RETIREMENT RESEARCH & INSIGHTS

Understanding the American worker

Research highlights from our survey of lower-income individuals

Insights to help employers make more informed decisions to support the financial wellness of their employees.

In 2021, just before this study was fielded, 25% of working Americans earned $35,000 or less a year.[1] Many of these workers are considered "vulnerable," and they struggle to save for retirement as well as for basic financial goals.

Our survey[2] focused on these American workers and our search to understand what motivates those who are saving for the future and the barriers that prevent others from saving. Our goal was to learn about lower-income individuals' current financial situation and priorities — and to find ways to motivate them toward overall retirement preparedness and financial wellness.

The 401(k) plan and lower-income workers

Lower-income workers tend to understand the purpose and value of a 401(k) plan. Those who do contribute generally:

- Demonstrate key financial behaviors, including prioritizing their future and savings
- Are budget-conscious and establish a savings amount
- Were taught the value of saving at an early age

These savers are also motivated by the thought of making their future easier and leaving a legacy for their children, with more than half agreeing with the statement "I save for retirement because I want something for my family if something happens to me."

Workers who aren't saving in a 401(k) plan tend to hold the misperception that it requires setting aside a large amount each pay period and is therefore unaffordable. These employees often:

- Prioritize expenses
- Focus on their short-term needs
- Use a savings account because they feel it's a "safe" choice
- Face an unstable work environment or financial hardship

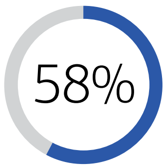
Understanding lower-income workers — their financial goals and challenges as well as their saving motivators and barriers — can help inform plan design and provide valuable insight on the types of communication and education strategies that could encourage them to participate in a 401(k) plan.

All data derived from the IPSOS April 2022 study unless otherwise noted.

Key findings about lower-income workers

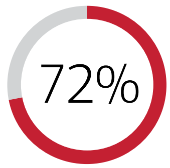
Approximately 4 in 10 don't participate in a 401(k) plan

There's room for improvement.



participate in a 401(k) plan

compared with



average of all workers who participate in a 401(k) plan

Women and young employees are more likely not to contribute to a 401(k) plan if offered by their employer.

"If I do enroll in the retirement plan with my company, that means I'll have less money for my needs right now."

— *Survey respondent*

Who participates and who doesn't?

Workers who choose not to participate in a 401(k) plan are likely:

- 21 to 39 years old
- Employed part time
- Single, never married
- Renters
- Lower income earners (both household and individual)
- Hourly wage earners

Workers who choose to participate in a 401(k) plan are likely:

- 40 to 58 years old
- Employed full time
- Married
- Homeowners
- Higher income earners (both household and individual)
- Salaried wage earners

Barriers to saving

- Extreme, immediate financial hardship (long-term injury, medical emergency, divorce, credit card debt)
- Unstable work environment (plans to leave current employer or part-time situation)
- Anticipating financial comfort from other sources (spouse, inheritance, previous savings)
- Lack of investment and product knowledge

Motivators to saving

- Leaving a legacy to children; making their future easier
- Low current expenses allowing them to save
- Budget conscious with a set saving amount
- Prioritizing long-term finances over short-term goals
- Higher understanding of more complex investment concepts, such as compounding

Those who choose not to participate in a 401(k) plan are feeling the financial pain elsewhere

Workers who don't participate in a 401(k) plan are more likely to feel stressed, hopeless, and negatively affected both mentally and physically because of their financial situation.

Are worried/concerned about their current financial situation

44%
of workers who don't participate

38%
of workers who do participate

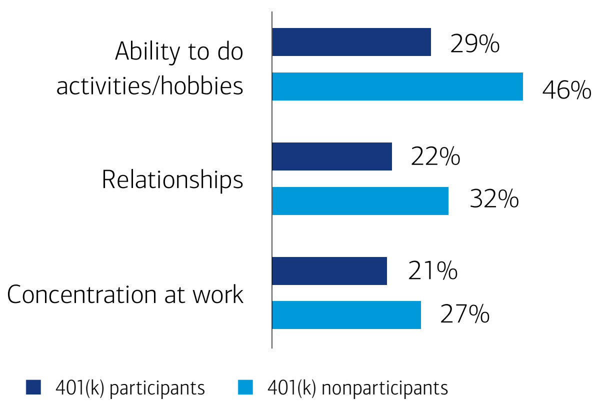
Don't have a financial plan in place

17%
of respondents

This figure is higher for women and young respondents.

26%
of those who don't participate

Workers who choose not to participate in a 401(k) plan are more likely to feel negative effects in other areas



Women and young adults are more likely to feel nonfinancial pain as a result of financial matters

44%
Financial situation is having a negative effect on their mental health

But young adults are less likely to feel negative effects on their **physical** health

Employers can help motivate workers to save

Because lower-income participants are more likely to use a 401(k) plan as a type of all-purpose savings account, employers have the opportunity to encourage employees to save. The most motivating factor was having 401(k) contributions taken out of their paycheck automatically so that they didn't have to think about it.

25%
consider a 401(k) plan a backup emergency savings fund

43%
of women participants cite **employer match** as a motivating reason to contribute

Automatic enrollment/contributions are favored across the board as a motivating factor for saving. More women than men are likely to cite this as a motivating factor.

Employer match is a motivating factor for contributing to a 401(k) plan

Although an employer match benefit triggers more employee 401(k) plan participation, **lower-income workers are more likely either not to be offered an employer match or not to know whether the employer offers a match**.

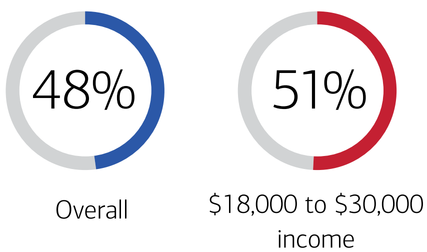
17%
of participants don't know whether they have an employer match benefit

18%
aren't sure their employer offers a match benefit

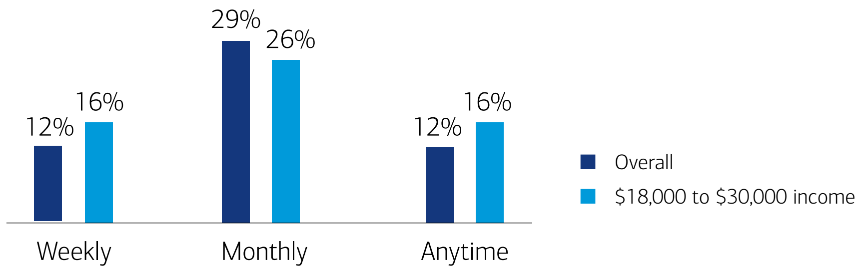
More than
4 in 10
cite employer match as a motivating factor to contribute

Employers should communicate the benefits of 401(k) plan participation regularly and through a variety of formats

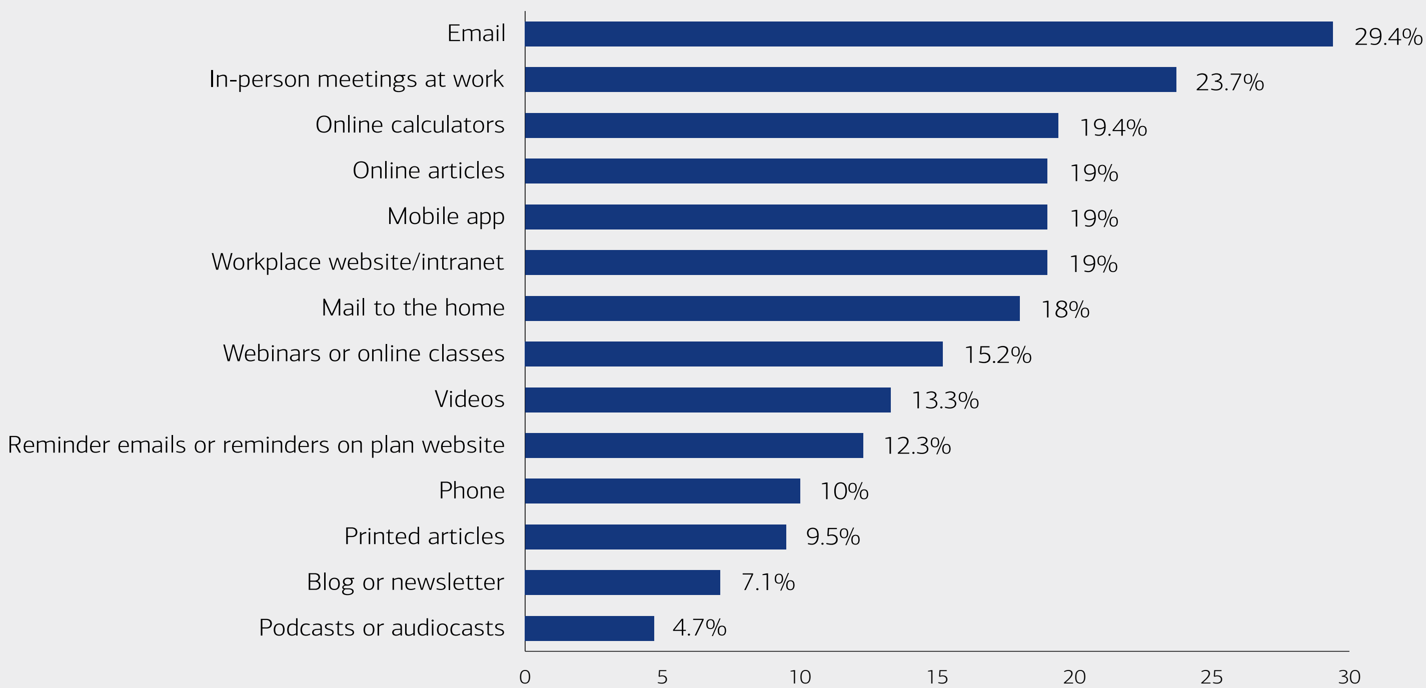
I'm extremely/very interested in learning more about 401(k) topics



I prefer to receive communications:



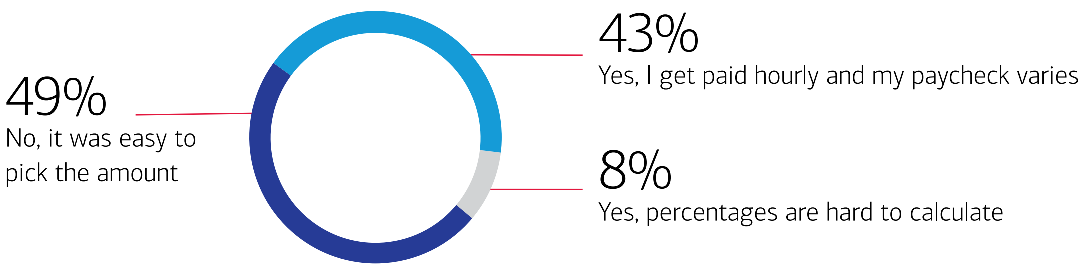
Workers prefer these communication formats:



Employees have difficulty calculating their 401(k) contribution rate

More than half (51%) of respondents have difficulty calculating their 401(k) contribution amount. The number of hourly wage earners who have trouble calculating overlaps with the overall lower-income segment.

Do you have difficulty calculating your 401(k) contribution?



Employers can offer helpful information to encourage participation in a 401(k) plan

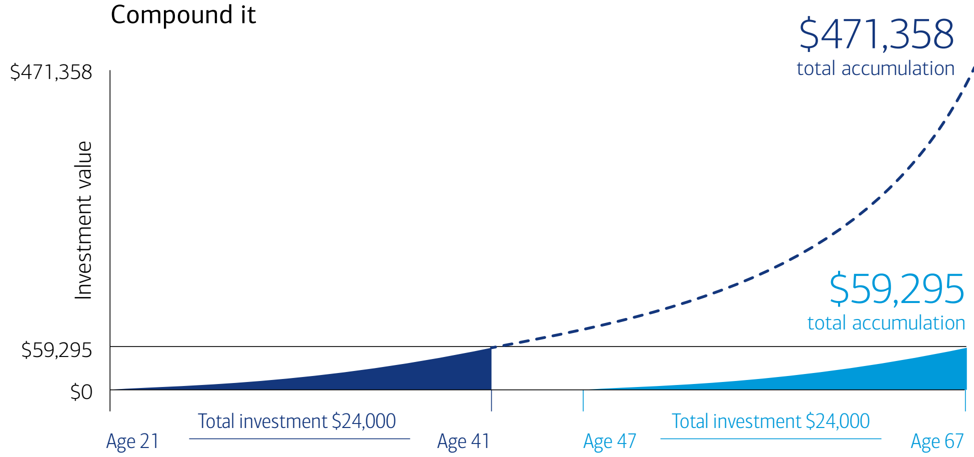
About compounding:

Start early and let the power of compounding work for you. See "Compound it" (right) for why it doesn't pay to wait.

About saving:

If you earn $25 an hour, **5% of your pay is just $1.25** from every hour you work that you're putting toward your future.

Compound it



In this hypothetical example, if you invest a total of $24,000 over 20 years beginning at age 47, you would accumulate $59,295 by age 67. However, if you invested that same amount of $24,000 over 20 years beginning at age 21, the power of compounding would help your investment grow to $471,358 by age 67.

Assuming an 8% annual return compounded monthly. Results are hypothetical and do not represent the performance of any actual investment. They do not take into account fees, expenses or taxes.

Educating employees about the benefits of staying invested in their 401(k) plan could help prevent premature withdrawals from retirement savings

Lower-income participants are more likely to cut into their account balances to manage other financial priorities.

Student loans disproportionately affect 401(k) account withdrawals for lower-income participants.

11%

of respondents cited student loan debt as a reason for removing funds from their 401(k) balance.

The top four categories leading participants to remove funds from their 401(k) account:

25%
Credit cards

21%
Medical expenses

16%
Car loan

16%
Purchase of a large item

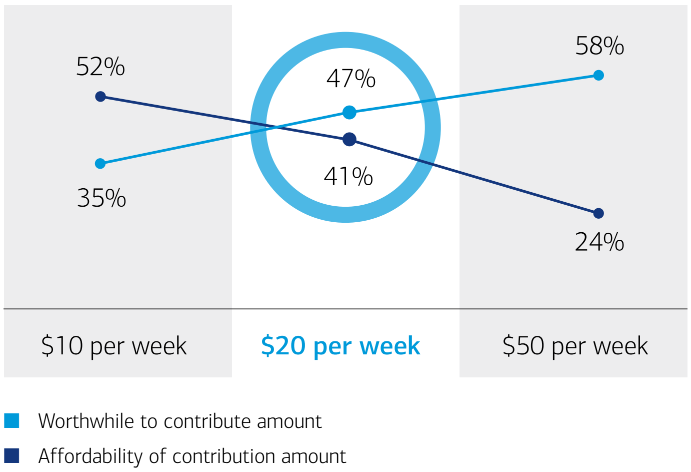
Women were 77% less likely than men to borrow from their 401(k) to purchase a car or other large item but were 108% more likely than men to make a withdrawal for a down payment on a home.

Employees who don't participate in a 401(k) plan could contribute with an affordable amount

For most who choose not to participate, $50 a week is too high of a goal. But nearly half consider $20 a week more affordable and worthwhile.

Contribution to 401(k)

Extremely/Very worthwhile — Extremely/Very affordable



Of those who contribute to a 401(k) plan, individuals making $18,000 to $30,000 are more likely to contribute a smaller percentage of income than moderate-income individuals.

More than 50%

of those making $18,000 to $30,000 who don't contribute say that they could save 1% to 4%

Over 33%

say that they could save 5% to 14%

> "Frankly, before I started my current job, I wasn't making enough to warrant opening a savings account. I always needed the next dollar."
>
> — *Survey respondent*

When asked how much they could save in a 401(k) plan, women were still more likely to hypothetically contribute lower percentages of income.

Intended for plan sponsor and consultant audience.

[1] Jessica Semega and Melissa Kollar, "Income in the United States: 2021," United States Census Bureau, September 2022.

[2] The survey was conducted between April 28 and May 9, 2022. The 22-minute online survey included full-time and part-time workers ages 21 to 58, married or unmarried, who have individual incomes ranging from $18,000 to $40,000 and who have a 401(k) plan offered by their employer. Total number of respondents: 993. Sample sourced from Bank of America Advisory Panel, Ipsos iSay panel and other Ipsos partners.