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November 7, 2011

Institute Publishes Update to "Who Gets Retirement Plans and Why"

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TO: BANK, TRUST AND RETIREMENT ADVISORY COMMITTEE No. 66-11
BROKER/DEALER ADVISORY COMMITTEE No. 72-11
OPERATIONS COMMITTEE No. 44-11
SMALL FUNDS COMMITTEE No. 47-11
TRANSFER AGENT ADVISORY COMMITTEE No. 92-11 RE: INSTITUTE PUBLISHES UPDATE TO "WHO GETS RETIREMENT PLANS AND WHY"

Last week, the Institute published an update to "Who Gets Retirement Plans and Why," first published in October 2008 and first updated in March 2011. The new paper, Who Gets Retirement Plans and Why, 2010, relies on data from the U.S. Census Bureau and U.S. Bureau of Labor Statistics' March 2011 Current Population Survey, which provides data on U.S. pension (DB and DC) coverage during 2010.

Key findings from the paper include:

- Most workers who are likely to have the ability to save and to be focused primarily on saving for retirement are covered by an employer-provided retirement plan. Of those most likely to desire to save for retirement in the current year, three-quarters had access to a pension plan through their own employer or their spouse's employer, and 93 percent of those with access participated.
- Younger and lower-income households are more likely to report that they save primarily for reasons other than retirement—for example, to fund education, to purchase a house, to fund other purchases, or to have cash on hand in case of an unexpected need. Economic analysis suggests that these preferences are rational. Older and higher-earning workers are more likely to save primarily for retirement, and thus are more likely to prefer having a portion of their compensation in the form of retirement benefits rather than fully in cash.
- Access to retirement plans at work is not randomly distributed throughout the workforce. The probability that an employee works for a firm that sponsors a plan is highly related to the employee's characteristics. In particular, employees who work for firms that sponsor plans are more likely to be older, have higher earnings, and work

full-time for a full year.

- Workers at small employers that sponsor retirement plans are as likely to participate as workers at large employers sponsoring retirement plans. Although only 18 percent of workers at firms with fewer than 10 employees have an employer that sponsors a plan—compared with 69 percent of workers at firms with 1,000 employees or more—if a firm sponsors a plan, approximately 80 percent of employees participate, regardless of firm size.
- Differences in workforce composition appear to be a primary cause for the lower rate at which small employers sponsor retirement plans. As a group, the characteristics of small-firm employees differ substantially from the characteristics of large-firm employees. Nevertheless, workers at small firms that sponsor plans are very similar to workers at large firms that sponsor plans, and workers at small firms that do not sponsor plans are very similar to workers at large firms that do not sponsor plans.
- It is of vital importance to maintain a Social Security system that provides adequate benefits to workers with low lifetime earnings. Even the best-designed voluntary private-sector retirement system is unlikely to provide adequate resources to fund retirement consumption for workers who find they have inadequate resources to fund consumption in years when they are working.

Readers may also review supplementary figures with additional detail going back to 1979 at www.ici.org/info/per17-07_data.xls. The study was co-authored by ICI senior economist Peter Brady and ICI associate economist Michael Bogdan.

If you have any questions or comments concerning this study, please contact me at (202) 326-5915 or at sholden@ici.org. You may also contact Peter Brady at (202) 326-5921 or at pbrady@ici.org.

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