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Pension Sponsorship and Participation: Summary of Recent Trends

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Pension Sponsorship and Participation: Summary of Recent Trends

Summary

In order to help workers prepare for retirement, Congress has granted tax exemptions or deferrals for income set aside in pension plans and retirement savings accounts. Efforts to promote wider pension coverage by offering incentives to employers and employees through the tax code generally have been successful, especially for workers employed in medium and large firms. According to the Bureau of Labor Statistics, 79% of full-time employees in medium and large private establishments participated in an employer-sponsored pension or retirement savings plan in 1997. Pension participation in small businesses, however, has lagged behind the rates achieved in larger firms. In 1996, only 42% of full-time employees in businesses with fewer than 100 employees participated in an employer-sponsored pension or retirement savings plan.

The low rates of sponsorship and participation in retirement plans among small businesses have prompted Congress to seek to reduce the number of obstacles that impede pension coverage in these firms. For example, Congress has authorized retirement plans for small employers with fewer reporting requirements and less stringent contribution rules than are imposed on larger employers. Evaluating the effect of these laws on pension coverage is complicated by the many other variables that affect a firm's decision to sponsor a retirement plan and a worker's decision to participate in the plan. Nevertheless, data on pension coverage collected in recent national surveys of employers and households can be used to establish a baseline against which future changes in coverage can be measured. Recent surveys of employers and households reveal that:

- Pension participation remained steady in medium and large firms during the 1990s, while it rose in firms with fewer than 100 employees.
- Despite recent increases in coverage, employees in firms with fewer than 100 employees are only about half as likely as employees in larger firms to be participants in an employer-sponsored pension or retirement savings plan.
- In 2000, there was relatively little difference in the rate of pension participation among men and women who worked year-round, full-time (59% vs. 56%, respectively).
- In 2000, only 50% of workers 25 to 34 years old participated in an employer-sponsored pension or retirement savings plan, versus 60% of workers 35 or older.
- Pension participation rose among white and other nonwhite workers in the 1990s, but fell slightly among African-American workers.
- Between 1991 and 2000, the percentage of full-time workers earning less than \$20,000 per year (in 2000 \$) whose employer sponsored a retirement plan rose from 35% to 42%, but only 28% of workers earning under \$20,000 participated in an employer-sponsored retirement plan in 2000.
- Part-year or part-time workers are much less likely than workers employed year-round, full-time to be participants in an employer-sponsored pension or retirement savings plan (27% vs. 58% in 2000).

Contents

List of Tables

Pension Sponsorship and Participation: Summary of Recent Trends

Background on Pension Policy and Coverage Issues

The aging of the American population has made retirement income an issue of increasing concern to the Congress and the public. Americans are living longer than ever before, and although they are living longer, many are retiring earlier. Moreover, while the nation's population continues to grow, the decline in birth rates that followed the post-World War II "baby boom" coupled with longer life spans will result in fewer workers relative to the number of retirees. This will place significant fiscal strains over the next several decades on programs like Social Security and Medicare that provide benefits mainly to the elderly. All of these trends will affect the economic well-being of future retirees. 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 payments and Medicare 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 1999, there were 34.5 million Americans age 65 or older, representing 12.7% 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.

Working men are retiring earlier. Between 1970 and 2000, the proportion of men aged 55 to 64 years old who were participating in the labor force fell from 83% to 66%.[2] As a result of longer lives and earlier retirements, the length of retirements is being stretched at both ends. Earlier retirements and longer life-spans mean that the number of years spent in retirement, and thus the number of years during which income must be derived mainly form sources other than current employment, are increasing.

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

[2]Among women 55-64 years old, the labor force participation rate rose during this period from 43% to 52%. Overall, labor force participation among persons ages 55 to 64 fell from 62% in 1970 to 59.0% in 2000. (Source: CRS analysis of the *Current Population Survey*.)

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.[3] 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 1998 it never exceeded 70 births per 1,000 women.[4] Social Security faces long-term financial difficulties in part because of the declining ratio of workers to retirees. In 1960, there were 5.7 working-age people (20-64) for every person age 65 or older. By 1999, the ratio of working-age people to those age 65 or older had fallen to 4.6. 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.

Congress and Retirement Income Policies. The demographic trends described above will place strains on the components of the traditional "three-legged stool" of retirement income: Social Security, pensions, and personal saving. The Congress is currently considering a wide range of proposals to revise and reform Social Security in response to estimates by the system's Board of Trustees that Social Security will be financially insolvent by 2038.[5] Because Social Security benefits are financed through a federally-administered system of payroll taxes, it has always been a subject of great interest to the Congress. Social Security is also the largest single source of income among older Americans. Social Security pays benefits to more than 90% of people who are age 65 or older, and nearly two-thirds of the program's beneficiaries receive more than half of their income from Social Security.[6]

Social Security is the most significant source of income among the elderly, providing 38% of all income received by Americans age 65 or older in 1999. Pensions and savings are also important sources of income to retirees. In 1999, pensions provided 18% of all income received by the elderly, while interest and dividends comprised 19% of elderly income.[7] By granting tax exemptions and deferrals, Congress has had a major role in helping workers prepare for retirement by encouraging participation in pension plans and retirement savings accounts.

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

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

[4]In 1998, there were 65 live births per 1,000 women 15 to 44 years old. U.S. National Center for Health Statistics, *Vital Statistics of the United States.*

[5]Social Security and Medicare Boards of Trustees, *Status of the Social Security and Medicare Programs: A Summary of the 2001 Annual Reports*, Washington, DC, March 2001.

[6]SSA, Office of Policy, *Fast Facts and Figures About Social Security*, June 2001.

[7]SSA, Office of Policy, *Fast Facts and Figures About Social Security,* June 2001.

contributions from employer income, exclusion of employer contributions to pension plans from employee income, and tax exemption of the earnings of pension trusts.[8] 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 pension 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,[9] 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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[8]Defined benefit pensions are taxed when the employee receives benefits during retirement.

[9]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.

Pension coverage is high in medium and large firms ... According to the Bureau of Labor Statistics (BLS), 79% of full-time employees in medium and large private establishments participated in an employer-sponsored retirement plan in 1997.[10] Data collected by the Bureau of the Census indicate slightly lower rates of pension coverage. In the Census Bureau's *Current Population Survey* (CPS), 70% of employees aged 25 to 64 who worked year-round, full-time at private-sector firms with 100 or more employees reported that they participated in an employer-sponsored pension or retirement savings plan in 2000.[11]

... but remains low in small firms. Among small employers, both employer sponsorship and employee participation in retirement plans have lagged behind the rates achieved among medium and large firms. In the 1990s, pension participation in small firms rose, but it is still only about half the rate of participation among workers in larger firms. The BLS' biennial survey of small employers showed that 35% of full-

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[10]For purposes of its surveys of employee benefits, BLS defines medium and large private establishments as those with 100 or more employees.

[11]The difference in pension participation rates in the BLS and CPS data results in part from differences in the sampling procedures and survey methods. The BLS conducts its survey among *business establishments,* while the CPS is conducted among a sample of *households*. The BLS survey consists of a lengthy set of questions focused on employee benefits that are asked of human resources professionals or other managers. On the other hand, only a small portion of the March demographic supplement to the CPS is devoted to benefits provided at work. The questions are asked of a single respondent in the household, who may or may not have full knowledge of his or her own pension benefits, much less those of other adults in the household. Consequently, it should not be surprising that pension coverage is less widely reported on the CPS than on the BLS survey of employers.

time workers in independently-owned firms with fewer than 100 employees participated in a pension or retirement savings plan in 1990. The participation rate remained steady at 34% to 35% from 1990 through 1994. In the 1996 BLS survey, 42% of full-time employees in small, independently-owned businesses were participants in employer-sponsored retirement plans. Although this rate of participation is low relative to that of large businesses, it represents an increase of nearly 2 million in the number of workers in small firms who were participants in a pension or retirement savings plan in 1996 compared to 1994.

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 decisions 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 has pension coverage.

In a recent survey, small employers most frequently cited uncertainty about future revenues and the expense of employer contributions as the reasons that they did not offer either a traditional pension or other employer-sponsored retirement plan. Small employers also cited a preference among employees for higher wages and large numbers of part-time or temporary workers as reasons that they chose not to sponsor a retirement plan.[12] In the 2001 *Small Employer Retirement Survey*, jointly sponsored by the Employee Benefit Research Institute and the American Savings Education Council, 48% of small employers that did not offer a pension plan said that uncertainty of revenue was a major reason, and 46% cited the cost of employer contributions. Forty-three percent of small employers cited their employees' preference for higher wages or other benefits, while 32% said that high employee turnover was a major reason for having no retirement plan. In contrast, 34% cited the administrative burden of providing a pension as a major reason for not offering a retirement plan, and only 22% said that government regulations were a significant reason that they did not offer a retirement plan.

Pension coverage in small firms is an important issue to the Congress in part because of the large number of people employed by small businesses. In 2000, for example, more than 31 million people worked for firms with fewer than 25 employees.[13] 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 pension coverage among small businesses

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[12] Dallas Salisbury, Teresa Turyn, and Ruth Helman, *EBRI 2001 Retirement Surveys*, Employee Benefit Research Institute Issue Brief 234, Washington, DC, June 2001.

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

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 defined contribution plan called the **S**implified **E**mployee **P**ension (SEP).[14] 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).[15] The data collected by BLS and the Bureau of the Census over the next few years should help to reveal the degree to which recent policy changes such as SIMPLE have met the needs of small employers for establishing employee retirement plans and the extent to which further efforts — whether in the form of technical assistance to employers, employee education, or further financial inducements to both — may be needed to promote pension coverage among workers in small businesses.

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 59,500 between 1983 and 1997.[16] The decline in the number of DB plans resulted mainly from the termination of a large number of small plans. Between 1983 and 1997, the number of defined benefit pension plans with fewer than 100 participants fell from 149,164 to 43,647, a decline of 70.7%. The number of large DB plans fell, too, declining form 25,979 in 1983 to 15,852, or 39.0%. 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 660,000 in 1997.[17] At the same time, the number of active participants in large DB plans fell from 28,104,000 to 22,085,000.

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[14]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.

[15]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,* both by James R. Storey.

[16]*Private Pension Plan Bulletin,* U.S. Department of Labor, Pension and Welfare Benefits Administration, (Number 10, Winter 2001).

[17]BLS, *Private Pension Plan Bulletin*, (Number 10, Winter 2001). 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.

Sources of Data on Pension Coverage

The main sources of data on which this report is based are the *Employee Benefits Survey* (EBS), conducted by the U.S. Bureau of Labor Statistics and the *Current Population Survey* (CPS), which is administered by the Bureau of the Census. The EBS is a survey of *business establishments.* It is an element of the National Compensation Survey, which also produces the Employment Cost Index (ECI). The ECI is a measure of the cost of employee compensation across industries that includes both cash and in-kind compensation. Data from the ECI are widely used among financial analysts and economists in both government and the private sector, and it has been designated in federal statute as the basis for computing annual wage adjustments for civilian federal employees and military personnel.

The CPS is conducted each month by the Bureau of the Census among a random sample of approximately 50,000 households, mainly to collect information about labor force participation needed to estimate the national unemployment rate. Each March, supplemental questions are asked about household economic and demographic characteristics and about income and employment during the previous year. The questions about employment include two questions about pension coverage and participation during the previous year. Respondents are asked whether *any* employer for whom they worked had a pension or other type of retirement plan for any of its employees. Respondents who answer "yes" to this question are asked whether they were included in the plan. The data collected in the annual March supplement to the CPS are especially useful for policy analysis because of the large sample size, the breadth of topics covered, and the timeliness of the data.

Simplified Defined Benefit Plans for Small Employers: The "SAFE" and "SMART" Proposals

A report issued by the PWBA in 1997 identified several reasons for the decline of DB plans among small employers, including aspects of tax treatment, funding requirements, and reporting procedures, some of which can be modified only through congressional action. The working group organized by the PWBA recommended that "the Secretary of Labor support legislative and regulatory changes that will restore the viability of defined benefit plans." In the 106th Congress, two simplified defined benefit plans were proposed. They were the *Secure Assets For Employees* (SAFE) plan, introduced as **H.R. 2190** (Nancy Johnson), and the *Secure Money Annuity or Retirement Trust* (SMART), which was introduced as **H.R. 1213** (Neal).

As proposed in H.R. 2190, SAFE plans could be established by any employer with fewer than 100 employees that does not already have a qualified retirement plan. SAFE plans would be required to be fully funded at all times, but they would be exempted from paying premiums to the PBGC and would be subject to minimal reporting requirements and simplified actuarial valuation. SAFE plans would guarantee a minimum benefit equal to 1%, 2%, or 3% of pay for each year of service, and would pay higher benefits if the plan's assets grow to exceed the amount needed to pay the minimum benefit. Employees would be fully vested immediately in their retirement benefit, which would be funded either through an individual annuity or a trust. Separating employees could transfer benefit credits to another employer's

SAFE plan or to an individual retirement account (IRA). A 20% excise tax would be levied on early withdrawals. A maximum of $160,000 in annual compensation (indexed to inflation) could be used to determine plan contributions and benefits, but SAFE plans would not be subject either to the "non-discrimination tests" or the "top-heavy" rules that apply to other defined benefit pension plans.[18] Initially, employers could make retroactive contributions that would be based on a "look-back" period of 10 years.

SMART plans, too, would allow employer contributions ranging from 1% to 3% of salary and require full and immediate employee vesting. SMART plans also could pay benefits in excess of the minimum guaranteed level if investment returns exceeded the gains necessary to fund the guaranteed benefit. SMART plans would allow employees who leave their employer to purchase an annuity or to roll over the accumulated value of their benefits into an IRA or another employer-sponsored plan. The maximum annual compensation that could be taken into account for determining contributions or benefits would be $100,000, indexed to inflation. Benefits from a SMART plan would be paid monthly as a life annuity to the employee or in an actuarially equivalent form (such as a joint and survivor annuity for the employee and his or her spouse). Unlike SAFE, SMART plans would be required to pay insurance premiums to the PBGC, but at lower rates than other defined benefit pension plans. Retroactive contributions to SMART plans would not be allowed.

Recent Trends in Coverage by Employer-Sponsored Pension Plans

Surveys of both households and business establishments indicate that retirement plan coverage among employees of small firms rose during the 1990s. Pension coverage in medium and large firms has remained steady, but it began the decade at a much higher level than in small firms. According to the Bureau of Labor Statistics, the proportion of full-time employees in independently-owned businesses with fewer than 100 workers who were participating in an employer-sponsored retirement plan rose from 35% in 1990 to 42% in 1996. Among businesses with 100 or more employees, the proportion of workers participating in employer-sponsored retirement plans was 78% in 1991 and 79% in 1997. The Census Bureau's *Current Population Survey* (CPS) shows a similar trend. The CPS data indicate that in firms with fewer than 100 employees, the proportion of year-round, full-time workers between the ages of 25 and 64 who participated in an employer-sponsored retirement plan rose from 31% in 1991 to 37% in 2000. CPS data indicate that among workers employed at firms with 100 or more employees, 70% participated in a retirement plan in 2000, which was unchanged from the participation rate in 1991.

Data Collected from Employers

Medium and Large Firms. The Bureau of Labor Statistics conducts annual surveys of employers to gather information about paid leave, health insurance, pension coverage, flexible spending accounts, and other employee benefits. In even-numbered

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[18]These rules are intended to prevent pension plans from providing disproportionately large benefits to highly compensated employees or members of the firm's management.

years, the BLS surveys establishments with fewer than 100 employees, and in odd-numbered years the agency surveys medium and large employers, defined as those with 100 or more employees. **Table 1** presents results from the survey of medium and large establishments. In each year of the survey, four out of five full-time workers in medium and large firms participated in an employer-sponsored pension or retirement savings plan. Although the rate of participation has changed very little during the 1990s, there has been a notable shift in participation away from *defined benefit* plans toward *defined contribution* plans. In 1997, 50% of employees in medium and large firms were covered by a DB plan, down from 59% in 1991. At the same time, the proportion of full-time workers in these firms who participated in a DC plan rose from 48% to 57%.

Table 1. Participation in Employer-Sponsored Pension or Retirement Savings Plans in Medium and Large Private Establishments

(Full-time employees in establishments with 100 or more workers)

Year	All retirement plans*	Defined benefit plans	Defined contribution plans
1991	78%	59%	48%
1993	78%	56%	49%
1995	80%	52%	55%
1997	79%	50%	57%

Source: U.S. Department of Labor. *Employee Benefits in Medium and Large Private Establishments*, Washington DC, various years.

* Includes defined benefit and defined contribution plans. Some employees participate in both types but are counted only once in "all retirement plans."

Small Firms. Results of the BLS survey of independent business establishments with fewer than 100 employees are displayed in **Table 2**. The data show an increase in coverage by employer-sponsored retirement plans from 35% in 1990 to 42% in 1996. The data also show a trend toward defined contribution plans similar to that observed among medium and large businesses. The proportion of full-time workers in small establishments who participated in a DB plan fell from 12% to 10% during this period, while participation in DC plans rose from 28% to 35%. Some employees are covered by both a defined benefit plan and a defined contribution plan through the same employer. With only 10% of employees participating in a DB plan, however, most workers in small businesses who participate in a retirement plan are covered only by a DC plan.

The data collected by BLS indicate that the rising rate of retirement plan coverage among employees of small businesses coincided with the growth of defined contribution plans (of which SEP and SIMPLE are two examples) and the relative decline in defined benefit plans. The data also indicate, however, that little of the increase in retirement plan coverage has been a result of employers who otherwise would not have sponsored a retirement plan adopting a SEP. In both 1990 and 1996, only about 1% of full-time employees in small private establishments participated in a SEP. Results of another recent survey of small employers shed some light on why SEP and SIMPLE have not yet had much impact on the extent of retirement plan coverage in small firms. According to the 2001 *Small Employer Retirement Survey*, sponsored by the Employee Benefit Research Institute and the American Savings Education Council, 34% of small employers had never heard of SIMPLE plans and another 13% said that they were "not too familiar" with these plans. Fifty-two percent were unaware of the availability of SEPs, while another 16% said that they had heard of SEPs but knew little about them. The low level of awareness about SIMPLE and SEP plans among small employers points to the possibility that outreach and education efforts by government agencies and private financial institutions could lead to higher rates of pension coverage in small firms.

Table 2. Participation in Employer-Sponsored Pension or Retirement Savings Plans in Small, Independently Owned Businesses

(Full-time employees in independent establishments with under 100 workers)

Year	All retirement plans*	Defined benefit plans	Defined contribution plans
1990	35%	12%	28%
1992	34%	12%	27%
1994	35%	9%	29%
1996	42%	10%	35%

Source: U.S. Department of Labor. Bureau of Labor Statistics. *Employee Benefits in Small Private Establishments*, Washington DC, various years.

* Includes defined benefit and defined contribution plans. Some employees participate in both types but are counted only once in "all retirement plans."

Distinguishing Between "Establishments" and "Firms"

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. A *firm* comprises *all* of the establishments that together form a corporation, partnership, or other business entity.

The *Employee Benefits Survey* is conducted among a nationally representative sample of business establishments. As defined by the BLS, an establishment might be a branch or small operating unit of a larger firm. BLS also publishes data that pertain exclusively to *small independent businesses*, which include only independently-owned small private establishments. Small independent businesses account for about three-fourths of the employees covered by the BLS survey of small establishments. The BLS data presented in this CRS Report reflect pension coverage in small independently-owned businesses.

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

Pension Plan Financial Trends. Financial information reported by employers to the U.S. Department of Labor also shows the extent to which pension coverage 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 1997, pension plans held total assets of $3.5 *trillion*, but the share held by DB plans had fallen to 49% ($1.7 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 1997, employers and employees contributed $178 billion to pension plans, but 83% of the total ($148 billion) was contributed to *defined contribution* plans. Benefit payments, too, reflected the impact of the increasing popularity of DC plans. In 1975, 68% of all benefits paid by private-sector pension plans ($13 billion out of $19 billion) were paid by defined benefit pensions. In 1997, 58% of the $232 billion in benefit payments were disbursed from DC plans. In that year, DC plans paid $135 billion in benefits, while DB plans paid out $97 billion in benefits.

Data Collected from Households

The *Current Population Survey* is conducted each month by the Bureau of the Census among a nationally representative sample of approximately 50,000 households, primarily for the purpose of estimating the rates of employment and unemployment. Each March, supplemental questions are asked about employment, income, health insurance, pension coverage, and receipt of government benefits during the previous calendar year. The responses to the CPS confirm that pension participation in small firms rose steadily throughout the 1990s, as was indicated by the BLS surveys of employers. The CPS data also confirm that pension coverage remains lower in small firms than in firms with 100 or more employees.

Pension Participation by Size of Employer. The data displayed in **Table 3** show that from 1991 to 2000, the number of workers between the ages of 25 and 64 who were employed year-round, full-time increased from 53 million to 69 million. At the same time, the number of such workers whose employer offered a pension or retirement savings plan increased from 33.5 million to 45.8 million. Thus, the proportion of year-round, full-time workers in this age group who were employed at a firm offering a retirement plan rose from 63.3% to 66.5%. Most of the increase in pension sponsorship during this period occurred among firms with fewer than 100 employees. In 2000, 34.4% of full-time workers in businesses with fewer than 25 employees were employed at firms with pensions or retirement savings plans, compared to 27% in 1991. Among workers in firms with 25 to 99 employees, 58.8% were employed at firms that sponsored retirement plans in 2000, compared to 49.6% in 1991. Nevertheless, in 2000 workers in small businesses still were much less likely than employees of large firms to work for an employer that sponsored a pension or retirement savings plan. Among employees at businesses with 100 or more workers, 79.5% worked for a firm that sponsored a pension or retirement savings plan in 1991 and 80.6% worked at such firms in 2000.

Table 3 also shows the percentage of year-round, full-time employees who *participated* in an employer-sponsored pension or retirement savings plan.[19] This statistic takes into account the impact of employers that do not sponsor a plan on overall pension 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 pension or retirement savings plan increased from 55.3% in 1991 to 57.7% in 2000. Participation among workers in firms with 100 or more employees rose by less than one percentage point from 69.7% to 70.4%. Pension participation rose more substantially among those who worked in small firms. In firms with 25 to 99 employees, participation in pensions and retirement savings plans rose from 42.2% to 49.7%, while in firms with fewer than 25 workers, participation rose from 23.4% to 29.5%.

[19] Not all employees whose employer sponsors a retirement plan are eligible to participate. For example, workers who have been employed for less than one year can be excluded.

Table 3. Participation in Retirement Plans by Size of Firm

(Private-sector non-agricultural 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					
1991	52,954	33,541	*63.3%*	29,294	*55.3%*
1992	53,768	34,209	*63.6%*	29,676	*55.2%*
1993	54,954	34,092	*62.0%*	29,636	*53.9%*
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	68,910	45,813	*66.5%*	39,728	*57.7%*
Under 25					
1991	11,705	3,160	*27.0%*	2,740	*23.4%*
1992	11,942	3,181	*26.6%*	2,696	*22.6%*
1993	12,555	3,134	*25.0%*	2,688	*21.4%*
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	16,213	5,575	*34.4%*	4,776	*29.5%*
25 to 99					
1991	8,010	3,972	*49.6%*	3,383	*42.2%*
1992	8,416	4,146	*49.3%*	3,556	*42.3%*
1993	8,217	3,967	*48.3%*	3,374	*41.1%*
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	10,289	6,053	*58.8%*	5,113	*49.7%*
100 or more					
1991	33,239	26,409	*79.5%*	23,171	*69.7%*
1992	33,411	26,882	*80.5%*	23,424	*70.1%*
1993	34,182	26,990	*79.0%*	23,574	*69.0%*
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	42,409	34,185	*80.6%*	29,839	*70.4%*

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

Pension Participation by Employee Gender. **Table 4** shows the rates of participation in pension and retirement savings plans by men and women ages 25 to 64 who were employed year-round, full-time. Between 1991 and 2000, the proportion of men whose employer sponsored a pension or retirement savings plan rose by two percentage points from 64.3% to 66.5%. At the same time, the proportion of women who worked at firms that sponsored pensions or retirement savings plans increased by more than four percentage points from 61.9% to 66.5%. Thus by 2000, women who were employed year-round, full-time were just as likely their male counterparts to work for an employer that sponsored a retirement plan of some kind. Women, however, were less slightly likely than men to *participate* in these plans. In 2000, 59% of men who were employed year-round, full-time participated in a pension or retirement savings plan, compared to 56% of women who worked year-round, full-time.

Table 4. Participation in Retirement Plans by Employee Gender

(Private-sector non-agricultural workers, ages 25 to 64, employed year-round, full-time)

	Workers (thousands)	Employer sponsors plan		Employees participating	
		Workers	*Percent*	Participants	*Percent*
Men					
1991	31,556	20,296	*64.3%*	18,183	*57.6%*
1992	32,001	20,535	*64.2%*	18,152	*56.7%*
1993	32,867	20,360	*62.0%*	18,055	*54.9%*
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	40,704	27,048	*66.5%*	23,880	*58.7%*
Women					
1991	21,398	13,245	*61.9%*	11,111	*51.9%*
1992	21,767	13,675	*62.8%*	11,524	*52.9%*
1993	22,087	13,732	*62.2%*	11,581	*52.4%*
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	28,207	18,765	*66.5%*	15,847	*56.2%*

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

Pension Participation by Employee Age. **Table 5** displays rates of participation in pension and retirement savings plans among year-round, full-time workers in four age categories. In 1991, young workers — ages 25 to 34 — were less likely than middle-aged and older workers to be employed at a firm that sponsored a pension or retirement savings plan. However, between 1991 and 2000 the proportion of young workers who were employed at firms that sponsored a pension or retirement savings plan increased from 59.6% to 63.4%. By 2000, the percentage of year-round, full-time workers whose employer sponsored a pension or retirement savings plan differed relatively little among employees of various ages, ranging from 63.4% among those 25 to 34 years old to 70.2% among those 45 to 54 years old.

Pension *participation* varies more by age than does the likelihood of working for an employer that *sponsors* a pension or retirement savings plan. Pension participation generally rises with employee age, although it is lower for workers 55 or older than among those 45 to 54 years old. In 2000, 50.4% of workers 25 to 34 years old participated in a retirement plan, compared with 58.1% of those who were 35 to 44 years old and 63.9% of those who were 45 to 54 years old. Among year-round, full-time workers between the ages of 55 and 64, 60.2% participated in a pension or retirement savings plan in 2000.

Table 5. Participation in Retirement Plans by Employee Age

(Private-sector non-agricultural 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					
1991	18,865	11,238	*59.6%*	9,095	*48.2%*
1992	18,559	11,127	*60.0%*	8,848	*47.7%*
1993	18,748	10,862	*57.9%*	8,746	*46.7%*
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	19,665	12,457	*63.4%*	9,906	*50.4%*
35 to 44					
1991	17,261	11,109	*64.4%*	9,823	*56.9%*
1992	17,565	11,584	*66.0%*	10,234	*58.3%*
1993	18,203	11,614	*63.8%*	10,265	*56.4%*
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	23,371	15,499	*66.3%*	13,575	*58.1%*
45 to 54					
1991	11,226	7,571	*67.4%*	7,019	*62.5%*
1992	11,765	7,782	*66.2%*	7,175	*61.0%*
1993	12,497	8,146	*65.2%*	7,441	*59.6%*
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	18,162	12,746	*70.2%*	11,606	*63.9%*
55 to 64					
1991	5,602	3,623	*64.7%*	3,358	*59.9%*
1992	5,879	3,717	*63.2%*	3,419	*58.2%*
1993	5,506	3,470	*63.0%*	3,183	*57.8%*
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	7,713	5,111	*66.3%*	4,640	*60.2%*

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

Employee Pension Participation by Race. Race is classified on the CPS as white, black, American Indian/Eskimo, or Asia/Pacific Islander. Ethnic origin (Hispanic, for example), is identified separately from race. Between 1991 and 2000, the likelihood of being employed at a firm that sponsored a retirement plan remained basically unchanged for black workers, while it increased for white workers and those of other races. (See **Table 6**). Moreover, the proportion of black workers who *participated* in a retirement plan fell from 51.4% to 49.7%. Among white workers, the proportion who participated in a retirement plan increased from 56.2% to 59.2%, while among workers whose race was classified as "other," mainly (Native American or Asian), participation increased from 43.8% to 50.8%.

Table 6. Participation in Retirement Plans by Employee Race

(Civilian non-agricultural workers, ages 25 to 64, employed year-round, full-time)

Employee Race	Workers (thousands)	Employer sponsors plan		Employees participating	
		Workers	*Percent*	Participants	*Percent*
White					
1991	45,910	29,354	*63.9%*	25,816	*56.2%*
1992	46,582	29,815	*64.0%*	26,111	*56.1%*
1993	47,125	29,805	*63.3%*	26,073	*55.3%*
1994	48,748	31,976	*65.6%*	27,864	*57.2%*
1995	51,745	32,953	*63.7%*	28,778	*55.6%*
1996	53,619	35,340	*65.9%*	30,738	*57.3%*
1997	53,941	35,714	*66.2%*	31,085	*57.6%*
1998	55,495	37,565	*67.7%*	32,720	*59.0%*
1999	56,082	37,954	*67.7%*	33,246	*59.3%*
2000	57,117	38,655	*67.7%*	33,828	*59.2%*
Black					
1991	5,099	3,128	*61.3%*	2,623	*51.4%*
1992	5,146	3,210	*62.4%*	2,566	*49.9%*
1993	5,435	3,045	*56.0%*	2,478	*45.6%*
1994	5,890	3,699	*62.8%*	3,003	*51.0%*
1995	6,305	3,950	*62.7%*	3,314	*52.6%*
1996	6,602	4,105	*62.2%*	3,324	*50.4%*
1997	6,954	4,315	*62.1%*	3,535	*50.8%*
1998	7,258	4,565	*62.9%*	3,689	*50.8%*
1999	7,613	4,820	*63.3%*	3,928	*51.6%*
2000	8,165	4,988	*61.1%*	4,058	*49.7%*
Other					
1991	1,945	1,060	*54.5%*	852	*43.8%*
1992	2,041	1,184	*58.0%*	1,000	*49.0%*
1993	2,394	1,242	*51.9%*	1,084	*45.3%*
1994	2,518	1,405	*55.8%*	1,176	*46.7%*
1995	2,637	1,441	*54.6%*	1,205	*45.7%*
1996	2,923	1,704	*58.3%*	1,473	*50.4%*
1997	3,107	1,827	*58.8%*	1,564	*50.3%*
1998	3,177	1,965	*61.9%*	1,684	*53.0%*
1999	3,370	2,020	*59.9%*	1,727	*51.3%*
2000	3,629	2,170	*59.8%*	1,843	*50.8%*

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

Pension Participation by Employee Earnings. **Table 7** shows the relationship between earnings and participation in employer-sponsored pension and retirement savings plans. All earnings in **Table 7** have been indexed to 2000 dollars based on the annual percentage changes in the wage and salary component of the Employment Cost Index. Between 1991 and 2000, wages and salaries rose at an average annual rate of 3.4%.

In 1991, only 35.0% of year-round, full-time workers with annual earnings of less than $20,000 were employed by a firm that sponsored a retirement plan. By 2000, the percentage of low-wage workers who were employed at a firm that sponsored a retirement plan had risen to 41.5%. The percentage of workers who earned between $20,000 and $40,000 who were employed at firms that sponsored retirement plans also rose during this time, rising from 61.7% in 1991 to 64.9% in 2000. 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 retirement plans, although the percentage increase in sponsorship between 1991 and 2000 was smaller than among workers earning less than $40,000. In 2000, 78% of workers with annual earnings between $40,000 and $60,000 were employed at firms that sponsored pensions or retirement savings plans, as were 80% of employees whose annual earnings exceeded $60,000.

Across all firms (including those that did not sponsor any kind of retirement plan), only 28.3% of full-time workers who earned less than $20,000 participated in an employer-sponsored retirement plan in 2000. Although participation was significantly higher among full-time workers who earned between $20,000 and $40,000 (54.6%) 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, 72% participated in an employer-sponsored retirement plan in 2000, as did 75% of those who earned more than $60,000.

Some, but not all, of the lower participation rate among low-wage workers can be explained by the lower rate of pension sponsorship among the firms at which they are employed. For example, in 2000 78% percent of workers with annual earnings of $40,000 to $60,000 were employed at firms that sponsored a pension or retirement savings plan and 72% of employees with earnings in this range participated in such plans. Thus, among employees whose employer sponsored a plan, the participation rate was 92%. (.72/.78 = .923). Likewise, among employees whose earnings in 2000 exceeded $60,000, 80% worked for an employer that sponsored a retirement plan and 75% 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% (.75/.80 = .9375).

Participation rates were significantly lower among low-wage workers. Among workers whose 2000 earnings were less than $20,000, only 41.5% worked for an employer that sponsored a retirement plan and just 28.3% participated in a retirement plan. Thus the participation rate among low-wage employees whose employer sponsored a retirement plan was 68% (.283/.415 = .682). Among those who earned $20,000 to $40,000, 65% worked for an employer that sponsored a retirement plan and 55% participated in such a plan, yielding a participation rate of 85% among those whose employer sponsored a retirement plan (.55/.65 = .846).

Table 7. Participation in Retirement Plans by Annual Earnings

(Private-sector non-agricultural 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					
1991	9,320	3,265	*35.0%*	2,277	*24.4%*
1992	10,148	3,761	*37.1%*	2,558	*25.2%*
1993	10,657	3,772	*35.4%*	2,567	*24.1%*
1994	11,539	4,814	*41.7%*	3,176	*27.5%*
1995	12,002	4,666	*38.9%*	3,232	*26.9%*
1996	12,336	5,058	*41.0%*	3,461	*28.1%*
1997	11,552	4,659	*40.3%*	3,124	*27.1%*
1998	12,641	5,418	*42.9%*	3,644	*28.8%*
1999	12,990	5,489	*42.3%*	3,708	*28.5%*
2000	12,213	5,065	*41.5%*	3,450	*28.3%*
$20,000-$39,999					
1991	21,543	13,292	*61.7%*	11,235	*52.2%*
1992	22,298	13,908	*62.4%*	11,721	*52.6%*
1993	22,527	13,836	*61.4%*	11,798	*52.4%*
1994	23,039	14,780	*64.2%*	12,533	*54.4%*
1995	24,758	15,568	*62.9%*	13,146	*53.1%*
1996	25,407	16,353	*64.4%*	13.625	*53.6%*
1997	27,378	17,670	*64.5%*	14,917	*54.5%*
1998	27,535	18,490	*67.2%*	15,606	*56.7%*
1999	27,319	18,186	*66.6%*	15,421	*56.5%*
2000	28,298	18,354	*64.9%*	15,442	*54.6%*
$40,000-$59,999					
1991	12,719	9,653	*75.9%*	8,851	*69.6%*
1992	11,923	9,184	*77.0%*	8,445	*70.8%*
1993	12,069	9,058	*75.1%*	8,283	*68.6%*
1994	11,921	9,146	*76.7%*	8,412	*70.6%*
1995	12,434	9,246	*74.4%*	8,507	*68.4%*
1996	14,250	10,869	*76.3%*	10,073	*70.7%*
1997	13,486	10,347	*76.7%*	9,465	*70.2%*
1998	13,887	10,727	*77.2%*	9,910	*71.4%*
1999	13,888	10,808	*77.8%*	9,972	*71.8%*
2000	14,420	11,253	*78.0%*	10,354	*71.8%*
$60,000 or more					
1991	9,370	7,329	*78.2%*	6,929	*74.0%*
1992	9,400	7,357	*78.3%*	6,952	*74.0%*
1993	9,701	7,426	*76.6%*	6,988	*72.0%*
1994	10,656	8,340	*78.3%*	7,922	*74.3%*
1995	11,493	8,864	*77.1%*	8,413	*73.2%*
1996	11,151	8,869	*79.5%*	8,377	*75.1%*
1997	11,442	9,149	*80.0%*	8,663	*75.7%*
1998	11,868	9,460	*79.7%*	8,933	*75.3%*
1999	12,868	10,311	*80.1%*	9,801	*76.2%*
2000	13,980	11,142	*79.7%*	10,482	*75.0%*

Source: CRS analysis of the *Current Population Survey*, various years.
Note: Annual earnings have been adjusted to 2000 dollars based on the wage component of the Employment Cost Index.

Pension Participation by Full-Time vs. Part-Time Employment. **Table 8** compares pension coverage statistics for year-round, full-time workers to those of workers 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 1991 and 2000, the proportion of part-time or part-year workers employed by firms that sponsored a pension or retirement savings plan rose from 37.1% to 45.5%. The rate of participation among part-year and part-time workers whose employer sponsored a retirement plan increased from 22.2% to 27.0%. In both 1991 and 2000, approximately 60% of part-time or part-year workers whose employers sponsored a retirement plan participated in the plan.[20] The proportion of year-round, full-time workers employed at firms that sponsored a pension or retirement savings plan rose from 63.3% in 1991 to 66.5% in 2000. The participation rate among year-round, full-time workers whose employer sponsored a retirement plan increased from 55.3% in 1991 to 57.7% in 2000.

The lower rate of pension coverage among part-year and part-time workers is one of the reasons that women are less likely than men to be covered by a pension or retirement savings plan. As was shown in **Table 4**, there is little difference in pension 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 2000, 84% 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 2000 were almost as likely as their male counterparts to have participated in a retirement plan (56% vs. 59%), the pension participation rate among *all* women 25 to 64 years old who worked in the private sector in 2000 was significantly lower (45.5%) than the pension participation rate among all working men in that age group (54.5%).[21]

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[20] In 1991, the participation rate was .222/.371 = .598. In 2000, the participation rate was .270/.455 = .593.

[21] CRS estimates based on the March 2001 CPS. (Not shown in accompanying tables).

Table 8. Participation in Pension or Retirement Savings Plans by Full-Time vs. Part-Time Employment
(Private-sector non-agricultural workers, ages 25 to 64)

	Workers (thousands)	Employer sponsors plan		Employees participating	
		Workers	*Percent*	Participants	*Percent*
Full-time					
1991	52,954	33,541	*63.3%*	29,294	*55.3%*
1992	53,768	34,209	*63.6%*	29,676	*55.2%*
1993	54,954	34,092	*62.0%*	29,636	*54.0%*
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	65,934	44,095	*66.9%*	38,092	*57.8%*
1999	67,065	44,794	*66.8%*	38,901	*58.0%*
2000	68,911	45,813	*66.5%*	39,728	*57.7%*
Part-time					
1991	24,797	9,186	*37.1%*	5,500	*22.2%*
1992	24,259	9,052	*37.3%*	5,194	*21.4%*
1993	23,922	8,605	*36.0%*	5,025	*21.0%*
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	21,039	9,570	*45.5%*	5,677	*27.0%*

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

Policy Implications: Promoting Savings and Plan Sponsorship

Promoting Retirement Savings. Employers, financial institutions, and government agencies can play an important role in raising pension participation rates by educating employees about the importance of saving for retirement. The educational role that these institutions might play was discussed at the first National Summit on Retirement Savings, held in Washington, DC in June 1998. The summit, which was held in accordance with the *Savings Are Vital to Everyone's Retirement* (SAVER) Act of 1997 (P.L. 105-92), brought together individuals from government, financial services firms, research and educational institutions, the media, representatives of labor organizations, and employers of all sizes. A second SAVER summit will be sponsored by the Department of Labor early in 2002.

The Secretary of Labor's report on the first SAVER summit noted that "we must do a better job of educating the public — employers and individuals alike — about the importance of saving . . . to ensure that we can afford to retire and remain financially independent." Among the strategies for which the delegates to the summit were able to develop a consensus were:

- Expanding the federal government's role in educating the public about the need to prepare for retirement through such efforts as the Department of Labor's Retirement Savings Education Campaign,
- Encouraging states to initiate their own programs to promote saving for retirement,
- Urging the media to take greater interest in and more creative approaches to informing the public about retirement saving,
- Calling on the private sector to support public education through such programs as the "Choose to Save" campaign undertaken in the Washington, DC area with funding by Fidelity Investments, and
- Urging employers to sponsor retirement plans.

Promoting Plan Sponsorship. The data presented in this report show a trend toward increasing sponsorship of retirement plans among small employers. Surveys of employers by the Bureau of Labor Statistics and of households by the Bureau of the Census both report gains in retirement plan coverage during the 1990s among workers employed at firms with fewer than 100 employees. Nevertheless, both surveys indicate that employees at small firms are much less likely to be covered by a retirement plan than workers in larger firms. Thus, encouraging small employers to sponsor a pension or retirement savings plan remains a key issue for policy-makers. Results of future BLS and Census Bureau surveys will reveal the extent to which the SIMPLE plans authorized by Congress in 1997 will further encourage small employers to offer defined contribution pension plans. More recent proposals, particularly the SAFE and SMART bills, would authorize simplified defined benefit plans for small firms.

Another issue that these data reveal is the continuing disadvantage that women face with respect to future pension income because their employment is more likely to be part-year or part-time. Policies that would encourage pension participation in retirement plans for workers whose attachment to the labor force is shorter or more intermittent than that of year-round, full-time workers would help to ensure a more secure retirement for these workers. Policy options include shortening the maximum length of time before pension participants are fully vested in their retirement benefits and promoting portability of retirement benefits.[22]

Given that employers rely increasingly on defined contribution plans as their main form of retirement plan, the low rates of participation among workers under age 35 also may be a matter of concern for policy makers. Traditional defined benefit pensions are usually "back-loaded" in the sense that benefits are based on an employee's average earnings during his or her final 3 or 5 years of employment. In these traditional pension plans, some workers accrue as much as 50% of their total pension benefit during their final few years of work. Defined contribution plans differ from DB plans in that workers accrue benefits more evenly throughout their working

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[22] The maximum vesting period for defined contribution plans has been shortened from 5 years to 3 years by the *Economic Growth and Tax Relief Reconciliation Act of 2001* (P.L. 107-16).

lives. A DC pension plan is much like a savings account. Money is deposited each year, and it is these deposits, plus the interest, dividends, and capital gains they earn that provide the worker's retirement income. Thus, a DC pension depends very much on the effect of *compound interest* to ensure that the contributions made by the worker and/or the employer grow to an amount that is sufficient to provide adequate income during retirement. Consider that $2,000 invested each year at 5.0% interest beginning at age 25 will have grown to $256,000 by age 65. The same amount invested at the same rate of interest beginning at age 35 will have grown only to $142,000 by age 65.

Two other issues of concern raised by the data collected through the CPS are the below-average rates of pension participation among African-American workers and among workers with annual earnings of less than $20,000. There is some correlation between these two statistics, as African-American workers have lower annual earnings on average than white or other non-white workers. Thus, policies that would promote increased sponsorship of retirement plans for low-wage workers would likely have some effect on sponsorship of such plans among employers of minority workers as well.

Appendix: Sources of Pension Coverage Data

Data on employer sponsorship and employee participation in pension and retirement savings plans are available from several sources ways: (1) the Form 5500 is submitted each year to the Internal Revenue Service by employers who sponsor a retirement plan; (2) surveys of employers are conducted by government agencies, trade associations, and others interested in pension issues; and (3) surveys of households are conducted by government agencies and other interested parties. Each source of data has its own particular strengths and weaknesses.

The IRS Form 5500. All sponsors of employee benefit plans that are subject to ERISA must file Form 5500 annually with the Internal Revenue Service. Form 5500 must be filed for pension plans whether or not they are "qualified" (tax-exempt), and regardless of whether benefits continue to accrue or contributions continue to be made. Plans with fewer than 100 participants file a slightly different form, the 5500-C/R. The Form 5500 is a rich source of data on the financial characteristics of employer-sponsored pension plans in the United States. Summaries of the data collected on the Form 5500 are published periodically by the Department of Labor.[23] The data collected include the number of plans of each type, the number of participants, the number of active participants, contributions to the plans, and the value of plan assets. Plans are categorized by number of participants, by industry group, by method of funding, by distribution of assets among types of investment, and other financial characteristics.

The Form 5500 has two important shortcomings with respect to identifying trends in the prevalence of pension plan sponsorship and participation. First, data from the Form 5500 are available only for employers that sponsor a plan and are required by law to file this form with the IRS. The data cannot be used to compare firms that sponsor pension plans with firms that do not. Furthermore, the Form 5500 will not be useful for evaluating the impact of SEP and SIMPLE plans on pension sponsorship and participation because firms sponsoring these plans have been exempted from filing the form as an incentive for small employers to sponsor such plans. A second drawback of the Form 5500 is the lag between data collection and the publication of results. Because of the large volume of information processed and the need to reject some forms because of errors or omissions, several years elapse between the date that the forms are submitted and the time that the data become generally available. (Abstracts from the Form 5500 for calendar year 1997 were published by the Department of Labor in early 2001.)

Surveys of Employers. The *Employee Benefits Survey* is conducted by the Bureau of Labor Statistics of the U.S. Department of Labor. This survey of business establishments and nonfederal government entities is the source of data for a series of BLS bulletins on employee benefits. The Employee Benefits Survey (EBS) is one element of the National Compensation Survey, which also produces the Employment Cost Index (ECI), a measure of the cost of employee compensation that includes both

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[23]The most recent of these reports is *Private Pension Plan Bulletin: Abstract of 1997 Form 5500 Reports,* U.S. Department of Labor, Pension and Welfare Benefits Administration, Washington, DC (Number 10, Winter 2001).

cash and in-kind compensation. Data from the ECI are widely used among financial analysts and economists in both government and the private sector, and it has been designated in federal statute as the basis for computing annual wage adjustments for civilian federal employees and military personnel.

In even-numbered years, BLS surveys state and local governments and small private establishments (those with fewer than 100 employees), while in odd-numbered years the agency surveys medium and large private establishments. The survey of small private establishments collects data from over 2,100 participating firms, which in 1996 represented 40 million full-time and 14 million part-time workers in firms with fewer than 100 employees.[24] More than 1,900 establishments participated in the 1997 survey of medium and large employers, representing 38 million full-time and more than 7 million part-time workers in these establishments. The data collected through the EBS usually are available more quickly than the plan characteristics submitted on the Form 5500, but there is a lag of about 2 years between the collection of data and publication of results. Final results of the 1996 BLS survey of small private establishments were released in April 1999. Data from the 1997 survey of medium and large employers were released in September 1999.

Private-sector entities such as trade associations, benefits consultants, and research institutions also periodically conduct surveys of employers to gather information about the structure and cost of employee benefits. One such survey cited in this report is the 2001 Retirement Confidence Survey conducted by the Employee Benefit Research Institute in association with the American Savings Education Council and Matthew Greenwald and Associates. This survey was not intended to collect information about the characteristics of retirement plans, but to gauge the views and attitudes of small employers regarding retirement plans and related issues. The survey was conducted by telephone interview in January and February 2001 among approximately 600 companies, of which about half sponsored one or more retirement plans.

Surveys of Households. The Bureau of the Census conducts the *Current Population Survey* each month among a random sample of approximately 50,000 households, mainly to collect information about labor force participation needed to estimate the national unemployment rate. Each March, supplemental questions are asked about household economic and demographic characteristics and about employment and sources of income during the previous calendar year. The survey includes two questions about pension coverage and participation during the previous year. Respondents are asked whether *any* employer for whom they worked had a pension or other type of retirement plan for any of its employees. Respondents who answer "yes" to this question are asked whether they were included in the plan. The data collected in the annual March supplement to the CPS are especially useful for policy analysis because of the large sample size, the breadth of topics covered, and the timeliness of the data. The March 2001 CPS includes records for 129,000 people, including 100,000 people age 15 and older of whom the labor force questions were asked.

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[24]Independently owned small businesses comprise about three-fourths of this total. The remainder are branches or small operating units of larger companies.

The large sample size of the CPS allows estimation of rates of pension participation based demographic and economic characteristics such as age, gender, full-time or part-time status, size of firm, and annual earnings. The timeliness of the CPS data make it useful for analyzing recent trends in pension coverage and participation. For example, information about pension coverage and participation during 2000 were collected in March 2001 and were made publicly available in September 2001. One limitation of the pension data from the March CPS is that only two questions are asked: whether the individual's employer offered a retirement plan, and whether the individual was included in that plan. Among the important questions *not* asked as part of the March CPS are 1) whether a participating employee is covered by a defined benefit or defined contribution plan and 2) why an employee who is not included in an employer-sponsored plan is not covered by the plan.

The Bureau of the Census, in cooperation with the Social Security Administration and other agencies, has included special pension-coverage supplements in the CPS several times over the past 25 years. Special pension surveys were conducted in 1972, 1979, 1983, 1988, and 1993. Results from the 1993 survey have been published by Woods (1994), Iams (1995), and EBRI (1997).[25] The Census Bureau also collects information about pension coverage and participation in another of its household surveys, the *Survey of Income and Program Participation* (SIPP). Households are asked to participate in the SIPP over a 32-month period, with interviews taking place once every 4 months. Beginning with the 1984 survey, and approximately every two years thereafter, the SIPP has included a series of questions on pension coverage and participation. Iams (1995) compared the information collected in the CPS pension supplements with results obtained from the SIPP for the same years. He concluded that the two surveys produced similar estimates of pension coverage in 1993 and of the trends in coverage from 1983 to 1993, and suggested that "the SIPP's pension information can substitute for specialized studies in the CPS." One drawback of the SIPP is that survey results are not released as quickly as with the CPS due to complex editing procedures required for longitudinal data sets.

Other national surveys conducted by federal agencies also collect information about participation in employer-sponsored pension and retirement savings plans. Two that are widely used in public policy research are the *Survey of Consumer Finances* (SCF), conducted by the Board of Governors of the Federal Reserve System, and the *Health and Retirement Study* (HRS), administered by the U.S. Department of Health and Human Services. The SCF is conducted every three years by the Federal Reserve Board in cooperation with the Internal Revenue Service among a sample that varies in size from about 3,000 to 4,000 households. This survey collects detailed information on household assets, liabilities, and demographic characteristics. The HRS is an ongoing study of 12,600 individuals focusing on the transition to retirement. It comprises a nationally representative sample of people who were between the ages of 51 and 61 in 1992 and their spouses. These individuals are interviewed every two years to measure factors that affect work, retirement, health and financial decisions.

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[25] More recently, the Census Bureau has collected information on pension coverage in the Contingent Work Supplements (CWS) to the CPS, conducted in 1995, 1997, and 1999. A summary of the February 1999 CWS can be found at [http://www.dol.gov/dol/pwba].

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