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Statement for the Record
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“Employment-Based Retirement Plan Participation”



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Introduction

This testimony begins by examining the level of participation by workers in employment-based pension or retirement plans focusing primarily on private sector workers,¹ based on the U.S. Census Bureau's Current Population Survey (CPS). From these data, baseline results on participation in employment-based retirement plans can be established.²

Overall Participation Levels

Among the 156.5 million Americans who worked in 2012, 76.0 million worked for employers or unions that sponsored a pension or retirement plan, and 61.6 million participated in a plan. This translates into a sponsorship rate (the percentage of workers working for an employer or union that sponsored a plan) of 48.6 percent and a participation level of 39.4 percent.³ Eliminating the self-employed and focusing on the private sector, 39.1 percent of the private-sector wage and salary workers ages 21–64 participated in an employment-based retirement plan. Another definition of the work force that most closely resembles the workers who generally must be covered by an employment-based retirement plan in accordance with the Employee Retirement Income Security Act of 1974 (ERISA), is *full-time, full-year wage and salary workers* ages 21–64.⁴ Under this definition for private sector workers, 55.7 percent of workers worked for employers sponsoring a plan, and 48.2 percent of the workers participated in a retirement plan.

Worker Characteristics

The participation in a retirement plan increases substantially with age. For private sector wage and salary workers ages 21–24, 14.8 percent participated in a plan in 2012, compared with 47 percent of those ages 45–64. Male workers (40.4 percent) were slightly more likely to participate in a plan than females (37.6 percent).

Being white, having higher educational attained, or being married are also associated with higher probabilities of participating in a retirement plan. Among white workers, 44.1 percent participated in a plan, compared with 23.1 percent of Hispanic workers. Fifteen percent of workers without a high school diploma participated in a plan, while 58.3 percent of those holding graduate or professional degrees participated. The higher a worker's earnings is above \$10,000 the more likely he or she participates in a plan. Approximately one-eighth (12.7 percent) of workers who had annual earnings of \$10,000–\$19,999 participate in a plan, compared with 66.3 percent of those earning \$75,000 or more.

Employer Characteristics

Workers of larger employers are more likely to be retirement plan participants than are those of smaller employers. Among workers of employers with fewer than 10 employees, 13.5 percent participated in a plan. This percentage steadily increased for each larger group of employers by number of workers reaching 54.8 percent for workers of employers with 1,000 or more employees. The industries of the employers also had an impact on the likelihood of participating in a plan. Workers in the manufacturing industry and the transportation, utilities, information, and financial industry have the highest probability of participating, while those in the other-services industry have the lowest probability.

Other Data

Other surveys exist on employment-based retirement plan offering and employee participation. The National Compensation Survey, conducted by the U.S. Department of Labor's Bureau of Labor Statistics (BLS) found in March 2013 that 49 percent of private-sector workers participated in an employment-based retirement plan.⁵ Dushi, Iams, and Lichtenstein (2011) used Survey of Income and Program Participation (SIPP) data matched with tax records and found a 5-percentage-point-higher level of participation than what the SIPP responses indicated. Consequently, there are issues with drawing conclusions from certain individual responses to questions on retirement plan participation.⁶ Others have suggested that the "correct" level may even be 10 percentage points above the CPS level, but the significant differences between employees by age and the size of their employer remain. Furthermore, SIPP was able to provide an estimate of if a worker had ever participated. For those ages 51-60, 72 percent of workers had participated at some point through that age.⁷

Trends

The trend in the percentage of workers participating in an employment-based retirement plan has been essentially stable from 1987 to 2012. The wage and salary workers ages 21-64 participation level went from 39.8 percent in 1987 to 39.1 percent in 2012. The percentage participating across each demographic category was similarly stable from 1987—2012. Furthermore, the magnitudes between the categories of the demographic variable for the most part were also relatively stable. The one significant exception to the overall result was the closing of the gap in the participation levels between male and female workers.

Defined Benefit vs. Defined Contribution

The increase in the number of DC plan participants has grown substantially relative to DB plan participants since 1975. For example, the Department of Labor's Employee Benefits Security Administration's *Private Pension Plan Bulletin Historical Tables and Graphs* (2013), which compiles data from the Internal Revenue Service (IRS) Form 5500, shows that the number of active participants in a private-sector DB plan decreased from 27.2 million in 1975 to 16.5 million in 2011 (a decline of 39 percent), while the number of active participants covered by a private-sector DC plan increased from 11.2 million to 73.7 million during that same period (an increase of over 550 percent).⁸

In terms of percentages, in 1979 28 percent of private sector workers had a defined benefit plan only, 7 percent had a defined contribution plan only, and another 10 percent had both a defined benefit and defined contribution plan. By 2011, 3 percent of private sector workers had a defined benefit plan only, 31 percent had a defined contribution plan only, and 11 percent had both.⁹

Conclusion

The fraction of private sector wage and salary workers who are currently participating in an employment-based retirement ranges from 40 percent to just over 50 percent depending upon the data used. On a life-time basis for workers ages 51-60, the percentage of workers who had ever participated in a plan reached 75 percent. However, there is a considerable gap in participation by the age and earnings of workers.

While the level of participation among private sector workers has remained relatively stable going back to the 1980s, the portion of workers in each plan type has moved from predominately defined benefit plans in 1979 to defined contribution plans in 2010s. Even among those in defined benefit plans, a lump sum distribution option has grown in availability leaving close to all private sector workers with some potential for leakage of benefits. Therefore, choices workers make before retirement with regard to these plan assets could have substantial impact on the workers financial comfort in retirement.

Endnotes

¹ This testimony for the most part is based on Craig Copeland. “Employment-Based Retirement Plan Participation: Geographic Differences and Trends, 2012.” *EBRI Issue Brief*, no. 392 (Employee Benefit Research Institute, November 2013). The Current Population Survey results include combined participation in both defined benefit and defined contribution plans. Copeland (2013) has a discussion of the differences between these plan types.

² See the Data section of Copeland (2013) op. cit. for a discussion of the comparison of Current Population Survey data with other data sources on retirement plan participation. Also see the other data section in this testimony. This is an ongoing discussion of what is the correct participation level, which is not the point of this article. Instead, the strength of the Current Population Survey--the individual detailed demographic information—is used to show the relative differences of participation across the demographics as well as the identification of those demographic groups associated with lower participation.

³ 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 in a given year for *any* of its employees, though not necessarily for the worker in question. The term *percentage of workers participating in a plan* is not synonymous with the standard retirement plan term *participation rate*, which is generally understood to mean the percentage of eligible workers who participate in a plan. In contrast, the terms *participation level* or *percentage participating* refer to the fraction of the work force participating a plan, regardless of plan eligibility. Consequently, *participation rate* is not used.

⁴ 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.

⁵ See from the Bureau of Labor Statistics website: “Employee Benefits in the United States—March 2013” (July 2013), www.bls.gov/news.release/ebs2.t01.htm.

⁶ Dushi, Irena, Howard M. Iams, and Jules Lichtenstein. “Assessment of Retirement Plan Coverage by Firm Size, Using W-2 Tax Records,” *Social Security Bulletin*. Vol. 71, No. 2, May 2011 www.ssa.gov/policy/docs/ssb/v71n2/v71n2p53.pdf. Also see Anguelow, Chris E., Howard M. Iams, and Patrick J. Purcell. “Shifting Income Sources of the Aged,” *Social Security Bulletin*. Vol. 72, No. 3, August 2012 www.ssa.gov/policy/docs/ssb/v72n3/v72n3p59.html for further discussion of using SIPP and tax data to determine retirement-plan-participation levels.

⁷ See Craig Copeland. “Retirement Plan Participation and Features, and the Standard of Living of Americans 55 or Older.” *EBRI Issue Brief*, no. 248 (Employee Benefit Research Institute, August 2002).

⁸ The 2011 number for active defined contribution participants includes some participants who were not included prior to 2004, in particular those classified as not contributing under the revised requirements for completing the Form 5500. Therefore, some of the increase in the time series was due to including more participants as actives who were not included in prior years. This resulted in 9 million more being counted as actives in 2004—the last year both ways of reporting were possible. See U.S. Department of Labor. Employee Benefits Security Administration, *Private Pension Plan Bulletin Historical Tables and Graphs* (June 2013), www.dol.gov/ebsa/pdf/historicaltables.pdf for more information. Furthermore, over 18 million participants in 401(k) plans had employers that also sponsored other pension plans. See U.S. Department of Labor. Employee Benefits Security Administration, *Private Pension Plan Bulletin Historical Tables and Graphs* (June 2013), www.dol.gov/ebsa/pdf/historicaltables.pdf. Consequently, these aggregate numbers reported from the Form 5500s included a significant number of double counting. In contrast, the CPS only counts an individual once regardless of the number of plans that individual is participating in during the year.

⁹ See “FAQs About Benefits—Retirement Issues: What are the trends in U.S. retirement plans?” at <http://ebri.org/publications/benfaq/index.cfm?fa=retfaq14>