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Pension Sponsorship and Participation: Summary of Recent Trends

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Pension Sponsorship and Participation: Summary of Recent Trends

Abstract
[Excerpt] According to the Census Bureau's Current Population Survey (CPS), the number of private-sector workers between the ages of 25 and 64 whose employer sponsored a retirement plan fell from 52.5 million in 2005 to 51.2 million in 2006. The number of private-sector workers who participated in employer-sponsored retirement plans fell from 43.1 million in 2005 to 42.0 million in 2006. The proportion of 25 to 64 year-old workers in the private sector who participated in employer-sponsored retirement plans declined from 45.0% in 2005 to 43.2% in 2006. Between 2000 and 2006, the number of private-sector workers between the ages of 25 and 64 who participated in employer-sponsored retirement plans fell from 46 million to 42 million, and the percentage who participated fell from 50.3% to 43.2%

Keywords
Pension, retirement, income security, workforce

Comments

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CRS Report for Congress

Pension Sponsorship and Participation: Summary of Recent Trends

Updated September 6, 2007

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Prepared for Members and Committees of Congress

Congressional Research Service

Pension Sponsorship and Participation: Summary of Recent Trends

Summary

According to the Census Bureau's *Current Population Survey (CPS)*, the number of private-sector workers between the ages of 25 and 64 whose employer sponsored a retirement plan fell from 52.5 million in 2005 to 51.2 million in 2006. The number of private-sector workers who participated in employer-sponsored retirement plans fell from 43.1 million in 2005 to 42.0 million in 2006. The proportion of 25 to 64 year-old workers in the private sector who participated in employer-sponsored retirement plans declined from 45.0% in 2005 to 43.2% in 2006. Between 2000 and 2006, the number of private-sector workers between the ages of 25 and 64 who participated in employer-sponsored retirement plans fell from 46 million to 42 million, and the percentage who participated fell from 50.3% to 43.2%

A CRS analysis of the *Current Population Survey* indicates that, among private-sector workers aged 25 to 64 who were employed year-round, full-time:

- The percentage of workers whose employer sponsored a retirement plan fell from 59.7% in 2005 to 57.2% in 2006.
- The percentage of workers who participated in employer-sponsored retirement plans fell from 51.6% in 2005 to 49.2% in 2006.
- Only 22.9% of workers at firms with fewer than 25 employees participated in an employer-sponsored retirement plan in 2006, compared to 42.6% of workers at firms with 25 to 99 employees and 62.7% of workers at firms with 100 or more employees.
- Among men and women who were employed year-round, full-time, 48.9% of men and 49.7% of women participated in an employer-sponsored retirement plan in 2006.
- Only 41.1% of private-sector workers aged 25 to 34 and employed year-round, full-time participated in an employer-sponsored retirement plan in 2006, compared to 49.3% of workers aged 35 to 44, 54.5% of those aged 45 to 54, and 53.8% of those aged 55 to 64.
- Black, Hispanic, and other non-white workers were less likely to have participated in an employer-sponsored retirement plan. Fifty-five percent of white workers participated in a company-sponsored retirement plan in 2006, compared to 43.8% of black non-Hispanic workers, 27.6% of Hispanic workers, and 47.1% of other non-white workers (mainly Asian-American and Native American workers).
- Only 26.2% of workers whose earnings were in the lowest quartile in 2006 (under $25,000) participated in a retirement plan at work, compared to 66.7% of workers whose earnings were in the top quartile (above $60,000).
- The percentage of part-year or part-time workers in the private sector whose employer sponsored a retirement plan was 37.8% in 2006, down from 39.9% in 2005. The percentage of part-year or part-time workers in the private sector who participated in an employer sponsored retirement plan fell from 24.4% in 2005 to 23.3% in 2006.

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Pension Sponsorship and Participation: Summary of Recent Trends

Background: Employment and an Aging Workforce

The aging of the American population has made retirement income an issue of increasing concern to the Congress and the public. Although Americans are living longer than ever before, most retire before age 65. Moreover, while the nation's population continues to grow, the decline in birth rates that followed the post-World War II "baby boom" and the continued lengthening of life spans will result in fewer workers relative to the number of retirees. These trends will affect the economic well-being of future retirees because pensions and Social Security benefits will be paid over longer periods of time; savings will have to be stretched over longer retirements; and Social Security benefits will have to be financed by a working population that is shrinking relative to the number of retirees.

Life Expectancy Continues to Increase

The average life expectancy of Americans born in 1960 was 69.7 years. It has been estimated that those who were born in 2005 will live for an average of 77.8 years.[1] A man who reached age 65 in 1960 could expect to live another 13.0 years, while a woman who turned 65 in 1960 had a remaining life expectancy of 15.8 years. A man who reached age 65 in 2005 could expect to live another 16.8 years, while a woman who turned 65 in 2005 had a remaining life expectancy of 19.8 years. As more people live into old age, the age-profile of the population will shift. In 1960, 16.7 million people in the United States — 9.2% of the population — were age 65 or older. In 2005, there were 36.7 million Americans age 65 or older, representing 12.4% of the population. By 2025, according to projections made by the Bureau of the Census, there will be 63.5 million people age 65 or older, comprising 18.2% of the U.S. population.

Labor Force Participation Begins to Drop After Age 55

The proportion of the population that is either working or looking for work is called the "labor force participation rate." As indicated by the data in **Table 1**, the labor force participation rate starts to drop significantly after age 55. When income is no longer derived from earnings, individuals depend more on pensions, interest and dividends, withdrawals from their savings, and — when they become eligible through age or disability — Social Security. The aging of the U.S. population will place

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[1] U.S. National Center for Health Statistics, *Vital Statistics of the United States.*

strains on the components of the traditional "three-legged stool" of retirement income: Social Security, pensions, and personal saving.

Table 1. Labor Force Participation Rates in 2006

Age	Total Number of People (thousands)	Number in the Labor Force (thousands)	Labor Force Participation Rate (percent)
Men			
Age 25 to 54	61,640	55,840	**90.6**
Age 45 to 54	20,991	18,489	**88.1**
Age 55 to 64	15,095	10,509	**69.6**
Age 65 and up	15,219	3,096	**20.3**
Women			
Age 25 to 54	63,243	47,726	**75.5**
Age 45 to 54	21,910	16,656	**76.0**
Age 55 to 64	16,280	9,475	**58.2**
Age 65 and up	20,394	2,388	**11.7**

Source: U.S. Department of Labor, Bureau of Labor Statistics, *Employment and Earnings* (January 2007).

Congress and Retirement Income Policies

The Internal Revenue Code was first amended to provide favorable tax treatment for qualified pension and retirement plans in the 1920s. These provisions have been expanded and modified many times since then. Among the tax exemptions that apply to traditional "defined benefit" pension plans are the deduction of pension contributions from employer income, exclusion of employer contributions to pension plans from employee income, and tax exemption of the earnings of pension trusts.[2] In "defined contribution" plans such as those authorized under section 401(k) of the tax code, income taxes are deferred until retirement on employer and employee contributions to the plan and on the investment earnings of the plan.

By establishing the tax-favored status of pension programs and defining the terms under which tax exemptions and deductions are granted, federal tax law has both encouraged the growth of retirement plan coverage among workers and shaped the development of pensions and retirement savings plans. Congress also has sought to protect the pension benefits earned by workers through direct regulation of pension plans, most notably through the *Employee Retirement Income Security Act of 1974* (ERISA, P.L. 93-406). ERISA, too, may have influenced the development of employer-sponsored retirement plans. Since its enactment, defined contribution (DC) plans have proliferated while the number of defined benefit (DB) plans has fallen.

[2] Defined benefit pensions are taxed when the employee receives benefits during retirement.

Two Kinds of Retirement Plans: Defined Benefit and Defined Contribution

Retirement programs are legally classified as either *defined benefit* plans or *defined contribution* plans. In *defined benefit* or "DB" plans, the retirement benefit usually is based on an employee's salary and number of years of service. With each year of service, a worker accrues a benefit equal to either a fixed dollar amount per month or year of service or a percentage of his or her final pay or average pay.

A *defined contribution* or "DC" plan is much like a savings account maintained by the employer on behalf of each participating employee. The employer contributes a specific dollar amount or percentage of pay into the account, which is usually invested in stocks and bonds. In some plans, the size of the employer's contribution depends on the amount the employee contributes to the plan. When the worker retires, the amount of the retirement benefit that he or she receives will depend on the balance in the account, which is the sum of all the contributions that have been made plus interest, dividends, and capital gains (or losses). The worker usually has the choice of receiving these funds as a lump sum, a series of fixed payments over a period of years, or in the form of a life annuity.

In recent years, many employers have converted their traditional pensions to *hybrid plans* that have characteristics of both DB and DC plans. The most popular of these hybrids has been the *cash balance plan*. A cash balance plan looks like a DC plan in that the accrued benefit is defined in terms of an account balance. The employer makes contributions to the plan and pays interest on the accumulated balance. However, in a cash balance plan, the account balances are merely bookkeeping devices. They are not *individual accounts* that are owned by the participants. At retirement, the employee must receive a benefit that is equal to the amount contributed to the plan plus the interest that has been credited to those contributions. Legally, therefore, a cash balance plan is a defined benefit plan.

Who Bears the Investment Risk? In a defined benefit plan, it is the *employer* who bears the investment risk of the plan, while in a defined contribution plan it is the *employee* who bears the investment risk. In a defined benefit plan, the employer promises to provide retirement benefits equal to a certain dollar amount or a specific percentage of the employee's pay. The employer contributes money to a pension trust that is invested in stocks, bonds, real estate, or other assets. Retirement benefits are paid from this trust fund. The employer is *at risk* for the amount of the retirement benefits that have been promised to employees and their survivors. If there are insufficient funds in the pension trust to pay the accrued benefits, the firm that sponsors the pension plan is legally obligated to make up the difference by paying more money into the pension fund.

In a defined contribution plan, the employer bears no risk beyond its obligation to make contributions to each employee's retirement account. In these plans, it is the *employee* who bears the risk that his or her retirement account will increase in value by an amount sufficient to provide adequate income during retirement. If the contributions made to the account by the employer and the employee are insufficient, or if the securities in which the account is invested lose value or increase in value too

slowly, the employee risks having an income in retirement that is not sufficient to maintain his or her desired standard of living. If this situation occurs, the worker might choose to delay retirement.

Many factors affect a firm's decision to sponsor a retirement plan and a worker's decision to participate in the plan. In any given year, changes in the business climate — inflation, interest rates, wage increases, the cost of other benefits (such as health insurance), trends in business revenues and profits — could weigh more heavily in a firm's decision to establish or continue a retirement plan than the potential tax advantages it could gain by sponsoring a plan. Likewise, an employee's decision to participate or not to participate in a retirement plan may be affected by such variables as the rate of growth of wages, the rising cost of employee health insurance premiums, his or her confidence in the financial status of Social Security, and whether another family member already participates in a retirement plan.

Encouraging sponsorship of retirement plans by small firms is an important issue to the Congress in part because of the large number of people employed by small businesses. In 2006, for example, more than 37 million wage and salary workers were employed by firms with fewer than 25 employees.[3] The relatively low rates of employer sponsorship and employee participation in retirement plans at small businesses have prompted Congress to look for ways to make it easier for small employers to establish and maintain retirement plans for their employees. Because small employers may be reluctant to take on the financial risk and administrative burden of establishing a defined-benefit pension plan, Congress has sought to encourage greater retirement plan sponsorship among small businesses mainly by easing the financial and reporting requirements associated with certain types of defined contribution pension plans. The *Revenue Act of 1978* (P.L. 95-600) authorized a defined contribution plan called the Simplified Employee Pension (SEP).[4] The *Small Business Job Protection Act of 1996* (P.L. 104-188) authorized another type of defined contribution plan called the Savings Incentive Match Plan for Employees (SIMPLE). Nevertheless, rates of retirement plan sponsorship and participation in small firms continue to lag behind the rates achieved in larger firms.

The Number of Defined Benefit Plans Is Declining

According to the Pension Benefit Guaranty Corporation (PBGC), the number of insured defined benefit plans fell from 114,396 in 1985 to 30,336 in 2005.[5] The decline in the number of DB plans resulted mainly from the termination of a large number of small plans. Between 1985 and 2005, the number of single-employer defined benefit pension plans with fewer than 100 participants fell from 90,061 to

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[3] Full-time and part-time wage and salary workers. (Source: *Current Population Survey*.)

[4] P.L. 95-600 authorized tax exemption only for employer contributions to a SEP. The *Tax Reform Act of 1986* (P.L. 99-514) allowed workers in firms with fewer than 25 employees to contribute to a SEP on a tax-deferred basis through salary reduction (SARSEP). P.L. 104-188 authorized SIMPLE plans to replace SARSEPs. Firms may continue to establish SEPs funded exclusively by employer contributions, but new SARSEPs were prohibited after December 31, 1996. Previously existing SARSEPs may continue as before.

[5] Pension Benefit Guaranty Corporation, *Pension Insurance Data Book 2005*.

17,997, a decline of 80%. The number of large DB plans fell from 22,147 to 10,772, a decline of 51.4%. In recent years, however, several large pension plans have been terminated, and others have been "frozen" so that participants no longer accrue pension benefits.

Recent Trends in Retirement Plan Sponsorship and Participation

Every month, the Bureau of the Census conducts the *Current Population Survey* (CPS) among a nationally representative sample of approximately 100,000 households, primarily for the purpose of estimating the rates of employment and unemployment. During March of each year, the survey includes supplemental questions about employment, income, health insurance, retirement plan participation, and receipt of government benefits during the previous calendar year. This information allows analysts and researchers to calculate the number and percentage of workers who reported whether their employer offered a retirement plan and whether they participated in the plan. Responses can then be categorized by demographic and economic characteristics, such as the worker's age, race, sex, income, and the size of firm at which they worked. Unfortunately, however, because the CPS asks only two pension-related questions — if the worker's employer offered a retirement plan and if the worker was included in the plan — we cannot ascertain whether the plan is a defined benefit plan or a defined contribution plan.

Plan Participation by Full-Time vs. Part-Time Employment

Table 2 compares retirement plan participation among year-round, full-time wage and salary workers in the private sector with participation among workers who were employed part-year or part-time. Workers with part-year or part-time employment are much less likely to be employed by a firm that sponsors a retirement plan. Part-time and part-year workers also are less likely to participate if their employer sponsors a plan.

The proportion of year-round, full-time workers employed at firms that sponsored a retirement plan declined from 59.7% in 2005 to 57.2% in 2006. The participation rate among these workers fell from 51.6% in 2005 to 49.2% in 2006. Plan participation among full-time workers increased from 54.6% in 1990 to 57.4% in 2000. It has since fallen by about eight percentage points. Between 2005 and 2006, the proportion of part-time or part-year workers employed by firms that sponsored a retirement plan fell from 39.9% to 37.8%. The participation rate among part-year and part-time workers whose employer sponsored a retirement plan fell from 24.4% in 2005 to 23.3% in 2006.

The lower rate of retirement plan participation among part-year and part-time workers is one of the reasons that women are less likely than men to participate in a company-sponsored retirement plan. There is little difference in retirement plan participation between men and women who work *year-round, full-time*. (See **Table 4**.) Women, however, are more likely than men to work part-year or part-time. In 2006, 83.6% of working men between the ages of 25 and 64 were employed year-

round, full-time compared to 68.5% of working women in this age-group. Consequently, while women who worked *full-time* in 2006 were as likely as their male counterparts to have participated in a retirement plan (49.7% of women vs. 48.9% of men), the retirement plan participation rate among *all* women 25 to 64 years old in the private sector in 2006 was lower than the participation rate among all working men in that age group.[6] (41% of women participated vs. 45% of men.)

Table 2. Participation in Retirement Plans by Full-Time vs. Part-Time Employment

(Private-sector wage and salary workers, ages 25 to 64)

	Workers (thousands)	Employer Sponsors Plan		Employees Participating	
		Workers	Percent	Participant	Percent
Full-time					
1990	53,026	33,323	62.8	28,955	54.6
1995	60,687	38,344	63.2	33,298	54.9
2000	70,177	46,499	66.3	40,304	57.4
2001	69,265	45,097	65.1	38,678	55.8
2002	69,093	42,805	62.0	36,973	53.5
2003	69,306	43,450	62.7	37,464	54.1
2004	70,402	43,488	61.8	37,588	53.4
2005	72,331	43,195	59.7	37,347	51.6
2006	74,542	42,601	57.2	36,676	49.2
Part-time					
1990	23,608	8,838	37.4	5,273	22.3
1995	23,790	9,348	39.3	5,508	23.2
2000	21,420	9,708	45.3	5,756	26.9
2001	23,449	10,535	44.9	6,444	27.5
2002	24,104	10,353	43.0	6,192	25.7
2003	23,714	9,868	41.6	5,991	25.3
2004	23,137	9,597	41.5	5,748	24.8
2005	23,394	9,337	39.9	5,707	24.4
2006	22,660	8,566	37.8	5,287	23.3
All workers					
1990	76,633	42,161	55.0	34,228	44.7
1995	84,477	47,692	56.5	38,806	45.9
2000	91,597	56,207	61.4	46,060	50.3
2001	92,714	55,632	60.0	45,122	48.7
2002	93,197	53,158	57.0	43,165	46.3
2003	93,020	53,318	57.3	43,455	46.7
2004	93,539	53,085	56.8	43,337	46.3
2005	95,725	52,532	54.9	43,053	45.0
2006	97,201	51,167	52.6	41,963	43.2

Source: Congressional Research Service analysis of the *Current Population Survey*, various years.

[6] CRS estimates based on the March 2005 CPS (not shown in accompanying tables).

Retirement Plans and Employer Size

Data from the CPS show that retirement plan participation in small firms rose between 1990 and 2000, but has recently declined. The CPS data also indicate that access to a company-sponsored retirement plan remains substantially lower in small firms than in firms with 100 or more employees. The data displayed in **Table 3** show that from 1990 to 2006, the number of workers between the ages of 25 and 64 who were employed in the private sector and worked year-round, full-time at firms of all sizes increased from 53.0 million to 74.5 million. At the same time, the number of such workers whose employer offered a retirement plan increased from 33.3 million to 42.6 million. The proportion of year-round, full-time workers who were employed at firms that offered a retirement plan rose from 62.8% in 1990 to 66.3% in 2000. It has since fallen to 57.2%.

The data displayed in **Table 3** show that since 2000, the proportion of workers in firms with 100 or more workers whose employer sponsors a retirement plan has fallen from 80.5% to 72.4%. Nevertheless, workers at large firms remain substantially more likely than employees of small businesses to work for an employer that sponsors a retirement plan. In 2006, 26.6% of full-time workers in businesses with fewer than 25 employees were employed at firms that sponsored a retirement plan, down from 34.2% in 2000. This was still higher than the 25.4% of workers at small firms whose employer sponsored a retirement plan in 1995. Among workers in firms with 25 to 99 employees, 50.7% were employed at firms that sponsored a retirement plan in 2006, compared to 58.5% in 2000 and 54.1% in 1995.

Table 3 also shows the percentage of year-round, full-time employees in the private sector who *participated* in an employer-sponsored retirement plan.[7] This statistic takes into account the impact of employers that do not sponsor a plan on overall retirement plan participation rates. Among firms of all sizes, the proportion of year-round, full-time employees between the ages of 25 and 64 who participated in a retirement plan fell from 51.6% in 2005 to 49.2% in 2006. This was also lower than the participation rates of 57.4% in 2000 and 54.9% in 1995. In firms with fewer than 25 employees, just 22.9% of full-time employees between the ages of 25 and 64 participated in a retirement plan in 2006, down from 29.3% in 2000, but higher than the 21.3% who participated in a plan in 1995. In firms with 25 to 99 employees, retirement plan participation fell from 45.2% in 2005 to 42.6% in 2006. This was lower than the participation rates of 49.4% in 2000 and 46.0% in 1995. Participation in retirement plans among workers in firms with 100 or more employees also fell between 2005 and 2006, declining from 65.4% to 62.7%. This was almost eight percentage points lower than the participation rates of 70.2% in 2000 and 70.4% in 1995.

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[7] Not all employees whose employer sponsors a retirement plan are eligible to participate. For example, employees under age 21, those who have been employed for less than one year, and those who work fewer than 1,000 hours in a year can be excluded from the plan.

Table 3. Participation in Retirement Plans by Size of Firm

(Private-sector wage and salary workers, ages 25 to 64, employed year-round, full-time)

Size of firm	Workers (thousands)	Employer Sponsors Plan		Employees Participating	
		Workers	Percent	Participants	Percent
Under 25 employees					
1990	12,119	3,042	25.1	2,619	21.6
1995	14,627	3,715	25.4	3,109	21.3
2000	16,591	5,575	34.2	4,857	29.3
2001	17,061	5,788	33.9	4,965	29.1
2002	17,878	5,658	31.7	4,880	27.3
2003	18,616	5,850	31.4	5,064	27.2
2004	18,906	5,795	30.7	5,016	26.5
2005	19,200	5,569	29.0	4,851	25.3
2006	19,406	5,160	26.6	4,434	22.9
25 to 99 employees					
1990	7,892	3,904	49.5	3,291	41.7
1995	9,108	4,923	54.1	4,188	46.0
2000	10,492	6,139	58.5	5,186	49.4
2001	10,466	6,086	58.2	5,067	48.4
2002	10,719	6,030	56.3	5,126	47.8
2003	10,540	6,133	58.2	5,254	49.9
2004	10,532	5,969	56.7	5,121	48.6
2005	11,214	5,975	53.3	5,070	45.2
2006	11,489	5,829	50.7	4,889	42.6
100 or more employees					
1990	33,014	26,378	79.9	23,045	69.8
1995	36,951	29,706	80.4	26,000	70.4
2000	43,094	34,692	80.5	30,262	70.2
2001	41,739	33,223	79.6	28,645	68.6
2002	40,496	31,116	76.8	26,967	66.6
2003	40,149	31,466	78.4	27,146	67.6
2004	40,964	31,724	77.4	27,452	67.0
2005	41,917	31,562	75.5	27,425	65.4
2006	43,646	31,612	72.4	27,353	62.7
All firms					
1990	53,026	33,323	62.8	28,955	54.6
1995	60,687	38,344	63.2	33,298	54.9
2000	70,177	46,499	66.3	40,304	57.4
2001	69,265	45,097	65.1	38,678	55.8
2002	69,093	42,805	62.0	36,973	53.5
2003	69,306	43,450	62.7	37,464	54.1
2004	70,402	43,488	61.8	37,588	53.4
2005	72,331	43,195	59.7	37,347	51.6
2006	74,542	42,601	57.2	36,676	49.2

Source: CRS analysis of the *Current Population Survey*, various years.

Plan Participation Among Men and Women

Table 4 shows the rates of participation in employer-sponsored retirement plans by men and women between the ages 25 and 64 who were employed in the private sector and worked year-round, full-time. Between 1990 and 2000, the proportion of men whose employer sponsored a retirement plan rose from 63.3% to 66.2%. Since then, it has dropped to 56.3%. The proportion of women who worked at firms that sponsored a retirement plan increased from 62.1% in 1990 to 66.4% in 2000. In 2006, 58.4% of women who worked year-round, full-time were employed at firms that sponsored a retirement plan. Thus, in 2006 women who were employed year-round, full-time were more likely than men to have worked for an employer that sponsored a retirement plan. Men and women, however, were almost equally likely to have *participated* in an employer-sponsored retirement plan. In 2006, 48.9% of men who were employed year-round, full-time participated in a company-sponsored retirement plan, compared to 49.7% of women. Both of these participation rates were lower than the 2000 participation rates of 58.3% for men and 56.1% for women. The participation rate for men was 9.4 percentage points lower in 2006 than in 2000. The participation rate for women was 6.4 percentage points lower in 2006 than in 2000.

Table 4. Employee Participation in Retirement Plans, by Sex

(Private-sector wage and salary workers, ages 25 to 64, employed year-round, full-time)

	Workers (thousands)	Employer Sponsors Plan		Employees Participating	
		Workers	Percent	Participants	Percent
Men					
1990	32,208	20,389	63.3	18,242	56.6
1995	36,504	23,008	63.0	20,359	55.8
2000	41,516	27,463	66.2	24,220	58.3
2001	40,976	26,539	64.8	23,164	56.5
2002	40,851	25,100	61.4	22,033	53.9
2003	40,963	25,306	61.8	22,083	53.9
2004	41,732	25,190	60.4	22,079	52.9
2005	42,881	25,136	58.6	22,021	51.4
2006	44,210	24,898	56.3	21,616	48.9
Women					
1990	20,817	12,934	62.1	10,713	51.5
1995	24,182	15,336	63.4	12,939	53.5
2000	28,661	19,036	66.4	16,083	56.1
2001	28,290	18,558	65.6	15,513	54.8
2002	28,242	17,704	62.7	14,939	52.9
2003	28,342	18,144	64.0	15,381	54.3
2004	28,670	18,298	63.8	15,509	54.1
2005	29,450	18,059	61.3	15,326	52.0
2006	30,332	17,703	58.4	15,060	49.7

Source: Congressional Research Service analysis of the *Current Population Survey*, various years.

Plan Participation by Employee Age

Table 5 displays rates of participation in employer-sponsored retirement plans among workers who were employed in the private sector and worked year-round, full-time, according to their age. Young workers — ages 25 to 34 — were less likely than middle-aged and older workers to be employed at a firm that sponsored a retirement plan in 2006. They also were less likely to participate in retirement plans than are older workers. In 2006, 52.3% of workers 25 to 34 years old worked for an employer that sponsored a retirement plan, and 41.1% of workers in this age group participated in a company-sponsored plan. Thus, 78.6% of those aged 25 to 34 who worked for a firm that sponsored a plan participated in the plan (0.411/0.523 = 0.786). In contrast, among workers 55 to 64 years old, 60.1% worked at firms that sponsored a retirement plan, and 53.8% participated in a company-sponsored plan. Thus, among workers aged 55 to 64 who worked for a firm that sponsored a retirement plan, 89.5% participated in the plan (0.538/0.601 = 0.895).[8]

[8] Some of the difference in participation rates is because workers under 35 are somewhat more likely to be in their first year with an employer and can be excluded from participating in the plan. Employees who work fewer than 1,000 hours in a year and those under age 21 also can be excluded from participating, but neither group is represented in Table 5.

Table 5. Employee Participation in Retirement Plans, by Age

(Private-sector wage and salary workers, ages 25 to 64, employed year-round, full-time)

Employee Age	Workers (thousands)	Employer Sponsors Plan		Employees Participating	
		Workers	Percent	Participants	Percent
25 to 34					
1990	19,344	11,489	59.4	9,135	47.2
1995	19,759	11,673	59.1	9,337	47.3
2000	20,398	12,803	62.8	10,173	49.9
2001	19,542	11,908	60.9	9,330	47.7
2002	19,389	11,090	57.2	8,638	44.6
2003	19,288	11,221	58.2	8,822	45.7
2004	19,122	10,878	56.9	8,584	44.9
2005	19,677	10,577	53.8	8,268	42.0
2006	20,359	10,648	52.3	8,371	41.1
35 to 44					
1990	16,989	11,042	65.0	9,871	58.1
1995	20,439	13,235	64.8	11,742	57.5
2000	23,362	15,479	66.3	13,559	58.0
2001	22,445	14,841	66.1	12,882	57.4
2002	21,826	13,681	62.7	11,879	54.4
2003	21,328	13,428	63.0	11,609	54.4
2004	21,587	13,314	61.7	11,564	53.6
2005	21,688	12,893	59.5	11,289	52.1
2006	21,875	12,313	56.3	10,781	49.3
45 to 54					
1990	10,922	7,148	65.5	6,586	60.3
1995	14,042	9,240	65.8	8,381	59.7
2000	18,489	12,951	70.1	11,787	63.8
2001	18,625	12,650	67.9	11,324	60.8
2002	18,796	12,308	65.5	11,204	59.6
2003	19,227	12,752	66.3	11,521	59.9
2004	19,763	12,827	64.9	11,531	58.4
2005	20,466	12,995	63.5	11,686	57.1
2006	21,188	12,959	61.2	11,542	54.5
55 to 64					
1990	5,771	3,644	63.1	3,363	58.3
1995	6,446	4,196	65.1	3,838	59.5
2000	7,929	5,267	66.4	4,785	60.3
2001	8,653	5,698	65.9	5,141	59.4
2002	9,082	5,725	63.0	5,252	57.8
2003	9,463	6,045	63.9	5,512	58.3
2004	9,930	6,470	65.2	5,910	59.5
2005	10,500	6,730	64.1	6,104	58.1
2006	11,120	6,681	60.1	5,981	53.8

Source: CRS analysis of the *Current Population Survey*, various years.

Plan Participation by Employee Race

The March 2003 CPS introduced newly expanded categories of race and ethnicity, making comparisons with prior years problematic. In **Table 6,** race and ethnicity are categorized as white non-Hispanic, black non-Hispanic, Hispanic, and other. The "other"category includes mainly persons whose heritage is Asian, Native American, Eskimo, or Pacific Islander. In 2006, the likelihood of being employed at a firm that sponsored a retirement plan was highest for white non-Hispanic workers and lowest for Hispanic workers. Black non-Hispanic workers and "Asian/Other" workers were about equally likely to have worked for an employer that sponsored a retirement plan. Among white non-Hispanic workers, 62.7% worked for an employer that sponsored a retirement plan, and 55.0% participated in an employer-sponsored plan. Among Hispanic workers, just 35.0% worked for an employer that sponsored a retirement plan and only 27.6% participated in an employer-sponsored retirement plan. Of workers who classified their race and ethnicity as black non-Hispanic, 53.3% worked for an employer that sponsored a plan and 43.8% participated in a plan, while among Asian-American and other workers, 55.9% worked for an employer that sponsored a retirement plan and 47.1% participated in a plan.

Table 6. Employee Participation in Retirement Plans, by Race

(Private sector wage and salary workers, ages 25 to 64, employed year-round, full-time)

Employee Race	Workers (thousands)	Employer Sponsors Plan		Employees Participating	
		Workers	Percent	Participants	Percent
White, non-Hispanic					
2002	49,012	32,711	66.7	28,836	58.8
2003	48,524	32,800	67.6	28,759	59.3
2004	48,618	32,427	66.7	28,522	58.7
2005	49,952	32,490	65.0	28,618	57.3
2006	50,627	31,740	62.7	27,817	55.0
Black, non-Hispanic					
2002	7,078	4,156	58.7	3,363	47.5
2003	7,241	4,311	59.5	3,555	49.1
2004	7,556	4,570	60.5	3,753	49.7
2005	7,511	4,295	57.2	3,491	46.5
2006	7,927	4,224	53.3	3,468	43.8
Hispanic					
2002	8,942	3,582	40.1	2,777	31.1
2003	9,073	3,750	41.3	2,956	32.6
2004	9,651	3,802	39.4	2,987	31.0
2005	10,208	3,775	37.0	2,964	29.0
2006	10,982	3,843	35.0	3,032	27.6
Other					
2002	4,062	2,356	58.0	1,996	49.2
2003	4,468	2,588	57.9	2,193	49.1
2004	4,578	2,689	58.7	2,326	50.8
2005	4,660	2,636	56.6	2,274	48.8
2006	5,007	2,794	55.9	2,358	47.1

Source: Congressional Research Service analysis of the *Current Population Survey*, various years.

Plan Participation by Employee Earnings

Table 7 shows the relationship between earnings and participation in an employer-sponsored retirement plan. In **Table 7**, workers' annual earnings from wages and salaries — as reported on the Current Population Survey — are ranked by quartile. In 2006, one-quarter of private-sector wage and salary workers between the ages of 25 and 64 who were employed year-round, full-time earned more than $60,000. Another quarter had earnings between $40,000 and $60,000. The next quarter had earnings between $25,000 and $40,000, and those in the lowest quartile earned less than $25,000.

In 2006, 70.9% of year-round, full-time workers in the private sector with annual earnings in the top quartile were employed by firms that sponsored a retirement plan, and 66.7% of workers in the top earnings quartile participated in a retirement plan. Both of these percentages were lower than the rates in 2000 and 1995. In 2000, 80.2% of year-round, full-time workers in the private sector with annual earnings in the top quartile were employed by firms that sponsored a retirement plan, and 75.5% of workers in the top earnings quartile participated in a retirement plan. The equivalent sponsorship and participation rates in 1995 were 77.1% and 73.0%, respectively.

The percentage of workers employed at firms that sponsored a retirement plan and the percentage who participated in these plans were progressively lower in each of three lowest earnings quartiles. For example, among workers in the lowest earnings quartile in 2006, 36.6% were employed at firms that sponsored a retirement plan, and 26.2% of workers in the bottom quartile participated in a retirement plan. Both of these percentages were lower than the comparable rates in 2000 and 1995. In 2000, 44.9% of year-round, full-time workers in the private sector with annual earnings in the bottom quartile were employed by firms that sponsored a retirement plan, and 32.1% of workers in the bottom earnings quartile participated in a retirement plan. The equivalent sponsorship and participation rates in 1995 were 42.4% and 30.4%, respectively.

Low-wage workers are not only less likely to work for an employer that sponsors a retirement plan; they also are less likely to participate if a plan is offered. Among employees whose earnings in 2006 were in the top quartile, 70.9% worked for an employer that sponsored a retirement plan and 66.7% participated in a retirement plan. Therefore, the participation rate among employees in the top earnings quartile whose employer sponsored a retirement plan was 94.1% (0.667/0.709 = 0.941). Among workers whose 2006 earnings were in the bottom quartile, only 36.6% worked for an employer that sponsored a retirement plan and just 26.2% participated in a retirement plan. Thus, the participation rate among low-wage employees whose employer sponsored a retirement plan was 71.6% (0.262/0.366 = 0.716).

Table 7. Participation in Retirement Plans by Annual Earnings

(Private-sector wage and salary workers, ages 25 to 64, employed year-round, full-time)

Worker's Annual Earnings	Employer Sponsors Plan	Employee Participates
	Percentage of Workers	Percentage of Workers
Highest Earnings Quartile		
1990	77.9	73.7
1995	77.1	73.0
2000	80.2	75.5
2001	78.2	73.3
2002	75.3	71.0
2003	77.0	72.5
2004	75.8	71.4
2005	74.4	70.3
2006	70.9	66.7
Second-highest Earnings Quartile		
1990	72.0	64.2
1995	72.4	65.1
2000	74.3	67.1
2001	74.2	66.7
2002	70.9	63.3
2003	71.0	63.6
2004	71.3	64.1
2005	68.6	61.5
2006	66.8	59.9
Third-highest Earnings Quartile		
1990	61.3	51.4
1995	61.0	51.3
2000	66.0	55.5
2001	63.9	52.9
2002	61.3	51.6
2003	61.6	51.7
2004	60.9	51.0
2005	59.0	49.8
2006	56.2	46.3
Lowest Earnings Quartile		
1990	41.2	30.3
1995	42.4	30.4
2000	44.9	32.1
2001	44.9	31.5
2002	41.4	29.5
2003	41.2	28.4
2004	41.6	29.9
2005	39.0	27.5
2006	36.6	26.2

Source: CRS analysis of the *Current Population Survey*, various years.

Another Measure of Retirement Plan Participation: The National Compensation Survey

The Bureau of Labor Statistics collects data from employers about paid leave, health insurance, retirement plan participation, flexible spending accounts, and other employee benefits as part of the *National Compensation Survey* (NCS). This survey is conducted among a nationally representative sample of private-sector business establishments.[9] The term *establishment* usually refers to a single place of business at a particular location or all branches of a business in a particular metropolitan area or county. An establishment might be a branch or small operating unit of a larger firm. In contrast, a *firm* comprises *all* of the establishments that together form a corporation, partnership, or other business entity.[10]

According to the data collected from employers through the National Compensation Survey, 51% of workers in the private sector participated in employer-sponsored retirement plans in March 2007. (See **Table 8**.) Twenty percent of private-sector workers participated in defined benefit plans and 43% participated in defined contribution plans. Approximately 12% of private-sector workers participated in both types of plan. The NCS indicates that 66% of employees in establishments with 100 or more workers participated in an employer-sponsored retirement plan in March 2007, while only 37% of employees at establishments with fewer than 100 employees participated in an employer-sponsored retirement plan. The data from the NCS also indicate that among full-time workers, 60% participated in an employer-sponsored retirement plan in March 2007, compared to just 23% of part-time workers.

While it is not necessarily surprising that the results of the NCS differ from those of the CPS, nor that the NCS shows higher rates of participation, it is important to note that in recent years the difference in the results shown by the two surveys has increased because the NCS has indicated a generally steady rate of retirement plan participation whereas the CPS data indicate that retirement plan participation has been falling. As recently as 2003, the NCS indicated that 49% of private-sector workers participated in a retirement plan whereas the CPS data showed a participation rate of 47%. This two percentage point difference was small enough to be inconsequential for most analytical purposes. The slightly higher rate of participation indicated by the NCS might partly be due to the fact that the business owners and benefits specialists who are interviewed for the NCS could be expected to have greater knowledge of employer-provided benefits than the household members interviewed for the CPS. By March 2007, however, the NCS indicated that the proportion of private-sector workers participating in employer-sponsored retirement plans was 51%, whereas the March 2007 CPS (which asks about pension participation in 2006) showed that participation in retirement plans among private sector workers had fallen to 43%. The difference in the results shown by the two surveys can no longer be considered inconsequential, leaving

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[9] For more information on the National Compensation Survey, see U.S. Department of Labor, *National Compensation Survey: Employee Benefits in Private Industry in the United States, March 2006*, available online at [http://www.bls.gov/ncs/ebs/sp/ebsm0004.pdf].

[10] In the Census Bureau's *Current Population Survey*, employer characteristics are reported at the level of the *firm*, which may include more than one establishment.

analysts to question whether one or both surveys have problems related to sample selection or survey methodology.

Table 8. Percentage of Private-Sector Employees Participating in Employer-Sponsored Retirement Plans

	Type of Retirement Plan		
	All Types	**Defined Benefit**	**Defined Contribution**
Establishment Size			
1-99 workers			
March 2003	35	8	31
March 2004	37	9	32
March 2005	37	9	32
March 2006	37	9	33
March 2007	37	9	33
100 or more workers			
March 2003	65	33	51
March 2004	67	34	53
March 2005	67	36	53
March 2006	67	33	54
March 2007	66	32	53
Work Schedule			
Full-time workers			
March 2003	58	24	48
March 2004	60	24	50
March 2005	60	25	50
March 2006	60	23	51
March 2007	60	23	50
Part-time workers			
March 2003	18	8	14
March 2004	20	9	14
March 2005	19	9	14
March 2006	21	8	16
March 2007	23	9	18
All workers			
March 2003	49	20	40
March 2004	50	21	42
March 2005	50	21	42
March 2006	51	20	43
March 2007	51	20	43

Source: U.S. Department of Labor**,** National Compensation Survey.
Note: Data represent 102 million workers employed in the private sector in 2003 and 108 million workers employed in the private sector in 2007