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Notes

April 2005, Vol. 26, No. 4

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Executive Summary:

Benefit Cost Comparisons Between State and Local Governments and Private-Sector Employers

- The recent proposal by California Gov. Arnold Schwarzenegger (R) to end that state's public employee defined benefit pension plan has focused attention on the disparate compensation costs between public-sector workers and private-sector employees. This article examines some of the causes of the differences in total compensation costs between state and local government employers and private-sector employers, using various datasets.
- ***Total Compensation Costs:*** According to the most recent data, overall total compensation costs were 46 percent higher among state and local government employers ($34.72 per hour worked) than among private-sector employers ($23.76 per hour worked). This comparison does not distinguish the substantial differences that exist between positions in the private and public sectors, such as required levels of education and knowledge; physical risk; skills; and the public's compelling interest in ensuring that certain public-sector positions be filled with qualified, career-oriented professionals.
- ***Wage/Salaries and Benefits:*** Total compensation costs consist of two major categories: wages and salaries and employee benefits. For both of these categories, state and local government employers' costs were higher than those of private-sector employers: 40 percent higher for wages and salaries and 60 percent higher for employee benefits.
- ***Workforce Comparisons:*** One of the primary reasons for differences in total compensation costs between state and local government employers and private-sector employers is the composition of their respective work forces. A large percentage of state and local government employees are concentrated in service occupations such as teachers, police, and firefighters, which require higher levels of education or involve greater physical risk and therefore tend to be more highly paid; by comparison, the largest percentages of private-sector workers are among sales and office occupations, which require less education, are more sedentary, and therefore tend to be paid less. Because state and local government workers are highly concentrated in the education sector (teachers and university professors), they have more employees with high levels of education, unionization rates, and high compensation costs.
- ***Benefits Participation:*** One of the primary reasons for the difference in benefit costs is that state and local government employees are more likely than their private-sector counterparts to participate in employee benefit programs. Full-time state and local government employees had far higher participation rates in both health insurance and retirement benefits programs than did their counterparts in the private sector.

Benefit Cost Comparisons Between State and Local Governments and Private-Sector Employers

by Ken McDonnell, EBRI

Introduction

The recent attempt by California Gov. Arnold Schwarzenegger (R) to end that state's public employee defined benefit pension plan focused attention on the disparate compensation costs between public-sector workers and private-sector employees. This article examines some of the causes of the differences in total compensation costs between state and local government employers and private-sector employers, using various datasets.[1]

Total Compensation Costs

In September of 2004, overall total compensation costs were 46 percent higher among state and local government employers ($34.72 per hour worked) than among private-sector employers ($23.76 per hour worked) (calculated from Figure 1).

Total compensation costs consist of two major categories: wages and salaries and employee benefits. For both of these categories, state and local government employers' costs were higher than those of private-sector employers: 40 percent higher for wages and salaries and 60 percent higher for employee benefits (calculated from Figure 1).

Work Force Comparisons

One of the primary reasons for differences in total compensation costs between state and local government employers and private-sector employers is the composition of their respective work forces. This section looks at two components of the work force: industry groups and occupation groups. (Readers should note that the term "service" is not the same in the industry groupings and occupation groupings: Data for these two are not identical because not all service workers are employed in the service industries.)

Industry Groups—State and local government workers are highly concentrated in the education sector. This sector includes teachers and university professors, two categories of employees with relatively high levels of education, unionization rates, and compensation costs. In October 2004, 54.2 percent of all state and local government employees were employed in this sector (Figure 2). In September 2004, total compensation costs for the education sector were $37.40 per hour worked.

By contrast, private-sector industry groups with the largest number of workers were services and trade, transportation, and utilities. In October 2004, services accounted for 46.7 percent of all private-sector workers, and trade, transportation, and utilities accounted for 23.1 percent. Total compensation costs for these two industry groups were, $20.05 per hour for trade, transportation, and utilities industries and a range of $10.64 to $27.18 per hour for services.

Another factor affecting total compensation costs is union membership. Union presence in an industry is positively correlated with total compensation costs. In 2003, 8.2 percent of private-sector workers were members of a union, compared with 37.2 percent of workers in state and local governments (Figure 2).

Occupation Groups—As with the industry groupings, the concentration of occupations among state and local government employers was quite different from that of private-sector employers. A large percentage of state and local government employees were concentrated in teachers (31.8 percent) and in service occupations (31.2 percent) (Figure 3). Teachers had the highest total compensation costs among state and local government employers, $47.35 per hour worked in September 2004. By comparison, the largest percentages of private-sector workers were among sales and office occupations: 28.2 percent and service occupations 25.6 percent. Compensation costs for these occupations were relatively low: $19.06 for sales and office occupations and $11.88 service occupations.

The largest gap in compensation costs between state and local government and private-sector workers was among service occupations. In September 2004, the total compensation costs for these workers in state and local governments was $26.37 per hour, compared with $11.88 per hour in the private sector. This difference is a function of the type of occupations in the services category. Among state and local governments, the BLS categorizes police and firefighters among the service occupations, positions that involve a high degree of physical risk and generally require above-average skills and physical ability. Among private-sector employers, occupations such as waiters/waitresses and cleaning and building services functions are categorized as service occupations, and these jobs traditionally have low wages.

Figure 1

Employer Costs for Employee Compensation and Percentage of Full-time Employees Participating[a] in Employee Benefit Programs: State and Local Governments and Private Sector

	State and Local Governments			Private Sector		
Employee Benefit Program[b]	Total compensation costs	Percentage of total compensation costs	Participation	Total compensation costs	Percentage of total compensation costs	Participation
	(Sept. 2004) ($ per hour worked)	(Sept. 2004)	(1998)	(Sept. 2004) ($ per hour worked)	(Sept. 2004)	(March 2004)
Total Compensation Costs	$34.72	100.0%	c	$23.76	100.0%	c
Wages and salaries	23.83	68.6	c	16.96	71.4	c
Total benefits	10.89	31.4	c	6.80	28.6	c
paid leave	2.64	7.6	c	1.52	6.4	c
vacations	0.92	2.7	67%	0.75	3.2	90%
holidays	0.87	2.5	73	0.52	2.2	89
sick	0.64	1.8	96	0.18	0.8	70
other	0.20	0.6	c	0.06	0.3	c
supplemental pay	0.31	0.9	c	0.65	2.7	c
premium[d]	0.14	0.4	c	0.24	1.0	c
shift differentials	0.07	0.2	c	0.06	0.2	c
nonproduction bonuses	0.10	0.3	c	0.36	1.5	52
insurance	3.62	10.4	c	1.68	7.1	c
life	0.06	0.2	86	0.04	0.2	60
health	3.49	10.0	86	1.56	6.6	66
short-term disability	0.03	0.1	20	0.05	0.2	46
long-term disability	0.04	0.1	34	0.03	0.1	36
retirement and savings	2.23	6.4	98	0.85	3.6	60
defined benefit	1.97	5.7	90	0.41	1.7	24
defined contribution	0.25	0.7	14	0.43	1.8	50
legally required benefits	2.04	5.9	c	2.07	8.7	c
Social Security	1.57	4.5	c	1.41	6.0	c
OASDI[e]	1.21	3.5	c	1.13	4.8	c
Medicare	0.36	1.0	c	0.28	1.2	c
federal unemployment insurance	f	g	c	0.03	0.1	c
state unemployment insurance	0.06	0.2	c	0.14	0.6	c
workers' compensation	0.41	1.2	c	0.47	2.0	c
other benefits[h]	0.05	0.1	c	0.04	0.2	c

Source: U.S. Department of Labor, Bureau of Labor Statistics, *Employer Costs for Employee Compensation-September 2004,* USDL: 04-2490 (Washington, DC: U.S. Department of Labor, 2004) www.bls.gov/ncs/ect/; *Employee Benefits in State and Local Governments, 1998* (Washington, DC: U.S. Government Printing Office, 2000); and *National Compensation Survey: Employee Benefits in Private Industry in the United States, March 2004* (Washington, DC: U.S. Department of Labor, 2004) www.bls.gov/ncs/ebs/

Note: Because of rounding, sums of individual items may not equal totals.

[a] Includes workers covered but not yet participating due to minimum service requirements. Does not include workers offered but not electing contributory benefits.

[b] Includes only benefit programs that are partially or wholly paid by the employer.

[c] Data not available.

[d] Includes premium pay for work in addition to the regular work schedule (such as overtime, weekends, and holidays).

[e] Old-Age, Survivors, and Disability Insurance.

[f] Cost per hour worked is $0.01 or less.

[g] Less than 0.05 percent.

[h] Includes severance pay and supplemental unemployment benefits.

Figure 2

Employment and Total Compensation Costs, by Industry Group and Union Membership, State and Local Governments and Private Sector

State and Local Governments	Employment (Oct. 2004)	Total compensation costs[a] (Sept. 2004)	Private Sector	Employment (Oct. 2004)	Total compensation costs[a] (Sept. 2004)
Total	19,288,000	$34.72	Total	110,934,000	$23.76
Education	54.2%	37.40	Construction	6.5	27.65
Hospitals	5.3	29.76	Manufacturing	13.0	27.81
General administration	29.9	31.87	Trade, transportation, and utilities	23.1	20.05
Local government utilities	1.2	b	Information	2.8	34.23
Local government transportation	1.3	b	Financial activities	7.3	32.47
Other	8.1	b	Services	46.7	b
			Professional and business services	15.2	27.18
			Education and health services	15.5	25.26
			Leisure and hospitality services	11.1	10.64
			Other services	4.9	20.48
Members of a Union[c]	37.2	b	Members of a Union[c]	8.2	32.54

Source: EBRI tabulations of data from U.S. Department of Labor, Bureau of Labor Statistics, www.bls.gov/ces/home.htm, (Tables from Employment and Earnings, B-12); *Employer Costs for Employee Compensation-September 2004;* USDL: 04-2490 (Washington, DC: U.S. Department of Labor, 2004) www.bls.gov/ncs/ect/, and U.S. Department of Commerce, Bureau of the Census, *Statistical Abstract of the United States, 2004–2005* (Washington, DC: U.S. Government Printing Office, 2005) www.census.gov/statab/www/

[a] Data are expressed as dollars per hour worked.

[b] Data not available.

[c] Data are for 2003.

Employee Benefits

As noted above, benefit costs of state and local government employers were 60 percent higher than those of private-sector employers in September 2004. Many factors contribute to this gap.

Benefit Costs—The two most important voluntary benefit programs an employer provides are health insurance and a retirement savings plan. There is great cost disparity in these benefits between state and local government employers and private-sector employers. In September 2004, the average cost per employee per hour worked for health insurance benefits for state and local government employers ($3.49) was 124 percent higher than for private-sector employers ($1.56) (calculated from Figure 1). The disparity was even larger for retirement and savings plans: These cost state and local government employers $2.23 per hour worked in September 2004, 162 percent higher than the $0.85 cost for private-sector employers.

Participation—One of the primary reasons for the difference in benefit costs is that state and local government employees are more likely than their private-sector counterparts to participate in employee benefit programs. Health insurance participation rates among full-time employees in state and local governments (86 percent in 1998) were significantly higher than rates among full-time employees in the private sector (66 percent in 2004) (Figure 1). The disparity was even larger for retirement and savings plans. In 1998, 98 percent of full-time employees in state and local governments participated in some type of retirement and savings plan, compared with 60 percent of full-time employees in the private sector in 2004.

Factors Behind the Differences—As the data illustrate, there are many factors that drive the disparity in benefit cost between the private and public sectors:

- Job Characteristics: Public-sector jobs are more service-oriented and a different nature (primarily education) than private-sector jobs (primarily trade). In many cases, such as teaching and public safety, these are jobs that require special skills or training, have higher pay grades, and offer different benefit structures that are specifically designed to attract and retain workers who have those specialized skills (for instance, many police and fire positions offer faster pension accrual or early retirement due to the demanding physical requirements and risks related to the work).

These differences also make it difficult to compare benefit plan designs between the sectors: For instance, in state and local governments, workers are generally required to contribute to their own defined benefit pension, but in the private sector, employers typically pay all defined benefit pension contributions. Conversely, almost half (45 percent) of state and local workers received automatic cost of living adjustments for their defined benefit plan payments, compared with about 8 percent of private-sector workers, according to the Bureau of Labor Statistics.

- Pension participation: About 90 percent of all state and local government workers participate in a defined benefit pension in 1998, compared with about 24 percent of private-sector workers (Figure 1) (participation in a public-sector defined benefit plan usually is mandatory for permanent full-time employees).
- Pension costs: Defined benefit pension plans typically are more expensive for private plan sponsors to operate than defined contribution plans (such as 401(k)s). The growing administrative cost of operating a defined benefit plan is cited by many private-sector plan sponsors as a major disincentive to operating this type of retirement plan (see *EBRI Issue Brief* no. 232, April 2001, p. 5). ERISA, the federal law governing most private-sector benefits, generally does not apply to public-sector pension plans, and the cost of administering a public-sector defined benefit plan is decidedly less than a defined contribution plan.
- Unionization: State and local government workers have significantly higher unionization rates than do private-sector workers. In 2004, 37.2 percent of state and local government employees were members of a union compared with 8.2 percent among private sector employees (Figure 2). Workers who are union members tend to have both higher pay and more generous benefits.

Figure 3

Employment and Total Compensation Costs in State and Local Governments and Private Sector, by Occupation Group, Ages 16 and Older

	State and Local Governments		Private Sector	
	Employment	Total compensation costs	Employment	Total compensation costs
	(2003)	(Sept. 2004)	(2003)	(Sept. 2004)
Total	17,930,229	$34.72	113,952,460	$23.76
Occupations				
Management, professional and related	13.7%	42.30	17.5%	41.14
Professional and related	7.2	42.14	8.8	37.99
Teachers[a]	31.8	47.35	2.3	b
Sales and office	14.8	23.91	28.2	19.06
Service	31.2	26.37	25.6	11.88
Natural resources, construction, and maintenance	5.2	b	18.2	26.74
Production, transportation, and material moving	3.2	b	7.1	20.57

Source: Employee Benefit Research Institute tabulations of data from the March 2004 Current Population Survey, U.S. Department of Labor, Bureau of Labor Statistics, www.bls.gov/ces/home.htm, (Tables from Employment and Earnings, B-12); *Employer Costs for Employee Compensation-September 2004* USDL: 04-2490 (Washington, DC: U.S. Department of Labor, 2004) www.bls.gov/ncs/ect/.
[a]Includes postsecondary teachers; primary, secondary, and special education teachers; and other teachers and instructors.
[b]Data not available.

Endnotes

[1] The datasets used are as follows: For compensation costs, the Bureau of Labor Statistics (BLS), *Employer Costs for Employee Compensation;* for private-sector benefit participation, the BLS, *National Compensation Survey, Employee Benefits in Private Industry in the United States, March 2004;* and for state and local government employers, BLS, *Employee Benefits in State and Local Governments, 1998.* Employment by industry group data are from BLS, *Employment and Earnings, November 2004*; and employment by occupation data are from Employee Benefit Research Institute tabulations of the March 2004 Current Population Survey by the U.S. Census Bureau.

■ Facts from EBRI: The U.S. Retirement Income System

by Ken McDonnell, EBRI

History

- The first public-sector retirement income plan was the New York City Police Force Plan, which was set up in 1857. The first private-sector retirement income plan was established by American Express Company in 1875. The federal government established the Civil Service Retirement System in 1920. In 1984, the federal government started funding a separate plan for the military and created the Federal Employees Retirement System and Thrift Savings Plan for federal employees hired after 1984.

- Significant federal legislation affecting retirement income plans over the years:

• 1921—The Revenue Act of 1921 exempted from current taxation interest income on trusts holding stock bonus or profit-sharing plans. Under this act, trust income was taxed as it was distributed to employees only to the extent that it exceeded employees' own contributions. The act did not authorize deductions for past service contributions.

• 1926—The Revenue Act of 1926 exempted income of pension trusts from current taxation.

• 1928—The Revenue Act of 1928 allowed employers to take tax deductions for reasonable amounts paid into a qualified trust in excess of the amount required to fund current liabilities. It changed the taxation of trust distributions that are attributable to employer contributions and earnings.

• 1935—The Social Security Act was signed into law

• 1942—The Revenue Act of 1942 tightened standard qualifications for pension plans, limited allowable deductions, and allowed integration of plans with Social Security.

• 1948—The National Labor Relations Board ruled that Congress intended pensions to be part of wages and to fall under "conditions of employment" mentioned in the act, although the term was not specifically defined.

• 1974—The Employee Retirement Income Security Act of 1974 (ERISA) was passed. It was designed to secure the benefits of participants in private pension plans through participation, vesting, funding, reporting, and disclosure rules, and established the Pension Benefit Guaranty Corporation (PBGC). ERISA provided added pension incentives for the self-employed (through changes in Keoghs) and for persons not covered by pensions (through individual retirement accounts (IRAs)). It established the legal status of employee stock ownership plans (ESOPs) as an employee benefit, codified stock bonus plans under the Internal Revenue Code, and established requirements for plan implementation and operation.

• 1978—The Revenue Act of 1978 established qualified deferred compensation plans (sec. 401(k)) under which employees are not taxed on the portion of income they elect to receive as deferred compensation rather than direct cash payments. It created simplified employee pensions (SEPs) and changed IRA rules.

• 1986—The Tax Reform Act of 1986 tightened the nondiscrimination rules and reduced the maximum annual amount that could be deferred into a 401(k) plan.

• 1994—The Uniformed Service Employment and Reemployment Rights Act of 1994 (USERRA) provided reemployment and benefits rights to military reservists and others who return to civilian employment after most types of leave of absence 'uniformed services' duty.

• 1996—The Small Business Job Protection Act of 1996 created the savings incentive match for employees (SIMPLE) for small establishments.

• 1997—The Taxpayer Relief Act of 1997 created a new, nondeductible, IRA, the Roth IRA, which can be used to save for retirement, first-time home purchase, and college expenses. More individuals are eligible for a Roth IRA than for a deductible IRA.

• 2001—The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) increased contribution limits to 401(k), 403(b), 457, SIMPLE plans and IRAs, permitted "catch-up" contributions to IRAs and employer-sponsored plans for individuals 50 and older, permitted after-tax "Roth" contributions to 401(k) and 403(b) plans, enhanced portability, and modified current top-heavy rules.

Types of Retirement Income Plans

- Most retirement income plans are employment-based. There are two basic types of retirement income plans: defined benefit (DB) and defined contribution (DC).
- In a DB plan, benefits are calculated according to a formula or rule. Formulas are more common and are usually based either on years of service and a percentage of pay or on a negotiated flat-dollar amount per year of service. Benefit levels, as determined by the formula, are guaranteed as a stated retirement

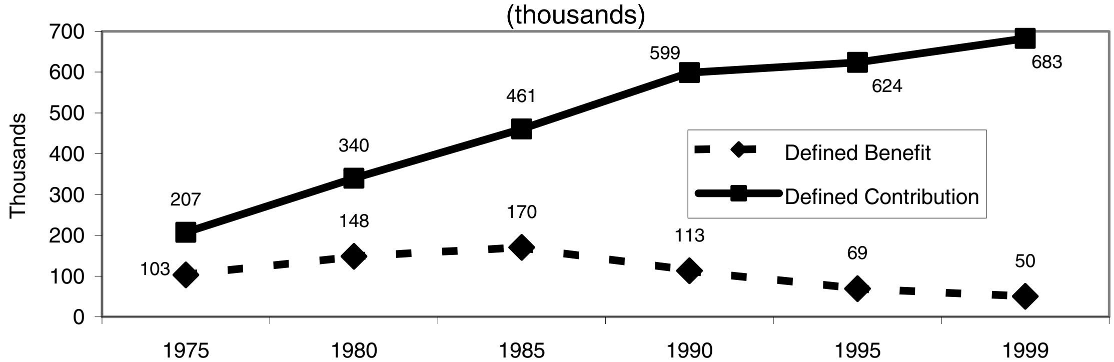
income commencing at a specified age. Although retirement benefits are usually expressed as a life annuity, lump-sum distributions are increasingly available.

- In a DC plan, contributions are allocated to individual accounts according to a predetermined formula. Individual benefits are equal to account contributions (less any unpaid loans or withdrawals) and investment returns thereon, and are usually paid in the form of a lump-sum distribution. The benefit can also be paid as a life annuity at retirement if the employer offers this option.
- The most commonly known type of DC plan is a 401(k) plan. The name 401(k) is derived from the section of the U.S. tax code that sets the regulations for this type of retirement income plan. A 401(k) plan allows an employee to make pre-tax salary reduction contributions to a DC plan. Under current law, salary reduction contributions are limited to $14,000 in 2005. Tax-exempt employers, such as colleges, universities, other education institutional institutions, research organizations, hospitals, churches and other religious groups, charitable organizations, can provide a similar benefit linked to Sec. 403(b) of the tax code, and thus are known as 403(b) or tax-sheltered annuity (TSA) plans. State and local government employers may sponsor a 457 plan, known for that section of the tax code and also referred to as a deferred compensation plan.
- Hybrid plans combine elements of both DB and DC. The most common and well-known type of hybrid plan in the private sector is cash balance. A cash balance plan is a DB plan that incorporates DC features. Each participant has an account that is credited with a dollar amount that resembles an employer contribution and is generally determined as a percentage of pay. Each participant's account is also credited with interest. The plan usually provides benefits in the form of a lump-sum distribution or annuity According to the U.S. Department of Labor, in 1999 there were 1,324 cash balance plans in the U.S. with 3,555,000 active participants and holding $405.2 billion in assets. While cash balance plans do exist among public-sector employers, a more frequently used type of hybrid is one that combines a traditional defined benefit plan, with a reduced benefit, with a traditional defined contribution plan, such as a 401(k) plan.
- Another distinction among retirement income plans is whether the plan sponsor is a private-sector employer or a public-sector employer (federal, state, and local governments). The distinction between public and private sector is important because of differing applicable rules.. Public-sector retirement income plans are products of a legislative process. Private-sector plan sponsors, while also subject to the legislative process, are relatively free to establish, maintain, and modify their plans. Federal regulation of state and local government plans has evolved over time. State and local government plans are regulated through the Internal Revenue Code (IRC), but otherwise are exempt from most of ERISA's reporting, disclosure, and funding requirements (Title I) and termination insurance (Title IV).

Number of Plans

- One of the most discussed trends in retirement income plans is the declining number of DB plans and the increasing number of DC plans. Data on this trend exist only for the private sector. The reporting requirements of ERISA make it possible to obtain an accurate count of the number of private-sector plans operating in a given year. In 1975, the number of DB plans was 103,346. This number increased to 170,172 by 1985. Since 1985, the number of DB plans has steadily declined. In 1999 there were 49,895 private-sector DB plans; most of this decline occurred among small employers—those with fewer than 250 employees (see *EBRI Issue Brief* no. 249, September 2002). Over the same time period, 1975–1999, the number of DC plans steadily increased from 207,748 to 683,100. Much of the growth in DC plans is

Figure 1
Number of Defined Benefit and Defined Contribution Plans, 1975-1999
(thousands)



Source: U.S. Department of Labor, Employee Benefit Security Administration, "Private Pension Plan Bulletin" (Winter 2001 and Summer 2004).

attributed to the growth in the number of 401(k) plans. The number of 401(k) plans increased from 17,303 in 1984 to 335,121 in 1999.

Figure 2
Number of Retirement Plans 1950–1999

	1950	1960	1970	1975	1980	1985	1990	1995	1999
Private Industry	a	a	a	311,094	488,901	632,135	712,308	693,404	732,995
Defined benefit	a	a	a	103,346	148,096	170,172	113,062	69,492	49,895
Cash Balance	a	a	a	a	a	a	a	a	1,324
Defined contribution	a	a	a	207,748	340,805	461,963	599,245	623,912	683,100
401(k)	a	a	a	a	a	17,303[b]	97,614	200,813	335,121
State and Local Governments[c]	a	2,346	2,304	3,075	3,075	2,589	2,387	2,284	2,211

Source: U.S. Department of Labor, Employee Benefit Security Administration, *Private Pension Plan Bulletin*, (Summer 2004) www.dol.gov/ebsa/publications/main.html ; U.S. Department of Commerce, Census Bureau, www.census.gov/govs/www/retire.html.
[a] Data not available.
[b] 1984 data.
[c] Because of data availability, past years for state and local governments do not match with other categories. The data years for state and local governments apply to the years in the table headings: 1960 is represented with 1962 data, 1970 is represented with 1971–1972 data, and 1975 is represented with 1976–1977 data, 1980 is represented with 1981 data.

- The reasons for this trend are complex. One factor becomes apparent when the trend is viewed by plan size. The vast majority of plan terminations have occurred among the very small DB plans, those with two to nine active employees. Some suggest that the very small plans were top-heavy plans used by employers as tax shelters. The decline in the number of these DB plans is thought to be a result of federal legislation passed in the 1980s, most notably the Tax Equity and Fiscal Responsibility Act of 1982 and the Tax Reform Act of 1986.
- Mergers and acquisitions partially account for the decline in the number of DB plans. When two firms offering DB plans merge, the result is usually a single, larger plan.
- The increase in the number of DC plans is greater than the net decrease in the number of DB plans. This suggests that the growth in the number of DC plans is a result of something other than a shift from DB to DC plans.
- For more details on the trend in the number of DB and DC plans see the September 2002 *Issue Brief* www.ebri.org/ibs/249ib.htm

Participation

- As the American work force has grown, so has the number of individual participants in employment-based retirement income plans. Total participation in private-sector retirement income plans increased from 44.5 million in 1975 to an estimated 101.8 million in 1999. In the following table, total participation includes employees currently participating in their employers' plans (also includes double counting of individuals who are participating in more than one plan with their current employer if more than one plan is offered), employees who have left employment with an employer and have chosen to leave the assets in that employer's plan, and individuals who are currently retired and receiving benefits from a retirement income plan.

Figure 3
Total Retirement Plan Participants 1950–1999

	1950	1960	1970	1975	1980	1985	1990	1995	1999
				(millions)					
Private Industry	a	a	a	44.5	57.9	74.7	76.9	87.4	101.8
Defined benefit[b]	a	a	a	33.0	38.0	39.7	38.8	39.7	41.4
Cash Balance	a	a	a	a	a	a	a	a	6.2
Defined contribution	a	a	a	11.5	19.9	35.0	38.1	47.7	60.4
401(k)	a	a	a	a	a	a	20.8	31.4	46.2
State & Local Governments[c]	a	5.4	9.1	11.0	14.7	15.2	16.9	14.7	16.2

Source: U.S. Department of Labor, Employee Benefit Security Administration, *Private Pension Plan Bulletin*, (Summer 2004); U.S. Department of Commerce, Census Bureau, www.census.gov/govs/www/retire.html.
[a] Data not available.
[b] Data may not add to 100 percent because individuals may have both types of plans.
[c] Because of data availability, past years for state and local governments do not match with other categories. The data years for state and local governments apply to the years in the table headings: 1960 is represented with 1962 data, 1970 is represented with 1971–1972 data, 1975 is represented with 1976–1977 data, and 1980 is represented with 1981 data.

- Active participants are those individuals who are participating in an employment-based retirement income plan that is sponsored by the employer they are presently working for.
- Active participation increased among private-sector employees at an average annual rate of 6.7 percent between 1950 and 1960. This rate of increase slowed over time. From 1960 to 1970 it was 3.5 percent; from 1970 to 1990 it was 3.2 percent; from 1980 to 1990 it was 1.6 percent; and from 1990 to 1999, it was 1.9 percent.
- By comparison, rate of increase in active participants in the Social Security program was lower than the participation rate among private-sector employees. From 1950 to 1960, the rate of increase of individuals covered by Social Security was 4.1 percent; from 1960 to 1970, it was 2.5 percent; from 1970 to 1980 it was 2.0 percent; from 1980 to 1990, it was 1.7 percent; and from 1990 to 1997, it was 1.3 percent.
- Among state and local government employees, the average annual rate of increase in active retirement income plan participation from 1960 to 1970 was 5.3 percent. This was higher than the participation rate among private-sector employees. The average annual rate of increase among state and local government employees slowed to 2.1 percent between 1970 and 1980. From 1980 to 1990, the rate of increase was 0.9 percent.

Figure 4

Active Retirement Plan Participants 1950–1999

	1950	1960	1970	1975	1980	1985	1990	1995	1999
				(millions)					
Private Industry[a]	9.8	18.7	26.3	30.7	35.9	40.4	42.0	46.1	54.1
Defined benefit[b]	c	c	c	26.8	29.7	28.9	26.3	23.4	22.6
Defined contribution	c	c	c	3.9	6.2	11.6	16.1	20.9	22.8
State & local governments[d]	c	5.0	8.4	9.7	10.3	10.4	11.3	12.5	13.5
Social Security	48.3	72.5	93.1	100.2	113.0	119.8	133.6	138.2	146.7[e]

Source: U.S. Department of Labor, Employee Benefit Security Administration, *Private Pension Plan Bulletin*, (Winter 2001 and Summer 2004); U.S. Department of Commerce, Census Bureau, www.census.gov/govs/www/retire.html; and U.S. Social Security Administration, *Annual Statistical Supplement*, *2004* (Washington, DC: U.S. Government Printing Office, 2005) Use table 4.B1.

[a] Data for active participants in a DC and DB plan are private wage and salary workers. The numbers are mutually exclusive since the data reported for DC plan active participants are those participants where the DC plan is the primary plan. When a DB plan is present it is automatically considered the primary plan.

[b] Data may not add to 100 percent because individuals may have both types of plans.

[c] Data not available.

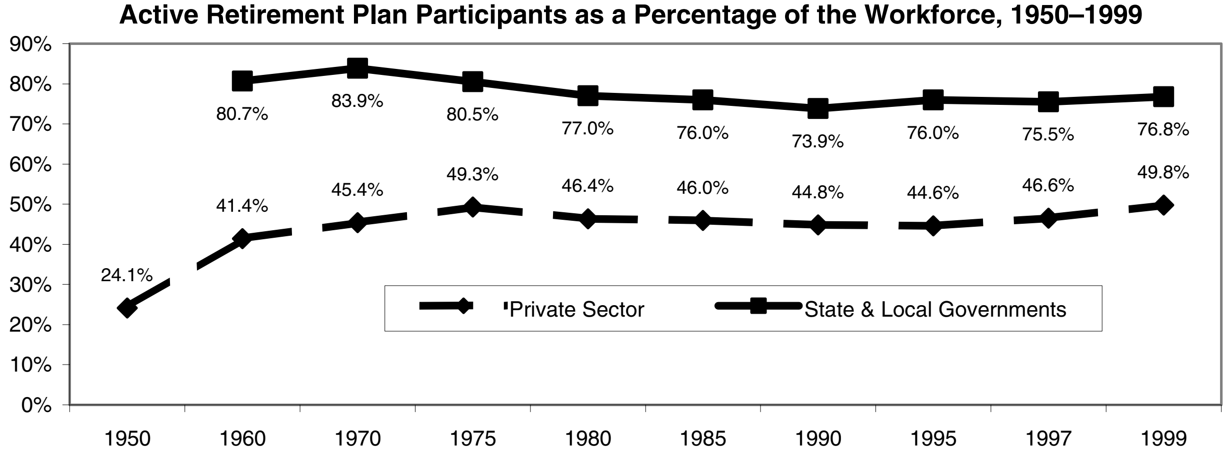
[d] Because of data availability, past years for state and local governments do not match with other categories. The data years for state and local governments apply to the years in the table headings: 1960 is represented with 1962 data, 1970 is represented with 1971–1972 data, 1975 is represented with 1976–1977 data, and 1980 is represented with 1981 data.

[e] Preliminary data

- The percentage of all state and local government workers who participated in a retirement income plan remained fairly constant from 1980 to 1999, at around 75 percent (Figures 5 and 6). Among private-sector employees there was a sharp increase from 1950, when 24.1 percent of all private-sector workers participated in a retirement income plan, to 1960, when 41.4 percent participated in a retirement income plan. From 1970 to 1999, participation in a retirement income plan among all private-sector workers ranged from 45.4 percent to 49.8 percent.

Figure 5

Active Retirement Plan Participants as a Percentage of the Workforce, 1950–1999



Source: U.S. Department of Labor, Employee Benefit Security Administration, *Private Pension Plan Bulletin* (Winter 2001 and Summer 2004).

Figure 6
Active Retirement Plan Participants as a Percentage of the Work Force 1950–1999

	1950	1960	1970	1975	1980	1985	1990	1995	1999
Private Industry	24.1%	41.4%	45.4%	49.3%	46.4%	46.0%	44.8%	44.6%	49.8%
Defined benefit[a]	b	b	b	42.5	37.9	32.7	27.8	22.9	20.8
Defined contribution	b	b	b	6.2	7.9	13.1	17.0	20.5	21.0
State & Local Governments[c]	b	80.7	83.9	80.5	77.0	76.0	73.9	76.0	76.8

Source: U.S. Department of Labor, Employee Benefit Security Administration, *Private Pension Plan Bulletin*, (Winter 2001 and Summer 2004); U.S. Department of Commerce, Census Bureau, www.census.gov/govs/www/retire.html; U.S. Department of Labor, Bureau of Labor Statistics, www.bls.gov/webapps/legacy/cesbtab1.htm
[a] Data may not add to 100 percent because individuals may have both types of plans.
[b] Data not available.
[c] Because of data availability, past years for state and local governments do not match with other categories. The data years for state and local governments apply to the years in the table headings: 1960 is represented with 1962 data, 1970 is represented with 1971–1972 data, 1975 is represented with 1976–1977 data, and 1980 is represented with 1981 data.

Assets

- The total amount of assets held in various retirement plans has increased substantially over the years. In 1950, $21.6 billion was held in all retirement income plans. By 2003, this amount had increased to $11,439.0 billion. The following table also shows assets held in the Social Security Old Age and Survivors Insurance trust fund at the end of each year. These assets are not reflected in the "Total Assets" line because of the unique nature of the financing of the trust fund. Social Security assets are shown here for comparison purposes and for completeness because of the program's central importance to so many Americans' retirement income.

- Several factors account for the increase in retirement plan assets. The increase in the number of employees participating in a plan necessarily increases the amount of assets held by these plans. From 1950 to 1999, diversity in the types of retirement income plans increased, exemplified most notably by 401(k) plans, created in 1978, and individual retirement accounts (IRAs), created in 1974 as part of ERISA.

Figure 7
Retirement Plan Assets 1950–2003

	1950	1960	1970	1980	1985	1990	1995	2000	2003
				($ in billions)					
Total Assets	$21.5	$86.7	$236.1	$1,035.2	$2,383.2	$3,985.1	$6,764.5	$11,409.0	$11,439.0
Private trusteed	7.1	38.1	112.0	563.6	1,231.0	1,572.0	2,756.0	4,286.0	3,961.0
Defined benefit	a	a	a	401.5	814.0	896.0	1,444.0	2,014.0	1,715.0
Defined contribution	a	a	a	162.1	417.0	676.0	1,312.0	2,272.0	2,246.0
401(k)	a	a	a	a	91.8[b]	384.9	863.9	1,739.0	1,900.0
Private insured	5.6	18.9	40.8	158.2	346.7	636.1	871.3[c]	1,5270.5	1,573.6
State & local governments	4.9	19.7	60.3	197.6	398.7	800.6	1,308.1	2,124.3	1,966.8
Federal government[d]	6.7	14.1	27.5	77.2	172.1	340.4	541.1	799.2	959.0
IRA/Keogh Plans	a	a	a	38.6[e]	234.7	636.0	1,288.0	2,629.0	2,979.0
Social Security	13.7	20.3	32.5	22.8	35.8	214.2	458.5	931.0	1,355.3

Source: Employee Benefit Research Institute, *Pension Investment Report*, Federal Reserve Board, *Flow of Funds Accounts* www.federalreserve.gov/releases/Z1/Current/data.htm; and U.S. Social Security Administration, *2004 OASDI Trustees Report* www.ssa.gov/OACT/TR/TR04/
[a] Data not available.
[b] 1984 data.
[c] 1996 data.
[d] Data for the Federal Government's retirement plans is for civilian employees only until 1985. The Military Retirement System was unfunded until October 1, 1984.
[e] 1981 data.

Asset Allocation in 401(k) Plans

- Since their inception in 1978, 401(k) plans have come to represent a significant component of U.S. households' financial net worth and will be a significant source of income in retirement for many individuals. A key feature of these plans is that individuals have control over how the assets in their account will be invested. Given the growing importance of 401(k) plans as a source of retirement income, how individuals are investing these assets is a very important public policy question.
- Age is one of the most important demographic factors in analyzing asset allocation. Financial planners typically suggest that young workers invest more of their account balance in equities, which tend to have relatively higher risk but offer greater returns over time, rather than stable-value investments such as cash or bonds. As an individual ages and approaches retirement, financial planners typically suggest that portfolios include more stable-value investments in order to produce an income stream with lower investment risk. Data from the EBRI/ICI 401(k) database suggest that most 401(k) participants generally follow this kind of asset allocation advice, and diversify their accounts across a range of investments, with younger participants more heavily invested in equities than older participants.
- Company stock accounted for 16.4 percent of all 401(k) account balances at year-end 2003, according to the EBRI/ICI 401(k) database, although that proportion varied by age and by type of investment options the plan offered.

Figure 8
Average Asset Allocation by Age, 2003
(percentage of account balances)

Age Cohort	Total	Equity Fund	Balanced Fund	Bond Fund	Money Fund	Stable Value Funds[a]	Company Stock	Other	Unknown
All	100.0%	44.6%	9.5%	9.8%	4.7%	12.9%	16.4%	1.5%	0.6%
20s	100.0	51.3	11.8	9.0	5.8	6.1	14.4	0.8	0.8
30s	100.0	54.2	9.8	8.1	4.2	5.9	16.0	1.1	0.8
40s	100.0	48.6	9.8	8.6	4.3	9.3	17.5	1.3	0.7
50s	100.0	42.0	9.6	10.2	4.8	14.3	16.9	1.5	0.6
60s	100.0	35.1	8.5	12.5	5.6	22.1	14.0	1.7	0.6

Source: Sarah Holden, ICI, and Jack VanDerhei, Temple University and EBRI Fellow, "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2003." *EBRI Issue Brief* no. 272 (August 2004).
[a] Includes guaranteed investment contracts (GICs) and other stable value funds.

- On average, participants in their 20s have 51.3 percent of their account balances invested in equity funds, compared with about 35.1 percent of account balances for participants in their 60s. Participants in their 20s invest only 15.1 percent of their assets in GICs and bond funds combined, while those in their 60s invest 34.6 percent of their account balances in these assets.
- Allocations to company stock show a mixed pattern by age. Participants in their 20s have 14.4 percent of their plan balances in company stock, while participants in their 40s have nearly 17.5 percent, while participants in their 60s have 14 percent.
- The tendency of younger participants to favor equity funds and older participants to favor fixed-income securities holds up even when accounting for investment options offered by the 401(k) plan sponsor.

For more information, contact EBRI at (202) 659-0670, or see EBRI's Web site at www.ebri.org.
Source: *EBRI Databook on Employee Benefits*, fourth edition, 1997, *Fundamentals of Employee Benefit Programs*, fifth edition, 1997, and David Rajnes, "an Evolving Pension System: Trends in Defined Benefit and Defined Contribution Plans." *EBRI Issue Brief no. 249* (September 2002); *Pension Investment Report: Third Quarter 2003*; U.S. Department of Labor, Employee Benefit Security Administration, *Private Pension Plan Bulletin: Abstract of 1999 Form 5500 Annual Reports* (Summer 2004) www.dol.gov/ebsa/publications/main.html; U.S. Federal Reserve Board, *Flow of Funds Accounts of the united States* www.federalreserve.gov/releases/Z1/; Social Security Administration, *2004 OASDI Trustees Report* www.ssa.gov/OACT/TR/TR04/; *Annual Statistical Supplement*, *2004* (Washington, DC: U.S. Government Printing Office, 2005) www.ssa.gov/policy/docs/statcomps/supplement/; U.S. Department of Commerce, Census Bureau, www.census.gov/govs/www/retire.html; U.S. Department of Labor, Bureau of Labor Statistics, www.bls.gov/webapps/legacy/cesbtab1.htm

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EBRI Employee Benefit Research Institute Notes (ISSN 1085–4452) is published monthly by the Employee Benefit Research Institute, 2121 K Street, NW, Suite 600, Washington, DC 20037-1896, at $300 per year or is included as part of a membership subscription. Periodicals postage rate paid in Washington, DC, and additional mailing offices. POSTMASTER: Send address changes to: *EBRI Notes*, 2121 K Street, NW, Suite 600, Washington, DC 20037-1896. Copyright 2004 by Employee Benefit Research Institute. All rights reserved, Vol. 26, no. 4.

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