‘Washington Saves’ Program Would Help 1.2 Million Workers Save for a More Secure Financial Future

If retirement savings stay at current low levels, cost to state taxpayers will be $3.9 billion by 2040

Overview

Retirement security is largely dependent on people saving money through a plan provided by their employer, but millions of Americans lack access to this important benefit. Research shows that workers are 15 times more likely to save for retirement if they can do so through payroll deduction, but many small businesses are unable to offer retirement benefits due to high startup costs and a lack of administrative capacity.

Nationally, 56 million workers—nearly half of the private-sector workforce—don’t have retirement benefits at their workplaces, which affects the ability of working families to plan for their financial future. The lack of access to workplace savings also affects taxpayers. A recent study by The Pew Charitable Trusts quantified the projected costs of insufficient retirement savings both nationally and in Washington state. Pew found that insufficient savings results in decreased household spending on goods and services and increased demand for social assistance programs, placing an even greater burden on a shrinking state tax base.

Retirement in Washington by the numbers

- 1.2 million workers—43% of the Evergreen State’s private-sector workforce—don’t have access to retirement savings through their jobs.
- Lack of retirement savings, if not remedied, will lead to a $3.9 billion increase in state spending from 2021 to 2040.
- By 2040, vulnerable older households in the state will face an average income shortfall of $4,810 per year.
- From 2021 to 2040, the ratio of older households to working-age households in Washington will increase by 36%.

What can be done

But there’s good news: Even small savings now could help offset the impact of this projected $3.9 billion shortfall. If each Washington household saved an additional $1,150 a year—about $95 a month—collectively they could erase the taxpayer burden while ensuring themselves a decent standard of living in retirement.

To spur on such savings, lawmakers in 15 states have passed legislation to create automated savings programs designed to make it easier for businesses to help workers save for retirement. In these programs, also known as “secure choice,” “auto-IRA,” or “work and save,” employees who don’t have access to employer-based benefits are automatically enrolled—and, if they don't opt out, would save into an individual retirement account (IRA) at no cost to employers. Workers always control their contribution level and can opt out at any time; no one would be required to participate. Businesses would simply enroll their workers and process payroll deductions. In addition, businesses could stop facilitating the program at any time by adopting an employer-sponsored plan, such as a 401(k).

If Washington were to enact similar legislation, known as Washington Saves, the state would join California, Colorado, Connecticut, Delaware, Hawaii, Illinois, Maine, Maryland, Minnesota, Nevada, New Jersey, New York, Oregon, Vermont, and Virginia. Although some of these state programs are relatively new, over 800,000 savers in the seven states with active programs have already amassed $1 billion in assets. These workers are saving $168 per month on average, demonstrating that saving as little as $5 per day can lead to significant sums over time.

Benefits of programs such as Washington Saves

For employees:

- Workers are automatically enrolled to start saving for their future via payroll deduction but may opt out or change their contributions at any time.
- Contributions are deposited into a post-tax Roth IRA, owned by the worker, who can access contributions at any time with no penalty, including for unexpected financial emergencies.
- The IRA moves with a worker who changes jobs.

For employers:

- The program is provided at no cost to employers, and setup is simple.
- Businesses simply enroll their workers and process payroll deductions. Businesses are not plan sponsors and are not legally liable for the accounts; reporting and administration are handled by a financial services firm hired and overseen by the state.
- Offering a retirement savings benefit helps small businesses compete on a more level playing field with larger businesses to recruit and retain workers.
- Any employer can start its own plan, such as a 401(k), at any time, thus replacing the state program; in fact, data from the first states to adopt an automated savings program shows that the rate at which employers have started their own private plans has increased since the state programs were established.

For taxpayers:

- Like the rest of the country, Washington faces the fiscal strain of an increasingly older population. Making it easier for people to set aside even modest levels of savings during their working years will pay dividends for workers and taxpayers in the long run—and help erase the looming $3.9 billion projected increase in state spending.

The Pew Charitable Trusts

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