Quick Takeaways

Untangling the Determinants of Retirement Savings Balances
The New School
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Primary Purpose: To determine how life events (such as unemployment spells, disability, marriage and divorce) impact retirement savings and how these impacts differ by race, sex and income categories.
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Key Findings

- It is typical for a person to experience significant setbacks in their retirement savings throughout their lifetime. Almost all – 96 percent – of Americans experience four or more income shocks by the time they reach age 70.
- 401(k)s serve more than one role for many households. The 401(k) is used for two main purposes: to save for retirement, and to self-insure against income shocks prior to retirement. Retirement plans often are treated as liquid savings during times of hardship.
- Income shocks are pervasive among men in the labor force. A majority – 61 percent – of workers ages 25-70 experienced at least one episode in which they lost their earnings for a whole year. And 25 percent of workers age 66-70 have experienced at least four episodes in which they lost income for an entire year.
- Lower-income male workers are more likely than higher-income male workers to experience large drops in earnings.
- Earnings volatility, defined as an episode in which earnings drop more than 10 percent from one year to the next, is common. By the time men reach age 66-70, 96 percent had experienced at least four such episodes.
- The likelihood of volatile earning is higher for the lowest-income workers.
- Factors related to higher retirement savings include: having a college degree; participating in defined benefit and/or defined contribution retirement plans at work; good health; being married; and U.S. citizenship.
- Factors related to lower retirement savings include: poor health and disability; income shocks; being nonwhite; being divorced; and belonging to a union, which may signal greater likelihood of having a traditional defined benefit pension.

For more information and to read the executive summary and final report, visit www.nefe.org.