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NOTES

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Executive Summary:

Ownership of Individual Retirement Accounts (IRAs) and 401(k)-Type Plans

- ***Most recent data—***This article uses the most recent SIPP data from the U.S. Census Bureau to examine the prevalence of IRAs and 401(k)-type plans among workers ages 21–64.
- ***Number of 401(k) plans and participants slows, IRA assets grow sharply—***The *number of 401(k)-type plans* and the *number of participants* in those plans, which had grown sharply through the 1990s, have subsequently grown at a slower pace. *Ownership* of both 401(k)-type plans and IRAs has risen significantly, as have *assets* in 401(k)-type plans and IRAs.
- ***IRA growth from rollovers—***While IRAs have become the largest single vehicle of retirement assets in the United States, the growth continues to be due to rollovers from other tax-qualified retirement plans, and not from new contributions.
- ***Roth IRAs get most growth, traditional IRAs have most assets—***Most new IRA contributions are going to the tax-free-on-withdrawal (nondeductible) Roth IRAs, not traditional (taxable-on-withdrawal) IRAs. But traditional IRAs hold the bulk of IRA assets.
- ***Maximum IRA contribution—***In 2005, about 27 percent of IRA owners contributed the maximum amount allowed by law, less than half the rate in 1996, when the contribution limit was half as much as it was in 2005. The data show that contributions to individual account retirement plans are strongly influenced by demographic factors—chiefly income, education, and race.

The Basics of Medicare: Updated With the 2008 Board of Trustees Report

- ***Latest data—***The Social Security Board of Trustees in March released the 2008 update for the trust funds of the Medicare program, the federal health care insurance program for the elderly and disabled. The Health Insurance Trust Fund is expected to begin using interest earnings to cover the excess of expenditures over tax income in 2008, trust fund assets will begin to be used to cover the excess beginning in 2011, and the trust fund is expected to be exhausted by 2019.
- ***Financing—***In 2007, expenditures in the Medicare program equaled 3.18 percent of gross domestic product (GDP). By 2080, that share is estimated to grow to 10.69 percent of GDP.

Ownership of Individual Retirement Accounts (IRAs) and 401(k)-Type Plans

By Craig Copeland, EBRI

Introduction

Individual account retirement plans, such as 401(k) plans and individual retirement accounts (IRAs), have continued to increase their share of retirement assets, and this share is projected to grow further, particularly for private-sector workers. Consequently, tracking the percentage of workers who have these plans and how much has been accumulated in them is an important indicator of how workers are financially preparing for retirement. This article uses the most recent data (2005) from the Survey of Income and Program Participation (SIPP), conducted by the U.S. Census Bureau, to examine the prevalence of these accounts among workers ages 21–64.[1, 2]

The results of this research supplement the EBRI/ICI Defined Contribution database research by including other demographic results that are not in the EBRI/ICI database, as well as data on IRA ownership by these workers.[3] Also, SIPP includes a question regarding 401(k)-type plan participation that allows for a broader array of employment-based retirement plan types to be tracked; i.e., it also asks for participation in a thrift plan, such as the federal employees' Thrift Savings Plan. Because these other plan participants are included, the broader term *401(k)-type plan* is used instead of *401(k) plan,* as has been the exclusive focus of the EBRI/ICI Defined Contribution Database publications. It should be noted that these employment-based types of retirement plans differ from traditional IRAs, which for the most part are not tied to employment.

In brief, the most current data show that the large increase in the *number of 401(k)-type plans* and the *number of participants* in those plans, which had grown sharply through the 1990s, have subsequently grown at a slower pace. *Ownership* of both 401(k)-type plans and IRAs has risen significantly, as have *assets* in 401(k)-type plans and IRAs.

While IRAs have become the largest single vehicle of retirement assets in the United States, the growth continues to be due to rollovers from other tax-qualified retirement plans, and not from new contributions. Most new IRA contributions are going to the tax-free-on-withdrawal (nondeductible) Roth IRAs, not traditional (taxable-on-withdrawal) IRAs. In 2005, about 27 percent of IRA owners contributed the maximum amount allowed by law, less than half the rate in 1996, when the contribution limit was half as much as it was in 2005. The data show that contributions to individual account retirement plans are strongly influenced by demographic factors—chiefly income, education, and race.

This study begins with an examination of the ownership of IRAs and participation in 401(k)-type plans (singularly and in combination) among workers ages 21–64. Next, it investigates the average contribution, the percentage of participants contributing the maximum amount, and the average earnings in 401(k)-type plans and IRAs. Finally, it presents the latest official government data on the assets and participants, where they are available for these accounts.

Ownership of IRAs and 401(k)-type Plans

IRAs—Twenty-three percent of workers ages 21–64 owned an IRA at the end of 2005. This was an increase from 15.9 percent at the end of 1996 (Figure 1). IRA ownership increased with family income and age. Among workers with family income of $75,000 or more, 35.1 percent owned an IRA, whereas 8.3 percent of those with family income of $10,000–$19,999 owned an IRA. Three percent of workers ages 21–24 owned an IRA, compared with 33.9 percent of those ages 55–64.

IRA ownership also increased substantially with education, growing from 2.7 percent of workers without a high school diploma to 46.5 percent of those with a graduate degree. White workers were more likely to own an IRA than workers of other races/ethnicities. Male and female workers were virtually equally likely to own an IRA.

Figure 1

Ownership of Individual Retirement Accounts (IRAs) and 401(k)-Type Plans by Workers Ages 21–64, End-of-year 1996, 1997, 2001, 2002, 2004, and 2005

	1996		1997		2001		2002		2004		2005	
	Owning IRA	Participated in a 401(k)-Type Plan	Owning IRA	Participated in a 401(k)-Type Plan	Owning IRA	Participated in a 401(k)-Type Plan	Owning IRA	Participated in a 401(k)-Type Plan	Owning IRA	Participated in a 401(k)-Type Plan	Owning IRA	Participated in a 401(k)-Type Plan
All	15.9%	24.1%	16.3%	25.5%	18.3%	30.4%	18.7%	30.9%	22.7%	32.5%	22.9%	33.1%
Age												
21–24	1.2	6.7	1.3	6.1	2.7	11.9	2.3	9.1	5.4	10.5	3.2	9.3
25–34	7.6	23.1	7.8	24.1	11.9	28.5	11.4	28.6	15.0	29.1	15.0	28.8
35–44	16.8	28.0	16.2	29.0	18.1	33.2	18.7	33.9	23.1	36.4	23.0	37.2
45–54	23.2	27.9	24.3	30.5	24.2	35.4	24.5	36.3	28.7	38.1	28.5	38.8
55–64	32.6	22.3	32.9	24.4	30.7	30.4	32.1	32.3	35.0	34.2	33.9	33.5
Family Income (2005 $s)												
Less than $10,000	7.0	5.2	7.8	7.5	8.6	8.8	9.9	9.1	10.4	5.8	12.7	7.4
$10,000–$19,999	5.9	5.3	6.5	7.2	6.6	9.4	6.6	9.0	8.2	8.6	8.3	9.5
$20,000–$29,999	7.8	13.1	8.0	13.6	8.8	17.0	7.8	16.6	11.6	17.2	11.2	19.1
$30,000–$39,999	10.8	18.0	10.6	19.0	11.9	23.3	11.3	22.6	14.3	25.9	14.0	25.5
$40,000–$49,999	12.3	22.5	12.7	23.6	13.5	29.3	14.7	28.2	18.0	29.4	17.4	31.3
$50,000–$74,999	15.7	26.5	15.2	27.3	18.3	33.1	18.9	33.4	22.8	35.9	22.1	37.1
$75,000 or more	24.9	35.4	26.2	37.5	28.0	41.9	28.0	42.7	33.9	45.8	35.1	45.2
Education Level												
No HS diploma	3.8	8.0	3.7	9.2	3.2	9.5	4.0	9.7	2.9	10.2	2.7	10.9
HS diploma	10.0	19.2	10.3	20.3	10.5	24.5	11.2	24.2	13.2	24.6	13.0	24.2
Some college	14.4	25.4	14.8	26.7	16.3	30.4	16.2	30.5	20.1	31.5	20.0	31.9
Bachelor's degree	25.4	34.2	26.4	36.2	29.7	42.9	29.5	43.5	35.1	43.4	34.4	44.1
Graduate degree	38.5	37.3	38.9	39.7	41.1	44.3	40.8	46.1	45.7	49.9	46.5	50.4
Race/Ethnicity												
White	19.0	27.1	19.6	28.8	22.4	34.3	23.2	34.6	27.5	36.5	27.7	36.8
Black	4.7	15.4	5.1	16.9	5.7	22.1	5.4	23.5	10.5	25.0	9.9	27.0
Hispanic	4.8	11.2	4.8	11.4	4.9	13.5	4.9	15.2	7.9	18.1	8.5	19.0
Other	13.4	21.1	12.9	21.6	17.0	29.4	16.0	29.3	21.0	30.5	21.1	31.8
Marital Status												
Married	18.9	26.8	19.5	28.7	21.7	33.5	26.6	36.0	26.6	36.0	27.2	37.1
Widowed	25.4	20.8	24.8	21.2	23.1	27.7	24.1	33.0	24.1	33.0	23.8	29.4
Divorced	14.6	25.3	14.7	26.2	16.0	30.9	21.1	34.6	21.1	34.6	20.1	33.6
Separated	7.8	15.5	6.5	17.8	7.8	21.6	10.3	19.4	10.3	19.4	9.0	16.8
Never married	8.4	16.9	8.8	17.4	11.3	22.9	14.8	23.5	14.8	23.5	13.9	23.7
Gender												
Male	16.1	25.8	16.4	27.4	18.4	31.9	19.0	32.5	22.9	32.5	23.3	33.1
Female	15.7	22.2	16.2	23.4	18.3	28.7	18.4	29.0	22.4	32.4	22.4	33.0

Source: Employee Benefit Research Institute estimates of the 1996 Panel of the Survey of Income and Program Participation (SIPP) Topical Modules Waves 3 and 6, the 2001 Panel of SIPP Topical Modules Waves 3 and 6, and the 2004 Panel of SIPP Topical Modules Waves 4 and 7.

These same patterns across the demographic variables have held true since 1996. Furthermore, the increasing likelihood of owning an IRA from 1996 to 2005 occurred for virtually each demographic subgroup, except for workers without a high school diploma or who were widowed.

401(k)-Type Plans—The proportion of workers ages 21–64 participating in a 401(k)-type plan increased from 24.1 percent in 1996 to 33.1 percent in 2005 (Figure 1). Participation in 401(k)-type plans increased with the worker's family income and educational attainment. Among workers with family incomes below $10,000, 7.4 percent participated, compared with 45.2 percent of workers with family incomes of $75,000 or more. Participation increased from 10.9 percent of workers without a high school diploma to 50.4 percent of workers with a graduate degree.

The likelihood of a worker participating in a 401(k)-type plan increased with age through age 55, where the likelihood declined for those ages 55–64. Males and females were equally likely to participate in a 401(k)-type plan. White workers were the most likely to be 40(k)-type plan participants: 36.8 percent of white workers were participants, compared with 31.8 percent of those of the next highest race/ethnicity group (other).

These same patterns held true across each year studied. In addition, the likelihood of being a participant in each demographic subgroup increased from 1996 to 2005.

Both IRAs and 401(k)-type Plans—The percentage of workers ages 21–64 who owned *at least one* of these types of plans increased from 34.1 percent in 1996 to 43.8 percent in 2005 (Figure 2). Almost of all this increase is due to the increased likelihood of workers owning *both* of these types of plans: The percentage of workers owning both of these plans was 5.9 percent in 1996, compared with 12.2 percent in 2005. The percentage owning only an IRA was virtually unchanged, from 10.0 percent to 10.7 percent, while only a small increase occurred in the percentage participating only in a 401(k)-type plan (18.2 percent in 1996 versus 20.9 percent in 2005). Workers who are older, had higher family incomes, or had more educational attainment were more likely to own both types of plans. Male workers were slightly more likely to own both types of plans than were females. Overall, as the 401(k)-type plan has spread through the economy as the main type of private-sector work-force retirement benefit, workers in each subgroup had an increased likelihood of owning both an IRA and a 401(k)-type plan from 1996 to 2005.

Contributions to, and Earnings in, 401(k)-Type Plans

The percentage of workers ages 21–64 participating in a 401(k)-type plan increased from 23.3 percent in 1996 to 33.1 percent in 2005 (Figure 3). At the same time, the mean (average) annual contribution for those making a contribution increased from about $3,728 to $4,274 in 2005 dollars.[4] The percentage of those making a contribution at the maximum dollar amount allowed under Internal Revenue Service (IRS) regulations also rose, from 3.2 percent in 1996 to 8.9 percent in 2004.[5] Furthermore, the average annual investment earnings in 401(k)-type plans increased from $5,160 in 1996 to $5,801 in 2005.

The mean contributions and the percentage making the maximum contribution increased with age and educational attainment. For example, in 2005, the mean contribution of workers age 21–24 was $1,597, compared with $4,993 for those ages 55–64. Male workers had higher mean contributions and likelihood of making the maximum contribution than those in the other marital status categories or females. The male mean contribution was $4,949, whereas the female mean contribution was $3,540.

Among workers with family income of $10,000 or above, the mean contribution increased with family income. The mean annual contribution of workers with $10,000–$19,999 of family income was $1,188. This mean contribution level rose until reaching $5,790 for those with family incomes of $75,000 or more.[6] For those with less than $10,000 in family income, the numbers are not comparable, as this group contains those with uneven monthly incomes, so the annualized monthly income used in this study distorts the results for this group.[7]

Average earnings in 401(k)-type plans increased with age and family income ($10,000 and above) and were higher for those workers who were married, white, or male. Those workers with the lowest educational attainment had the lowest average earnings, while those with the highest educational attainment had the highest average earnings of any subgroup. However, for those with educational attainments in between, the average earnings were very similar to those with the highest education.[8]

Figure 2

Ownership of Both Individual Retirement Accounts (IRAs) and 401(k)-Type Plans by Workers Ages 21–64, End-of-year 1996, 1997, 2001, 2004, and 2005

	1996			1997			2001			2004			2005		
	IRA Only	401(k)-Type Plan Only	Both 401(k)-Type Plan & IRA	IRA Only	401(k)-Type Plan Only	Both 401(k)-Type Plan & IRA	IRA Only	401(k)-Type Plan Only	Both 401(k)-Type Plan & IRA	IRA Only	401(k)-Type Plan Only	Both 401(k)-Type Plan & IRA	IRA Only	401(k)-Type Plan Only	Both 401(k)-Type Plan & IRA
All	10.0%	18.2%	5.9%	10.0%	19.2%	6.3%	9.7%	21.7%	8.7%	10.8%	20.6%	11.9%	10.7%	20.9%	12.2%
Age															
21–24	1.0	6.6	0.1	1.2	6.0	0.1	1.6	10.8	1.1	3.5	8.6	1.9	2.1	8.3	1.0
25–34	4.9	20.4	2.7	4.9	21.2	2.9	6.3	22.9	5.7	6.7	20.8	8.3	6.6	20.4	8.4
35–44	10.1	21.2	6.7	9.6	22.4	6.6	9.0	24.1	9.1	10.5	23.8	12.6	10.2	24.4	12.8
45–54	14.0	18.7	9.2	14.1	20.3	10.3	12.6	23.9	11.6	13.1	22.6	15.6	12.4	22.7	16.1
55–64	22.4	12.1	10.1	22.4	13.8	10.5	17.7	17.4	13.0	18.9	18.1	16.2	18.5	18.2	15.4
Family Income (2005 $s)															
Less than $10,000	5.7	3.9	1.3	6.5	6.1	1.3	6.2	6.4	2.4	8.3	3.8	2.0	10.4	5.1	2.3
$10,000–$19,999	5.3	4.7	0.6	5.4	6.1	1.1	5.4	8.1	1.3	6.3	6.7	2.0	5.9	7.2	2.3
$20,000–$29,999	6.1	11.3	1.7	6.3	11.9	1.7	6.3	14.5	2.5	8.0	13.6	3.7	6.9	14.8	4.3
$30,000–$39,999	8.1	15.4	2.6	7.2	15.7	3.3	7.9	19.3	4.0	8.4	19.9	5.9	7.9	19.4	6.1
$40,000–$49,999	8.6	18.8	3.7	8.9	19.8	3.8	8.0	23.8	5.6	10.1	21.5	7.9	9.2	23.1	8.2
$50,000–$74,999	10.4	21.2	5.3	10.1	22.2	5.2	9.7	24.4	8.7	10.9	24.0	11.9	10.3	25.3	11.8
$75,000 or more	13.6	24.1	11.3	14.0	25.2	12.2	13.0	26.9	15.0	13.7	25.6	20.2	14.2	24.3	20.9
Education Level															
No HS diploma	3.0	7.2	0.8	2.9	8.4	0.9	2.5	8.9	0.6	2.1	9.4	0.8	1.8	10.0	0.9
HS diploma	7.0	16.3	3.0	7.2	17.2	3.1	6.8	20.8	3.8	7.5	18.9	5.7	7.4	18.6	5.6
Some college	9.1	20.2	5.2	9.4	21.3	5.4	9.1	23.2	7.2	10.2	21.6	9.9	10.4	22.2	9.7
Bachelor's degree	15.4	24.1	10.0	15.1	25.0	11.3	13.9	27.0	15.9	15.3	23.6	19.7	14.2	23.9	20.2
Graduate degree	21.4	20.2	17.1	21.3	22.1	17.6	19.2	22.4	21.9	18.7	22.9	27.0	17.8	21.8	28.7
Race/Ethnicity															
White	11.9	20.0	7.1	12.0	21.2	7.6	11.9	23.8	10.5	13.2	22.1	14.3	13.1	22.2	14.6
Black	3.0	13.6	1.7	2.9	14.7	2.2	2.6	19.0	3.1	4.7	19.2	5.9	4.0	21.1	5.9
Hispanic	3.2	9.6	1.6	3.5	10.1	1.3	3.0	11.7	1.9	3.7	14.0	4.1	3.8	14.3	4.7
Other	8.0	15.7	5.4	7.5	16.2	5.4	7.7	20.2	9.2	9.9	19.4	11.1	8.9	19.6	12.2
Marital Status															
Married	11.7	19.7	7.1	11.9	21.1	7.6	11.6	23.3	10.2	12.7	22.2	13.8	12.8	22.7	14.4
Widowed	17.2	12.6	8.3	16.1	12.5	8.7	12.2	16.8	10.9	9.8	18.7	14.3	11.6	17.3	12.1
Divorced	9.1	19.8	5.5	9.1	20.6	5.6	8.4	23.2	7.6	10.1	23.6	10.9	9.3	22.8	10.8
Separated	5.2	12.9	2.6	3.8	15.1	2.7	4.7	18.5	3.1	5.3	14.4	5.0	5.3	13.1	3.7
Never married	5.4	13.9	3.0	5.5	14.1	3.3	5.6	17.3	5.6	6.9	15.7	7.9	5.9	15.8	7.9
Gender															
Male	9.5	19.1	6.7	9.3	20.3	7.1	9.1	22.6	9.3	10.7	20.3	12.3	10.6	20.4	12.7
Female	10.6	17.1	5.1	10.8	18.1	5.4	10.3	20.7	8.0	11.0	20.9	11.4	10.8	21.4	11.6

Source: Employee Benefit Research Institute estimates of the 1996 Panel of the Survey of Income and Program Participation (SIPP) Topical Modules Waves 3 and 6, the 2001 Panel of SIPP Topical Modules Waves 3, and the 2004 Panel of SIPP Topical Module Waves 4 and 7.

Figure 3

401(k)-Type Plan Participation, Contributions and Earnings (2005 $s) of Workers Ages 21–64, 1996, 2001, and 2005

	1996				2001				2005			
		Of Those Making a Contribution				Of Those Making a Contribution				Of Those Making a Contribution		
	Participated in a 401(k)-Type Plan	Mean contri-bution	Making maximum contribution	Average Earnings	Participated in a 401(k)-Type Plan	Mean contri-bution	Making maximum contribution	Average Earnings	Participated in a 401(k)-Type Plan	Mean contri-bution	Making maximum contribution	Average Earnings
All	23.3%	$3,728	3.2%	$5,160	27.9%	$3,943	5.6%	$5,777	33.1%	$4,274	8.9%	$5,801
Age												
21–24	6.2	1,846	3.0	2,554	10.2	1,720	1.0	1,123	9.3	1,597	0.0	1,130
25–34	22.3	2,953	2.2	3,112	26.9	3,403	3.4	3,211	28.8	3,353	5.0	3,238
35–44	27.4	3,739	2.8	4,773	30.5	4,115	6.8	6,228	37.2	4,226	8.4	5,551
45–54	26.3	4,282	3.8	6,972	31.8	4,115	5.4	7,516	38.8	1,695	10.3	6,956
55–64	21.7	4,657	5.7	8,491	27.7	4,607	8.6	7,277	33.5	4,993	13.2	7,824
Family Income (2005 $s)												
Less than $10,000	4.6	3,095	0.0	2,507	8.0	3,954	11.1	1,733	7.4	2,650	3.5	2,431
$10,000–$19,999	5.6	1,319	0.0	909	8.1	1,823	3.0	620	9.5	1,188	0.0	3,079
$20,000–$29,999	12.6	1,658	1.3	2,755	15.8	1,620	0.4	3,739	19.1	1,633	1.3	3,402
$30,000–$39,999	18.3	2,028	1.6	2,135	22.0	2,396	1.8	5,102	25.5	1,812	0.7	3,322
$40,000–$49,999	22.8	2,272	1.1	2,931	27.1	2,372	1.1	4,966	31.3	2,435	1.6	2,835
$50,000–$74,999	26.2	2,890	1.5	3,841	30.9	3,222	2.0	5,595	37.1	3,161	3.8	4,456
$75,000 or more	33.0	4,979	5.0	6,784	38.1	5,086	9.2	6,654	45.2	5,790	14.6	7,380
Education Level												
No HS diploma	8.3	2,144	0.8	4,806	9.8	2,210	1.2	6,834	10.9	1,531	0.0	1,977
HS diploma	18.3	2,538	1.3	4,053	22.8	2,652	1.8	5,209	24.2	2,753	3.3	4,635
Some college	24.2	3,128	2.2	4,191	28.3	3,268	2.8	4,866	31.9	3,264	3.7	5,074
Bachelor's degree	32.7	4,380	4.1	5,465	38.0	4,704	7.8	6,543	44.1	5,098	11.1	6,136
Graduate degree	35.1	5,835	6.6	7,803	39.3	5,955	13.4	6,770	50.4	6,451	21.1	7,638
Race/Ethnicity												
White	25.9	3,821	3.3	5,395	31.1	4,032	6.4	6,122	36.8	4,463	9.5	6,096
Black	16.2	2,547	1.0	1,976	22.2	2,867	0.4	5,033	27.0	2,737	2.2	4,923
Hispanic	11.9	2,994	2.8	4,077	13.7	2,992	1.4	2,927	19.0	3,149	5.4	3,781
Other	19.1	4,242	3.9	4,130	26.0	5,086	4.2	2,671	31.8	4,898	13.9	4,414
Marital Status												
Married	26.1	3,938	3.4	5,716	30.9	4,125	6.2	4,032	37.1	4,563	10.0	6,145
Widowed	20.4	3,192	4.7	2,310	24.3	3,072	4.0	4,896	29.4	3,097	5.0	7,326
Divorced	24.7	3,432	3.3	4,072	28.8	3,530	3.8	4,141	33.6	3,529	5.8	5,795
Separated	15.3	2,835	0.0	2,057	18.0	2,372	0.0	1,660	16.8	3,241	6.0	2,573
Never married	15.6	3,175	2.2	3,996	20.5	3,805	5.7	3,401	23.7	3,819	7.5	4,328
Gender												
Male	24.7	4,260	4.0	6,142	29.3	4,495	6.7	6,420	33.1	4,949	11.7	6,979
Female	21.7	3,064	2.2	3,767	26.3	3,283	4.3	5,031	33.0	3,540	6.0	4,439

Source: Employee Benefit Research Institute estimates of the 1996 Panel of the Survey of Income and Program Participation (SIPP) Topical Module Wave 4, the 2001 Panel of SIPP Topical Module Wave 4, and the 2004 Panel of SIPP Topical Module Wave 7.

Deductible Contributions to, and Earnings in, IRAs

The proportion of workers ages 21–64 making a tax-deductible IRA contribution in 2005 was 6.2 percent, up slightly from 5.0 percent in 1996 (Figure 4).[9] Of those making a contribution, the mean contribution in 2005 was $2,540.[10] This compares with $2,041 (2005 $s) in 1996. However, the percentage of those making the maximum allowable contribution declined from 66.4 percent in 1996 to 26.8 percent in 2005. Consequently, when the contribution limits were raised in 2002, the average contribution increased, but less than half of the percentage who previously made the maximum contribution did so after the limit increased. Average annual earnings in IRAs were down to just over $3,553 in 2005 from approximately $4,600 (2005 $s) in 2001.

The mean contribution increased with workers' age and educational attainment. Family income had no clear impact on the mean contribution, which showed a relatively small difference across income groups and did not show a clear trend. White workers and workers in the "other" race/ethnicity category had higher mean contributions, while male workers also had a slightly higher mean contribution than females. Males were more likely to make the maximum contribution than females, while those having a graduate degree were more likely to do so than those having lower educational attainment.

Workers ages 55–64 had the highest average annual earnings within their IRA, at $5,369. Those workers with at least a college degree had higher average annual earnings than those with less educational attainment (at least $3,813, compared with just $3,000 or below). Males had significantly higher average earnings at $4,050, whereas females' average earnings were just below $3,000. Family income did not correlate with average earnings in any specific fashion (just as with contributions), showing that income is not the only indicator of individuals' decisions to save or accumulate funds in an IRA.

Private-Sector Defined Contribution Plans, Participants, and Assets

The previous section showed a significant increase in the percentage of workers participating in 401(k)-type plans; the latest Department of Labor Form 5500 publication reveals the analogous increase of 401(k)-type plans in the private sector.[11] The number of 401(k)-type plans in the private sector increased from 29,869 in 1985 to 436,207 in 2005. While the number of overall defined contribution (DC) plans (of which 401(k)-type plans are a subset) has also grown substantially, it has leveled off and even declined slightly in recent years. In 1975, the number of DC plans was 207,748; by 2000, it had reached 686,878, before declining to 631,481 in 2005.

The number of active participants in private-sector 401(k)-type plans increased from 10.3 million in 1985 to 44.4 million in 2004 (Figure 5). The number of active participants in overall DC plans increased from 11.2 million in 1975 to 52.9 million in 2002, and then leveled off to 52.2 million in 2004. It should be noted that the Department of Labor's (DOL) Employee Benefits Security Administration, which is the source of these data, reported active participants using a new reporting method due to changes in the DOL's requirements for filing the 5500 Form. Therefore, the sharp increase in participants shown in Figure 5 is due to the change in methodology, not a tremendous jump in defined contribution plan enrollment.[12]

The assets held in these 401(k)-type plans did not follow the same trend as did the number of plans and number of active participants from 1985–2004. The assets grew sharply, from $144 billion in 1985 to $1.79 trillion in 1999, before falling (along with the stock market) until 2002, reaching $1.57 trillion. This level subsequently increased, reaching $2.40 trillion in 2005.

IRA Assets and Contributions by IRA Type

The prior section on IRA contributions examined the percentage of workers who owned an IRA and made tax-deductible contributions in a particular year. However, this level of ownership and contributory behavior does not tell the whole story of the magnitude of assets held in these accounts, as a significant amount of the assets being added to IRAs are coming from rollovers from tax-qualified employment-based retirement plans, and a majority of contributions are going to nondeductible IRAs, Roth IRAs especially. The latest IRS figures (for 2002) show the overall importance of these assets in the economy, but do not provide the demographic details concerning the owners as provided above.

Total Assets—Of the $2.5 trillion in IRAs in 2002, $2.3 trillion were in traditional IRAs (Figure 6),[13] representing more than 90 percent of all IRA assets. Roth IRAs amounted to $77.6 billion, and all

Figure 4

Individual Retirement Account (IRA) Ownership, Contributions, and Earnings (2005 $s) of Workers Ages 21–64, 1996, 2001, and 2005

	1996					2001					2005				
			Of Those Making a Contribution					Of Those Making a Contribution					Of Those Making a Contribution		
	Has an IRA in Own Name	Made Tax-Deductible Contribution To IRA	Mean contri-bution	Making maximum contribution	Average Earnings	Has an IRA in Own Name	Made Tax-Deductible Contribution To IRA	Mean contri-bution	Making maximum contribution	Average Earnings	Has an IRA in Own Name	Made Tax-Deductible Contribution To IRA	Mean contri-bution	Making maximum contribution	Average Earnings
All	17.0%	5.0%	$2,041	66.4%	$3,521	19.2%	5.7%	$1,859	69.9%	$4,611	22.9%	6.2%	$2,540	26.8%	$3,553
Age															
21–24	1.7	0.4	1,715	54.0	800	3.9	1.1	1,552	49.7	940	3.2	0.6	1,149	0.0	1,030
25–34	8.9	3.1	1,836	56.8	2,258	12.7	4.0	1,676	57.1	2,071	15.0	4.3	2,089	20.5	1,681
35–44	17.7	5.1	1,984	63.7	2,996	18.8	5.7	1,813	65.3	5,350	23.0	6.4	2,497	31.3	3,018
45–54	24.5	7.0	2,125	68.3	3,884	24.5	6.9	1,914	75.2	5,088	28.5	7.4	2,527	25.0	3,711
55–64	32.8	9.8	2,189	76.1	5,081	31.7	9.7	2,007	79.7	5,230	33.9	9.2	2,943	29.3	5,369
Family Income (2005 $s)															
Less than $10,000	8.0	2.8	2,121	72.5	7,080	9.3	2.6	1,687	63.2	6,582	12.7	2.1	3,158	41.2	2,906
$10,000–$19,999	5.7	1.5	1,759	52.2	5,946	7.6	2.2	1,819	68.6	4,962	8.3	2.3	2,304	28.9	2,527
$20,000–$29,999	8.4	2.6	1,843	55.3	3,672	9.6	2.4	1,715	59.3	3,405	11.2	3.1	2,371	27.6	2,817
$30,000–$39,999	10.6	3.0	1,900	55.5	3,875	13.6	3.5	1,475	46.5	2,519	14.0	3.7	2,092	15.6	3,452
$40,000–$49,999	13.1	4.6	1,979	63.8	2,117	15.3	4.7	1,818	66.5	4,647	17.4	4.3	1,915	12.2	2,024
$50,000–$74,999	17.3	5.6	1,954	63.0	2,502	19.6	6.0	1,790	63.6	4,236	22.1	5.6	2,267	20.7	3,228
$75,000 or more	26.7	7.4	2,157	72.2	3,917	28.1	8.7	1,957	76.9	5,107	35.1	10.0	2,783	31.9	4,007
Education Level															
No HS diploma	4.1	1.2	2,035	60.7	1,745	4.0	1.2	1,735	57.3	3,197	2.7	0.8	1,311	4.6	1,412
HS diploma	10.7	3.2	2,029	64.5	3,084	11.7	3.3	1,763	61.4	4,383	13.0	3.5	2,078	20.9	2,980
Some college	15.6	4.7	1,951	61.3	2,904	17.4	4.9	1,765	65.2	3,275	20.0	5.3	2,288	19.1	2,992
Bachelor's degree	26.4	7.5	2,024	67.2	3,735	29.3	8.8	1,854	68.9	5,603	34.4	9.1	2,712	28.1	3,813
Graduate degree	39.6	12.2	2,213	75.9	4,373	41.5	14.1	2,033	82.1	5,430	46.5	13.4	3,003	40.6	4,341
Race/Ethnicity															
White	20.4	6.1	2,060	67.5	3,592	23.1	6.9	1,863	69.5	4,731	27.7	7.5	2,593	28.5	3,663
Black	5.6	1.4	1,163	27.1	1,864	7.9	2.4	1,607	60.5	1,622	9.9	2.2	2,204	14.2	3,238
Hispanic	4.6	1.2	1,727	43.6	2,609	5.9	1.8	1,722	62.9	5,126	8.5	2.6	2,050	18.0	2,884
Other	12.9	4.2	2,139	69.3	3,140	17.0	5.4	2,062	86.8	4,219	21.1	6.5	2,403	17.8	2,454
Marital Status															
Married	20.1	5.9	2,032	65.5	3,295	22.2	6.7	1,875	70.9	4,605	27.2	7.5	2,552	26.8	3,838
Widowed	26.4	6.8	2,337	86.8	9,576	23.3	5.8	1,810	68.8	10,793	23.8	3.5	2,816	29.5	3,487
Divorced	16.2	4.8	2,145	73.0	4,015	17.5	5.0	1,795	66.3	4,896	20.1	5.2	2,461	27.1	3,377
Separated	6.4	1.6	1,778	58.7	1,992	8.9	3.0	1,853	77.3	2,116	9.0	1.8	*	*	2,982
Never married	9.2	3.1	1,971	62.9	3,634	12.5	3.9	1,838	66.9	3,800	13.9	3.8	2,572	27.9	2,272
Gender															
Male	17.4	5.2	2,070	67.5	4,096	19.6	6.0	1,908	73.8	4,860	23.3	6.4	2,646	29.4	4,050
Female	16.5	4.9	2,008	65.2	2,823	18.6	5.5	1,806	65.6	4,372	22.4	5.9	2,416	23.8	2,972

Source: Employee Benefit Research Institute estimates of the 1996 Panel of the Survey of Income and Program Participation (SIPP) Topical Module Wave 4, the 2001 Panel of SIPP Topical Module Wave 4, and the 2004 Panel of SIPP Topical Module Wave 7.

*Insufficient data to make a statistically reliable estimate.

Figure 5

Number of Private-Sector Defined Contribution and 401(k)-Type Plans, Active Participants, and Total Assets, 1975–2005

	Number of Plans		Number of Active Participants		Assets	
Year	Defined contribution	401(k) type	Defined contribution	401(k) type	Defined contribution	401(k) type
			(millions)		(millions)	
1975	207,748		11.2		$74,103	
1980	340,805		18.9		162,096	
1985	461,963	29,869	33.2	10.3	426,622	$143,939
1990	599,245	97,614	35.3	19.5	712,236	384,854
1995	623,912	200,813	42.2	27.8	1,321,657	863,918
1996	632,566	230,808	44.3	30.6	1,550,884	1,061,493
1997	660,542	265,251	47.7	33.6	1,818,152	1,264,168
1998	673,626	300,593	50.0	36.8	2,085,250	1,540,975
1999	683,100	335,121	50.4	38.6	2,350,266	1,790,256
2000	686,878	348,053	50.9	39.8	2,216,495	1,724,549
2001	686,611	366,568	52.3	42.0	2,115,702	1,682,218
2002	685,943	388,204	52.9	43.2	1,951,596	1,573,083
2003	652,976	403,638	51.8	43.6	2,306,922	1,922,021
2004	635,567	418,553	52.2	44.4	2,587,159	2,188,733
2005*	631,481	436,207	62.3	54.6	2,807,590	2,395,792

Source: U.S. Department of Labor, Employee Benefits Security Administration, *Private Pension Plan Bulletin Historical Tables* (March 2008).

* In 2005, a new series for participants and active participants was started due to the elimination of certain data from the Form 5500.

Figure 6

Distribution of IRA[a] Assets and Contributions, by IRA Type, 2000–2002

	2000	2001	2002
End-of-Year Asset Levels		(in billions)	
All IRAs	$2,629.309	$2,619.376	$2,532.724
Traditional IRAs	2,407.022	2,394.911	2,321.748
Roth IRAs	77.579	79.340	77.582
Other IRAs[b]	144.708	145.124	133.393
Contributions			
Total	36.484	35.747	42.297
Traditional IRAs	10.041	9.181	12.393
Deductible	7.477	7.407	9.462
Nondeductible	2.564	1.774	2.931
Roth IRAs	11.558	10.984	13.190
Other IRAs	14.885	15.582	16.714
Rollovers to Traditional IRAs	225.637	187.799	204.396
Percentage of Eligible Taxpayers			
Who Contribute	9.5%	10.6%	10.3%
Average Contribution	$2,412	$2,348	$2,894

Source: Peter J. Sailer and Sarah E. Nutter, "Accumulation and Distribution of Individual Retirement Arrangements, 2000," *SOI Bulletin* (Spring 2004): 121-134; and Victoria L. Bryant and Peter J. Sailer, "Accumulation and Distribution of Individual Retirement Arrangements, 2001–2002," *SOI Bulletin* (Spring 2006): 233–254.

[a] Individual Retirement Arrangement (Account).

[b] Other IRAs include SEP Plans, SIMPLE Plans, and Educational IRA Plans.

other IRAs held $133.4 billion in 2002.[14] Thus, Roth IRAs accounted for just over 3 percent of all IRA assets in 2002, while other IRAs account for slightly more than 5 percent.

Total Contributions—In contrast, of the $42.3 billion in IRA contributions in 2002, only $12.4 billion went to traditional IRAs, both deductible and nondeductible (Figure 6). This accounts for 29.3 percent (22.4 percent in deductible and 6.9 percent in nondeductible) of all IRA contributions. Roth contributions represented 31.2 percent of the contributions, while the share of other IRA contributions was 39.5 percent.[15]

Total Rollovers—The factor that continues to drive the asset growth of traditional IRAs relative to the other types of IRAs is rollovers from other tax-preferred plans, as opposed to new contributions. In 2002, rollovers to traditional IRAs amounted to $204.4 billion, following rollover amounts of $225.6 billion in 2000 and $187.8 billion in 2001 (Figure 6).[16] Again, as noted above, this compares with only $42.3 billion in 2002 IRA contributions—meaning that rollovers that year amounted to almost five times the amount of new contributions.

Percentage Who Contribute and Average Contribution—The proportion of eligible taxpayers who contributed to IRAs was near 10 percent for each year from 2000–2002, ranging from 9.5 percent to 10.6 percent (Figure 6). The average contribution made by those contributing was approximately $2,400 in both 2000 and 2001, before the contribution limits increased in 2002.[17] In 2002, the average contribution jumped to $2,894.

Conclusion

The percentage of workers with an individual account plan grew significantly in the late 1990s into the early 2000s. In particular, 401(k)-type plan participation reached 33.1 percent of workers ages 21–64 in 2005, up from 24.1 percent in 1996, while IRA ownership increased from 15.9 percent in 1996 to 22.9 percent in 2005. Furthermore, the percentage of workers owning both types increased significantly from 1996 to 2005. The average contributions to both of these plans also rose.

However, certain subgroups of American workers, such as younger, less-educated, lower-income, and minority workers, are behind their peers in ownership of and contributions to these plans.

The asset levels in these individual account plans have continued to increase, making them the primary vehicles for retirement savings in the United States. IRAs and defined contribution plans held $7.5 trillion in assets at the end of the year 2006.[18] Although Americans have amassed a substantial amount of total wealth in these plans, the data also show that a majority of Americans still do not have a retirement plan.

This means that many retirees, other than those who have significant annuity income (either from a defined benefit pension plan or individually purchased), will end up in one of two groups: 1) those who rely exclusively on Social Security, or 2) those who rely on Social Security plus the assets accumulated in their individual account retirement plans, which they are responsible for managing.

The fact that a large percentage of retirees relies exclusively on Social Security is not new in the United States; however, for new and future retirees with individual account retirement plan benefits, *managing these assets* is a new challenge. This was not widely experienced by many older retirees, whose working careers spanned the time when employer-financed defined benefit pension plans (with annuity payments) were the norm.

The new challenge for retirees who own these accounts and have accumulated significant savings in them will be to maintain and draw down the account balances in a way that pays for an acceptable standard of living but still lasts throughout the length of their retirement. A retiree who spends too much early in retirement by underestimating his or her remaining years of life could wind up outliving the retirement assets. Therefore, retirees with these individual account assets will need to have information or financial vehicles that will help make their money last throughout retirement, in order to avoid significantly lowering their standard of living in old age.

In previous EBRI research, VanDerhei and Copeland (2003) examined the likelihood of a retiree being able to fund his or her basic expenses in retirement and the potential need for additional savings to cover these expenses if existing funds are insufficient.[19] Furthermore, in another EBRI study, VanDerhei and Copeland (2004) investigated how eliminating lump-sum distributions from employment-based retirement plans and annuitizing all retirement plan assets would affect workers' need for additional savings.[20]

Both of these studies show that decisions on both savings in and spending from these individual account plans will have critically important consequences for many Americans' ultimate financial security in retirement. Whether they realize it or not, current and future retirees using these individual account plans are being handed two difficult assignments: Not just the *accumulation*, but also the orderly *divesture* of their retirement savings in order to finance a comfortable retirement.

Endnotes

[1] See the U.S. Census Bureau's SIPP Web site, www.sipp.census.gov/sipp/overview.html, for further information on SIPP. This study uses data from the 1996 and 2001 panels. The 1996 Panel followed the same individuals for a four-year period, while the 2001 Panel follows the same individuals for a three-year period, with the 2001 Panel including a sample of 36,700 families. The 2004 Panel consists of 46,500 households to be interviewed for 2-½ years. In the survey, respondents are interviewed every four months, with all respondents being interviewed in staggered months so that one-fourth of the sample is interviewed each month. During each interview, the respondents are asked a core set of the same questions about the prior four-month period and topical modules of more specialized topics that are rotated through the survey and refer to the reference month (last month of the four-month period) or prior year. Thus, the results of many of these questions cover a four-month period to include the full sample.

[2] This research updates the results found in Craig Copeland, "401(k)-Type Plans and Individual Retirement Accounts (IRAs)," *EBRI Notes*, no.10 (Employee Benefit Research Institute, October 2007): 2–13. The results for 2004 were different in this publication, as the Census Bureau released the core data for Wave 4 after the publication of the October *Notes*, which allowed for revised estimates of the 2004 results.

[3] See Jack VanDerhei, Sarah Holden, Craig Copeland, and Luis Alonso, "401(k) Plan Asset Allocation, Plan Balances, and Loan Activity in 2006," *EBRI Issue Brief*, no. 308 (Employee Benefit Research Institute, August 2007) for the most recent results on participant account balances from the EBRI/ICI database; and Sarah Holden and Jack VanDerhei, "Contribution Behavior of 401(k) Plan Participants," *EBRI Issue Brief*, no. 238 (Employee Benefit Research Institute, October 2001) for results on contributions from this database.

[4] See Holden and VanDerhei (2001), op. cit., for contributions to just 401(k) plans.

[5] The maximum dollar amounts that were allowed to be contributed to 401(k) plans on a tax-deferred basis were $9,700 in 1996, $10,500 in 2001, and $14,000 ($17,500 for those age 50 or older) in 2005. While these were the maximum dollar amounts allowed by the Internal Revenue Code, plans may have limited contributions to a level below this maximum amount. In addition, during those years, the federal government also limited contributions to 25 percent of compensation. Thus, anyone making below $42,000 in 2001 could not have made the maximum dollar amount contribution. However, starting in 2002, the maximum percentage amount was increased to 100 percent of compensation.

[6] The percentage of income that is contributed to 401(k)-type plans in this study is not comparable with that of Holden and VanDerhei (2001), op. cit., as this study uses family income whereas the EBRI/ICI study uses individual earnings. Furthermore, again, the Holden and VanDerhei study includes only 401(k) plans, while this study covers a broader base that includes other similar defined contribution plans.

[7] SIPP asks for income on a monthly basis. The income used in this study is the monthly income of the reference month of the survey when questions were asked about participation and contributions. (For the 2005 results, the income data came from the last month of the Wave 2 before, since the Wave core data file corresponding to the topical module data with the IRA questions had not been released at the time of this study.) The monthly income is then annualized by multiplying it by 12. Consequently, any worker with uneven monthly earnings over the year will have inaccurate annualized earnings for the year. This number appears to be small overall, but does appear to influence the results from the lowest-income groups with small participation levels in 401(k)-type plans.

[8] In general, the groups with higher average earnings were associated with those groups having higher average balances. See VanDerhei, Holden, Copeland, and Alonso (2007), op. cit., for the average balances by age and income levels.

[9] The data from SIPP only have tax-deductible contributions, not nondeductible contributions, such as those to Roth IRAs. A section later in this study presents data on all contribution types to IRAs.

[10] The maximum IRA contribution from 1996–2001 was $2,000. In 2002, the maximum was increased to $3,000 until 2004, when it was set at $4,000 annually through 2007. In 2008, the limit increased to $5,000. For those age

50 or older, an additional $500 could be contributed from 2002–2005. In 2006, the "catch-up" contribution increased to $1,000.

[11] See U.S. Department of Labor, Employee Benefits Security Administration, *Private Pension Plan Bulletin Historical Tables* (February 2008), www.dol.gov/ebsa/pdf/privatepensionplanbulletinhistoricaltables.pdf (viewed March 21, 2008).

[12] Prior to the *2005 Private Pension Plan Bulletin*, the count of active participants had been adjusted from the number of active participants that was actually reported using line 4c(5) from Schedule T and line 7g from Form 5500. The figure was adjusted to exclude two groups of individuals: 1) individuals eligible to participate in a 401(k) plan who had not elected to have their employers make contributions and 2) nonvested former employees who had not (at the time the Form 5500s were submitted) incurred the break in service period established by their plan. Because the IRS Schedule T filing is no longer mandatory, the Employee Benefits Security Administration cannot continue to produce the above adjustments. Instead, as noted in the introduction, beginning with the 2005 *Bulletin,* the definition of "active participants" corresponds directly to the definition on page 16 of the 2005 Instructions for Form 5500.

[13] The data for this section are from IRS research published in their *SOI Bulletin*. For more results, see Peter J. Sailer and Sarah E. Nutter, "Accumulation and Distribution of Individual Retirement Arrangements, 2000," *SOI Bulletin* (Spring 2004): 121–134; and Victoria L. Bryant and Peter J. Sailer, "Accumulation and Distribution of Individual Retirement Arrangements, 2001–2002," *SOI Bulletin* (Spring 2006): 233–254.

[14] Other IRAs include simplified employee pension (SEP) plans, savings incentive match plan for employees (SIMPLE) plans, and educational IRAs.

[15] The Investment Company Institute has estimates for IRA assets by type through 2006 in Investment Company Institute, "The U.S. Retirement Market, 2006," *Research Fundamentals,* Vol. 16, no. 3 (Investment Company Institute, July 2007), available at www.ici.org/pdf/fm-v16n3.pdf (last viewed Sept. 19, 2007). Estimates of Roth contributions through 2004 and more detailed data on IRA holdings are included in Investment Company Institute, "Appendix: Additional Data on the U.S. Retirement Market, 2006," *Research Fundamentals,* Vol. 16, No. 3A (Investment Company Institute, July 2007), available at www.ici.org/pdf/fm-v16n3_appendix.pdf (last viewed Sept. 19, 2007).

[16] See Craig Copeland, "Individual Account Retirement Plans: An Analysis of the 2004 Survey of Consumer Finances," *EBRI Issue Brief*, no. 293 (Employee Benefit Research Institute, May 2006) for a breakdown of IRA assets into rollover and traditional (regular) assets, where between 25 percent and 50 percent of the IRA assets were found to be attributable to rollovers.

[17] See endnote 10 for details on the increases in the IRA contribution limits.

[18] See Craig Copeland, "IRA Assets and Contributions, 2006," *EBRI Notes,* no. 9 (Employee Benefit Research Institute, December 2007): 2–9.

[19] See Jack VanDerhei and Craig Copeland, "Can America Afford Tomorrow's Retirees: Results From the EBRI-ERF Retirement Security Projection Model," *EBRI Issue Brief,* no. 263 (Employee Benefit Research Institute, November 2003).

[20] See Jack VanDerhei and Craig Copeland, "ERISA at 30: The Decline of Private-Sector Defined Benefit Promises and Annuity Payments? What Will It Mean?" *EBRI Issue Brief,* no. 269 (Employee Benefit Research Institute, May 2004).

■ Facts from EBRI—The Basics of Medicare, Updated With the 2008 Board of Trustees Report

History

- In 1965, Title 18, "Health Insurance for the Aged," of the Social Security Act created the Medicare program. Medicare currently consists of three parts: Hospital Insurance (HI), Part A, covers hospital services and some home health care and skilled nursing facility services, and Supplemental Medical Insurance (SMI), Part B, covers physician care, outpatient hospital services, and independent laboratory services; and Part D, covers outpatient prescription drugs.
- In 1972, the Medicare program was expanded to include disabled persons who qualified for benefits under the Disability Insurance (DI) program and certain individuals with end-stage renal (kidney) disease.
- In 1986, all state and local government employees hired after Mar. 31, 1986, and not covered under Social Security, were required to be covered by Medicare.
- In 1997, the Balanced Budget Act of 1997 expanded the delivery of health care under Medicare with the Medicare+Choice program. See below for more details in the section Medicare Advantage.
- In 1997, under the Balanced Budget Act of 1997, home health services not associated with a hospital or skilled nursing facility stay for individuals enrolled in both HI and SMI were transferred from the HI program to the SMI program, effective January 1998.
- In 2000, Congress enacted the Benefits Improvement and Protection Act (BIPA) to increase payments to plans in an effort to stop plans from withdrawing from the Medicare+Choice program.
- In 2003, Congress enacted the Medicare Prescription Drug Improvement and Modernization Act, which created Part D, prescription drug coverage, means-tested Part B premiums and increased the Part B deductible.

Covered Beneficiaries

- Medicare serves elderly and disabled workers who qualify for DI benefits. Enrollment in HI (Part A) is automatic, while enrollment in SMI (Parts B and D) is voluntary. In 2007, 36.6 million elderly and 7.2 million disabled individuals were enrolled in Part A, and 34.6 million elderly and 6.4 million disabled individuals were enrolled in Part B, and 30.9 million individuals were enrolled in Part D.

Financing

- Expressing Medicare expenditures as a percentage of gross domestic product (GDP) gives a relative measure of the size of the Medicare program compared to the general economy. The projection of this measure affords the public an idea of the relative financial resources that will be necessary to pay for Medicare services. In 2007, expenditures in the Medicare program equaled 3.18 percent of GDP. By 2080, that share is estimated to grow to 10.69 percent. However, after 2007, the projected Part B, SMI, and total Medicare expenditures are unrealistically low because of the current-law physician payment reductions. Should these payment rates, by new legislation, be prevented from declining, the overall Medicare costs shown in this section would be increased—possibly by 4 to 8 percent for 2030 and later, depending on the specific changes enacted.
- Medicare costs are projected to exceed those of the Social Security OASDI program in 2028 and to be 85 percent more than Social Security by 2082.

▸ *Federal Budgetary Processes*

- Currently, the U.S. Department of the Treasury credits the Medicare and Social Security trust funds with any annual excess of Medicare and Social Security tax revenues over the amount spent for current benefits. By law, these assets must be invested in special securities issued by the Treasury. The government then spends these "assets" to ease fiscal pressures on other programs. The trust fund surpluses are not reserved for future Medicare and Social Security benefits but are bookkeeping entries showing how much the Medicare and Social Security programs have lent to the Treasury (or alternatively, what is owed to Medicare and Social Security, including interest, by the Treasury). 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.

- ***Part A: Hospital Insurance (HI)***
  - The Balanced Budget Act of 1997 contained numerous provisions affecting the Medicare program. These provisions were designed in part to postpone the imminent depletion of the HI trust fund, which, according to the 1997 Board of Trustees' report, had been projected for 2001.
  - In 2008, the fund is expected to begin using interest earnings to cover the excess of expenditures over tax income. Beginning in 2011, trust fund assets will begin to be used to cover the excess.
  - The HI trust fund is expected to be exhausted by 2019.
  - The difference between Medicare Part A's total outlays and its "dedicated financing sources" is estimated to reach 45 percent of outlays in fiscal year 2014, the seventh year of the projection. As a result, the Board of Trustees is required to issue a determination of projected "excess general revenue Medicare funding" in this report. This is the second consecutive such finding that triggers a statutory "Medicare funding warning," indicating that federal general revenues are becoming a substantial share of total financing for Medicare. As required by law, the president must again submit to Congress proposed legislation to respond to the warning, and Congress must consider the legislation on an expedited basis. (In February 2008, President Bush submitted legislation responding to the "Medicare funding warning" triggered by the 2007 Medicare Trustees Report.)
  - HI payroll taxes are based on a combined employer/employee rate of 2.9 percent. The Omnibus Budget Reconciliation Act of 1993 completely removed any wage base limit for the HI payroll tax, effective Jan. 1, 1994. In 2007, total income for the HI trust fund was $223.7 billion: $191.9 billion came from payroll taxes, $10.6 billion from taxation of Social Security benefits, $16.5 billion from interest, $2.8 billion from premium payments, and $1.9 billion from general revenue and other sources.[1]
  - In 2007, the average amount reimbursed per enrollee in Part A was $4,573.
  - In 2007, administrative costs for Part A were $2.9 billion, or 1.4 percent of expenditures.
  - The unfunded obligation of the HI trust fund, from program inception to 2082, is estimated to be $12.4 trillion, while the unfunded obligation from program inception through the infinite horizon is $34.4 trillion.

- ***Part B: Supplementary Medical Insurance (SMI)***
  - The SMI trust fund is financed on a year-by-year basis. The SMI program derives its revenues from premium payments by beneficiaries and general revenues from the federal budget. Under current law, no more than 25 percent of SMI's revenues can come from premium payments.
  - In 2007, total income for Part B of the SMI trust fund was $238.2 billion: $178.4 billion from general revenues of the federal government; $50.6 billion in premium payments, $6.9 billion in transfers from states, and $2.3 billion in interest.
  - The average amount reimbursed per enrollee in Part B was $4,312, in 2007.
  - In 2007, administrative costs for Part B were $3.4 billion, or 1.5 percent of expenditures.
    - The unfunded obligation of Part B, from program inception through 2082, is estimated to be $21.2 trillion, while the unfunded obligation from program inception through the infinite horizon is $45.9 trillion.

- ***Part D: Medicare Prescription Drug Account***
  - Part D is financed by beneficiary premium payments, transfers from the general fund of the Treasury and transfers from state governments. Premiums are to account for 25.5 percent of the total costs of Part D.
  - In 2007, total income for Part D of the SMI trust fund was $49.5 billion: $38.8 billion from general revenues of the federal government; $3.9 billion in premium payments, and $6.9 billion in transfers from states.
  - The average amount reimbursed per enrollee in Part D was $1,575, in 2007.
  - The unfunded obligation of Part D, from program inception through 2082, is estimated to be $10.0 trillion, while the unfunded obligation from the program inception through the infinite horizon is $21.8 billion.
  - Estimated operations of the Part D account are summarized below. Actual experience for 2006 came in significantly lower than the low-cost estimates from the 2006 Trustees Report.

Part D Estimated Operations

Calendar Year	Premiums From Enrollees	Other Income[1]	Total Revenue	Total Expenditures
		($ in billions)		
Actual Experience				
2007	$ 3.9	$ 45.6	$ 49.5	$ 49.5
Estimated 2007 Operations from 2007 Trustees Report				
2007[2]	4.0	46.1	50.1	50.1
Intermediate Assumptions				
2008	4.7	46.8	50.5	50.5
2017	15.6	126.2	141.8	141.7
Low Cost Assumptions				
2008	4.6	44.9	49.6	49.6
2017	10.8	95.9	106.7	106.6
High Cost Assumptions				
2008	4.8	48.7	53.5	53.5
2017	21.8	165.8	187.6	187.4

[1] Contains federal and state government payments plus interest income.
[2] Intermediate assumptions.

Cost-Sharing Provisions

Hospital Insurance (HI): Part A

Part A requires an enrolled individual to pay various deductibles and co-pays, depending on the facility where the service is provided and the length of stay.

- *2008 Cost-Sharing Provisions*
  - *In-patient Hospital Deductible*—For a hospital stay of 1–60 days, a patient is liable for a $1,024 deductible. For a hospital stay of 61–90 days, the patient is liable for a $256 co-pay per day. For a hospital stay of more than 90 days, a patient is liable for a $512 co-pay per day.
  - *Skilled Nursing Facility*—There is no deductible or co-pay for the first 20 days of a skilled nursing facility stay. If the stay lasts for 21 days or longer, the patient is liable for a $128 co-pay per day.
  - *Part A Premium*—For an individual who is age 65 or older and not otherwise covered by the Medicare program, the monthly premium to be covered by Part A is $423. For enrollees who have at least 30 quarters of credit may apply for a reduced premium. That reduced premium amount is $233.
- *2017 Cost-Sharing Provisions Estimates* (based on intermediate assumptions)
  - *In-patient Hospital Deductible*—For a hospital stay of 1–60 days, a patient is estimated to be liable for an $1,488 deductible. For a hospital stay of 61–90 days, the patient is estimated to be liable for a $372 co-pay per day. For a hospital stay of more than 90 days, a patient is estimated to be liable for a $744 co-pay per day.
  - *Skilled Nursing Facility*—There is no deductible or co-pay for the first 20 days of a skilled nursing facility stay. If the stay lasts for 21 days or longer, the patient is estimated to be liable for a $186 co-pay per day.
  - *Part A Premium*—For an individual who is age 65 or older and not otherwise covered by the Medicare program, the monthly premium to be covered by Part A is estimated to be $610. Enrollees who have at least 30 quarters of credit may apply for a reduced premium. In 2017, that reduced premium amount is estimated to be $336.
- The use of Medicare benefits is calculated based on benefit periods and reserve days. The benefit period is the block of time used to determine how much of a deductible and/or co-pay the beneficiary owes. A benefit period begins and ends when he or she has been out of the hospital for 60 consecutive days. For example, if a beneficiary enters the hospital on November 10, 2008, and is released on November 24, 2008, he or she is liable for $1,024. If the beneficiary is re-admitted to the hospital on December 20, 2008, and released on December 26, 2008, he or she does not have to pay another $1,024. The beneficiary is liable to pay the deductible per benefit period, not per admission. The benefit period on this example runs until January 24, 2009.
- There is no limit on the number of benefit periods a beneficiary may use in a lifetime, except for hospice care, which entitles a beneficiary to two 90-day periods and one 30-day period.

  - Reserve days are used for hospital stays beyond 90 days. A beneficiary is entitled to only 60 reserve days.

- ***Supplementary Medical Insurance (SMI): Part B***
  - Since Part B of Medicare is voluntary, participants are required to make a monthly contribution to the premium. Part B premiums are automatically deducted from the enrollee's Social Security benefit, provided the enrollee receives Social Security benefits. Under current law, no more than 25 percent of Part B's revenues can come from premium payments.
  - The Medicare Prescription Drug Improvement and Modernization Act of 2003 requires the Medicare Part B premium to be related to income starting in 2007. By 2011, premiums will increase with income. Medicare beneficiaries with income under $80,000 ($160,000 for a married couple) will continue to be required to pay 25 percent of the cost of Part B. However, beneficiaries with income between $80,000 and $100,000 will be required to pay 35 percent of the premium, and beneficiaries with income of at least $200,000 will be responsible for 80 percent of the premium to enroll in Part B. These income levels will also be indexed to general inflation.
  - *Premiums*—In 2008, the monthly premium is $96.40. By 2017, the monthly premium is estimated, under intermediate assumptions, to be $126.40.
  - *Annual Deductible*—This is applied to all Part B services except home health care services. In 2008, the annual deductible is $135. By 2017, the annual deductible is estimated, under intermediate assumptions, to be $178.
  - *Coinsurance*—Coinsurance payment in 2008 is 20 percent.

- ***Supplementary Medical Insurance (SMI): Part D***
  - The Medicare Prescription Drug Improvement and Modernization Act of 2003 created Part D a prescription drug benefit. Under current law, no more than 25.5 percent of Part D's revenues can come from premium payments.
  - *2008 Cost-Sharing Provisions*
    - *Premiums*—the base beneficiary premium is $27.93.
    - *Annual Deductible*— the annual deductible is $275.
    - *Initial Benefit Limit*— the initial benefit limit is $2,510. The catastrophic threshold limit is $4,050.
  - *2017 Cost-Sharing Provisions estimates* (based on intermediate assumptions)
    - *Premiums*—the base beneficiary premium is $51.08.
    - *Annual Deductible*—the annual deductible is $535.
    - *Initial Benefit Limit*—the initial benefit limit is $4,830. The catastrophic threshold limit is $7,850.

- ***Supplementary Medical Insurance Costs Compared With Social Security Benefits***
  - The average Part B plus Part D premium in 2010 is estimated to equal 11 percent of the average Social Security benefit but would increase to an estimated 29 percent in 2080. Similarly, an average cost-sharing amount in 2010 would be equivalent to 14 percent of the Social Security benefit, increasing to 37 percent in 2080.

Medigap

- Although Medicare eases many financial worries for the elderly, it does not cover 100 percent of all medical services. Medicare's deductibles and co-payments can be high, particularly for long hospital stays.
- Medicare does not cover all medical services. Most notable are eye exams and glasses, hearing aids, and dental services.
- To help meet these additional expenses, Medicare beneficiaries frequently purchase what is known as Medigap policies. A Medigap policy is purchased in the individual market.
- In the 1970s and 1980s, Medicare enrollees encountered problems with purchasing health insurance to supplement Medicare. In the Omnibus Budget Reconciliation Act of 1990 (OBRA '90), Congress charged the National Association of Insurance Commissioners (NAIC) with developing a variety of Medigap policies. NAIC developed 10 policies ranging from a basic coverage plan, Plan A, to comprehensive coverage, Plan J. Insurance carriers are not required to offer all 10 policies, but if a carrier offers Medigap policies, they must be from the 10 policies designed by NAIC. Exceptions to this rule are for carriers in Massachusetts, Minnesota, and Wisconsin, states that had Medigap laws in place before OBRA '90.
- As of January 1, 2006, Medigap policies providing coverage for prescription drugs (Plans H, I, and J) cannot be sold or issued, though they can be renewed if an individual does not enroll in Medicare Part D.

- The Centers for Medicare & Medicaid Services maintains an interactive Web page designed to assist an enrollee in obtaining Medigap coverage. The Web site is at the following link: www.medicare.gov/MGCompare/Home.asp

Covered Services

- ***Hospital Insurance (HI): Part A***
  - *Hospitalization*—Covered services include semiprivate room and board, general nursing, miscellaneous hospital services and supplies, inpatient psychiatric hospital care.
  - *Post-hospital Skilled Nursing Facility Care*—To receive this service, the individual must have been in the hospital for at least three days and enter facility within 30 days after hospital discharge.
  - *Home Health Care*—Covered services include part-time skilled nursing care, physical therapy, occupational therapy, speech-language therapy, home health aide services, medical social services, durable medical equipment (such as wheelchairs) and medical supplies.
  - *Hospice Care*—Covered services include medical and support services from a Medicare-approved hospice for people with a terminal illness, drugs for symptom control and pain relief, and other services not otherwise covered by Medicare. Hospice care is usually given in the home. However, short-term hospital and inpatient respite care (care given to a hospice patient by another caregiver so that the usual caregiver can rest) are covered when needed.
  - *Blood*—Covered services include pints of blood received at a hospital or skilled nursing facility during a covered stay.

- ***Supplementary Medical Insurance (SMI): Part B***
  - *Medical and Other Services*—Covered services include doctors' services (not routine medical exams), outpatient medical and surgical services and supplies, diagnostic tests, ambulatory surgery center facility fees for approved procedures, and durable medical equipment (such as wheelchairs). Part B covers second surgical opinions, outpatient mental health care, outpatient physical and occupational therapy, including speech-language therapy.
  - *Clinical Laboratory Services*—Services include blood tests, urinalysis, and more.
  - *Home Health Care*—Services include part-time skilled nursing care, physical therapy, occupational therapy, speech-language therapy, home health aide services, medical social services, durable medical equipment (such as wheelchairs) and medical supplies, and other services.
  - *Outpatient Hospital Services*—Services include hospital services and supplies received as an outpatient as part of a doctor's care.
  - *Blood*—Covered services include pints of blood received as an outpatient or as part of a Part B covered service.

- ***Supplementary Medical Insurance (SMI): Part D***
  - Provides subsidized access to drug insurance coverage on a voluntary basis for all beneficiaries and premium and cost-sharing subsidies for low-income beneficiaries.

Medicare Advantage

- The Medicare Prescription Drug Improvement and Modernization Act of 2003 changed the name of the Medicare+Choice program to Medicare Advantage.
- The Medicare Advantage program was created by Congress in the Balanced Budget Act of 1997 to allow more types of health insurance plans, including managed care plans, to serve Medicare beneficiaries. In 2005, 5.8 million Medicare beneficiaries (13.0 percent of Medicare beneficiaries) were enrolled in a Medicare Managed Care. This number is estimated to increase to 16.0 million (31.7 percent of Medicare beneficiaries). Since 1998, most managed care contracts with the Centers for Medicare & Medicaid Services have operated under the Medicare Advantage program.

Trustees in 2008

- Treasury Secretary Henry M. Paulson, Jr. acts as the Managing Trustee. The other trustees include: Elaine Chao, Secretary of Labor; Michael O. Leavitt, Secretary of Health and Human Services; Michael J. Astrue, Commissioner of Social Security; Leslie V. Norwalk, Administrator of the Centers for Medicare and Medicaid Statistics and Secretary, Board of Trustees; the two public trustee positions are currently vacant.
- A copy of the 2008 Trustees report is online at www.cms.hhs.gov/ReportsTrustFunds/

Recent EBRI Research on Medicare and Retiree Health

- "Savings Needed to Cover Health Insurance and Health Care Expenses in Retirement," *EBRI Issue Brief no. 295* (July 2006)
- "The Impact of the Erosion of Retiree Health Benefits on Workers and Retirees," *EBRI Issue Brief* no. 279 (March 2005):
- "Controlling Health Costs and Improving Health Care Quality for Retirees," *EBRI Issue Brief* no. 278 (February 2005):
- "Health Care Expenses in Retirement and the Use of Health Savings Accounts," *EBRI Issue Brief* no. 271 (July 2004):
- "Medicare Program Takes on More Income-Related Features," *EBRI Notes*, no. 5 (May 2004):

For additional detailed information on the Medicare program, go to www.medicare.gov/ which is maintained by the Centers for Medicare & Medicaid Services, part of the U.S. Department of Health and Human Services.

Source: U.S. Department of Health and Human Services, Centers for Medicare & Medicaid Services, *2008 Annual Report of the Board of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Fund* (Washington, DC: U.S. Government Printing Office, 2008).

[1] Other income includes recoveries of amounts reimbursed from the trust fund that are not obligations of the trust fund, receipts from the fraud and abuse control program, and a small amount of miscellaneous income.

■ *New Publications and Internet Sites*

[Note: To order U.S. Government Accountability Office (GAO) publications, call (202) 512-6000.]

Health Care

International Foundation of Employee Benefit Plans. *Retiree Health Care*. IFEBP members, $50; nonmembers, $125 + S&H. Available in print or CD-ROM. International Foundation of Employee Benefit Plans, Publications Department, P.O. Box 68-9953, Milwaukee, WI 53268-9953, (888) 334-3327, option 4; fax: (262) 786-8780, e-mail: books@ifebp.org, www.ifebp.org

U.S. Government Accountability Office. *Health Insurance: Most College Students Are Covered through Employer-Sponsored Plans, and Some Colleges and States Are Taking Steps to Increase Coverage*. Order from GAO.

Pension Plans/Retirement

Krass, Stephen J. *The 2008 Pension Answer Book*. $245 + S&H. Aspen Publishers, 7201 McKinney Circle, P.O. Box 990, Frederick, MD 21705-9727, (800) 638-8437, www.aspenpublishers.com

Watson Wyatt Worldwide. *Retirement Plan Design: Past, Present and Future*. $49. Watson Wyatt Worldwide, 901 N. Glebe Rd., Arlington, VA 22203, (703) 258-8000, fax: (703) 258-8585, www.watsonwyatt.com

Reference

Business Insurance. *2008 Market SourceBook*. $50. Crain Communications Inc., Attn: Single Copy Sales, 1155 Gratiot Ave., Detroit, MI 48207-2912, (888) 446-1422, subs@crain.com. Copies can be downloaded for $50 in digital format at www.BusinessInsurance.com/BuyDigitalMSB

Web Documents

2008 Health Care for America Survey: Summary of Findings
www.aflcio.org/issues/healthcare/survey/

Changes in Family Health Insurance Coverage for Small and Large Firm Workers and Dependents: Evidence from 1995 to 2005
www.sba.gov/advo/research/rs321tot.pdf

Consumer-Driven Impact Study
www.milliman.com/expertise/healthcare/publications/rr/pdfs/consumer-driven-impact-studyRR-04-01-08.pdf

Current Strategies to Employ and Retain Older Workers
www.urban.org/UploadedPDF/411626_olderworkers.pdf

Employer "Pay or Play" Requirements—Key State and Local Health Care Reform Initiatives
www.americanbenefitscouncil.org/documents/abc_statechart_0408.pdf

EP Determination Letter Resource Guide [for retirement plan sponsors]
www.irs.gov/retirement/article/0,,id=128189,00.html

FMLA Practices and Perspectives: A Survey of WorldatWork Members
www.worldatwork.org/waw/adimLink?id=25672

Hewitt FMLA Resources for Employers
www.hewittassociates.com/Intl/NA/en-US/KnowledgeCenter/LegislativeUpdates/LegislativeUpdatesDetail.aspx?cid=4936

Improvement in Multiemployer Pension Plans' Withdrawal Liability Funded Ratios Continues
www.segalco.com/publications/surveysandstudies/winter08wdfrsurvey.pdf

MetLife Sixth Annual Study of Employee Benefits Trends—Findings from the National Survey of Employers and Employees
www.whymetlife.com/trends/downloads/MetLife_EBTS08.pdf

Milliman 2008 Pension Funding Study: 2007 Gains Reversed in First Quarter of 2008
www.milliman.com/expertise/employee-benefits/products-tools/pension-funding-study/pdfs/2008-pension-funding-study04-16-08.pdf

Retirement Security for Women: Progress To Date and Policies for Tomorrow
www.retirementsecurityproject.org/pubs/File/RSP-PB_Women_FINAL_4.2.2008.pdf

The Role of IRAs in U.S. Households' Saving for Retirement
www.ici.org/stats/res/fm-v17n1.pdf

Social Security: An Essential Asset and Insurance Protection for All
www.nasi.org/usr_doc/An_Essential_Asset_and_Insurance_Protection_for_All.pdf

Summary of the Employee Retirement Income Security Act (ERISA)
www.assets.opencrs.com/rpts/RL34443_20080410.pdf

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