This article summarizes recent trends in employer sponsorship of retirement plans and employee participation in those plans. It is based on data collected in surveys of employers conducted by the U.S. Department of Labor's Bureau of Labor Statistics and surveys of households conducted by the U.S. Census Bureau.

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Pension Sponsorship and Participation: Trends and Policy Issues

*by Patrick J. Purcell**

Summary

Employment sector and employer size account for substantial variation in workers' participation in employer-sponsored retirement plans. Other things being equal, employees in the public sector—that is, federal, state, and local governments—are much more likely to be offered a retirement plan than workers in the private sector. Within the private sector, workers in firms with 100 or more employees are significantly more likely than workers in smaller firms to have the opportunity to participate in a retirement plan.

This situation has prompted Congress to seek ways of reducing small businesses' obstacles to pension coverage. For example, Congress has authorized retirement plans that have fewer reporting requirements and less stringent contribution rules than those imposed on larger employers. Evaluating the effect of these laws on pension coverage is complicated by the many other variables that affect an employer's decision to sponsor a retirement plan and a worker's decision to participate in it. Nevertheless, data collected in national surveys of employers and households can be used to establish a baseline against which future changes in retirement plan sponsorship and participation can be measured.

Recent surveys of employers and households reveal that:

- During the 1990s, participation in retirement plans rose among workers in firms with fewer than 100 employees but remained steady among workers in larger firms.
- The 1990s saw a substantial shift from defined benefit retirement plans to defined contribution plans.
- Despite increases in participation, workers in firms with fewer than 100 employees are only about half as likely as those in larger firms to participate in an employer-sponsored retirement plan.
- In both the public and private sectors, part-year or part-time workers are much less likely than year-round, full-time workers to be offered an opportunity to participate in an employer-sponsored retirement plan.

Introduction

Income during retirement has become an issue of increasing concern to Congress and the public in recent years, for several reasons.

- ***Americans are living longer.*** The average life expectancy of Ameri-

cans born in 1960 was 69.7 years (U.S. Census Bureau 1991). A man who reached age 65 in 1960 could expect to live another 13 years, and a woman could expect to live another 16 years. The U.S. Census Bureau (2001) estimates that Americans born in 2000 have an average life expectancy of 77.1 years. A man who reached age 65 in 2000 could expect to live almost 16 years longer, and a woman, about 19 years. As more people live into very old age, the age profile of the U.S. population will change. In 1960, almost 17 million people in the United States (9.2 percent of the population) were aged 65 or older. In 1999, almost 35 million Americans were 65 or older (12.7 percent of the population). By 2025, according to Census Bureau projections, 62 million people in the United States—or almost 19 percent of the population—will be 65 or older.

- ***Working men are retiring earlier.*** The proportion of men aged 55 to 64 who were working or looking for work fell from 87 percent in 1950 to 68 percent in 1985.[1] Since 1985, the proportion has remained fairly steady at 67 percent to 69 percent. With men living longer and retiring earlier, more years are spent in retirement today than in the past. Thus, the period during which income is derived mainly from sources other than current employment is longer than it was for those workers who retired in the 1960s or 1970s.
- ***Birth rates fell in the 1960s and have remained low.*** Birth rates fell sharply between 1960 and 1975. In 1960, births numbered 118 per 1,000 women between the ages of 15 and 44; by 1975, there were just 66 per 1,000. From 1975 through 1998, the rate never exceeded 70 births per 1,000 women. This decline in birth rates following the post-World War II baby boom could have an impact on the income of retirees in the first decades of the 21st century.[2]
- ***Fewer workers are entering the labor force.*** The declining birth rate has resulted in fewer workers entering the labor force. Social Security faces long-term financial difficulties, in part because of the declining ratio of workers to retirees. In 1960, there were almost six people aged 20 to 64 for every person aged 65 or older. By 1999, the ratio had fallen to approximately 5 to 1. According to the Census Bureau, this ratio will have dropped to 3 to 1 by 2025. Under the current Social Security financing scheme, fewer workers paying taxes will result in increased tax rates or reduced benefits.

Retirement income is traditionally thought of as a three-legged stool, consisting of Social Security, pensions, and personal savings. Recent and projected demographic trends will place significant fiscal strains over the next several decades on each leg of this stool. These strains, in turn, 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.

This article analyzes trends and policy considerations in employer sponsorship of retirement plans and employee participation in those plans. Data are available from several sources: the Form 5500 submitted each year to the Internal Revenue Service by employers who sponsor a retirement plan; surveys of employers conducted by government agencies, trade associations, and others interested in pension issues; and surveys of households conducted by government agencies and other interested parties. Each of these sources has its own particular strengths and weaknesses (see the appendix). This article is based primarily on data from the Employee Benefits Survey (EBS), which is conducted by the U.S. Department of Labor's Bureau of Labor Statistics, and the Current Population Survey (CPS), which is administered by the Census Bureau.

Retirement Income Policies

Social Security, the largest single source of income for the elderly, provided 38 percent of all income received by Americans aged 65 or older in 1999. Social Security pays benefits to more than 90 percent of people in that age group. Nearly two-thirds of the program's beneficiaries receive more than half of their income from this source (Social Security Administration 2001). The 107th Congress will be asked to consider a wide range of proposals to revise and reform Social Security in response to estimates by the program's Board of Trustees that Social Security will be financially insolvent by 2038 (Social Security and Medicare Boards of Trustees 2001).

Pensions and savings are also important sources of income for retirees. In 1999, pensions provided 18 percent of all income received by the elderly, and interest and dividends provided 19 percent (Social Security Administration 2001).

Types of Retirement Plans

Retirement plans are legally classified as either defined benefit plans or defined contribution plans.[3] In a defined benefit plan, the retirement benefit is usually paid as a lifetime annuity based on the employee's length of service and average salary in the years immediately preceding retirement. Such plans are funded by employer

contributions to a pension trust and must be sufficient to pay the benefits that workers accrue each year. If the value of the pension trust is not equal to the present value of accrued pension obligations, the plan's sponsor is required to make up the difference. Employees who change jobs before retirement can sometimes take their accrued pension benefit as a lump sum.

A defined contribution plan is much like a savings account that the employer maintains on behalf of each participating employee. The employer contributes a specific dollar amount or percentage of pay into the account, which is invested in stocks, bonds, or other assets. The employee usually contributes to the plan too. At retirement, the balance in the account will be the sum of all contributions plus interest, dividends, and capital gains (or losses). The account balance can be converted to a lifetime annuity or taken as a series of fixed payments over a period of years, but it is most often distributed as a single lump sum. A defined contribution plan depends on the effect of compound interest to ensure that contributions grow to an amount that will provide adequate income during retirement.[4]

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 plans, some workers accrue as much as 50 percent of their total pension benefit during their final few years of work. In defined contribution plans, workers accrue benefits more evenly throughout their working lives.

Many large employers have converted their traditional defined benefit pensions to hybrids that have characteristics of both defined benefit and defined contribution plans. The most popular of the hybrid plans has been the cash balance plan. In this plan, 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. These account balances are merely bookkeeping devices, however. They are not individual accounts owned by the participants. Thus, legally, cash balance plans are defined benefit plans.

The number of defined benefit pension plans with fewer than 100 participants declined roughly 71 percent between 1983 and 1997, from 149,000 plans to 44,000 (U.S. Department of Labor 2001). The number of defined benefit plans with 100 or more participants fell about 39 percent, from 26,000 plans to 16,000. The number of participants fell more sharply in larger plans than in smaller plans. Between 1983 and 1997, the number of participants in larger plans fell from 28 million to 22 million, and the number of participants in smaller defined benefit plans declined from almost 2 million to 660,000 (U.S. Department of Labor 2001).[5]

Congress's Role in Promoting Pension and Savings Plans

The Internal Revenue Code was first amended to provide favorable tax treatment for qualifying pension plans in the 1920s. Ever since, Congress has taken a major role in helping workers prepare for retirement by granting tax exemptions and deferrals for contributions to pension plans and retirement savings accounts.

Among the tax exemptions that apply to traditional defined benefit pension plans are deduction of pension contributions from employer income, exclusion of employer contributions to pension plans from employee income, and exemption of the earnings of pension trusts from tax.[6] In defined contribution plans, such as those authorized under section 401(k) of the tax code, income taxes on employer and employee contributions, as well as on the plan's investment earnings, are deferred until retirement.

By establishing the tax-favored status of pension programs and defining the terms under which tax exemptions and deductions are granted, federal law has both encouraged the growth of pension coverage among workers and shaped the development of pensions and retirement savings plans.

Congress has also sought to protect workers' pension benefits through direct regulation, notably the Employee Retirement Income Security Act (ERISA) of 1974 (Public Law 93-406). ERISA may have influenced the development of employer-sponsored retirement plans as well. Since its enactment, defined contribution plans have proliferated, whereas defined benefit plans have declined.

Pension Coverage

Two recent reports have looked at pension coverage of all wage and salary workers, totaling about 132 million persons in 1999. The U.S. General Accounting Office (GAO) found that an estimated 47 percent of wage and salary workers participated in employer-sponsored retirement plans in 1998 (U.S. General Accounting Office 2000). Based on an analysis from a special supplement to the April 1993 CPS, GAO found that several factors—namely, income, hours of work, age, length of service, race, marital status, education, firm size, union status, industry, and occupation—had a statistically significant effect on the likelihood of a worker's participation.

An Employee Benefit Research Institute (EBRI) report on the reasons given by workers for not being included in an employer-sponsored retirement plan found that 64 percent of wage and salary workers were offered a retirement plan by their employers and 49 percent were participating in such a plan (Copeland 2000).[7] Of the 17 million wage and salary workers who worked for an employer that sponsored a plan but who did not partici-

pate in it, 24 percent said they chose not to participate, 64 percent said they were not eligible to participate, and 12 percent said they were not covered for some other reason.

The population analyzed in this article includes only nonagricultural wage and salary workers between the ages of 25 and 64 who are employed full time in the private sector. Such workers numbered approximately 69 million in 2000.

Public-sector workers have been excluded from the analysis mainly because sponsorship of retirement plans is much higher in the public than in the private sector (see Table 1). Eighty-seven percent of employees in the public sector worked for an employer that sponsored a retirement plan in 2000, compared with 62 percent of employees in the private sector. A second reason for excluding public-sector employees is that federal, state, and local governments are covered by neither ERISA nor the Internal Revenue Code, the two instruments through which Congress has traditionally attempted to influence pension sponsorship and participation.[8]

Although part-year or part-time employees are less likely to be employed by a firm that sponsors a retirement plan and are less likely to participate in one if offered (Table 1), this article focuses on full-time workers because they are the group to whom pension coverage has historically been offered by employers. Fringe benefits of all kinds—health insurance, paid vacations, and paid sick leave, in addition to pensions—are less commonly offered to part-time and part-year workers. Although some part-time workers would prefer full-time work and the fringe benefits more commonly available to full-time workers, others choose part-time jobs with few or no fringe benefits because they are satisfied with cash wages as their sole form of compensation. Such workers may include the very young, the working retired, and secondary wage earners.

Finally, workers under age 25 have been excluded because their relatively low rate of pension coverage is not necessarily indicative of their eventual pension coverage and receipt of pension income (Woods 1994).

Recent Trends in Employer-Sponsored Retirement Plans

Surveys of both employers and households indicate that participation in retirement plans rose among employees of small firms during the 1990s. Participation in larger firms—those with 100 or more workers—began the decade at a much higher level and remained steady. The EBS found that the proportion of full-time employees of small independent businesses who were participating in an employer-sponsored retirement plan rose from 35 percent in 1990 to 42 percent in 1996. In larger establishments, the proportion of workers participating was 78 percent in 1991 and 79 percent in 1997. Box 1 explains the differences between establishments and firms.[9]

The CPS finds slightly lower rates of pension coverage but shows a similar trend.[10] 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 percent in 1991 to 37 percent in 2000. In larger firms, 70 percent of workers participated in an employer-sponsored retirement plan in 2000, unchanged from the rate in 1991.

Table 1.
Availability of and participation in retirement plans in 2000, by employment sector and status

Employment status	Workers (thousands)	Workers whose employer sponsors plan		Workers who participate in plan	
		Thousands	Percent	Thousands	Percent
Total	109,009	71,994	66.0	60,500	55.5
Public sector					
Year-round, full-time	14,408	12,952	89.9	12,371	85.9
Part-year or part-time	4,651	3,659	78.7	2,724	58.6
Subtotal	19,059	16,611	87.2	15,095	79.2
Private sector					
Year-round, full-time	68,911	45,813	66.5	39,728	57.7
Part-year or part-time	21,039	9,570	45.5	5677	27.0
Subtotal	89,950	55,383	61.6	45,405	50.5

SOURCE: Author's analysis of the March 2001 Current Population Survey.

NOTE: Figures include all wage and salary workers aged 25 to 64.

Data Collected from Employers

Some 80 percent of full-time workers in establishments with 100 or more employees participated in an employer-sponsored retirement plan between 1991 and 1997 (see Table 2). Although the rate of participation changed very little during the 1990s, there was a notable shift from defined benefit plans to defined contribution plans. In 1997, 50 percent of employees participated in a defined benefit plan, down from 59 percent in 1991. At the same time, participation in a defined contribution plan rose from 48 percent to 57 percent.

Among small independent businesses, both employer sponsorship and employee participation in retirement plans have lagged behind the rates in larger firms (Table 2). Thirty-five percent of full-time workers participated in a retirement plan in 1994, rising to 42 percent in 1996—an increase of nearly 3 million workers.

Small businesses also show a trend toward defined contribution plans. The proportion of full-time workers in a defined benefit plan fell from 12 percent to 10 percent between 1990 and 1996, while participation in defined contribution plans rose from 28 percent to 35 percent. Some employees are covered by both types of plans through the same employer; however, most workers in small businesses who participate in a retirement plan are covered only by a defined contribution plan. The rising rate of retirement plan coverage among employees of small businesses coincided with the growth of defined contribution plans and the relative decline in defined benefit plans.

Box 1.
Distinguishing Between Establishments and Firms

An establishment is usually considered a single place of business at a particular location or all branches of a business in a particular metropolitan area or county. A firm, on the other hand, is all of the establishments that together form a particular corporation, partnership, or other business entity.

The Employee Benefits Survey is conducted among a nationally representative sample of private business establishments. As defined by the Bureau of Labor Statistics, an establishment might be a branch or small operating unit of a larger firm. The bureau also publishes data that pertain exclusively to small independent businesses (that is, small, independently owned, private establishments). Small independent businesses account for about three-fourths of the employees covered by the survey of small establishments. Because roughly 25 percent of small establishments are units of larger firms, the Bureau of Labor Statistics' data on small independent businesses are likely to be more representative of retirement plan participation in small firms than are data that include all small establishments.

In the Current Population Survey, conducted among a sample of U.S. households, employer characteristics are reported at the level of the firm, which may include more than one establishment.

Data Collected from Households

Household data confirm that participation in retirement plans by employees of small firms rose steadily throughout the 1990s. They also confirm that participation remains lower in small firms than in firms with 100 or more employees (see Table 3).

From 1991 to 2000, the proportion of full-time workers between the ages of 25 and 64 whose employer offered a retirement plan rose from 63 percent to 67 percent. Most of the increase occurred among firms with fewer than 100 employees. In contrast, 81 percent of workers in firms with 100 or more employees were offered a retirement plan.

The percentages of full-time employees who actually participated in employer-sponsored retirement plans are also shown in Table 3. (It is important to remember that not all employees whose employer sponsors a plan are eligible to participate.[11] Moreover, the data in Table 3 include employers that do not sponsor a retirement plan.) Among firms of all sizes, the proportion of full-time employees between ages 25 and 64 who participated in a retirement plan increased from 55 percent in 1991 to 58 percent in 2000. Participation of workers in firms with

Table 2.
Participation in retirement plans by full-time workers in the private sector, by type of plan and business (in percent)

Year	All retirement plans[a]	Defined benefit plans	Defined contribution plans
	Larger establishments (100 or more workers)		
1991	78	59	48
1993	78	56	49
1995	80	52	55
1997	79	50	57
	Small independent establishments (fewer than 100 workers)		
1990	35	12	28
1992	34	12	27
1994	35	9	29
1996	42	10	35

SOURCE: U.S. Department of Labor, *Employee Benefits in Medium and Large Private Establishments,* Washington, D.C., various years; and U.S. Department of Labor, Bureau of Labor Statistics, *Employee Benefits in Small Private Establishments,* Washington, D.C., various years.

a. Includes defined benefit and defined contribution plans. Employees participating in both types are counted only once.

Table 3.
Availability of retirement plans and participation by full-time workers in the private sector, by size of firm

Year	Workers (thousands)	Workers whose employer sponsors plan		Workers who participate in plan	
		Thousands	Percent	Thousands	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	68,911	45,813	66.5	39,728	57.7
		Fewer than 25 workers			
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 workers			
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 workers			
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: Author's analysis of the Current Population Survey, various years.
NOTE: Private-sector wage and salary workers, aged 25-64, employed year-round, full time.

100 or more employees rose by less than 1 percentage point. In smaller firms, the increase was greater, rising from 42 percent to 50 percent among workers in firms with 25 to 99 employees and from 23 percent to 30 percent in firms with fewer than 25 workers.

Obstacles to Pension Coverage in Small Firms

Pension coverage in small firms is an important policy issue because of the large number of people employed by these businesses. In 2000, for example, more than 31 million people were employed part time or full time at firms with fewer than 25 employees, according to the March 2001 CPS.

Many factors affect a firm's decision to sponsor a retirement plan and a worker's decision to participate in it. 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 outweigh the potential tax advantages of establishing a retirement plan. Likewise, variables such as the rate of growth of wages, the rising cost of health insurance premiums, confidence in the financial status of Social Security, and another family member's pension coverage affect an employee's decision regarding whether to participate in a retirement plan.

Small employers most frequently cite uncertainty about future revenues and the expense of employer contributions as the reasons they do not offer a traditional pension or other retirement plan. They also cite employees' preference for higher wages as a reason (Salisbury, Turyn, and Helman 2001). Having large numbers of part-time or temporary

workers and high employee turnover are also given as major reasons for not sponsoring a retirement plan. In contrast, the administrative burden of providing a pension and government regulations were less significant reasons for not offering a retirement plan.

Congress has sought to encourage greater pension coverage among small businesses mainly by easing the financial and reporting requirements associated with certain types of defined contribution plans. The Revenue Act of 1978 (P.L. 95-600) authorized a defined contribution plan called the Simplified Employee Pension (SEP). The Small Business Job Protection Act of 1996 (P.L. 104-188) authorized another type of defined contribution plan known as Savings Incentive Match Plans for Employees of Small Employers (SIMPLE).[12]

To date, SEP and SIMPLE have not had much impact on the extent of retirement plan coverage in small firms (Salisbury, Turyn, and Helman 2001). Of small employers, 34 percent had never heard of SIMPLE, and an additional 13 percent said that they were "not too familiar" with them. Fifty-two percent were unaware of the availability of SEPs, and 16 percent said they had heard of SEPs but knew little about them.

Data collected by the Bureau of Labor Statistics and the Census Bureau through the EBS and CPS over the next few years should help 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 financial inducements to employees and employers—may be needed. 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.

Policy Considerations

Promoting Plan Sponsorship

The data presented in this article show that both sponsorship of and participation in retirement plans are increasing among small employers. Nevertheless, employees of 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 policymakers.

Results of future Bureau of Labor Statistics and Census Bureau surveys will reveal the extent to which the SIMPLE plans authorized by Congress in 1997 further encourage small employers to offer defined contribution retirement plans. More recent proposals, notably the SAFE and SMART bills (discussed below), are designed to simplify defined benefit retirement plans for small firms.

In 1997, the Pension and Welfare Benefits Administration identified several reasons for the decline of defined benefit plans among small employers, including aspects of tax treatment, funding requirements, and reporting procedures, some of which can be modified only through congressional action. A working group organized by that agency recommended that "the Secretary of Labor support legislative and regulatory changes that will restore the viability of defined benefit plans" (U.S. Department of Labor 1997, 1). Among the simplified defined benefit plans introduced in the 106th Congress were the Secure Assets for Employees (SAFE) plan (H.R. 2190, Rep. Nancy Johnson, R-CT) and the Secure Money Annuity or Retirement Trust (SMART) (H.R. 1213, Rep. Richard Neal D-MA).

SAFE plans could be established by any employer that has fewer than 100 employees and does not already have a qualified retirement plan. The plans would have to be fully funded at all times, but they would be exempt from paying premiums to the Pension Benefit Guaranty Corporation and would be subject to minimal reporting requirements and simplified actuarial valuation. A minimum benefit of 1 percent, 2 percent, or 3 percent of pay would be guaranteed for each year of service; higher benefits would be paid if the plan's assets grew beyond the amount needed to pay the minimum.

Employees would be fully vested immediately, and their retirement benefit would be funded either through an individual annuity or a trust. Employees who left the firm could transfer benefit credits to another employer's SAFE plan or to an individual retirement account (IRA). A 20 percent 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 to the "nondiscrimination tests" or the "top-heavy" rules that apply to other defined benefit plans.[13] Initially, employers could make retroactive contributions based on a look-back period of 10 years.

SMART plans, too, would allow employers to contribute from 1 percent to 3 percent of salary and would require full and immediate employee vesting in the plan. These plans could also pay benefits in excess of the guaranteed minimum 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 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 plans, SMART plans would be required to pay insurance premiums to the Pension Benefit Guaranty Corporation, but at lower rates than other defined benefit plans. Retroactive contributions to SMART plans would not be allowed.

Expanding Coverage

Another issue these data reveal is the continuing disadvantage that part-year and part-time workers face with respect to participation in retirement plans. Policies that promote coverage of such workers, many of whom are women, would help ensure a more secure retirement for them. Policy options include shortening the maximum length of time before participants are fully vested in their retirement benefits and encouraging portability of retirement benefits.[14]

Promoting Retirement Savings

Given that employers rely increasingly on defined contribution plans, encouraging greater saving by workers under age 35 may also be a matter of concern for policymakers. Employers, financial institutions, and government agencies can play an important role in educating employees about the importance of saving for retirement. Their educational role was discussed at the first National Summit on Retirement Savings, held in Washington, D.C., in June 1998.[15] The summit brought together representatives of government, financial services firms, research and educational institutions, the media, labor organizations, and businesses of all sizes.

The Secretary of Labor's report on the 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" (U.S. Department of Labor 1998, 1). Delegates to the summit reached consensus on the following strategies for promoting saving:

- 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, D.C., area with funding from Fidelity Investments, and
- Urging employers to sponsor retirement plans.

Appendix: Sources of Pension Coverage Data

Internal Revenue Service Form 5500

All sponsors of employee benefit plans that are subject to the Employee Retirement Income Security Act must file Form 5500 annually with the Internal Revenue Service (IRS), regardless of whether the plans 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.

Form 5500 is a rich source of data on the financial characteristics of employer-sponsored pension plans in the United States. Data are collected on 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, industry group, method of funding, distribution of assets among types of investment, and other financial characteristics. Summaries of the data are published periodically by the Department of Labor.[16]

Form 5500 has two important shortcomings with respect to identifying trends in pension plan sponsorship and participation. First, data are available only on employers that sponsor a plan and are required by law to file the form; thus the data cannot be used to compare firms that sponsor pension plans with firms that do not. Furthermore, Form 5500 cannot be used to evaluate the impact of SEP and SIMPLE plans on pension sponsorship and participation because firms sponsoring those plans have been exempted from filing the form as an incentive to sponsor such retirement plans.

A second drawback is the lag between data collection and 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 time when forms are submitted and the time when the data become generally available: for example, abstracts from Form 5500 for calendar year 1997 were published by the Department of Labor in early 2001.

Surveys of Employers

The Employee Benefits Survey, conducted by the Department of Labor's Bureau of Labor Statistics, covers business establishments and nonfederal government

entities and is the source of data for a series of bulletins on employee benefits. The 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 cash and in-kind compensation. Data from the ECI are widely used by financial analysts and economists in both government and the private sector, and it has been designated in federal statute (sections 5303 and 5318, title 5, United States Code) as the basis for computing annual wage adjustments for federal civilian employees and military personnel.

In even-numbered years, the survey covers state and local governments and small private establishments (those with fewer than 100 employees), and in odd-numbered years it covers medium and large private establishments. The 1996 survey of small private establishments collected data from 2,202 businesses representing 40 million full-time and 14 million part-time workers.[17] 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. The data collected through the EBS are usually available more quickly than the plan characteristics submitted on the IRS's Form 5500, but there is a lag of about 2 years between the collection of data and the publication of results. Final results of the 1996 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.

Trade associations, benefits consultants, research institutions, and other entities in the private sector also conduct periodic surveys of employers to gather information about the structure and cost of employee benefits. One such survey cited in this article is the 2001 Small Employer Retirement Survey conducted by the Employee Benefit Research Institute in association with the American Savings Education Council and Mathew Greenwald and Associates. This survey was intended not 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 in January and February 2001 among approximately 600 companies, about half of which sponsored one or more retirement plans.

Surveys of Households

The Current Population Survey is conducted each month by the Census Bureau 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 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 economic and demographic information collected, and the timeliness of the data. The March 2001 CPS contains records for 129,000 people, including 100,000 persons aged 15 or older of whom the labor force questions were asked.

The large size of the CPS sample makes it possible to estimate rates of pension participation by age, sex, full-time or part-time status, size of firm, and annual earnings. The timeliness of the data makes the CPS 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 shortcoming of the pension data collected in the March CPS is that workers are asked only two questions: whether their employer offers a retirement plan and whether the respondent is included in that plan. No questions are asked about what type of plan is offered or why some workers are not included. Thus workers who say they are covered by a retirement plan may be in a defined benefit plan, a defined contribution plan, or both.

The Census Bureau, in cooperation with the Social Security Administration and other agencies, included special pension surveys in the CPS in 1972, 1979, 1983, 1988, and 1993. Results from the 1993 survey have been published by Woods (1994), Iams (1995), and EBRI (1997).[18] 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 2 years thereafter, the SIPP has included a series of questions on pension coverage and participation.

A study comparing the information collected in the CPS pension supplements with results obtained from the SIPP for the same years concluded that the two surveys produced similar estimates of pension coverage in 1993 and of the trends in coverage from 1983 to 1993 (Iams 1995). The author suggested that "the SIPP's pension information can substitute for specialized studies in the CPS" (p. 193). One drawback of the SIPP is that its results are not released as quickly as the CPS's because

of the 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, administered by the U.S. Department of Health and Human Services. The SCF is conducted every 3 years by the Federal Reserve Board in cooperation with the IRS in a sample that varies in size from about 3,000 to 4,000 households. The survey collects detailed information on household assets, liabilities, and demographic characteristics. The Health and Retirement Study is an ongoing study of 12,600 persons focusing on the transition to retirement. It provides a nationally representative sample of persons who were between the ages of 51 and 61 in 1992 and their spouses. These individuals are interviewed every 2 years to measure factors that affect work, retirement, health, and financial decisions.

Notes

[1]Among women aged 55 to 64, the labor force participation rate rose during this period from 43 percent to 52 percent. Overall, labor force participation among persons aged 55 to 64 fell from 62 percent in 1970 to 58 percent in 1999.

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

[3]The term "retirement plan" is used in this article as an all-inclusive term that refers to workers covered by a defined benefit plan, a defined contribution plan, or both. The terms "covered" and "participant" both refer to workers who said on the Current Population Survey that they were included in a retirement plan where they work.

[4]Consider that $2,000 invested each year at 5 percent 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 to only $142,000 by age 65.

[5]The number of active participants is the total number of participants minus those who have retired or who have left the employer with a vested benefit but are not retired.

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

[7]The pension questions were asked of all workers, including those identified as contingent workers, such as contractors and temporary employees.

[8]The Internal Revenue Code allows compensation to be deferred for employees of state and local governments under IRC section 457; however, section 457 plans are not "tax-qualified plans" under the IRC.

[9]The terms "establishment" and "firm" have specific meanings, and the term "business" can, depending on context, refer to either. Most commonly, however, "business" is synonymous with "firm." The CPS inquires about retirement plan coverage at the level of the *firm*, and the EBS is a survey of *establishments*. An *establishment* is a physical location. A *firm* may comprise one establishment or many. In the EBS, small, independently owned businesses are a subset of establishments that are also firms. They are not units of larger firms.

Perhaps an example will clarify the issue. Imagine two banks side by side: the First National Bank of Smallville, and next door a branch of Bank of America. The First National Bank of Smallville operates at only one location and has 20 employees and one shareholder. It is a *small, independently owned business*. It is also a *firm* that operates at only one *establishment*. The Bank of America has hundreds of branches, each of which is a separate establishment but all of which constitute a single firm. Each Bank of America branch is a small establishment that is part of a larger firm. The First National Bank of Smallville is a *firm* as well as an *establishment*. The Bank of America branch is not a firm; it is an establishment only.

[10]The difference in pension participation rates in the Bureau of Labor Statistics (BLS) and Current Population Survey (CPS) data results in part from differences in sampling procedures and survey methods. The BLS asks human resources professionals or other managers a lengthy set of questions focused on employee benefits. Only a small portion of the March demographic supplement to the CPS is devoted to noncash benefits provided at work. Moreover, 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.

[11]For example, workers who have been employed for less than a year can be excluded.

[12]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 are unaffected by the new law.

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

[14]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).

[15]The summit was held in accordance with the Savings Are Vital to Everyone's Retirement (SAVER) Act of 1997 (P.L. 105-92). The Department of Labor postponed the second national summit, originally scheduled for September 2001, until early 2002.

[16]The most recent of these reports is for 1997 (U.S. Department of Labor 2001).

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

[18]The Census Bureau has recently collected information on pension coverage in the Contingent Work Supplements to the CPS, conducted in 1995, 1997, and 1999. A summary of the February 1999 supplement can be found at www.dol.gov/dol/pwba.

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