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Retirement Savings and Household
Wealth in 2007

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Congressional Research Service



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April 8, 2009

Congressional Research Service

7-5700

www.crs.gov

RL30922

Summary

About half of all workers in the United States participate in an employer-sponsored retirement plan of some kind, a proportion that has remained relatively stable over the past thirty years. Beginning in the early 1980s, however, employers began to move away from traditional pension plans – also known as defined benefit (DB) plans – to defined contribution (DC) plans, like those authorized under section 401(k) of the Internal Revenue Code. Unlike DB plans, which are required by federal law to offer a benefit in the form of a life annuity, DC plans are individual accounts that typically pay the employee a lump sum at retirement. In 2007, approximately 21 million workers in the private sector participated in defined benefit plans, while more than 40 million workers participated in defined contribution plans.

One of the key distinctions between a defined benefit plan and a defined contribution plan is that in a DB plan, it is the employer who bears the investment risk. The employer must ensure that the pension plan has sufficient assets to pay the benefits promised to workers and their surviving dependents. In a DC plan, the worker bears the risk of investment losses. The worker's account balance at retirement will depend on how much has been contributed to the plan over the years and on the performance of the assets in which the plan is invested. Because DC plans and Individual Retirement Accounts (IRAs) represent a large share of the assets available to households to pay their expenses during retirement, Congress needs current, detailed information on amounts that workers have accumulated in these plans to assess both workers' preparedness for retirement and the effectiveness of the tax incentives created for retirement savings plans.

Once every three years, the Board of Governors of the Federal Reserve System collects data on household assets and liabilities through the *Survey of Consumer Finances* (SCF). The most recent such survey was conducted in 2007, and the survey results were released to the public in February 2009. This CRS report presents data from the 2007 SCF with respect to household ownership of, and balances in, retirement savings accounts.

Because the majority of assets held in retirement accounts are invested in stocks, trends in stock prices have a significant impact on households' retirement account balances. As a result of the broad decline in stock prices in 2008, the retirement account balances that households reported on the 2007 SCF may be greater than many of those households would report in 2009. The effect of the current recession on household finances will be reflected in the next SCF, which will be fielded in 2010. Nevertheless, the 2007 SCF provides the most comprehensive and current data available on the amount and type of retirement assets owned by American households.

In 2007, 53% of U.S. households owned at least one retirement account, whether an individual retirement account, a 401(k) plan, or other employment-based retirement account. The median combined balance of all retirement accounts owned by households with at least one account was \$45,000. Twenty-five percent of households had total retirement account balances of \$140,000 or more, and 25% of households had total retirement account balances of \$11,000 or less.

The median value in 2007 of all retirement accounts owned by households headed by persons between the ages of 55 and 64 was \$100,000. For a 65-year-old man retiring in April 2009, \$100,000 would be sufficient to purchase a level, single-life annuity that would pay income of \$700 per month for life, based on current interest rates. Because women have longer average life expectancies than men of the same age, \$100,000 would purchase a level, single-life annuity that would pay income of \$650 per month for life to a 65-year-old woman retiring in April 2009.

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Trends in Retirement Plan Design

Since the 1970s, the proportion of workers who participate in employer-sponsored retirement plans has remained relatively stable at approximately half of the workforce. Since the early 1980s, however, employers have moved away from *defined benefit* (DB) plans to *defined contribution* (DC) plans. Defined benefit plans – what most people think of as traditional pensions – are required by federal law to offer plan participants a retirement benefit in the form of a lifelong annuity. The amount of the annuity typically is based on the employee’s length of service and average salary. In the private sector, DB plans usually are funded solely by employer contributions and investment earnings on those contributions. Defined contribution plans, in contrast, are more like savings accounts maintained by employers on behalf of each participating employee. In the most common type of DC plan—those established under section 401(k) of the tax code—the employee defers a portion of his or her salary, which is invested in stocks, bonds, or other assets. The employer often matches some or all of the employee’s contribution to the plan. At retirement, the balance in the account is the sum of past contributions plus interest, dividends, and capital gains—or losses. The account balance is often distributed to the departing employee as a single lump sum.

One of the key distinctions between a defined benefit plan and a defined contribution plan is that in a DB plan, the employer bears the investment risk. The employer must ensure that the plan has sufficient assets to pay the benefits promised to workers and their surviving dependents. In a DC plan, the worker bears the risk of investment losses. The worker’s account balance depends on how much has been contributed to the plan over the years and how the plan’s underlying investments have performed. At year-end 2007, 78% of the \$3.7 trillion in assets held by DC plans was invested in stocks and stock mutual funds.¹ The high percentage of DC plan assets invested in equities makes these plans sensitive to trends in stock prices. Due to the sharp decline in the major stock market indices during 2008, the total assets held by DC plans fell by almost \$1.1 trillion (28%) between December 31, 2007, and December 31, 2008. By year-end 2008, the proportion of DC plan assets invested in stocks and stock mutual funds had fallen to 70%.

The Survey of Consumer Finances

This Congressional Research Service (CRS) report presents data on retirement savings account ownership and retirement account balance collected through the *Survey of Consumer Finances* (SCF) in 2001, 2004, and 2007. The SCF is a survey of households sponsored by the Board of Governors of the Federal Reserve System in cooperation with the Department of the Treasury. It is conducted once every three years to collect information on the assets and liabilities of U.S. households, the sources and amounts of their income, their demographic characteristics, employment, and participation in employer-sponsored health and retirement plans. Data from the SCF are widely used by economists at the Federal Reserve, other government agencies, and by private-sector research organizations and academic institutions to study trends in the amount and distribution of assets and liabilities among U.S. households. Since 1992, SCF data have been collected by the National Organization for Research at the University of Chicago (NORC). In

¹ Board of Governors of the Federal Reserve System, *Flow of Funds Accounts of the United States: Flows and Outstandings*, Fourth Quarter 2008, March 12, 2009, p. 113.

2001, members of 4,449 households were interviewed for the SCF. In 2004, members of 4,522 households were interviewed.² For the 2007 SCF, members of 4,422 households were interviewed. With the appropriate sample weights applied, the 2001, 2004, and 2007 SCF interview samples were representative of all U.S. households.

Most of the information collected in the Survey of Consumer Finances—such as total assets and liabilities—is reported at the household level. The only data that are reported separately for the householder and his or her spouse or partner describe these individuals’ employment, pension coverage, and demographic characteristics. In this report, retirement plan participation is shown for employed household heads and employed spouses of household heads.³ Contributions to retirement accounts are shown for both employed household heads and employed spouses. Their combined contributions are shown as the household’s total retirement plan contributions. Account balances are shown only at the household level, i.e. as the sum of the account balances owned by the members of the household. Net worth – the sum of household assets minus the sum of household liabilities – is reported at the household level.

Data from a survey of employers – the Department of Labor’s National Compensation Survey (NCS) – indicate that 61% of workers in the private sector worked for employers that sponsored retirement plans in 2007, and that 51% of private-sector workers participated in employer-sponsored retirement plans.⁴ The Department of Labor’s employer survey also indicates that 55% of employees in the private sector worked for employers that sponsored defined contribution plans, and that 43% of private-sector employees participated in DC plans in 2007. The rates of DC plan sponsorship and participation reported by employers on the National Compensation Survey are slightly higher than those reported by households on the SCF. Surveys of households typically find lower rates of participation in employer-sponsored retirement plans than are found in surveys of employers. In some cases, the person responding for the household is unsure what kind of retirement plan he or she participates in. Under-reporting is also common with respect to the respondent’s spouse. Although the SCF reports lower participation in employer-sponsored DC plans than the NCS, it collects information that is not available from the employer survey, such as workers’ demographic characteristics, their retirement account balances, and the amount of their contributions to retirement accounts.

Participation in Employer-Sponsored Retirement Plans of All Kinds

Data from the Survey of Consumer Finances indicate that 62% of workers under age 65 were employed at jobs that offered some form of employer-sponsored retirement plan in 2007. This

² For more information, see <http://www.federalreserve.gov/pubs/oss/oss2/scfindex.html>.

³ This report refers to *households* rather than to *families* because the unit of analysis in the SCF is more comparable to the Census Bureau’s definition of a household than to its definition of a family. In the survey, the household head is designated as the male in a mixed-sex couple and the older person in a same-sex couple. The SCF staff note that this designation is not intended to convey a judgment about how an individual family is structured. It is merely a means of organizing the data consistently. For more information, see Bucks, Kennickell, Mach, and Moore, *Federal Reserve Bulletin*, 2009 or refer to the survey documentation on the Federal Reserve Board’s website at <http://www.federalreserve.gov/Pubs/OSS/oss2/2007/scf2007home.html>.

⁴ U.S. Department of Labor, Bureau of Labor Statistics, National Compensation Survey: Employee Benefits in Private Industry in the United States, March 2007, Summary 07-05, August 2007.

figure includes both defined benefit plans and defined contribution plans. Forty-nine percent of workers under age 65 participated in employer-sponsored retirement plans in 2007, little changed from the 48% who participated in employer-sponsored plans in 2004 and the 50% who participated in 2001.⁵ (See **Table 1.**) Workers at large firms were much more likely to have been offered a retirement plan than those employed at small firms. In 2007, 77% of workers employed at firms with 100 to 499 employees, and 88% of workers employed at firms with 500 or more employees, worked for employers that offered a retirement plan of some kind. In contrast, just 15% of employees at firms with fewer than 20 employees worked for employers that offered a retirement plan in 2007. This represents a substantial drop from 2001, when 22% of employees at firms with fewer than 20 employees worked at firms that offered a retirement plan.

Full-time workers were much more likely than part-time workers to have been offered the opportunity to participate in an employer-sponsored retirement plan. In 2007, 66% of full-time workers were offered a retirement plan at work, compared to 36% of part-time workers. More than half of full-time workers (53%) participated in employer-sponsored retirement plans in 2007, compared to just 19% of part-time workers.

Table 1. Participation in Employer-Sponsored Retirement Plans of Any Kind
(Working Household Heads and Spouses Under Age 65, in percent)

	Offered Any Type of Plan			Participated in Any Plan		
	2001	2004	2007	2001	2004	2007
Size of Firm						
500 or more workers	88.5	86.5	87.5	69.8	69.3	70.2
100 to 499 workers	80.1	77.9	76.5	60.0	56.2	59.1
21 to 99 workers	56.0	57.8	56.6	41.9	43.0	42.5
Under 20 workers	22.4	19.5	15.4	16.9	15.1	10.9
Employment						
Full-time	68.8	67.0	66.2	54.6	53.1	53.4
Part-time	38.1	38.2	36.4	21.2	23.1	19.4
Total	64.3	61.9	62.0	49.6	47.9	48.6

Source: CRS analysis of the Federal Reserve Board's 2001, 2004, and 2007 *Survey of Consumer Finances*.

Notes: Data represent 109.9 million workers in 2001, 112.0 million workers in 2004, and 115.3 million workers in 2007. Data include workers in both the public sector and the private sector.

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. To participate in a defined contribution plan, an employee usually must elect to defer some of his or her salary into the plan. As a result, 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.

⁵ The data presented in **Table 1** reflect the plan participation of workers who were identified as either the household head or the spouse or partner of the household head.

Table 2 shows the percentage of private-sector workers whose employer sponsored a defined contribution plan, the percentage of workers who participated in DC plans, and the percentage of workers who were offered a plan who participated in it. This last percentage – the “take-up rate” – differs among workers with different economic and demographic characteristics.

The first three columns of **Table 2** show the percentage of workers whose employer offered a DC plan in 2001, 2004, and 2007. The middle three columns show the percentage of workers who participated in DC plans in those years.⁶ The last three columns show the take-up rate among employees who were offered the opportunity to participate in a DC plan. The percentage of workers whose employer offered a defined contribution plan fell from 51% in 2001 to 47% in 2004 and then rose to 49% in 2007. The percentage of workers who participated in employer-sponsored defined contribution plan also fell between 2001 and 2004 and rose from 2004 to 2007. In 2001, 38% of private-sector wage and salary workers participated in employer-sponsored DC plans. This proportion fell to 37% in 2004 and rose to 39% in 2007. The take-up rate rose throughout the period. In 2001, 74% of workers who were offered a DC plan participated in the plan. The take-up rate in DC plans rose to 78% in 2004 and to 79% in 2007.

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 2007, 46% of workers under age 35 worked for an employer that sponsored a defined contribution plan, compared to 49% of workers between the ages of 35 and 44, and 55% of those aged 45 to 54. Thirty-nine percent of workers with a high school diploma or less education worked for employers that sponsored defined contribution plans, compared to 51% of workers with some college and 60% of workers with a college degree. Only 30% of workers whose household was in the lowest income quartile worked for firms that sponsored defined contribution plans in 2007, compared to 62% of workers in the top income quartile and 55% of workers in the second-highest income quartile. Just 12% of workers employed at firms with fewer than 20 employees worked for firms that sponsored defined contribution plans in 2007, compared to 46% of workers at firms with 20 to 99 employees, 59% of workers employed at firms with 100 to 499 employees, and 70% of workers employed at firms with 500 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, almost two-thirds of DC plans continue to require employees to elect to participate in the plan. The percentage of employees offered a plan who elect to participate is called the “take-up rate.” The participation rate in DC plans depends on both the percentage of workers offered a plan and the take-up rate among those whose employers sponsor a plan. Low participation rates can result from either a low percentage of employers offering a plan, a low percentage of employees who are offered a plan electing to participate, or both.

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 32% of workers under the age of 35 participated in defined contribution plans in 2007. 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

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.

take-up rate among younger workers who were offered a plan. Only 70% of workers under age 35 whose employers sponsored DC plans participated in those plans in 2007. In contrast, the take-up rate among workers aged 35 to 44 was 82%, and the take-up rate among workers aged 45 to 54 was 83%.⁷ On the other hand, 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 low take-up rates.

In 2007, only 9% of workers employed at firms with fewer than 20 employees participated in a defined contribution plan, compared to 35% of workers at firms with 20 to 99 employees, 46% of employees at firms with 100 to 499 employees, and 57% of employees at firms with 500 or more employees. It is important to note, however, that only 12% of employees who worked at firms with fewer than 20 employees worked for firms that offered DC plans to their employees. Among workers employed at firms with 20 to 99 employees, 46% worked at firms that sponsored DC plans, and among workers employed at firms with 100 to 499 employees, 59% worked for firms that sponsored DC plans. Seventy percent of workers at firms with 500 or more employees were employed by firms that sponsored a DC plan in 2007. The take-up rate in 2007 among employees at firms with fewer than 20 employees (77%) was similar to the take-up rates among workers at firms with 20 to 99 employees (75%) and only slightly lower than the take-up rates at firms with 100 to 499 employees (78%) and firms with 500 or more employees (81%). 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 burdensome and costly to the employer.

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 2007 was $0.318/0.456 = 0.697$.

Table 2. Participation in Defined Contribution Plans: 2001, 2004, 2007

(Working Householders and Spouses Under Age 65, in percent)

	Offered a DC Plan			Participated in a Plan			Take-up Rate		
	2001	2004	2007	2001	2004	2007	2001	2004	2007
Relationship									
Householder	53.6	48.6	50.8	40.5	37.8	40.5	75.5	77.7	79.6
Spouse/partner	47.3	44.8	46.7	34.1	34.5	36.8	72.1	77.0	78.8
Age									
Under 35	47.5	42.4	45.6	33.1	28.6	31.8	69.6	67.5	69.7
35 to 44	56.1	48.4	49.0	43.9	38.2	40.2	78.3	79.1	82.1
45 to 54	54.5	50.1	54.6	40.2	40.0	45.3	73.7	79.9	83.0
55 to 64	43.0	49.9	48.2	32.9	43.1	40.2	76.4	86.5	83.5
Race/ethnicity									
Caucasian	52.4	50.0	51.4	39.4	39.7	41.6	75.1	79.5	80.9
Other	48.0	40.4	45.0	34.5	28.8	33.9	72.0	71.2	75.2
Sex									
Male	51.3	49.5	50.4	42.1	38.7	40.9	82.2	78.1	81.1
Female	47.6	45.1	48.4	34.1	34.6	37.4	71.7	76.8	77.3
Marital status									
Married	52.1	49.1	49.9	39.9	39.3	41.2	76.6	79.9	82.5
Not married	50.0	44.0	48.5	35.0	31.9	35.4	70.0	72.4	72.9
Education									
College grad.	61.1	58.6	59.5	50.4	49.1	50.6	82.5	83.8	85.0
Some college	50.5	46.3	50.5	36.2	35.1	39.3	71.7	75.7	77.9
High school less	43.9	37.8	39.4	29.3	26.5	28.6	66.9	70.2	72.7
HH Income									
Top quartile	61.4	60.9	61.5	50.4	53.0	53.9	82.2	87.1	87.5
Second quartile	61.8	52.6	54.5	46.2	41.4	45.6	74.7	78.7	83.8
Third quartile	46.2	43.5	46.3	31.8	31.1	33.6	68.7	71.4	72.5
Bottom quartile	29.0	25.8	29.7	17.4	13.9	17.0	60.0	54.1	57.4
Firm size									
500 or more	72.3	67.7	70.4	52.5	52.8	57.0	72.7	78.0	80.9
100 to 499	62.8	56.1	58.7	45.8	41.4	45.8	72.9	73.7	78.0
20 to 99	44.1	43.6	46.3	34.3	34.3	34.9	77.7	78.8	75.4
Under 20	17.2	14.9	11.9	14.1	11.9	9.2	82.3	80.1	76.9
Employment									
Full-time	56.5	52.6	53.9	42.4	40.7	43.3	75.0	77.3	80.3
Part-time	22.3	22.9	22.0	14.7	17.6	14.3	65.7	76.7	65.3
Union status									
Union	67.2	58.4	62.3	46.1	45.4	49.5	68.6	77.6	79.5
Non-union	48.1	45.3	47.1	36.6	35.1	37.4	76.1	77.5	79.3
Total	51.4	47.3	49.4	38.2	36.7	39.2	74.4	77.5	79.3

Source: CRS analysis of the Federal Reserve Board's 2001, 2004, and 2007 *Survey of Consumer Finances*.**Notes:** Data represent 109.9 million workers in 2001, 112.0 million workers in 2004, and 115.3 million in 2007.

Retirement Savings of American Households

With the trend away from defined benefit plans to defined contribution plans, workers now bear much of the responsibility of preparing for retirement. Workers who contribute to DC plans, such as those authorized under sections 401(k), 403(b), and 457 of the Internal Revenue Code, or to an IRA can accumulate retirement savings on a tax-deferred basis while they are working.⁸

The following tables show the retirement savings of all households and of households in which there was at least one worker under age 65. According to the SCF, of the 116.1 million U.S. households in 2007, there were 81 million households in which either the household head, the household head's spouse, or both, were employed adults under age 65.

Retirement Account Ownership in 2007

Data from the SCF show that the percentage of households that owned a retirement account of some kind—whether an individual retirement account (IRA) or a 401(k) plan or other DC plan—fell from 2001 to 2004 and rose from 2004 to 2007. (See the top panel of **Table 3.**) Fifty-three percent of all households owned at least one retirement account in 2007, compared to 51% in 2004 and 53% in 2001. Thirty-eight percent of households owned a defined contribution plan from current or past employment in 2007, compared to 36% in 2004 and 35% in 2001. Thirty-one percent of households owned an IRA or Keogh plan in 2007, compared to 29% in 2004 and 31% in 2001. In 2007, 15% of households owned *both* a defined contribution account from current or past employment and an IRA or Keogh plan. This was up slightly from 14% in 2004 and 13% in 2001.

Sixty-three percent of households in which either the household head, the household head's spouse, or both, were workers under age 65 owned a retirement account of some kind in 2007. (See the bottom panel of **Table 3.**) This was higher than in 2004, but roughly the same percentage as in 2001. Fifty percent of households with at least one worker under age 65 owned a defined contribution plan from current or past employment in 2007, compared to 47% in both 2004 and 2001. Thirty-three percent of households with one or more workers under age 65 owned an IRA or Keogh plan in 2007. This was three percentage points higher than in 2004 and the same percentage as in 2001. Twenty percent of households with one or more workers under age 65 owned both a defined contribution account from current or past employment and also owned an IRA or Keogh plan in 2007. This was up slightly from 18% in both 2004 and 2001.

⁸ In a traditional IRA, pre-tax contributions can be made only if the worker is not covered by an employer-sponsored retirement plan or has income below amounts specified in law. Taxes are deferred on contributions and investment earnings until money is withdrawn from the account. Roth IRAs accept only after-tax contributions; however, qualified withdrawals from a Roth IRA are tax-free.

Table 3. Household Retirement Account Ownership: 2001, 2004, and 2007

All Households	2001	2004	2007
Number of households , in thousands	106,496	112,109	116,122
Percent with <i>either</i> an IRA/Keogh or a defined contribution plan	52.8	51.1	53.4
Percent with a defined contribution plan ^a	34.7	35.8	37.7
Percent with an IRA or Keogh plan ^b	31.3	29.0	30.6
Percent with <i>both</i> an IRA/Keogh plan and a defined contribution plan	13.2	13.7	14.7
Percent with <i>neither</i> IRA/Keogh nor a defined contribution plan	47.2	48.9	46.4
Households with a worker under age 65	2001	2004	2007
Number of households, in thousands	75,693	79,622	80,997
Percent with <i>either</i> an IRA/Keogh or a defined contribution plan	62.5	59.4	63.2
Percent with a defined contribution plan ^a	47.3	47.3	50.2
Percent with an IRA or Keogh plan ^b	33.0	29.9	32.5
Percent with <i>both</i> an IRA/Keogh plan and a defined contribution plan	17.8	17.8	19.5
Percent with <i>neither</i> IRA/Keogh nor a defined contribution plan	37.5	40.6	36.8

Source: CRS analysis of the Federal Reserve Board's 2001, 2004, and 2007 *Survey of Consumer Finances*.

- a. Includes DC accounts from current and past jobs. Household may also have owned an IRA or Keogh plan.
- b. Household may also have owned a defined contribution plan.

Retirement Account Balances in 2007

All Households

As shown in **Table 3**, 53% of all households owned at least one retirement account in 2007. **Table 4** shows the balances in these accounts at the 50th percentile (the median), as well as at the 75th and 25th percentiles. In 2007, among all households that owned one or more retirement accounts, the median balance of all accounts owned by those households was \$45,000. This was \$5,430 more than the median balance of all household retirement accounts in 2004, and \$9,940 higher than the median balance of household retirement accounts in 2001. (All amounts shown in **Table 4** have been adjusted to 2007 dollars.) Twenty-five percent of all households with at least one retirement account in 2007 had retirement savings of \$140,000 or more and 25% of households with one or more accounts had retirement savings of \$11,000 or less.

Among households that owned one or more defined contribution accounts from current or past employment of the householder or the householder's spouse, the median combined balance of all DC accounts owned by the household in 2007 was \$35,000. Twenty-five percent of households with at least one defined contribution account had account balances of \$110,000 or more in 2007, and 25% of households with one or more DC accounts had balances of \$8,900 or less.

Among households that owned one or more individual retirement accounts or Keogh accounts for the self-employed, the median combined balance of all IRAs and Keogh accounts owned by those households in 2007 was \$34,000. Twenty-five percent of all households with at least one IRA or

Keogh account in 2007 had IRA/Keogh balances of \$100,000 or more and 25% of households with one or more IRAs or Keogh accounts had balances of \$10,000 or less.

Households with One or More Workers under Age 65

The median value in 2007 of all retirement accounts owned by households with at least one worker under age 65 was \$45,000. Twenty-five percent of all households with one or more workers had combined retirement account balances of \$137,700 or more, and 25% of households with at least one worker under 65 had total retirement account balances of \$10,220 or less.

Among households with one or more workers under age 65 that owned one or more defined contribution accounts from current or past employment of the householder or the householder's spouse, the median combined balance of all defined contribution accounts owned by the household in 2007 was \$32,500. Twenty-five percent of all worker households with at least one defined contribution account in 2007 had DC plan balances of \$106,000 or more and 25% of households with one or more DC accounts had combined DC account balances of \$8,700 or less.

Among the households with one or more workers under age 65 that owned one or more individual retirement accounts or Keogh accounts for the self-employed, the median combined balance of all IRAs and Keogh accounts owned by the household in 2007 was \$30,000. Twenty-five percent of all households with at least one IRA or Keogh account in 2007 had account balances of \$89,500 or more, and 25% of households with one or more IRAs or Keogh accounts had account balances of \$9,600 or less.

Table 4. Household Retirement Account Balances: 2001, 2004, and 2007
(Amounts in 2007 dollars)

All households with retirement accounts	2001	2004	2007
<i>Households with any type of retirement account</i>			
Combined balance of all retirement accounts:			
75 th percentile	\$111,250	\$131,900	\$140,000
50 th percentile (median)	35,060	39,570	45,000
25 th percentile	8,180	10,990	11,000
<i>Households with one or more defined contribution accounts^a</i>			
Combined balance of all defined contribution accounts:			
75 th percentile	75,960	100,130	110,000
50 th percentile (median)	23,370	29,680	35,000
25 th percentile	5,840	8,240	8,900
<i>Household with one or more IRA or Keogh accounts^b</i>			
Combined balance of all IRA/Keogh accounts:			
75 th percentile	93,490	109,910	100,000
50 th percentile (median)	31,550	32,970	34,000
25 th percentile	9,000	9,000	10,000
Households with a worker under age 65	2001	2004	2007
<i>Households with any type of retirement account</i>			
Combined balance of all household retirement accounts:			
75 th percentile	\$99,330	\$131,670	\$137,700
50 th percentile (median)	31,550	37,370	45,000
25 th percentile	7,010	10,880	10,220
<i>Households with one or more defined contribution accounts^a</i>			
Combined balance of all defined contribution accounts:			
75 th percentile	72,450	98,920	106,000
50 th percentile (median)	23,370	29,680	32,500
25 th percentile	5,840	8,570	8,700
<i>Households with one or more IRA or Keogh accounts^b</i>			
Combined balance of all IRA/Keogh accounts:			
75 th percentile	75,960	94,520	89,500
50 th percentile (median)	24,540	30,550	30,000
25 th percentile	7,010	7,690	9,600

Source: CRS analysis of the Federal Reserve Board's 2001, 2004, and 2007 *Survey of Consumer Finances*.

- a. Includes defined contribution plans from current and past jobs. May also have owned an IRA or Keogh plan.
- b. May also have owned a defined contribution plan.

Retirement Account Balances by Age of Household Head

An individual's age is an important consideration when evaluating the adequacy of his or her retirement savings. The more time that a person has until reaching retirement, the greater the opportunity to make additional contributions and for investment earnings to build up his or her retirement account balance. **Table 5** shows rates of retirement account ownership and average retirement account balances, categorized by the age of the household head.

Between 2004 and 2007, the percentage of households that owned a retirement account of any kind rose among households headed by persons aged 45 to 54 and among households headed by persons aged 65 and older. It remained relatively stable among other age groups. In 2007, 43% of households in which the householder was under age 35 owned one or more retirement accounts. Among households in which the householder was 35 to 44 years old, 59% owned at least one retirement account, as did 66% of households headed by persons aged 45 to 54 and 62% of households headed by persons aged 55 to 64. Forty-one percent of households headed by persons aged 65 and older owned a retirement account in 2007.

The median combined balance of all retirement accounts owned by households with at least one such account was \$45,000 in 2007. The median balance of household retirement accounts was just \$9,600 among households headed by persons under age 35. Median balances were progressively higher for the next three age groups. Households headed by persons aged 35 to 44 had median retirement savings of \$37,000 in 2007. Households headed by persons aged 45 to 54 had median retirement savings of \$63,000, and households headed by persons aged 55 to 64 had median retirement savings of \$100,000 in 2007. Among households with at least one retirement account that were headed by persons aged 65 and older, the median combined balance of all household retirement accounts was \$60,800 in 2007.

Table 5. Household Retirement Account Balances by Age of Householder
(Number of households in thousands; Account balances in 2007 dollars)

Age of householder	Number of Households	Households with Accounts	Percent with Accounts	Mean Value, all Accounts	Median Value, all Accounts
2001					
Under 35	24,211	11,067	45.7%	\$22,262	\$ 8,180
35 to 44	23,751	14,837	62.5	76,573	33,890
45 to 54	21,941	14,063	64.1	152,920	56,090
55 to 64	14,107	8,395	59.5	230,540	64,270
65 or older	22,486	7,913	35.2	178,180	64,270
All households	106,496	56,275	52.8%	\$122,227	\$35,060
2004					
Under 35	24,874	10,254	41.2%	\$29,786	\$12,090
35 to 44	23,115	13,550	58.6	78,008	30,775
45 to 54	23,279	13,892	59.7	163,656	65,946
55 to 64	17,086	10,938	64.0	253,048	93,424
65 or older	23,755	8,707	36.7	188,822	57,153
All households	112,109	57,340	51.1%	\$140,350	\$39,570
2007					
Under 35	25,148	10,708	42.6%	\$25,279	\$ 9,600
35 to 44	22,745	13,306	58.5	81,308	37,000
45 to 54	24,120	15,968	66.2	156,124	63,000
55 to 64	19,564	12,199	62.4	271,920	100,000
65 or older	24,545	10,050	40.9	207,321	60,800
All households	116,122	62,231	53.6%	\$148,579	\$45,000

Source: CRS analysis of the Federal Reserve Board's 2001, 2004, and 2007 *Survey of Consumer Finances*.

Note: Includes defined contribution plan account balances from both current and past employment.

Retirement Plan Contributions in 2007

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.⁹ **Table 6** shows workers' monthly contributions to defined contribution plans in 2007.

The top panel of **Table 6** shows the distribution of employee salary deferrals, employer contributions, and total contributions from the employee and employer. Contributions are shown separately for householders and for spouses that participated in DC plans, and also at the household level. Household contributions are the combined contributions made by householders and their spouses.

The median monthly salary deferral by household heads in 2007 was \$280. This is equivalent to \$3,360 on an annual basis.¹⁰ Twenty-five percent of household heads that contributed to a DC plan in 2007 contributed \$600 or more per month, and 25% contributed \$130 or less. The median monthly salary deferral by spouses of household heads in 2007 was \$200. This is equivalent to \$2,400 on an annual basis. Twenty-five percent of spouses of household heads that contributed to a DC plan in 2007 contributed \$430 or more per month and 25% contributed \$100 or less.

The median monthly contribution in 2007 by employers of household heads was \$180 and the median monthly contribution by employers of spouses was \$130. The median monthly total contribution—including both employee deferrals and employer contributions—was \$420 for working householders who participated in DC plans and \$300 for working spouses.

Just as retirement account balances may be considered a financial resource of the entire household, so too are contributions to retirement plans generally made for the future retirement security of both the householder and his or her spouse. **Table 6** shows the combined contributions of the householder and spouse and their employers. The median monthly household contribution in 2007 among households in which either the householder, the householder's spouse or both contributed to a DC plans was \$290. Twenty-five percent of households contributed \$656 per month or more, and 25% of households contributed \$130 per month or less. The median monthly employer contribution in 2007 among households in which employers made contributions on behalf of either the householder, the householder's spouse, or both was \$190. Twenty-five percent of households received monthly employer contributions of \$360 or more, and 25% of households received employer contributions of \$92 per month or less. The median monthly total contribution to DC plans in 2007 from all sources—the householder, the householder's spouse, and/or an employer—was \$440. In 25% of households, monthly contributions from all sources were \$920 or more, and in 25% of households total monthly contributions were \$208 or less.

⁹ 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.

¹⁰ The maximum permissible employee salary deferral under I.R.C. §402(g) in 2007 was \$15,000.

The bottom panel of **Table 6** shows employee contributions, employer contributions, and total contributions to DC plans in 2007 as a percentage of earnings. The median employee salary deferral by household heads who contributed to a DC plan in 2007 was 6.0% of the household head's earnings. The median salary deferral by working spouses who contributed to a DC plan in 2007 was 6.0% of the spouse's earnings. The median salary deferral by households in which either the householder or the householder's spouse contributed to a DC plan in 2007 was 5.1% of total *household* earnings.

Table 6. Monthly Contributions to Defined Contribution Plans in 2007
(Monthly Contributions in dollars and as a percentage of earnings)

Relationship to Householder	Employee Contributions	Employer Contributions	Total Contributions
Householder			
75 th percentile	\$600	\$330	\$845
50 th percentile (median)	280	180	420
25 th percentile	130	90	200
Spouse/partner			
75 th percentile	\$430	\$242	\$630
50 th percentile (median)	200	130	300
25 th percentile	100	60	150
Householder and Spouse/partner			
75 th percentile	\$656	\$360	\$920
50 th percentile (median)	290	190	440
25 th percentile	130	92	208
Householder			
75 th percentile	9.9%	5.8%	13.0%
50 th percentile (median)	6.0	3.8	9.4
25 th percentile	3.9	2.7	6.0
Spouse/partner			
75 th percentile	10.0%	5.5%	1.9%
50 th percentile (median)	6.0	3.5	8.9
25 th percentile	3.5	2.7	5.3
Householder and Spouse/partner			
75 th percentile	8.3%	5.0%	11.9%
50 th percentile (median)	5.1	3.1	8.0
25 th percentile	2.9	1.8	4.5

Source: CRS analysis of the Federal Reserve Board's 2007 *Survey of Consumer Finances*.

Notes: Householder's contributions are reported as a percentage of the householder's earnings. Spouse's contributions are reported as a percentage of the spouse's earnings. Household's contributions are reported as a percentage of the household's earnings.

Plan Loans

Ten percent of households in which either the householder, the householder's spouse, or both participated in a defined contribution plan in 2007 reported that they had a loan currently

outstanding against at least one plan. The mean outstanding balance of all household loans against retirement plans was \$6,672 and the median household loan balance was \$5,000. Twenty-five percent of all households with loans against retirement plans had outstanding balances of less than \$1,800, and 25% of households outstanding loan balances of more than \$9,000. Five percent of households with loans against retirement plans had outstanding loan balances of more than \$20,000.

Household Net Worth

Many households have wealth other than retirement accounts on which they will be able to draw during retirement. More than 96% of workers in the United States are covered by Social Security, and about one-fifth of workers in the private sector participate in defined-benefit pension plans.¹¹ In addition, many households have other assets that could be used to pay expenses during retirement. For example, the most valuable asset owned by many families is their home, and some may find when they are older that they prefer to live in a smaller house or apartment, or they may choose to move to an area where property taxes and other living expenses are lower than where they lived during their working years. In addition to equity in their homes, many individuals have financial assets, equity in businesses, real estate, or other valuables that can either provide a stream of income through interest, dividends, or rents, or that can be fully or partially liquidated to finance their consumption needs during retirement. The broadest measure of net household wealth—the difference between a household’s total assets and total liabilities—is called “net worth.” The median net worth of all households in the United States in 2001, 2004, and 2007 is shown in **Table 7** in 2007 dollars.

Table 7. Median Household Net Worth in 2001, 2004, and 2007
(Amounts in 2007 dollars)

Age of Householder	Median Net Worth			Percentage Change	
	2001	2004	2007	2001-2004	2004-2007
Under 35	\$13,700	\$15,600	\$11,800	13.9%	-24.4%
35 to 44	90,700	76,200	86,600	-16.0	13.6
45 to 54	155,400	158,900	182,500	2.3	14.9
55 to 64	216,800	273,100	253,700	26.0	-7.1
65 to 74	207,900	208,800	329,400	0.4	57.8
75 or older	181,600	179,100	213,500	-1.4	19.2
All households	101,200	102,200	120,300	1.0	17.7

Source: Bucks, Kennickell, Mach, and Moore, *Federal Reserve Bulletin*, Feb. 2009.

Between 2001 and 2004, median net worth among all U.S. households (in 2007 dollars) rose by just 1%, increasing from \$101,200 to \$102,200. From 2004 to 2007, median household net worth rose by almost 18% to \$120,300. Changes in median net worth between 2004 and 2007 differed substantially by the age of the household head. Median net worth fell by 24% among households

¹¹ All permanent federal employees and about four-fifths of employees of state and local governments participate in defined benefit pension plans.

headed by persons under age 35, although the percentage change in net worth from 2004 to 2007 among households in this age group must be viewed in light of the small base (\$15,600 in 2004) against which it is measured. Among households headed by individuals between 35 and 44 years old, median net worth rose by 14% between 2004 and 2007, increasing from \$76,200 to \$86,600. The median net worth of households headed by persons between the ages of 45 and 54 rose by 15% between 2004 and 2007, while median net worth fell by 7% among households headed by persons aged 55 to 64. The greatest increase in median net worth between 2004 and 2007 occurred among households headed by persons aged 65 to 74. Among these households, net worth rose from \$208,800 to \$329,400, an increase of nearly 58%. Households headed by persons 75 or older experienced an increase in median net worth of 18% between 2004 and 2007.

Conclusion

Are Americans saving adequately – and wisely – for retirement? The median retirement account balances reported on the 2007 Survey of Consumer Finances would not by themselves provide an income in retirement that most people in the United States would find adequate. Among the 12.2 million households headed by persons aged 55 to 64 in 2007 and that owned at least one retirement account, the median balance of all their accounts was \$100,000. This is less than twice the median annual income of households in this age group. Moreover, almost 7.4 million households headed by persons 55 to 64 years old had no retirement savings accounts in 2007. Including the households with zero balances, a total of 13.5 million households headed by persons aged 55 to 64—69% of all households in this age group—had retirement account balances of less than \$100,000 in 2007. Among the 81 million households that included at least one worker under age 65 in 2007, 29.8 million—or 37%—did not own a retirement savings account of any kind. The median retirement account balance among households with one or more workers under age 65 that owned a retirement account in 2007 was just \$45,000.

For workers who are not included in a defined-benefit pension where they are employed—which is about 80% of all workers in the private sector—saving from current income is essential to preparing for retirement. Whether workers save by putting money into accounts that are earmarked for retirement or by accumulating other assets on which they can draw after they have retired is not necessarily important. The act of saving is of greater consequence to retirement security than the manner in which it is accomplished. Nevertheless, the fact that 30 million households that included a worker under age 65 had *no* retirement savings accounts in 2007 indicates that many households are not taking advantage of the tax deferrals available to virtually all workers through IRAs and to many workers through employer-sponsored retirement plans.

On the one hand, the widespread adoption of tax-favored retirement savings plans over the past 30 years indicates that many workers are taking seriously their responsibility to save for retirement. On the other hand, the balances in these accounts—even among those who are near retirement—are generally low. For example, if the median retirement account balance of \$100,000 among households headed by persons 55 to 64 years old in 2007 were converted to an annuity, it would provide a monthly income of \$700 per month (\$8,400 annually) to a man retiring at age 65 in 2009. This amount would replace just 15% of the median income of households headed by individuals who were 55 to 64 years old in 2007.¹² Another issue that many households – particularly those nearing retirement age – must consider in the wake of the sharp

¹² In 2007, the median income of households headed by persons aged 55 to 64 was \$54,600.

decline the major stock market indices that occurred in 2008 is whether their retirement savings are adequately diversified. Although stocks have historically earned a higher average annual rate of return on investment than bonds, the annual rates of return on stocks are more volatile than the rates of return on bonds. A sharp decline in retirement account balances in the years just before – or after – retirement could throw a household’s finances into disarray.

The uncertain future of Social Security and the declining prevalence of defined-benefit pensions that provide a guaranteed lifelong income have put much of the responsibility for preparing for retirement directly on workers. The low rate of personal saving in the United States and the lack of any retirement savings accounts among millions of American households indicate that there is a need for greater awareness among the public about the importance of setting aside funds to prepare for life after they have stopped working. Most workers in the United States will need to begin saving more of their income if they wish to maintain a standard of living in retirement comparable to that which they enjoyed while working. The alternatives would be to work longer or to greatly reduce their standard of living when they retire.

References

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