Pennsylvania's Keystone Saves Program Would Reduce Taxpayer Burden

Low retirement savings will lead to $17.8 billion in fiscal costs by 2035

Overview

Retirement security is dependent on people saving through a plan provided by their employer, but millions of Americans lack access to this benefit. Although many employers want to help their workers save for retirement, they cannot afford the startup costs of a plan. This lack of access and savings also affects taxpayers.

Econsult Solutions, a Pennsylvania-based economic consulting firm, quantified the fiscal costs of insufficient retirement savings in the state. The firm's 2022 study found that insufficient savings results in increased public assistance costs, reduced tax revenue, decreased household spending, and a greater burden on a shrinking tax base.

Retirement in Pennsylvania by the numbers

2 million workers do not have access to retirement savings through their jobs.

Lack of savings will lead to $14.6 billion in increased state spending and $3.2 billion in lost tax revenue from 2020 to 2035.

By 2035, older households will experience an average income shortfall of $7,810 per year.

From 2020 to 2035, the ratio of elderly households to working households will increase by 29%.

Insufficient savings will cost Pennsylvania taxpayers $17.8 billion over 15 years

According to research, the share of Pennsylvania households with people ages 65 and older and with less than $75,000 in annual income, which indicates financial vulnerability, is expected to increase by 17% from 2020 to 2035. And as these workers age, inadequate retirement savings will likely force reductions in retirement income and hence in the quality of life for many. At the same time, this shortfall in retirement income will increase state spending for Medicaid and other assistance programs.

Moreover, an expected increase in the age dependency ratio—the ratio of households with people ages 65 and older to those of working age—of nearly 29% from 2020 to 2035 means that there will be fewer workers to support a burgeoning elderly population.

But there's good news: Even small savings now could help offset the effects of this shortfall. If Pennsylvania households saved just an additional $1,890 a year—about $36 a week— they could erase the taxpayer burden and ensure a decent standard of living in retirement.

Call to action

Last year, Pennsylvania lawmakers introduced the Keystone Saves Act to address this growing fiscal shock. The bipartisan retirement savings bill would expand the ability of people to save when they do not have an employer-provided retirement plan. At no cost to employers, the bill would create an individual retirement account (IRA) program that would automatically enroll workers without access to employer-based benefits. Workers could choose to opt out so that no Pennsylvanian would be required to participate. Twelve states have already adopted automated savings programs like Keystone Saves.

Like the rest of the country, Pennsylvania faces the fiscal strain of an increasingly older population. But making it easier for people to set aside even modest levels of savings during their working years will pay dividends for individuals, businesses, and state taxpayers in the long run.

For further information, please visit: pewtrusts.org/retirementsavings

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