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Oral Statement on

Coverage Under Employer-Sponsored Plans

Before the U.S. House of Representatives
Committee on Education and Labor
Subcommittee on
Labor-Management Relations

Hearings on Employee Benefits and
the Need for a National Retirement Income Policy
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of

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INTRODUCTION

Mr. Chairman, my name is Emily Andrews. I am research director at the Employee Benefit Research Institute. I am pleased to appear before this Subcommittee during its consideration of the need for a national retirement income policy. One of the issues you have raised is the extent to which a national retirement income policy should address the issue of pension coverage. I would like to provide some information based on a survey sponsored by EBRI and the U.S. Department of Health and Human Services in May 1983. I plan to discuss four topics in my testimony today:

- Who is covered by employer-sponsored retirement plans;
- Who is not covered by employer-sponsored plans;
- Recent trends in employer-sponsored coverage; and
- What influences pension coverage.

EBRI was formed in 1978 as a non-profit, non-partisan, public policy research organization to conduct research and educational programs. My comments today are set within this framework. They should not be construed as endorsing any particular policy to encourage or discourage coverage under employer-sponsored retirement plans.

WHO IS COVERED BY EMPLOYER-SPONSORED RETIREMENT PLANS

To start, how prevalent are employer-sponsored plans? Most nonfarm employees tell us that they work for an employer who sponsors some type of pension or retirement plan. This is the concept we call coverage. Specifically, 56 percent of 88 million nonfarm workers said they were covered under a plan in 1983. Among nonagricultural employees age 25 to 64 working 1,000 hours or more who have worked on their jobs at least one year, 70 percent were covered in 1983. Firms employing 500 or more employees provided coverage to 82 percent of their employees (chart 3).

We also want to know how coverage is targeted. Most covered workers earn relatively modest salaries. Over 76 percent of all covered employees earned less than $25,000 a year in 1983.

WHO IS NOT COVERED BY EMPLOYER SPONSORED PLANS

Of course, not everyone has pension coverage. Noncovered workers can be sorted into five categories (chart 1). Fifteen percent of uncovered workers are self-employed. These workers appear to reinvest their savings in their own businesses instead. Three percent of uncovered workers are in agriculture. These workers are seasonal and have any number of other employment problems. Twenty-seven percent of uncovered workers are under age 25 or age 65 and over. Through the Retirement Equity Act (REA) employers will include 583,000 additional younger employees in their pension plans.

Workers without coverage who were on the job less than a year or who usually worked less than 1,000 hours accounted for another 20 percent of all uncovered workers. Those who met all 1983 ERISA participation standards made up the remaining 34 percent of all uncovered workers. But, they only represent 16 percent of total employment.

Noncovered workers meeting ERISA participation standards (or who could expect to meet those standards) are different from those who are covered. Consider four important characteristics. Noncovered workers are much more likely to work in small firms with fewer than 100 employees (68 percent compared to 17 percent). They are less likely to work under a union contract (10 percent compared to 38 percent). Noncovered workers also tend to have lower earnings and shorter job tenure.

RECENT TRENDS IN EMPLOYER-SPONSORED COVERAGE

To evaluate the coverage issue, we need to know how coverage has changed over the past few years, and, ideally, why it has changed. The coverage rate fell between 1979 and 1983 among nonfarm workers from 61 percent to 56 percent. Declines took place among both private sector and government employees (chart 2).

Declining coverage rates may have been caused by the 1982 recession and generally poor economic conditions. Economic expansion since the May 1983 survey may have produced renewed growth in coverage. Other evidence suggests that coverage may have been affected by post-ERISA legislation such as ERTA and TEFRA. Statistics for 1984 and 1985 are needed to determine whether legislative change has reduced coverage growth. Few are forecasting the type of robust growth in pension coverage experienced before 1979.

WHAT INFLUENCES PENSION COVERAGE?

Whether an employee has employer-sponsored coverage depends on the characteristics of the workplace and characteristics of the employee. A statistical analysis undertaken by EBRI shows that the major difference in coverage rates stems from only two sources -- firm size and unionization. Small firms that are unionized are more likely to provide coverage than small nonunionized firms.

These figures suggest that if policies could be devised which would increase the extent of coverage among small firms, many more workers would qualify for pension benefits at retirement. If firms with fewer than 100 workers were as likely to have a pension plan as firms with 100 to 500 workers, 7.6 million more employees would be covered; of these 3.6 million would be vested. Changes in coverage have much larger effects on pension receipt than changes in vesting and participation.

The challenge is to devise policies to encourage expanded coverage without producing adverse indirect effects on workers or firms. I hope the information we provide can help you meet that challenge.