



# Pension Sponsorship and Participation: Summary of Recent Trends

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## Summary

According to the U.S. Census Bureau's *Current Population Survey* (CPS), the number of private-sector workers between the ages of 25 and 64 whose employer sponsored a retirement plan fell from 53.5 million in 2007 to 52.3 million in 2008. The number of private-sector workers who participated in employer-sponsored retirement plans fell from 44.1 million in 2007 to 42.9 million in 2008. The proportion of all 25 to 64 year-old workers in the private sector, whether employed full time or part-time, who participated in employer-sponsored retirement plans decreased from 45.1% in 2007 to 43.6% in 2008. Between 2000 and 2008, the number of private-sector workers between the ages of 25 and 64 who participated in employer-sponsored retirement plans fell by 3.2 million, declining from 46.1 million to 42.9 million. The percentage of workers who participated in employer-sponsored retirement plans fell from 50.3% in 2000 to 43.6% in 2008.

A CRS analysis of the CPS indicates that, among private-sector workers aged 25 to 64 who were employed year-round, full-time:

- The percentage of workers whose employer sponsored a retirement plan was 59.9% in 2007 and 59.0% in 2008.
- The percentage of workers who participated in employer-sponsored retirement plans was 52.0% in 2007 and 51.1% in 2008.
- Only 25.8% of workers at firms with fewer than 25 employees participated in an employer-sponsored retirement plan in 2008, compared with 45.9% of workers at firms with 25 to 99 employees and 63.6% at firms with 100 or more employees.
- Among those who were employed year-round, full-time, 51.2% of men and 51.0% of women participated in an employer-sponsored retirement plan in 2008.
- Only 43.3% of private-sector workers aged 25 to 34 and employed year-round, full-time participated in an employer-sponsored retirement plan in 2008, compared with 50.9% of workers aged 35 to 44, 55.4% of those aged 45 to 54, and 56.6% of those aged 55 to 64.
- Black, Hispanic, and other non-white workers were less likely to have participated in an employer-sponsored retirement plan than white, non-Hispanic workers. Fifty-seven percent of white workers participated in an employer-sponsored retirement plan in 2008, compared with 45.6% of black, non-Hispanic workers, 30.3% of Hispanic workers, and 47.9% of other non-white workers (mainly Asian-American and Native American workers).
- Only 27.7% of workers whose annual earnings were in the lowest quartile in 2008 (under \$28,000) participated in a retirement plan at work, compared with 68.6% of workers whose earnings were in the top quartile (above \$65,000).

The CPS—a survey of households—shows fewer private-sector workers participating in employer-sponsored retirement plans than are reported by the National Compensation Survey (NCS), which is a survey of business establishments. According to the CPS, the proportion of private-sector workers aged 25 to 64 who participated in an employer-sponsored retirement plan of some kind fell from 45.0% in 2005 to 43.6% in 2008. In contrast, NCS data indicate that 50% of workers in the private sector participated in employer-sponsored retirement plans in 2005 and 51% of private-sector workers participated in employer-sponsored retirement plans in 2008.

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## **Background: Employment and an Aging Workforce**

The aging of the American population has made retirement income an issue of increasing concern to 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 by a working population that is shrinking relative to the number of retirees and savings will have to be stretched over longer retirements. In addition, it is likely that fewer future retirees will have income from employer-sponsored defined benefit pensions.

### **Life Expectancy Continues to Increase**

The average life expectancy of Americans born in 1960 was 69.7 years. It has been estimated that those who are born in 2010 will live for an average of 78.3 years.<sup>1</sup> A man who reached age 65 in 1960 could expect to live another 13.0 years, whereas a woman who turned 65 in 1960 had a remaining life expectancy of 15.8 years. A man who reached age 65 in 2005 could expect to live another 16.8 years, whereas a woman who turned 65 in 2005 had a remaining life expectancy of 19.8 years.<sup>2</sup> 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 aged 65 or older. In 2010, there will be 40.2 million Americans aged 65 or older, representing 13.0% of the population. By 2030, according to projections made by the Census Bureau, there will be 72.1 million people aged 65 or older, comprising 19.3% of the U.S. population.<sup>3</sup>

### **Labor Force Participation Begins to Drop After 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 after age 55. In 2008, 91% of men aged 25 to 54—including 88% of those aged 45 to 54—were working or looking for work in a typical month during the year. Similarly, 76% of women aged 25 to 54—including 76% of those aged 45 to 54—were working or looking for work in a typical month during the year. Among men aged 55 to 64, only 70% were employed or looking for work in an average month. Among women aged 55 to 64, just 59% were working or looking for work in a typical month in 2008.

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.

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<sup>1</sup> U.S. Census Bureau, *2008 National Population Projections*, August 2008.

<sup>2</sup> U.S. National Center for Health Statistics, National Vital Statistics Reports, *United States Life Tables*, Vol. 57, No. 1, August 2008.

<sup>3</sup> U.S. Census Bureau, *2008 National Population Projections*, August 2008

**Table I. Labor Force Participation Rates in 2008 by Age and Sex**

Age	Total Number of People (thousands)	Number in the Labor Force (thousands)	Labor Force Participation Rate (percentage)
<b>Men</b>			
Age 25 to 54	62,078	56,202	90.5
—Age 45 to 54	21,512	18,928	88.0
Age 55 to 64	16,123	11,345	70.4
Age 65 and up	16,002	3,436	21.5
<b>Women</b>			
Age 25 to 54	63,574	48,195	75.8
—Age 45 to 54	22,448	17,075	76.1
Age 55 to 64	17,367	10,270	59.1
Age 65 and up	21,160	2,808	13.3

**Source:** U.S. Department of Labor, Bureau of Labor Statistics, *Employment and Earnings* (January 2009).

## Congress and Retirement Income Policies

The Internal Revenue Code was first amended to provide favorable tax treatment for qualified 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.<sup>4</sup> 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 plans 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 pensions 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 Employee Retirement Income Security Act of 1974 (ERISA, P.L. 93-406). ERISA also may have influenced the development of employer-sponsored retirement plans. Since its enactment, defined contribution plans have proliferated whereas the number of defined benefit plans has fallen.

## Two Kinds of Retirement Plans: Defined Benefit and Defined Contribution

Retirement plans are legally classified as either defined benefit (DB) plans or defined contribution (DC) plans. In a defined benefit plan, 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.

<sup>4</sup> Defined benefit pensions are taxed when the employee receives benefits during retirement.

A defined contribution plan is much like a savings account maintained by the employer on behalf of each participating employee. The employer or employee or both contributes a specific dollar amount or percentage of pay into the account, which is usually invested in stocks and bonds. When the worker retires, the retirement benefit that he or she receives will be 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 as a lump sum, a series of fixed payments over a period of years, or in the form of a life annuity.

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. At retirement, the employee must receive an amount equal to the contributions to the plan plus the interest that has been credited to the plan. Legally, therefore, a cash balance plan is a DB plan.

### **Who Bears the Investment Risk?**

In a DB plan, it is the *employer* who bears the investment risk of the plan, whereas in a DC plan it is the *employee* who bears the investment risk. In a DB 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 the 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. This can be done over a period of years.

In a DC plan, it is the *employee* who bears the risk that his or her retirement account might not 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 adequate 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 establish or continue a retirement plan than the potential tax advantages it could gain by sponsoring 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.

## **The Number of Defined Benefit Plans Is Declining**

According to the Pension Benefit Guaranty Corporation (PBGC), the number of PBGC-insured defined benefit plans fell from 114,396 in 1985 to 29,400 in 2006.<sup>5</sup> The number of workers participating in defined benefit plans fell from 27 million in 1985 to 19.5 million in 2008.<sup>6</sup> According to the PBGC, 17% of defined benefit plans, accounting for 8% of plan participants, have been placed by their sponsors under a “hard freeze.”<sup>7</sup> Under a hard freeze, no new participants are admitted to the plan and current participants do not accrue any additional benefits. An additional, but not precisely known, number of employees work for employers who have placed their defined benefit pensions under a “soft freeze.” Under a soft freeze, no new participants are admitted to the plan but current participants continue to accrue benefits. Watson Wyatt, the actuarial consulting firm, recently reported that 607 of the 1,000 largest companies in the United States sponsored defined benefit plans in 2009. Of these 607 firms, 190 (31.3%) had put their defined benefit pension plans under either a hard freeze or a soft freeze.<sup>8</sup>

## **Recent Trends in Retirement Plan Sponsorship and Participation**

Every month, the Census Bureau conducts the *Current Population Survey* (CPS) among a nationally representative sample of approximately 97,000 households, primarily for the purpose of estimating the rates of employment and unemployment. During March of each year, the survey includes supplemental questions about employment, income, health insurance, retirement plan participation, and receipt of government benefits during the previous calendar year. This information allows analysts and researchers to calculate the number and percentage of workers who reported whether their employer offered a retirement plan and whether they participated in the plan. Responses can then be categorized by demographic and economic characteristics, such as the worker’s age, race, sex, income, and the size of firm at which they worked. Unfortunately, because the CPS asks only two pension-related questions—if the worker’s employer offered a retirement plan and if the worker was included in the plan—it cannot be ascertained from this survey whether the plan was a defined benefit plan or a defined contribution plan.

### **Plan Participation by Full-Time vs. Part-Time Employment**

The data presented in **Table 2** compare retirement plan participation among year-round, full-time wage and salary workers in the private sector with participation among workers who were employed part-year or part-time. Workers with part-year or part-time employment are much less likely than full-time workers 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.

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<sup>5</sup> Pension Benefit Guaranty Corporation, *Pension Insurance Data Book 2008*.

<sup>6</sup> The total number of participants in defined benefit plans insured by the PBGC was 38 million in 1985 and 44 million in 2008. These figures include workers currently participating in DB plans, individuals who are vested in a former employer’s plan but are not yet collecting pensions, and retirees collecting pensions from PBGC-insured plans.

<sup>7</sup> Pension Benefit Guaranty Corporation, *Pension Insurance Data Book 2008*.

<sup>8</sup> *Watson Wyatt Insider*, July 2009.

**Table 2. Participation in Retirement Plans by Full-Time vs. Part-Time Employment**  
(Private-sector wage and salary workers, aged 25 to 64)

	Workers (thousands)	Employer Sponsors a Plan		Employee Participates in a Plan	
		Workers	Percentage	Participants	Percentage
<b>Full-Time</b>					
1990	53,026	33,323	62.8	28,955	54.6
1995	60,687	38,344	63.2	33,298	54.9
2000	70,177	46,499	66.3	40,304	57.4
2005	72,331	43,195	59.7	37,347	51.6
2006	74,542	42,601	57.2	36,676	49.2
2007	74,588	44,645	59.9	38,756	52.0
2008	72,036	42,525	59.0	36,817	51.1
<b>Part-Time</b>					
1990	23,608	8,838	37.4	5,273	22.3
1995	23,790	9,348	39.3	5,508	23.2
2000	21,420	9,708	45.3	5,756	26.9
2005	23,394	9,337	39.9	5,707	24.4
2006	22,660	8,566	37.8	5,287	23.3
2007	23,187	8,891	38.3	5,322	23.0
2008	26,362	9,806	37.2	6,069	23.0
<b>All Workers</b>					
1990	76,633	42,161	55.0	34,228	44.7
1995	84,477	47,692	56.5	38,806	45.9
2000	91,597	56,207	61.4	46,060	50.3
2005	95,725	52,532	54.9	43,053	45.0
2006	97,201	51,167	52.6	41,963	43.2
2007	97,775	53,536	54.8	44,078	45.1
2008	98,398	52,331	53.2	42,886	43.6

**Source:** Congressional Research Service analysis of the *Current Population Survey*, various years.

The proportion of year-round, full-time workers employed at firms that sponsored a retirement plan fell from 59.9% in 2007 to 59.0% in 2008. The participation rate among these workers fell from 52.0% in 2007 to 51.1% in 2008. Between 1990 and 2000, plan participation among full-time workers increased from 54.6% to 57.4%. It has since fallen by more than six percentage points. Between 2007 and 2008, the proportion of part-time or part-year workers employed by firms that sponsored a retirement plan fell from 38.3% to 37.2%. The percentage of part-year and part-time workers who participated in employer-sponsored retirement plans was unchanged from 2007 to 2008, at 23.0% in both years.

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 have participated in an employer-sponsored retirement plan. There is little difference in retirement plan participation between men and women who work year-round, full-time. (See **Table 4.**) Women, however, are more likely than men to work part-year or part-time. In 2008, 78.9% of men between the ages of 25 and 64 who were employed in the private sector worked year-round, full-time compared with 66.4% of



working women in this age group.<sup>9</sup> Consequently, although women who worked full-time in 2008 were as likely as their male counterparts to have participated in a retirement plan (51.0% of women vs. 51.2% of men), the retirement plan participation rate among all women 25 to 64 years old who worked in the private sector in 2008 was lower than the participation rate among working men in that age group (41.6% of women participated in a retirement plan vs. 45.3% of men).

## **Plan Participation by Size of Firm**

The data displayed in **Table 3** show that from 1990 to 2008, the number of workers between the ages of 25 and 64 who were employed in the private sector and worked year-round, full-time at firms of all sizes increased from 53 million to 72 million. At the same time, the number of such workers whose employer offered a retirement plan increased from 33.3 million to 42.5 million. The proportion of year-round, full-time workers who were employed at firms that offered a retirement plan rose from 62.8% in 1990 to 66.3% in 2000. By 2008, it had since fallen to 59.0%.

Retirement plan participation among employees of small firms rose between 1990 and 2000, but has recently declined, and access to employer-sponsored retirement plans remains substantially lower in small firms than in firms with 100 or more employees. The data displayed in **Table 3** show that since 2000, the proportion of workers in firms with 100 or more workers whose employer sponsors a retirement plan has fallen from 80.5% to 73.5%. Nevertheless, workers at large firms remain substantially more likely than employees of small firms to work for an employer that sponsors a retirement plan. In 2008, 29.3% of full-time workers at firms with fewer than 25 employees were employed at firms that sponsored a retirement plan, down from 34.2% in 2000. This was still higher than the 25.1% of workers at small firms whose employer sponsored a retirement plan in 1990. Among workers at firms with 25 to 99 employees, 53.7% were employed at firms that sponsored a retirement plan in 2008, compared with 58.5% in 2000 and 49.5% in 1990.

**Table 3** also shows the percentage of year-round, full-time employees in the private sector who participated in an employer-sponsored retirement plan.<sup>10</sup> 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 52.0% in 2007 to 51.1% in 2008. This was lower than the participation rates of 57.4% in 2000 and 54.6% in 1990. In firms with fewer than 25 employees, just 25.8% of full-time employees between the ages of 25 and 64 participated in a retirement plan in 2008, down from 29.3% in 2000, but higher than the 21.6% who participated in a plan in 1990. In firms with 25 to 99 employees, retirement plan participation was 45.5% in 2007 and 45.9% in 2008, a statistically insignificant change. Both of these participation rates were lower than the participation rate of 49.4% in 2000, but higher than the 41.7% participation rate in 1990. Participation in retirement plans among workers in firms with 100 or more employees fell from 65.4% in 2007 to 63.6% in 2008. The 2008 participation rate was 6.6 percentage points lower than the participation rate of 70.2% in 2000 and 6.2 percentage points lower than the participation rate of 69.8% in 1990.

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<sup>9</sup> CRS estimates based on the March 2009 CPS (not shown in accompanying tables).

<sup>10</sup> Not all employees whose employer sponsors a retirement plan are eligible to participate. For example, employees under age 21, those who have been employed for less than one year, and those who work fewer than 1,000 hours in a year can be excluded from the plan. Retirement plans also may cover certain positions within a firm but not others.

Among private-sector workers aged 25 to 64 who were employed year-round, full-time, there was a net decline of 3.5 million participants in employer-sponsored retirement plans between 2000 and 2008. Of this number, 3.3 million (94%) were employed at firms with 100 or more employees.

**Table 3. Participation in Retirement Plans by Size of Firm**  
(Private-sector wage and salary workers, aged 25 to 64, employed year-round, full-time)

Size of Firm	Workers (thousands)	Employer Sponsors Plan		Employees Participating	
		Workers	Percentage	Participants	Percentage
<b>Under 25 Employees</b>					
1990	12,119	3,042	25.1	2,619	21.6
1995	14,627	3,715	25.4	3,109	21.3
2000	16,591	5,575	34.2	4,857	29.3
2005	19,200	5,569	29.0	4,851	25.3
2006	19,406	5,160	26.6	4,434	22.9
2007	19,449	5,702	29.3	4,954	25.5
2008	18,752	5,500	29.3	4,833	25.8
<b>25 to 99 Employees</b>					
1990	7,892	3,904	49.5	3,291	41.7
1995	9,108	4,923	54.1	4,188	46.0
2000	10,492	6,139	58.5	5,186	49.4
2005	11,214	5,975	53.3	5,070	45.2
2006	11,489	5,829	50.7	4,889	42.6
2007	11,367	6,041	53.1	5,166	45.5
2008	10,865	5,837	53.7	4,985	45.9
<b>100 or More Employees</b>					
1990	33,014	26,378	79.9	23,045	69.8
1995	36,951	29,706	80.4	26,000	70.4
2000	43,094	34,692	80.5	30,262	70.2
2005	41,917	31,562	75.5	27,425	65.4
2006	43,646	31,612	72.4	27,353	62.7
2007	43,772	32,903	75.2	28,636	65.4
2008	42,418	31,188	73.5	26,998	63.6
<b>All Firms</b>					
1990	53,026	33,323	62.8	28,955	54.6
1995	60,687	38,344	63.2	33,298	54.9
2000	70,177	46,499	66.3	40,304	57.4
2005	72,331	43,195	59.7	37,347	51.6
2006	74,542	42,601	57.2	36,676	49.2
2007	74,588	44,645	59.9	38,756	52.0
2008	72,036	42,525	59.0	36,817	51.1

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 of 25 and 64 who were employed in the private sector and worked year-round, full-time. Between 1990 and 2000, the proportion of men whose employer sponsored a retirement plan rose from 63.3% to 66.2%. By 2008, it had dropped to 58.3%. The proportion of women who worked at firms that sponsored a retirement plan increased from 62.1% in 1990 to 66.4% in 2000. In 2008, 60.1% of women who worked year-round, full-time were employed at firms that sponsored a retirement plan. Thus, in 2008 women who were employed year-round, full-time were more likely than men to have worked for an employer that sponsored a retirement plan. Men and women, however, were almost equally likely to have participated in an employer-sponsored retirement plan. In 2008, 51.2% of men who were employed year-round, full-time participated in an employer-sponsored retirement plan, compared with 51.0% of women. Both of these participation rates were lower than the 2000 participation rates of 58.3% for men and 56.1% for women. The participation rate for men was 7.1 percentage points lower in 2008 than in 2000. The participation rate for women was 5.1 percentage points lower in 2008 than in 2000.

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

	Workers (thousands)	Employer Sponsors Plan		Employees Participating	
		Workers	Percentage	Participants	Percentage
<b>Men</b>					
1990	32,208	20,389	63.3	18,242	56.6
1995	36,504	23,008	63.0	20,359	55.8
2000	41,516	27,463	66.2	24,220	58.3
2005	42,881	25,136	58.6	22,021	51.4
2006	44,210	24,898	56.3	21,616	48.9
2007	43,844	25,897	59.1	22,600	51.6
2008	42,120	24,541	58.3	21,555	51.2
<b>Women</b>					
1990	20,817	12,934	62.1	10,713	51.5
1995	24,182	15,336	63.4	12,939	53.5
2000	28,661	19,036	66.4	16,083	56.1
2005	29,450	18,059	61.3	15,326	52.0
2006	30,332	17,703	58.4	15,060	49.7
2007	30,744	18,749	61.0	16,156	52.6
2008	29,916	17,984	60.1	15,261	51.0

**Source:** Congressional Research Service 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—aged 25 to 34—were less likely than middle-aged and older workers to be employed at a firm that sponsored a retirement plan in 2008. They also were less likely to have participated in a retirement plan than older workers. In 2008, 54.4% of workers 25 to 34 years old worked for an employer that sponsored a retirement plan, and 43.3% participated in an employer-

sponsored plan. Thus, 79.6% of those aged 25 to 34 who worked for a firm that sponsored a plan participated in the plan ( $0.433/0.544 = 0.796$ ). In contrast, among workers 55 to 64 years old, 61.7% worked at firms that sponsored a retirement plan, and 56.6% participated in an employer-sponsored plan. Thus, among workers aged 55 to 64 who worked for a firm that sponsored a retirement plan, 91.7% participated in the plan ( $0.566/0.617 = 0.917$ ).<sup>11</sup>

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

Employee Age	Workers (thousands)	Employer Sponsors Plan		Employees Participating	
		Workers	Percentage	Participants	Percentage
<b>25 to 34</b>					
1990	19,344	11,489	59.4	9,135	47.2
1995	19,759	11,673	59.1	9,337	47.3
2000	20,398	12,803	62.8	10,173	49.9
2005	19,677	10,577	53.8	8,268	42.0
2006	20,359	10,648	52.3	8,371	41.1
2007	20,053	10,895	54.3	8,625	43.0
2008	19,234	10,458	54.4	8,325	43.3
<b>35 to 44</b>					
1990	16,989	11,042	65.0	9,871	58.1
1995	20,439	13,235	64.8	11,742	57.5
2000	23,362	15,479	66.3	13,559	58.0
2005	21,688	12,893	59.5	11,289	52.1
2006	21,875	12,313	56.3	10,781	49.3
2007	21,448	12,793	59.7	11,119	51.8
2008	20,214	11,926	59.0	10,295	50.9
<b>45 to 54</b>					
1990	10,922	7,148	65.5	6,586	60.3
1995	14,042	9,240	65.8	8,381	59.7
2000	18,489	12,951	70.1	11,787	63.8
2005	20,466	12,995	63.5	11,686	57.1
2006	21,188	12,959	61.2	11,542	54.5
2007	21,265	13,449	63.2	12,200	57.4
2008	20,645	12,772	61.9	11,433	55.4
<b>55 to 64</b>					
1990	5,771	3,644	63.1	3,363	58.3
1995	6,446	4,196	65.1	3,838	59.5
2000	7,929	5,267	66.4	4,785	60.3
2005	10,500	6,730	64.1	6,104	58.1
2006	11,120	6,681	60.1	5,981	53.8
2007	11,821	7,508	63.5	6,812	57.6
2008	11,943	7,369	61.7	6,765	56.6

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

<sup>11</sup> 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. Employees who work fewer than 1,000 hours in a year and those under age 21 also can be excluded from participating; neither group is represented in **Table 5**.

## Plan Participation by Employee Race

The March 2003 CPS introduced 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 2008, 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 have worked for an employer that sponsored a retirement plan. Among white non-Hispanic workers, 64.2% worked for an employer that sponsored a retirement plan, and 56.6% participated in an employer-sponsored plan. Among Hispanic workers, just 38.0% worked for an employer that sponsored a retirement plan and only 30.3% participated in an employer-sponsored retirement plan. Of workers who classified their race and ethnicity as black non-Hispanic, 55.9% worked for an employer that sponsored a plan and 45.6% participated in a plan, whereas among Asian-American and other workers, 56.0% worked for an employer that sponsored a retirement plan and 47.9% participated in a plan.

**Table 6. 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
<b>White, Non-Hispanic</b>					
2002	49,012	32,711	66.7	28,836	58.8
2005	49,952	32,490	65.0	28,618	57.3
2006	50,627	31,740	62.7	27,817	55.0
2007	50,835	33,251	65.4	29,291	57.6
2008	49,297	31,642	64.2	27,899	56.6
<b>Black, Non-Hispanic</b>					
2002	7,078	4,156	58.7	3,363	47.5
2005	7,511	4,295	57.2	3,491	46.5
2006	7,927	4,224	53.3	3,468	43.8
2007	7,805	4,499	57.6	3,675	47.1
2008	7,470	4,176	55.9	3,408	45.6
<b>Hispanic</b>					
2002	8,942	3,582	40.1	2,777	31.1
2005	10,208	3,775	37.0	2,964	29.0
2006	10,982	3,843	35.0	3,032	27.6
2007	10,834	4,065	37.5	3,310	30.6
2008	10,262	3,902	38.0	3,110	30.3
<b>Other</b>					
2002	4,062	2,356	58.0	1,996	49.2
2005	4,660	2,636	56.6	2,274	48.8
2006	5,007	2,794	55.9	2,358	47.1
2007	5,114	2,830	55.4	2,481	48.5
2008	5,007	2,805	56.0	2,399	47.9

**Source:** Congressional Research Service 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. In **Table 7**, workers' annual earnings from wages and salaries—as reported on the CPS—are ranked by quartile. In 2008, one-quarter of private-sector wage and salary workers between the ages of 25 and 64 who were employed year-round, full-time earned more than \$65,000. Another quarter had earnings between \$41,000 and \$65,000. The next quartile had earnings between \$28,000 and \$41,000, and those in the lowest quartile earned less than \$28,000.

In 2008, 72.9% of year-round, full-time workers in the private sector with annual earnings in the top quartile were employed by firms that sponsored a retirement plan, and 68.6% of workers in the top earnings quartile participated in a retirement plan. Both of these percentages were lower than the rates in 2000 and 1990. In 2000, 80.2% of year-round, full-time workers in the private sector with annual earnings in the top quartile were employed by firms that sponsored a retirement plan, and 75.5% of workers in the top earnings quartile participated in a retirement plan. The equivalent sponsorship and participation rates in 1990 were 77.9% and 73.7%, respectively.

The percentage of workers employed at firms that sponsored a retirement plan and the percentage who participated in these plans were progressively lower in each of three lowest earnings quartiles. For example, among workers in the lowest earnings quartile in 2008, 38.4% were employed at firms that sponsored a retirement plan, and 27.7% of workers in the bottom quartile participated in a retirement plan. Both of these percentages were lower than the comparable rates in 2000 and 1990. In 2000, 44.9% of year-round, full-time workers in the private sector with annual earnings in the bottom quartile were employed by firms that sponsored a retirement plan, and 32.1% of workers in the bottom earnings quartile participated in a retirement plan. The equivalent sponsorship and participation rates in 1990 were 41.2% and 30.3%, respectively.

Low-wage workers are not only less likely to work for an employer that sponsors a retirement plan; they also are less likely to participate if a plan is offered. Among employees whose earnings in 2008 were in the top quartile, 72.9% worked for an employer that sponsored a retirement plan and 68.6% participated in a retirement plan. Therefore, the participation rate among employees in the top earnings quartile whose employer sponsored a retirement plan was 94.1% ( $0.686/0.729 = 0.941$ ). Among workers whose 2008 earnings were in the bottom quartile, only 38.4% worked for an employer that sponsored a retirement plan and just 27.7% participated in a retirement plan. Thus, the participation rate among low-wage employees whose employer sponsored a retirement plan was 72.1% ( $0.277/0.384 = 0.721$ ).

**Table 7. Participation in Retirement Plans by Annual Earnings**  
(Private-sector wage and salary workers, aged 25 to 64, employed year-round, full-time)

Worker's Annual Earnings	Employer Sponsors Plan	Employee Participates
	Percentage of Workers	Percentage of Workers
<b>Highest Earnings Quartile</b>		
1990	77.9	73.7
1995	77.1	73.0
2000	80.2	75.5
2005	74.4	70.3
2006	70.9	66.7
2007	73.8	69.2
2008	72.9	68.6
<b>Second-Highest Earnings Quartile</b>		
1990	72.0	64.2
1995	72.4	65.1
2000	74.3	67.1
2005	68.6	61.5
2006	66.8	59.9
2007	69.4	62.8
2008	67.3	60.1
<b>Third-Highest Earnings Quartile</b>		
1990	61.3	51.4
1995	61.0	51.3
2000	66.0	55.5
2005	59.0	49.8
2006	56.2	46.3
2007	59.1	49.7
2008	59.2	49.7
<b>Lowest Earnings Quartile</b>		
1990	41.2	30.3
1995	42.4	30.4
2000	44.9	32.1
2005	39.0	27.5
2006	36.6	26.2
2007	38.4	27.7
2008	38.4	27.7

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

## Another Measure of Retirement Plan Participation: The National Compensation Survey

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* (NCS). This survey is conducted annually among a nationally representative sample of private-sector business establishments.<sup>12</sup> 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.<sup>13</sup>

According to the data collected from employers through the NCS, 51% of workers in the private sector participated in employer-sponsored retirement plans in March 2008. (See **Table 8**.) Twenty percent of private-sector workers participated in defined benefit plans and 43% participated in defined contribution plans. Approximately 12% of private-sector workers participated in both types of plan. The NCS indicates that 67% of employees in establishments with 100 or more workers participated in an employer-sponsored retirement plan in March 2008, while only 37% of employees at establishments with fewer than 100 employees participated in an employer-sponsored retirement plan. The data from the NCS also indicate that among full-time workers, 60% participated in an employer-sponsored retirement plan in March 2008, compared to just 24% of part-time workers.

Although it is not necessarily surprising that the retirement plan participation rates reported by the NCS differ from those of the CPS, nor that the NCS shows higher rates of participation, in recent years the difference in the results shown by the two surveys has increased. Since the NCS was first fielded in its current form in 2003, it has indicated a small increase in retirement plan participation, whereas the CPS data indicate that retirement plan participation has been falling over the same period of time. In 2003, the NCS indicated that 49% of private-sector workers participated in a retirement plan, whereas the CPS data showed a participation rate of 47% for that year. This two percentage point difference was small enough to be inconsequential for most analytical purposes. The March 2008 NCS, however, indicated that the proportion of private-sector workers participating in employer-sponsored retirement plans had risen to 51%, whereas the March 2009 CPS (which asked about retirement plan participation in 2008) showed that participation in retirement plans among private sector workers had fallen to 43%. The increase in the difference in participation rates between the two surveys is troubling for policy analysts because it complicates the process of estimating both the proportion of workers without employer-sponsored retirement plans and the trend in retirement plan participation rates.

Analysts might reasonably expect that in any given year the NCS would show a higher rate of retirement plan participation than the CPS because the business owners and benefits specialists who are interviewed for the NCS might have greater knowledge about the retirement benefits they offer than the household members who are interviewed for the CPS. Although this could explain why the NCS would show a higher participation rate than the CPS in any given year, it cannot explain why the difference between the two surveys has grown over time.

Some of the increase in the difference in retirement plan participation rates reported by the NCS and the CPS could be due to trends in the realm of defined benefit plans, particularly the significant increase in recent years in the number of DB plans that have been “frozen” by

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<sup>12</sup> For more information on the National Compensation Survey, see U.S. Department of Labor, National Compensation Survey, *Employee Benefits in the United States, March 2008*, available at <http://www.bls.gov/ncs/ebs/sp/ebnr0014.pdf>.

<sup>13</sup> In the Census Bureau’s *Current Population Survey*, employer characteristics are reported at the level of the firm, which may include more than one establishment.



employers. As was noted earlier, the PBGC has reported that 17% of all insured DB plans were under a hard freeze in 2008. The consulting firm Watson Wyatt has found that 190 of the 607 companies (31%) in the *Fortune 1000* that sponsor defined benefit plans had placed their plans under either a hard freeze or a soft freeze as of July 2009.

Employees of a firm that sponsors a DB plan, but who are unable to participate because of either a hard freeze or a soft freeze, would probably report on the CPS that they do not participate in a retirement plan (unless they participate in a defined contribution plan). Even some participants in plans that have been frozen might report on the CPS that they do not participate in a plan *if they are no longer accruing benefits under the plan* because of a hard freeze and they participate in no other plan. The employer of such an individual, however, would likely report that the employee participates in a DB plan because he or she has previously accrued benefits under the plan, and also because the employer is required to continue to fund the plan even if future benefit accruals have been frozen.

It is also possible that the proportion of private-sector workers—especially younger workers—who know whether their employer sponsors a DB may be falling. As the number of DB plans has fallen and as 401(k) plans have become the most prevalent form of employer-sponsored retirement plan, worker knowledge about DB plans could be decreasing. If a worker is unaware of an employer's DB plan—and does not participate in a DC plan—the worker would likely report on the CPS that he or she does not participate in an employer-sponsored retirement plan.<sup>14</sup>

One way to assess whether the downward trend in plan participation indicated by the CPS is real or is the result of problems with the survey would be to compare CPS data from recent years with results from other household surveys that ask about retirement plan participation, such as the Survey of Income and Program Participation (SIPP) and the Health and Retirement Study (HRS). With respect to the National Compensation Survey, in order for the NCS to continue to offer accurate estimates of the proportion of workers who are accruing benefits under defined benefit pension plans, the survey will need to include a question or questions about whether the DB plans sponsored by employers are under either a soft freeze or a hard freeze.

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<sup>14</sup> The Bureau of Labor Statistics recently broadened the definition of access to employer-sponsored retirement plans. This will affect take-up rates calculated from the NCS but not participation rates, which are the topic of this discussion. See N. Kramer and A. Zilberman, "New Definitions of Employee Access to Paid Sick Leave and Retirement Benefits in the National Compensation Survey," *Compensation and Working Conditions Online*, December 23, 2008.

**Table 8. Percentage of Private-Sector Employees Participating in Employer-Sponsored Retirement Plans**

	Type of Retirement Plan		
	All Types	Defined Benefit	Defined Contribution
<b>Establishment Size</b>			
<i>1-99 Workers</i>			
March 2003	35	8	31
March 2004	37	9	32
March 2005	37	9	32
March 2006	37	9	33
March 2007	37	9	33
March 2008	37	9	33
<i>100 or More Workers</i>			
March 2003	65	33	51
March 2004	67	34	53
March 2005	67	36	53
March 2006	67	33	54
March 2007	66	32	53
March 2008	67	33	55
<b>Work Schedule</b>			
<i>Full-Time Workers</i>			
March 2003	58	24	48
March 2004	60	24	50
March 2005	60	25	50
March 2006	60	23	51
March 2007	60	23	50
March 2008	60	24	51
<i>Part-Time Workers</i>			
March 2003	18	8	14
March 2004	20	9	14
March 2005	19	9	14
March 2006	21	8	16
March 2007	23	9	18
March 2008	23	10	18
<b>All Workers</b>			
March 2003	49	20	40
March 2004	50	21	42
March 2005	50	21	42
March 2006	51	20	43
March 2007	51	20	43
March 2008	51	20	43

**Source:** U.S. Department of Labor, National Compensation Survey.

**Note:** Data represent 102 million workers employed in the private sector in 2003 and 107 million workers employed in the private sector in 2008.

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