Cornell University
ILR School

Cornell University ILR School
DigitalCommons@ILR

Federal Publications

Key Workplace Documents

1-30-2009

Retirement Plan Participation and Contributions: Trends from 1998 to 2006

Patrick Purcell
Congressional Research Service

Follow this and additional works at: http://digitalcommons.ilr.cornell.edu/key_workplace
Thank you for downloading an article from DigitalCommons@ILR.
Support this valuable resource today!

This Article is brought to you for free and open access by the Key Workplace Documents at DigitalCommons@ILR. It has been accepted for inclusion in Federal Publications by an authorized administrator of DigitalCommons@ILR. For more information, please contact hlmdigital@cornell.edu.

Retirement Plan Participation and Contributions: Trends from 1998 to 2006

Abstract
[Excerpt] The U.S. Census Bureau periodically collects information from individuals about their participation in employer-sponsored retirement plans. The most recent such survey was conducted from February through May of 2006. After extensive review and editing by the Census Bureau, the survey data files were released to the public in November 2008. This CRS report presents a summary of the data and a comparison of the results of the 2006 survey with similar surveys that the Census Bureau conducted in 1998 and 2003.

Our analysis of the data showed that:

• The percentage of private-sector wage-and- salary workers aged 21 and older whose employer sponsored a retirement plan increased from 63% in 1998 to 66% in 2003 and declined to 62% in 2006.

• The percentage of private-sector wage-and- salary workers aged 21 and older who participated in employer-sponsored retirement plans increased from 45% in 1998 to 49% in 2003 and declined to 45% in 2006.

• The percentage of private-sector wage-and- salary workers aged 21 and older whose employer sponsored a defined contribution plan, such as a §401(k) plan, rose from 54% in 1998 to 58% in 2003 and declined to 56% in 2006.

• The percentage of private-sector wage-and- salary workers aged 21 and older who participated in defined contribution plans increased from 37% in 1998 to 43% in 2003 and declined to 40% in 2006.

• Among workers whose employers offered a defined contribution plan, 71% participated in these plans in 2006, compared to 69% in 1998 and 74% in 2003.

In 2006, the median monthly employee salary deferral into defined contribution plans was $175, or $2,100 on an annual basis. This was equal to 14% of the 2006 maximum permissible deferral of $15,000. Only 8% of participants contributed $1,000 or more per month to a defined contribution plan in 2006. Fewer than 5% of plan participants made monthly contributions that on an annual basis were equal to the $15,000 maximum permissible salary deferral. Seventy-five percent of employees deferred less than $400 per month into defined contribution plans in 2006.

Among all private-sector wage-and-salary workers aged 21 and older who participated in DC plans in 2006, their mean account balance was $48,311 and their median balance was $25,000. Ten percent of plan participants reported ever having taken a plan loan. In 2006, the mean outstanding loan balance was $6,615 and the median loan balance was $3,000. Twenty-five percent of all loans had outstanding balances of less than $1,500, and 25% of loans had outstanding balances of more than $8,000. Five percent of loans had an outstanding balance of more than $30,000.

Keywords
retirement, pension, benefits, Census Bureau, private sector

This article is available at DigitalCommons@ILR: http://digitalcommons.ilr.cornell.edu/key_workplace/598

Comments
Suggested Citation:
Purcell, P. (2009). *Retirement plan participation and contributions: Trends from 1998 to 2006*. Washington, DC: Congressional Research Service.
http://digitalcommons.ilr.cornell.edu/key_workplace/598

This article is available at DigitalCommons@ILR: http://digitalcommons.ilr.cornell.edu/key_workplace/598

Congressional Research Service

Retirement Plan Participation and Contributions: Trends from 1998 to 2006

Patrick Purcell
Specialist in Income Security

January 30, 2009

Congressional Research Service
7-5700
www.crs.gov

CRS Report for Congress
Prepared for Members and Committees of Congress

Summary

The U.S. Census Bureau periodically collects information from individuals about their participation in employer-sponsored retirement plans. The most recent such survey was conducted from February through May of 2006. After extensive review and editing by the Census Bureau, the survey data files were released to the public in November 2008. This CRS report presents a summary of the data and a comparison of the results of the 2006 survey with similar surveys that the Census Bureau conducted in 1998 and 2003.

Our analysis of the data showed that:

- The percentage of private-sector wage-and-salary workers aged 21 and older whose employer sponsored a retirement plan increased from 63% in 1998 to 66% in 2003 and declined to 62% in 2006.
- The percentage of private-sector wage-and-salary workers aged 21 and older who participated in employer-sponsored retirement plans increased from 45% in 1998 to 49% in 2003 and declined to 45% in 2006.
- The percentage of private-sector wage-and-salary workers aged 21 and older whose employer sponsored a defined contribution plan, such as a §401(k) plan, rose from 54% in 1998 to 58% in 2003 and declined to 56% in 2006.
- The percentage of private-sector wage-and-salary workers aged 21 and older who participated in defined contribution plans increased from 37% in 1998 to 43% in 2003 and declined to 40% in 2006.
- Among workers whose employers offered a defined contribution plan, 71% participated in these plans in 2006, compared to 69% in 1998 and 74% in 2003.

In 2006, the median monthly employee salary deferral into defined contribution plans was $175, or $2,100 on an annual basis. This was equal to 14% of the 2006 maximum permissible deferral of $15,000. Only 8% of participants contributed $1,000 or more per month to a defined contribution plan in 2006. Fewer than 5% of plan participants made monthly contributions that on an annual basis were equal to the $15,000 maximum permissible salary deferral. Seventy-five percent of employees deferred less than $400 per month into defined contribution plans in 2006.

Among all private-sector wage-and-salary workers aged 21 and older who participated in DC plans in 2006, their mean account balance was $48,311 and their median balance was $25,000. Ten percent of plan participants reported ever having taken a plan loan. In 2006, the mean outstanding loan balance was $6,615 and the median loan balance was $3,000. Twenty-five percent of all loans had outstanding balances of less than $1,500, and 25% of loans had outstanding balances of more than $8,000. Five percent of loans had an outstanding balance of more than $30,000.

Contents

Trends in Retirement Plan Participation 1
The Survey of Income and Program Participation 1
Two Kinds of Retirement Plans: Defined Benefit and Defined Contribution 2
Participation in Employer-Sponsored Retirement Plans of All Types 2
Participation in Defined Contribution Plans 4
Reasons for Not Participating 8
Amount of Contributions 9
Investment Receiving Largest Share of Contributions 12
Employer Contributions 12
Account Balances 13
Plan loans 13

Figures

Figure 1. Reasons for not participating in employer's retirement plan 9
Figure 2. Investment receiving largest share of employee contribution 12

Tables

Table 1. Participation in Employer-Sponsored Retirement Plans of All Types 4
Table 2. Participation in Defined Contribution Plans in 1998, 2003, and 2006 7
Table 3. Monthly Contribution to Defined Contribution Plans in 1998, 2003, and 2006 11
Table 4. Mean and Median Account Balances in Employer-Sponsored Defined Contribution Plans in 2006, by Age of Worker 13

Contacts

Author Contact Information 14

Trends in Retirement Plan Participation

From February through May of 2006, the U.S. Census Bureau collected information on workers' participation in employer-sponsored retirement plans. The data were collected from more than 36,000 households as part of the Census Bureau's *Survey of Income and Program Participation* (SIPP). These data represent the most comprehensive source of information available on workers' participation in employer-sponsored retirement plans from a nationally representative sample of American households.

The analysis CRS conducted for this report focused on workers aged 21 and older with a paid job in the private sector. Public sector workers and the self-employed were excluded from the analysis because neither group is covered by the Employee Retirement Income Security Act of 1974 (ERISA, P.L. 93-406), the federal law that governs many aspects of employer-sponsored pensions. According to the data collected by the Census Bureau, there were 99.2 million workers aged and 21 older with a paid job in the private sector in an average month in the first half of 2006. Of this number, 61.7 million (62.2%) worked for employers that sponsored retirement plans – either pensions or 401(k)-type plans — and 44.7 million workers (45.1%) participated in employer-sponsored retirement plans.

The Survey of Income and Program Participation

The Census Bureau collects information on participation in employer-sponsored retirement plans through the Survey of Income and Program Participation. The households selected to participate in the SIPP are a nationally representative sample of the civilian, noninstitutionalized population of the United States. The SIPP is a *longitudinal* survey, meaning that it measures changes in the economic and demographic characteristics of individuals and households over time. Households participating in the 2004 panel of the survey were interviewed once every four months over a period of three years. At each interview, respondents were asked to provide information covering the four months since the previous interview. While it was designed as a longitudinal survey, data from the SIPP also can be used to study characteristics of a cross-section of the population at a point in time by looking at the information from any particular four-month reference period. Periodically, special "topical modules" are included in the survey that ask questions about specific subjects. This report presents findings from the retirement and pension plan coverage topical modules that were fielded in 1998, 2003, and 2006.[1] These surveys asked questions about workers' participation in employer-sponsored retirement plans, their contributions to those plans, and their retirement account balances.

[1] The Census Bureau will field the retirement and pension plan coverage topical module of the SIPP again from May to August 2009. This is the last time that questions on retirement and pension plan coverage are scheduled to be administered as part of the SIPP. A redesigned SIPP will be fielded for the first time in 2013. The Census Bureau does not plan to include questions on retirement and pension plan coverage in that survey.

Two Kinds of Retirement Plans: Defined Benefit and Defined Contribution

Employer-sponsored retirement plans are legally classified as either *defined benefit* plans or *defined contribution* plans. In a defined benefit (DB) plan, the employer is required to prefund the worker's retirement benefits by setting aside money in a pension trust fund. The retirement benefit in a DB plan is usually based on the employee's salary and 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 average salary. ERISA requires this benefit to be offered as an annuity – a series of payments guaranteed for life – beginning at the plan's normal retirement age. Most employers that sponsor DB plans now also offer departing employees the option of taking their accrued benefit as a single lump sum.

Defined contribution (DC) plans — such as those authorized under §401(k) of the Internal Revenue Code — are much like savings accounts maintained by the employer on behalf of each participating employee. In a §401(k) plan, the employee defers receipt of current income to deposit it on a pre-tax basis into a retirement account. In many §401(k) plans, the employer also contributes to the plan, and the amount of the employer's contribution often depends on the amount the employee contributes to the plan. When the worker retires, the retirement benefit that he or she receives is 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) and net of fees and expenses. Defined contribution plans are not required to offer participants the option of purchasing an annuity with their account balances.

In recent years, many employers have converted their traditional defined benefit 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. Because the employer is required to pay a benefit that is no less than the sum of all contributions plus interest, cash balance plans are legally classified as defined benefit plans.

Participation in Employer-Sponsored Retirement Plans of All Types

Table 1 shows the percentage of workers who reported in 1998, 2003, and 2006 that their employer offered a retirement plan of any kind and the percentage who reported that they participated in one or more plans at their current main job. The plans could be either defined benefit pension plans or defined contribution plans, such as those authorized under §401(k) and §403(b) of the Internal Revenue Code. In most defined contribution plans, workers must elect to

participate.[2] In defined benefit plans, all eligible workers usually are included in the plan.[3] Participants in DB plans do not have to enroll in the plan, and participants in private-sector DB plans typically are not required to contribute to the plan in order to earn benefits.[4]

Both the percentage of workers whose employer offered a retirement plan and the percentage of workers who participated in an employer-sponsored plan rose between 1998 and 2003 and fell between 2003 and 2006. Between 1998 and 2003, the percentage of private-sector wage and salary workers aged 21 and older whose employer offered a retirement plan of any kind increased from 63.4% to 66.1%. From 2003 to 2006, the percentage of workers whose employer offered a plan fell to 62.2%. (See **Table 1**). The percentage of private-sector wage and salary workers aged 21 and older who participated in an employer-sponsored retirement plan of any kind increased from 45.4% in 1998 to 49.1% in 2003 and then fell to 45.1% in 2006.

Throughout the period from 1998 to 2006, the probability of working for an employer that offered a retirement plan was substantially higher for workers at firms with 100 or more employees compared to those who worked for smaller firms, and for full-time employees compared to part-time employees.[5] Access to employer-sponsored retirement plans is especially low for workers at small firms. Only 28% of workers employed at firms with fewer than 25 employees were offered an employer-sponsored retirement plan in 2006, and only 20% of workers in firms with fewer than 25 employees were plan participants.

[2] According to the Profit Sharing/401(k) Council of America's annual survey, 36% of the 1,011 plans surveyed in 2007 had adopted automatic enrollment of eligible employees.

[3] According to the Department of Labor, 95% of private-sector employees whose employer offered a DB plan in March 2007 were enrolled in the plan. The participation rate among workers whose employer offered a defined contribution plan was 77%. See National Compensation Survey: *Employee Benefits in Private Industry in the United States, March 2007*, U.S. Department of Labor, Bureau of Labor Statistics, Summary 07-05, Aug. 2007.

[4] Workers in the public sector usually are required to contribute to their defined benefit pension plans, but private-sector DB plans typically are funded exclusively by the employer.

[5] In 2006, 81% of private-sector wage and salary workers aged 21 and older were employed full-time. The figures for 1998 and 2003 were 78% and 82%, respectively. In 2006, 64% of private-sector wage and salary workers aged 21 and older were employed at firms with 100 or more employees. The figures for 1998 and 2003 were 66% and 65%, respectively.

Table 1. Participation in Employer-Sponsored Retirement Plans of All Types

Private-sector wage and salary workers aged 21 and older, in percent

	Offered Any Type of Plan			Participated in Any Plan		
	1998	2003	2006	1998	2003	2006
Size of Firm						
100 or more workers	78.0	79.8	75.8	56.5	59.7	55.6
25 to 99 workers	51.0	58.5	54.5	35.7	41.9	37.5
Under 25 workers	26.5	30.2	28.1	17.7	21.9	19.9
Employment						
Full-time	66.5	69.2	65.1	50.4	54.3	49.7
Part-time	54.7	58.2	54.1	31.5	35.7	32.1
Total	**63.4**	**66.1**	**62.2**	**45.4**	**49.1**	**45.1**

Source: CRS analysis of the Survey of Income and Program Participation

Notes: Data represent 87.7 million private-sector workers aged 21 and older in 1998, 92.8 million workers in 2003, and 99.2 million workers in 2006.

Participation in Defined Contribution Plans

The data displayed in **Table 1** show the percentage of workers participating in employer-sponsored retirement plans of any kind, whether defined benefit, defined contribution, or both types of plan. Defined contribution plans are now the most common form of employer-sponsored retirement plan in the United States. According to the Department of Labor's National Compensation Survey, 55% of workers in the private sector worked for employers that offered defined contribution plans in March 2007, while just 21% worked for employers that offered defined benefit plans. Because participation in defined contribution plans usually requires the employee to elect to defer some of his or her salary into the plan, participation rates in DC plans depend on both the percentage of employers who offer a plan and the percentage of employees who elect to contribute to the plan.

Table 2 shows the percentage of private-sector workers whose employer sponsored a defined contribution plan, and the percentage of workers who participated in defined contribution plans. The first three columns show the percentage of workers whose employer offered a DC plan in 1998, 2003, and 2006 and the next three columns show the percentage of workers who were DC plan participants in those years.[6] The percentage of workers whose employer offered a defined contribution plan rose between 1998 and 2003 and fell between 2003 and 2006. In 1998, 53.8% of private-sector wage and salary workers were employed at firms that offered DC plans. This proportion rose to 58% in 2003, but fell to 55.8% in 2006. The percentage of workers who participated in employer-sponsored defined contribution plan also rose between 1998 and 2003

[6] ERISA allows employers to exclude workers who have completed less than one year of service or who work fewer than 1,000 hours during the year.

and fell between 2003 and 2006. In 1998, 37.3% of private-sector wage and salary workers participated in employer-sponsored DC plans. This proportion rose to 42.9% in 2003 and fell to 39.8% in 2006.

The data presented in **Table 2** show that workers under age 35, those who did not attend college, those with income in the lowest quartile, and those who worked at small firms were relatively less likely than other workers to have worked for an employer that sponsored a defined contribution retirement plan. In 2006, 51% of workers under age 35 worked for an employer that sponsored a defined contribution plan, compared to 60% of workers between the ages of 35 and 54. Forty-five percent of workers with a high school diploma or less education worked for employers that sponsored defined contribution plans, compared to 57% of workers with some college and 68% of workers with a college degree. Only 35% of workers whose monthly income in 2006 was in the lowest income quartile worked for firms that sponsored defined contribution plans, compared to 63% of workers in the top three income quartiles. Just one-fourth of workers employed at firms with fewer than 25 employees worked for firms that sponsored defined contribution plans, compared to 49% of workers at firms with 25 to 99 employees and 68% of workers employed at firms with 100 or more employees.

Participation in defined contribution plans usually requires the employee to elect to participate in the plan. Although some plans have adopted automatic enrollment for eligible employees, about two-thirds of DC plans continue to require employees to elect to participate in the plan. The percentage of workers who participate in a DC plan therefore depends in most cases on both the likelihood that an employee works for a firm that offers a plan and on the probability that an employee who is offered a plan will elect to participate. The percentage of employees offered a plan who elect to participate is called the "take-up rate." A low participation rate among a given group of workers could occur because relatively few of those workers are offered a plan, because few who are offered a plan elect to participate, or for both of these reasons.

The distinction between low participation rates that result mainly from low take-up rates and those that mainly result from relatively few workers being offered a plan can have important implications for public policy. For example, only 30% of workers under the age of 35 participated in defined contribution plans in 2006. Although this was due in part to the lower percentage of these workers working for employers who sponsored plans, another important factor was the low take-up rate among younger workers who were offered a plan. Only 59% of workers under age 35 whose employers sponsored DC plans participated in those plans in 2006. In contrast, the take-up rate among workers aged 35 to 44 was 75%, and the take-up rate among workers aged 45 to 54 was 80%.[7] In contrast, the low participation rate among employees of small firms was attributable mainly to the much lower proportion of these workers who were employed at firms that sponsored plans for their employees rather than to a low take-up rate.

In 2006, only 17.9% of workers employed at firms with fewer than 25 employees participated in a defined contribution plan, compared to 33.5% of workers at firms with 25 to 99 employees and

[7] The take-up rate is the percentage of workers who participated divided by the percentage offered a plan. For workers under age 35, the take-up rate in 2006 was .304/.513 = .593.

48.8% of employees at firms with 100 or more employees. It is important to note, however, that only 24.4% of employees who worked at firms with fewer than 25 employees worked for firms that offered DC plans to their employees. Among workers employed at firms with 25 to 99 employees, 48.8% worked at firms that sponsored DC plans, and among workers employed at firms with 100 or more employees, 68.4% worked for firms that sponsored DC plans. The take-up rate in 2006 among employees at firms with fewer than 25 employees (73.4%) was actually higher than the take-up rates among workers at firms with 25 to 99 employees (68.6%) and those at firms with 100 or more employees (71.3%).

For purposes of public policy, these results imply that efforts to boost plan participation among younger workers should be targeted at raising take-up rates (e.g., through automatic enrollment or more education for workers about the importance of saving for retirement), while boosting participation among workers at small firms will require policymakers to find ways to make offering a retirement plan less costly to the employer.

Table 2. Participation in Defined Contribution Plans in 1998, 2003, and 2006

Private-sector wage and salary workers aged 21 and older, in percent

	Offered a DC Plan			Participated in a DC Plan		
	1998	**2003**	**2006**	**1998**	**2003**	**2006**
Age						
Under 35	50.1	53.1	51.3	29.2	33.1	30.4
35 to 44	58.0	61.8	59.8	42.9	48.7	44.9
45 to 54	58.1	62.3	60.2	45.7	50.5	48.4
55 and older	47.5	56.2	52.6	35.2	44.4	39.3
Sex						
Male	55.9	58.6	55.6	40.9	45.7	41.6
Female	51.2	57.4	56.1	33.1	39.6	37.6
Race						
White	54.8	58.6	56.4	38.6	43.7	40.7
Other	47.7	54.9	53.3	30.1	39.1	35.4
Education						
College graduate	66.6	70.1	68.0	50.5	56.6	54.3
Some college	55.7	59.8	57.3	37.4	42.3	38.9
High School or less	45.4	48.7	45.2	30.2	34.5	29.9
Marital Status						
Married	56.6	60.9	57.7	42.0	48.3	44.1
Not married	49.5	53.9	53.2	30.3	35.3	33.7
Monthly income						
First (top) quartile	71.9	76.4	74.5	59.8	66.4	63.7
Second quartile	61.4	64.9	62.6	45.0	50.6	47.3
Third quartile	47.9	54.3	51.0	29.1	36.5	31.9
Lowest quartile	33.9	36.5	35.0	15.4	18.2	16.1
Size of Firm						
100 or more workers	66.8	70.6	68.4	46.5	52.2	48.8
25 to 99 workers	42.5	50.7	48.8	26.3	37.4	33.5
Under 25 workers	21.0	25.1	24.4	14.0	18.7	17.9
Employment						
Full-time	56.6	61.5	58.6	41.4	47.5	43.9
Part-time	45.6	49.0	48.0	26.0	30.9	28.3
Total	**53.8**	**58.0**	**55.8**	**37.3**	**42.9**	**39.8**

Source: CRS analysis of the Survey of Income and Program Participation.

Notes: Data represent 87.7 million private-sector workers aged 21 and older in 1998, 92.8 million workers in 2003, and 99.2 million workers in 2006. In 2006, private-sector workers with monthly income of less than $1,586 were in the bottom quartile and those with monthly income of more than $4,168 were in the top quartile. Median monthly income of private-sector wage and salary workers aged 21 and older was $2,590.

Reasons for Not Participating

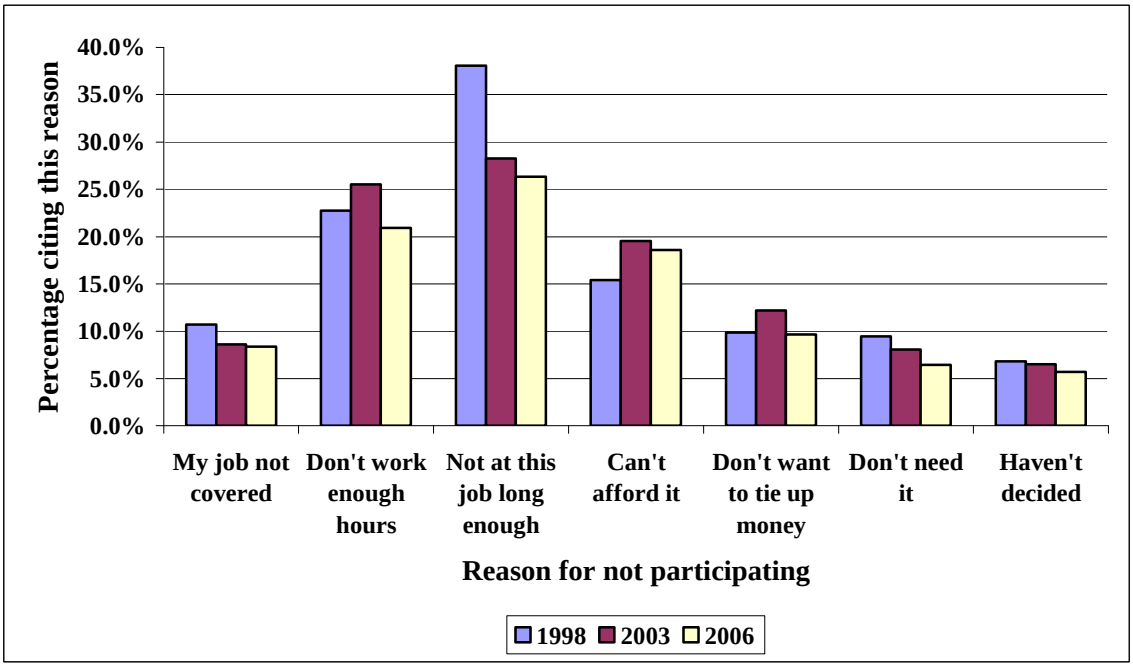
Employee participation in defined contribution plans is voluntary. Even in plans that adopt automatic enrollment, plan sponsors must allow employees the opportunity to opt out of the plan. Raising participation rates requires that policymakers understand the reasons that more than a quarter of employees at firms that sponsor these plans do not participate in them. The SIPP included a series of questions that asked workers whose employer sponsored a defined contribution plan, but who did not participate, why they were not participating. Respondents were allowed to give more than one reason for not participating in the plan. Results of the surveys from 1998, 2003, and 2006 are shown in **Figure 1**. Most workers whose employer sponsored a DC plan but who were not plan participants said that the reason they did not participate was that they believed they were not eligible. In 2006, for example, 26% of respondents reported that they did not participate because they had not worked for their current employer long enough to be eligible. Twenty-one percent of respondents replied they did not work enough hours to be eligible to participate, and 8% of respondents said their particular job was not covered by the employer's plan. Thus, a substantial proportion of workers who do not participate in defined contribution plans believe they are not eligible to participate.

Close examination of workers' responses to other questions about their jobs indicates that some may hold the mistaken belief they are not eligible to participate in their employers' defined contribution plans. For example, in 2006, 30% of the workers who said they had not worked long enough to be eligible to participate in the plan also reported they had worked for that employer for more than two years. Similarly, 31% of those who said that they did not work enough hours to be eligible to participate in the plan also reported they worked full-time. It appears from these responses that some workers who believe that they are ineligible to participate in their employers' DC plans may be misinformed and could participate if they better understood the rules governing plan eligibility.

In addition to those who do not participate because they believe that they are ineligible, substantial numbers of eligible employees do not participate in employer-sponsored defined contribution plans because they believe they cannot afford to forego current income to contribute to the plan. In 2006, 19% of nonparticipating workers said they could not afford to contribute to the plan and 10% said they did not participate because they "didn't want to tie up their money." While the reduction in take-home pay that would result from immediate salary deferrals may present a hardship to some workers, there are strategies employers can adopt that would make contributing to a retirement plan relatively painless for their employees. Some employers, for example, allow employees to commit a portion of their future pay raises to the retirement plan. This allows the worker to begin contributing to the plan without experiencing a reduction in take-home pay. Likewise, workers who do not contribute because they are reluctant to leave money in the plan until retirement can sometimes be persuaded to participate if the plan allows participant loans or hardship withdrawals. In either case, educating employees about the options available to plan participants and about the importance of saving for retirement are key strategies to boosting plan participation.

Figure 1. Reasons for not participating in employer's retirement plan

Private-sector wage and salary workers aged 21 and older in firms with a DC plan



Source: CRS analysis of the Survey of Income and Program Participation.

Notes: Respondents were permitted to give more than one reason for not participating in employer's plan.

Amount of Contributions

In defined contribution plans, the benefit available to the worker is the amount in his or her account. The account balance depends on the amount that the employer and employee have contributed to the plan, the investment gains or losses on those contributions, and the fees charged to participants. The maximum permissible annual contribution is limited by federal law, but very few workers contribute amounts near the legal maximum.[8] **Table 3** shows workers' monthly contributions to defined contribution plans in 1998, 2003, and 2006. In order to compare the contributions in each year with the annual limit on salary deferrals established under section 402(g) of the Internal Revenue Code, the amounts in **Table 3** are shown in nominal dollars rather than constant (inflation-adjusted) amounts.

The top panel of **Table 3** shows the distribution of employee salary deferrals and total contributions from the employee and employer in dollar amounts. The maximum permissible salary deferral in 2006 was $15,000, but few employees contributed as much as half that amount.

[8] The maximum annual employee salary deferral into a defined contribution plan is limited by I.R.C. §402(g). As amended by P.L. 107-16, this limit was set at $11,000 in 2002 and increased in $1,000 dollar increments to $15,000 in 2006. Since 2007, the limit has been indexed to the Consumer Price Index in $500 increments. The limit in 2009 is $16,500. I.R.C. §415(c) limits the total annual addition to defined contribution plans — comprising the sum of employer and employee contributions. The §415(c) limit in 2009 is $49,000.

The median monthly employee monthly salary deferral in 2006 was $175. (Half of monthly deferrals were less than this amount and half were greater.) This is equivalent to $2,100 on an annual basis. Only 8% of participants deferred $1,000 or more per month into defined contribution plans in 2006, equivalent to $12,000 on an annual basis. Eighty-one percent of participants deferred less than $500 per month ($6,000 per year) into defined contribution plans in 2006. The median total monthly contribution in 2006 — including both employee deferrals and employer contributions — was $312, or $3,744 on an annual basis.

The annual limit on employee salary deferrals under IRC §402(g) was $10,000 in 1998. The Economic Growth and tax Relief Reconciliation Act of 2001 (P.L. 107-16) increased the §402(g) limit from $10,500 in 2001 to $11,000 in 2002, and to $15,000 in 2006 in $1,000 annual increments. In 1998, the median monthly employee salary deferral of $133 was equal to $1,596 on an annual basis, or 16% of the annual limit $10,000. In 2003, the median monthly employee salary deferral of $160 was equal to $1,920 on an annual basis, also 16% of the annual limit of $12,000. In 2006, the median monthly employee salary deferral of $175 was equal to $2,100 on an annual basis, or 14% of the annual limit of $15,000. In 2006, when the limit on salary deferrals was $15,000, only 5% of participants in defined contribution plans reported monthly salary deferrals equal to $14,000 or more on an annual basis.

The bottom panel of **Table 3** shows employee salary deferrals and total employer and employee contributions to DC plans in 1998, 2003, and 2006 as a percentage of employee earnings. The median employee salary deferral in all three years was nearly identical: 5.0% in 1998 and 2006 and 5.1% in 2003. In each year, 22% to 26% of employees reported contributing less than 3% of pay, including 8% to 12% who said that they contributed to the plan, but who reported the amount of their contribution to the plan as zero. In each year, about one-fourth of participants contributed 10% or more of their pay to their defined contribution plan. Including employer contributions, the median total contribution was equal to 9.0% to 9.5% of pay in each year.

Table 3. Monthly Contribution to Defined Contribution Plans in 1998, 2003, and 2006

Private sector wage and salary workers aged 21 and older who participated in DC plans

Employee contribution and total contribution in dollars

	Employee Contribution (percentage distribution)			Total Contribution (percentage distribution)		
	1998	**2003**	**2006**	**1998**	**2003**	**2006**
No contribution reported	12.0	8.2	8.9	5.7	3.1	2.4
$1 to $49	10.5	9.3	8.9	6.6	5.2	4.4
$50 to $99	16.0	14.6	13.6	10.7	8.5	8.5
$100 to $149	14.9	15.1	12.6	11.6	11.2	9.6
$150 to $199	10.2	10.1	9.0	10.4	10.5	8.9
$200 to $299	13.2	14.1	13.6	16.5	15.6	14.4
$300 to $499	11.4	13.0	14.1	17.2	18.4	18.8
$500 to $999	10.9	12.6	11.7	16.5	18.5	19.2
$1,000 or more	0.8	3.0	7.6	4.7	9.0	13.8
Total	100%	100%	100%	100%	100%	100%
Mean contribution	$209	$267	$310	$344	$436	$512
Median contribution	$133	$160	$175	$221	$266	$312

Employee contribution and total contribution as a percentage of pay

	Employee Contribution (percentage distribution)			Total Contribution (percentage distribution)		
	1998	**2003**	**2006**	**1998**	**2003**	**2006**
No contribution reported	12.0	8.2	8.9	5.8	3.1	2.4
Less than 3.0%	13.3	14.0	16.6	8.4	7.7	8.5
3.0% to 4.9%	16.1	17.3	18.3	10.1	10.8	10.8
5.0% to 5.9%	12.6	13.2	10.5	6.7	6.5	6.1
6.0% to 6.9%	10.5	10.1	10.6	8.3	8.0	8.2
7.0% to 9.9%	10.1	10.3	10.1	14.6	15.2	16.6
10.0% to 10.9%	9.4	9.8	7.5	9.5	11.0	7.6
11.0% to 19.9%	11.6	12.0	11.1	24.1	24.0	25.8
20.0% or more	4.3	5.1	6.4	12.4	13.6	14.0
Total	100%	100%	100%	100%	100%	100%
Mean contribution	8.8%	8.2%	8.3%	14.9%	13.0%	13.2%
Median contribution	5.0%	5.1%	5.0%	9.0%	9.5%	9.1%

Source: CRS analysis of the Survey of Income and Program Participation.

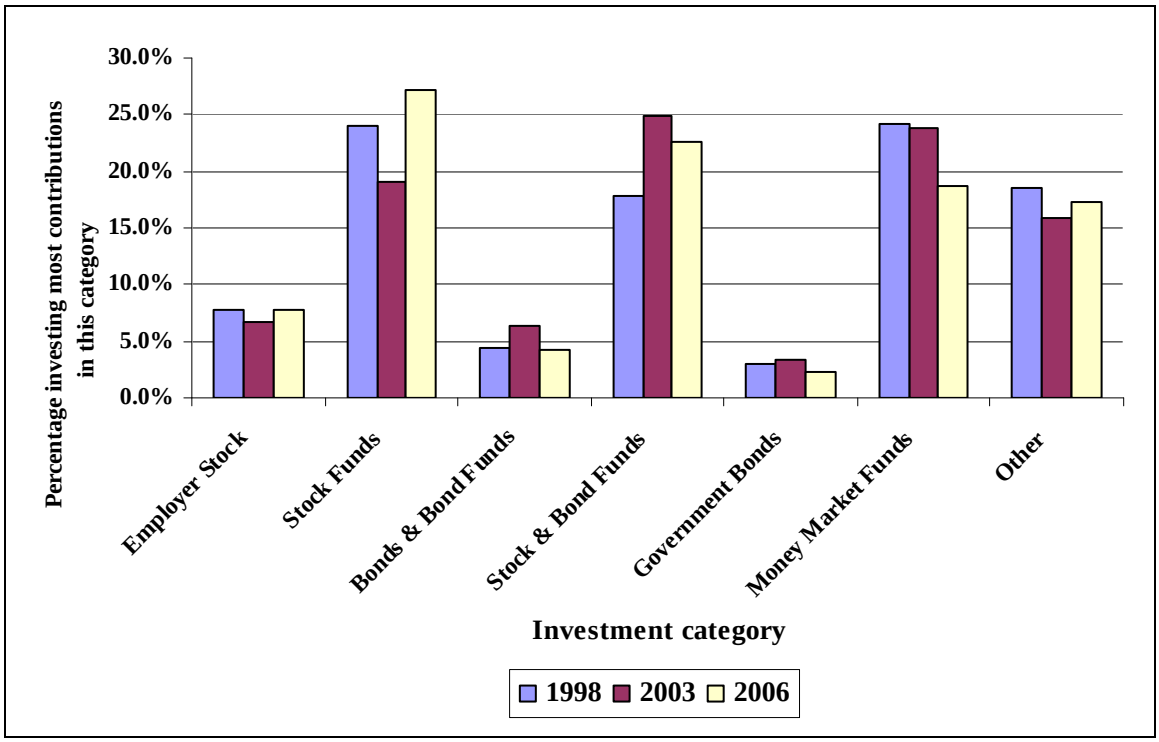
Notes: Total contribution includes both employee and employer contributions.

Investment Receiving Largest Share of Contributions

In 1998, 2003, and 2006, SIPP participants were asked to name the category of investment to which they directed the largest share of their total contribution. (See **Figure 2**.) In 1998, 42% of participants directed most of their contributions to stock funds and stock and bond funds. In 2003, 44% of participants directed the largest share of their contributions to stock funds and stock and bond funds, and in 2006, 50% of participants directed most of their contributions to stock funds and stock and bond funds. Corporate and government bonds and bond funds received the largest share of contributions from 8% of participants in 1998, 10% of participants in 2003, and 6% of participants in 2003. Employer stock received the largest share of contributions from 7% to 8% of participants in all three years. In both 1998 and 2003, 24% of participants directed the largest share of their contributions to money market funds. This share declined to 19% in 2006 as more workers contributed greater amounts to stocks and stock funds. Other unspecified investments received the largest share of contributions from 18% of participants in 1998, 16% of participants in 2003, and 17% of participants in 2006.

Figure 2. Investment receiving largest share of employee contribution

Private sector wage and salary workers aged 21 and older participating in DC plans



Source: CRS analysis of the Survey of Income and Program Participation.

Employer Contributions

An estimated 56% of wage and salary workers aged 21 and older in the private sector were employed at firms that sponsored defined contribution plans in 2006. Of these workers, 83% worked for firms that contributed to the plan, either as matching contributions or regardless of

whether the employee contributed to the plan. Workers whose employer contributed to the plan were more likely to have participated in the plan than those whose employer made no contribution. The take-up rate in 2006 among employees whose employer sponsored a DC plan was 73% among those whose employer contributed to their plan, compared to 64% among those whose employer made no contribution to their plan.

Account Balances

Among all wage and salary workers aged 21 and older who participated in defined contribution plans in 2006, the mean account balance in the plan at their current main job was $46,344 and the median account balance was $22,000. When accounts held at a previous employer were added to these amounts, the mean total retirement account balance was $48,311 and the median account balance was $25,000, as shown in **Table 5**.

Table 4. Mean and Median Account Balances in Employer-Sponsored Defined Contribution Plans in 2006, by Age of Worker

Private-sector wage and salary workers aged 21 and older participating in DC plans

Age of Worker	Mean Balance	Median Balance
Under 35	$29,318	$12,000
35 to 44	38,601	18,800
45 to 54	64,220	37,500
55 to 64	70,461	40,000
65 and older	67,362	40,000
All workers 21 and older	48,311	25,000

Source: CRS analysis of the Survey of Income and Program Participation.

Notes: Table includes only workers who participated in a defined contribution plan at current main job. Account balance includes all DC plans at current job and balances held with previous employers.

Plan loans

Seventy percent of survey respondents reported that their plan allowed participants to borrow from their accounts, and 10% of all plan participants reported ever having taken a plan loan. In 2006, the mean outstanding loan balance was $6,615 and the median loan balance was $3,000. Twenty-five percent of all loans had an outstanding balance of less than $1,500, and 25% of loans had an outstanding balance of more than $8,000. Five percent of loans had an outstanding balance of more than $30,000.

Product Number RL33116

Author Contact Information

Patrick Purcell
Specialist in Income Security
ppurcell@crs.loc.gov, 7-7571