EBRI Research Highlights: Retirement Benefits

by the EBRI research and education team

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Special Report and Issue Brief

The Employee Benefit Research Institute (EBRI) is a nonpartisan, nonprofit public policy research organization based in Washington, DC, that has been researching economic security issues for almost 25 years. Founded in 1978, its mission is to contribute to, encourage, and enhance the development of sound employee benefit programs and sound public policy through objective research and education. EBRI does not lobby and does not take positions on legislative proposals. EBRI receives funding from individuals, employers of all types, unions, foundations, and government.

EBRI's research work has focused on retirement- and health-related issues, particularly involving pension/retirement plan coverage and health insurance coverage in the employment-based benefits system. EBRI is a major source of unbiased data on the uninsured and current trends involving 401(k), IRA, and traditional pension-type retirement plans. EBRI research programs also include development of the EBRI/ICI 401(k) database, the largest and most detailed of its kind; pioneering research into the quantification of U.S. retirement income adequacy; and economic modeling of Social Security reform proposals.

This *EBRI Special Report*/*Issue Brief* synthesizes highlights of recent EBRI research on retirement benefits. The previous *Issue Brief* (May 2003) presented recent EBRI research on health benefits. It should be stressed that this document contains only *highlights* of EBRI's collection of research and analysis; for greater detail and information, visit EBRI's Web site (www.ebri.org) or contact EBRI directly.

Retirement data in this document include:

- Basics of benefits.
- Assets in retirement plans.
- Participants in retirement plans.
- 401(k) trends.
- Individual retirement accounts.
- Social Security.
- Lump-sum distributions.
- Public opinion.
- Small employers.

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This *Issue Brief* was written by EBRI's retirement research staff, including Ken McDonnell, director of member relations and research analyst, and Craig Copeland, senior research associate, with assistance from the Institute's research and editorial staffs. Any views expressed in this report are those of the authors and should not be ascribed to the officers, trustees, or other sponsors of EBRI, EBRI-ERF, or their staffs. Neither EBRI nor EBRI-ERF lobbies or takes positions on specific policy proposals. EBRI invites comment on this research.

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About EBRI

The Employee Benefit Research Institute (EBRI) is a private, nonpartisan, nonprofit public policy research organization based in Washington, DC. EBRI has provided reliable and objective research, data, and analysis on retirement, health, and other economic security issues for almost 25 years. Its mission is to contribute to, to encourage, and to enhance the development of sound employee benefit programs and sound public policy through objective research and education.

EBRI receives funding from a wide range of sources interested in economic security issues: individuals, employers of all types, unions, health providers, health insurers, foundations, and government. EBRI does not lobby and does not take positions on legislative proposals. Its Web site is www.ebri.org

About This Document

This document covers the major benefits-related topics that EBRI staff most often are asked about by policymakers and the news media. To see the wide range of EBRI research and analysis, visit **www.ebri.org** on the Internet, or contact one of the staff members below.

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EBRI Programs

EBRI's comprehensive program of research and dissemination covers retirement, health, and related economic security topics. This program includes policy forums, round tables, briefings, testimony, interviews, and speeches. Major studies in process include the 401(k) plans; pension design and investment trends; retirement income adequacy; Social Security reform; individual investment education and results; health insurance coverage; and health policy reform. Two of EBRI's major retirement research programs include:

- ***The EBRI/ICI 401(k) Database.*** This is the largest national database that tracks account balance, contribution, investment, and loan information of active individual 401(k) participants. In addition to providing annual snapshots of the 401(k) universe, the database allows analysis of participant activity over time. The unique nature of this database proved to be extremely useful during the Enron-related congressional hearings in February 2002. EBRI was asked to testify at four different hearings and was able to use the database to provide the percentage of plans, participants, and assets with company stock. Current data have been released for end of year 2001, and 2002 data will be released later this year. The database is formally known as the EBRI/ICI Participant-Directed Retirement Plan Data Collection Project.

- ***The Retirement Income Project Model.*** Using a variety of source data (including the EBRI/ICI 401(k) database, several government surveys, time series of several hundred plan descriptions, and other information), the model estimates the balance of any defined contribution plan and/or IRA (whether through regular contributions or rollovers) of the individual at retirement age. In addition, it estimates the accrued benefits earned and assumed to be retained by defined benefit plan participants. The model has recently been used to conduct statewide retirement income adequacy studies for Oregon, Kansas, and Massachusetts, and ultimately will be used to estimate Americans' retirement income adequacy on a national level.

Other major EBRI initiative include:

- Surveys, such as the annual Retirement Confidence Survey (RCS), the Small Employer Retirement Survey (SERS), and the Health Confidence Survey (HCS).
- *Fundamentals of Employee Benefit Programs,* the *EBRI Databook on Employee Benefits*, and the *EBRI Health Benefits Databook* are regularly updated as resources. They are augmented by monthly *EBRI Issue Brief* studies and monthly *EBRI Notes* (which summarize major data releases, public policy activity, and new studies).
- EBRI's Fellows program allows individuals from the private sector, government, foundations, academia, and the media to undertake studies of economic security issues and work with EBRI teams on major projects.
- Public education initiatives include EBRI's Web site (www.ebri.org), the EBRI-ERF American Savings Education Council (ASEC) (www.asec.org), the EBRI-ERF Consumer Health Education Council (CHEC) (www.ourhealthbenefits.org), and the Choose to Save® Education Program (www.choosetosave.org).

Some Basics About Benefits

Employment-Based Benefits

Employee benefits are intended to promote economic security by insuring against uncertain events and to raise living standards by promoting targeted services. Employee benefit programs also add to economic stability by helping to secure the income and welfare of American families, which helps the economy as a whole. Employee benefits are an important piece of total compensation, and—especially in the case of health and retirement benefits—often play a key role for many workers in deciding whether to accept a job offer. Currently, the vast majority of Americans who have retirement and health coverage receive them through employment-based benefits from either their own or a family member's job.

The employee benefit system as it exists in the United States today is a partnership among businesses, individuals, and the government.

- ***Voluntary Benefits:*** Most employment-based benefits, particularly retirement plans and health insurance, are provided voluntarily by businesses. The government supports these voluntary employment-based benefits by granting favorable tax treatment both to the employers that sponsor them and to the workers who receive them.

- ***Mandatory Benefits:*** Certain other benefits, including Social Security, unemployment insurance, workers' compensation, and family and medical leave, are mandatory under federal law.
- ***Individual Programs:*** The government also supports individual financial security programs through individual retirement accounts (IRAs), favorable taxation of life insurance contracts, and tax-free death benefits.

Employee benefit programs have existed in the United States since colonial times, but federal tax provisions for employee benefit programs are relatively new. The tax code has provided tax incentives since 1921 for employment-based pension plans, since 1939 for compensation received for injuries or sickness, and since 1942 for health plans.

The Social Security program, as initially enacted in 1935, provided retirement income to workers and their spouses; in 1956, the program was extended to provide income to disabled workers (their dependents were included in the program in 1958); and in 1965, the program was extended again (with the creation of Medicare) to provide health insurance coverage to the elderly, disabled, and low-income individuals.

Because some employment-based benefits are tax-exempt (health) and others are tax-deferred (retirement plans), the current tax revenue loss to the U.S. Treasury can be substantial. Thus, employee benefits have often been targets in legislative revenue-raising efforts.

Changes in employee benefit and tax policy are continuing, and—as the post-World War II baby boom generation ages and approaches retirement—often are a major topic of public policy debate. Keeping up with and understanding these changes and their effects are important not only for sponsors of benefit programs, but for workers and the government as well.

Retirement Benefits

The first U.S. pension plan in the United States was established in 1759 to benefit widows and children of Presbyterian ministers. Congress first granted preferential tax treatment to pensions in 1921, and has made numerous statutory changes to the taxation and regulation of pensions ever since. The major federal law governing the operation of pensions today is the Employee Retirement Income Security Act of 1974 (ERISA), as amended. The most recent major pension legislation enacted by Congress was the Economic Growth and Tax Relief and Reconciliation Act of 1991 (EGTRRA), which raised 401(k) and IRA contribution limits and authorized "catch-up" contributions by older workers, among numerous other changes.

There are two basic types of retirement plans: In a *defined benefit plan,* the employer agrees to provide the employee a benefit amount at retirement based on a specified formula. In a *defined contribution plan,* the employer makes provision for contributions to an account established for each participating employee; the final retirement benefit reflects the total of employer contributions, employee contributions, and investment gains or losses.

Perhaps the most dramatic change in the U.S. retirement system during the last half of the 20th century has been the decline of "traditional" defined benefit plans and the rapid growth of defined contribution plans, especially the 401(k) plan.

Total pension assets in the United States were estimated at about $10.7 trillion at year-end 2001, of which the largest portion (amounting to 22.4 percent) was in individual retirement accounts (IRAs). State and local government plans were next at 20.4 percent, followed by defined contribution plans, with 20.0 percent (see Figures 1 and 2).

Figure 1

ASSETS OF EMPLOYMENT-BASED AND NONEMPLOYMENT-BASED TAX-DEFERRED RETIREMENT INCOME PLANS, 1985, 1993, AND 2001

	1985		1993		2001	
	($ billions)	Percentage of total	($ billions)	Percentage of total	($ billions)	Percentage of total
Total	$2,366	100.0%	$5,432	100.0%	$10,694	100.0%
Employment-Based						
Private trusteed defined benefit[a]	814	34.4	1,170	21.5	1,820	17.0
Private trusteed defined contribution[a]	417	17.6	1,014	18.7	2,141	20.0
Private life insurance[b]	347	14.7	739	13.6	1,343	12.6
Federal government plans	154	6.5	465	8.6	811	7.6
State and local government plans	399	16.9	1,051	19.3	2,177	20.4
Non-employment-based						
Individual retirement accounts	235	9.9	993	18.3	2,399	22.4

Source: Employee Benefit Research Institute, *Pension Investment Report: 4th Quarter 2001* (Washington, DC: Employee Benefit Research Institute, May 2002); U.S. Department of Defense, Office of the Actuary, *DOD Statistical Report on the Military Retirement System, Fiscal Year 2001* (U.S. Department of Defense, 2002); U.S. Office of Personnel Management, *Civil Service Retirement and Disability Fund Actuarial Valuation: Fiscal Year 2000* (Washington, DC: U.S. Office of Personnel Management, 2001); the Federal Retirement Thrift Investment Board, www.tsp.gov/forms/index-otherdocs.html; and Federal Reserve Board, *Flow of Funds Accounts of the United States: Flows and Outstandings, Second Quarter 2002* (Washington, DC: Federal Reserve Board, 2002).

[a] Trusteed pension funds are managed by a trustee appointed by the plan sponsor, who also serves as the plan fiduciary. The trustee may be an employee of the plan sponsor or a bank or trust company or other financial institution. Contributions are placed in a trust set up exclusively for the pension plan.

[b] Immediate and deferred group and individual annuities (general and separate accounts combined).

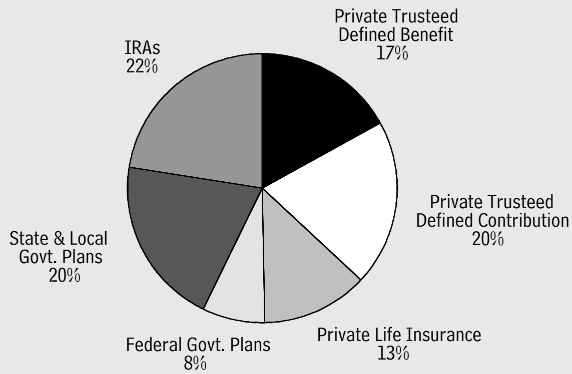
Section 1: Assets in Retirement Income Plans

For year-end 1985 to year-end 2001, assets in retirement plans increased 352 percent from $2.366 trillion to $10.694 trillion (Figure 1). The two most noticeable changes over this period are the decline in the percentage of total retirement assets held in a private-sector trusteed defined benefit plans (from 34.4 percent in 1985 to 17 percent in 2001) and the increase in the percentage of total assets held in individual retirement accounts (from 10 percent in 1985 to 22 percent in 2001) (Figure 2). The growth in IRAs is due primarily to assets being rolled over from other tax-advantaged retirement saving plans and not from new contributions.

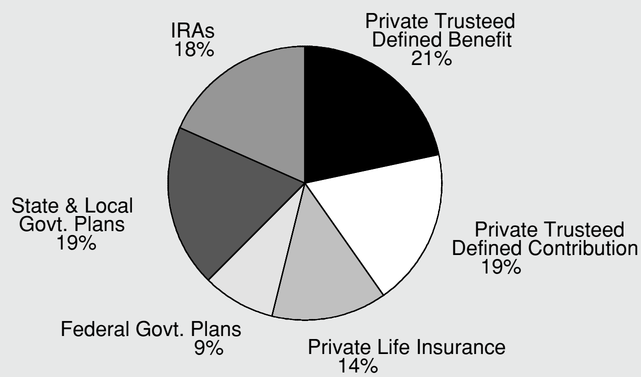
Figure 2

Sources of Assets for the Retirement Market, 1985, 1993, and 2001

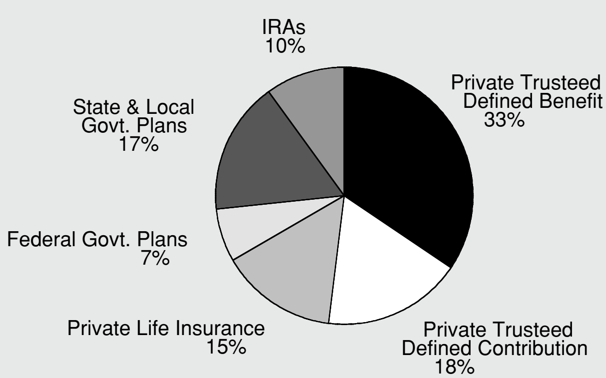
2001 (Total = $10.69 trillion)



1993 (Total = $5.43 trillion)

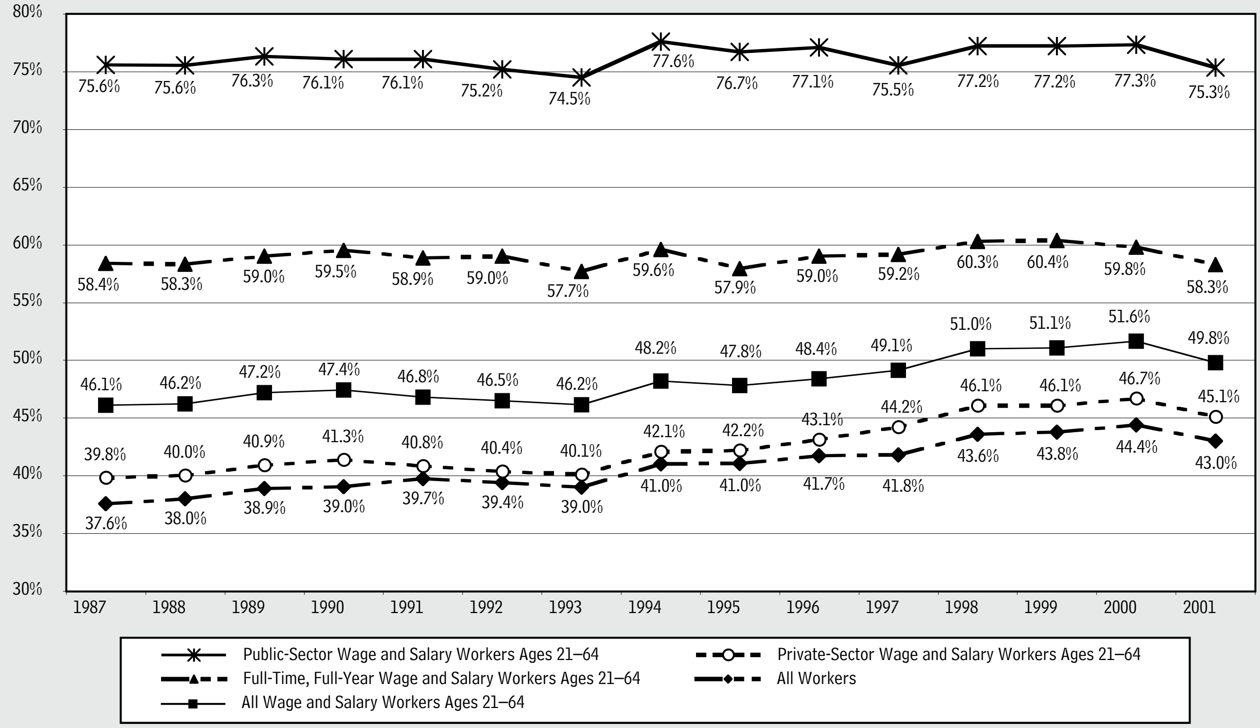


1985 (Total = $2.37 trillion)



Source: Employee Benefit Research Institute, *Pension Investment Report: 4th Quarter 2001* (Washington, DC: Employee Benefit Research Institute, May 2002); U.S. Department of Defense, Office of the Actuary, *DOD Statistical Report on the Military Retirement System, Fiscal Year 2001* (U.S. Department of Defense, 2002); U.S. Office of Personnel Management, *Civil Service Retirement and Disability Fund Actuarial Valuation: Fiscal Year 2000*, (Washington, DC: U.S. Office of Personnel Management, 2001); the Federal Retirement Thrift Investment Board http://www.tsp.gov/forms/index-otherdocs.html; and Federal Reserve Board, *Flow of Funds Accounts of the United States: Flows and Outstandings, Second Quarter 2002* (Washington, DC: Federal Reserve Board, 2002).

Figure 3
PERCENTAGE OF WORK FORCE WHO PARTICIPATED IN AN EMPLOYMENT-BASED RETIREMENT PLAN, 1987–2001



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

Section 2: Participants and Plans

Trends in Participation

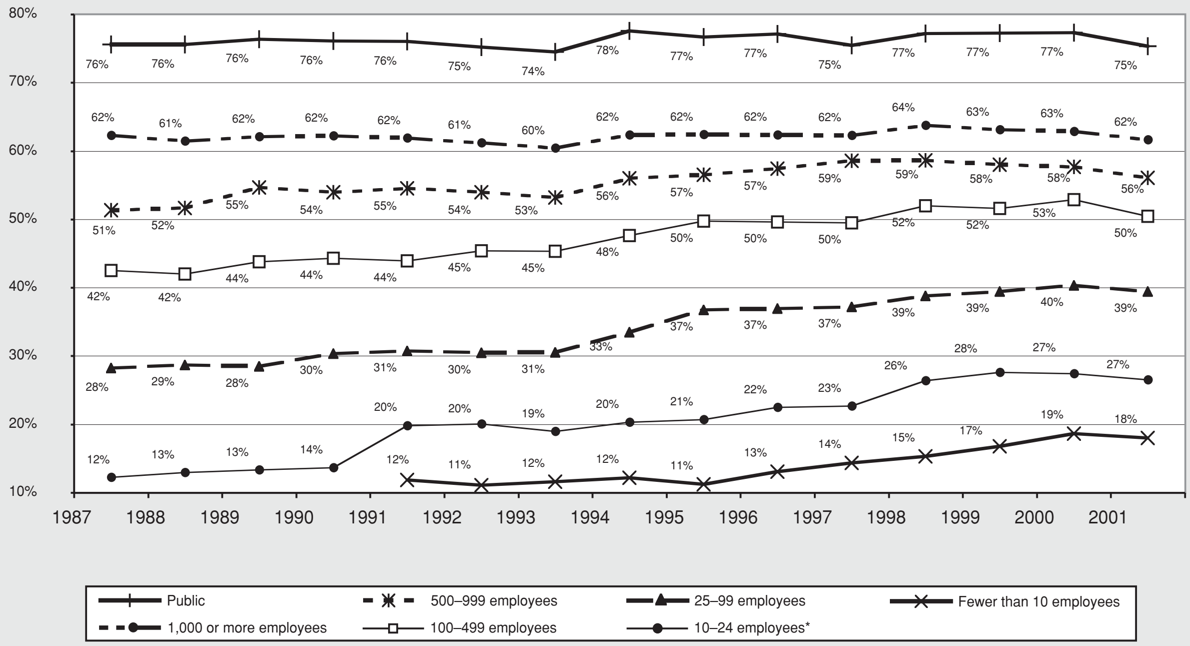
Among all workers, participation in any type of employment-based retirement plan increased from 37.6 percent in 1987 to 43.0 percent in 2001 (Figure 3). Participation among public-sector employees has always been considerably higher than among private-sector employees. Participation rates among all employee groups increased during the 1990s, but declined from 2000 to 2001. Among private-sector wage and salary workers, the larger the employer's firm size the greater the likelihood that they participated in an employment-based retirement plan (Figure 4). (For further details on participation trends, see April 2003 *EBRI Issue Brief*.)

Trends Among Number of Plans

Among employment-based retirement income plans the trend is a decline in the number of private-sector defined benefit plans and an increase in the number of private-sector defined contribution plans (Figure 5). The number of defined benefit plans peaked in 1983 at 175,143, while the number of defined contribution plans has increased steadily. The declining number of DB plans can be partly explained by examining the data on the number of plans by plan size. Figure 6 shows that the decline in the number of DB plans is concentrated among small plans (with fewer than 100 participants), with the largest decline occurring among the smallest plans (2–9) participants. Mergers and acquisitions have accounted for a share in the decline of larger DB plans. DC plans increased partly because DB plan sponsors introduced them after dropping the DB plans and also partly because employers that had not previously offered any plan began to offer a DC plan.

Figure 4

Percentage of Wage and Salary Workers Ages 21–64 Who Participated in an Employment-Based Retirement Plan by Employer Size, 1987–2001



Source: Employee Benefit Research Institute estimates from the 1988–2002 March Current Population Surveys.
* Fewer than 25 employees from 1987–1990.

Figure 5

Number of Employment-Based Retirement Income Plans, 1975–2002

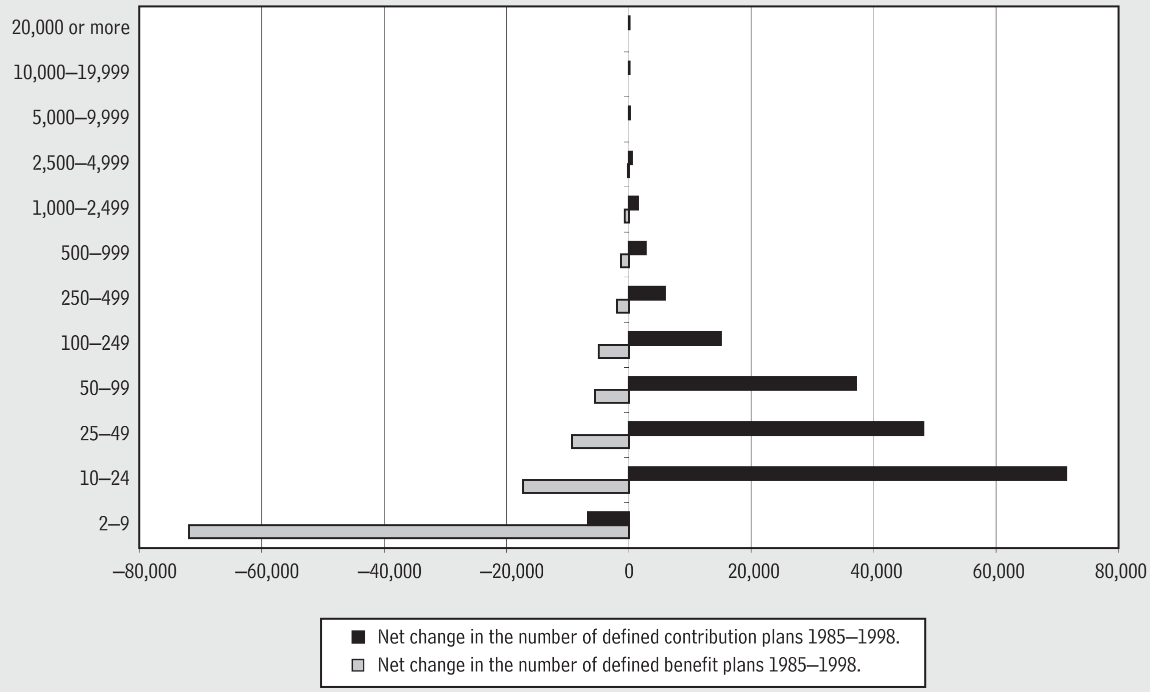
Year	Private Trusteed Total	Defined Benefit	Defined Contribution	[401(k)][a]	State and Local Government
1975	311,094	103,346	207,748	b	b
1976	359,980	113,970	246,010	b	b
1977	402,627	121,655	280,972	b	b
1978	442,998	128,407	314,591	b	b
1979	470,921	139,489	331,432	b	b
1980	488,901	148,096	340,805	b	b
1981	545,611	167,293	378,318	b	3,075
1982	594,456	174,998	419,458	b	b
1983	602,848	175,143	427,705	b	b
1984	604,434	168,015	436,419	[17,303]	b
1985	632,135	170,172	461,963	[29,869]	2,589
1986	717,627	172,642	544,985	[37,420]	b
1987	733,029	163,065	569,964	[45,054]	b
1988	729,922	145,952	583,971	[68,121]	b
1989	731,356	132,467	598,889	[83,301]	b
1990	712,308	113,062	599,245	[97,614]	2,387
1991	699,294	101,752	597,542	[111,394]	b
1992	708,335	88,621	619,714	[139,704]	b
1993	702,097	83,596	618,501	[154,527]	b
1994	690,344	74,422	615,922	[174,945]	b
1995	693,404	69,492	623,912	[200,813]	2,284
1996	696,224	63,657	632,566	[230,808]	2,285
1997	720,041	59,499	660,542	[265,251]	2,276
1998	730,031	56,405	673,626	[300,593]	2,203

Sources: Employee Benefit Research Institute estimates; U.S. Department of Labor, Pension Welfare Benefit Administration, *Private Pension Plan Bulletin: Abstract of Form 5500 Annual Reports*, no. 7 (Spring 1998) and no. 11 (Winter 2001–2002); and U.S. Department of Commerce, Bureau of the Census, *Finances of Employee-Retirement Systems of State and Local Governments*, selected years 1982–1991 (Washington, DC: U.S. Government Printing Office, 1984–1994); *Census of Governments, Government Finances, Employee Retirement Systems of State and Local Governments,* 1987 and 1992 (Washington, DC: U.S. Government Printing Office, 1989 and 1995; data for years 1993–2001, www.census.gov/govs/www/retire.html

[a] Data on 401(k) plans are a subset of defined contribution data.

[b] Data not available.

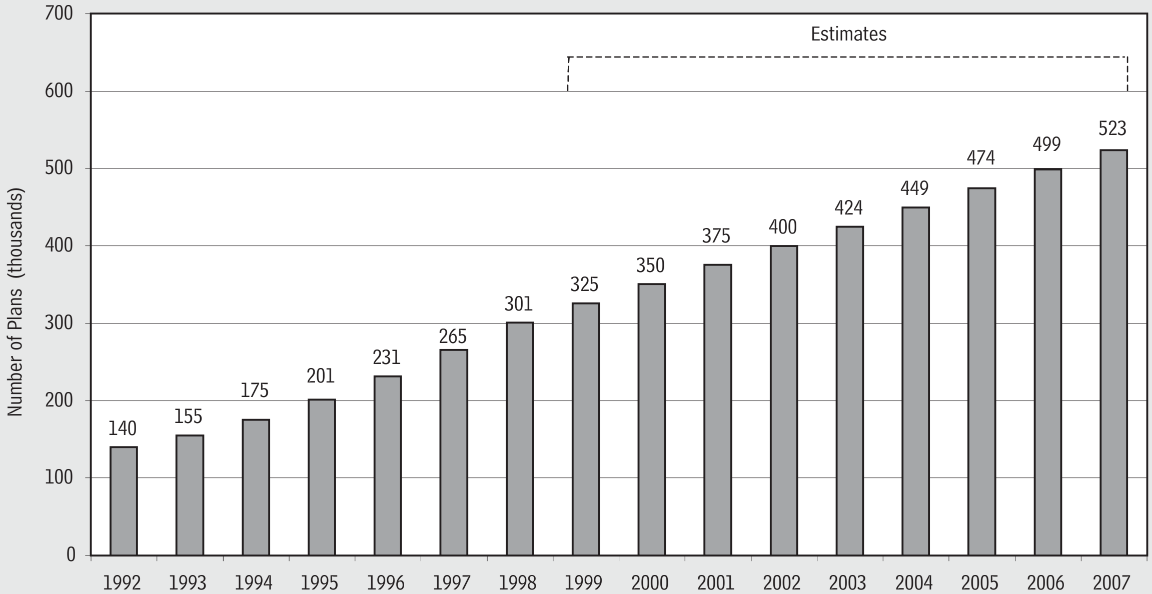
Figure 6
Comparison of the Net Change in the Number of Primary Defined Benefit and Defined Contribution Plans, 1985–1998



Source: Employee Benefit Research Institute tabulations of the 1985, 1990, and 1995–1998 Form 5500 annual reports filed with the Internal Revenue Service.

Figure 7

401(K) TRENDS: PLAN GROWTH, 1992–2007 (THOUSANDS)



Source: For 1992–1998, Employee Benefit Research Institute tabulations based on U.S. Department of Labor, Pension and Welfare Benefits Administration (PWBA), *Private Pension Plan Bulletin* (Winter 2001–2002); for 1999–2007, EBRI projections based on PWBA, *Private Pension Plan Bulletin* (Winter 2001–2002).

Section 3: 401(k) Trends

401(k) plans are one of several types of defined contribution retirement plans, although the most prevalent type in the United States. EBRI estimates that in 2003 there are 424,460 plans, covering 51 million participants, and holding $1.62 trillion in assets (Figures 7, 8, and 9). The plan takes its name from Sec. 401(k) of the Internal Revenue Code (IRC), which addresses its tax treatment and operation.

EBRI and the Investment Company Institute (ICI) have been collaborating since 1996 in the collection of data on participant activity in 401(k) plans. This effort, known as the EBRI/ICI Participant-Directed Retirement Plan Data Collection Project, has obtained data for 401(k) plan participants from certain EBRI and ICI members serving as plan record keepers and administrators.

The latest report (*EBRI Issue Brief* no. 255, March 2003) includes data for 2001 on 14.6 million active participants in 48,786 plans holding nearly $632.7 billion in assets. The data include demographic information, annual contributions, plan balances, asset allocation, and loans, and are broadly representative of the universe of 401(k) plans. The database also includes six years of longitudinal information and is the largest database of its kind in the United States tracking individual 401(k) participant activity.

Account Balances

On average, asset allocation in 2001 was little changed over previous years (Figures 10 and 11). While broad equity market indexes fell 12 percent in 2001, continuing contributions into 401(k) plans as well as diversified asset allocation generally muted the impact of poor market performance on participants' account balances. The average account balance fell 3.8 percent in 2001 among all participants with accounts at year-end 1999, year-end 2000, and year-end 2001 (Figure 12).

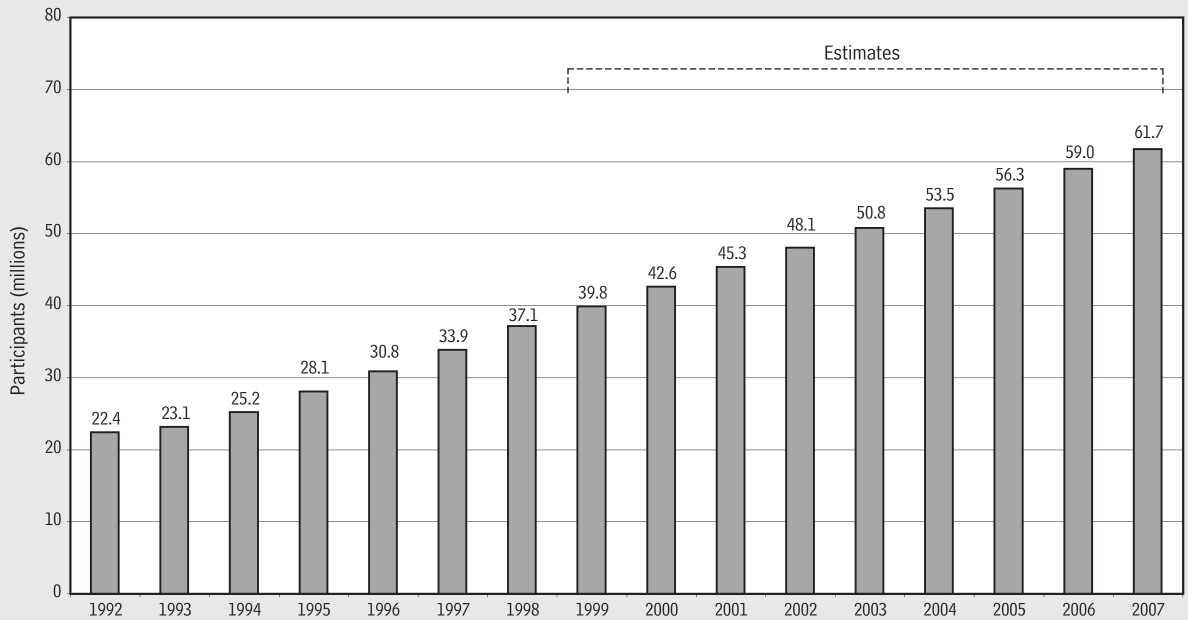
Contributions

According to the EBRI/ICI Participant-Directed Retirement Plan Data Collection Project, 11 percent of participants in their 40s contributed at the $10,000 before-tax IRC limit in 1999 (Figure 13). This limit is also known as the 402(g) limit, named after the section in the code. The presence of an employer matching contribution had the effect of increasing employees' contribution level among all age groups. For example,

Figure 8

401(k) Trends: Participant[a] Growth, 1992–2007

(millions)



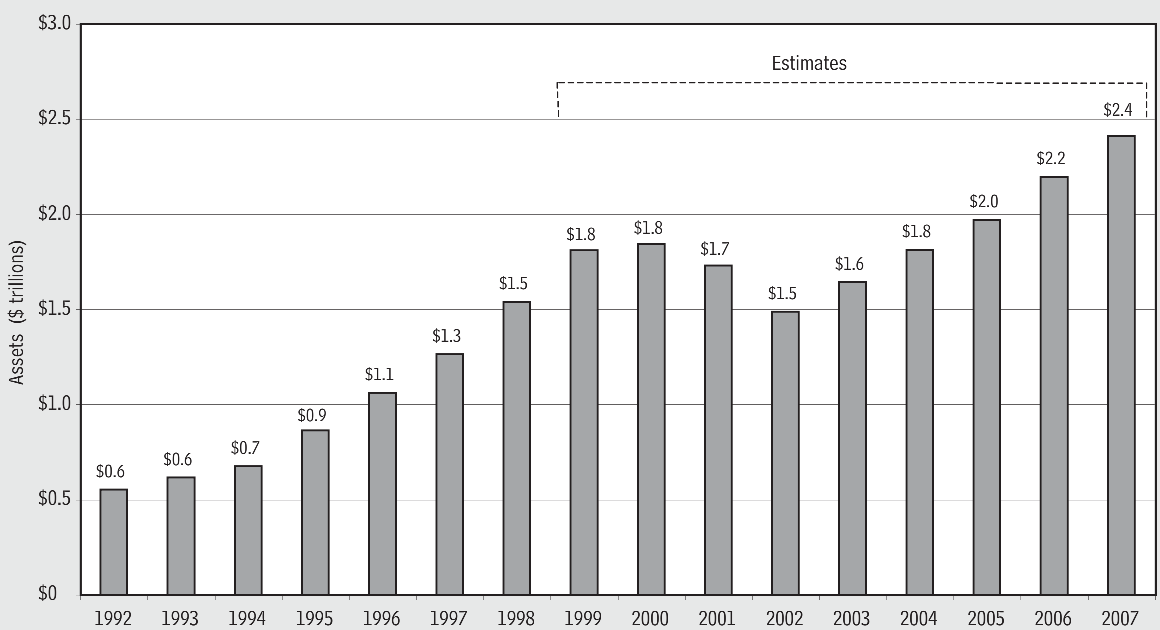
Source: For 1992–1998, Employee Benefit Research Institute tabulations based on U.S. Department of Labor, Pension and Welfare Benefits Administration (PWBA), *Private Pension Plan Bulletin* (Winter 2001–2002); for 1999–2007, EBRI projections based on PWBA, *Private Pension Plan Bulletin* (Winter 2001–2002).

[a] Active participants.

Figure 9

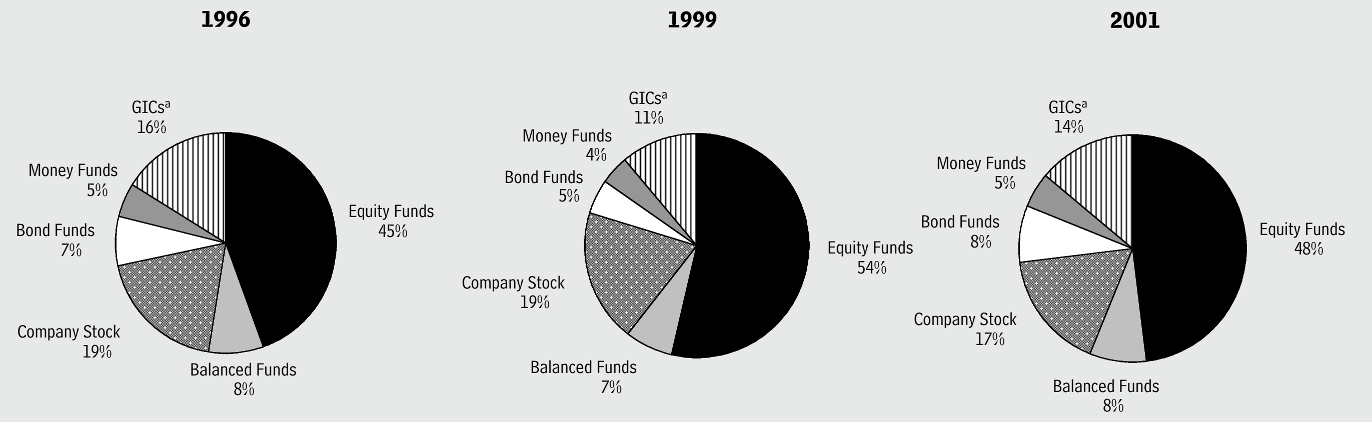
401(k) Trends: Asset Growth, 1992–2007

($ trillions)



Source: For 1992–1998, Employee Benefit Research Institute tabulations based on U.S. Department of Labor, Pension Welfare Benefit Administration (PWBA), *Private Pension Plan Bulletin* (Winter 2001–2002); for 1999–2007 EBRI projections based on PWBA, *Private Pension Plan Bulletin* (Winter 2001–2002).

Figure 10
401(k) Plan Average Asset Allocation
(percentage of total assets)



Source: Tabulations from the EBRI/ICI Participant-Directed Retirement Plan Data Collection Project.
[a] Guaranteed investment contracts.

among participants in their 40s, the average total contribution level was 10.1 percent when an employer provides a matching contribution, compared with 7.3 percent with no employer contribution (Figure 14).

Loan Activity

In addition, loan activity in 2001 continued as observed since 1996: Many participants are in plans offering loans, but few participants have a loan outstanding (Figures 15 and 16).

Figure 11
Average Asset Allocation of 401(k) Accounts, by Participant Age, 2001
(percentage of account balances)

Age Cohort	Equity Funds	Balanced Funds	Bond Funds	Money Funds	Other Stable Value Funds	Company Stock	Other
20s	58.6%	8.7%	6.1%	5.6%	6.1%	13.8%	0.6%
30s	58.0	8.0	5.7	4.2	6.5	16.5	0.8
40s	51.6	8.1	6.5	4.7	9.8	18.1	0.9
50s	45.1	8.0	7.9	5.5	14.8	17.3	0.9
60s	36.2	7.8	10.7	6.3	24.0	14.0	0.8
All	47.7	8.0	7.6	5.2	13.6	16.8	0.8

Source: Tabulations from the EBRI/ICI Participant-Directed Retirement Plan Data Collection Project.
[a] Guaranteed investment contracts.
[b] Row percentages may not add to 100 percent because of rounding.

Figure 12

Average Account Balances Among 401(k) Participants Present in 1999, 2000, and 2001,[a] by Age[b]

	Average Account Balance (dollars)		
Age Cohort[b]	1999	2000	2001
20s	$ 8,842	$ 11,235	$ 12,993
30s	33,055	34,757	34,884
40s	64,055	64,849	62,900
50s	100,410	98,099	92,468
60s	127,136	119,743	108,958
All	61,116	61,125	58,785

	Change in Average Account Balance (percentage)		
Age Cohort[b]	1999–2000	2000–2001	1999–2001
20s	27.1%	15.6%	47.0%
30s	5.2	0.4	5.5
40s	1.2	–3.0	–1.8
50s	–2.3	–5.7	–7.9
60s	–5.8	–9.0	–14.3
All	— [c]	–3.8	–3.8

Source: Tabulations from the EBRI/ICI Participant-Directed Retirement Plan Data Collection Project.

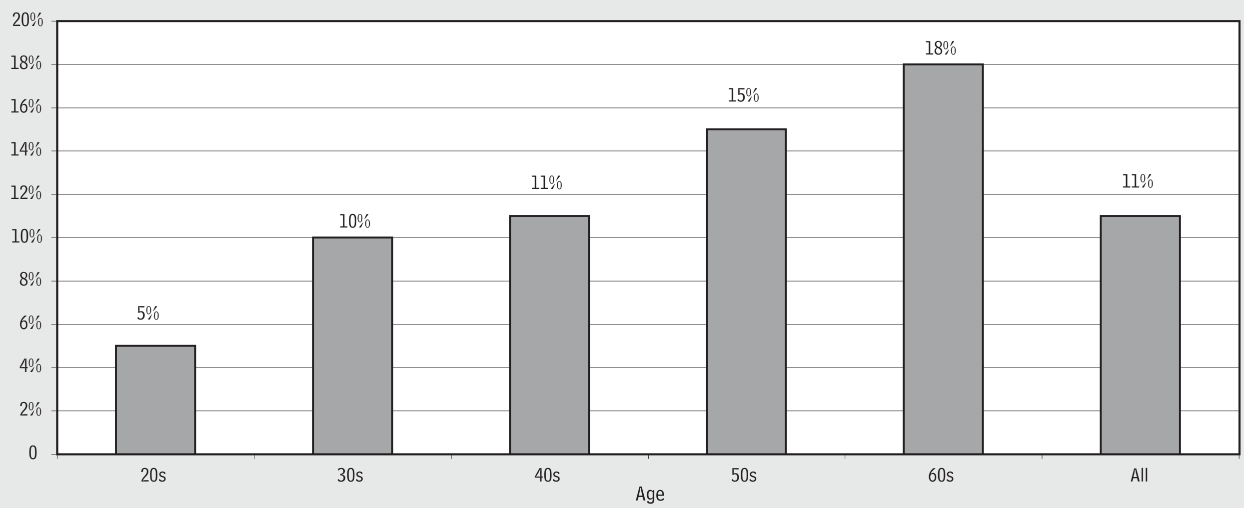
[a] Sample of 6.9 million participants with account balances at year-end 1999, year-end 2000, and year-end 2001.

[b] Age cohort based on participant's age at year-end 1999.

[c] Less than 0.5 percent.

Figure 13

Percentage of Participants Making Contributions, Making $40,000 Annually or More, at 402(g)[a] Limit by Age, 1999



Source: Tabulations from the EBRI/ICI Participant-Directed Retirement Plan Data Collection Project.

[a] The maximum legal 401(k) contribution limit of $10,000 per year in 1999 (annual income of $40,000 or more is needed to be able to contribute up to the maximum amount).

Figure 14

Average Total 401(k) Contribution Rates,[a] by Age and Employer Contribution Status, 1999

Age	Plan Has Employer Contributions[b]	Plan Does Not Have Employer Contributions[b]
20s	8.5%	6.9%
30s	9.6	7.2
40s	10.1	7.3
50s	11.1	8.3
60s	11.8	9.5
All	10.0	7.4

Source: Tabulations from the EBRI/ICI Participant-Directed Retirement Plan Data Collection Project.

[a] Average calculated among participants with any contribution. Includes before- and/or after-tax employee contributions, and/or employer contributions.

[b] Plans may or may not permit participants to take out loans.

Figure 15

Percentage of Eligible 401(k) Participants With Loans From the Plan, by Age, Tenure, or Account Size, 1996–2001

	1996	1997	1998	1999	2000	2001
All	18%	18%	16%	18%	18%	16%
Age Cohort						
20s	12	11	9	11	11	9
30s	20	20	18	20	19	17
40s	22	22	20	22	21	19
50s	17	18	16	18	17	15
60s	9	9	9	9	9	8
Tenure (years)						
0–2	6	4	3	5	5	3
3–5	15	13	12	13	14	12
6–10	24	24	22	23	23	20
11–20	27	29	27	28	26	25
21–30	25	28	25	27	26	25
31 and longer	13	16	14	17	16	15
Account Balance						
$0–$9,999	12	11	9	11	11	9
$10,000–$19,999	26	25	23	24	23	20
$20,000–$29,999	26	27	25	26	25	22
$30,000–$39,999	25	27	25	26	25	23
$40,000–$49,999	24	26	25	26	25	22
$50,000–$59,999	24	26	24	25	24	22
$60,000–$69,999	23	26	24	25	24	21
$70,000–$79,999	26	25	23	24	23	21
$80,000–$89,999	23	25	23	24	23	21
$90,000–$99,999	22	24	22	23	22	20
$100,000 and over	21	21	18	19	18	15

Source: Tabulations from the EBRI/ICI Participant-Directed Retirement Plan Data Collection Project.

Figure 16

Loan Balances as a Percentage of 401(k) Account Balances for Participants With Loans, by Age, Tenure, or Account Size, 1996–2001

	1996	1997	1998	1999	2000	2001
All	16%	15%	14%	14%	14%	14%
Age Cohort						
20s	30	29	28	25	30	27
30s	22	20	20	18	20	20
40s	16	15	14	14	15	15
50s	12	11	11	11	11	11
60s	10	9	9	9	9	9
Tenure (years)						
0–2	27	27	24	24	24	22
3–5	24	24	22	22	25	22
6–10	23	21	19	18	21	20
11–20	15	15	14	13	14	15
21–30	11	11	11	10	10	11
31 and longer	7	8	8	9	8	9
Account Balance						
$0–$9,999	39	38	36	37	39	34
$10,000–$19,999	32	32	31	30	32	29
$20,000–$29,999	28	27	26	26	28	26
$30,000–$39,999	23	24	23	23	24	23
$40,000–$49,999	22	21	21	20	21	21
$50,000–$59,999	19	19	19	18	19	18
$60,000–$69,999	16	17	17	16	17	17
$70,000–$79,999	16	15	15	14	15	15
$80,000–$89,999	14	14	14	13	14	14
$90,000–$99,999	13	13	12	12	13	12
$100,000 and over	7	7	7	7	7	7

Source: Tabulations from the EBRI/ICI Participant-Directed Retirement Plan Data Collection Project.

Section 4: Individual Retirement Accounts

Individual retirement accounts (IRAs) are tax-favored retirement vehicles that individuals or workers can establish themselves. Unlike defined contribution and defined benefit plans, which can only be sponsored by employers, IRAs provide tax-advantaged retirement savings plans for many ordinary wage earners without an employment-based retirement plan; self-employed, part-time workers; or even some individuals who are not in the labor force (such as nonworking spouses).

A large amount of money has been flowing into IRAs in recent years. Assets in individual retirement accounts totaled $2.4 trillion as of year-end 2001, down 4.3 percent from 2000 (Figure 17). In 2001 and 2000, IRAs saw their first decrease in total assets. In fact, total assets had only one year (1994) with less than a double-digit growth rate prior to 2000.

The growth of IRAs in recent years has not been driven by regular annual contributions by IRA owners; rather, stock market gains and rollovers from other plans have accounted for the lion's share of IRA growth. The experience of 2000 and 2001 shows that stock market gains/losses have a larger impact on total IRA assets than rollovers. Today, IRAs are used primarily as a vehicle to store retirement wealth that has been accumulated elsewhere in the retirement system, and not as a vehicle through which current retirement saving occurs.

IRA Ownership

For the periods from November 1997–February 1998 and November 1999–February 2000, the percentage of Americans owning an IRA increased from 15.8 percent to 17.2 percent (Figure 18). Furthermore, the average IRA account balance increased from $30,180 to $40,960 over this same time period. (For further details on IRAs, see December 2002 *EBRI Notes*.)

Figure 17

Distribution of Individual Retirement Account and Keogh Assets by Financial Institution, 1981–2001

Year	Total Assets	Bank and Thrift Deposits[a, b]	Mutual Funds	Life Insurance	Brokerage Self-Directed Accounts	Percentage Change in Assets From Previous Year
			($ billions)			
1981	$ 37	$ 27	$ 3	$ 3	$ 4	–
1982	66	47	6	6	8	78.4%
1983	105	72	11	9	13	59.1
1984	156	104	18	12	23	48.6
1985	235	140	34	16	45	50.6
1986	319	171	59	21	69	35.7
1987	390	194	80	26	91	22.3
1988	451	217	96	33	105	15.6
1989	546	244	121	38	143	21.1
1990	637	266	139	42	190	16.7
1991	776	283	184	50	260	21.8
1992	873	275	232	56	311	12.5
1993	993	263	315	70	346	13.7
1994	1,056	255	341	79	381	6.3
1995	1,288	261	463	94	470	22.0
1996	1,467	259	579	110	519	13.9
1997	1,728	254	751	160	563	17.8
1998	2,150	249	940	190	771	24.4
1999	2,542	243	1,219	246	835	18.2
2000	2,507	250	1,192	246	819	–1.4
2001	2,399	255	1,127	247	770	–4.3
			(percentage)			
1981	100.0%	73.0%	8.1%	8.1%	10.8%	
1982	100.0	71.2	9.1	9.1	12.1	
1983	100.0	68.6	10.5	8.6	12.4	
1984	100.0	66.7	11.5	7.7	14.7	
1985	100.0	59.6	14.5	6.8	19.1	
1986	100.0	53.6	18.5	6.6	21.6	
1987	100.0	49.7	20.5	6.7	23.3	
1988	100.0	48.1	21.3	7.3	23.3	
1989	100.0	44.7	22.1	6.9	26.2	
1990	100.0	41.8	21.8	6.6	29.8	
1991	100.0	36.4	23.7	6.4	33.5	
1992	100.0	31.5	26.6	6.4	35.6	
1993	100.0	26.5	31.7	7.0	34.9	
1994	100.0	24.2	32.3	7.5	36.1	
1995	100.0	20.3	35.9	7.3	36.5	
1996	100.0	17.6	39.5	7.5	35.4	
1997	100.0	14.7	43.5	9.3	32.6	
1998	100.0	11.6	43.7	8.8	35.9	
1999	100.0	9.6	48.0	9.7	32.8	
2000	100.0	10.0	47.5	9.8	32.7	
2001	100.0	10.6	47.0	10.3	32.1	

Source: Federal Reserve Board, *Flow of Funds Accounts of the United States: Flows and Outstandings* (Washington, DC: Federal Reserve Board, 2002, www.federalreserve.gov/releases/z1/Current/) and Employee Benefit Research Institute.

Note: Several financial institutions report individual retirement account (IRA) and Keogh assets in aggregate. Reliable data for IRA and Keogh assets independently are not available.

[a] Includes Keogh assets.

[b] Includes banks, thrifts, savings and loans, and credit unions.

Figure 18

Individual Retirement Account (IRA) Ownership, Years Contributed, and Average Balance, November 1997–February 1998, November 1998–February 1999, and November 1999–February 2000

	Number of IRAs	Own IRA	Average Years Contributed	Average Balance
	(millions)	(percentage)		
Nov. 1997–Feb. 1998	185.6	15.8%	7.9	$30,180
Nov.1998–Feb. 1999	187.5	16.1	8.3	$37,354
Nov. 1999–Feb. 2000	189.3	17.2	8.6	$40,960

Source: Employee Benefit Research Institute estimates of the 1996 Panel of the Survey of Income and Program Participation (SIPP) topical modules waves 6, 9, and 12.

Section 5: Social Security

The Basics of Social Security

(Updated with the 2003 Board of Trustees Report)

History

- The U.S. Congress enacted the Social Security Act in 1935, creating the Old-Age and Survivors Insurance (OASI) program, which provided retirement income benefits to workers age 65 and older in commerce and industry (except railroads). The system became effective in 1937, and is financed by a payroll tax paid by employers and employees. In 1939, the system was expanded to cover dependents and survivors of covered workers. Legislation enacted in 1950 and subsequent years allowed states the option, under certain conditions, to provide Social Security coverage to their employees. The Social Security Act Amendments of 1983 prohibited states from opting out of the Social Security program. In 1990, Social Security coverage became mandatory for state and local employees not covered by a state or local government retirement plan.
- In 1956, the Disability Insurance (DI) program was added to the Social Security program, providing income to disabled workers. In 1958, dependents of disabled workers receiving benefits under the DI program became eligible for benefit payments.

Financing

- Currently, the U.S. Department of the Treasury credits the Medicare and Social Security trust funds with any annual excess of Social Security and Medicare tax revenues over the amount spent for current benefits. By law, these assets must be invested in special securities issued by the Treasury. The trust fund surpluses are not reserved for future Social Security and Medicare benefits but are book-keeping entries. When the trust funds go into negative cash flow, the Treasury must start repaying the money.
- For budgetary purposes, the date on which the trust funds go into negative cash flow (i.e., the benefit payments exceed the income from payroll taxes and the taxation of benefits) is significant because it marks the point at which the government must provide cash from general revenues to the programs rather than receive surplus cash from them to fund other current spending.
- According to the 2003 Social Security trustees' report, under intermediate assumptions, the combined Old-Age, Survivors and Disability Insurance (OASDI) trust fund expenses are expected to exceed income from taxes in 2018. By 2027, OASDI expenses are expected to exceed income from taxes plus interest income (negative cash flow), and the trust fund is expected to be exhausted by 2042.
- The Social Security trust funds are derived from payroll taxes assessed on employers and employees. Under current law, the payroll taxes are assessed as follows. OASI payroll taxes for 2003 are based on a combined employer/employee rate of 10.6 percent of earnings up to a maximum annual taxable amount of $87,000. The maximum taxable amount of earnings increases in proportion to increases in the average wage level. In 2002, total income for the OASI trust fund was $539.7 billion: $455.2 billion was in payroll taxes, $12.9 billion was in taxation of benefits, and $71.2 billion was interest income.
- DI payroll taxes for 2003 are based on a combined employer/employee rate of 1.8 percent of earnings, up to a maximum taxable amount of $87,000. The maximum taxable amount of earnings increases in proportion to increases in the average wage level. In 2002, total income for the DI trust fund was $87.4 billion: $77.3 billion was from payroll taxes,

Figure 19

Estimated Average Monthly Social Security Benefits: Before and After the December 2002 Cost-of-Living Adjustment (COLA)

	Before 1.4% COLA	After 1.4% COLA
All Retired Workers	$ 882	$ 895
Aged Couple, Both Receiving Benefits	1,463	1,483
Widowed Mother and Two Children	1,812	1,838
Aged Widow(er) Alone	850	862
Disabled Workers, Spouse, and One or More Children	1,376	1,395
All Disabled Workers	822	833

Source: "Fact Sheet Social Security: 2003 Social Security Changes," www.ssa.gov/cola/colafacts2003.htm

$0.9 billion was from taxation of benefits, and $9.2 billion was from interest income.

- In 1992, the DI trust fund went into negative cash flow and was projected to become insolvent in 1995. To alleviate this problem, Congress enacted the Social Security Domestic Employment Reform Act of 1994 (P.L. 103-387), which reallocated a portion of OASI taxes to the DI trust fund, effective retroactively.

Coverage

- In 2002, 39.1 million beneficiaries received benefit payments from the OASI program, and the average monthly benefit (after the cost-of-living adjustment) was $895 (Figure 19). In 2002, 7.1 million individuals, disabled workers, and their dependents received benefit payments from the DI Program. Under intermediate assumptions, the number of OASI beneficiaries is projected to increase to 43.4 million in 2010 and to 71.3 million in 2030, and the number of DI beneficiaries is projected to increase to 9.3 million in 2010 and to 12.7 million in 2030.
- In 1945, the number of covered workers per OASI beneficiary was 41.9. By 1965, that number was 4.0, and in 2002, it was 3.3. Under intermediate assumptions, the number of covered workers per OASI beneficiary is estimated to be 3.2 in 2010, 2.2 in 2030, and 1.9 in 2060.
- In 2002, total benefit payments from the OASI trust fund amounted to $388.1 billion. Total benefit payments from the DI trust fund were $65.6 billion.
- Treasury Secretary John W. Snow acts as the Managing Trustee of the OASDI trust funds, and James B. Lockhart, III, Deputy Commissioner of Social Security is the Secretary. The other trustees include: Elaine Chao, Secretary of Labor; Tommy Thompson, Secretary of Health and Human Services; Jo Anne B. Barnhart, Commissioner of Social Security; John L. Palmer, and Thomas R. Saving.

Social Security's Financial Projections

According to the 2003 Social Security trustees' report, under intermediate assumptions, the combined Old-Age, Survivors and Disability Insurance (OASDI) trust fund expenses are expected to exceed income from taxes in 2018. By 2027, OASDI expenses are expected to exceed income from taxes plus interest income (negative cash flow), and the trust fund is expected to be exhausted by 2042. These are slight improvements from the 2002 report, in which these years were 2017, 2027, and 2041, respectively. In the 2003 Trustees' report, the projected actuarial deficit is 1.92 percent of taxable payroll, an increase of 0.04 percentage points from the actuarial deficit reported in the 2002 report.

EBRI recently conducted analyses examining the effects of various assumptions concerning the unemployment rate, level of immigration, and the labor force participation rate on the Social Security's fiscal health. These analyses were conducted using SSASIM, a model that closely replicates the results from the Social Security Administration Office of the Actuary's model used in the Board of Trustees' Annual Report.

Unemployment and Immigration

When holding all of the other assumptions values constant at the levels matching the Board of Trustees' 2001 Report intermediate levels, a change of 0.5 percentage point in the unemployment rate leads to an approximate 0.06–0.07 percentage point change in the actuarial balance (Figure 20 panel A). Again, holding all other assumptions constant, decreasing the net immigration assumption value from 900,000 to 450,000 causes the actuarial balance to fall from –1.86 percent to –2.14 percent (Figure 20 panel B). When the age distribution of the immigrants is skewed to the young (more than 95 percent are age 30 or younger compared with the present assumption of approximately two-thirds of the immigrants being age 30 or older), the actuarial

Figure 20

ACTUARIAL BALANCE OF THE SOCIAL SECURITY PROGRAM UNDER VARIOUS UNEMPLOYMENT RATE AND NET IMMIGRATION ASSUMPTIONS

PANEL A: Changing Only Unemployment Rate Assumptions

Long-Run Unemployment Rate Assumption	Actuarial Balance
4.0%	–1.66%
4.5	–1.73
5.0	–1.79
5.5	–1.86
6.0	–1.92
6.5	–1.99
7.0	–2.05

PANEL B: Changing Only Net Immigration Assumptions

	Actuarial Balance by Distribution		
Long-Run Net Immigration Assumptions	Unchanged distribution	Young-skewed distribution	Older-skewed distribution
(millions)			
0.00	–2.47%	–2.42%	–2.52%
0.45	–2.14	–1.82	–2.48
0.90	–1.86	–1.30	–2.45
1.35	–1.60	–0.83	–2.42
1.80	–1.36	–0.42	–2.39
2.70	–0.96	0.28	–2.34
3.60	–0.61	0.86	–2.29

PANEL C: Changing Both Net Immigration and Unemployment Rate Assumptions

Long-Run Net Immigration Assumption	Long-Run Unemployment Rate Assumption	Actuarial Balance
0.00	7.0%	–2.67%
0.00	4.0	–2.27
0.45	4.5	–2.01
0.90	5.5	–1.86
1.35	6.0	–1.66
3.60	7.0	–0.80
3.60	4.0	–0.43

Source: Employee Benefit Research Institute estimates using SSASIM.

balance of the Board of Trustees' intermediate assumptions improves to –1.30 percent over the standard future 75 years from –1.82 percent. (For further details on the effects of unemployment and immigration on Social Security, see April 2002 *EBRI Notes.*)

Labor Force Participation

Recent changes in the labor force have occurred as a result of an increase in the rate of participation by older individuals, while assumptions for the overall level of labor force participation have increased. Without any changes in the labor force participation rate and using the intermediate assumptions from 2001 Report of the Board of Trustees, the actuarial balance is a 1.86 percent deficit of OASDI taxable payroll. When only an acceleration in the 55–64 year olds' rate is considered, the actuarial balance improves to a 1.74 percent deficit (Figure 21). Furthermore, assuming no acceleration of the labor force participation rate among the near elderly and a 1 percentage point participation rate increase from the intermediate value in the 2001 Trustees' report for both the male and female labor force participation rates, the actuarial balance improves to a 1.79 percent deficit. Assuming a 2 percentage point increase from the 2001 participation rates and the acceleration in the near elderly's rates, the deficit is lowered to 1.60 percent. (For further details on labor force participation, see May 2003 *EBRI Notes.*)

Figure 21

SUMMARY OF LABOR FORCE PARTICIPATION RATES AND ACTUARIAL BALANCE FROM OASDI TRUSTEES REPORT, 2001–2003

	Ultimate Assumption Value For:		
Report Year	Male labor force participation rate	Female labor force participation rate	Actuarial Balance
2001	73.4%	60.6%	–1.86%
2002	73.6	60.5	–1.87
2003	74.2	61.1	–1.92

OASDI Trust Fund Actuarial Balance by Various Changes in the Labor Force Participation Rate Assumptions

If labor force participation rate changes…	Age distribution changes	Actuarial Balance
None	No	–1.86%
None	Yes	–1.74
1 Percentage Point Higher	No	–1.79
1 Percentage Point Higher	Yes	–1.67
2 Percentage Points Higher	No	–1.73
2 Percentage Points Higher	Yes	–1.60
1 Percentage Point Lower	No	–1.92
1 Percentage Point Lower	Yes	–1.81
2 Percentage Points Higher	No	–1.99
2 Percentage Points Higher	Yes	–1.88

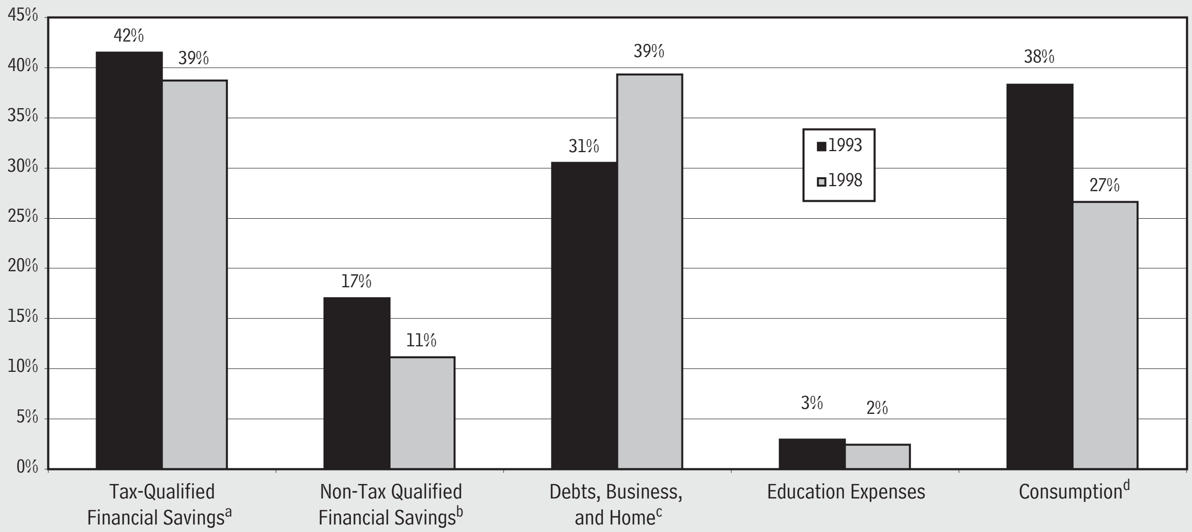
Source: U.S. Social Security Administration, *2001–2003 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* (Baltimore, MD: U.S. Social Security Administration, 2001–2003) and Employee Benefit Research Institute estimates using SSASIM.

Section 6: Lump-Sum Distributions

In 1998, 14.3 million persons ages 21 and over reported ever having received a lump-sum distribution from a retirement plan on a previously held job. Among these individuals, 38.7 percent reported rolling over at least some of their most recent distribution to tax-qualified savings and 11.1 percent reported using some portion for non-tax qualified savings (Figure 22). This is lower than the percentage reported for workers receiving distributions most recently through 1993. Yet, the percentage that spent some of their distribution on general consumption decreased significantly from 1993 to 1998. Among individuals who reported using the entire distribution for one purpose, 34.5 percent reported rolling it over into tax-qualified financial savings, a marked increase from 1993, when only 19.3 percent reported rolling over the entire distribution into tax-qualified savings (Figure 23).

Figure 22

PORTION OF LUMP-SUM RECIPIENTS REPORTING VARIOUS USES FOR ANY PORTION OF THEIR MOST RECENT DISTRIBUTION, CIVILIANS AGE 21 AND OVER, 1993 AND 1998

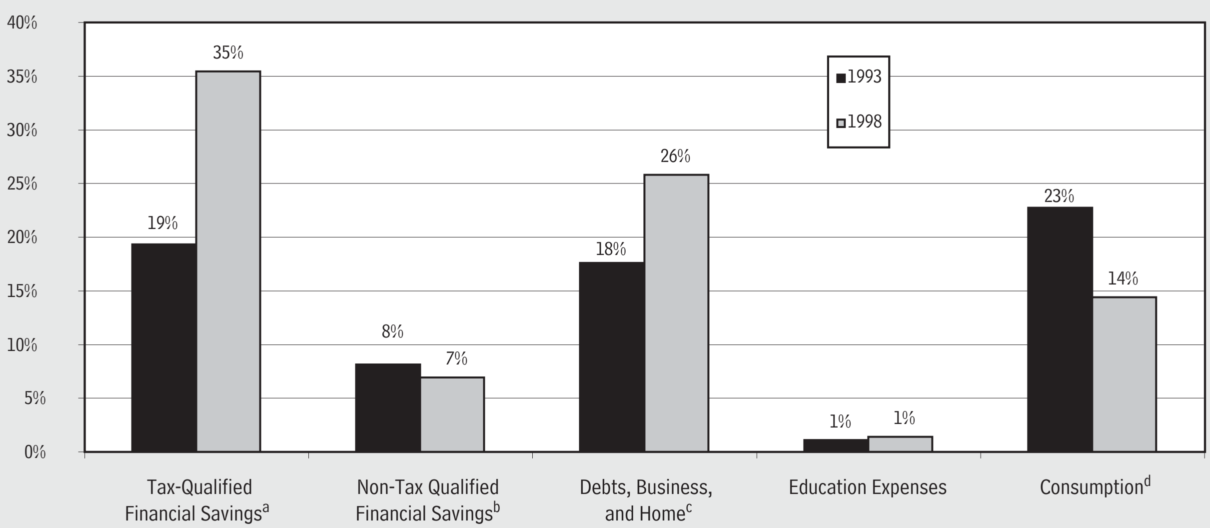


Source: Employee Benefit Research Institute estimates from 1996 Panel of Survey of Income and Program Participation Topical Module 7; and April 1993 Employee Benefits Supplement Current Population Survey.

[a] Includes investment in individual retirement accounts (IRAs), rollovers to IRAs, individual annuities, and other employment-based retirement plans.
[b] Includes savings accounts, other financial investments, and other savings.
[c] Includes purchase of home, start or purchase of a business, payments toward debt, bills, loans, or mortgage.
[d] Includes purchase of consumer items, medical and dental expenses, general everyday expenses, and other spending.

Figure 23

PROPORTION OF LUMP-SUM RECIPIENTS REPORTING USING ENTIRE PORTION OF THEIR MOST RECENT DISTRIBUTION BY TYPE OF USE, CIVILIANS AGE 21 AND OVER, 1993 AND 1998



Source: Employee Benefit Research Institute estimates from 1996 Panel of the Survey of Income and Program Participation Topical Module 7; and April 1993 Employee Beenfits Supplement to the Current Population Survey.

[a] Includes investment in individual retirement accounts (IRAs), rollovers to IRAs, individual annuities, and other employment-based retirement plans.
[b] Includes savings accounts, other financial investments, and other savings.
[c] Includes purchase of a home, start or purchase of a business, payments toward debt, bills, loans, or mortgage.
[d] Includes purchase of consumer items, medical and dental expenses, general everyday expenses, and other spending.

Figure 24

WORKERS' CONFIDENCE IN HAVING ENOUGH MONEY TO LIVE COMFORTABLY THROUGHOUT THEIR RETIREMENT YEARS, 1993–2003

	1993	1995	1997	1999	2001	2003
Very Confident	18%	21%	24%	22%	22%	21%
Somewhat Confident	55	51	41	47	41	45
Not Too Confident	19	19	19	21	18	17
Not At All confident	6	8	15	9	17	16

Source: Employee Benefit Research Institute, American Savings Education Council, and Matthew Greenwald & Associates, Inc., *The 2003 Retirement Confidence Survey: Summary of Findings*. www.ebri.org/rcs/2003/index.htm

Section 7: Public Opinion

With the decline in the number of DB plans and the increasing role of DC plans, individuals are required to shoulder more of the responsibility of saving for retirement. This responsibility is not just financial, in the form of making individual contributions to 401(k) plans, but also includes planning. A characteristic of most DC plans is that the individual is allowed to choose among investment options. How confident Americans are that they can reach their retirement goals and what those goals are have now become important public policy considerations.

Retirement Confidence

The percentage of American workers saying they are *very* confident of having enough money to live comfortably in retirement has historically been fairly stable, particularly within the last seven years (Figure 24). The percentages of workers saying they are *somewhat* confident or *not at all* confident have been slightly more volatile over time. This suggests that there may be a core group of workers—those who are *very* confident—who feel they are taking the steps necessary to ensure a comfortable retirement and who remain confident regardless of the state of the economy. Those who feel some uncertainty may be more likely to shift between *somewhat, not too,* and *not at all* confident as their individual circumstances and financial outlooks change.

Retirement Expectations

The average nonretired individual today plans to retire at age 65 (Figure 25). Four in 10 plan to retire prior to reaching age 65; 16 percent say they will retire before age 60 and 21 percent plan to retire between the ages of 60 and 64. One-fourth of workers say they will retire at age 65 (25 percent), and another quarter intend to retire at age 66 or even later.

Workers appear to underestimate the proportion of their preretirement income that they will need to live comfortably in retirement (Figure 26). Half of workers expect that they will need less than 70 percent of their preretirement income (49 percent). Only 16 percent anticipate needing 70 percent to 79 percent of their preretirement income to live comfortably, and fewer than 2 in 10 anticipate needing 80 percent or more (18 percent). Most financial experts say 70–80 percent of preretirement income is needed for a comfortable retirement.

Workers are most likely to expect that the largest share of their income in retirement will come from personal savings, either from money they or their spouse put into a retirement plan at work (12 percent) or from other personal savings outside of work (18 percent) (Figure 27). Eighteen percent expect that their largest source of income will come from a defined benefit plan, and 13 percent expect Social Security to provide this source of income. One in 10 each mention that their largest source of income will be employment (12 percent) or employer-provided money in a defined contribution plan (12 percent), while somewhat fewer cite money from the sale of a business (4 percent) or their home (3 percent).

Figure 25

Planned and Actual Retirement Age, 2003

	Workers	Retirees
Age 54 or Younger	6%	11%
Ages 55–59	10	18
Ages 60–61	11	8
Ages 62–64	10	25
Age 65	25	13
Age 66 or Older	24	12
Never Retire/Did Not Expect to Retire	6	2

Source: Employee Benefit Research Institute, American Savings Education Council, and Matthew Greenwald & Associates, Inc., *The 2003 Retirement Confidence Survey: Summary of Findings*. www.ebri.org/rcs/2003/index.htm

Figure 26

Percentage of Preretirement Income Workers Believe Needed in Retirement, 2003

Workers	
Less Than 50 Percent	15%
50–59 Percent	24
60–69 Percent	10
70–79 Percent	16
80–89 Percent	8
90–99 Percent	2
100 Percent or More	8
Don't Know	17

Source: Employee Benefit Research Institute, American Savings Education Council, and Matthew Greenwald & Associates, Inc., *The 2003 Retirement Confidence Survey: Summary of Findings*. www.ebri.org/rcs/2003/index.htm

Figure 27

Expected and Actual Largest Sources of Income in Retirement, 2003

	Workers	Retirees
Money provided by an employer through a pension	18%	23%
Other personal savings or investments that are not in a work-related retirement plan	18	10
Social Security	13	44
Money you (and/or your spouse) put into a workplace retirement savings plan	12	4
Part-time or full-time employment	12	3
Money or stock provided by an employer through a contribution to a workplace retirement savings plan	12	2
Money from the sale of a business	4	2
Other government income programs, such as SSI[a] or veterans' benefits	3	6
Money from the sale of your home	3	2
Support from your children or other family members	2	b

Source: Employee Benefit Research Institute, American Savings Education Council, and Matthew Greenwald & Associates, Inc., *The 2003 Retirement Confidence Survey: Summary of Findings*. www.ebri.org/rcs/2003/index.htm

[a] Supplemental Security Income.

[b] Less than 0.5 percent.

Figure 28

Most Important Reason for Offering a Retirement Plan, Among Firms With 100 or Fewer Employees, 2000–2002

	2000	2001	2002
Competitive advantage in employee recruitment and retention	35%	25%	30%
Positive effect on employee attitude and performance	21	19	23
Tax advantage for employees	8	9	13
Employers have an obligation to provide a retirement plan for employees	13	16	12
So the owner can save for retirement on a tax-deferred basis	a	7	6
Employees demand or expect it	5	4	5
Tax advantage for key executives	5	6	4
Availability of an employer tax deduction	2	4	3

Source: Employee Benefit Research Institute, American Savings Education Council, and Matthew Greenwald & Associates, Inc., *The 2003 Small Employer Retirement Survey: Summary of Findings*. www.ebri.org/sers/index.htm

[a] Data not available.

Section 8: Small Employers

Small Employers With Plans

The issue of low plan sponsorship rates among smaller employers continues to be a public policy challenge. While 64 percent of full-time employees at employers with more than 100 workers were covered by one or more employment-based retirement plans in 1999, just 34 percent of full-time workers in small private establishments (99 or fewer workers) were covered by a retirement plan. Insight into the challenges presented by the small employer market is provided by the annual Small Employer Retirement Survey (SERS), a survey of retirement plan sponsorship among small employers (companies with five to 100 full-time workers).

When small employers are given a list of reasons why companies might offer a retirement plan to their workers and asked to choose which of these is the most important reason why their business offers a plan, 3 in 10 of all respondents report the most important reason they offer a plan is for the competitive advantage for the business in employee recruitment and retention (30 percent) (Figure 28). Nearly one-fourth cite the positive effect on employee attitude and performance (23 percent). Twelve percent say employer obligation to provide a retirement plan for employees is most important. In addition, a total of about 2 in 10 mention some type of tax advantage, either for their employees (13 percent), the business owner (6 percent), or key executives (4 percent), as the most important reason.

Small Employers Without Plans

There are a number of reasons why more small employers do not offer retirement plans. Cost and administration-related issues play a role, but so do employee demand and business profitability (Figure 29). In fact, responses suggest that administrative cost and burden may not be the main reason why the majority of these small employers choose not to offer a retirement plan. More than 2 in 10 say employee preferences for wages and/or other benefits are the most important reason their company does not sponsor a plan (22 percent). Fifteen percent cite another employee-related reason for not sponsoring a plan—a large portion of their workers are seasonal, part time, or high turnover.

What would lead to increased plan coverage? Nonsponsors were read a list of items and asked if any would make them seriously consider sponsoring a retirement plan. More than one-third say an increase in the company's profits would make them much more likely to consider a plan (35 percent) and another third say a plan with low administrative costs that required no employer contributions would make them much more likely to consider it (33 percent) (Figure 30). Approximately 2 in 10 each say they would be much more likely to consider a plan if there were business tax credits for starting a plan (22 percent), a plan that could really be tailored to the unique needs of their business (22 percent), easy-to-understand information was available (19 percent), and a plan with reduced administrative requirements was available (17 percent).

Figure 29

MOST IMPORTANT REASON FOR NOT OFFERING A RETIREMENT PLAN, AMONG FIRMS WITH 100 OR FEWER EMPLOYEES, 2000–2002

	2000	2001	2002
Employee-Related Reasons			
Employees prefer wages and/or other benefits	21%	19%	22%
Large portion of employees are seasonal, part-time, or high turnover	18	15	15
Business-Related Reasons			
Revenue is too uncertain to commit to a plan	13	18	18
Business is too new	11	6	8
Cost and Administration-Related Reasons			
Required company contributions are too expensive	8	10	11
Costs too much to set up and administer	9	12	10
Too many government regulations	3	4	1
Administration is too burdensome	a	a	3
Possibility of being out of compliance with government regulations	a	a	2
Other Reasons			
Vesting requirements cause too much to go to short-term employees	3	1	1
Possibility of being held liable for investment decisions made by employees	a	b	1

Source: Employee Benefit Research Institute, American Savings Education Council, and Matthew Greenwald & Associates, Inc., *The 2003 Small Employer Retirement Survey: Summary of Findings*. www.ebri.org/sers/index.htm

[a] Data not available.

[b] Less than 0.5 percent.

Figure 30

FACTORS LEADING TO SERIOUS CONSIDERATION OF OFFERING A RETIREMENT PLAN, AMONG FIRMS WITH 100 OR FEWER EMPLOYEES, 2002

	Much More Likely	Somewhat More Likely	No More Likely
Increase in business profits	35%	36%	29%
Plan with low administrative costs that requires no employer contribution	33	36	30
Business tax credit for starting a plan	22	41	36
Plan customized for the needs of the business	22	27	40
Availability of easy-to-understand information	19	37	43
Plan with reduced administrative requirements	17	36	47
Demand from employees	15	41	43
Allowing key executives to accumulate more in plan	11	27	61

Source: Employee Benefit Research Institute, American Savings Education Council, and Matthew Greenwald & Associates, Inc., *The 2003 Small Employer Retirement Survey: Summary of Findings*. www.ebri.org/sers/index.htm

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