of the Morningstar Model of US Retirement Outcomes. Household data is from the 2022 Survey of Consumer Finances. Household members are assumed to retire at 65 and claim Social Security upon retirement. Portfolio returns are from Morningstar Investment Management. Note that the funded ratio 1.5 category includes results in which the funded ratio is above 1.5. Refer to the main study for more information: <https://www.morningstar.com/business/insights/research/retirement-crisis-401k>.

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Commentary on Findings

- ✗ Plan participation matters because Americans who participate in a DC plan are much more likely to save for retirement than workers who do not participate. For example, using the 2022 Survey of Consumer Finances, we noted that the average account balance (including retirement and non-retirement accounts) for Americans currently saving in a DC plan was about 4 times higher than for those who were not saving into a DC plan.
- ✗ Given the importance of participation in a DC plan, the retirement industry may want to focus on providing more Americans with access to an employer-sponsored plan. Currently, only about 52% of Americans have access to a retirement plan per Sabelhaus (2022).²
- ✗ The industry may also want to focus on improving participation rates for those who already have access to a plan. For example, plan sponsors may want to consider adding auto enrollment. Adding other features to the plan, such as a student loan match or an emergency savings account, may also boost participation.
- ✗ While participation is the most important factor, the retirement industry should continue to move towards auto portability and focus on reducing other forms of plan leakage including hardship withdrawals and defaults on plan loans.

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² Sabelhaus, John. 2022. "The Current State of US Workplace Retirement Plan Coverage." Wharton Pension Research Council, Working Paper (2022-07).