

Employment-Based Retirement and Pension Plan Participation: Declining Levels and Geographic Differences

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Issue Brief

- This *Issue Brief* examines the level of participation by workers (both public and private) in employment-based pension or retirement plans. Participation is examined for 2002 across various worker characteristics and those of their employers. The report then investigates retirement plan participation across U.S. geographic regions, including by state and certain consolidated metropolitan statistical areas (CMSAs). In addition, trends from 1987–2002 in this participation are presented.
- Of all 151.3 million workers in 2002, 80.7 million worked for an employer or union that sponsored a pension or retirement plan, and 63.2 million participated in the plan. This translates into a sponsorship rate (the percentage of workers working for an employer or union that sponsored a plan) of 53.4 percent and a participation level of 41.8 percent. For wage and salary workers ages 21–64, the sponsorship rate increases to 59.5 percent and the proportion participating increases to 48.2 percent.
- The states with the lowest levels of participation—e.g., Florida, Colorado, and Nevada—were in the South, West, or Southwest. The states with the highest participation were in the upper Midwest—e.g., Minnesota and Wisconsin—along with some in the Northeast or Mid-Atlantic, such as Maryland.
- For the *all-worker* population, the percentage of workers participating in an employment-based retirement plan increased fairly steadily from 37.6 percent in 1987 to 44.4 percent in 2000, before declining significantly in 2001 and 2002 to 41.8 percent. This was higher than the 1987 level and equal to the 1997 level. The *all wage and salary workers ages 21–64* and *private-sector wage and salary workers ages 21–64* populations duplicated this pattern. 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, before falling to a new low for the time period 1987–2002 in 2002. The percentage of public-sector wage and salary workers decreased again in 2002 but remained near its traditional level.
- It is good news that small-employer, part-time, and part-year workers have higher retirement plan participation levels than they had a decade ago and have been able to sustain some of the gains after the downturn subsequent to 2000. Nevertheless, as the current “jobless recovery” continues not to produce a sizeable increase in employment, it is likely that more of these gains could be lost, as employers may not have to offer retirement plans to attract and retain workers. The troubling 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, and with the declines in 2001 and 2002, experienced their lowest participation levels since at least 1987. Thus, the overall level of participation in retirement plans has shown only a minor increase from 1987 to 2002 and appears headed downward, at least in the short term.

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Introduction

As the United States’ population ages due to increases in longevity and the aging of the post-World War II baby-boom

generation, financial preparation for the retirement of that and future generations has become a national concern. Key factors contributing to this developing policy issue include the projected deficit in the Social Security system, continual increases in health care costs (particularly for the elderly), 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 through tax revenues or through direct care of family and friends, 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 taxpayers of supporting future retirees may be changed as a result of these trends in the levels of workers participating in retirement plans.

The participation in employment-based retirement plans by workers declined for the second straight year in 2002, falling back to levels not seen since 1997. Furthermore, certain segments of the work force experienced declines that have not been seen since at least 1987. The changes in 2002 could point toward a potentially long-term change in the employment-based retirement savings opportunities for workers with traditionally high levels of participation—full-time, full-year, high earners, and of large employers.

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This *Issue Brief* more closely examines this level of participation by workers in employment-based (both public- and private-sector employers) pension or retirement plans, based on the U.S. Census Bureau's March 2003 Current Population Survey (CPS), the most recent data currently available. It begins with an overview 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 analyzed for 2002 across various worker characteristics and those of their employers. The report then explores retirement plan participation across U.S. geographic regions, including a state-by-state comparison and a comparison of certain consolidated metropolitan statistical areas (CMSAs). In addition to the results for 2002, trends from 1987–2002 in employment-based retirement plan participation are presented across the same worker characteristics and those of their employers as used for 2002. 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 and held, 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 in the private sector 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. However, in the public sector, DB plans generally require employee contributions, but the contributions are usually pooled in a single fund along with funding from the government entity that sponsors the plan.

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 (or for the public sector, the taxpayers of the sponsoring entity) 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 are 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 eliminate 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. 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 (public and private) 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 (2003), using the 1992 and the 2001 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 37.6 percent in 1992 to 57.9 percent in 2001.

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 2001 and 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.

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, 2002**

	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	151.3	125.4	105.3	20.0	90.0
Works for an employer sponsoring a plan	80.7	74.6	57.8	16.8	58.6
Participating in a Plan	63.2	60.4	45.4	15.0	51.1
		(percentage)			
Worker Category Total	100%	100%	100%	100%	100%
Works for an employer sponsoring a plan	53.4	59.5	54.9	83.7	65.1
Participates in a plan	41.8	48.2	43.1	74.8	56.7

Source: Employee Benefit Research Institute estimates from the 2003 March Current Population Survey.

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 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.

2002 Levels

Of all 151.3 million U.S. workers in 2002, 80.7 million worked for an employer or union that sponsored a pension or retirement plan, and 63.2 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 53.4 percent and a participation level of 41.8 percent. However, this mea-

sure 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.⁸ For this group, the sponsorship rate increases to 59.5 percent and the portion participating increases to 48.2 percent. When separating these wage and salary workers into the public and private sectors, the percentages participating differ significantly. Slightly less than 75 percent of the public-sector workers participated in an employment-based retirement plan, compared with 43.1 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 21–64.⁹ Approximately 57 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, 19.8 percent participated in a plan, compared with

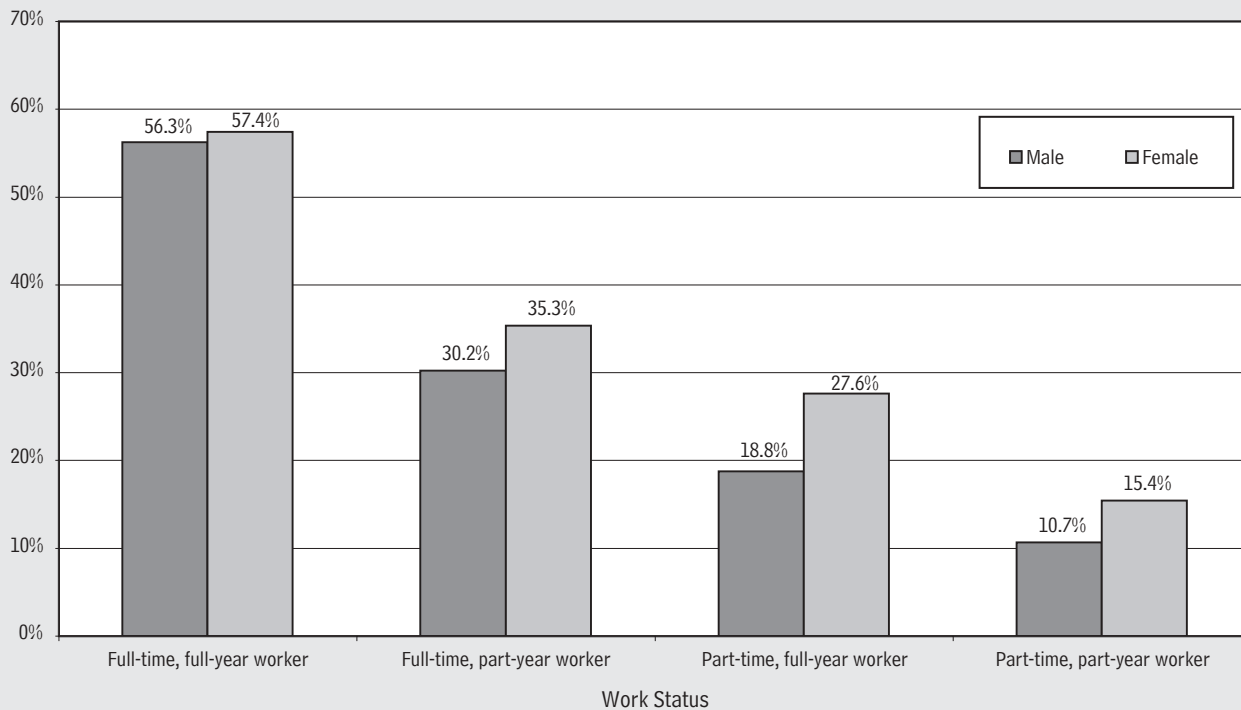
Figure 2

**PERCENTAGE OF VARIOUS WORK FORCES WHO WORKED FOR AN EMPLOYER THAT SPONSORED
A RETIREMENT PLAN AND THE PERCENTAGE THAT PARTICIPATED IN THE PLAN, BY VARIOUS CHARACTERISTICS, 2002**

	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	Sponsorship rate	Percentage participating	Number of workers	Sponsorship rate	Percentage participating	Number of workers	Sponsorship rate	Percentage participating	Number of workers	Sponsorship rate	Percentage participating	Number of workers	Sponsorship rate	Percentage participating
	(000s)	(%)	(%)	(000s)	(%)	(%)	(000s)	(%)	(%)	(000s)	(%)	(%)	(000s)	(%)	(%)
Age															
20 or younger	11,261	26.1%	4.6%												
21-24	12,370	41.0	19.5	12,149	41.7%	19.8%	11,076	39.5%	18.3%	1,073	64.0%	35.2%	5,912	49.3%	30.5%
25-34	32,838	53.7	39.5	31,354	55.7	41.0	27,464	52.1	37.1	3,890	81.1	68.8	22,408	60.7	48.6
35-44	37,206	58.1	48.8	34,568	61.7	51.8	29,152	57.4	47.3	5,416	84.4	76.4	26,210	66.5	58.9
45-54	33,583	61.6	54.7	30,876	66.0	58.6	24,592	60.6	52.8	6,284	87.0	81.4	23,935	70.3	65.1
55-64	18,310	58.0	51.0	16,408	63.2	55.6	13,031	57.3	49.5	3,377	85.6	79.2	11,570	68.1	63.5
65 or older	5,688	38.3	25.5												
Gender															
Male	79,830	52.8	42.7	65,304	59.3	49.7	56,912	55.5	45.5	8,393	85.1	78.2	51,540	63.8	56.3
Female	71,427	54.0	40.8	60,051	59.7	46.6	48,403	54.1	40.4	11,648	82.7	72.3	38,495	66.9	57.4
Race/Ethnicity															
White	107,960	56.5	45.1	87,987	63.8	52.7	73,630	59.5	48.0	14,356	85.5	77.1	63,183	69.6	61.8
Black	15,929	54.0	40.3	13,967	58.1	44.6	11,060	52.3	37.9	2,907	80.2	70.4	10,127	63.9	53.0
Hispanic	18,648	35.9	25.5	16,042	39.0	28.7	14,403	34.3	23.9	1,639	80.6	70.4	11,535	43.5	34.5
Other	8,717	50.6	38.3	7,360	55.4	43.1	6,221	52.1	39.6	1,139	73.5	62.0	5,190	61.3	52.1
Education															
No high school diploma	20,284	27.1	15.1	12,730	31.8	21.9	12,106	30.0	20.3	624	66.9	53.1	8,335	35.9	27.3
High school diploma	45,289	49.2	37.9	37,771	54.5	43.2	33,437	51.2	39.8	4,334	79.9	69.7	27,084	60.0	50.7
Some college	43,493	55.3	41.5	36,767	60.7	47.2	31,215	56.9	42.7	5,552	82.0	72.3	25,456	67.2	57.7
Bachelor's degree	28,145	66.5	56.0	25,688	70.3	59.4	20,426	66.2	54.7	5,263	86.3	77.7	19,449	74.6	67.2
Graduate/profnl degree	14,046	72.5	65.3	12,400	77.1	69.8	8,131	70.9	63.1	4,269	88.9	82.6	9,712	80.2	75.7
Marital Status															
Married	85,664	58.3	49.5	75,212	63.3	54.2	62,201	58.6	49.1	13,011	85.9	78.7	56,071	68.0	61.5
Widowed	2,974	48.6	37.3	1,812	57.8	47.9	1,483	53.1	42.3	329	79.1	72.7	1,253	63.8	55.2
Divorced	16,246	55.9	44.8	14,475	60.2	48.4	12,077	55.2	42.8	2,398	84.9	76.5	10,820	64.7	55.7
Separated	3,362	45.4	33.8	3,073	48.3	36.1	2,657	44.3	31.1	416	74.1	68.3	2,087	55.7	44.9
Never married	43,011	43.6	26.2	30,784	51.1	34.6	26,896	47.3	30.7	3,887	76.8	61.3	19,806	58.3	45.3
Health Insurance Status															
None/not own employer	70,135	30.9	17.4	49,225	36.1	22.4	44,163	32.6	19.6	5,062	67.5	46.6	26,171	38.9	29.7
Through own employer	81,122	72.8	62.9	76,131	74.6	64.9	61,152	71.0	60.1	14,979	89.2	84.3	63,865	75.9	67.8
Health Status															
Excellent	50,351	55.3	43.3	41,236	62.2	50.8	34,422	57.9	46.0	6,814	83.9	75.0	30,360	67.1	58.8
Very good	54,332	55.7	44.2	45,766	61.4	50.2	38,297	56.7	45.1	7,469	85.6	76.6	33,784	66.4	58.2
Good	36,838	49.6	38.5	30,481	55.2	44.1	25,920	50.4	38.9	4,560	82.1	73.7	21,350	61.6	53.1
Fair	8,097	46.1	34.0	6,554	51.7	39.2	5,519	47.0	34.1	1,035	76.4	66.4	3,942	59.5	49.3
Poor	1,640	41.4	29.7	1,319	47.0	34.4	1,156	42.9	29.9	163	75.9	66.1	599	57.7	50.8
Annual Earnings															
Less than \$5,000	18,617	24.5	5.7	8,797	29.6	8.4	7,600	25.7	6.8	1,197	54.2	18.3	551	29.6	19.4
\$5,000-\$9,999	13,031	31.6	12.2	9,133	34.4	14.5	8,057	31.0	12.2	1,076	60.0	31.6	1,701	32.9	17.8
\$10,000-\$14,999	10,030	36.2	19.7	11,323	39.1	22.0	9,978	34.3	17.6	1,345	74.9	54.3	5,651	35.7	21.6
\$15,000-\$19,999	13,801	43.8	29.0	11,866	47.1	31.8	10,495	42.9	27.6	1,371	78.6	63.3	8,105	46.0	32.6
\$20,000-\$29,999	26,308	54.7	42.9	23,726	58.0	45.8	20,592	54.2	41.2	3,134	83.0	75.8	19,287	58.0	46.8
\$30,000-\$39,999	21,122	66.0	57.5	19,551	69.2	60.3	15,592	64.3	54.3	3,959	88.6	84.1	17,159	69.6	61.4
\$40,000-\$49,999	13,902	72.5	65.9	13,061	75.6	68.8	10,125	71.6	63.5	2,935	89.3	86.9	11,755	75.8	69.4
\$50,000 or more	30,447	74.1	69.7	27,900	77.7	73.2	22,876	74.3	69.4	5,024	92.8	90.9	25,827	78.0	74.0
Work Status															
Full-time, full-year	99,961	61.1	52.9	90,036	65.1	56.7	75,235	60.6	51.4	14,801	88.0	83.7			
Full-time, part-year	21,066	45.5	28.9	17,462	49.9	32.7	14,956	45.0	27.2	2,506	79.5	65.3			
Part-time, full-year	14,665	36.1	19.2	9,594	43.3	25.4	8,463	40.3	23.3	1,130	65.5	41.3			
Part-time, part-year	15,565	30.8	9.1	8,264	37.1	14.1	6,660	30.8	10.0	1,604	63.3	30.9			
Employer Size															
Fewer than 10 employees	31,033	16.5	12.8	18,341	21.0	16.5	18,341	21.0	16.5				11,617	24.5	21.1
10-24 employees	14,415	31.4	23.2	11,978	34.5	26.3	11,978	34.5	26.3				8,141	39.6	32.8
25-99 employees	18,611	46.9	35.0	16,255	49.8	38.6	16,255	49.8	38.6				11,753	54.8	45.8
100-499 employees	17,723	59.5	45.5	16,044	61.7	48.6	16,044	61.7	48.6				11,974	65.8	55.7
500-999 employees	6,571	66.7	51.9	6,016	68.8	55.3	6,016	68.8	55.3				4,595	72.3	63.1
1,000 or more employees	41,310	72.0	54.5	36,680	75.5	59.5	36,680	75.5	59.5				27,155	80.6	68.5
Public	21,594	81.9	71.5	20,041	83.7	74.8							14,801	88.0	83.7
Sector/Industry															
Private sector	129,663	48.6	36.9	105,315	54.9	43.1							75,235	60.6	51.4
Agriculture, mining, and construction	13,773	32.4	26.5	10,033	40.4	33.7	10,033	40.4	33.7				6,954	43.6	37.6
Manufacturing	23,676	63.1	53.1	21,711	66.3	56.4	21,711	66.3	56.4				17,553	70.1	61.9
Wholesale and retail trade	51,506	51.5	38.3	41,857	57.3	44.4	41,857	57.3	44.4				30,395	63.0	52.9
Personal services	40,707	42.1	29.2	31,713	48.5	35.3	31,713	48.5	35.3				20,333	54.7	44.9
Public sector	21,594	81.9	71.5	20,041	83.7	74.8							14,801	88.0	83.7

Source: Employee Benefit Research Institute estimates from the 2003 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, 2002



Source: Employee Benefit Research Institute estimates from 2003 March Current Population Survey.

58.6 percent of those ages 45–54. Male workers were more likely to participate in a plan than females. However, female workers were more likely to have participated in a plan than males among full-time, full-year workers. Being white or having attained a higher educational level was also associated with a higher probability of participating in a retirement plan.

Workers who were married were more likely to participate in a plan, while never-married workers had the lowest probability. The higher an 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 73.2 percent of those earning \$50,000 or more.

Health status, health insurance ownership, and worker status also were correlated with the likelihood of participating in a retirement plan. As the workers' self-reported health status decreased, so did their probability of participating in a retirement plan. Furthermore, 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. Lastly, full-time, full-year workers were by far the most likely type to participate in a retirement plan.

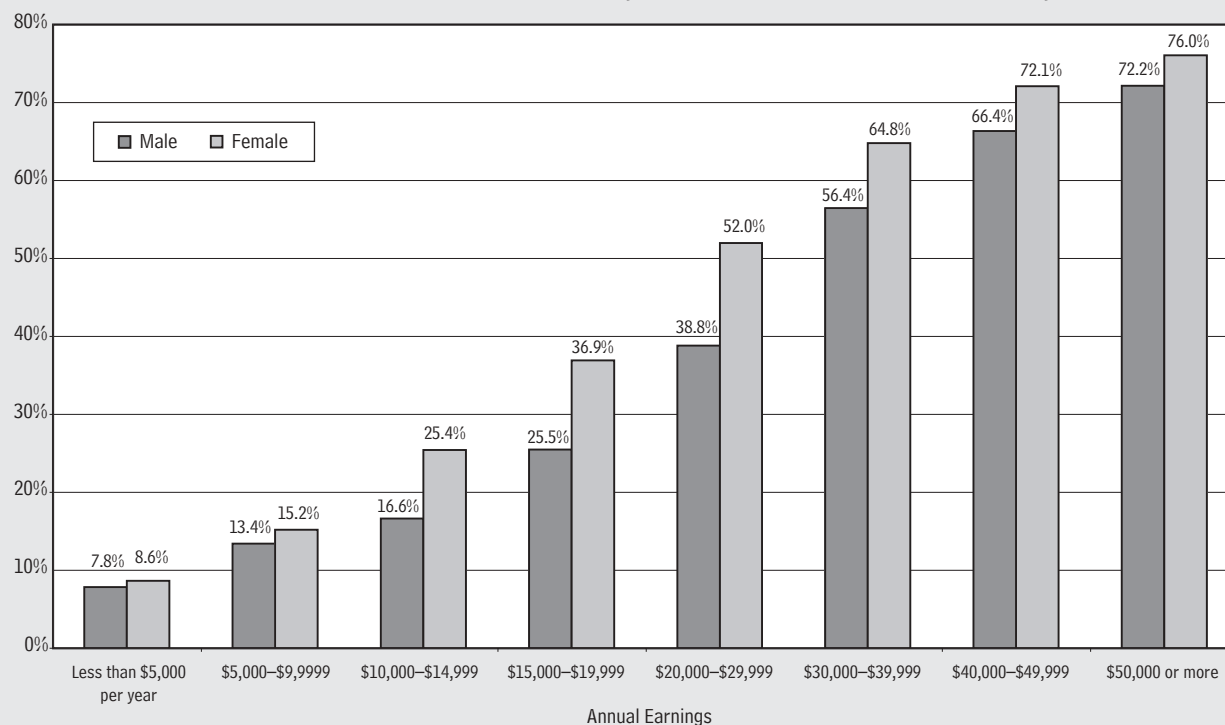
Employer Characteristics

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, 16.5 percent participated in a plan, compared with 59.5 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.¹⁰

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 higher rate of participation in a plan (57.4 percent for women, compared with 56.3 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).

Figure 4
PERCENTAGE OF WAGE AND SALARY WORKERS AGES 21-64 WHO PARTICIPATED IN AN EMPLOYMENT-BASED RETIREMENT PLAN, BY ANNUAL EARNINGS AND GENDER, 2002



Source: Employee Benefit Research Institute estimates from 2003 March Current Population Survey.

Furthermore, when examining the participation by earnings level, the proportion of females participating in a plan was also higher than it was for males (Figure 4). Consequently, it appears that females' lower probability of participation in the aggregate was a result of female workers' overall 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.¹¹ However, the gap between the percentage of black and white plan participants narrowed at the higher earning levels, where among workers earning \$30,000–\$39,999, black workers had 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 two earnings group.

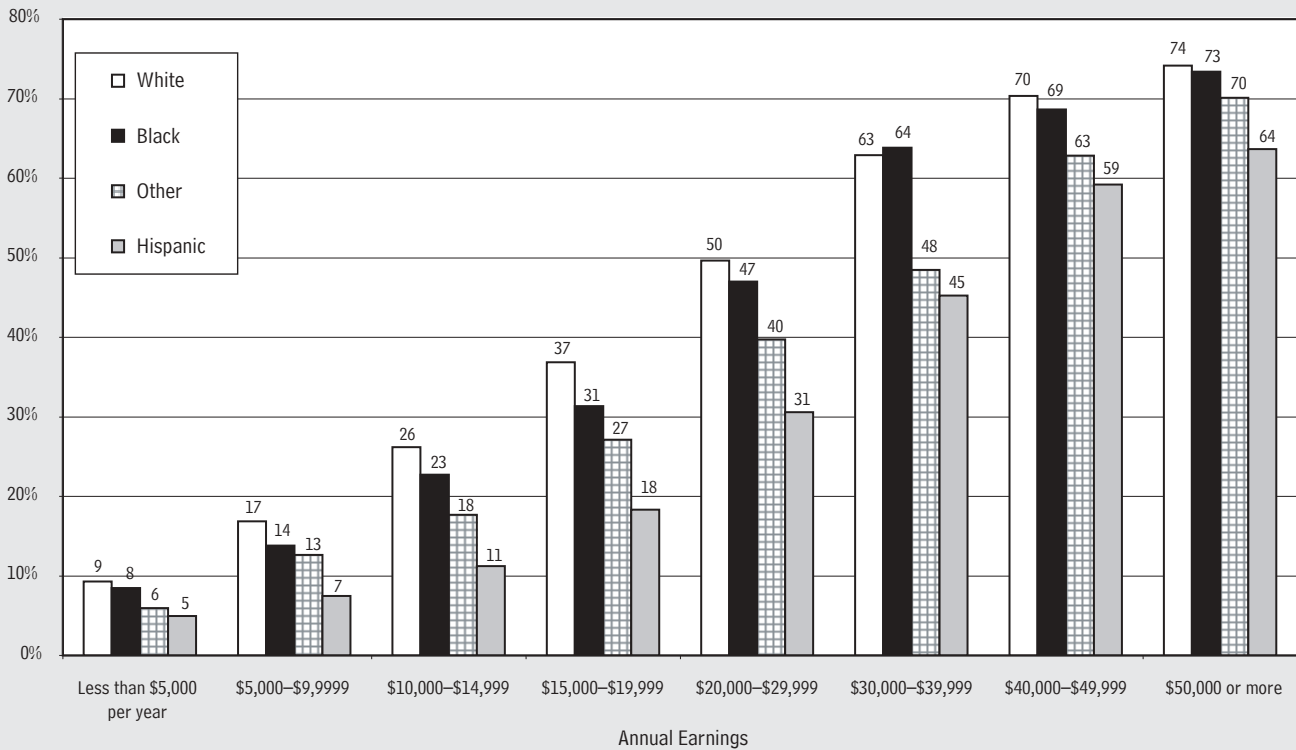
Another potential contributor to the lower rate of participation by Hispanic workers could be the characteristics of their employers, such as firm size (number of employees). However, across all the firm sizes, including public-sector employers, this appears not to be the case, as Hispanic workers had significantly lower participation in employment-based retirement plans than workers of other races/ethnicities (Figure 6). For workers at the

smallest employers (fewer than 10 employees), 20 percent of white wage and salary workers participated in a plan, compared with 6 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 (64 percent for whites versus 42 percent for Hispanics).

Furthermore, the age of the workers and their race/ethnicity could not explain the differences in the level of participation, as Hispanic workers were significantly below the white worker participation level, whereas the gap between white and black worker participation levels narrowed with age (Figure 7). However, a dramatic shift in Hispanic worker participation levels becomes apparent when analyzed 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, except for being virtually equal for the oldest workers.¹² In contrast, nonnative born Hispanic workers had substantially lower levels of participation across all age groups.

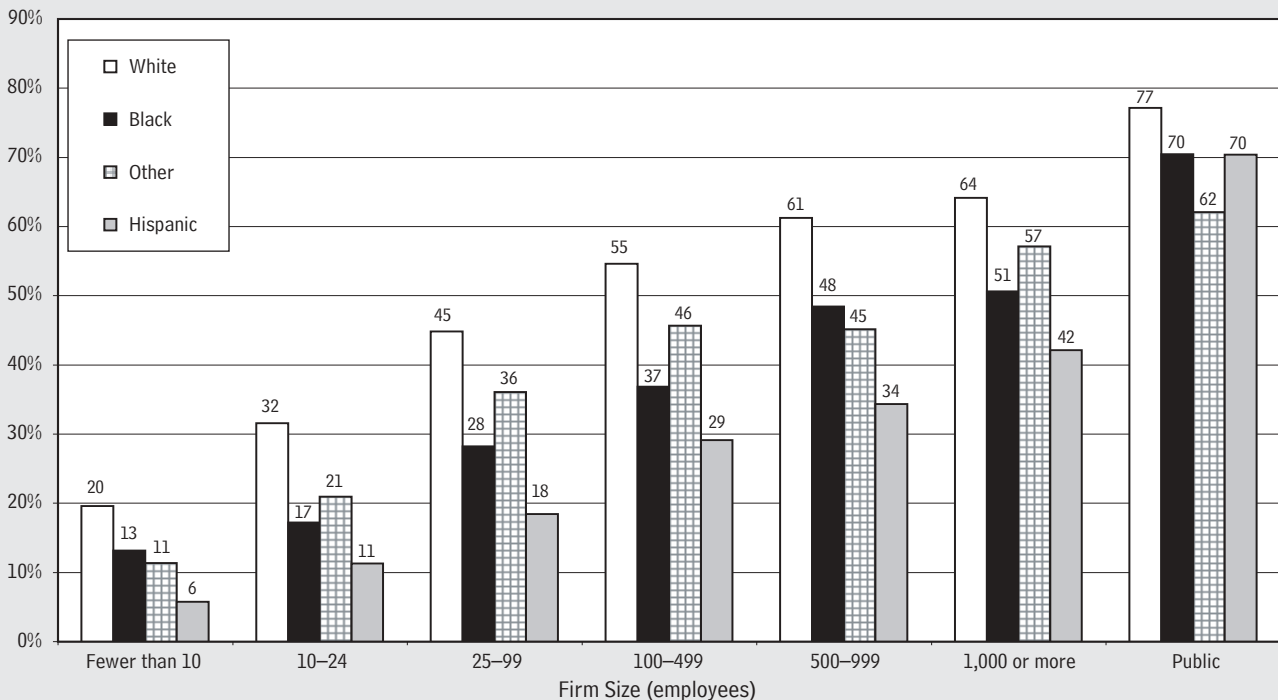
Consequently, while blacks with higher earnings or who were older had levels of retirement plan participation similar to those of whites, all Hispanics workers combined had persistently lower levels of participation

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, 2002



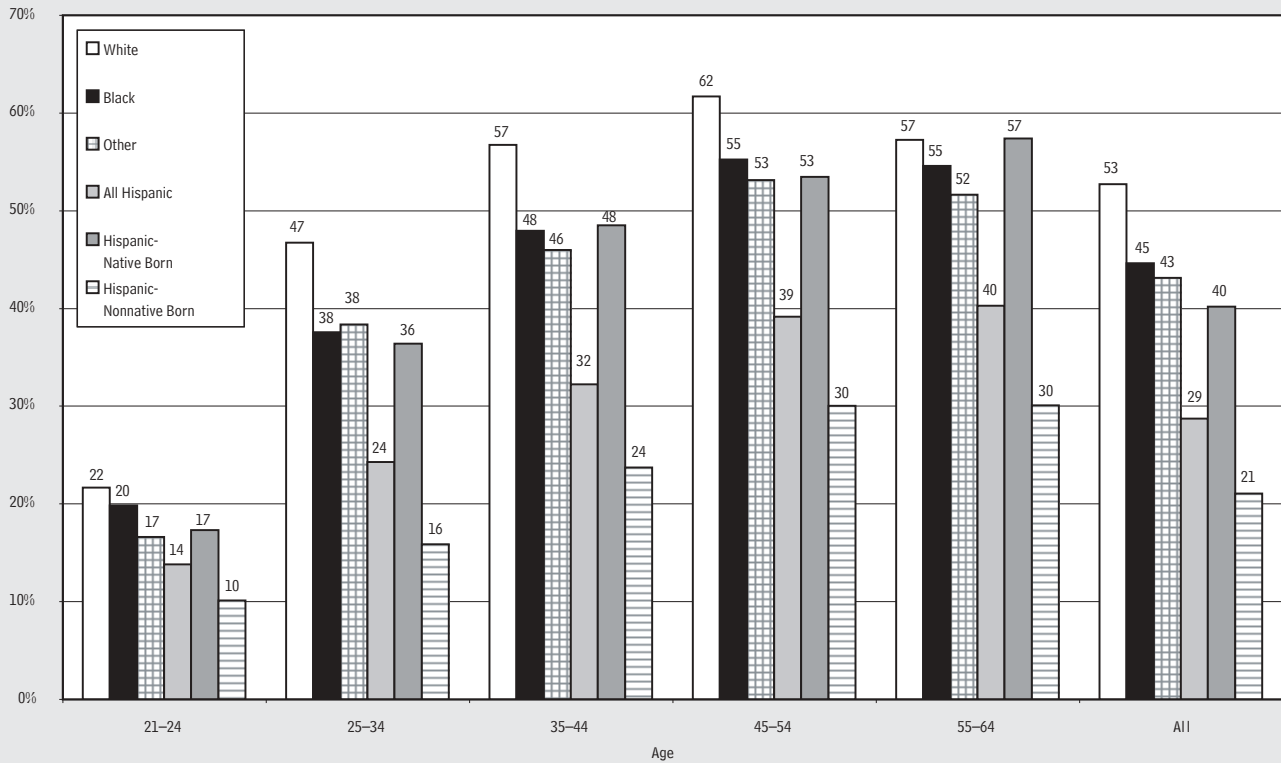
Source: Employee Benefit Research Institute estimates from 2003 March Current Population Survey.

Figure 6
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, 2002



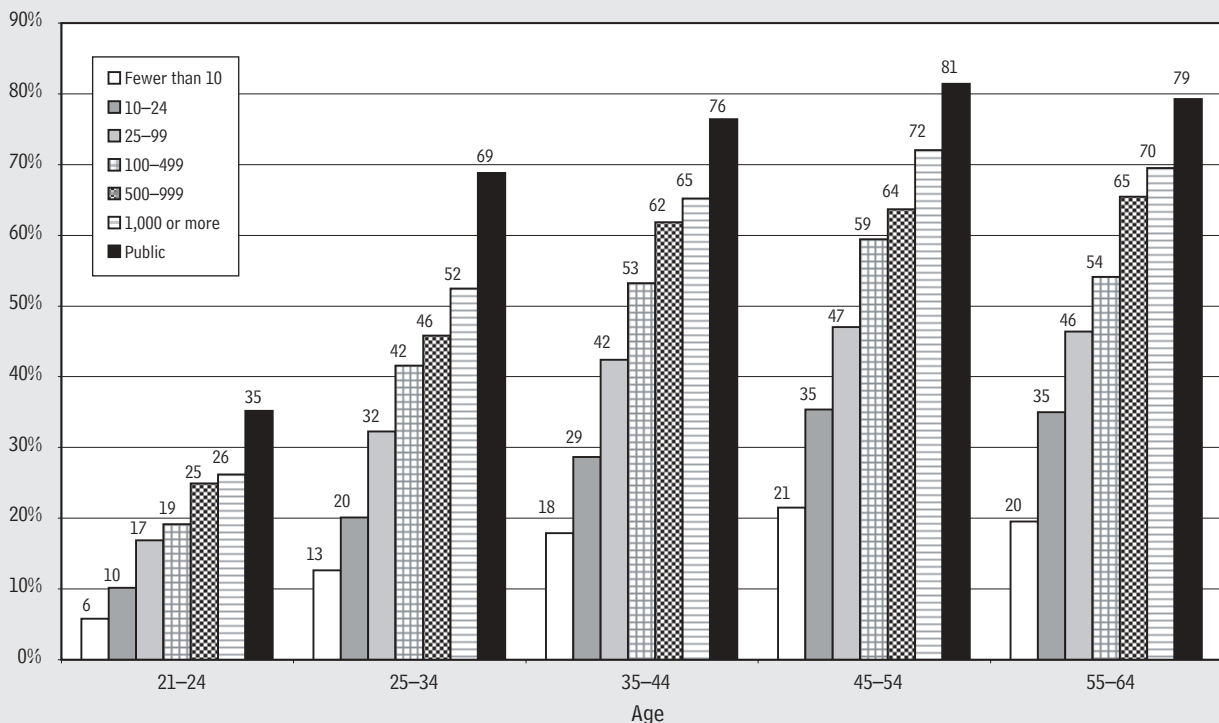
Source: Employee Benefit Research Institute estimates from 2003 March Current Population Survey.

Figure 7
PERCENTAGE OF WAGE AND SALARY WORKERS AGES 21-64 WHO PARTICIPATED IN AN EMPLOYMENT-BASED RETIREMENT PLAN, BY AGE AND RACE/ETHNICITY, 2002



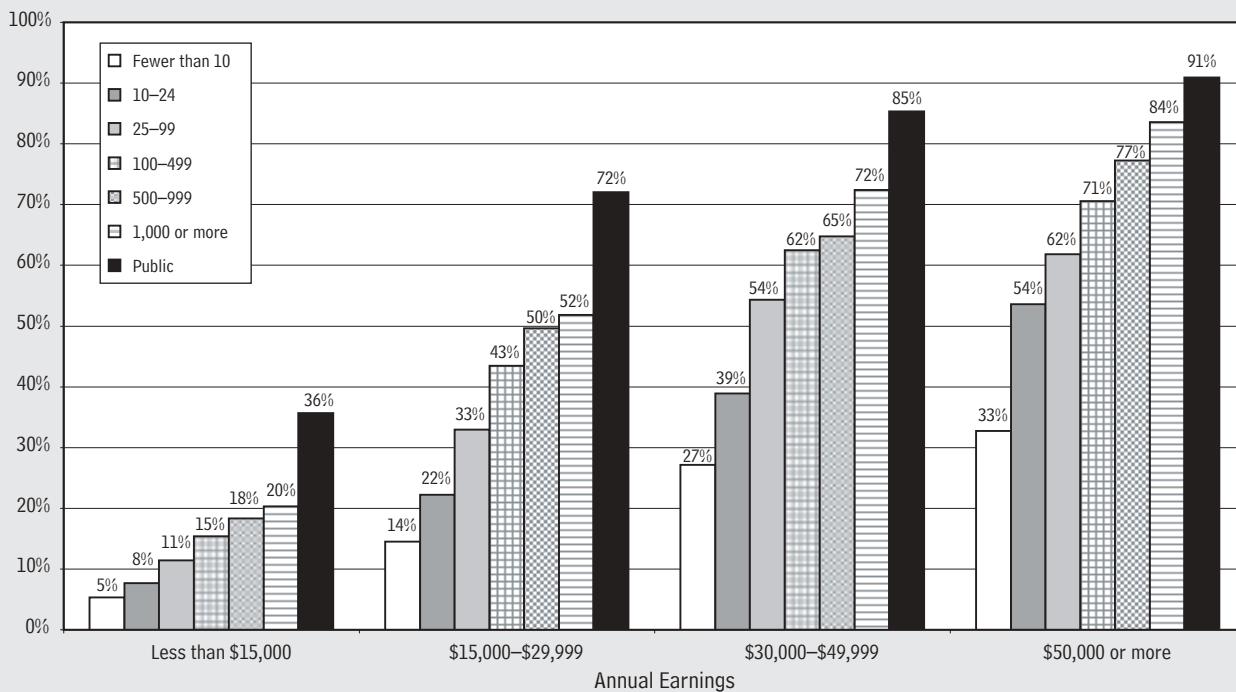
Source: Employee Benefit Research Institute estimates from 2003 March Current Population Survey.

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), 2002



Source: Employee Benefit Research Institute estimates from 2003 March Current Population Survey.

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), 2002



Source: Employee Benefit Research Institute estimates from 2003 March Current Population Survey.

across earnings, age, and employer size. However, when accounting for location of birth, native-born Hispanic workers displayed participation levels similar to those of black workers—levels much closer, if not equal, to those of white workers.

Firm Size—Employees of firms with fewer employees were significantly less likely to participate in a retirement plan. 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—33 percent of those working for the smallest employers participated in a plan, compared with 84 percent of those working for employers with 1,000 or more employees.

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 (40.9 percent) of participating in a plan in 2002, while those living in Minnesota had the highest probability (56.9 percent) (Figure 10). For other work force definitions that included private-sector workers, Wisconsin workers had the highest probability of participation among full-time, full-year and private wage and salary workers, while workers in the District of Columbia and Maryland had the highest of level of participation for the all-worker definition. Florida also had the lowest probability of participation among private wage and salary workers and full-time, full-year workers, while New Mexico's public wage and salary workers and all workers had the lowest likelihood of participation for those definitions. Among public-sector wage and salary workers, the highest levels of participation did not occur in the same states as they did among the other work forces, as public-sector workers in Alabama had the highest percentage of participation, followed by Rhode Island.¹³

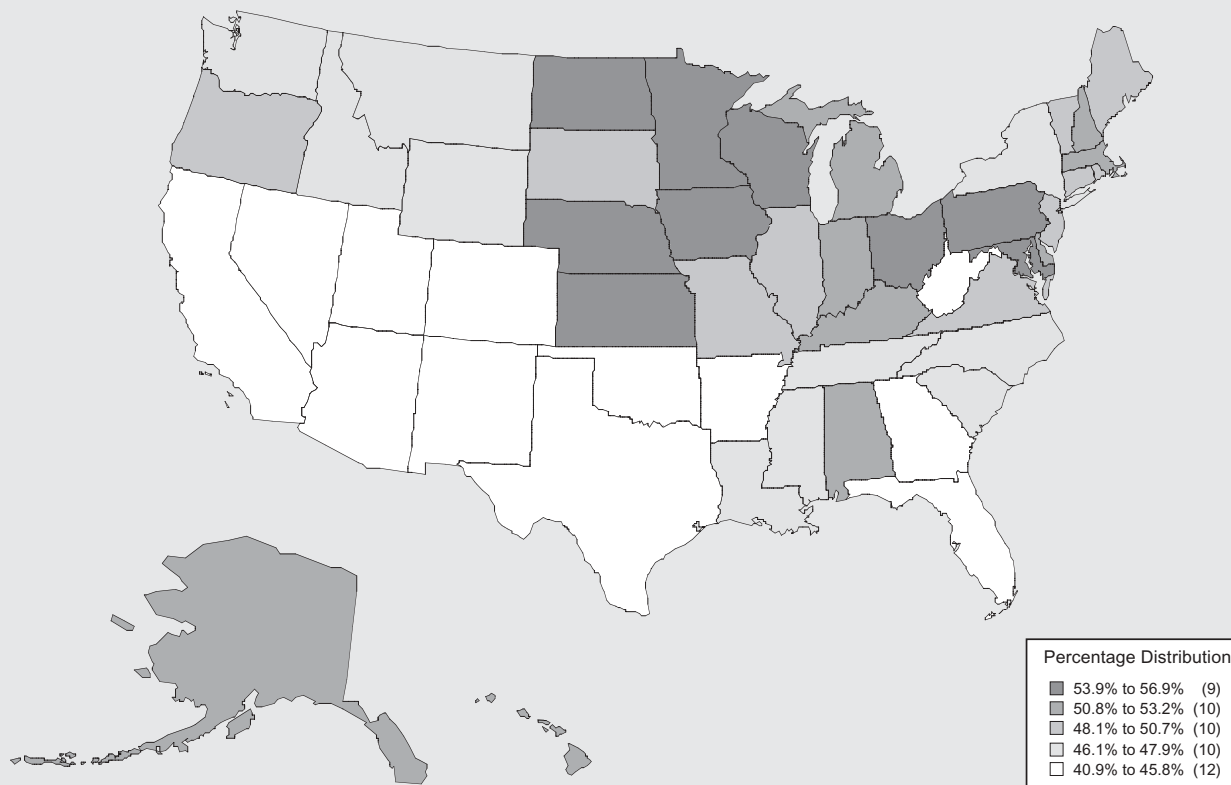
Using wage and salary workers ages 21-64 as the work-force proxy for the other work-force populations (with the exception of the public-sector workers) showed regional differences across the United States, along with those among the states. The states with the lowest levels of participation—e.g., Florida, Colorado, Nevada, and Arizona—were in the South, West, or Southwest

Figure 10
**PERCENTAGE OF VARIOUS WORK FORCES WHO PARTICIPATED IN AN EMPLOYMENT-BASED
RETIREMENT PLAN, BY STATE, 2002**

	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	151.26	41.8%	125.36	48.2%	105.31	43.1%	20.04	74.8%	90.04	56.7%
Alabama	2.22	46.1	1.85	52.2	1.55	46.0	0.31	83.6	1.38	62.1
Alaska	0.35	42.3	0.28	50.9	0.19	41.4	0.09	71.4	0.17	62.2
Arizona	2.65	37.1	2.22	42.1	1.88	36.0	0.34	76.1	1.60	49.7
Arkansas	1.32	37.4	1.08	44.1	0.91	40.1	0.17	65.3	0.78	52.2
California	17.75	37.9	14.83	43.0	12.42	36.9	2.40	74.6	10.57	50.8
Colorado	2.53	36.2	2.11	41.1	1.80	35.5	0.31	73.8	1.49	48.8
Connecticut	1.79	44.1	1.45	50.6	1.25	47.2	0.20	71.8	1.03	59.2
Delaware	0.43	45.4	0.36	51.9	0.32	48.9	0.05	72.0	0.28	60.6
District of Columbia	0.33	49.5	0.29	53.2	0.21	46.0	0.08	72.3	0.22	62.7
Florida	8.19	36.0	6.88	40.9	5.87	35.4	1.01	73.2	5.19	47.4
Georgia	4.54	40.2	3.84	45.8	3.22	41.4	0.62	68.9	2.92	54.3
Hawaii	0.62	45.9	0.52	51.3	0.41	46.5	0.11	69.4	0.38	62.0
Idaho	0.74	37.9	0.57	47.2	0.46	40.9	0.10	75.3	0.37	59.6
Illinois	6.56	44.6	5.56	50.4	4.81	46.7	0.76	74.2	4.04	58.0
Indiana	3.28	46.1	2.73	52.6	2.36	50.1	0.37	68.8	1.98	61.9
Iowa	1.71	44.9	1.34	55.1	1.08	49.3	0.25	80.2	0.97	64.0
Kansas	1.50	46.3	1.17	55.7	0.93	51.2	0.24	72.9	0.85	64.5
Kentucky	2.09	43.8	1.73	50.9	1.42	44.9	0.31	78.5	1.24	62.0
Louisiana	2.18	39.0	1.75	46.1	1.45	41.4	0.30	69.2	1.32	54.2
Maine	0.72	40.0	0.57	48.2	0.48	44.7	0.09	68.1	0.37	60.3
Maryland	3.09	49.0	2.56	55.3	1.95	47.7	0.61	79.8	1.99	61.4
Massachusetts	3.63	45.1	3.02	51.6	2.60	47.0	0.42	80.3	2.12	60.4
Michigan	5.23	44.1	4.38	50.8	3.74	47.8	0.63	68.8	2.96	59.9
Minnesota	3.10	47.3	2.53	56.9	2.14	52.7	0.38	80.4	1.70	66.7
Mississippi	1.30	41.7	1.10	47.6	0.88	40.5	0.22	76.0	0.84	56.0
Missouri	3.18	42.6	2.58	50.3	2.13	45.2	0.45	74.8	1.88	59.8
Montana	0.49	38.1	0.36	47.9	0.28	40.2	0.08	74.3	0.25	57.3
Nebraska	1.01	43.4	0.78	54.1	0.65	49.7	0.13	76.9	0.56	64.5
Nevada	1.12	37.8	0.96	42.1	0.83	37.5	0.13	71.6	0.71	47.7
New Hampshire	0.74	42.8	0.61	51.1	0.52	47.8	0.09	70.2	0.44	58.9
New Jersey	4.66	44.8	3.99	50.7	3.37	45.4	0.62	79.5	2.87	59.3
New Mexico	0.94	35.5	0.76	42.7	0.58	36.0	0.18	64.5	0.49	52.0
New York	9.85	41.9	8.33	47.2	6.86	40.7	1.47	77.4	6.06	54.2
North Carolina	4.26	41.1	3.62	46.3	3.08	42.9	0.53	65.8	2.61	55.2
North Dakota	0.38	43.3	0.28	54.7	0.22	49.1	0.06	74.9	0.19	65.6
Ohio	6.10	46.8	5.05	54.2	4.33	50.1	0.71	79.1	3.53	64.5
Oklahoma	1.81	37.6	1.42	45.7	1.15	39.3	0.27	73.1	1.02	54.9
Oregon	1.88	41.8	1.55	48.1	1.31	44.0	0.23	71.3	1.00	59.3
Pennsylvania	6.52	46.8	5.42	53.9	4.78	50.2	0.64	81.6	3.82	64.6
Rhode Island	0.60	43.0	0.51	49.0	0.43	43.3	0.08	81.8	0.34	60.1
South Carolina	2.07	40.2	1.72	47.1	1.41	40.9	0.31	75.3	1.26	57.6
South Dakota	0.45	39.1	0.34	49.4	0.27	44.8	0.06	69.4	0.24	57.6
Tennessee	2.98	40.5	2.40	47.8	2.02	44.5	0.38	65.5	1.69	58.1
Texas	11.24	39.4	9.31	45.4	7.77	39.3	1.55	76.0	6.82	53.7
Utah	1.23	36.2	0.97	44.7	0.80	38.3	0.17	75.2	0.63	56.8
Vermont	0.38	41.5	0.30	49.5	0.25	44.6	0.05	73.8	0.19	60.9
Virginia	3.84	44.4	3.22	50.0	2.63	43.5	0.59	79.3	2.48	56.2
Washington	3.28	40.2	2.67	47.2	2.24	42.9	0.43	69.4	1.75	57.6
West Virginia	0.78	39.8	0.65	45.5	0.53	39.1	0.12	73.3	0.45	55.4
Wisconsin	3.31	46.7	2.65	55.9	2.34	53.4	0.31	74.4	1.82	67.3
Wyoming	0.29	38.0	0.22	47.0	0.17	38.4	0.05	74.7	0.15	57.5

Source: Employee Benefit Research Institute estimates from the 2003 March Current Population Survey.

Figure 11
**PERCENTAGE OF WAGE AND SALARY WORKERS AGES 21–64 WHO PARTICIPATED IN AN
 EMPLOYMENT-BASED RETIREMENT PLAN, BY STATE, 2002**



Source: Employee Benefit Research Institute estimates of the 2003 March Current Population Survey.

(Figure 11). The states with the highest participation were in the upper Midwest—e.g., Minnesota and Wisconsin—along with some in the Northeast or Mid-Atlantic, such as 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 the work-force definitions including private-sector workers (Figure 12). The Milwaukee-Racine, WI, CMSA had the highest participation levels for these same worker definitions. In contrast, public-sector wage and salary workers had different CMSAs with the lowest and highest participation levels, as the Detroit-Ann Arbor-Flint, MI, CMSA (highest) and Sacramento-Yolo, CA, CMSA (lowest) occupied these respective positions.

Trends

After seven straight years of increases, the number of workers who participated in an employment-based retirement

plan decreased for second straight year, from 67.1 million in 2000 to 63.2 million in 2002, including a 1.7 million decline in 2002 (Figure 13). This is the lowest number of workers participating in a plan since 1997, when 60.1 million were participating in a plan. The other work-force definitions (with the exception of public-sector wage and salary workers) also followed this pattern of declines in the number participating from 2000 to 2002. The public-sector worker number in 2002 is higher than in 2001 but it is still below its peak levels of 1999 and 2000.

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, as 85.7 million workers were employed by an employer or union that sponsored a plan in 2000, compared with 80.7 million in 2002. While this appears

Figure 12

**PERCENTAGE OF VARIOUS WORK FORCES WHO PARTICIPATED IN AN EMPLOYMENT-BASED RETIREMENT PLAN,
BY CONSOLIDATED METROPOLITAN STATISTICAL AREA (CMSA), 2002**

	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	151.3	41.8%	125.4	48.2%	105.3	43.1%	20.0	74.8%	90.0	56.7%
Unrecorded CMSA	91.3	41.7	74.6	48.8	62.2	43.7	12.5	74.1	53.1	58.0
Boston-Worcester- Lawrence, MA-NH-ME-CT	3.4	46.7	2.8	53.5	2.4	49.0	0.4	82.8	2.0	62.3
Chicago-Gary-Kenosha, IL-IN-WI	4.7	43.3	4.0	47.9	3.5	44.7	0.5	70.6	3.0	54.6
Cincinnati-Hamilton, OH-KY-IN	1.1	44.3	0.8	51.8	0.7	48.0	0.1	76.8	0.6	60.7
Cleveland-Akron, OH	1.6	48.4	1.4	55.0	1.2	51.9	0.2	78.2	1.0	65.2
Dallas-Fort Worth, TX	3.4	38.6	2.9	43.3	2.6	39.1	0.4	74.2	2.1	52.9
Denver-Boulder- Greeley, CO	1.7	37.7	1.4	42.3	1.2	36.5	0.2	74.5	1.0	49.3
Detroit-Ann Arbor- Flint, MI	3.0	45.0	2.5	51.1	2.2	48.4	0.3	68.2	1.7	59.9
Houston-Galveston- Brazoria, TX	2.5	41.7	2.1	46.4	1.8	41.3	0.3	72.6	1.6	52.7
Los Angeles-Riverside- Orange County, CA	8.4	34.9	7.0	40.0	6.0	34.1	1.0	74.8	5.2	45.5
Miami-Fort Lauder- dale, FL	2.0	31.8	1.7	34.8	1.5	27.6	0.2	79.6	1.3	38.8
Milwaukee-Racine, WI	1.1	51.7	0.9	58.7	0.8	56.1	0.1	80.4	0.6	70.2
New York-Northern New Jersey-Long Island, NY-NJ-CT-PA	11.2	41.3	9.5	46.0	8.0	40.4	1.5	76.6	7.0	53.1
Philadelphia-Wilmington- Atlantic City, PA-NJ-DE-MD	3.3	45.2	2.8	50.9	2.4	47.7	0.3	75.4	2.0	59.5
Portland-Salem, OR-WA	1.3	43.0	1.1	49.4	0.9	46.5	0.1	68.8	0.7	59.9
Sacramento-Yolo, CA	1.0	48.1	0.9	54.2	0.6	42.9	0.2	86.2	0.6	66.4
San Francisco-Oakland- San Jose, CA	3.9	43.1	3.2	48.1	2.7	42.8	0.5	76.7	2.2	58.6
Seattle-Tacoma- Bremerton, WA	2.1	40.8	1.7	46.7	1.5	42.8	0.3	68.4	1.2	55.5
Washington-Baltimore, DC-MD-VA-WV	4.6	49.2	3.9	55.1	3.0	47.8	0.9	79.7	3.0	61.9

Source: Employee Benefit Research Institute estimates from the 2003 March Current Population Survey.

to be a near one-to-one relationship in the reduction of the number workers participating and the number working for an employer or union that sponsors a plan, the data do not allow for the determination of the causes of the reduced participation, i.e., the choice of the worker or of the employer or union. However, the lower number of workers working for an employer or union that sponsors a plan is not necessarily the result of employers dropping plans but could be the result of employees losing a job where a plan is sponsored and their new choice of employment does not sponsor a plan or they are only able to find a job that does not offer a plan. This situation is likely to be an important factor in this

change, as industries such as manufacturing (that traditionally have had high levels of participation) have been losing jobs, while the number of workers in the services industry (that traditionally have had lower levels of participation) has increased. Again, because the data do not reflect a time series of the same individuals across years, the effect of industry changes cannot be determined.¹⁴

Trends in the Percentage Participating

Not only did the number of workers participating in a plan decrease, the percentage participating also de-

Figure 13

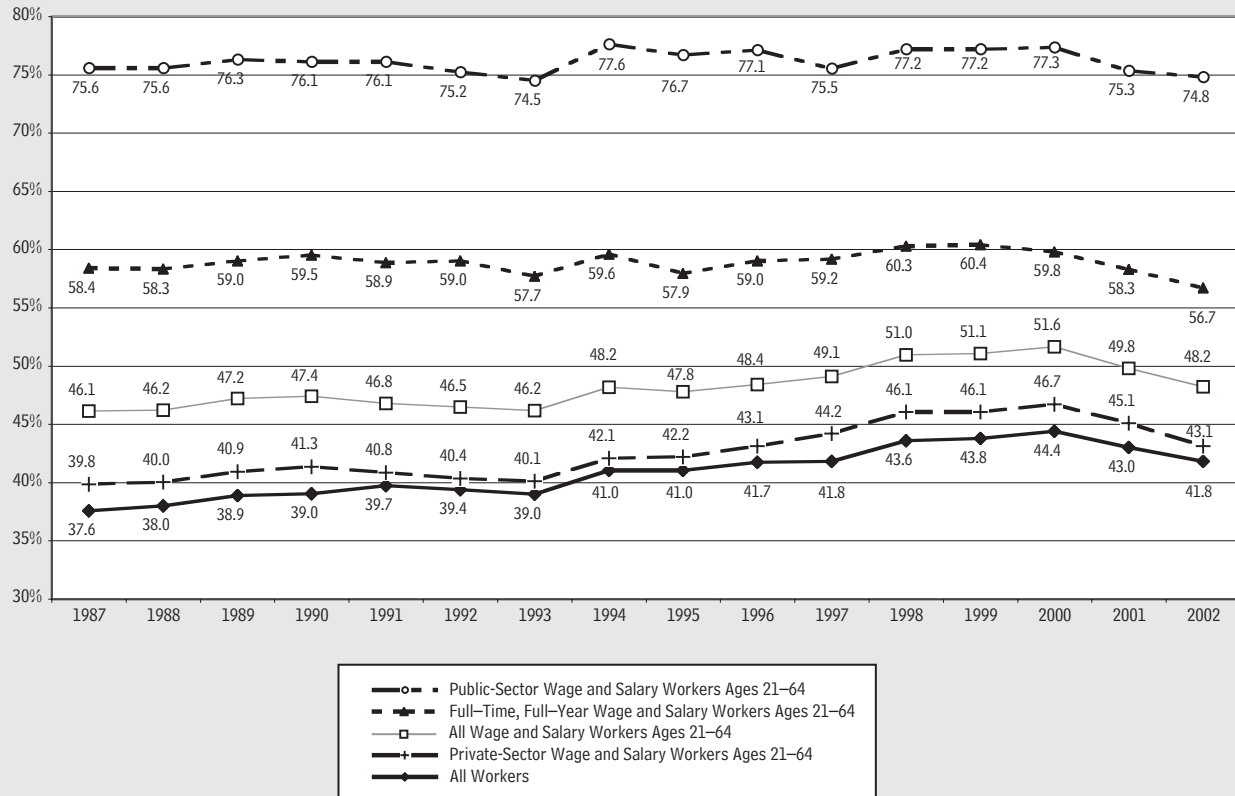
PERCENTAGE OF VARIOUS WORK FORCES WHO WORKED FOR AN EMPLOYER THAT SPONSORED A RETIREMENT PLAN AND THE PERCENTAGE WHO PARTICIPATED IN AN EMPLOYMENT-BASED RETIREMENT PLAN, 1987-2002

		All Workers															
		1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
		(millions)															
All Wage and Salary Workers	Works for an employer sponsoring a plan	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	151.3
	Participates 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	80.7
		(percentage)															
All Wage and Salary Workers	Works for an employer sponsoring a plan	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
	Participates 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	53.4
		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	41.8
		Wage and Salary Workers Ages 21-64															
		1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
		(millions)															
All Wage and Salary Workers	Works for an employer sponsoring a plan	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	125.4
	Participates 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	74.6
		(percentage)															
All Wage and Salary Workers	Works for an employer sponsoring a plan	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
	Participates 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	59.5
		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	48.2
		Private-Sector Wage and Salary Workers Ages 21-64															
		1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
		(millions)															
All Wage and Salary Workers	Works for an employer sponsoring a plan	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	105.3
	Participates 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	57.8
		(percentage)															
All Wage and Salary Workers	Works for an employer sponsoring a plan	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
	Participates 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	54.9
		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	43.1
		Public-Sector Wage and Salary Workers Ages 21-64															
		1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
		(millions)															
All Wage and Salary Workers	Works for an employer sponsoring a plan	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	20.0
	Participates 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	16.8
		(percentage)															
All Wage and Salary Workers	Works for an employer sponsoring a plan	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
	Participates 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	83.7
		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	74.8
		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	2002
		(millions)															
All Wage and Salary Workers	Works for an employer sponsoring a plan	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	90.0
	Participates 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	58.6
		(percentage)															
All Wage and Salary Workers	Works for an employer sponsoring a plan	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
	Participates 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	65.1
		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	56.7

Source: Employee Benefit Research Institute estimates from the 1988-2003 March Current Population Surveys.

Figure 14

PERCENTAGE OF VARIOUS WORK FORCES WHO PARTICIPATED IN AN EMPLOYMENT-BASED RETIREMENT PLAN, 1987-2002



Source: Employee Benefit Research Institute estimates from the 1988-2003 March Current Population Surveys.

creased. 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 and 2002 to 41.8 percent. However, this was still higher than the 1987 level and equal to that of the 1997 level. Two work-force categories duplicated 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 (between 58 percent and 59 percent) of retirement plan participants over the 1987-2001 period, before falling to a new low for the time period 1987-2002 of 56.7 percent in 2002. The percentage of public-sector wage and salary workers decreased again in 2002 but yet still remained near its traditional level of approximately 75 percent to 77 percent. While all the work-force definitions had a decline in the percentage of workers participating in a plan in 2001 and 2002, the work forces with the highest traditional levels declined to, or close to, their lowest levels during the 1987-2002 period, whereas the other work-force levels are still significantly above their 1987

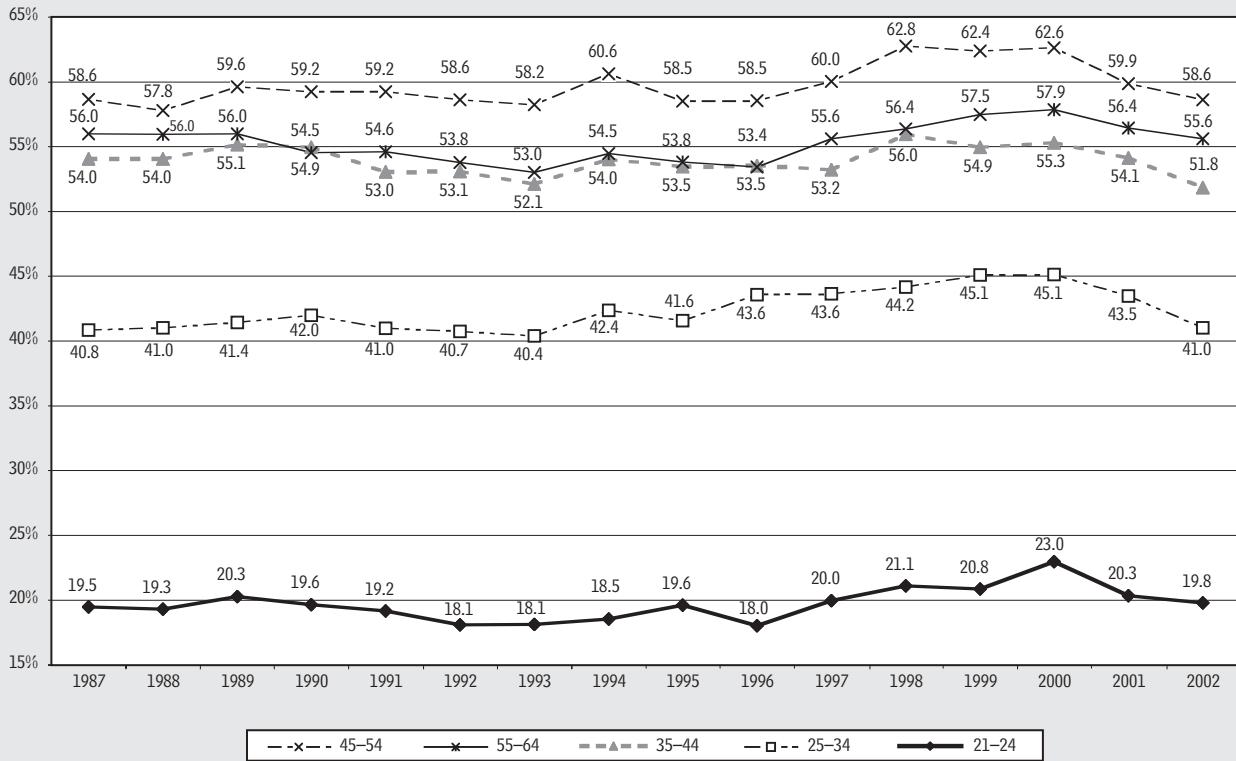
levels. This is potentially indicative of a structural change for access to an employment-based retirement plan, as workers who work full-time, full-year are less likely to participate in an employment-based plan, whereas other types of workers, part-time or part-year, are more likely to participate (during the full 1987-2002 period). In previous years, the changes for full-time, full-year workers were in a fairly narrow range and not as low as in 2002. Consequently, it may take a significant economic rebound before the percentage of workers participating in an employment-based retirement plan increases.

The trends in retirement plan participation are different within these work-force definitions, as they are influenced by various characteristics of the workers as well as those of their employers. The remainder of this section examines these trends across key worker and firm characteristics.

Trends Across Worker Characteristics

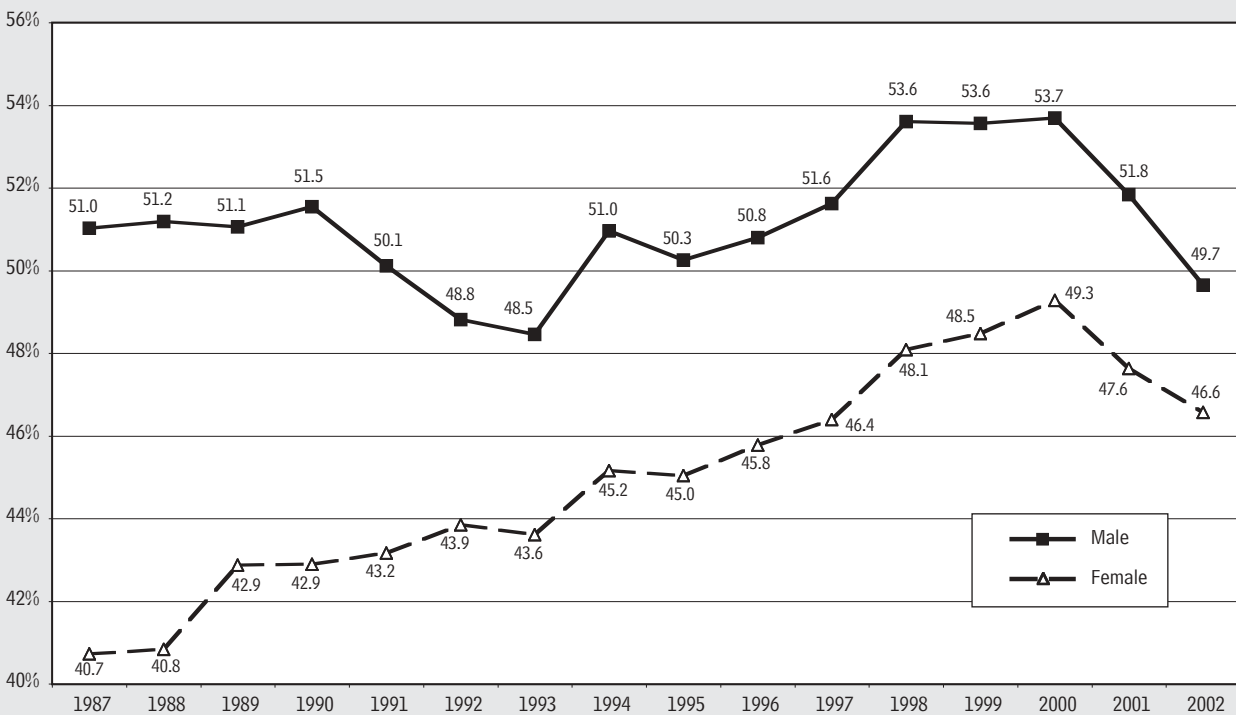
The levels of participation for wage and salary workers ages 21-64 had relatively consistent differences across age groups during the 1987-2002 period (Figure 15). The trends within each age group have also been fairly consistent across this time, with each age group's

Figure 15
**PERCENTAGE OF WAGE AND SALARY WORKERS AGES 21-64 WHO PARTICIPATED
 IN AN EMPLOYMENT-BASED RETIREMENT PLAN, BY AGE, 1987-2002**



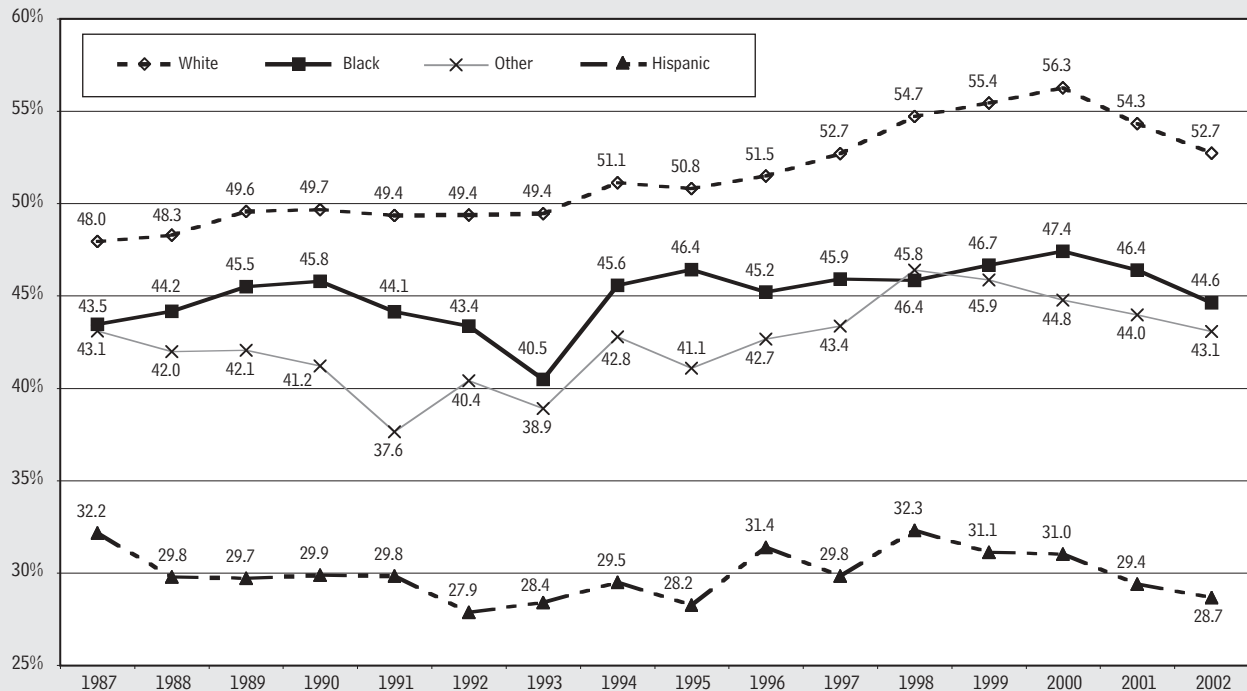
Source: Employee Benefit Research Institute estimates from the 1988-2003 March Current Population Surveys.

Figure 16
**PERCENTAGE OF WAGE AND SALARY WORKERS AGES 21-64 WHO PARTICIPATED
 IN AN EMPLOYMENT-BASED RETIREMENT PLAN, BY GENDER, 1987-2002**



Source: Employee Benefit Research Institute estimates from the 1988-2003 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,^a 1987-2002**



Source: Employee Benefit Research Institute estimates from the 1988-2003 March Current Population Surveys.

^a The 2003 March Current Population Survey made changes to the race variable, where respondents were allowed to answer to more than one race. Thus, the 2002 results are not directly comparable to prior years, but are presented for illustrative purposes. The "other" category includes those who answered to being of more than one race for 2002.

participation level varying in a narrow range (approximately 3 percentage points). After the decreases of the early 1990s and the increases of the late 1990s-2000, the participation levels have fallen back to virtually the same levels they held in 1987, with one exception. The one exception was for workers ages 35-44, where the level in 2002 is noticeably below its 1987 level (51.8 percent versus 54.0 percent). This is potentially troublesome for workers' future retirement income, as workers in this age group have one of the higher levels of participation of the various age groups, with the additional advantage of having the longest period of time for any defined contribution balances to accumulate from both contributions and compounding.

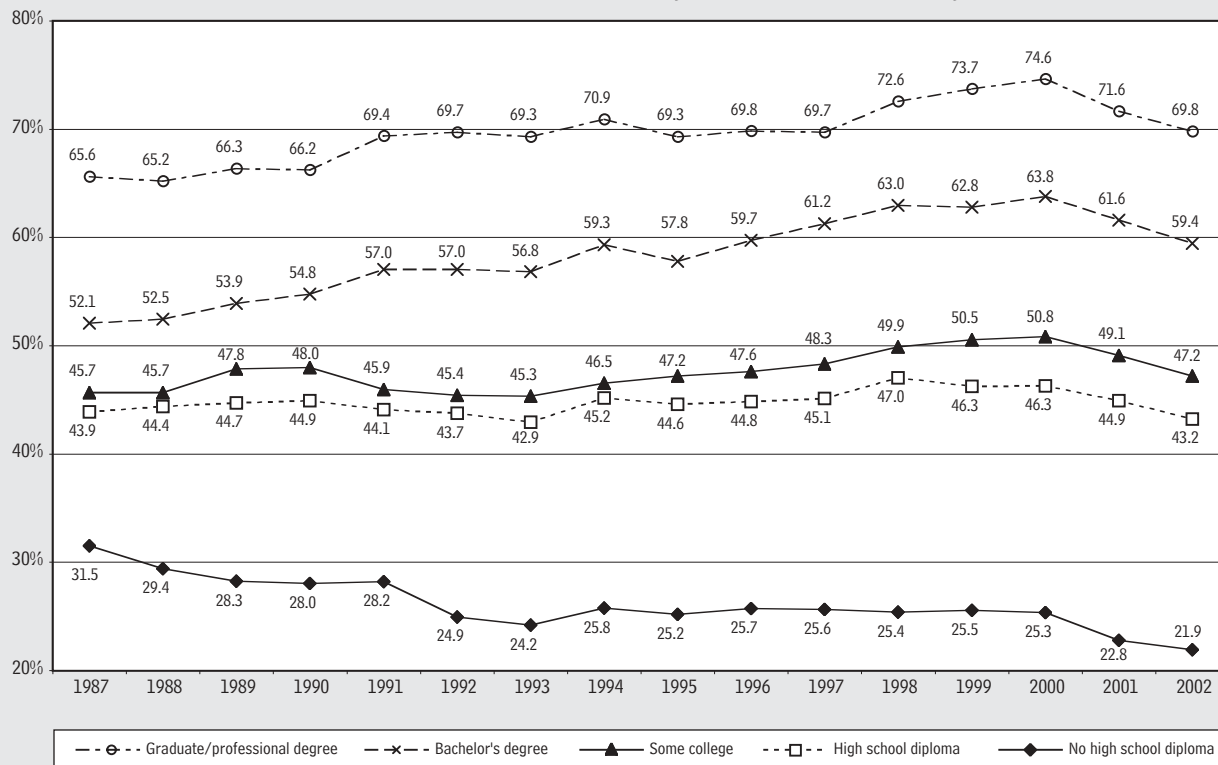
The percentage of female wage and salary workers ages 21-64 participating in an employment-based retirement plan increased steadily, from 40.7 percent in 1987 to 49.3 percent in 2000, before falling back to 46.6 percent in 2002, roughly equal to its 1997 level (Figure 16). Male workers' participation 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, but the level declined again to 49.7 percent in 2002, the lowest level during the 1987-2002 period, with the exception of the nadir of 1992 and

1993. Despite the recent decrease in female workers' participation level, the gap in their participation relative to males continued to narrow. In 1987, females' participation level was about 10 percentage points less than males' level, but by 2002 this difference had decreased to approximately 3 percentage points.

The percentage of white wage and salary workers participating in a retirement plan increased reasonably steadily and appreciably from 1987 to 2000 (48.0 percent to 56.3 percent) before falling back in 2001 and 2002 to its 1997 level (Figure 17).¹⁵ Except for a significant 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 44.6 percent in 2002, despite declining in both 2001 and 2002. In contrast, the percentage of Hispanic workers who participated in a retirement plan dropped from 32.2 percent in 1987 to 28.7 percent in 2002. Consequently, among the race/ethnicity groups, only Hispanic workers saw their level of retirement plan participation deteriorate from 1987 to 2002, with only white workers showing an appreciable increase during this period.

Wage and salary workers without a high school diploma experienced a sizable decline in retirement plan participation (Figure 18): from 31.5 percent in 1987 to

Figure 18
**PERCENTAGE OF WAGE AND SALARY WORKERS AGES 21-64 WHO PARTICIPATED
 IN AN EMPLOYMENT-BASED RETIREMENT PLAN, BY EDUCATIONAL LEVEL, 1987-2002**



Source: Employee Benefit Research Institute estimates from the 1988-2003 March Current Population Surveys.

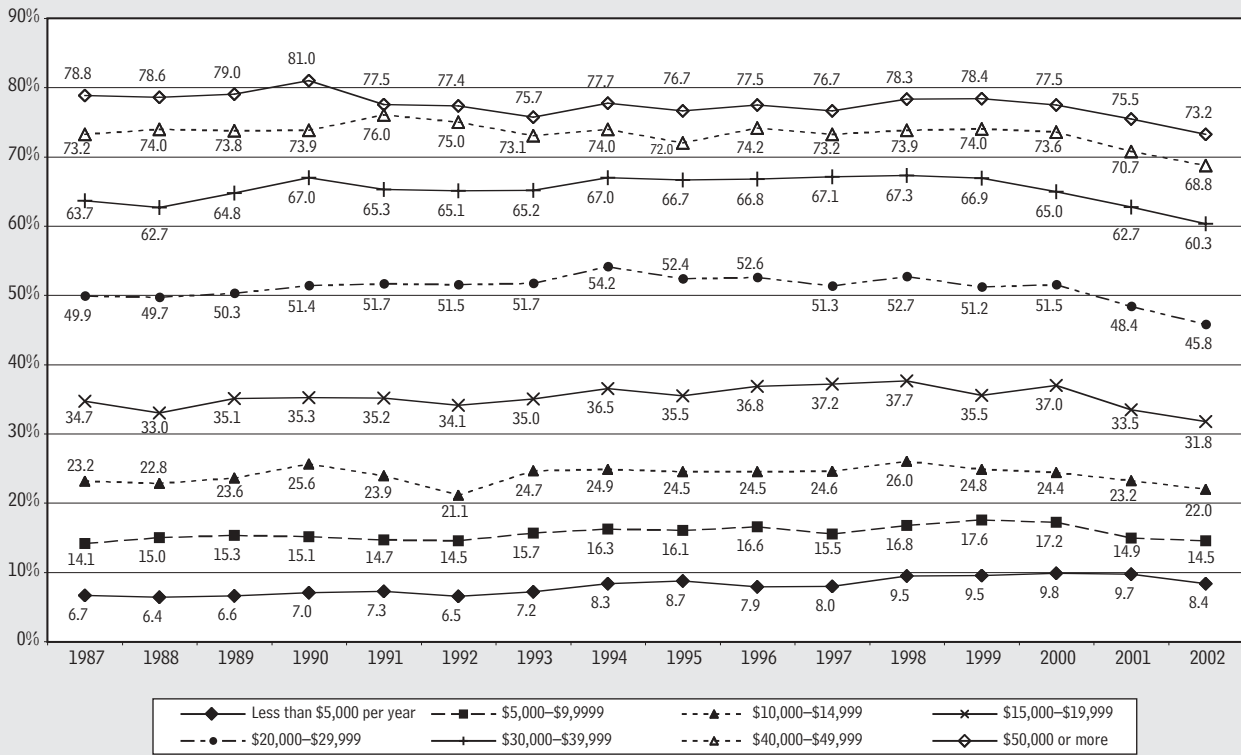
21.9 percent in 2002. At education levels above high school graduate, the percentage participating in a retirement plan increased, and did so at a higher rate among those with educational attainment through a bachelor's degree, and at a more moderate rate among those with a graduate/professional degree. Workers with a bachelor's degree had a participation level of 52.1 percent in 1987, settling at 59.4 percent in 2002. The percentage for those with a graduate or professional degree increased from 65.6 percent to 69.8 percent, while those with some college increased 1.5 percentage points. Those workers with only a high school diploma had a slight decrease in the percentage participating in a plan: from 43.9 percent in 1987 to 43.2 percent in 2002. Clearly, the workers with lower educational attainment are falling behind in their participation levels relative to those with higher educational attainment, particularly when those without a high school diploma are compared with those with a bachelor's degree. This is not surprising, since education is strongly correlated with income.

The percentage of workers in the lowest annual earnings groups (less than \$10,000 in 2002 dollars) who participated in a retirement plan increased slightly from 1987 to 2002 (Figure 19).¹⁶ This increase is consistent with the increased participation levels found for part-time workers, which will be discussed later. For workers

in the earnings groups of \$10,000 or more, the percentage participating decreased over this same period. The largest percentage point declines occurred in the highest earnings categories (\$40,000 or more). The percentage of workers making \$50,000 or more in 2002 dollars in 1987 who participated in a retirement plan was 78.8 percent, compared with 73.2 percent of those who earned this amount in 2002. 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. However, this is not likely to explain the significant declines of 2001 and 2002, as much of the movement to DC plans had already occurred. This does appear to be consistent with the declines in the percentage of full-time, full-year workers participating in a plan, where it appears that the types of jobs are changing in the economy to industries that have not traditionally offered retirement plans at high rates.¹⁷ Although there was a decline in the level of participation among most earnings groups, the overall difference in participation levels across earnings groups declined more than 7 percentage points, from 72.1 percentage points in 1987 to 64.8 percentage points in 2002.

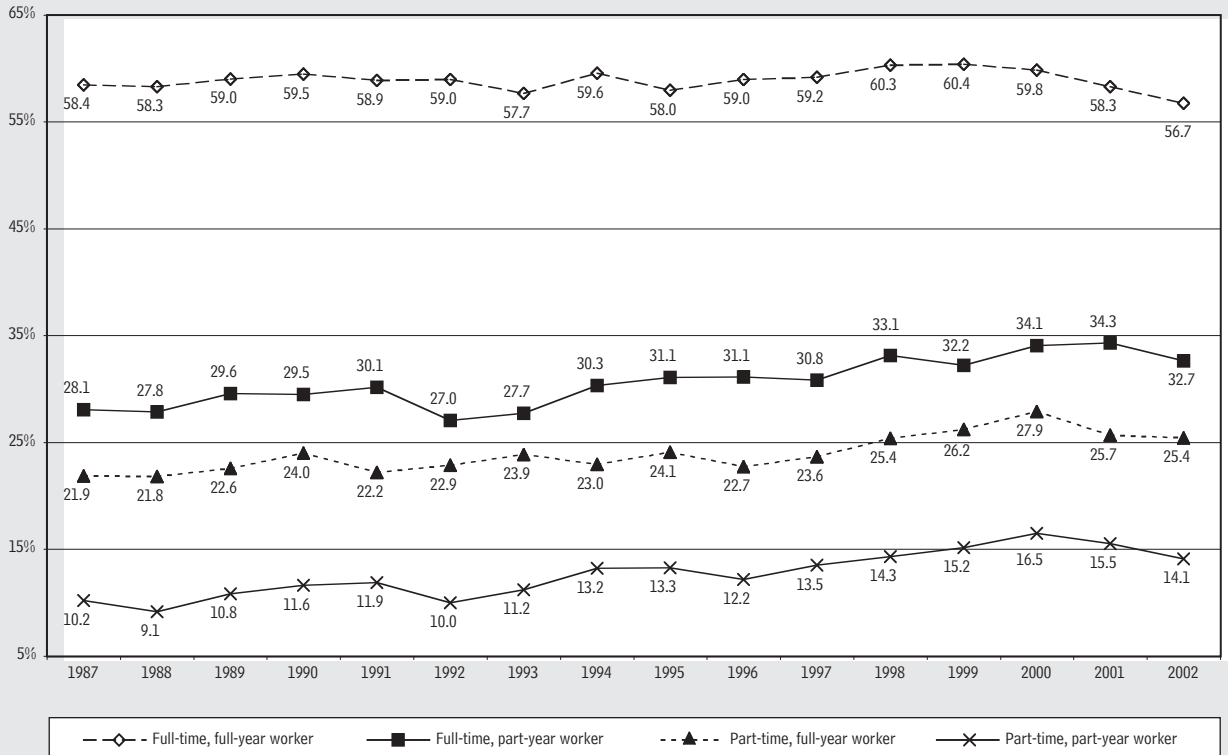
Before falling to 56.7 percent in 2002, the percent-

Figure 19
**PERCENTAGE OF WAGE AND SALARY WORKERS AGES 21-64 WHO PARTICIPATED
 IN AN EMPLOYMENT-BASED RETIREMENT PLAN, BY EARNINGS (\$ 2002) 1987-2002**



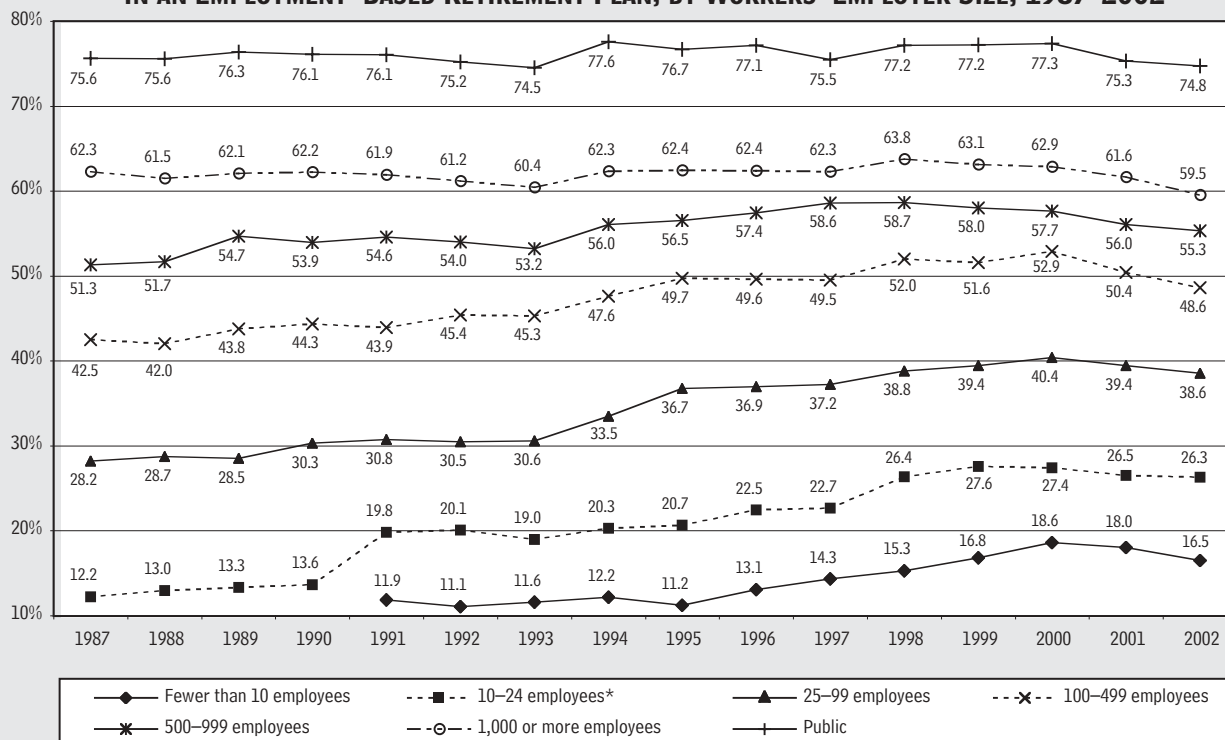
Source: Employee Benefit Research Institute estimates from the 1988-2003 March Current Population Surveys.

Figure 20
**PERCENTAGE OF WAGE AND SALARY WORKERS AGES 21-64 WHO PARTICIPATED
 IN AN EMPLOYMENT-BASED RETIREMENT PLAN BY WORK STATUS, 1987-2002**



Source: Employee Benefit Research Institute estimates from the 1988-2003 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, 1987-2002**



Source: Employee Benefit Research Institute estimates from the 1988-2003 March Current Population Surveys.

* Under 25 from 1987-1990.

age of full-time, full-year wage and salary workers participating in a retirement plan had consistently been in the 58 percent to 60 percent range (Figure 20). In contrast, the percentage of workers in the other work status categories, while still being considerably lower than that of the full-time, full-year workers, increased from 1987 to 2002. Full-time, part-year workers had the largest percentage point increase, going from 28.1 percent to 32.7 percent during this period. This could be indicative of shorter waiting periods for retirement plan eligibility for new hires, or that workers losing jobs in the later years were more likely to have had benefits than those who lost them in prior years.

The growth in retirement plan participation levels 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 38.6 percent in 2001. Furthermore, workers in the smallest firms (fewer than 10 employees and 10-24 employees) had significant increases of 4.6 percentage points and 6.5 percentage points, respectively, from 1991 to 2002. 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 lower from 1987 to 2001, particularly for the largest private firms (62.3 percent in 1987, compared with 59.5 percent in 2002).

Conclusion

In 2002, 41.8 percent of all workers, or 63.2 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 56.7 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 a retirement plan. In addition, workers employed by 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 (Southwest in particular) less likely to participate in a plan than workers in 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. Nonnative-born Hispanics had substantially lower participation levels, even when controlling for age.

While the relative levels of participation in 2002 across the various characteristics discussed above was representative of prior years' relative levels, 2002 was the second straight year of significant declines in retirement plan participation—by far the largest two-year decline in these levels of participation. The number of wage and salary workers participating in a retirement plan also had the largest two-year decline over this period. The prior decline in 1991 to 1993 was less than 500,000, compared with a decrease of 3.5 million from 2000 to 2002.

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, non- full-time, full-year workers, and female workers showed significant growth. While there were declines in these levels in 2001 and 2002, they were still above their early 1990s' levels. Furthermore, in most cases, the 2001 and 2002 declines were not at a disproportionate level relative to other characteristics, and in fact, female and non- full-time,

full-year workers had less of a decrease in relative terms than their comparison groups.

As stated above, the participation levels among workers at small employers experienced significant increases, while the levels for large employers and public-sector employers were stagnant or declining. According to the 2003 Small Employer Retirement Survey (SERS),¹⁸ 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 likely that these also are the major 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 uncertain economic period.

In the short term, uncertain revenues in an uncertain economy appear to be plaguing small-employer provision of retirement plans; the 2003 SERS found that the lowest percentage of nonsponsoring small employers responded that they are very likely to start offering a plan in the next two years (16 percent in 2000 compared with 7 percent in 2003). However, decision makers at small employers that do not sponsor a plan said they would be more likely to sponsor a plan in the next two years if their profits increased. In fact, among the companies that said they were *very* or *somewhat likely* to start sponsoring a plan (those the most likely to act) in the next two years, 58.0 percent said they were much more likely and 31.4 percent said they were somewhat more likely to sponsor a plan if their profits increased. Therefore, in the longer term, when the economy improves and profits increase, some small-business decision makers seem to be willing to seriously consider the idea of sponsoring a plan if the cost is right, particularly if employers having a difficult time attracting and retaining employees find that their employees or potential employees truly want and value retirement plans.

It appears that the large-employer segment of the market is fairly saturated (if not declining) in terms of retirement plan sponsorship, given that there was only a very small increase in the percentage of their employees

participating in a plan during the high growth period of the 1990s and the subsequent fall in 2002 to the lowest level of participation, since at least 1987. However, increased educational efforts or improved employer match levels¹⁹ 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 1998.²⁰ The future trend within the large-employer arena does not look positive, potentially pointing to a change in attitude or commitment with respect to the provision of retirement plans by a growing number of these employers.

It is good news that small-employer, part-time, and part-year workers have higher retirement plan participation levels than they had a decade ago and have been able to sustain some of the gains after the downturn subsequent to 2000. Nevertheless, as the current “jobless recovery” continues to not produce a sizeable increase in employment, it is likely that some of these gains could be lost, as employers may have to cut back on their offerings or reduce the number of workers to remain profitable, meaning that workers could be out of a plan or a job with a plan. The troubling 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, and with the declines in 2001 and 2002, experienced their lowest participation levels since at least 1987. Thus, the overall level of participation in retirement plans has shown only a minor increase from 1987 to 2002 and appears 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 that provided in this study.²¹ Yet, those who participate in a retirement plan across their entire career are far more likely than

those who do not to have an income in retirement that adequately replaces their working years’ income.²² Consequently, in order to save a sufficient amount for a financially secure retirement, many workers will need to use non-employment-based arrangements (such as contributing to an individual retirement account or building personal savings) 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. However, workers seem to be more likely to take advantage of an employment-based retirement plan arrangement than an individual plan.²³

While individuals are more likely to participate in an employment-based arrangement, they may have less opportunity to do so. As shown by the data presented in this report, the participation levels of the core group of workers who have had traditionally high and stable levels of participation—full-time, full-year workers in large firms (1,000 or more employees) and high earners—have fallen to their lowest levels since at least 1987. This could potentially indicate a change in workers’ employment opportunities (and ability to receive benefits), as they move between industries and/or from older employers with established plans to newer employers without plans. Thus, workers will need to be more vigilant in their savings ethic within employment-based plans when the opportunity arises, as well as with other plans outside of the employment environment to increase the likelihood of having sufficient income in retirement. However, in the past few years, workers do not appear to be acting according to this ethic, and employers as a whole have not been increasing the opportunities for workers to reach maximize savings. Yet, not all employers can be blamed, since part-time and part-year workers appear to have been offered more opportunities to participate in employment-based retirement plans, as the percentage of part-time and part-year workers participating in employment-based plans has increased appreciably over its 1987 level.

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Endnotes

¹ Technically, most private qualified defined contribution plans are either money purchase or profit sharing plans (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 DB 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). Whereas in 1997 and 1995, 76 percent and 85 percent, respectively, of full-time workers participating in a DB 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 DC plans and the consequences for retirees of this growth.

⁶ The 2001 Survey of Consumer Finances (SCF) was released earlier this year (2003) with 2001 data. Consequently, the overall participation levels contained in the data are already outdated due to the release of the CPS. However, SCF still remains the most updated survey of plan type breakouts as well as overall assets held by American households (among other things) and is an essential piece in the evaluation of the status of Americans' preparation for retirement.

⁷ Each March, CPS asks about retirement plan participation in the prior year. For example, the March 2003 CPS asks about retirement plan participation in 2002.

⁸ Wage and salary workers include all workers who work for someone else as well as those self-employed that are incorporated. Thus, the unincorporated self-employed are not included.

⁹ 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.

¹⁰ The 2003 March Current Population Survey made changes to the industry definitions by adding certain new categories and combining others. Consequently, industry participation levels for 2002 cannot be compared with prior years' results.

¹¹ The 2003 March Current Population Survey made changes to the race questions allowing respondents to answer to more than one race, e.g., white and black. These individuals are included in the "other race" category. Thus, the white category only includes those who responded they were white only, blacks as black only, etc.

¹² Native-born means the worker was born in the continental United States, Hawaii, or Alaska, but not U.S. territories such as Puerto Rico.

¹³ 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.

¹⁴ With the changes in the industry classifications in the March 2003 CPS previously described, it becomes even more difficult to draw conclusions even in the aggregate, as the definitions are not consistent over the years to compare the number employed in each industry. Furthermore, movements between industries are not the only way this phenomenon could occur, as it could also happen with changes of jobs between employers within an industry.

¹⁵ Again, the race categories were revised in the 2003 survey to allow for combinations of races. However, the distribution of workers among the race categories was virtually unchanged even with those of more than one race being moved to the "other race" category. Consequently, the trend for the race/ethnicity categories is presented despite the inconsistent definitions of these categories.

¹⁶ All earnings amounts are in 2002 dollars, that is, all earnings from years prior to 2002 are inflated by the proper consumer price index (CPI) level to reach 2002 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.

¹⁷ In further support of the changing nature of jobs in relation to the provision of benefits, the percentage of wage and salary workers ages 21–64 earning \$50,000 or more in 2002 dollars has increased significantly since 1995, after varying in a narrow range from 1987 to 1995. Despite the higher percentage of workers falling into the highest earnings category in

2001 and 2002, the percentage of workers for an employer that sponsors a plan, as well as the percentage participating in a plan, decreased. Consequently, workers are earning more in real terms but they do not appear to also be receiving retirement benefits along with the higher earnings.

¹⁸ These results from the 2003 Small Employer Retirement Survey (SERS) are drawn from VanDerhei (2003), where a more thorough discussion of the results is presented.

¹⁹ See VanDerhei and Copeland (January 2001) for empirical results of higher match rates on contributions and participation.

²⁰ 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.

²¹ 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.

²² 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.

²³ 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, among that same earnings group (who 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.



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