

Employment-Based Retirement and Pension Plan Participation: Geographic Differences and Trends

by Craig Copeland, EBRI

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Issue Brief

- This *Issue Brief* examines the level of participation by workers in employment-based pension or retirement plans. Their participation is examined for 2001 across various worker characteristics and those of their employers. The report then examines retirement plan participation across U.S. geographic regions, including by state and certain consolidated metropolitan statistical areas (CMSAs). Participation trends from 1987 to 2001 are also presented.
- Of all 150.9 million workers in 2001, 83.5 million worked for an employer or a union that sponsored a pension or retirement plan, and 64.9 million participated in the plan. This translates into a sponsorship rate (the percentage of workers working for an employer or a union that sponsored a plan) of 55.3 percent and a participation level among all workers of 43.0 percent. For wage and salary workers ages 21–64, the sponsorship rate increases to 61.7 percent and the portion participating increases to 49.8 percent.
- The bigger the employer, the more likely a worker is to participate in an employment-based retirement plan. Among workers who worked for employers with fewer than 10 employees, 18.0 percent participated in a plan, compared with 61.6 percent of those working for an employer with 1,000 or more employees.
- The states with the lowest levels of participation—Florida, Texas, California, and Washington state—were in the South, Southwest, and the upper Northwest. The states with the highest participation were in the upper Midwest—Minnesota, Wisconsin, Michigan, and the Dakotas—along with some in the Northeast or Mid-Atlantic, such as Pennsylvania and Maryland.
- For the *all worker* population, the percentage of workers participating in an employment-based retirement plan increased from 37.6 percent in 1987 to 39.7 percent in 1991, then fell to 39.0 percent in 1993. The percentage subsequently increased steadily through 2000 to 44.4 percent, before declining significantly in 2001 to 43.0 percent. The *all wage and salary workers ages 21–64* and *private-sector wage and salary workers ages 21–64* populations mirrored this pattern. In contrast, full-time, full-year wage and salary workers ages 21–64 had an almost constant level of retirement plan participation over the 1987–2001 period, with a minor increase in the late 1990s. Public-sector wage and salary workers had a pattern similar to that of the full-time, full-year workers.
- Small employer, part-time, and part-year workers had higher retirement plan participation levels in 2001 relative to 1987, which is good news. Nevertheless, as the economy has remained stagnant, these workers are the ones less likely to be able to participate, as employers may have to cut back on their offerings to remain profitable in a weaker economy. The bad news is that the workers with traditionally high levels of participation did not have a significant increase in their level of participation during a very prosperous time in the American economy in the 1990s. Thus, the overall level of participation in retirement plans has shown only a small increase from 1987 to 2001 and appears, in the short term, to be headed downward.

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Introduction

As the United States’ population has aged due to increases in longevity and the aging of the post-

World War II baby-boom generation, financial preparation for the retirement of this and future generations has become a national concern. This concern has arisen for various reasons, including the projected deficit in the Social Security system, continual increases in health care costs, and the significant amount of resources this growth in the aged population will require relative to the smaller working population supporting it.

A primary source of funds for many retirees is a pension or retirement plan offered through their former employer or union. The larger the percentage of retirees who have a pension or retirement plan, the smaller the burden will likely be on future generations to provide this support, as retirees should be better able to pay for their own expenses in retirement from these plans. Consequently, tracking the percentage of the working population with a pension or retirement plan gives legislative decision makers, employers, and workers an idea of the extent to which the potential burden on tax payers of supporting future retirees may be changed as a result of these trends in the levels of workers participating in retirement plans.

This *Issue Brief* examines the level of participation by workers in employment-based pension or retirement plans. It begins with a breakdown of retirement plan types and participation in these plan types. Next, it describes the data used in this study, along with their relative strengths and weaknesses. From these data, results on participation in employment-based retirement plans are examined for 2001 across various worker characteristics and those of their employers. The report then examines retirement plan participation across U.S. geographic regions, including a breakdown by state and certain consolidated metropolitan statistical areas (CMSAs). In addition to the results for 2001, trends

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from 1987–2001 in employment-based retirement plan participation are presented across the same worker characteristics and those of their employers as used for 2001. The report concludes with a discussion of this study’s findings.

Retirement Plan Types

In general, there are two types of tax-favored retirement plan vehicles offered through employers and unions—defined contribution (DC)

plans and defined benefit (DB) plans. These plans differ in variety of ways, particularly in how contributions are made, the assumption of investment risk, and the manner in which plan benefits are paid. First, under a DC plan, employer contributions (if any) are based on a predetermined formula,¹ and, most frequently, all contributions (made by both employers and/or employees) are placed in individual accounts on behalf of each participant. In contrast, DB plans typically are funded by the employer and do not require participants to contribute, and plan contributions are held in one trust on behalf of all participants, with these contributions subject to federal funding rules and regulations required to maintain the plan’s tax-favored status.

Next, who assumes the investment risk associated with plan assets is a key distinction between DC and DB plans. The overwhelming majority of individuals receiving DC plan benefits assume all of the investment risk on their own accounts; that is, employers do not guarantee a specific benefit level but instead the benefit is determined by the contributions (employer and employee) to the individual’s account and the investment returns within that account.² In comparison, DB plan participants receive a certain benefit amount calculated from a specific formula, typically based on average salary and years of service, regardless of the investment

performance of the plan assets. Thus, in general, individual participants bear the investment risk in DC plans, while the plan sponsor does in DB plans.

A third difference between DC and DB plans traditionally has been the manner in which they generally pay benefits. DC plans usually pay out benefits in a lump sum—the entire accumulated benefits paid out at one time. Consequently, the recipients are responsible for managing the money to reduce or eliminate the risk of outliving the assets during their retirement. Alternatively, DB plans must offer life annuities (a set amount paid out regularly over time, typically monthly, for as long as the beneficiary lives), which, when chosen, eliminates the necessity of managing these assets during retirement. However, plan sponsors are allowed to cash out those participants who terminate employment and have a small accrued benefit, and a growing number of DB plan participants are also being offered a lump-sum distribution option.³

The term *pension plan* traditionally has been synonymous with a DB plan that uses a fixed annuity payment, and not with a DC plan offering a lump-sum distribution. Although many individuals refer to a DC plan as a pension plan, many other people still understand a pension to be an annuity payment at retirement (i.e., a DB plan). Thus, this discussion defines DB and DC plans as *retirement plans* to eliminate any confusion.

The increase in the number of DC plan participants relative to DB plan participants has been well-documented. For example, Rajnes (2002), using results from Internal Revenue Service Form 5500 data, shows that the number of private-sector workers with a DB plan as their primary retirement plan decreased from 27 million in 1975 to 23 million in 1998 (a decline of almost 15 percent), while those with a DC plan as their primary plan increased from 4 million in 1975 to 29 million in 1998 (an increase of 625 percent over the same period). Copeland (2002b), using the U.S. Census Bureau’s May 1988 Current Population Survey Employee Benefit Supplement, and the Retirement and Pension Plan Coverage Topical Module to the 1996 Survey of Income

and Program Participation (SIPP), found that the percentage of all civilian nonagricultural wage and salary workers age 16 or older who considered their primary retirement to be a DC plan increased from 25.8 percent in 1988 to 62.7 percent in 1998. Another study by Copeland and VanDerhei (2000), using the 1992 and the 1998 Survey of Consumer Finances (SCF), found that the percentage of families with at least one participant in a retirement plan and with only a DC plan increased from 38 percent in 1992 to 57 percent in 1998.

The reasons for this growth of DC plan participants, such as the perception of increased work force mobility and changes in the business and regulatory environments of plan sponsors, have also been documented.⁴ The consequences of these trends for retirees are significant, the most important being the necessity for individual retirees to manage their assets in retirement so as not to outlive them. However, these issues are outside the scope of this report, which focuses on the initial accumulation of retirement benefits through participation in an employment-based arrangement.⁵

Data

While the breakdown of employment-based retirement plan participation among plan types is important, the datasets that

contain this information are slow to be released, or are compiled from surveys taken only at three- or five-year intervals. The data cited above on the breakdown of plan types from the Survey of Consumer Finances (SCF) and Survey of Income and Program Participation (SIPP) illustrate this problem, as the latest available numbers are from 1998, with the survey intervals being three years and five years, respectively.⁶ Furthermore, the official compilation of private-sector plan assets and participants by the U.S. Department of Labor from the Form 5500 data that all private-sector sponsors of pension or retirement plans must file with the Internal

Revenue Service (IRS) is currently only available through 1998. Public-sector employers are not required to file these forms, making detailed data from those plans difficult to obtain even after a few years. Consequently, timely data on the breakdown between retirement plan types is not available on an annual basis.

In contrast, the Current Population Survey (CPS), a monthly survey, asks questions in a consistent manner each March since at least 1988 about whether a worker worked for an employer or union that sponsored a pension or retirement plan for any of its employees, and then if the worker was included in that plan.⁷ The U.S. Census Bureau conducts the CPS by interviewing more than 60,000 households and asking numerous questions about individuals' work status, employers, income, and basic demographic characteristics. Therefore, the CPS provides detailed information about workers from a broad sample of Americans who are in an employment-based plan, making it possible to establish a consistent annual and timely trend across numerous worker characteristics and the characteristics of their employers.

While the CPS provides excellent detail on overall participation in employment-based plans, it does *not* provide specifics about the plans such as the worker's plan type or whether the worker is eligible to participate in the plan sponsored by his or her employer or union. This makes the definition of terms in this study important. The term *sponsorship rate* is defined as the percentage of workers in the specified work force who worked for an employer or union that sponsored a plan for any of its employees, not necessarily for the worker in question. Thus, in this discussion, the term *percentage of workers participating in a plan* is not synonymous with the standard retirement plan term *participation rate*, which is understood to mean the percentage of eligible workers who participate in a plan. Consequently, *participation rate* is not used in this analysis; instead the terms *participation level* or *percentage participating*, which, to reiterate, refer to the fraction of workers in the specified work force who participated in an employment-based pension or retirement plan regardless of the

Figure 1
PERCENTAGE OF VARIOUS WORK FORCES WHO WORK FOR AN EMPLOYER THAT SPONSORED A RETIREMENT PLAN AND THE PERCENTAGE WHO PARTICIPATED IN THE PLAN, 2001

	All Workers	Wage and Salary Workers Ages 21–64	Private Wage and Salary Workers Ages 21–64	Public Wage and Salary Workers Ages 21–64	Full-Time, Full-Year Wage and Salary Workers Ages 21–64
			(millions)		
Worker Category Total	150.9	124.7	105.1	19.6	90.1
Works for an employer sponsoring a plan	83.5	77.0	60.3	16.6	60.8
Participating in a plan	64.9	62.1	47.4	14.8	52.5
			(percentage)		
Worker Category Total	100.0%	100.0%	100.0%	100.0%	100.0%
Works for an employer sponsoring a plan	55.3	61.7	57.4	84.9	67.5
Participating in a plan	43.0	49.8	45.1	75.3	58.3

Source: Employee Benefit Research Institute estimates from the 1988–2002 March Current Population Surveys

worker’s eligibility (offered a plan and meets the requirements to participate) to participate in a plan. Lastly, the term *participating in a plan* as used here always means a pension or retirement plan provided through an employment-based arrangement, *not* a plan such as an individual retirement account (IRA) that workers can fund outside of an employment-based arrangement.

2001 Levels

Of all 150.9 million workers in 2001, 83.5 million worked for an employer or union that sponsored a pension or retirement plan, and 64.9 million participated in the plan (Figure 1). This translates into a sponsorship rate (the percentage of workers working for an employer or union that sponsored a plan) of 55.3 percent and a participation level of 43.0 percent. However, this measure of the work force contains the self-employed and those typically with a looser connection to the work force—individuals under age 21 and older than age 64. Therefore, a different measure of the work force, wage and salary workers ages 21–64—representing individuals who have a stronger connection to the work force and work for someone else—is examined. For this group, the sponsorship rate increases to 61.7 percent and the portion participating increases to 49.8 percent. When separating these wage and salary workers into the public and private sectors, the percentages participating differ significantly. Slightly more than 75 percent of the public-sector workers participated in an employment-based retirement

plan, compared with 45.1 percent of the private-sector workers.

A more restrictive definition of the work force, which more closely resembles the types of workers who generally must be covered in accordance with the Employee Retirement Income Security Act (ERISA) for a retirement plan offered by a private-sector employer or union, is the work force of full-time, full-year wage and salary workers ages 21–64.⁸ Approximately 58 percent of these workers participated in a retirement plan. The percentage participating in each work force definition is correlated with the workers’ characteristics as well as those of the workers’ employers. The remainder of this section focuses on wage and salary workers, presenting the differences across these characteristics, which, in general, were representative of all the work force populations, except where noted.

Worker Characteristics

The percentage of wage and salary workers ages 21–64 participating in a retirement plan increased through age 55 then declined (Figure 2). For those ages 21–24, 20.3 percent participated in a plan, compared with nearly 60 percent of those ages 45–54. Males were more likely to participate in a plan than females. However, there were no differences between males and females among full-time, full-year workers. Being white or having attained a higher educational level was associated with a higher probability of participating in a retirement plan.

Workers who were married or divorced were more likely to participate in a plan, while never-married workers had the lowest probability. The higher an

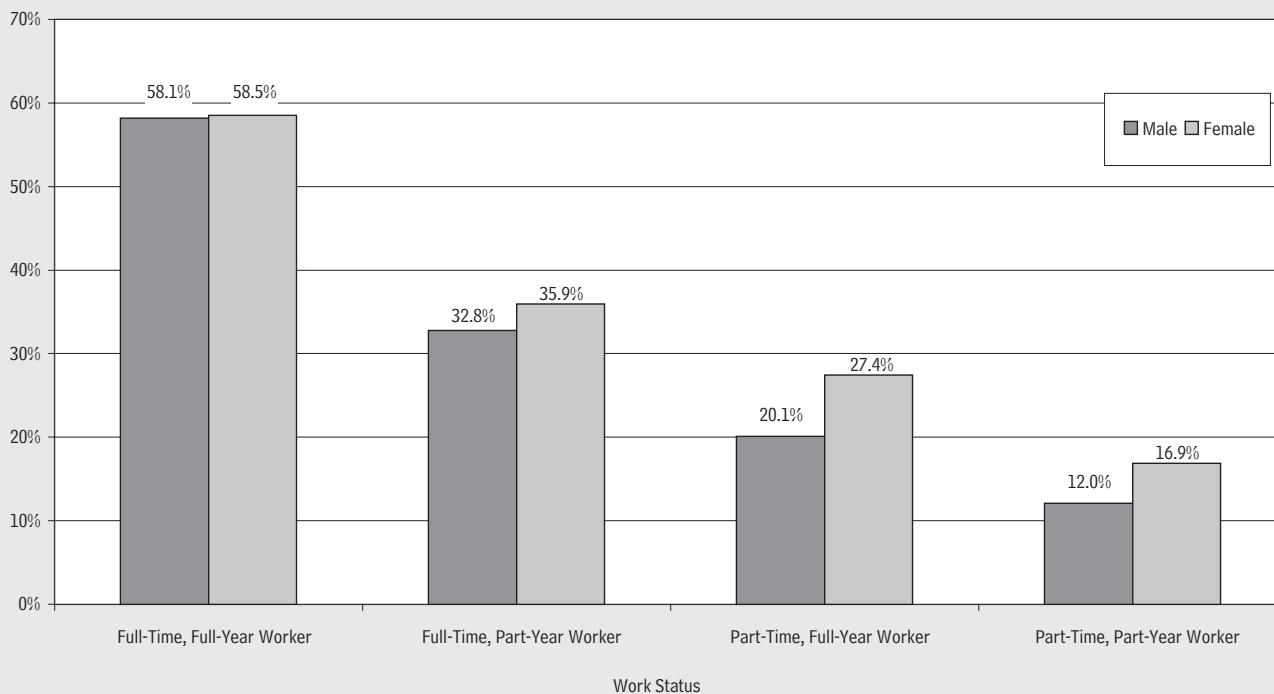
Figure 2

PERCENTAGE OF VARIOUS WORK FORCES WHO WORKED FOR AN EMPLOYER THAT SPONSORED A RETIREMENT PLAN AND THE PERCENTAGE WHO PARTICIPATED IN THE PLAN, BY VARIOUS CHARACTERISTICS, 2001

	All Workers			Wage and Salary Workers Ages 21-64			Private Wage and Salary Workers Ages 21-64			Public Wage and Salary Workers Ages 21-64			Full-Time, Full-Year Wage and Salary Workers Ages 21-64		
	Number of workers	Sponsor-ship rate	Percent- age participating	Number of workers	Sponsor-ship rate	Percent- age participating	Number of workers	Sponsor-ship rate	Percent- age participating	Number of workers	Sponsor-ship rate	Percent- age participating	Number of workers	Sponsor-ship rate	Percent- age participating
	(000s)	(%)	(%)	(000s)	(%)	(%)	(000s)	(%)	(%)	(000s)	(%)	(%)	(000s)	(%)	(%)
Age															
20 or younger	12,129	27.3%	4.8%												
21-24	12,303	42.1	20.0	12,090	42.6%	20.3%	10,964	40.5%	19.1%	1,126	62.2%	32.4%	5,915	50.4%	30.7%
25-34	33,049	44.1	41.8	31,562	58.2	43.5	27,707	54.9	39.8	3,855	81.6	69.5	22,500	63.4	50.9
35-44	37,702	61.0	51.3	35,269	64.3	54.1	29,934	60.4	49.9	5,335	86.1	77.5	26,928	69.0	61.0
45-54	33,036	64.0	56.0	30,377	68.3	59.9	24,183	63.0	53.9	6,195	89.1	83.1	23,801	72.6	66.3
55-64	17,127	59.9	52.0	15,450	65.0	56.4	12,352	59.6	50.8	3,098	86.7	79.1	10,942	70.1	64.4
65 or older	5,504	38.1	23.6												
Gender															
Male	79,629	55.0	44.5	65,055	61.9	51.8	56,824	58.3	47.9	8,231	86.7	79.3	51,735	66.4	58.1
Female	71,223	55.7	41.4	59,692	61.5	47.6	48,315	56.3	41.8	11,378	83.6	72.4	38,351	69.0	58.5
Race/Ethnicity															
White	108,785	58.5	46.3	88,726	66.0	54.3	74,549	61.9	49.8	14,178	87.1	78.2	64,272	71.7	63.1
Black	16,309	56.3	41.3	14,035	60.8	46.4	11,096	55.6	40.1	2,939	80.4	70.3	10,129	67.6	55.4
Hispanic	17,843	37.0	26.2	15,235	40.1	29.4	13,670	35.7	25.1	1,565	78.6	67.1	10,892	44.6	35.2
Other	7,914	51.4	39.0	6,752	56.4	44.0	5,824	53.2	41.1	928	76.5	62.0	4,792	62.1	52.3
Education															
No high school diploma	20,829	28.9	15.7	12,860	33.9	22.8	12,171	32.3	21.2	689	62.5	50.4	8,451	39.5	29.0
High school diploma	45,560	51.9	39.4	38,048	57.1	44.9	33,796	54.1	41.5	4,252	81.4	71.9	27,590	62.5	52.3
Some college	42,965	56.9	42.9	36,344	62.8	49.1	30,951	59.1	45.1	5,393	83.7	71.7	25,468	69.7	59.7
Bachelor's degree	27,885	68.4	57.7	25,424	72.6	61.6	20,292	68.9	57.5	5,132	87.2	77.7	19,168	76.6	68.8
Graduate/profnl. degree	13,612	75.3	67.2	12,072	79.6	71.6	7,928	73.7	64.8	4,143	91.0	84.8	9,408	82.4	77.0
Marital Status															
Married	85,107	60.5	50.9	75,114	65.5	55.7	62,213	60.9	50.6	12,902	87.6	79.8	56,054	70.2	62.9
Widowed	3,012	48.5	35.9	1,806	59.4	46.9	1,472	54.7	41.4	334	80.0	71.2	1,203	67.2	57.3
Divorced	15,917	59.0	47.5	14,225	63.2	51.1	11,955	58.9	46.1	2,270	85.7	77.4	10,859	68.4	58.3
Separated	3,379	51.0	36.9	3,095	54.6	39.8	2,707	50.6	34.9	388	82.0	74.5	2,175	60.2	48.1
Never married	43,437	44.7	26.9	30,508	52.7	36.1	26,792	49.4	32.9	3,715	76.0	59.0	19,794	60.0	46.5
Health Insurance Status															
None/not own employer	68,383	32.0	17.6	47,409	37.5	23.0	42,742	33.9	20.3	4,666	70.2	47.8	25,095	40.7	30.5
Through own employer	82,469	74.7	64.1	77,339	76.6	66.3	62,396	73.5	62.1	14,943	89.5	83.9	64,991	77.8	69.0
Health Status															
Excellent	49,885	57.3	45.2	40,606	64.3	53.2	33,932	60.1	48.7	6,674	85.7	76.3	29,857	69.8	61.6
Very good	53,745	57.7	45.3	45,186	63.9	51.8	38,034	59.7	47.1	7,152	86.4	77.1	33,735	68.7	59.4
Good	37,022	51.8	39.5	30,680	57.6	45.3	26,130	53.3	40.5	4,550	82.6	72.7	21,658	63.7	53.8
Fair	8,466	47.7	35.3	6,906	53.3	40.7	5,872	48.4	35.2	1,035	81.4	71.8	4,266	62.5	51.6
Poor	1,733	38.9	25.4	1,369	45.9	29.8	1,171	40.9	24.9	199	75.2	58.5	570	55.6	45.1
Annual Earnings															
<\$5,000	19,284	25.5	6.4	8,789	31.3	9.7	7,527	27.2	7.9	1,262	56.0	20.7	611	35.6	19.4
\$5,000-\$9,999	13,488	33.0	12.4	9,370	35.6	15.1	8,185	31.5	12.1	1,185	63.7	35.7	2,079	36.4	19.2
\$10,000-\$14,999	14,061	38.6	20.6	11,430	41.6	23.2	10,099	37.2	19.3	1,331	74.8	52.7	5,801	37.3	22.6
\$15,000-\$19,999	13,891	46.8	31.3	12,171	49.8	33.9	10,818	46.0	29.9	1,353	80.8	66.4	8,425	49.5	34.7
\$20,000-\$29,999	26,320	57.8	45.6	23,875	60.9	48.4	20,713	57.3	44.0	3,161	84.7	77.1	19,735	61.4	49.4
\$30,000-\$39,999	21,220	69.1	59.9	19,742	72.2	62.8	15,818	67.7	57.2	3,924	90.5	85.6	17,400	72.4	63.5
\$40,000-\$49,999	13,669	74.5	67.7	12,735	77.9	70.9	9,851	73.7	64.5	2,884	92.5	89.6	11,499	78.3	71.7
\$50,000 or more	28,919	76.4	71.9	26,638	80.2	75.5	22,128	77.5	72.3	4,510	93.3	91.1	24,535	80.6	76.3
Work Status															
Full-time, full-year	99,666	63.4	54.4	90,086	67.5	58.3	75,669	63.3	53.4	14,417	89.2	84.1			
Full-time, part-year	21,596	47.3	29.8	17,763	51.7	34.3	15,252	53.1	28.9	2,512	81.0	67.5			
Part-time, full-year	14,081	37.3	19.1	9,104	44.2	25.7	7,933	41.1	23.5	1,171	65.6	40.0			
Part-time, part-year	15,508	31.1	10.2	7,795	38.1	15.5	6,285	31.6	11.6	1,510	65.4	32.0			
Employer Size															
<10 employees	29,573	17.8	13.7	17,226	22.7	18.0	17,226	22.7	18.0				10,861	27.0	23.2
10-24 employees	14,571	31.6	23.4	12,179	34.5	26.5	12,179	34.5	26.5				8,420	38.9	32.4
25-99 employees	18,224	48.2	35.5	15,904	51.4	39.4	15,904	51.4	39.4				11,521	56.8	46.3
100-499 employees	17,140	62.1	46.8	15,453	64.9	50.4	15,453	64.9	50.4				11,539	69.9	58.0
500-999 employees	6,932	67.9	52.4	6,286	70.4	56.0	6,286	70.4	56.0				4,806	74.5	63.5
1,000 or more employees	43,280	73.9	55.7	38,091	77.7	61.6	38,091	77.7	61.6				28,522	82.5	70.3
Public sector	21,130	82.8	72.0	19,609	84.9	75.3							14,417	89.2	84.1
Sector/Industry															
Private sector	129,721	50.8	38.3	105,138	57.4	45.1	105,138	57.4	45.1				75,669	63.3	53.4
agriculture, mining, and construction	14,421	30.8	24.6	10,362	38.2	31.3	10,362	38.2	31.3				7,077	42.6	36.1
manufacturing	29,467	67.9	56.4	27,184	70.9	59.7	27,184	70.9	59.7				21,996	74.2	64.7
wholesale/retail trade	51,642	46.2	31.9	39,859	52.5	39.2	39,859	52.5	39.2				27,967	59.0	48.4
personal services	34,189	51.7	38.2	27,733	58.3	44.4	27,733	58.3	44.4				18,627	64.9	54.0
Public sector	21,132	82.8	72.0	19,610	84.9	75.3							14,418	89.2	84.1

Source: Employee Benefit Research Institute estimates from the 2002 March Current Population Survey.

Figure 3
PERCENTAGE OF WAGE AND SALARY WORKERS AGES 21–64 WHO PARTICIPATED IN AN EMPLOYMENT-BASED RETIREMENT PLAN, BY WORK STATUS AND GENDER, 2001



Source: Employee Benefit Research Institute estimates from 2002 March Current Population Survey.

individual's earnings were, the more likely he or she participated in a plan. Approximately one-third of those who earned \$15,000–\$19,999 participated in a plan, while this number increased to 75.5 percent of those earning \$50,000 or more.

Health status and health insurance ownership also were associated with the probability of participating in a retirement plan. Workers with health insurance through their own employer were more than three times as likely to participate in a plan as those without health insurance through their own employer. Furthermore, as the workers' self-reported health status decreased, so did their probability of participating in a retirement plan. Lastly, full-time, full-year workers were by far the most likely type to participate in a retirement plan.

Employer Characteristics

The probability of a worker participating in an employment-based retirement plan increased significantly with the size of his or her employer (Figure 2). For workers who worked for employers with fewer than 10 employees, 18.0 percent participated in a plan, compared with 61.6 percent of those working for an employer with 1,000 or more employees. The sector and industry of the employer also had an impact on the likelihood of participating in a plan. Public-sector workers were

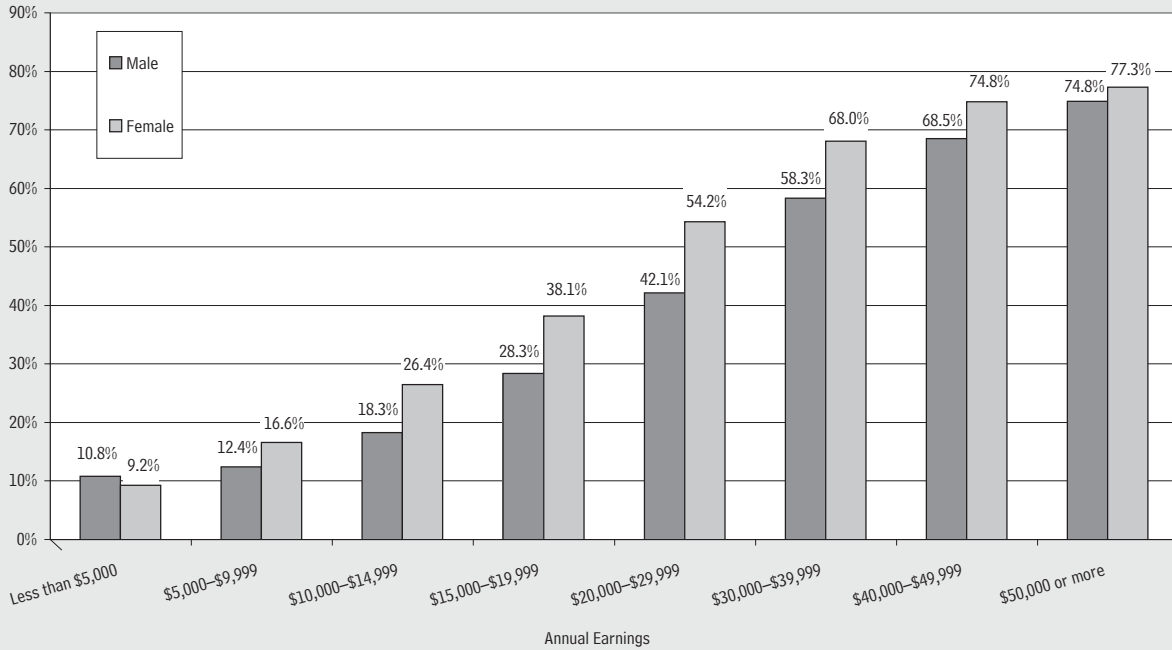
significantly more likely to participate than private-sector workers. Workers in the manufacturing industry had the highest probability of participating, while those in the agriculture, mining, and construction industry had the lowest probability.

A Closer Examination

Gender—Female wage and salary workers ages 21–64 were found to participate in a retirement plan at a lower level than males did. However, among full-time, full-year workers of the same ages, females had a slightly higher rate of participation in a plan (58.5 percent for women, compared with 58.1 percent for men). In fact, across all of the worker status categories, females were more likely to participate in a retirement plan than males (Figure 3). Furthermore, when examining the participation by earnings level, except for the lowest earnings category, the level of participation by females was also higher than that it was for males (Figure 4). Consequently, it appears that females' lower probability of participation at the all-worker level was a result of their lower earnings and/or lower rates of full-time work in comparison with males.

Race/Ethnicity—Analysis of race/ethnicities by earnings level shows that both black and Hispanic wage and salary workers were significantly less likely than whites to participate in a retirement plan. However, the

Figure 4
PERCENTAGE OF WAGE AND SALARY WORKERS AGES 21-64 WHO PARTICIPATED IN AN EMPLOYMENT-BASED RETIREMENT PLAN, BY ANNUAL EARNINGS AND GENDER, 2001

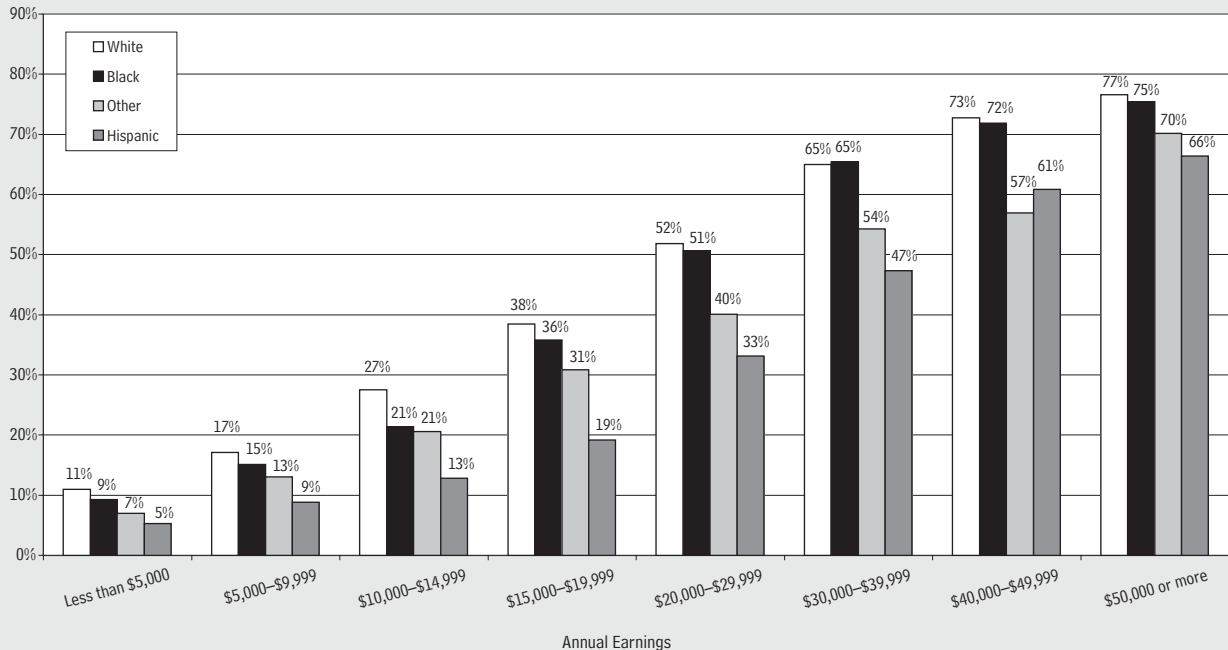


Source: Employee Benefit Research Institute estimates from 2002 March Current Population Survey.

gap between the percentage of black and white plan participants narrowed at the higher earning levels, with black workers earning of \$30,000-\$39,999 having a higher level of participation (Figure 5). In contrast, the gap

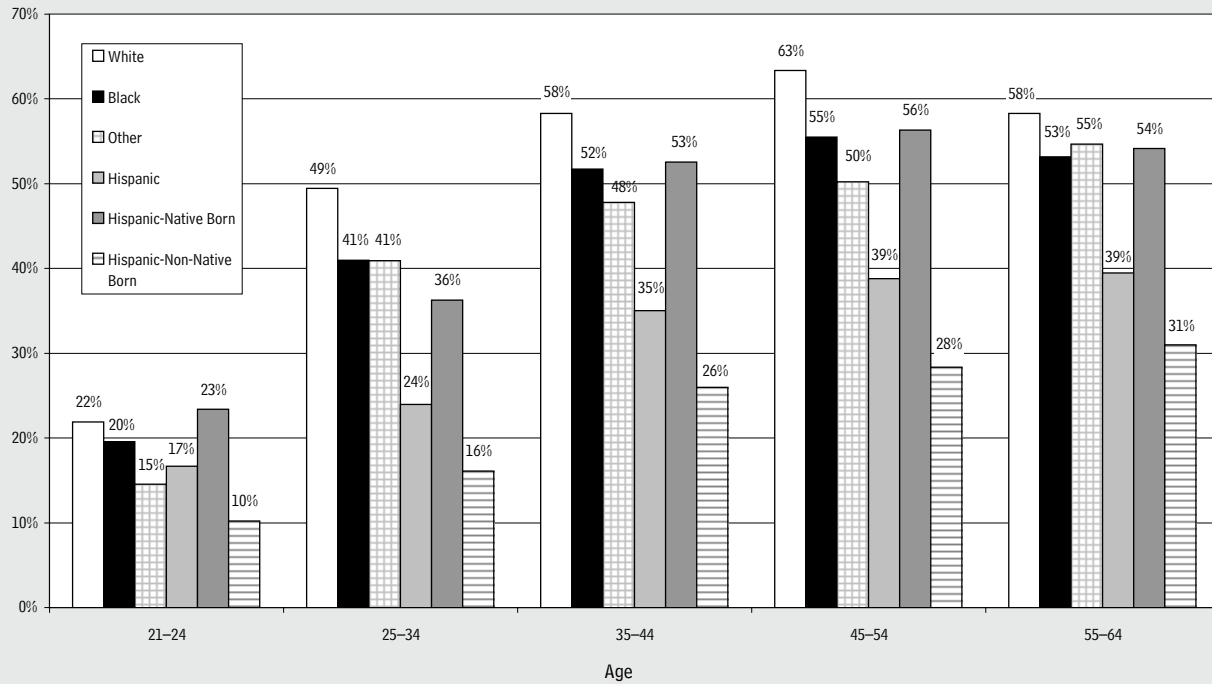
between Hispanics and whites persisted even in the upper earnings groups, although it showed some narrowing in the highest earnings group. Similarly, at ages 25 and older, white workers had significantly higher levels of retirement

Figure 5
PERCENTAGE OF WAGE AND SALARY WORKERS AGES 21-64 WHO PARTICIPATED IN AN EMPLOYMENT-BASED RETIREMENT PLAN, BY ANNUAL EARNINGS AND RACE/ETHNICITY, 2001



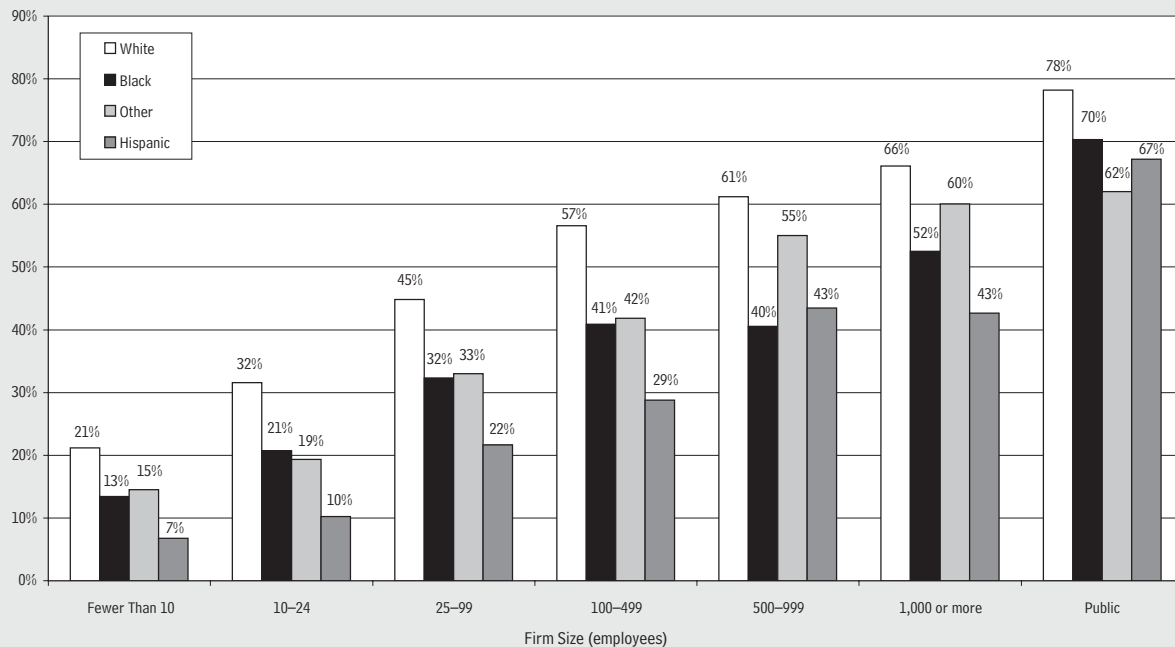
Source: Employee Benefit Research Institute estimates from 2002 March Current Population Survey.

Figure 6
PERCENTAGE OF WAGE AND SALARY WORKERS AGES 21-64 WHO PARTICIPATED IN AN EMPLOYMENT-BASED RETIREMENT PLAN, BY AGE AND RACE/ETHNICITY, 2001



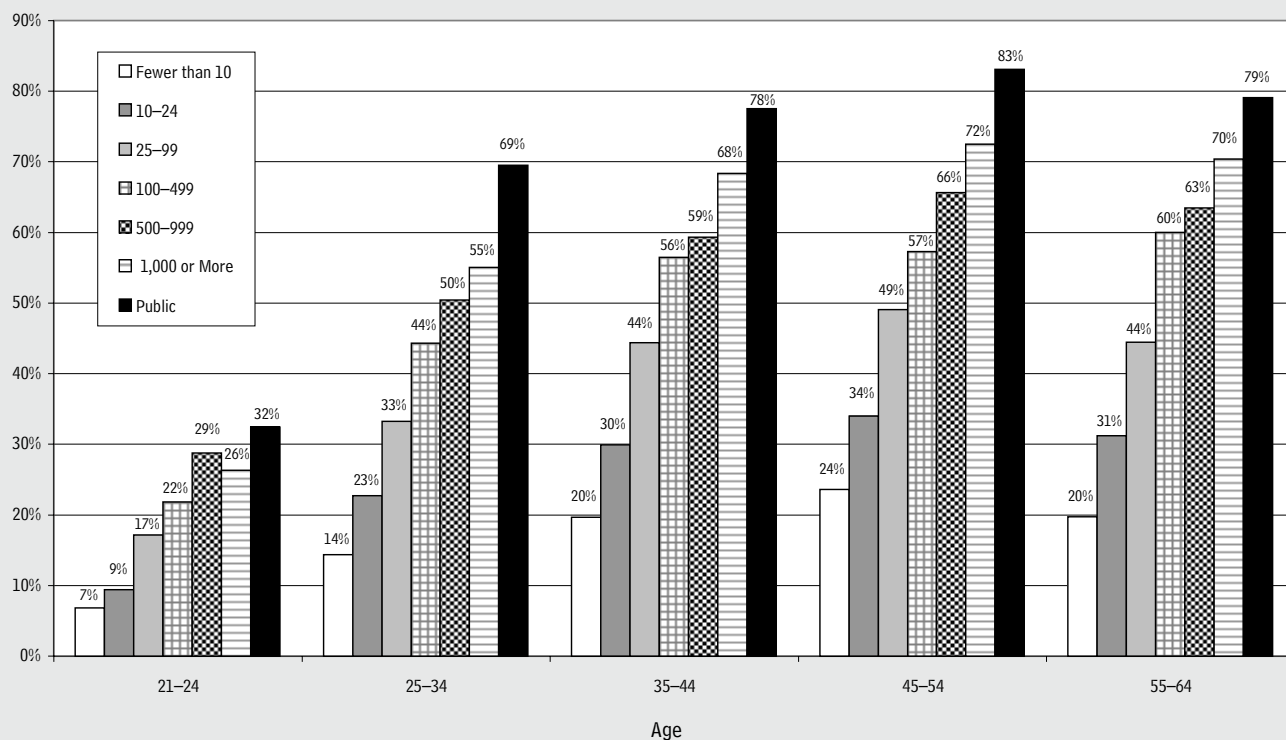
Source: Employee Benefit Research Institute estimates from 2002 March Current Population Survey.

Figure 7
PERCENTAGE OF WAGE AND SALARY WORKERS AGES 21-64 WHO PARTICIPATED IN AN EMPLOYMENT-BASED RETIREMENT PLAN, BY FIRM SIZE (NUMBER OF EMPLOYEES) AND RACE/ETHNICITY, 2001



Source: Employee Benefit Research Institute estimates from 2002 March Current Population Survey.

Figure 8
PERCENTAGE OF WAGE AND SALARY WORKERS AGES 21-64 WHO PARTICIPATED IN AN EMPLOYMENT-BASED RETIREMENT PLAN, BY AGE AND EMPLOYER SIZE (NUMBER OF EMPLOYEES), 2001



Source: Employee Benefit Research Institute estimates from 2002 March Current Population Survey.

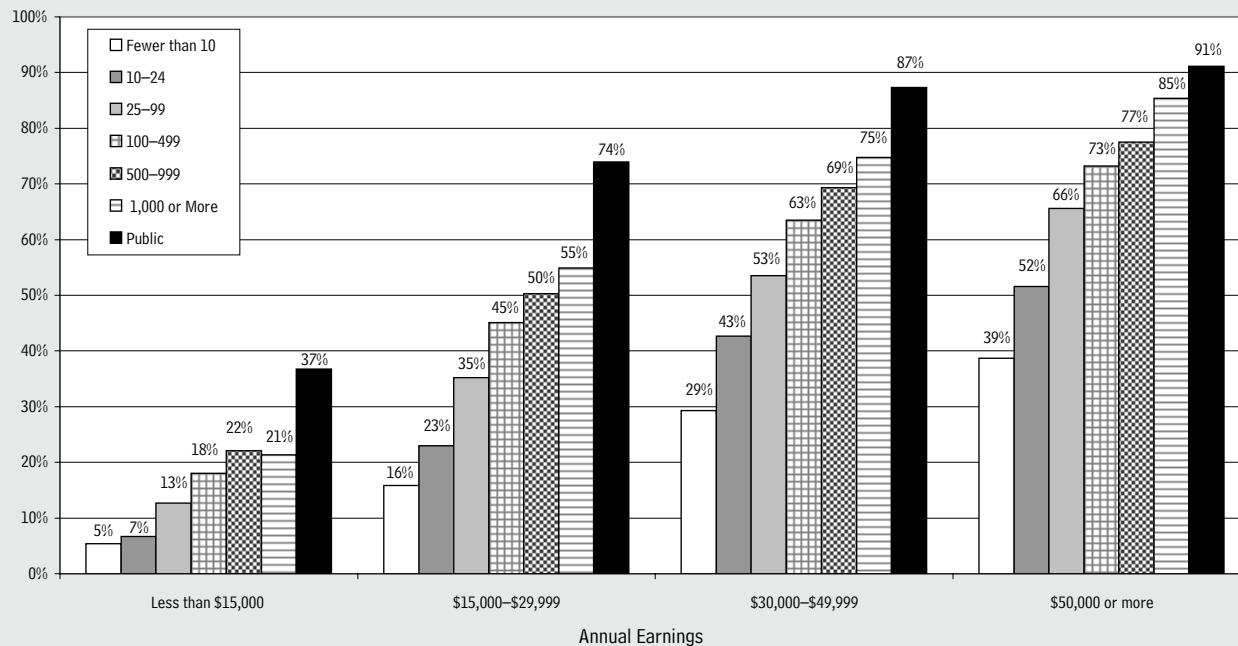
plan participation than the other groups, with black workers narrowing the gap somewhat at older ages while Hispanic workers' participation still remained considerably below the other race/ethnicity levels (Figure 6). However, a dramatic shift occurred in the results for Hispanic worker participation levels when the Hispanic workers were divided by birthplace—United States or outside the United States. Native-born Hispanic workers age 25 or older had participation levels very similar to those of black workers, but still lower than white workers. In contrast, non-native born Hispanic workers had substantially lower levels of participation across all age groups.

Another potential contributor to the lower rate of participation by Hispanic workers could be the characteristics of their employers, such as firm size (number of employees). However, across all the firm sizes, including public-sector employers, this appears not to be the case, as Hispanic workers had significantly lower participation in employment-based retirement plans than workers of other races/ethnicities (Figure 7). For workers at the smallest employers (fewer than 10 employees), 21 percent of white wage and salary workers participated in a plan, compared with 7 percent of the Hispanic workers. These levels increased as the employer size increased, but white workers still had a significantly higher participation level among those working for

employers with 1,000 or more employees (66 percent for whites versus 43 percent for Hispanics). Consequently, while blacks with higher earnings had levels of retirement plan participation similar to those of whites, Hispanics had persistently lower levels of participation across earnings, age, and employer size. However, native-born Hispanic workers displayed participation levels similar to those of black workers, levels much closer to those of white workers.

Firm Size—Employees of firms with fewer employees were significantly less likely to participate in a retirement plan. Therefore, a potential explanation for this lower participation could be that these firms employed workers with characteristics associated with lower participation, such as being younger or lower paid. However, when controlling for age, workers at smaller employers still had a persistently lower level of participation across the age groups (Figure 8). Furthermore, across various earnings levels, workers of small employers were less likely to participate in an employment-based retirement plan (Figure 9). Even among workers making \$50,000 or more, a considerable disparity exists—39 percent of those working for the smallest employers participated in a plan, compared with 85 percent of those working for employers with 1,000 or more employees.

Figure 9
PERCENTAGE OF WAGE AND SALARY WORKERS AGES 21–64 WHO PARTICIPATED IN AN EMPLOYMENT-BASED RETIREMENT PLAN, BY ANNUAL EARNINGS AND EMPLOYER SIZE (NUMBER OF EMPLOYEES), 2001



Source: Employee Benefit Research Institute estimates from 2002 March Current Population Survey.

Geographic Differences

Not only did the workers' characteristics affect the probability of their participation in an employment-based retirement plan, but their geographic location also had an impact. Wage and salary workers ages 21–64 living in Florida had the lowest probability (40.6 percent) of participating in a plan in 2001, while those living in Minnesota had the highest probability (60.1 percent) (Figure 10). A similar pattern emerges for other work-force definitions, as workers in Minnesota again had the highest probability of participation among full-time, full-year workers; private wage and salary workers; and all workers. Florida had the lowest probability of participation among all workers and full-time, full-year workers, while New Mexico's private wage and salary workers had the lowest likelihood of participation (Florida's private wage and salary workers had the next-lowest percentage). Public-sector wage and salary workers did not have the same states with the highest and lowest levels as the other work forces, as public-sector workers in Vermont had the lowest percentage of workers participating. Those workers in Pennsylvania had the highest percentage. Florida public-sector wage and salary workers were once more toward the bottom, while those in Minnesota were again near the top.⁹

Using wage and salary workers ages 21–64 as the work force proxy for the other work-force populations

(with the exception of the public-sector workers) showed regional differences across the United States along with those among the states. The states with the lowest levels of participation—e.g., Florida, Texas, California, and Washington state—were in the South, Southwest, and the upper Northwest (Figure 11). The states with the highest participation were in the upper Midwest—e.g., Minnesota, Wisconsin, Michigan, and the Dakotas—along with some in the Northeast or Mid-Atlantic, such as Pennsylvania and Maryland. In general, the Midwestern states had the higher participation levels, while the Southern states had the lower levels.

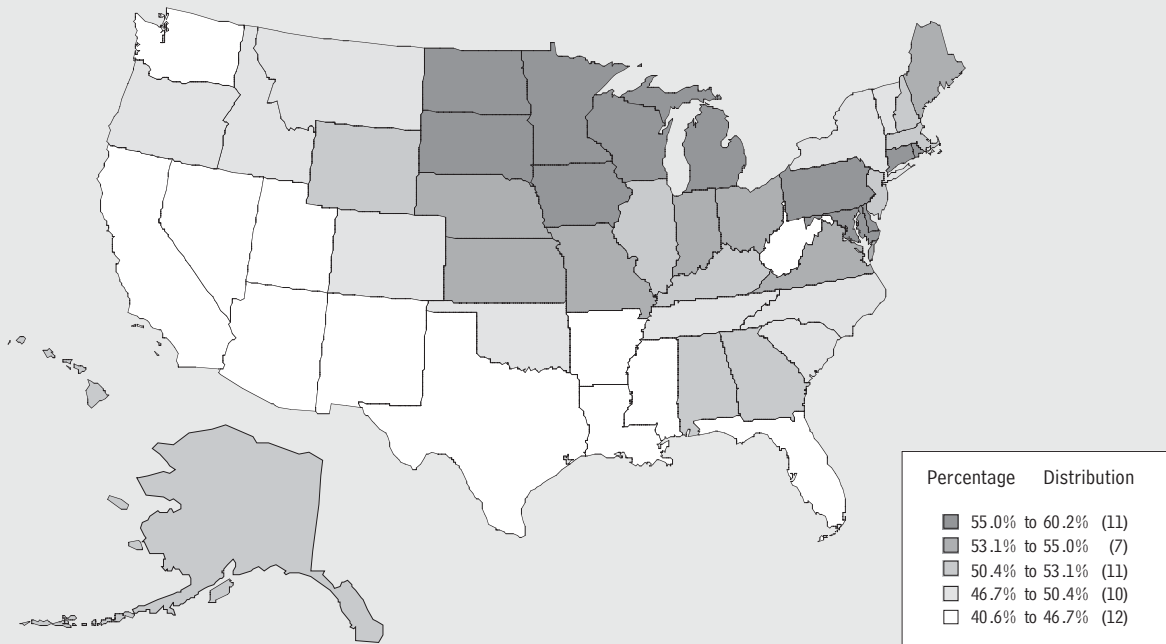
Certain consolidated metropolitan statistical areas (CMSAs) are identified in the CPS, and again those CMSAs located in the South and West—e.g., Miami-Fort Lauderdale, FL, and Los Angeles-Riverside-Orange County, CA—had the lowest retirement plan participation levels for wage and salary workers (Figure 12). The highest participation levels for the wage and salary workers were for those workers in the Milwaukee-Racine, WI, CMSA. Public-sector wage and salary workers in these same CMSAs had the lowest and highest participation levels, respectively, with the exception of Detroit-Ann Arbor-Flint, MI replacing the Los Angeles area as having the second lowest participation level. The Los Angeles area did have the third-lowest level for the public-sector workers.

Figure 10
**PERCENTAGE OF VARIOUS WORK FORCES WHO PARTICIPATED IN AN EMPLOYMENT-BASED
RETIREMENT PLAN, BY STATE, 2001**

State	All Workers		Wage and Salary Workers Ages 21–64		Private Wage and Salary Workers Ages 21–64		Public Wage and Salary Workers Ages 21–64		Full-Time, Full-Year Wage and Salary Workers Ages 21–64	
	Number (millions)	Participating (%)	Number (millions)	Participating (%)	Number (millions)	Participating (%)	Number (millions)	Participating (%)	Number (millions)	Participating (%)
All	150.85	43.0%	124.75	49.8%	105.14	45.1%	19.61	75.3%	90.09	58.3%
Alabama	2.15	46.6	1.83	52.7	1.54	47.4	0.29	80.3	1.37	61.7
Alaska	0.35	44.1	0.29	52.3	0.20	42.5	0.09	74.7	0.18	65.3
Arizona	2.64	38.9	2.20	44.7	1.81	39.1	0.39	70.6	1.62	53.9
Arkansas	1.33	37.6	1.08	45.0	0.87	39.6	0.21	68.0	0.79	54.3
California	17.56	38.1	14.63	43.5	12.39	38.0	2.24	74.0	10.37	51.2
Colorado	2.53	42.1	2.11	48.4	1.81	43.6	0.30	76.8	1.52	56.4
Connecticut	1.87	49.2	1.53	56.2	1.35	53.9	0.18	73.7	1.12	64.8
Delaware	0.44	49.2	0.37	56.0	0.32	52.8	0.05	77.5	0.28	66.6
District of Columbia	0.32	48.6	0.28	51.4	0.21	45.2	0.07	68.7	0.22	59.5
Florida	8.15	35.3	6.78	40.6	5.87	36.0	0.92	70.1	5.09	46.2
Georgia	4.31	44.7	3.69	50.5	3.10	45.9	0.59	74.8	2.88	57.7
Hawaii	0.62	45.0	0.51	51.7	0.41	47.4	0.10	69.8	0.37	61.8
Idaho	0.73	39.8	0.58	48.3	0.48	43.0	0.09	75.4	0.37	59.4
Illinois	6.74	45.8	5.69	52.1	4.96	48.7	0.73	75.4	4.20	59.3
Indiana	3.34	46.7	2.77	53.7	2.41	50.8	0.36	72.6	2.05	60.7
Iowa	1.72	47.6	1.35	57.8	1.11	53.0	0.24	80.5	0.98	67.2
Kansas	1.49	43.6	1.15	53.5	0.93	48.2	0.22	76.0	0.83	63.3
Kentucky	2.05	45.7	1.70	52.7	1.43	48.8	0.26	73.8	1.23	62.2
Louisiana	2.05	39.5	1.67	46.0	1.34	39.4	0.32	73.2	1.23	54.6
Maine	0.72	44.9	0.58	53.6	0.50	49.6	0.08	77.6	0.41	62.4
Maryland	3.02	47.3	2.45	55.1	1.86	47.5	0.59	78.9	1.88	62.9
Massachusetts	3.72	46.4	3.11	53.1	2.68	49.0	0.43	78.6	2.30	60.5
Michigan	5.42	47.3	4.54	55.0	3.96	52.5	0.57	72.5	3.11	64.2
Minnesota	3.17	50.1	2.54	60.1	2.18	56.6	0.36	81.7	1.79	68.6
Mississippi	1.34	41.2	1.13	46.6	0.92	39.7	0.22	76.0	0.83	57.3
Missouri	3.11	43.9	2.49	53.3	2.07	48.5	0.42	77.4	1.84	63.1
Montana	0.49	38.2	0.38	47.3	0.29	38.1	0.09	76.1	0.24	60.7
Nebraska	1.02	44.5	0.80	54.7	0.67	51.6	0.13	70.1	0.58	63.6
Nevada	1.17	41.4	0.99	46.3	0.88	41.5	0.12	82.6	0.74	51.9
New Hampshire	0.75	43.0	0.60	51.4	0.52	47.6	0.08	76.2	0.44	60.9
New Jersey	4.66	45.6	3.98	51.2	3.40	46.8	0.58	77.0	2.90	59.2
New Mexico	0.89	37.5	0.71	45.0	0.54	35.2	0.17	76.1	0.49	54.5
New York	9.78	43.8	8.21	49.8	6.79	44.5	1.41	75.3	5.83	58.9
North Carolina	4.25	41.1	3.55	47.1	2.99	42.4	0.56	71.9	2.56	56.6
North Dakota	0.38	44.9	0.29	55.7	0.23	51.1	0.06	73.3	0.20	64.6
Ohio	6.24	46.8	5.15	54.4	4.40	50.2	0.75	79.0	3.67	64.1
Oklahoma	1.82	39.7	1.45	47.9	1.17	40.6	0.28	78.6	1.04	57.9
Oregon	1.92	42.2	1.58	48.8	1.33	45.0	0.25	69.2	1.01	60.2
Pennsylvania	6.73	49.5	5.60	57.0	4.87	53.0	0.73	83.7	3.86	67.8
Rhode Island	0.58	47.4	0.48	55.2	0.40	50.7	0.08	79.6	0.33	66.3
South Carolina	2.06	43.4	1.72	50.4	1.36	44.3	0.36	73.1	1.26	58.6
South Dakota	0.46	42.9	0.34	55.3	0.27	51.5	0.06	71.4	0.25	63.9
Tennessee	3.03	42.8	2.49	50.1	2.03	46.0	0.45	68.5	1.77	60.4
Texas	10.81	38.2	8.85	44.8	7.49	39.2	1.36	75.7	6.64	52.3
Utah	1.23	38.9	0.98	46.7	0.80	39.8	0.18	77.9	0.63	58.3
Vermont	0.38	40.9	0.30	49.0	0.25	46.6	0.04	63.2	0.20	57.1
Virginia	3.79	47.1	3.15	54.3	2.51	48.1	0.64	78.5	2.42	61.8
Washington	3.22	39.8	2.63	46.6	2.25	42.4	0.37	72.1	1.72	56.6
West Virginia	0.83	41.1	0.71	46.3	0.59	40.4	0.12	74.1	0.51	55.6
Wisconsin	3.20	48.3	2.57	58.1	2.21	54.6	0.35	79.7	1.78	67.5
Wyoming	0.28	42.6	0.22	50.7	0.17	42.6	0.05	75.8	0.15	60.6

Source: Employee Benefit Research Institute estimates from the 2002 March Current Population Survey.

Figure 11
PERCENTAGE OF WAGE AND SALARY WORKERS WHO PARTICIPATED IN AN EMPLOYMENT-BASED RETIREMENT PLAN BY STATE, 2001



Source: Employee Benefit Research Institute estimates from the 2002 March Current Population Survey.

Figure 12
PERCENTAGE OF VARIOUS WORK FORCES WHO PARTICIPATED IN AN EMPLOYMENT-BASED RETIREMENT PLAN, BY CONSOLIDATED METROPOLITAN STATISTICAL AREA (CMSA), 2001

CMSA	All Workers		Wage and Salary Workers Ages 21-64		Private Wage and Salary Workers Ages 21-64		Public Wage and Salary Workers Ages 21-64		Full-Time, Full-Year Wage and Salary Workers Ages 21-64	
	Number (millions)	Participating (%)	Number (millions)	Participating (%)	Number (millions)	Participating (%)	Number (millions)	Participating (%)	Number (millions)	Participating (%)
All	150.9	43.0%	124.7	49.8%	105.1	45.1%	19.6	75.3%	90.1	58.3%
Unrecorded CMSA	90.4	42.7	73.7	50.2	61.5	45.2	12.2	75.3	52.9	59.2
Boston-Worcester-Lawrence, MA-NH-ME-CT	3.5	47.5	2.9	54.0	2.5	49.9	0.4	80.1	2.2	60.7
Chicago-Gary-Kenosha, IL-IN-WI	4.8	45.6	4.2	50.4	3.7	47.1	0.5	75.0	3.1	56.9
Cincinnati-Hamilton, OH-KY-IN	1.1	44.4	0.9	53.0	0.8	49.4	0.1	77.6	0.6	64.2
Cleveland-Akron, OH	1.8	46.6	1.5	54.5	1.3	50.4	0.2	81.3	1.1	62.8
Dallas-Fort Worth, TX	3.2	41.5	2.7	46.9	2.4	43.4	0.3	76.9	2.0	53.4
Denver-Boulder-Greeley, CO	1.6	43.6	1.4	50.0	1.2	45.7	0.2	74.3	1.0	57.4
Detroit-Ann Arbor-Flint, MI	3.1	47.2	2.6	54.2	2.3	52.6	0.3	66.1	1.8	64.3
Houston-Galveston-Brazoria, TX	2.6	39.9	2.2	45.4	1.9	40.6	0.3	75.5	1.7	52.8
Los Angeles-Riverside-Orange County, CA	8.4	35.8	7.0	40.7	6.0	35.2	1.0	72.9	5.0	47.7
Miami-Fort Lauderdale, FL	1.9	31.4	1.6	34.5	1.4	30.4	0.2	60.8	1.3	38.2
Milwaukee-Racine, WI	1.1	52.3	0.9	60.0	0.8	56.4	0.1	83.1	0.6	71.2
New York-Northern New Jersey-Long Island, NY-NJ-CT-PA	11.0	44.3	9.4	49.6	8.0	45.4	1.4	73.9	6.9	57.7
Philadelphia-Wilmington-Atlantic City, PA-NJ-DE-MD	3.5	47.1	2.9	53.8	2.5	49.0	0.4	82.8	2.1	62.9
Portland-Salem, OR-WA	1.4	46.3	1.1	53.0	1.0	49.3	0.2	75.5	0.8	63.3
Sacramento-Yolo, CA	1.0	43.0	0.8	50.8	0.6	39.2	0.2	80.1	0.6	58.3
San Francisco-Oakland-San Jose, CA	3.9	44.2	3.4	49.3	2.9	45.7	0.4	73.6	2.4	55.5
Seattle-Tacoma-Bremerton, WA	2.0	41.7	1.7	47.9	1.4	43.3	0.2	76.0	1.1	57.1
Washington-Baltimore, DC-MD-VA-WV	4.5	49.7	3.8	56.4	2.9	49.5	0.9	78.4	2.9	65.1

Source: Employee Benefit Research Institute estimates from the 2002 March Current Population Survey.

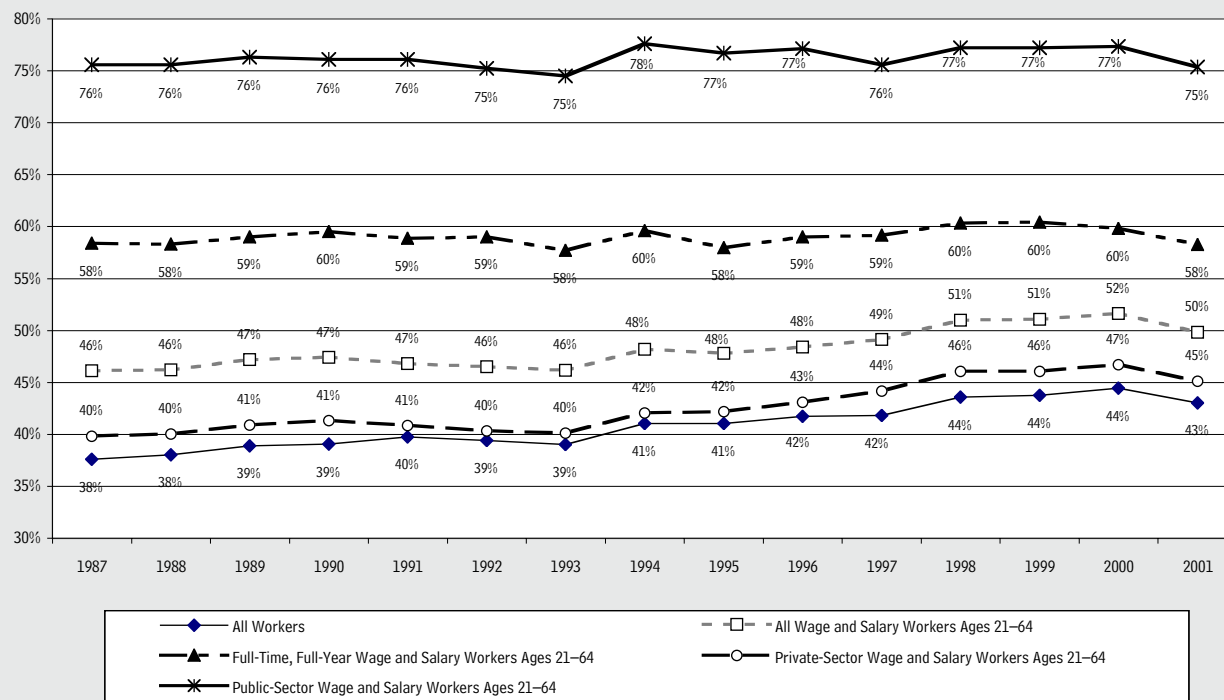
Figure 13

PERCENTAGE OF VARIOUS WORK FORCES WHO WORKED FOR AN EMPLOYER THAT SPONSORED A RETIREMENT PLAN AND THE PERCENTAGE WHO PARTICIPATED IN AN EMPLOYMENT-BASED RETIREMENT PLAN, 1987-2001

		All Workers														
		1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
		(millions)														
Total	Works for a sponsoring employer	130.4	132.6	133.8	134.5	134.4	134.8	136.2	138.2	139.6	142.1	143.8	145.5	149.7	151.1	150.9
	Participating in a plan	63.0	64.9	66.3	67.9	68.6	69.2	68.2	74.0	73.7	77.5	78.2	82.0	83.3	85.7	83.5
		(percentage)														
Total	Works for a sponsoring employer	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
	Participating in a plan	48.3	48.9	49.6	50.5	51.0	51.3	50.1	53.5	52.8	54.5	54.4	56.4	55.6	56.7	55.3
		(percentage)														
	Participating in a plan	37.6	38.0	38.9	39.0	39.7	39.4	39.0	41.0	41.0	41.7	41.8	43.6	43.8	44.4	43.0
		Wage and Salary Workers Ages 21-64														
		1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
		(millions)														
Total	Works for a sponsoring employer	100.2	102.2	103.4	104.4	109.2	109.7	110.5	112.7	115.3	117.6	117.3	118.9	122.4	124.0	124.7
	Participating in a plan	57.3	58.8	60.0	61.7	63.4	64.0	63.1	68.0	68.1	71.3	72.0	75.1	76.5	78.5	77.0
		(percentage)														
Total	Works for a sponsoring employer	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
	Participating in a plan	57.2	57.5	58.0	59.1	58.1	58.4	57.1	60.4	59.1	60.6	61.4	63.2	62.5	63.3	61.7
		(percentage)														
	Participating in a plan	46.1	46.2	47.2	47.4	46.8	46.5	46.2	48.2	47.8	48.4	49.1	51.0	51.1	51.6	49.8
		Private-Sector Wage and Salary Workers Ages 21-64														
		1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
		(millions)														
Total	Works for a sponsoring employer	82.6	84.2	85.2	86.1	90.6	90.7	91.1	93.4	96.7	99.3	98.9	100.1	102.7	104.3	105.1
	Participating in a plan	41.9	43.1	44.1	45.7	47.2	47.4	46.7	51.0	51.9	55.2	56.2	58.8	59.4	61.5	60.3
		(percentage)														
Total	Works for a sponsoring employer	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
	Participating in a plan	50.7	51.2	51.7	53.1	52.1	52.3	51.2	54.6	53.7	55.6	56.8	58.7	57.8	59.0	57.4
		(percentage)														
	Participating in a plan	39.8	40.0	40.9	41.3	40.8	40.4	40.1	42.1	42.2	43.1	44.2	46.1	46.1	46.7	45.1
		Public-Sector Wage and Salary Workers Ages 21-64														
		1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
		(millions)														
Total	Works for a sponsoring employer	17.6	18.0	18.2	18.3	18.7	19.1	19.3	19.3	18.6	18.3	18.4	18.8	19.7	19.6	19.6
	Participating in a plan	15.4	15.6	15.9	16.0	16.3	16.6	16.4	17.0	16.1	16.0	15.9	16.3	17.1	17.0	16.6
		(percentage)														
Total	Works for a sponsoring employer	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
	Participating in a plan	87.4	86.6	87.2	87.5	87.3	87.3	85.1	88.1	86.9	87.6	86.0	87.1	86.9	86.4	84.9
		(percentage)														
	Participating in a plan	75.6	75.6	76.3	76.1	76.1	75.2	74.5	77.6	76.7	77.1	75.5	77.2	77.2	77.3	75.3
		Full-Time, Full-Year Wage and Salary Workers Ages 21-64														
		1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
		(millions)														
Total	Works for a sponsoring employer	66.2	68.6	68.9	68.9	71.7	72.8	74.2	76.5	79.9	81.7	83.0	85.9	88.6	91.3	90.1
	Participating in a plan	44.1	45.8	46.2	46.9	48.0	49.1	48.7	52.3	52.9	55.4	56.5	59.6	61.2	62.6	60.8
		(percentage)														
Total	Works for a sponsoring employer	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
	Participating in a plan	66.6	66.8	67.0	68.1	67.0	67.4	65.7	68.4	66.2	67.8	68.1	69.4	69.1	68.6	67.5
		(percentage)														
	Participating in a plan	58.4	58.3	59.0	59.5	58.9	59.0	57.7	59.6	57.9	59.0	59.2	60.3	60.4	59.8	58.3

Source: Employee Benefit Research Institute estimates from the 1988-2002 March Current Population Surveys.

Figure 14
PERCENTAGE OF VARIOUS WORK FORCES WHO PARTICIPATED IN AN EMPLOYMENT-BASED RETIREMENT PLAN, 1987-2001



Source: Employee Benefit Research Institute estimates from the 1988-2002 March Current Population Surveys.

Trends

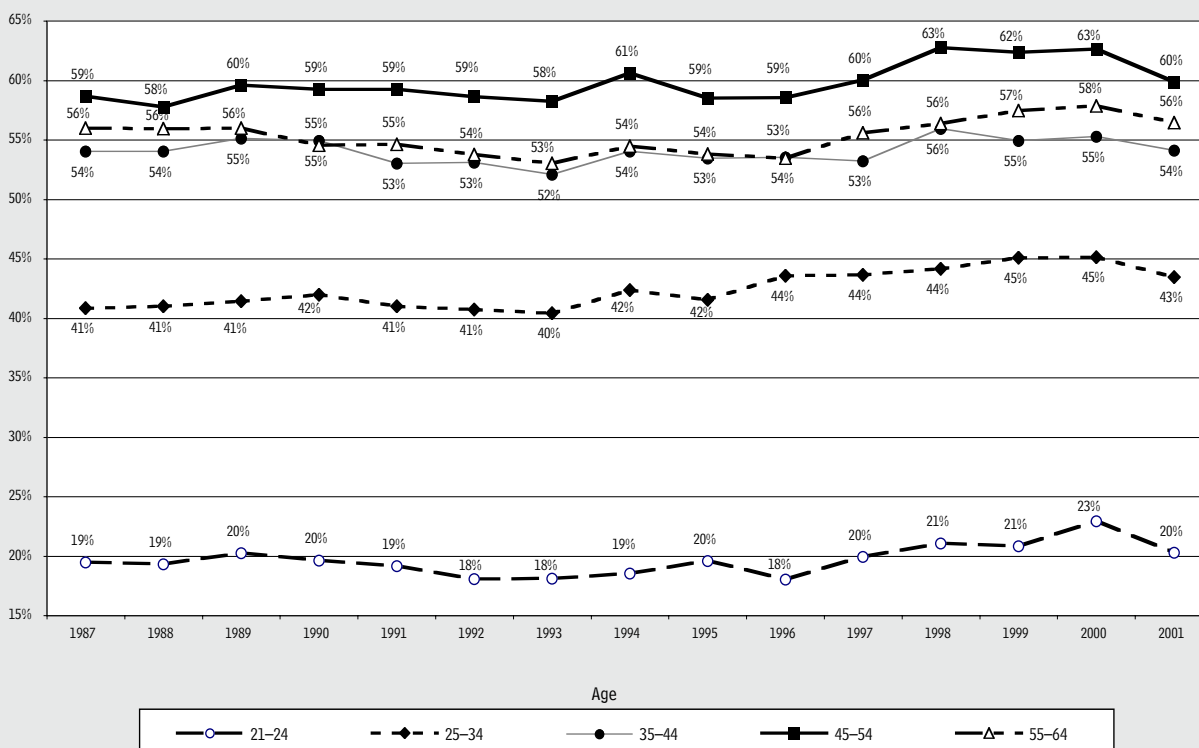
The number of workers who participated in an employment-based retirement plan increased steadily from 49.0 million in 1987 to 67.1 million in 2000 before decreasing to 64.9 million in 2001 (Figure 13).

This was the first decline in the number of workers participating in a plan since 1992, when the number decreased slightly from 53.4 million in 1991 to 53.1 million. The worker breakdowns also followed this pattern, including a significant decline from 2000 to 2001. It appears that some portion of this reduced number of participants was due to the smaller number of workers working for an employer or union that sponsored a plan. In 2000, 85.7 million workers were employed by an employer or union that sponsored a plan, and this number fell to 83.5 million in 2001. While this appears to be a one-to-one relationship in the reduction between sponsorship and participation, this was not the only change occurring between these years. As will be shown later, participation by full-time, part-year workers increased. Thus, some workers who worked for an employer where a plan was sponsored began participating, while others stopped participating for reasons other than that their employer or union no longer sponsored a plan.

Trends in the Percentage Participating

Starting with the broadest work-force population (all workers), the percentage of workers participating in an employment-based retirement plan increased from 37.6 percent in 1987 to 39.7 percent in 1991, then fell to 39.0 percent in 1993 (Figure 14). The percentage subsequently increased steadily through 2000 to 44.4 percent, before declining significantly in 2001 to 43.0 percent. However, this was still higher than the levels in 1987 and 1997. Two work-force categories mirrored this pattern: the *all wage and salary workers ages 21-64* and *private-sector wage and salary workers ages 21-64*. In contrast, full-time, full-year wage and salary workers ages 21-64 had an almost constant percentage of retirement plan participants over the 1987-2001 period, with a minor increase in the late 1990s, before returning nearly to the 1987 level in 2001. Public-sector wage and salary workers had a pattern similar to that of the full-time, full year workers, as the public-sector number in 2001 was essentially unchanged from 1987. Consequently, the increase in the percentage of workers participating in a retirement plan appears to have come from other than full-time, full-year or public-sector workers. Since the growth did not occur among

Figure 15
PERCENTAGE OF WAGE AND SALARY WORKERS AGES 21-64 WHO PARTICIPATED IN AN EMPLOYMENT-BASED RETIREMENT PLAN, BY AGE, 1987-2001



Source: Employee Benefit Research Institute estimates from the 1988-2002 March Current Population Surveys.

employers' core workers, the percentage participating is likely to continue to decline if the economy remains stagnant as it was in 2001.

These trends are different across various worker characteristics and those of their employers. The remainder of this section examines these trends across important worker and firm characteristics.

Trends Across Worker Characteristics

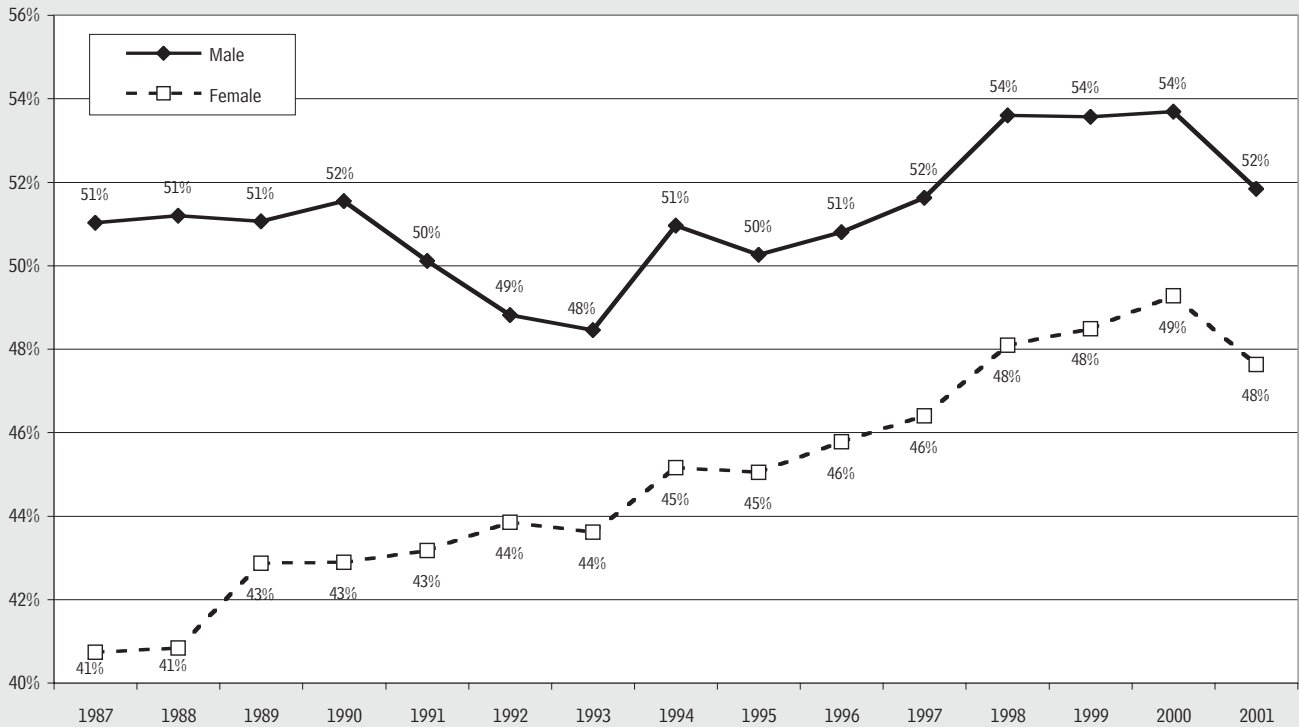
The levels of participation for wage and salary workers ages 21-64 had distinct differences across age groups in 2001. This has been the case since 1987 (Figure 15). The trends within each age group have been fairly consistent. The only age group to show a sustained increase over the 1987-2001 period was the 25-34 age group. In 1987, 40.8 percent of the wage and salary workers ages 25-34 participated in a retirement plan; by 2001 this percentage had reached 43.5 percent. Other than the marginal increase in the 45-54-year-old age group, the remaining age groups had participation levels in 2001 that were within 1 percentage point of their 1987 levels.

The percentage of female wage and salary workers ages 21-64 participating in an employment-based

retirement plan increased substantially, from 40.7 percent in 1987 to 47.6 percent in 2001 (Figure 16). This was despite a considerable decline from the 2000 level of 49.3 percent. Male workers' participation level was approximately 51 percent in the late 1980s before falling to 48.5 percent by 1993. After this decline, the percentage of male workers who participated in a plan increased to 53.7 percent by 2000 before another decline in 2001 that brought the level back to near its 1987 level of 51.8 percent.

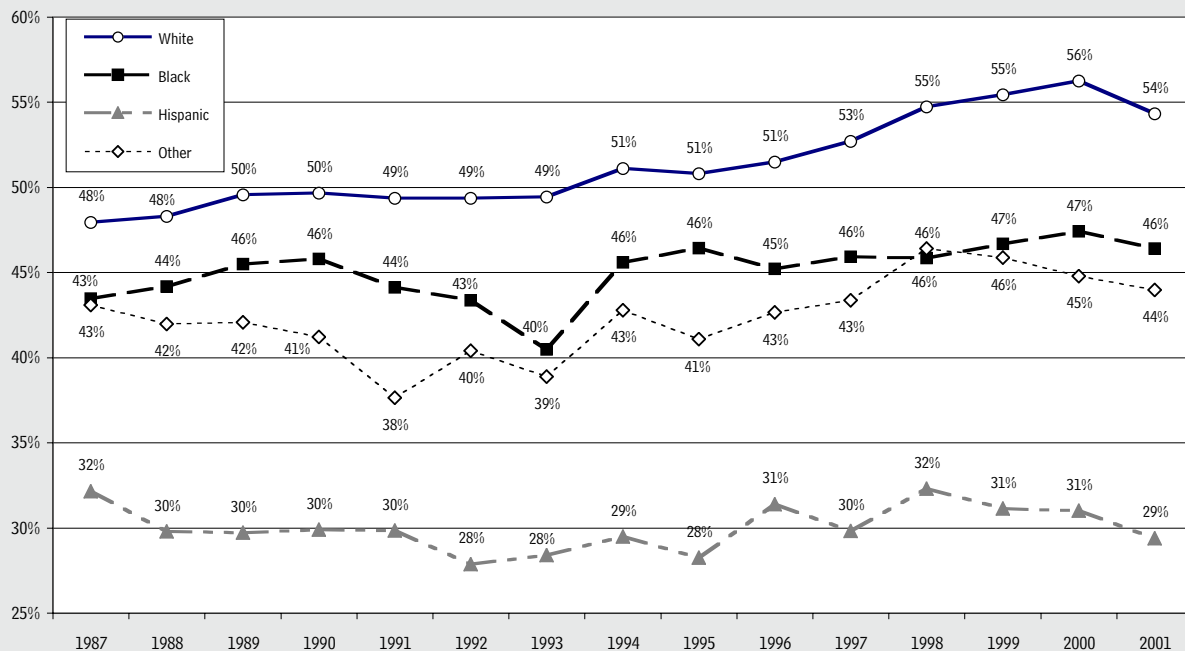
For white wage and salary workers, the percentage participating in a retirement plan increased fairly steadily and appreciably from 1987 to 2000 (48.0 percent to 56.3 percent) before a decline in 2001 (Figure 17). Except for a decline in their participation level in the early 1990s, black wage and salary workers had an overall increase in their level of participation in a retirement plan, rising from 43.5 percent in 1987 to 46.4 percent in 2001. In contrast, the percentage of Hispanic workers who participated in a retirement plan dropped from 32.2 percent in 1987 to 29.4 percent in 2001. Consequently, among the race/ethnicity groups, only Hispanic workers saw their level of retirement plan participation deteriorate from 1987 to 2001.

Figure 16
PERCENTAGE OF WAGE AND SALARY WORKERS AGES 21-64 WHO PARTICIPATED IN AN EMPLOYMENT-BASED RETIREMENT PLAN, BY GENDER, 1987-2001



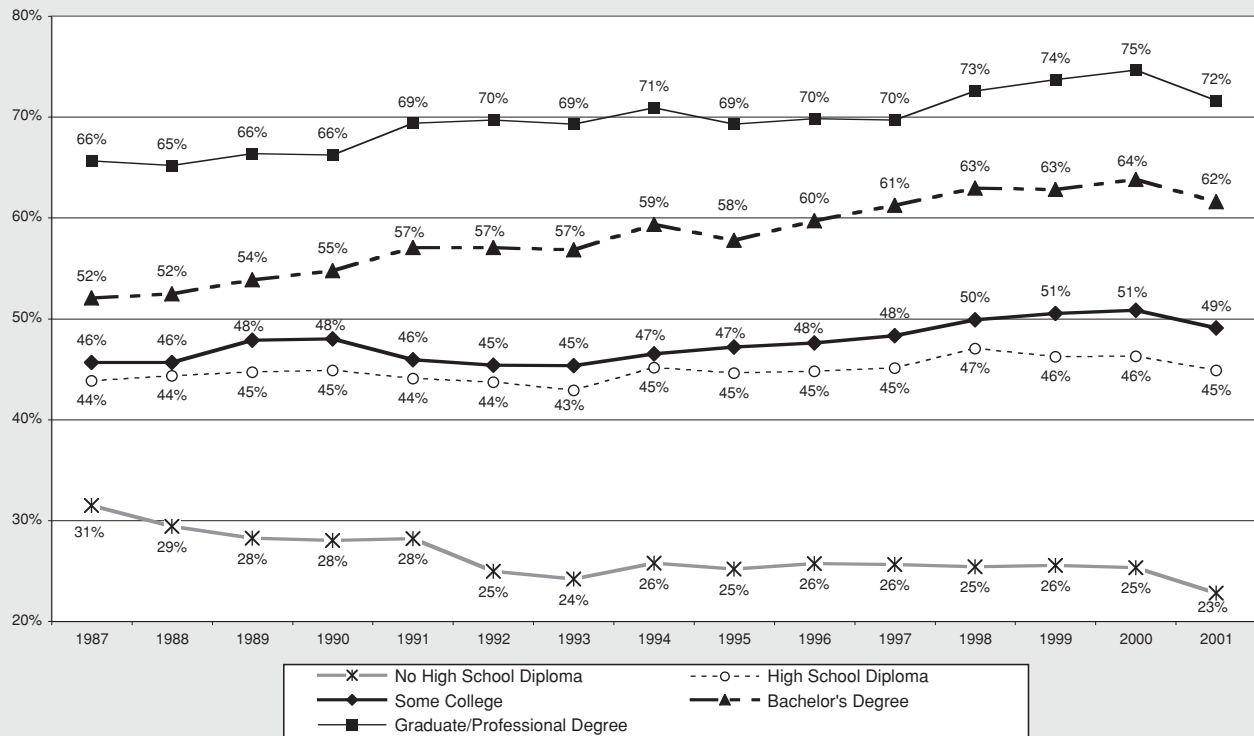
Source: Employee Benefit Research Institute estimates from the 1988-2002 March Current Population Surveys.

Figure 17
PERCENTAGE OF WAGE AND SALARY WORKERS AGES 21-64 WHO PARTICIPATED IN AN EMPLOYMENT-BASED RETIREMENT PLAN, BY RACE/ETHNICITY, 1987-2001



Source: Employee Benefit Research Institute estimates from the 1988-2002 March Current Population Surveys.

Figure 18
PERCENTAGE OF WAGE AND SALARY WORKERS AGES 21-64 WHO PARTICIPATED IN AN EMPLOYMENT-BASED RETIREMENT PLAN, BY EDUCATIONAL LEVEL, 1987-2001



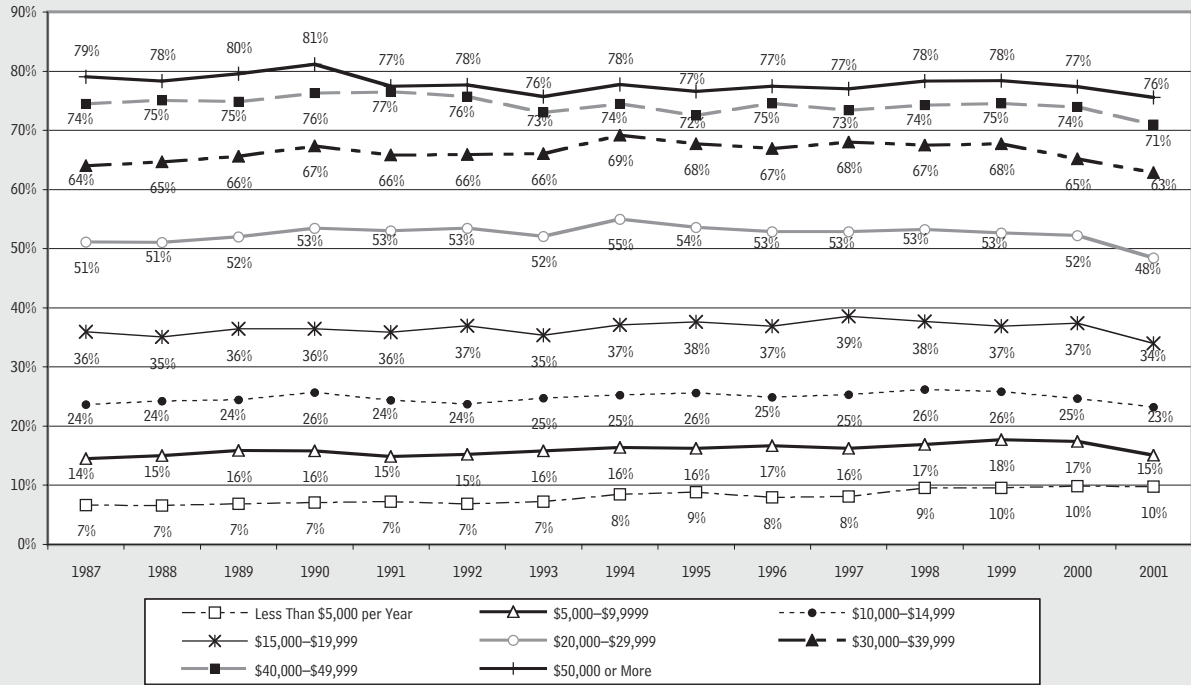
Source: Employee Benefit Research Institute estimates from the 1988-2002 March Current Population Surveys.

Wage and salary workers without a high school diploma had a sizable decline in their participation in a retirement plan (Figure 18). In 1987, the participation level was 31.5 percent, and by 2001 it had fallen to 22.8 percent. Above high school graduates, the percentage participating in a retirement increased, and did so at a higher rate among those with educational attainment through a bachelor's degree, and at a more moderate rate among those with a graduate/professional degree. Workers with a bachelor's degree had a participation level of 52.1 percent in 1987, growing to 61.6 percent by 2001. This percentage for those with a graduate or professional degree increased from 65.6 percent to 71.6 percent, while those with a high school diploma and some college increased 1 percentage point and 3.4 percentage points, respectively.

The percentage of workers in the lowest annual earnings groups (less than \$15,000 in 2001 dollars) who participated in a retirement plan increased or remained virtually constant from 1987 to 2001 (Figure 19).¹⁰ This increase is consistent with the increased participation levels found for part-time workers that will be discussed

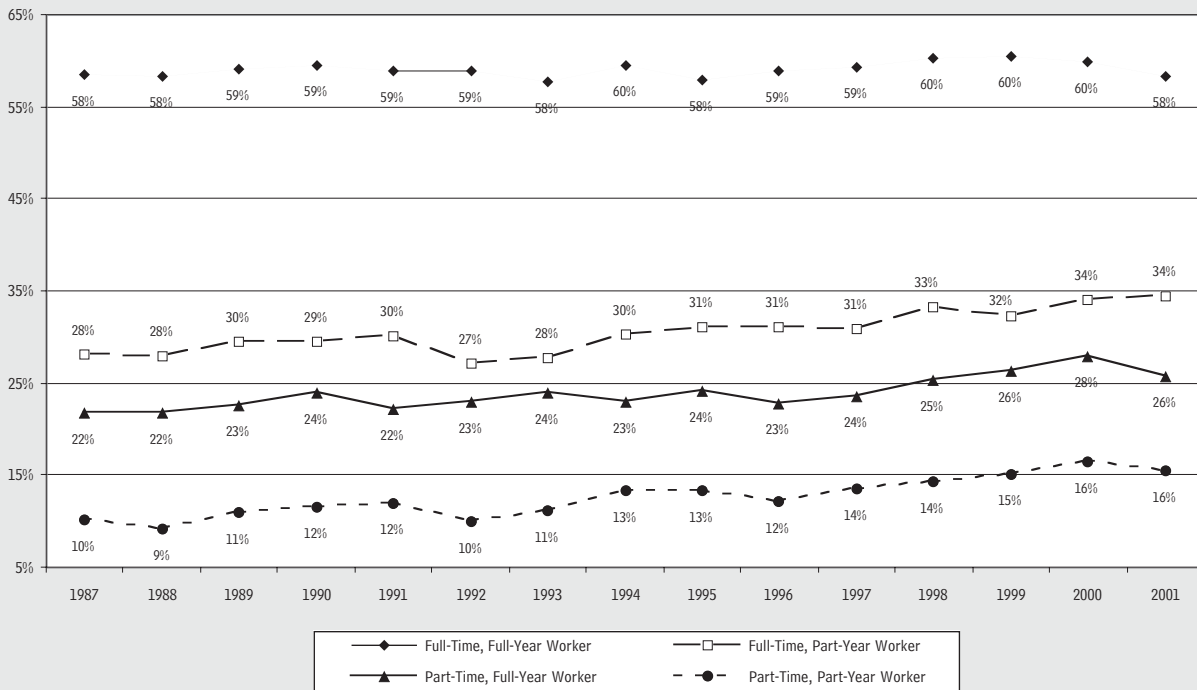
later. For workers in the earnings groups of \$15,000 or more, the percentage participating decreased over this same period. The largest declines occurred in the highest earnings categories (\$40,000 or more). The percentage of workers making \$50,000 or more in 2001 dollars in 1987 who participated in a retirement plan was 79.0 percent, compared with 75.5 percent of those who earned this amount in 2001. One possible reason for this decline could be that more workers were being offered DC plans, which typically require a contribution from the worker, instead of the automatic participation upon eligibility that is usually the case for DB plans. None of the earnings categories showed a substantial decline in the percentage participating during 1987-2001. However, there were some sizable one-year reductions from 2000 to 2001 in the percentage who participated across all of the earnings groups. In particular, the percentage of workers participating in a retirement plan in the \$15,000-\$19,999, \$20,000-\$29,999, and \$40,000-\$49,999 earnings categories declined by more than 3 percentage points during this one-year period.

Figure 19
PERCENTAGE OF WAGE AND SALARY WORKERS AGES 21-64 WHO PARTICIPATED IN AN EMPLOYMENT-BASED RETIREMENT PLAN, BY EARNINGS (\$ 2001), 1987-2001



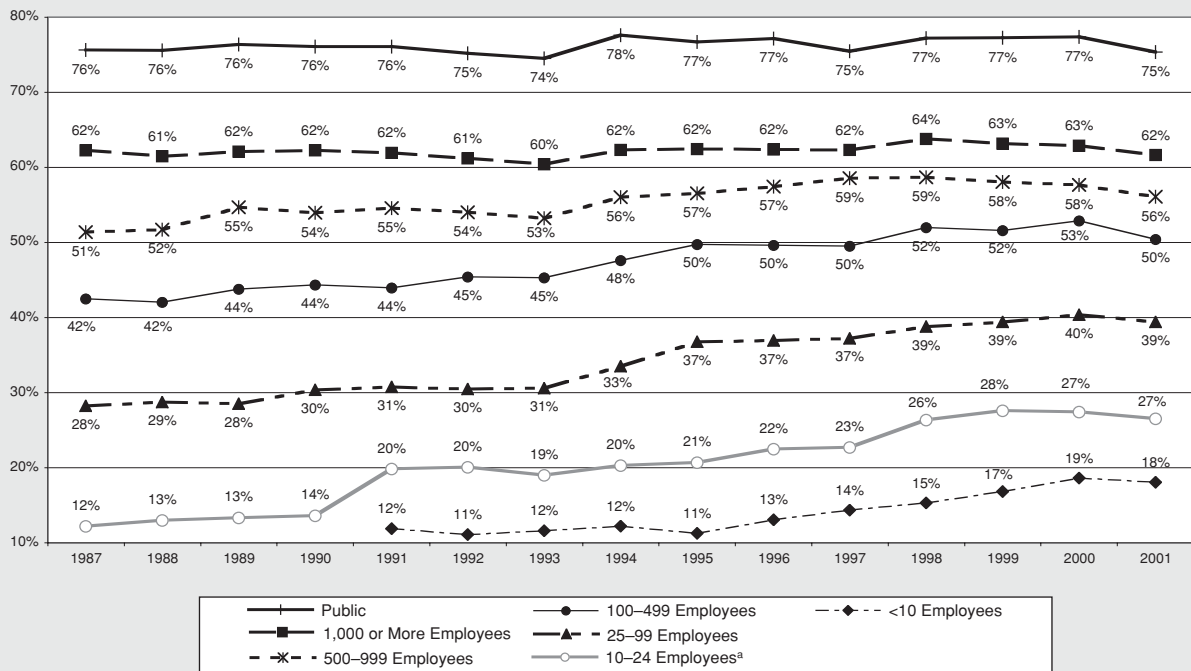
Source: Employee Benefit Research Institute estimates from the 1987-2002 March Current Population Surveys.

Figure 20
PERCENTAGE OF WAGE AND SALARY WORKERS AGES 21-64 WHO PARTICIPATED IN AN EMPLOYMENT-BASED RETIREMENT PLAN, BY WORK STATUS, 1987-2001



Source: Employee Benefit Research Institute estimates from the 1988-2002 March Current Population Surveys.

Figure 21
PERCENTAGE OF WAGE AND SALARY WORKERS AGES 21-64 WHO PARTICIPATED IN AN EMPLOYMENT-BASED RETIREMENT PLAN, BY WORKERS' EMPLOYER SIZE, 1987-2001



Source: Employee Benefit Research Institute estimates from the 1988-2002 March Current Population Surveys.
^a Under 25 employees from 1987-1990.

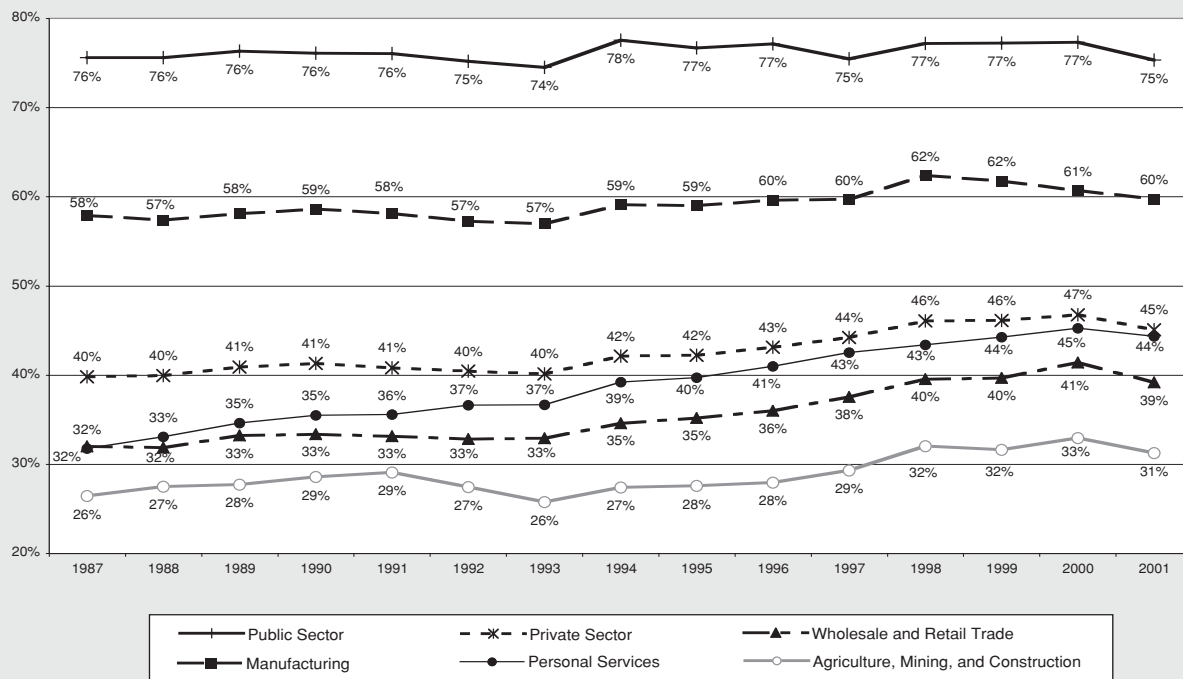
Except for a minor blip up to 60 percent in 1998-2000, the percentage of full-time, full-year wage and salary workers participating in a retirement plan has been in the 58 percent to 59 percent range (Figure 20). In contrast, the percentage of part-time and part-year workers, while still being considerably lower than that of the full-time, full-year workers, increased from 1987 to 2001. Full-time, part-year workers had the largest percentage point increase, going from 28.1 percent to 34.3 percent during this period. This could be indicative of shorter waiting periods for retirement plan eligibility for new hires, or it could mean that workers losing jobs in the later years were more likely to have had benefits than in the prior years.

The growth in retirement plan participation across firm sizes occurred in the smaller private-sector firms (Figure 21). The workers in firms with 25-99 employees experienced the largest percentage point increase in their probability of participating in plan, rising from 28.2 percent in 1987 to 39.4 percent in 2001. Furthermore, workers in the smallest firms (fewer than 10 employees and 10-24 employees) had significant increases of 6.1 percentage points and 6.7 percentage points, respectively, from 1991 to 2001. Workers in firms

with 100-499 employees had a larger increase in retirement plan participation than those in the smallest firms, but this increase was smaller than that of employees in firms with 25-99 employees. Workers in firms with 500-999 employees also had increased participation but less than that of the other firm sizes previously described. In contrast, the percentages of retirement plan participants working for the largest private firms (1,000 or more employees) and for public-sector employers were basically unchanged if not lower from 1987 to 2001.

The percentage of private-sector wage and salary workers participating in a retirement plan increased from 39.8 percent in 1987 to 45.1 percent in 2001, while the percentage of public-sector workers remained virtually unchanged from 75.6 percent to 75.3 percent (Figure 22). Within the private sector, workers in the personal services industry had the largest increase in their participation in a retirement plan, from 31.8 percent to 44.4 percent. Workers in the other private-sector industries also showed growth in their likelihood of participating in a plan, with those in the manufacturing industry experiencing the smallest increase.

Figure 22
PERCENTAGE OF WAGE AND SALARY WORKERS AGES 21-64 WHO PARTICIPATED IN AN EMPLOYMENT-BASED RETIREMENT PLAN, BY INDUSTRY/SECTOR, 1987-2001



Source: Employee Benefit Research Institute estimates from the 1988-2002 March Current Population Surveys.

Conclusion

In 2001, 43.0 percent of all workers, or 64.9 million Americans, participated in an employment-based retirement plan.

Among full-time, full-year wage and salary workers ages 21-64—those with the strongest connection to the work force—the percentage participating was 58.3 percent. This percentage participating varied significantly across many worker characteristics and the characteristics of their employers. Being nonwhite, younger, female, never married; having lower educational attainment, lower earnings, poorer health status, no health insurance through own employer; and not working full time, full year were all associated with a lower level of participation. In addition, workers working for smaller firms; private-sector firms; or firms in the agriculture, mining and construction industry were also less likely to participate in a plan. Another factor in the likelihood of workers participating in a plan was their geographic location, with those in the South and West less likely to participate in a plan than other regions of the country.

A closer examination of certain characteristics illustrates some revealing findings. In particular, while the overall percentage of females participating in a plan

was lower than that of males, when controlling for work status or earnings the female participation level surpassed that of males. Furthermore, black and native-born Hispanic workers had participation levels much closer to those of white workers within each age group. Non-native born Hispanics had substantially lower participation levels, even when controlling for age.

While the relative levels of participation in 2001 across the various characteristics discussed above was representative of prior years' levels, 2001 was not a banner year for retirement plan participation, as the participation level for all wage and salary workers ages 21-64 fell for the first time since 1995. In fact, this decrease was largest over the 1987-2001 period and was fairly sizable for a one-year change, at almost 2 percentage points. The number of wage and salary workers participating in a retirement plan also declined for the first time since 1993, since the increase in these workers did not offset the decline in the percentage participating as it did in 1995.

The characteristics of workers having the more significant increases in their participation levels during the 1990s were *not* those that historically have been associated with higher levels of participation. In particular, workers at smaller employers, of non- full-time, full-year work status, between the ages of 25 to 34, and

in the wholesale and retail trade and personal services industries showed significant growth. While there was some decline in these levels in 2001, they were still above their early 1990s' levels, and in most cases the 2001 decline was not at a disproportionate level relative to other characteristics.

As stated above, the participation levels among workers of small employers were an area of significant growth, while the levels for large employers and public-sector employers were stagnant. According to the Small Employer Retirement Survey (SERS),¹¹ small employer decision makers said that as their business' profits increased they were more likely to sponsor a plan. In fact, 44 percent said they were much more likely and 30 percent said they were somewhat more likely to sponsor a plan in 2001 if their profits increased. With the growth in the economy in the late 1990s, small employers did respond by sponsoring plans, ergo a higher percentage of employees of small employers participated in an employment-based retirement plan.

However, according to SERS, the most important reasons for not offering a plan aside from employee characteristics are uncertain revenues and costs of administering a plan or of required company contributions. Therefore, it seems safe to assume these are the most likely reasons to stop sponsoring a plan. Consequently, these costs of sponsoring a plan are likely to be the final determinant of maintaining a plan in a relatively slow economic growth period.

In the longer term, when the economy improves many small business decision makers seem to be willing to at least entertain the idea of sponsoring a plan if the cost is right, particularly for those employers having a difficult time attracting and retaining employees. Therefore, growth in the small employer market likely could resume when the economy rebounds.

It appears that the large employer segment of the market is fairly saturated in terms of employers sponsoring plans, given that there was only a very small increase in the percentage of these employees participating in a plan during the high-growth period of the 1990s.

However, increased educational efforts or improved employer match levels¹² could increase the "participation rate" within a given defined contribution plan. Furthermore, an employee's participation in a defined benefit plan is determined entirely by the employer, but there was an overall decrease in the number of large plan sponsors and in the participants in these plans during the 1990s, although a slight upward trend occurred in the late 1990s, specifically from 1997 to 1998.¹³

That small employer, part-time, and part-year workers had higher retirement plan participation levels and have been able to sustain many of their gains after the downturn in the economy in 2001 is good news. Nevertheless, as the economy has continued to remain in a less than stellar condition, it is likely that many of these workers may no longer be able to participate, as employers may have to cut back on their offerings to remain profitable in a weaker economy. The bad news is that the workers with traditionally high levels of participation did not have a significant increase in their level of participation during a very prosperous time in the American economy. Thus, the overall level of participation in retirement plans has shown only a minor increase from 1987 to 2001 and appears to be headed downward, at least in the short term.

Over their careers, workers move to and from jobs that allow them to participate in a retirement plan, so lifetime participation in a plan is higher than can be captured in a one-year snapshot such as this study.¹⁴ However, those who participate in a retirement plan across their entire career are far more likely to have an income in retirement that adequately replaces their working years' income.¹⁵ Consequently, many workers will need to use non employment-based arrangements in the absence of, or in addition to, an employment-based arrangement to fill in for the years during which they are not able to participate in an employment-based plan in order to save a sufficient amount for a financially secure retirement. However, workers seem to be more likely to take advantage of an employment-based arrangement than an individual plan.¹⁶

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Endnotes

¹ Technically, most private qualified defined contribution plans are either money purchase or profit sharing (Sec. 401(k) plans are of this type). Under the former, the plan sponsor typically commits to a fixed percentage of compensation each year. For a profit-sharing plan, plan contributions may be made on a discretionary basis by the plan sponsor, but how these contributions are allocated among individual employee accounts must be based on a specified, predetermined formula meeting certain requirements if the plan is to qualify for tax-favored status.

² Employer contributions may be subject to vesting rules, such that participants do not have full legal rights to employer contributions made on their behalf until they have reached a certain minimum number of years of service. Consequently, if the participant terminates employment before reaching this minimum level of service, the benefit available would be reduced by the nonvested portion of the account balance.

³ Lump-sum distributions are increasingly available in defined benefit plans. For example, in 2000, 43 percent of full-time employees in the private sector were eligible for a lump-sum distribution (U.S. Department of Labor, 2003). This is up from the 1997 and 1995, when 76 percent and 85 percent, respectively, of full-time workers participating in a defined benefit plan in a medium or large establishment were not offered a lump-sum distribution (U.S. Department of Labor, 1999; 1998).

⁴ See VanDerhei and Copeland (April 2001).

⁵ Again, see VanDerhei and Copeland, *op. cit.*, for discussion of the reasons for the growth in defined contribution plans and the consequences for retirees of this growth.

⁶ The 2001 Survey of Consumer Finances is due to be released prior to the publication of this *Issue Brief*, but it still is a triennial survey not an annual survey.

⁷ Each March CPS asks about retirement plan participation in the prior year. For example, the March 2002 CPS asks about retirement plan participation in 2001.

⁸ A worker who is at least 21 years of age, has one year of tenure, and works more than 2,000 hours in a year, in general, must be covered by an employer who offers a private-sector retirement plan to its workers (IRC Sec. 401(a) 26). Typically, public-sector employers follow similar rules, despite not being governed by all of the same statutes as those for private-sector employers.

⁹ State estimates of the less populated states are less reliable than those of more populated states due to the sample size in the survey in those states. Consequently, these state estimates should be used with caution. Furthermore, due to the fairly significant standard error in the less populated states in order to eliminate confusion between sampling errors and actual shifts in the participation levels across these states, trends are not presented.

¹⁰ All earnings amounts are in 2001 dollars, that is, all earnings from years prior to 2001 are inflated by the proper consumer price index (CPI) level to reach 2001 dollars. Earnings are defined as the amount a worker is paid in compensation—wages and salary. This does not include investment income or other income sources.

¹¹ See Salisbury, Turyn, and Helman (2001) about the results of the Small Employer Retirement Survey (SERS).

¹² See VanDerhei and Copeland (January 2001) for empirical results of higher match rates on contributions and participation.

¹³ See Rajnes (2002), where he shows a decline of 474 plans with 1,000–4,999 active participants and an increase of nine plans with 5,000 or more active participants from 1993–1998, while the number of

participants in these plans decreased by 859,000 and increased by 279,000, respectively.

¹⁴ See Copeland (2002a) for a discussion of lifetime participation in employment-based retirement plans. For example, in 1998, 59.1 percent of wage and salary workers ages 51–60 participated in an employment-based retirement plan in their current job, while 68.6 percent of these workers had ever participated in a plan.

¹⁵ See Holden and VanDerhei (2002) for projections of replacement rates from 401(k) plans for 401(k) plan participants under various career 401(k) plan participation scenarios.

¹⁶ See Copeland (2002a) for a comparison of the percentage of workers participating in salary reduction plans and individual retirement accounts (IRAs). For example, in 1998, 74.6 percent of those workers making \$15,000–\$19,999 and eligible to participate in a salary reduction plan did so. In contrast, for that same earnings group, meaning they should be eligible to make a tax-deductible contribution to an IRA regardless of their employment-based retirement plan participation, 3.6 percent made a tax-deductible IRA contribution in 1997.



Employee Benefit Research Institute
2121 K Street, NW, Suite 600, Washington, DC 20037-1896
voice (202) 659-0670
fax (202) 775-6312
EBRI Online: www.ebri.org

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