

DO INDIVIDUALS KNOW WHEN THEY SHOULD BE SAVING FOR A SPOUSE?

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Introduction

Households save for retirement to help maintain their standard of living once they stop working. The amount of savings needed depends on how much a household earns. Since dual-earner households generally earn more than one-earner households, they need more savings. But only about half of private sector workers have a workplace retirement plan at any given time, and people rarely save outside of such plans. As a result, only one person in many dual-earner couples is actually saving. In this situation, the spouse with a plan should save more to make up for the non-saving spouse. But 401(k) plans are individual savings vehicles, and contribution decisions are often driven by plan design features like default contribution rates and employer matches, not household earnings. The question is whether workers recognize the need to save for two.

The discussion is organized as follows. The first section provides background on how individuals make saving decisions and whether they are likely to factor in their spouses' situation. The second section describes the data and methodology used in the analysis. The third section provides results. The final section concludes that individuals do not seem to consider their spouses' behavior when making saving

decisions, which means households with two earners but only one saver end up saving relatively little for retirement. This finding highlights the importance of plan features like auto-escalation and suggests a role for educating spouses about saving for two. Alternatively, policymakers could ensure that *all* workers have access to a workplace plan.

Background

A common metric for retirement savings is having enough to maintain a household's pre-retirement standard of living. Since some expenses go down when people retire, a typical rule of thumb is that households should save enough, along with Social Security, to replace about 75 percent of their pre-retirement income.¹ If one of the two earners in a couple does not save, the spouse who is saving should contribute more to his 401(k) plan.

Existing research, however, suggests that 401(k) plan design is the main factor driving an individual's contribution rate decision.² Two features of plan design are especially important. The first is auto-enrollment, offered by roughly half of plans, where

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the default contribution rate often determines the rate at which workers save.³ The second is the employer match, a near universal feature, with employees bunching around the contribution rate that receives the full match.⁴

If plan design plays such a key role in behavior, it suggests less room for taking spousal earnings and savings into account. While little research has addressed this issue, the evidence that does exist suggests that, all else equal, members of dual-earner couples contribute a similar share of their individual earnings to 401(k)s as those in single-earner couples.⁵ This finding raises a potential concern as many of these individuals have a non-saving spouse and so should be contributing more.

Data and Methodology

This project uses data from the *Survey of Income and Program Participation* (SIPP) for 2009, 2011, and 2013 (the three most recent years available). The SIPP is a national survey that collects information on all individuals in a household, including demographics (e.g., marital status, age, and race) and economic characteristics (e.g., employment status and earnings). In the years used for this study, the SIPP also includes questions on coverage by employer-sponsored retirement savings plans and contributions to those plans.⁶

The analysis focuses on married couples where at least one member (age 25-54) is contributing to a 401(k) or other defined contribution plan. If the worker's spouse has access to a defined benefit plan, she is assumed to be saving for retirement automatically.⁷ The end result is that individuals in the sample are in one of three groups: 1) single-earner couples; 2) dual-earner couples where both members are saving; or 3) dual-earner couples with just one saver. This study focuses on the saving behavior of the third group relative to the other two.

The analysis takes two approaches. The first approach is a simple comparison of saving rates across the three groups. Table 1 provides selected demographic characteristics of these groups, which show that the biggest difference is total household earnings, with dual-earner households that have two savers making the most. So, if the simple comparison turns up that dual-earners with one saver do not save a higher share of their earnings, it could just be that they are constrained by lower household earnings. Therefore, the second approach uses a regression to

control for earnings and other observable differences between households that could affect the individual saving rates.

TABLE 1. SELECTED CHARACTERISTICS FOR 401(k) PARTICIPANTS AGES 25-54, BY HOUSEHOLD TYPE

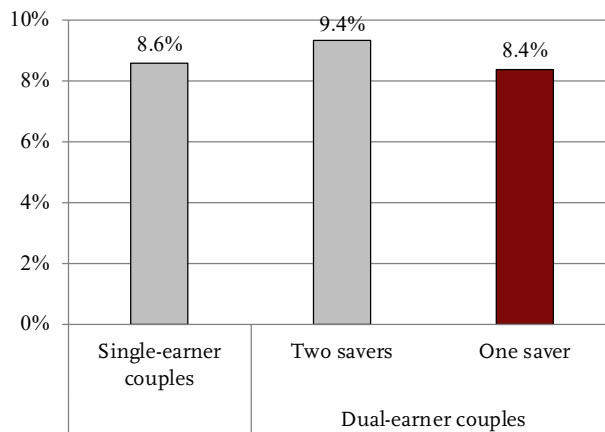
	Single-earner couples	Dual-earner couples	
		Two savers	One saver
Median household earnings	\$59,317	\$101,748	\$86,318
Share with some college	65.8%	69.4%	66.1%
Share non-white	23.1	19.5	20.7
Number of observations	1,960	3,394	2,433

Source: Authors' calculations from the 2008 and 2014 panels of the Census Bureau's *Survey of Income and Program Participation* (SIPP), covering calendar years 2009, 2011, and 2013.

Results

The simple comparison of 401(k) contribution rates for individuals in the three groups shows that – no matter what a saver's spouse is doing – his total contribution rate is typically 8-9 percent of his earnings (including employer contributions) (see Figure 1).⁸

FIGURE 1. AVERAGE CONTRIBUTION RATE FOR 401(k) PARTICIPANTS AGES 25-54, BY HOUSEHOLD TYPE



Source: Authors' calculations from the 2008 and 2014 SIPP panels, representing calendar years 2009, 2011, and 2013.

The individuals who should have the highest saving rate – those with an earning, non-saving spouse – actually have somewhat lower saving rates than the other groups.⁹ In other words, these individual savers do not seem to realize that they need to pick up the slack for their spouse.

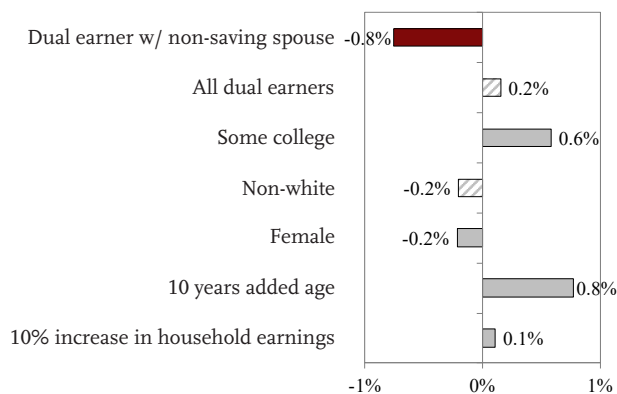
It is possible that these individuals would prefer to save more, but that factors like their lower household earnings prevent it. The regression analysis controls for these differences by comparing individuals with similar characteristics. The basic equation is:

$$\text{Saving rate} = f(\text{spousal earnings and saving, household earnings, other demographics})$$

The dependent variable is an individual's saving rate and the key independent variable is whether the individual's spouse is earning but not saving.

If savers are trying to make up for their spouse, then the coefficient would indicate a positive relationship between having an earning, non-saving spouse and the individual's own contribution rate. However, the results in Figure 2 show that, even controlling for other factors, members of dual-earner couples with one saver save somewhat less than otherwise similar individuals – the same pattern as in the raw data. Furthermore, the coefficient of -0.8 percentage point for this key variable is very similar in magnitude to the difference between the saving rates in Figure 1. (The results for other household characteristics are in the expected direction.)¹⁰

FIGURE 2. IMPACT OF SELECTED CHARACTERISTICS ON AVERAGE 401(k) CONTRIBUTION RATES FOR 401(k) PARTICIPANTS AGES 25-54

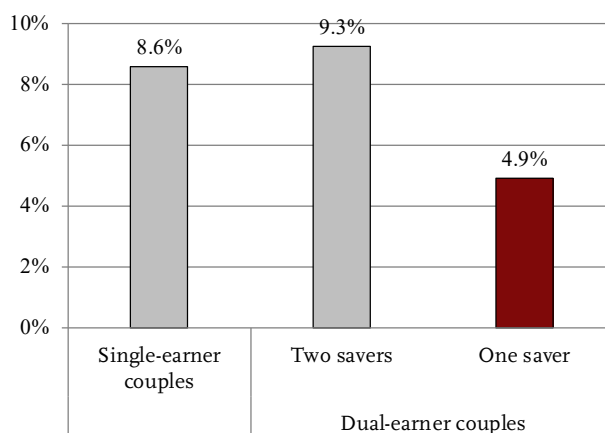


Notes: Solid bars indicate statistical significance at least at the 10-percent level.

Source: Authors' calculations from the 2008 and 2014 SIPP panels, representing calendar years 2009, 2011, and 2013.

Given that the regression validates the pattern in the raw data, these data can be used to look at saving rates relative to the whole household. Figure 3 reproduces Figure 1, but with household earnings as the denominator instead of individual earnings. This analysis shows that dual-earners with one saver are doing far worse – their average saving rate is only 4.9 percent of household earnings.¹¹ The bottom line is that an individual who is the only saver in a dual-earner household clearly does not save for two.

FIGURE 3. AVERAGE CONTRIBUTION RATE AS SHARE OF HOUSEHOLD EARNINGS FOR 401(k) PARTICIPANTS AGES 25-54, BY HOUSEHOLD TYPE



Source: Authors' calculations from the 2008 and 2014 SIPP panels, representing calendar years 2009, 2011, and 2013.

Conclusion

Saving is an individual decision, but the adequacy of retirement income is a household affair. This study shows that individuals with earning, non-saving spouses fail to take this information into account in their own saving decisions. As a result, dual-earner households with just one saver save too little. This result is discouraging because these households should have a leg up for saving for retirement; after all, they have two earners and access to a 401(k) – two characteristics that should make it easier to save.

These findings therefore suggest a role for 401(k) plan features that, at least, auto-escalate contributions with time and, at best, consider an individual's marital status when setting default rates. The findings also suggest a role for educating individuals with 401(k) plans to remember that, if they have a working spouse who is not saving, they themselves should be

saving for two. Finally, the issue would be moot if everyone had access to a savings vehicle in the first place – so that all dual-earner households could also be dual-saver households. Thus, solving the coverage gap – through programs like auto-IRAs – is an alternative way to address this problem. Whatever the solution, until something is done, dual-earner couples are likely to end up less prepared for retirement than they could be.

Endnotes

1 Retirees no longer need to save for retirement, they pay less in taxes, and they have often paid off their mortgages. See Munnell, Webb, and Delorme (2006).

2 For an excellent discussion, see Beshears et al. (2009).

3 For classic examples in the 401(k) space, see Madrian and Shea (2001) or Choi et al. (2004). For evidence indicating that low default rates may cause some workers to contribute less to their 401(k)s than without auto-enrollment, see Choi et al. (2005).

4 See Bassett, Fleming, and Rodrigues (1998) or Choi et al. (2004). In fact, this “match ceiling” can sometimes trump the default rate – in one plan with a default rate set below the match ceiling, many workers moved their contributions up to get the full match. Again, see Beshears et al. (2009).

5 See Butrica and Smith (2016). Although not explicitly discussed in their paper, their estimates seem to suggest that dual-earner couples contribute less when one member is not contributing to a retirement plan and slightly more when both members are contributing – the opposite of what one might expect.

6 The SIPP asks about both the individual’s contribution rate and the actual dollar amount. Where possible, the analysis uses the contribution rate and falls back on the dollar amount only when individuals did not provide a contribution rate.

7 The analysis assumes that spouses with defined benefit plans are saving 9 percent of their salaries.

8 Although the SIPP has data on employer matches, the exact nature of the match is not clear. For simplicity, the analysis assumes employers match 50 percent of the employee contribution.

9 One question is whether contributors in a dual-earner couple with a non-saving spouse want to save more, but are constrained by the 401(k) limit (\$16,500 in 2009 and 2011 and \$17,500 in 2013). However, just 5 percent of these individuals are within \$1,000 of the limit. This number is actually lower than the 7 percent near the limit for the other two groups of savers.

10 See Appendix Table A1 for full regression results.

11 It is worth noting that 90 percent of the savers in the dual-earner, one-saver couples could raise their contribution rate to match the 9.3 percent rate of dual-earner, dual savers without being constrained by the limit on 401(k) contributions.

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APPENDIX

TABLE A1. EFFECT OF VARIABLES ON AVERAGE 401(k) CONTRIBUTION RATES FOR 401(k) PARTICIPANTS AGES 25-54

Variable	Coefficient (std. error)
Dual earner w/ non-saving spouse	-0.753%*** (0.00148)
All dual earners	0.157% (0.00166)
Some college	0.585%*** (0.00143)
Non-white	-0.203% (0.00150)
Female	-0.214%* (0.00128)
Additional year of age	0.077%*** (0.00008)
10% increase in household earnings	0.112%*** (0.000138)
Year 2009	0.536%*** (0.00198)
Year 2011	0.405%* (0.00209)
Constant	-7.635%*** (0.01590)
R-squared	0.032
Number of observations	7,787

Notes: Each observation is a 401(k) plan participant. The regression also includes controls for the years 2009 and 2011. Standard errors are clustered at the household level.

*** p<0.01, ** p<.05, * p<0.1.

Source: Authors' calculations from the 2008 and 2014 SIPP panels, representing calendar years 2009, 2011, and 2013.

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