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Pensions and Retirement Savings Plans: Sponsorship and Participation

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Patrick J. Purcell
Specialist in Social Legislation
Domestic Social Policy Division

Congressional Research Service ❖ The Library of Congress ❖ Washington DC, 20540

Pensions and Retirement Savings Plans: Sponsorship and Participation

Summary

According to the Census Bureau's *Current Population Survey (CPS)*, both the number of workers in the private sector whose employer sponsored a retirement plan and the number of workers who participated in such plans fell in 2002. The CPS data show that among workers in the private sector between the ages of 25 and 64 who were employed full-time, the number whose employer sponsored a retirement plan fell from 45.1 million in 2001 to 42.8 million in 2002. The number of these workers who participated in an employer-sponsored retirement plan fell from 38.7 million in 2001 to 37.0 million in 2002. The percentage of 25 to 64-year-old, full-time employees in the private sector who participated in an employer-sponsored retirement plan fell from 55.8% in 2001 to 53.5% in 2002.

A CRS analysis of the Current Population Survey indicates that, among workers 25 to 64 years old who were employed in the private sector and worked year-round, full-time:

- Retirement plan participation has fallen for three consecutive years, declining from 58% in 1999 to 53.5% in 2000.
- Only 27.3% of workers at firms with fewer than 25 employers participated in an employer-sponsored retirement plan in 2002, compared to 47.8% of workers at firms with 25 to 99 employees and 66.6% of workers at firms with more than 100 employees.
- In 2002, there was relatively little difference in retirement plan participation among men and women in the private sector between the ages of 25 and 64 who worked year-round, full-time; 53.9% of men and 52.9% of women participated in a company-sponsored retirement plan.
- In 2002, only 45% of private-sector workers 25 to 34 years old who were employed year-round, full-time participated in an employer-sponsored retirement plan, versus 57% of workers 35 or older.
- Black, Hispanic, and other non-white workers were less likely to have worked for an employer that sponsored a retirement plan, and therefore were less likely to have participated in a plan. Fifty-nine percent of white workers in the private sector who were employed year-round, full-time in 2002 were included in a company-sponsored retirement plan, compared to 47.5% of black non-Hispanic workers, 31.1% of Hispanic workers, and 49.2% of other non-white workers.
- Workers who earned less than $20,000 in 2002 were just one-third as likely as those who earned $60,000 or more to have participated in a retirement plan at work.
- Part-year or part-time workers in the private sector were half as likely as workers employed year-round, full-time to have participated in an employer-sponsored retirement plan in 2002 (25.7% vs. 53.5%).

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Background: Demographic Trends

The aging of the American population has made retirement income an issue of increasing concern to the Congress and the public. Although Americans are living longer than ever before, most retire before age 65. Moreover, while the nation's population continues to grow, the decline in birth rates that followed the post-World War II "baby boom" and the continued lengthening of life spans will result in fewer workers relative to the number of retirees. These trends will affect the economic well-being of future retirees because pensions and Social Security benefits will be paid over longer periods of time; savings will have to be stretched over longer retirements; and Social Security benefits will have to be financed by a working population that is shrinking relative to the number of retirees.

Americans are living longer then ever before. The average life expectancy of Americans born in 1960 was 69.7 years. It has been estimated that those who were born in 2000 will live for an average of 76.4 years.[1] A man who reached age 65 in 1960 could expect to live another 13 years, while a woman who turned 65 had a remaining life expectancy of 16 years. A man who reached age 65 in 2000 could expect to live another 15.6 years, while a woman who turned 65 in 2000 had a remaining life expectancy of 19.4 years. As more people live into old age, the age-profile of the population will shift. In 1960, 16.7 million people in the United States — 9.2% of the population — were age 65 or older. In 2000, there were 35.0 million Americans age 65 or older, representing 12.4% of the population. By 2025, according to projections made by the Bureau of the Census, there will be 62 million people age 65 or older, comprising 18.5% of the U.S. population.

Families are smaller than they were in the 1950s and 1960s. The decline in birth rates that followed the post-World War II "baby boom" may have an impact on the income of retirees in the first decades of the 21st century.[2] Birth rates fell sharply between 1960 and 1975 and have remained low since then. In 1960, there were 118 births per 1,000 women between the ages of 15 and 44. By 1975, the birth rate had fallen to 66 per 1,000 women of child-bearing age, and from that year through 2000 it never exceeded 70 births per 1,000 women.[3] Social Security faces long-term financial difficulties in part because of the declining ratio of workers to

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[1] U.S. National Center for Health Statistics, *Vital Statistics of the United States.*

[2] The Census Bureau defines the baby boom to include the years from 1946 to 1964.

[3] In 2000, there were 68 live births per 1,000 women 15 to 44 years old. U.S. National Center for Health Statistics, *Vital Statistics of the United States.*

retirees. In 1960, there were 5.7 working-age people (20-64) for every person age 65 or older. By 2000, the ratio of working-age people to those age 65 or older had fallen to 4.8. According to the U.S. Bureau of the Census, by 2025 the ratio of working-age people to people age 65 or older will have fallen to 3.0. As Social Security is currently financed, fewer workers paying taxes will mean that tax rates must be increased or benefits must be reduced.

Labor force participation begins to drop at age 55. The proportion of the population that is either working or looking for work is called the "labor force participation rate." As indicated by the data in **Table 1**, the labor force participation rate starts to drop significantly at about age 55. When income is no longer derived from earnings, individuals depend more on pensions, interest and dividends, withdrawals from their savings, and – when they become eligible through age or disability – Social Security. The aging of the U.S. population will place strains on the components of the traditional "three-legged stool" of retirement income: Social Security, pensions, and personal saving.

Table 1. Labor Force Participation Rates in 2002

Age	Total number of people (000s)	Number in the labor force (000s)	Labor force participation rate
Men			
Age 25 to 54	58,736	53,439	*91.0%*
Age 45 to 54	19,058	16,858	*88.5%*
Age 55 to 64	12,267	8,486	*69.2%*
Age 65 and up	14,124	2,509	*17.8%*
Women			
Age 25 to 54	61,110	46,426	*76.0%*
Age 45 to 54	19,977	15,178	*76.0%*
Age 55 to 64	13,394	7,377	*55.1%*
Age 65 and up	18,887	1,872	*9.9%*

Source: U.S. Department of Labor, Bureau of Labor Statistics, *Employment and Earnings*, January 2003.)

Congress and Retirement Income Policies. The Internal Revenue Code was first amended to provide favorable tax treatment for qualifying pension and retirement plans in the 1920s. These provisions have been expanded and modified many times since then. Among the tax exemptions that apply to traditional "defined benefit" pension plans are the deduction of pension contributions from employer income, exclusion of employer contributions to pension plans from employee income, and tax exemption of the earnings of pension trusts.[4] In "defined contribution" plans such as those authorized under section 401(k) of the tax code, income taxes are deferred until retirement on employer and employee contributions to the plan and on the investment earnings of the plan.

By establishing the tax-favored status of pension programs and defining the terms under which tax exemptions and deductions are granted, federal tax law has both encouraged the growth of retirement plan coverage among workers and shaped the development of pension and retirement savings plans. Congress also has sought to protect the pension benefits earned by workers through direct regulation of pension plans, most notably through the **E**mployee **R**etirement **I**ncome **S**ecurity **A**ct of 1974 (P.L. 93-406). ERISA, too, may have influenced the development of employer-sponsored retirement plans. Since its enactment, defined contribution (DC) plans have proliferated while the number of defined benefit (DB) plans has been falling.

Two Kinds of Retirement Plans: Defined Benefit and Defined Contribution. Retirement programs are legally classified as either *defined benefit* plans or *defined contribution* plans. In *defined benefit* or "DB" plans, the retirement benefit usually is based on an employee's salary and number of years of service. With each year of service, a worker accrues a benefit equal to either a fixed dollar amount per month or year of service or a percentage of his or her final pay or average pay.

A *defined contribution* or "DC" plan is much like a savings account maintained by the employer on behalf of each participating employee. The employer contributes a specific dollar amount or percentage of pay into the account, which is usually invested in stocks and bonds. In some plans, the size of the employer's contribution depends on the amount the employee contributes to the plan. When the worker retires, the amount of retirement benefits that he or she receives will depend on the balance in the account, which is the sum of all the contributions that have been made plus interest, dividends, and capital gains (or losses). The worker usually has the choice of receiving these funds in the form of a life-long annuity,[5] as a series of fixed payments over a period of years, or as a lump sum.

In recent years, many employers have converted their traditional pensions to *hybrid plans* that have characteristics of both DB and DC plans. The most popular of these hybrids has been the *cash balance plan*. A cash balance plan looks like a DC plan in that the accrued benefit is defined in terms of an account balance. The employer makes contributions to the plan and pays interest on the accumulated balance. However, in a cash balance plan, the account balances are merely bookkeeping devices. They are not *individual accounts* that are *owned by the participants*. Legally, therefore, a cash balance plan is a defined benefit plan.

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[4] Defined benefit pensions are taxed when the employee receives benefits during retirement.

[5] Retirees can also choose a *joint and survivor annuity* in which a surviving spouse continues to receive an annuity after the retired worker's death.

The Locus of Risk in DB and DC Plans. In a defined benefit plan, it is the *employer* who bears the financial risk of the plan, while in a defined contribution plan it is the *employee* who bears the financial risk. In a defined benefit plan, the employer promises to provide retirement benefits equal to a certain dollar amount or a specific percentage of the employee's pay. The employer contributes money to a pension trust that is invested in stocks, bonds, real estate, or other assets. Retirement benefits are paid from this trust fund. The employer is *at risk* for the amount of retirement benefits that have been promised to employees and their survivors. If there are insufficient funds in the pension trust to pay the accrued benefits, the firm that sponsors the pension plan is legally obligated to make up the difference by paying more money into the pension fund.

In a *defined contribution* plan, the employer bears no risk beyond its obligation to make contributions to each employee's retirement account from the firm's current revenue. In these plans, it is the *employee* who bears the risk that his or her retirement account will increase in value by an amount sufficient to provide adequate income during retirement. If the contributions made to the account by the employer and the employee are insufficient, or if the securities in which the account is invested lose value or increase in value too slowly, the employee risks having an income in retirement that is not sufficient to maintain his or her desired standard of living. If this situation occurs, the worker might choose to delay retirement.

Many factors affect a firm's decision to sponsor a retirement plan and a worker's decision to participate in the plan. In any given year, changes in the business climate — inflation, interest rates, wage increases, the cost of other benefits (such as health insurance), trends in business revenues and profits — could weigh more heavily in a firm's decision to sponsor an employee retirement plan than the potential tax advantages it could gain by establishing a plan. Likewise, an employee's decision to participate or not to participate in a retirement plan may be affected by such variables as the rate of growth of wages, the rising cost of employee health insurance premiums, his or her confidence in the financial status of Social Security, and whether another family member already participates in a retirement plan.

Encouraging sponsorship of retirement plans by small firms is an important issue to the Congress in part because of the large number of people employed by small businesses. In 2002, for example, more than 34 million people worked for firms with fewer than 25 employees.[6] The relatively low rates of employer sponsorship and employee participation in retirement plans at small businesses have prompted Congress to look for ways to make it easier for small employers to establish and maintain retirement plans for their employees. Because small employers may be reluctant to take on the financial risk and administrative burden of establishing a defined-benefit pension plan, Congress has sought to encourage greater retirement plan sponsorship among small businesses mainly by easing the financial and reporting requirements associated with certain types of defined contribution pension plans. The *Revenue Act of 1978* (P.L. 95-600) authorized a

[6] Full-time and part-time wage and salary workers. (Source: *Current Population Survey*.)

defined contribution plan called the **S**implified **E**mployee **P**ension (SEP).[7] More recently, the *Small Business Job Protection Act of 1996* (P.L. 104-188) authorized another type of defined contribution plan called the **S**avings **I**ncentive **M**atch **Pl**an for **E**mployees (SIMPLE).[8]

Recent Trends in Retirement Plan Sponsorship and Participation

The number of defined benefit plans is declining. According to the Pension and Welfare Benefits Administration (PWBA) of the U.S. Department of Labor, the number of defined benefit plans declined from 175,000 to 56,400 between 1983 and 1998.[9] The decline in the number of DB plans resulted mainly from the termination of a large number of small plans. Between 1983 and 1998, the number of defined benefit pension plans with fewer than 100 participants fell from 149,164 to 41,264, a decline of 72.3%. The number of large DB plans fell, too, declining form 25,979 in 1983 to 15,141, or 41.7%. However, while the decline in the *number of plans* was larger among small plans, the decline in the *number of participants* was greater among large plans. The number of active participants in small DB plans fell from 1,861,000 in 1983 to 648,000 in 1998.[10] At the same time, the number of active participants in large DB plans fell from 28,104,000 to 22,345,000.

Retirement Plan Financial Trends. Financial information reported by employers to the U.S. Department of Labor also shows the extent to which sponsorship of retirement plans has shifted from DB plans to DC plans. In 1975, pension plans held total assets of $260 billion, of which 72% ($186 billion) was held by defined benefit plans. By 1998, pension plans held total assets of $4.0 *trillion*, but the share held by DB plans had fallen to 48% ($1.9 trillion). Contributions to pension plans shifted even more dramatically during this period. In 1975, employer and employee contributions to pension plans totaled $37 billion. Of this amount, 65% ($24 billion) was contributed to DB plans. In 1998, employers and employees contributed $202 billion to pension plans, but 83% of the total ($167 billion) was contributed to *defined contribution* plans. Benefit payments, too, reflected the impact of the increasing prevalence of DC plans. In 1975, 68% of all benefits paid by

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[7] P.L. 95-600 authorized tax exemption only for employer contributions to a SEP. The *Tax Reform Act of 1986* (P.L. 99-514) allowed workers in firms with fewer than 25 employees to contribute to a SEP on a tax-deferred basis through salary reduction (SARSEP). P.L. 104-188 authorized SIMPLE plans to replace SARSEPs. Firms may continue to establish SEPs funded exclusively by employer contributions, but new SARSEPs were prohibited after December 31, 1996. Previously existing SARSEPs may continue as before.

[8] For more information about SEP and SIMPLE, see CRS Report 96-243, *Simplified Employee Pensions: A Fact Sheet* and CRS Report 96-758, *Pension Reform: SIMPLE Plans for Small Employers.*

[9] *Private Pension Plan Bulletin,* U.S. Department of Labor, Pension and Welfare Benefits Administration, (Number 11, Winter 2001-2002).

[10] BLS, *Private Pension Plan Bulletin*, (Number 11, Winter 2001-2002). The number of active participants is the total number of participants minus those who have retired or who have separated from the employer with a vested benefit but are not retired.

private-sector pension plans ($13 billion out of $19 billion) were paid by defined benefit pensions. In 1998, 59% of the $273 billion in benefit payments were disbursed from DC plans. In that year, DC plans paid $162 billion in benefits, while DB plans paid out $111 billion in benefits.

Surveys of Employer-Provided Benefits. The Bureau of Labor Statistics collects data from employers about paid leave, health insurance, retirement plan participation, flexible spending accounts, and other employee benefits as part of the *National Compensation Survey*. The *National Compensation Survey* is conducted among a nationally representative sample of business establishments. The term *establishment* usually refers to a single place of business at a particular location or all branches of a business in a particular metropolitan area or county. An establishment might be a branch or small operating unit of a larger firm. In contrast, a *firm* comprises *all* of the establishments that together form a corporation, partnership, or other business entity.[11]

According to the data collected from employers through the National Compensation Survey, 65% of employees in medium and large private establishments participated in an employer-sponsored pension or retirement savings plan in 2000. (See **Table 2**.) Access to a company-sponsored retirement plan was substantially lower in small businesses. In 2000, only 33% of employees in businesses with fewer than 100 employees participated in an employer-sponsored pension or retirement savings plan. The data from the NCS also indicate that, among firms of all sizes, 55% of full-time employees participated in an employer-sponsored retirement plan in 2000, compared to just 18% of part-time workers.

[11] In the *Current Population Survey*, employer characteristics are reported at the level of the *firm*, which may include more than one establishment.

Table 2. Participation in Employer-Sponsored Retirement Plans by Employees in the Private Sector, 1999 and 2000

	Type of retirement plan		
	All types	Defined benefit	Defined contribution
Establishment Size			
1-99 workers			
1999	*34%*	*8%*	*27%*
2000	*33%*	*8%*	*27%*
100 or more workers			
1999	*64%*	*37%*	*46%*
2000	*65%*	*33%*	*46%*
Full-time workers			
1999	*56%*	*25%*	*42%*
2000	*55%*	*22%*	*42%*
Part-time workers			
1999	*21%*	*9%*	*14%*
2000	*18%*	*6%*	*12%*
All workers			
1999	*48%*	*21%*	*36%*
2000	*48%*	*19%*	*36%*

Note: Data represent 107 million workers employed in the private sector.
Source: National Compensation Survey, U.S. Department of Labor.

Surveys of Households. The *Current Population Survey* (CPS) is conducted each month by the Bureau of the Census among a nationally representative sample of 60,000 to 100,000 households, primarily for the purpose of estimating the rates of employment and unemployment. Each March, supplemental questions are asked about employment, income, health insurance, retirement plan participation, and receipt of government benefits during the previous calendar year. The data from the CPS show that retirement plan participation in small firms rose steadily throughout the 1990s, but has recently declined. The CPS data also indicate that access to a company-sponsored retirement plan remains lower in small firms than in firms with 100 or more employees.

Retirement Plans and Employer Size. The data displayed in **Table 3** show that from 1994 to 2002, the number of workers between the ages of 25 and 64 who were employed in the private sector and worked year-round, full-time increased from 57 million to 69 million. At the same time, the number of such workers whose employer offered a retirement plan increased from 37.1 million to 42.8 million. The proportion of year-round, full-time workers in this age group who were employed at firms that offered a retirement plan rose from 64.9% in 1994 to 66.9% in 1998, it has since fallen to 62.0%. Among firms with fewer than 25 employees, retirement plan sponsorship rose steadily until 2000, but has fallen since then. In 2002, 31.7% of full-time workers in businesses with fewer than 25 employees were employed at firms that sponsored a retirement plan, down from a high of 34.2% in 2000. This was still higher than the 26.5% level of 1994. Among workers in firms with 25 to 99 employees, 56.3% were employed at firms that sponsored a retirement plan in 2002, compared to 59.0% in 1999 and 53.4% in 1994.

There has been a significant decline since 1994 in the proportion of workers in larger firms whose employer sponsors a retirement plan. Among employees at businesses with 100 or more workers, 76.8% worked at firms that sponsored a retirement plan in 2002, which was five percentage points lower than the 81.8% of workers who were employed by large firms that sponsored a retirement plan in 1994. Nevertheless, workers at large firms remain substantially more likely than employees of small businesses to work for an employer that sponsors a retirement plan.

Table 3 also shows the percentage of year-round, full-time employees in the private sector who *participated* in an employer-sponsored retirement plan.[12] This statistic takes into account the impact of employers that do not sponsor a plan on overall retirement plan participation rates. Among firms of all sizes, the proportion of year-round, full-time employees between the ages of 25 and 64 who participated in a retirement plan fell from 55.8% in 2001 to 53.5% in 2002. This was lower than the participation rate of 56.1% in 1994. In firms with fewer than 25 employees, 27.3% of full-time employees between the ages of 25 and 64 participated in a retirement plan in 2002, down from a peak of 29.3% in 2000, but higher than the 22.8% who participated in a plan in 1994. In firms with 25 to 99 employees, retirement plan participation fell from 48.4% in 2001 to 47.8% in 2002. This was still higher than the 1994 participation rate of 44.9%. Participation in retirement plans among workers in firms with 100 or more employees also fell between 2001 and 2002, dropping from 68.6% to 66.6%. This was 4.5 percentage points lower than the participation rate of 71.0% in 1994.

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[12] Not all employees whose employer sponsors a retirement plan are eligible to participate. For example, employees who have been employed for less than one year or who work fewer than 1,000 hours per year can be excluded.

Table 3. Participation in Retirement Plans by Size of Firm

(Private-sector wage and salary workers, ages 25 to 64, employed year-round, full-time)

Size of firm (Employees)	Workers (thousands)	Employer sponsors plan		Employees participating	
		Workers	*Percent*	Participants	*Percent*
All firms					
1994	57,156	37,080	*64.9%*	32,043	*56.1%*
1995	60,687	38,348	*63.2*	33,298	*54.9*
1996	63,145	41,149	*65.2*	35,535	*56.3*
1997	64,001	41,855	*65.4*	36,184	*56.5*
1998	65,931	44,095	*66.9*	38,092	*57.8*
1999	67,065	44,794	*66.8*	38,901	*58.0*
2000	70,177	46,499	*66.3*	39,728	*57.4*
2001	69,266	45,097	*65.1*	38,678	*55.8*
2002	69,093	42,805	*62.0*	36,973	*53.5*
Under 25					
1994	13,120	3,479	*26.5%*	2,996	*22.8%*
1995	14,627	3,715	*25.4*	3,109	*21.3*
1996	15,343	4,365	*28.5*	3,713	*24.2*
1997	14,732	4,356	*29.6*	3,722	*25.3*
1998	15,101	4,789	*31.7*	4,072	*27.0*
1999	15,582	5,259	*33.4*	4,522	*29.0*
2000	16,591	5,575	*34.2*	4,857	*29.3*
2001	17,061	5,788	*33.9*	4,965	*29.1*
2002	17,878	5,658	*31.7*	4,880	*27.3*
25 to 99					
1994	8,476	4,526	*53.4%*	3,805	*44.9%*
1995	9,108	4,923	*54.1*	4,188	*46.0*
1996	9,421	5,378	*57.1*	4,531	*48.1*
1997	9,691	5,416	*55.9*	4,602	*47.5*
1998	9,940	5,794	*58.3*	4,838	*48.7*
1999	9,974	5,881	*59.0*	4,933	*49.5*
2000	10,492	6,139	*58.5*	5,186	*49.4*
2001	10,466	6,086	*58.2*	5,067	*48.4*
2002	10,719	6,030	*56.3*	5,126	*47.8*
100 or more					
1994	35,560	29,075	*81.8%*	25,242	*71.0%*
1995	36,951	29,706	*80.4*	26,000	*70.4*
1996	38,381	31,407	*81.8*	27,291	*71.1*
1997	39,578	32,083	*81.1*	27,860	*70.4*
1998	40,890	33,513	*82.0*	29,182	*71.4*
1999	41,509	33,654	*81.1*	29,447	*70.9*
2000	43,094	34,692	*80.5*	30,262	*70.2*
2002	41,739	33,223	*79.6*	28,645	*68.6*
2002	40,496	31,116	*76.8*	26,967	*66.6*

Source: CRS analysis of the *Current Population Survey*, various years.

Plan Participation Among Men and Women. **Table 4** shows the rates of participation in employer-sponsored retirement plans by men and women between the ages 25 and 64 who were employed in the private sector and worked year-round, full-time. Between 1994 and 1999, the proportion of men whose employer sponsored a retirement plan rose from 64.9% to 66.9%. Since then, it has dropped to 61.4%. The proportion of women who worked at firms that sponsored a retirement plan increased from 64.9% in 1994 to a high of 67.2% in 1998, and then fell to 62.7% in 2007. Thus in 2002, men and women who were employed year-round, full-time were just about equally likely to work for an employer that sponsored a retirement plan of some kind. Men and women also were almost equally likely to *participate* in an employer-sponsored retirement plan. In 2002, 53.9% of men who were employed year-round, full-time participated in a company-sponsored retirement plan, compared to 52.9% of women who worked year-round, full-time. Both of these participation rates were lower than in 2001; however, the participation rate for men fell by more than 5 percentage points between 1999 and 2002. The participation rate for women fell by 3 percentage points during the same period.

Table 4. Employee Participation in Retirement Plans, by Sex
(Private-sector wage and salary workers, ages 25 to 64, employed year-round, full-time)

	Workers (thousands)	Employer sponsors plan		Employees participating	
		Workers	*Percent*	Participants	*Percent*
Men					
1994	34,329	22,265	*64.9%*	19,617	*57.1%*
1995	36,504	23,008	*63.0*	20,359	*55.8*
1996	37,912	24,541	*64.7*	21,577	*56.9*
1997	38,207	24,796	*64.9*	21,887	*57.3*
1998	39,399	26,270	*66.7*	23,160	*58.8*
1999	39,757	26,596	*66.9*	23,553	*59.2*
2000	41,516	27,463	*66.2*	24,220	*58.3*
2001	40,976	26,539	*64.8*	23,164	*56.5*
2002	40,851	25,100	*61.4*	22,033	*53.9*
Women					
1994	22,827	14,815	*64.9%*	12,426	*54.4%*
1995	24,182	15,336	*63.4*	12,939	*53.5*
1996	25,232	16,609	*65.8*	13,958	*55.3*
1997	25,795	17,060	*66.1*	14,297	*55.4*
1998	26,532	17,825	*67.2*	14,932	*56.3*
1999	27,308	18,198	*66.6*	15,349	*56.2*
2000	28,661	19,036	*66.4*	16,083	*56.1*
2001	28,290	18,558	*65.6*	15,513	*54.8*
2002	28,242	17,704	*62.7*	14,939	*52.9*

Source: CRS analysis of the *Current Population Survey*, various years.

Plan Participation by Employee Age. **Table 5** displays rates of participation in employer-sponsored retirement plans among workers who were employed in the private sector and worked year-round, full-time, according to their age. Young workers — ages 25 to 34 — are less likely than middle-aged and older workers to be employed at a firm that sponsors a retirement plan. They also are less likely to participate in retirement plans than are older workers. In 2002, 57.2% of workers 25 to 34 years old worked for an employer that sponsored a retirement plan, and 44.6% participated in a company-sponsored plan. Thus, 78% of those who worked for a firm that sponsored a plan participated in the plan (0.446/0.572 = 0.78). In contrast, among workers 35 to 64 years old, 63.8% worked at firms that sponsored a retirement plan, and 57.0% participated in a company-sponsored plan. Thus, of those who worked for an employer that sponsored a retirement plan, 89.3% participated in the plan (0.570/0.638 = 0.893)[13]

[13] Some of the difference in participation rates is because workers under 35 are somewhat more likely to be in their first year with an employer and can be excluded from participating in the plan. Part-time or part-year workers and those under 21 also can be excluded, but none of these groups are represented in the table.

Table 5. Employee Participation in Retirement Plans, by Age
(Private-sector wage and salary workers, ages 25 to 64, employed year-round, full-time)

Employee age	Workers (thousands)	Employer sponsors plan		Employees participating	
		Workers	*Percent*	Participants	*Percent*
25 to 34					
1994	19,488	12,038	*61.8%*	9,460	*48.5%*
1995	19,759	11,673	*59.1*	9,337	*47.3*
1996	19,744	12,389	*62.8*	9,865	*50.0*
1997	19,829	12,508	*63.1*	9,832	*49.6*
1998	19,737	12,455	*63.1*	9,896	*50.1*
1999	19,535	12,513	*64.1*	9,903	*50.7*
2000	20,398	12,803	*62.8*	10,173	*49.9*
2001	19,542	11,908	*60.9*	9,330	*47.7*
2002	19,389	11,090	*57.2*	8,638	*44.6*
35 to 44					
1994	18,924	12,492	*66.0%*	11,082	*58.6%*
1995	20,439	13,235	*64.8*	11,742	*57.5*
1996	21,360	14,161	*66.3*	12,337	*57.8*
1997	21,528	14,120	*65.6*	12,377	*57.5*
1998	22,287	15,125	*67.9*	13,211	*59.3*
1999	22,812	15,387	*67.5*	13,440	*58.9*
2000	23,362	15,479	*66.3*	13,559	*58.0*
2001	22,445	14,841	*66.1*	12,882	*57.4*
2002	21,826	13,681	*62.7*	11,879	*54.4*
45 to 54					
1994	12,973	8,839	*68.1%*	8,117	*62.6%*
1995	14,042	9,240	*65.8*	8,381	*59.7*
1996	15,278	10,259	*67.2*	9,290	*60.8*
1997	15,576	10,638	*68.3*	9,760	*62.7*
1998	16,547	11,615	*70.2*	10,519	*63.6*
1999	17,238	12,053	*69.9*	11,089	*64.3*
2000	18,489	12,951	*70.1*	11,787	*63.8*
2001	18,625	12,650	*67.9*	11,324	*60.8*
2002	18,796	12,308	*65.5*	11,204	*59.6*
55 to 64					
1994	5,771	3,711	*64.3%*	3,384	*58.7%*
1995	6,446	4,196	*65.1*	3,838	*59.5*
1996	6,763	4,340	*64.2*	4,043	*59.8*
1997	7,069	4,588	*64.9*	4,215	*59.6*
1998	7,359	4,900	*66.6*	4,466	*60.7*
1999	7,479	4,841	*64.7*	4,470	*59.8*
2000	7,929	5,267	*66.4*	4,785	*60.3*
2001	8,653	5,698	*65.9*	5,141	*59.4*
2002	9,082	5,725	*63.0*	5,252	*57.8*

Source: CRS analysis of the *Current Population Survey*, various years.

Plan Participation by Employee Race. The March 2002 CPS incorporates newly expanded categories of race and ethnicity, making comparisons with prior years problematic. In **Table 6,** race and ethnicity are categorized as white non-Hispanic, black non-Hispanic, Hispanic, and other. The "other"category includes mainly persons whose heritage is Asian, Native American, Eskimo, or Pacific Islander. In 2002, the likelihood of being employed at a firm that sponsored a retirement plan was highest for white non-Hispanic workers and lowest for Hispanic workers. Black non-Hispanic workers and "Asian/Other" workers were about equally likely to work for an employer that sponsored a retirement plan. Among white non-Hispanic workers, 67% worked for an employer that sponsored a retirement plan, and 59% participated in an employer-sponsored plan. Among Hispanic workers, just 40% worked for an employer that sponsored a retirement plan and only 31% participated in an employer-sponsored retirement plan. Of workers who classified their race and ethnicity as black non-Hispanic, 59% worked for an employer that sponsored a plan and 47.5% participated in a plan, while among Asian-American and other workers, 58% worked for an employer that sponsored a retirement plan and 49% participated in a plan.

Table 6. Employee Participation in Retirement Plans, by Race

(Private sector wage and salary workers, ages 25 to 64, employed year-round, full-time)

Employee Race	Workers (thousands)	Employer sponsors plan		Employees participating	
		Workers	*Percent*	Participants	*Percent*
White, non-Hispanic					
2002	49,012	32,711	*66.7%*	28,836	*58.8%*
Black, non-Hispanic					
2002	7,078	4,156	*58.7%*	3,363	*47.5%*
Hispanic					
2002	8,942	3,582	*40.1%*	2,777	*31.1%*
Other					
2002	4,062	2,356	*58.0%*	1,996	*49.2%*

Source: CRS analysis of the *Current Population Survey*, various years.

Plan Participation by Employee Earnings. **Table 7** shows the relationship between earnings and participation in an employer-sponsored retirement plan. All earnings in **Table 7** have been indexed to 2002 dollars based on the annual percentage change in the wage and salary component of the Employment Cost Index. Between 1994 and 2002, wages and salaries rose at an average annual rate of 3.5%.

Between 2001 and 2002 the proportion of year-round, full-time workers in the private sector with annual earnings of less than $20,000 who were employed by a firm that sponsored a retirement plan fell from 39% to 36%. The percentage of workers who earned between $20,000 and $40,000 who were employed at firms that sponsored a retirement plan fell from 63% to 59%. Workers earning more than $40,000 per year were more likely than those earning less than $40,000 to be employed by firms that sponsored a retirement plan, although the percentage also fell for these workers from 2001 to 2002. In 2002, 72.2% of workers with annual earnings between $40,000 and $60,000 were employed at firms that sponsored a retirement plan, a drop of 2.9 percentage points from 2001. Among workers with earnings of more than $60,000, the percentage employed at firms that sponsored a retirement plan fell from 78.1% in 2001 to 75.2% in 2002.

Across all firms (including those that did not sponsor any kind of retirement plan), only 24% of full-time workers who earned less than $20,000 participated in an employer-sponsored retirement plan in 2002. Although participation was significantly higher among workers who earned between $20,000 and $40,000 (48.7%) than among those earning less than $20,000, it still lagged behind the participation rates of higher-paid employees. Among those who earned between $40,000 and 60,000, 65.3% participated in an employer-sponsored retirement plan in 2002, as did 71.1% of those who earned more than $60,000. In all four earnings categories, participation in company-sponsored retirement plans fell between 2001 and 2002.

Some of the lower participation rate among low-wage workers can be explained by the lower rate of plan sponsorship among the firms at which they are employed. For example, in 2002 72.2% percent of workers with annual earnings of $40,000 to $60,000 were employed at firms that sponsored a retirement plan and 65.3% of employees with earnings in this range participated in such plans. Thus, among employees whose employer sponsored a plan, the participation rate was 90%. (0.653/0.722 = 0.904). Likewise, among employees whose earnings in 2002 exceeded $60,000, 75.2% worked for an employer that sponsored a retirement plan and 71.1% participated in a retirement plan. Therefore, the participation rate among employees who earned $60,000 or more and whose employer sponsored a retirement plan was 94.5% (0.711/0.752 = 0.945). Participation rates were significantly lower among low-wage workers. Among workers whose 2002 earnings were less than $20,000, only 36% worked for an employer that sponsored a retirement plan and just 24% participated in a retirement plan. Thus, the participation rate among low-wage employees whose employer sponsored a retirement plan was 66.7% (0.24/0.36 = 0.667). Among those who earned $20,000 to $40,000, 59.0% worked for an employer that sponsored a retirement plan and 48.7% participated in such a plan, yielding a participation rate of 82.5% among those whose employer sponsored a retirement plan (0.487/0.590 = 0.825).

Table 7. Participation in Retirement Plans by Annual Earnings

(Private-sector wage and salary workers, ages 25 to 64, employed year-round, full-time)

Employee Annual Earnings	Number of workers	Employer sponsors plan		Employees participating	
		Workers	*Percent*	Participants	*Percent*
Under $20,000					
1994	9,881	3,988	*40.4*	2,523	*25.5*
1995	10,616	3,954	*37.3*	2,681	*25.3*
1996	10,931	4,267	*39.0*	2,890	*26.4*
1997	10,434	4,009	*38.4*	2,676	*25.6*
1998	10,769	4,374	*40.6*	2,890	*26.8*
1999	11,709	4,815	*41.1*	3,231	*27.6*
2000	11,360	4,489	*39.5*	3,037	*26.7*
2001	11,031	4,296	*39.0*	2,825	*25.6*
2002	10,727	3,859	*36.0*	2,570	*24.0*
$20,000-$39,999					
1994	22,888	14,293	*62.5*	12,012	*52.5*
1995	24,077	14,781	*61.4*	12,347	*51.3*
1996	25,194	15,920	*63.2*	13,140	*52.2*
1997	25,604	16,083	*62.8*	13,327	*52.1*
1998	25,502	16,763	*65.7*	13,871	*54.4*
1999	26,779	17,471	*65.2*	14,729	*55.0*
2000	28,340	18,092	*63.8*	15,085	*53.2*
2001	27,828	17,507	*62.9*	14,363	*51.6*
2002	27,712	16,340	*59.0*	13,489	*48.7*
$40,000-$59,999					
1994	12,543	9,542	*76.1*	8,719	*69.5*
1995	13,238	9,734	*73.5*	8,900	*67.2*
1996	13,765	10,439	*75.8*	9,582	*69.6*
1997	15,395	11,737	*76.2*	10,702	*69.5*
1998	16,349	12,351	*75.5*	11,343	*69.4*
1999	14,242	11,001	*77.3*	10,011	*70.3*
2000	15,437	11,916	*77.2*	10,881	*70.5*
2001	15,191	11,415	*75.1*	10,363	*68.2*
2002	15,142	10,939	*72.2*	9,887	*65.3*
$60,000 or more					
1994	11,844	9,257	*78.2*	8,788	*74.2*
1995	12,756	9,875	*77.4*	9,370	*73.5*
1996	13,255	10,523	*79.4*	9,922	*74.9*
1997	12,570	10,027	*79.8*	9,480	*75.4*
1998	13,310	10,607	*79.7*	9,988	*75.0*
1999	14,335	11,507	*80.3*	10,930	*76.3*
2000	15,040	12,002	*79.8*	11,301	*75.1*
2001	15,215	11,879	*78.1*	11,127	*73.1*
2002	15,512	11,667	*75.2*	11,027	*71.1*

Source: CRS analysis of the *Current Population Survey*, various years.

Note: Annual earnings have been adjusted to 2002 dollars based on the wage component of the Employment Cost Index.

Plan Participation by Full-Time vs. Part-Time Employment. **Table 8** compares retirement plan participation for year-round, full-time workers in the private sector to those who were employed part-year or part-time. Workers with part-year or part-time employment are much less likely to be employed by a firm that sponsors a retirement plan. Part-time and part-year workers also are less likely to participate if their employer sponsors a plan.

Between 1994 and 2002, the proportion of part-time or part-year workers employed by firms that sponsored a retirement plan rose from 39.2% to 43.0%. The rate of participation among part-year and part-time workers whose employer sponsored a retirement plan increased from 22.1% to 25.7%. The proportion of year-round, full-time workers employed at firms that sponsored a retirement plan fell from 64.9% in 1994 to 62.0% in 2002. The participation rate among year-round, full-time workers whose employer sponsored a retirement plan was 56.1% in 1994 and 53.5% in 2002. Plan participation peaked in 1998 at 58.0%.

The lower rate of retirement plan participation among part-year and part-time workers is one of the reasons that women are less likely than men to participate in a company-sponsored retirement plan. As was shown in **Table 4**, there is little difference in retirement plan participation between men and women who work *year-round, full-time*. Women, however, are more likely than men to work part-year or part-time. Data from the Current Population Survey show that in 2002, 81% of working men between the ages of 25 and 64 were employed year-round, full-time compared to 66% of working women in this age-group. Consequently, while women who worked *full-time* in 2002 were almost as likely as their male counterparts to have participated in a retirement plan (53% vs. 54%), the retirement plan participation rate among *all* working women 25 to 64 years old in the private sector in 2002 was lower than the participation rate among all working men in that age group(43% vs. 49%).[14]

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[14] CRS estimates based on the March 2003 CPS. (Not shown in accompanying tables).

Table 8. Participation in Retirement Plans by Full-Time vs. Part-Time Employment

(Private-sector wage and salary workers, ages 25 to 64)

	Workers (thousands)	Employer sponsors plan		Employees participating	
		Workers	*Percent*	Participants	*Percent*
Full-time					
1994	57,156	37,080	*64.9%*	32,043	*56.1%*
1995	60,687	38,344	*63.2*	33,298	*54.9*
1996	63,144	41,149	*65.2*	35,535	*56.3*
1997	64,002	41,855	*65.4*	36,184	*56.5*
1998	65,931	44,095	*66.9*	38,092	*57.8*
1999	67,065	44,794	*66.8*	38,901	*58.0*
2000	70,177	46,499	*66.3*	40,304	*57.4*
2001	69,265	45,097	*65.1*	38,678	*55.8*
2002	69,093	42,805	*62.0*	36,973	*53.5*
Part-time					
1994	23,840	9,347	*39.2%*	5,261	*22.1%*
1995	23,790	9,348	*39.3*	5,508	*23.2*
1996	24,022	9,673	*40.3*	5,406	*22.5*
1997	23,508	9,774	*41.6*	5,465	*23.3*
1998	21,937	9,679	*44.1*	5,615	*25.6*
1999	21,815	9,166	*42.0*	5,562	*25.5*
2000	21,420	9,708	*45.3*	5,756	*26.9*
2001	23,449	10,535	*44.9*	6,444	*27.5*
2002	24,104	10,353	*43.0*	6,192	*25.7*

Source: CRS analysis of the *Current Population Survey*, various years.