

# ICI RESEARCH PERSPECTIVE

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## Who Participates in Retirement Plans, 2018

### KEY FINDINGS

- » **Most workers who are likely to have the ability to save for retirement and to be focused primarily on saving for retirement participate in an employer-sponsored retirement plan.** Of those most likely to save for retirement in the current year, 79 percent participated in an employer plan, either directly or through a spouse.
- » **Younger and lower-income households are more likely to report that they save primarily for reasons other than retirement—for example, a home purchase, family, or education.** Economic analysis suggests that these preferences are rational. Older and higher-earning workers are generally 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.
- » **Retirement plan participation increases with age and income; consistent with their stated reasons for saving, younger and lower-income workers are less likely to participate.** Among all workers aged 26 to 64 in 2018, 67 percent participated in a retirement plan either directly or through a spouse. That number ranged, however, from 59 percent of those aged 26 to 34 to about 70 percent of those aged 45 to 64; and from 25 percent for those with adjusted gross income (AGI) less than \$20,000 per person to 88 percent for those with AGI of \$100,000 per person or more.
- » **Tabulations of administrative tax data offer an alternative source for retirement plan participation statistics.** The need for a more reliable measure of retirement plan participation has increased given recent changes to the survey that provides the most commonly cited statistics on retirement plan participation, the Annual Social and Economic Supplement (ASEC) to the Current Population Survey (CPS). Comparisons with tax data suggest that the ASEC understated the participation rate by about 5 percentage points from 2008 to 2013. The difference increased after 2013—following a revision to the survey questionnaire used for the ASEC—and stood at 21 percentage points in 2018.

## What's Inside

- 2 Introduction
- 6 Which Workers Would Be Expected to Participate in a Retirement Plan?
- 11 A Review of Data on Participation in Retirement Plans
- 22 Conclusion
- 24 Appendix
- 30 Notes
- 31 References

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For all of the figures in this report, components may not add to the totals presented because of rounding.

### Introduction

Increasing the share of workers who participate in retirement plans has been a primary focus of retirement policy. As the retirement industry and policymakers try to increase participation, it is important to understand which workers currently participate in employer-sponsored retirement plans and why certain employers offer, and certain employees desire, compensation in the form of retirement benefits.

This report uses tabulations of administrative tax data published by the Internal Revenue Service (IRS) Statistics of Income Division (SOI) to analyze

participation in employer-sponsored retirement plans.<sup>1</sup> The SOI tabulations report various statistics for taxpayers who are wage and salary workers, inclusive of both private-sector workers and government workers. Among those statistics is the share of workers who are active participants in a retirement plan. To be an active participant in a retirement plan, a worker must have had contributions made on his or her behalf to a defined contribution (DC) plan (either employer or employee contributions), or have been eligible to participate in a defined benefit (DB) plan.\* (See IRS Statistics of Income Division Form W-2 Tabulations on page 4 for a description of the data.)

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\* The tax data identify workers who were active participants in an employer-sponsored retirement plan. The data do not identify whether an individual's employer sponsored a retirement plan, nor whether an individual was eligible to participate in a retirement plan.

These data offer an alternative to the traditional measures of retirement plan participation derived from household surveys. Research analyzing survey data matched with survey respondents' tax data (Dushi and Iams 2010; Dushi, Iams, and Lichtenstein 2011) finds that household surveys understate retirement plan participation. Furthermore, recent changes to the source of the most commonly cited statistics on employer plans—the Annual Social and Economic Supplement (ASEC) to the Current Population Survey (CPS)—appear to have made matters worse. As illustrated in Copeland (2015), the redesigned ASEC resulted in “unexplainable decreases in the participation level” that were inconsistent with other survey data. In fact, the changes to the survey caused ICI to discontinue an annual research report on retirement plan participation and coverage (Brady and Bogdan 2014) that used ASEC data.<sup>2</sup> (See Redesign of CPS ASEC Associated with Sharp Drop in Reported Retirement Plan Participation on page 5.)

The SOI tabulations show that the share of workers participating in retirement plans increases with both age and income. Overall, among all working taxpayers aged 26 to 64 in 2018, 60 percent were active participants in a retirement plan (DB, DC, or

both), and 67 percent were either active participants or had a spouse who was an active participant. However, the share of workers who were active participants in a retirement plan or had a spouse who was an active participant was higher for older workers (about 70 percent for workers aged 45 to 64), and higher still for older workers with more income (78 percent for workers aged 45 to 64 with adjusted gross income [AGI] of \$30,000 or more).

The overall participation rate understates the importance to retirees of the resources generated by employer-sponsored retirement plans because it only provides a snapshot of participation at a single point in time. Many of the younger and lower-income workers who do not participate in a retirement plan today will participate later in their working career, as younger workers do not remain young and many lower-income workers do not remain lower-income for their entire career. As a result, a much higher percentage of workers reach retirement having accumulated resources from these plans than participate in a retirement plan in any given year. For example, 75 percent of working households aged 55 to 64 in 2019 had accrued benefits in a DB plan, accumulated assets in a DC plan or individual retirement account (IRA), or both.<sup>3</sup>

## IRS Statistics of Income Division Form W-2 Tabulations

The SOI tabulations used in this analysis are derived from a representative sample of individual income tax returns.\* In the 2018 tax year, 153.8 million tax returns were filed by 208.6 million individuals who were either a primary or secondary taxpayer on those returns.† For the Form W-2 tabulations, the SOI examined the 144.6 million primary and secondary taxpayers with wages, tips, or other compensation reported on Form W-2—the annual wage and tax statement provided to employees and filed with both the IRS and the Social Security Administration.‡ This would include all employees who received a Form W-2 except for those who did not file a return.§ A comparison with tabulations of March 2019 CPS data, which show that 152.7 million individuals worked as wage and salary employees in 2018, suggests that most workers file a tax return.

Form W-2 identifies individuals who were active participants in employer-sponsored retirement plans.

To be an active participant, a worker must have had contributions made on his or her behalf to a DC plan (either employer or employee contributions) or have been eligible to participate in a DB plan. Active participants include all individuals with a W-2 who had the retirement plan indicator marked in box 13 or who had contributions reported in box 12 to 401(k) plans, 403(b) plans, 457(b) plans, 501(c)(18) (D) plans, Simplified Employee Pension (SEP) plans, or Savings Incentive Match Plans for Employees (SIMPLEs).

This paper focuses on the 110.8 million working taxpayers aged 26 to 64, who represent the bulk (77 percent) of workers. It excludes 24.4 million workers (representing 17 percent of workers) who are aged 25 or younger, and it excludes 9.4 million workers (representing 6 percent of workers) who are aged 65 or older.

\* For a description of the sample, see Section 2 of IRS Statistics of Income Division 2020a.

† Of the 153.8 million tax returns filed for tax year 2018, 54.8 million were joint returns filed by married couples and 99.0 million returns were filed by single individuals, heads of households, surviving spouses, and married individuals filing separately. On these returns, there were 208.6 million primary and secondary taxpayers, including 109.6 million primary and secondary taxpayers on joint returns and 99.0 million primary taxpayers on non-joint returns.

‡ In tax year 2018, 120.3 million tax returns were filed that were associated with a Form W-2, including 42.5 million joint returns and 77.8 million non-joint returns. Of the 42.5 million joint returns, both spouses worked on 24.3 million and only one spouse worked on 18.2 million. Overall, there were 144.6 million workers, including 77.8 million workers filing a non-joint return, 48.7 million workers filing a joint return where both the primary and secondary taxpayer worked, and 18.2 million workers filing a joint return where only one spouse worked.

§ All employers must file a Form W-2 for any employee who earned \$600 or more, and for any employee who earned less than \$600 for whom any income tax or payroll tax were withheld. Note that many workers who were claimed as a dependent on another taxpayer's tax return also file their own return. In 2018, 9.5 million dependents filed a tax return, including 8.9 million with wage and salary income.

This report first examines which workers are most likely to desire compensation that includes retirement benefits. It then illustrates the composition of workers by age, type of tax return filed, earnings, and income; analyzes how participation varies by age, earnings,

and income; and finally, shows that most workers who are likely to have the ability and desire to save for retirement do participate in an employer-sponsored retirement plan (inclusive of both DB plans and DC plans).

## Redesign of CPS ASEC Associated with Sharp Drop in Reported Retirement Plan Participation

The household survey most commonly used to track participation in employer-sponsored retirement plans is the ASEC supplement to the Census Bureau's CPS. The ASEC survey questionnaire was revised prior to the 2015 survey (which measured participation in 2014).\* The revised questionnaire has been associated with a sharp drop in reported participation. Among workers aged 26 to 64, the reported participation rate fell from 51 percent in 2013 to 39 percent in 2018 (Figure 1). In contrast,

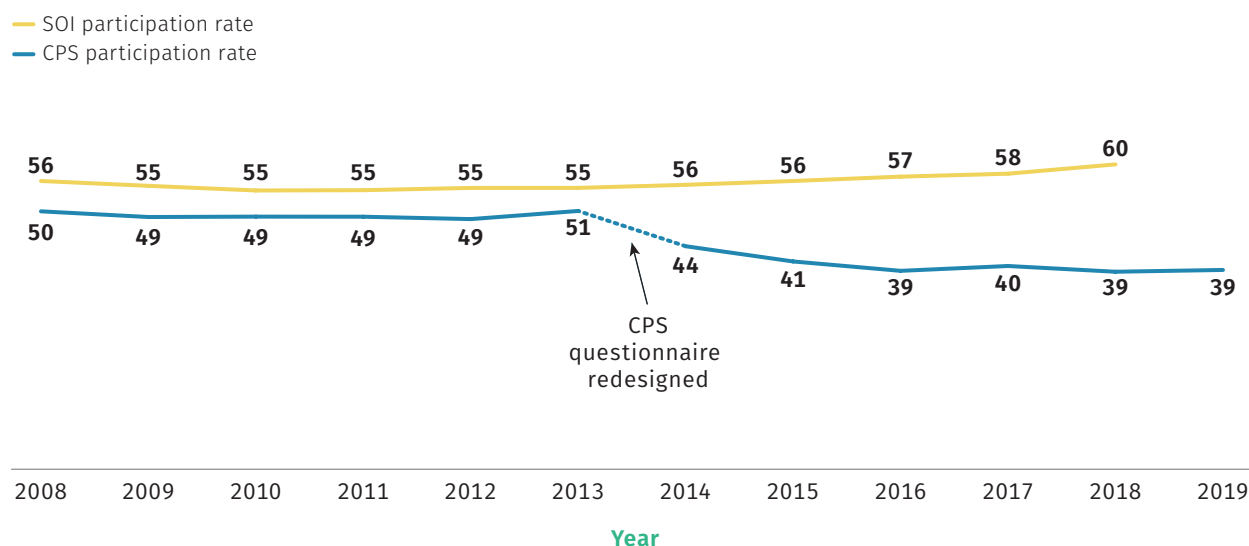
the SOI participation rate for workers aged 26 to 64 increased from 55 percent in 2013 to 60 percent in 2018.

Even before the recent drop in reported participation, however, there was evidence that retirement plan participation was understated in the ASEC. For example, SOI participation rates for workers aged 26 to 64 were 5 percentage points higher, on average, between 2008 and 2013 than in the ASEC (Figure 1).

FIGURE 1

### CPS Participation Rate Lower Even Before Recent Drop

Percentage of workers aged 26 to 64 who participated in a retirement plan



Sources: IRS Statistics of Income Division and Investment Company Institute tabulations of Current Population Surveys

\* See the appendix to Brady and Bogdan 2016 for a discussion of the revised ASEC questionnaire.

## Which Workers Would Be Expected to Participate in a Retirement Plan?

Three conditions must be met for a worker to be a participant in an employer-sponsored retirement plan:

- » a worker must work for a firm that offers a plan,
- » the worker must be eligible to participate in the plan, and
- » the worker must participate in the plan—that is,
  - » for DB plans and DC plans with nonelective employer contributions, all eligible employees participate, or
  - » for DC plans that either have no employer contributions or have only matching employer contributions, the worker would have to choose to participate or, if the default is participation, choose not to opt out of participating.

Whether a worker will actively seek out an employer that offers a retirement plan, and whether a worker will choose to participate if given the choice, will depend on how much they value such benefits. Individuals who wish to save for retirement value pension benefits because the benefits offer favorable tax treatment and other advantages such as the pooling of investments. Some individuals who are not focused on saving for retirement, however, would prefer to

have compensation that consists only of cash to an otherwise equivalent compensation package that includes both cash and pension benefits because of the restrictions and tax penalties placed on accessing retirement benefits before retirement.

In turn, whether an employer offers a retirement plan will depend on the composition of their workforce. Employers create compensation packages that will help them attract and retain qualified workers, and can structure pay to include both cash compensation and noncash compensation, such as retirement plans. The total amount of compensation they can offer their employees, however, is limited by the need to keep the products and services that they sell competitively priced. Therefore, employers are more likely to offer retirement benefits as part of their compensation package if their workers, as a whole, value such benefits.

## Which Households Are Focused on Saving for Retirement?

Analysis of survey data shows that younger and lower-income households are less likely to cite retirement as the primary reason they save. These households are more likely to be focused primarily on saving to purchase a home, for family needs, or to fund education (Figure 2).

FIGURE 2

### Household Focus on Retirement Increases with Age and Income

Percentage of households aged 26 to 64, by age of household head or household income, 2019

#### Age of household head

- 26 to 34
- 35 to 44
- 45 to 54
- 55 to 64



#### Household income quintile

- Lowest
- Second
- Middle
- Fourth
- Highest



Source: Investment Company Institute tabulations of the 2019 Federal Reserve Board Survey of Consumer Finances

These saving preferences are consistent with predicted rational behavior. The tendency of younger households to focus less on retirement savings is consistent with economic models of life-cycle consumption, which predict that most workers will delay saving for retirement until later in their working careers. The tendency of lower-income households to focus less on retirement savings is consistent with the design of the Social Security system, whose benefits replace a higher percentage of pre-retirement earnings for individuals with low lifetime earnings (Figure 3). To maintain their standard of living at retirement, higher earners will have a greater need to supplement Social

Security benefits and would be more likely to focus on saving for retirement at any age (see Two Concepts of Retirement Resource Adequacy on pages 9–10).

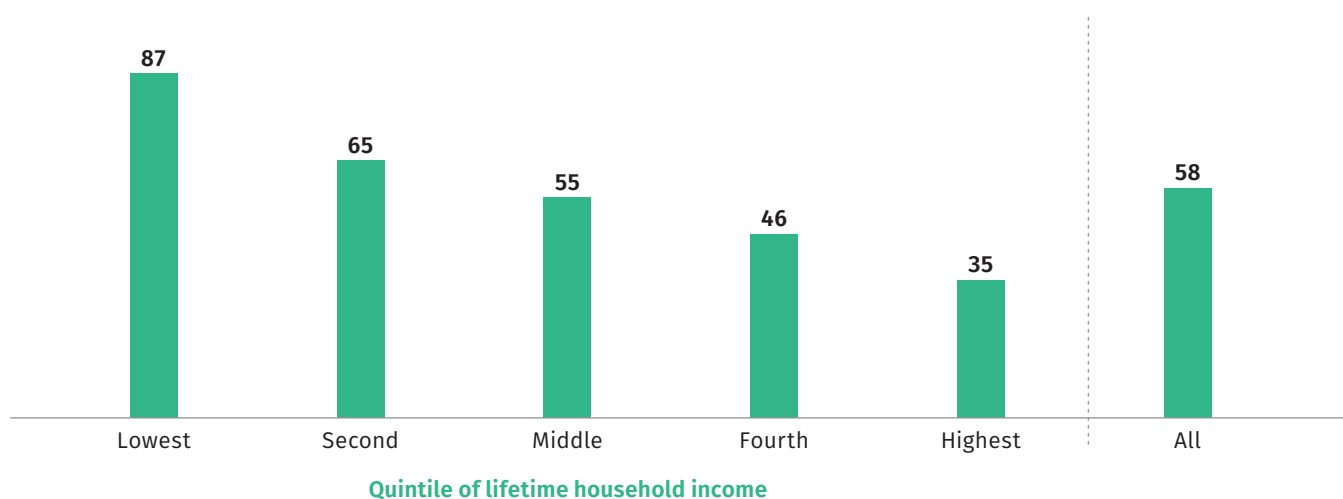
### Older and Higher-Income Workers Should Be More Likely to Participate

Given both the incentives that households face, and the savings preferences that households express, older and higher-income workers would be expected to be more likely to participate in a plan. That is, older and higher-income workers should be more likely to seek out jobs that offer retirement benefits and more likely to participate in a plan if eligible.

FIGURE 3

#### Social Security Benefits Replace a Higher Percentage of Earnings for Lower Earners

Average projected Social Security replacement rate for workers in 1960s birth cohort if claimed at the full benefit retirement age (age 67)\*



\* For each worker, the replacement rate is the ratio of Social Security benefits net of income tax to average inflation-indexed lifetime earnings. Published replacement rates at age 65 are adjusted to reflect claiming at the 1960s birth cohort's full benefit retirement age of 67.

Sources: Congressional Budget Office and Investment Company Institute



## Two Concepts of Retirement Resource Adequacy

There are two primary ways to assess if individuals are adequately prepared for retirement.

One is to ask whether retirees can maintain spending above some minimal threshold, such as the poverty line. This approach produces an absolute standard of adequacy that would be the same for every worker, whether their typical annual earnings were \$20,000 or \$200,000 before they retired.

Another is to ask whether retirees can maintain the standard of living that they had while they were working. This is the implicit comparison that motivates replacement rate measures of retirement resource adequacy. This approach produces a relative standard of adequacy that would be different for each worker—because every household has a different standard of living while working, the amount of resources needed to meet this standard would be different for every household.

Some may have enough resources to meet one adequacy standard but not both. For example, if the absolute standard was the poverty line, an individual who lived in poverty while working and who was able to maintain their standard of living in retirement would meet the relative standard of adequacy but not the absolute standard. Conversely, a high-wage worker who had enough resources to remain well above poverty in retirement but not enough resources to maintain their pre-retirement standard of living would meet the absolute standard of adequacy but not the relative standard.

Workers failing to meet either an absolute standard or a relative standard can raise legitimate public policy concerns. However, policies designed to meet an absolute standard of adequacy would be different than the policies designed to meet a relative standard of adequacy.

In the United States, there are two different sets of government programs for the elderly designed to meet these two separate adequacy goals. One set is designed to ensure that elderly individuals have a minimum level of resources (that is, designed to meet an absolute standard), and another set is designed to help workers accumulate enough resources to maintain their standard of living in retirement (that is, designed to meet a relative standard).

Safety net programs, which provide means-tested benefits to individuals with few other resources, ensure that all elderly individuals have a minimum level of resources. The primary safety net program for the elderly is Supplemental Security Income (SSI), which pays a flat, means-tested benefit to anyone aged 65 or older.\* SSI benefits phase out 50 cents on the dollar with earnings, and dollar for dollar with any other income, including Social Security benefits. In addition to SSI, there are various in-kind, means-tested programs for food, shelter, and medical care—which are not specifically for the elderly, but for which individuals receiving SSI would be eligible. Safety net programs for the elderly will typically serve individuals who have not had a consistent work history.

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\* Federal Supplemental Security Income (SSI) annual benefits in 2021 are \$9,528 for single individuals and \$14,292 for married couples. Some states provide supplemental benefits in addition to the federal benefit. See [www.ssa.gov/oact/cola/SSI.html](http://www.ssa.gov/oact/cola/SSI.html).

## Two Concepts of Retirement Resource Adequacy CONTINUED

Another set of programs assist workers in accumulating enough resources to maintain their standard of living in retirement: Social Security and employer-sponsored retirement plans. These programs are not designed so that individuals who live in poverty for their entire life are suddenly lifted out of poverty when they reach retirement age. Rather, they aim to help workers who reach retirement age after having fairly steady employment maintain their standard of living.

Workers rely on both the Social Security system and employer-sponsored retirement plans to provide retirement resources, with the design of Social Security influencing the extent to which workers rely on employer-sponsored retirement plans. Social Security has a progressive benefit formula, with

benefits replacing a much higher share of earnings for workers with low lifetime earnings (see Figure 3). To the extent that individuals attempt to maintain their pre-retirement standard of living, this implies that lower-earning workers will primarily rely on Social Security in retirement, while higher-earning workers typically will rely more on distributions from employer-sponsored retirement plans.\*

When this report refers to the desire of workers to participate in employer plans, it is in the context of a relative standard of adequacy. That is, workers are unlikely to rationally choose to reduce their current take-home pay in order to increase their future retirement income if they expect that Social Security benefits alone will allow them to maintain their current standard of living in retirement.

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\* See Brady 2016 for an illustration of how the share of retirement income from Social Security would vary for workers who had the same target replacement rate, but different lifetime earnings.

## A Review of Data on Participation in Retirement Plans

### Composition of the Workforce

#### *Workers by Age, Marital Status, Earnings, and Income*

This report examines active participation in employer-sponsored retirement plans among the 110.8 million working taxpayers aged 26 to 64 in 2018.\* Figure 4 illustrates the composition of these workers by age, the types of tax returns they filed,<sup>†</sup> wage and salary income, and AGI. Similar categories are used to rank working taxpayers by their wage and salary income and by AGI.<sup>‡</sup>

Of the 110.8 million working taxpayers aged 26 to 64 in 2018, 22 percent were aged 55 to 64, with the remainder about evenly split between the age categories of 26 to 34, 35 to 44, and 45 to 54 (Figure 4). Fifty-three percent of workers were married individuals filing a joint tax return. By wage and salary income, 20 percent of working taxpayers earned less than \$20,000 and 41 percent earned \$50,000 or more. Similarly, 16 percent of working taxpayers had AGI less than \$20,000 per person (that is, filed a non-joint return with AGI less than \$20,000 or filed a joint return with AGI less than \$40,000); and 43 percent had AGI of \$50,000 per person or more.

#### Older Workers Are More Likely to Be Married, Higher-Earning, and Higher-Income

Household composition, earnings, and income tend to follow a life-cycle pattern (Figure 5). For example, older workers are more likely to be married. In 2018, the share of working taxpayers who were married individuals filing a joint tax return was 36 percent for workers aged 26 to 34 and 63 percent for workers aged 55 to 64. Older workers are also more likely to be higher-earning and higher-income. For example, the share of workers who earned less than \$20,000 of wage and salary income in 2018 fell from 25 percent for workers aged 26 to 34, to 16 percent for workers aged 45 to 54; and the share who earned \$50,000 or more rose from 30 percent for workers aged 26 to 34, to 48 percent for workers aged 45 to 54. Similarly, the share of workers who had AGI less than \$20,000 per person in 2018 declined from 23 percent of workers aged 26 to 34, to 12 percent for workers aged 45 to 54; and the share of workers who had AGI of \$50,000 per person or more increased from 30 percent for workers aged 26 to 34, to 51 percent for workers aged 45 to 54.

\* *Working taxpayers* is defined as primary or secondary filers on a joint tax return or primary filers on a non-joint tax return who have a Form W-2 issued by an employer. These workers include both private-sector and government workers (that is, all working taxpayers whose employers are required to generate a Form W-2). See IRS Statistics of Income Division Form W-2 Tabulations on page 4 for more detail.

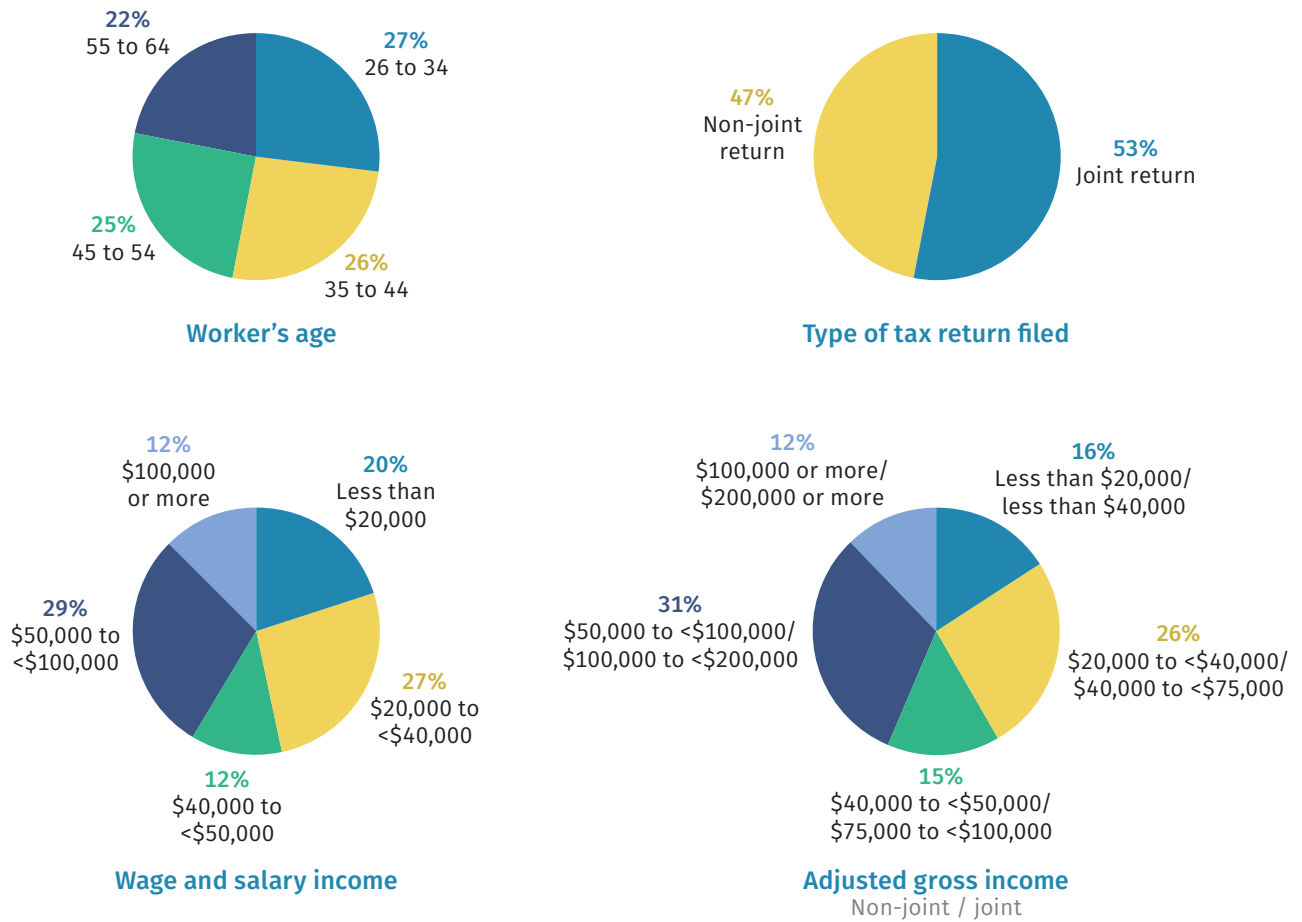
<sup>†</sup> Tax returns are divided into two categories: joint returns filed by married couples; and non-joint returns, which would include tax returns filed by single individuals, heads of households, surviving spouses, and married individuals filing separately.

<sup>‡</sup> Five categories are used to group workers by wage and salary income: less than \$20,000; \$20,000 to less than \$40,000; \$40,000 to less than \$50,000; \$50,000 to less than \$100,000; and \$100,000 or more. When grouping workers by AGI, workers are categorized by both the AGI on their tax returns and their filing status. For workers filing a non-joint return, the same dollar categories are used for AGI as are used for wage and salary income. For workers filing a joint return, the AGI categories are doubled where possible. The two exceptions are the \$40,000 to less than \$75,000 category (instead of \$40,000 to less than \$80,000) and the \$75,000 to less than \$100,000 category (instead of \$80,000 to less than \$100,000). This is because, for this income range, the SOI AGI categories are \$40,000 to less than \$50,000; \$50,000 to less than \$75,000; and \$75,000 to less than \$100,000. See IRS Statistics of Income Division 2021.

FIGURE 4

### What the Workforce Looks Like

Percentage of taxpayers aged 26 to 64 with a Form W-2, by various characteristics, 2018



Source: IRS Statistics of Income Division

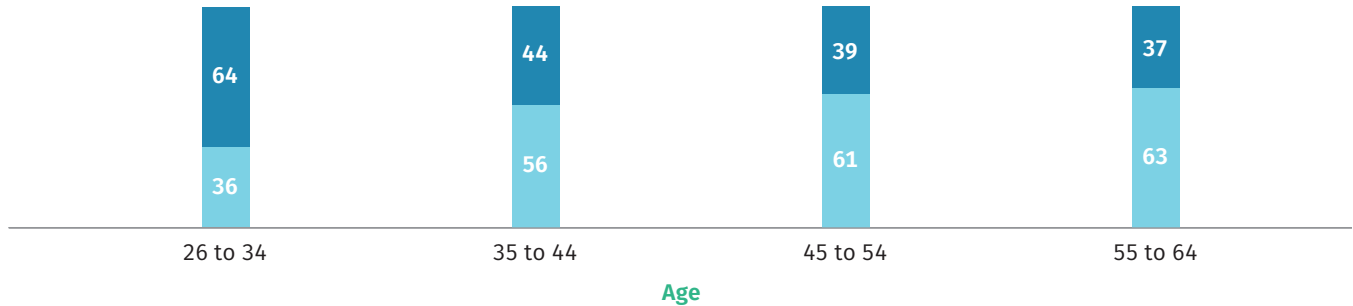
FIGURE 5

### Household Composition, Earnings, and Income Change over the Lifecycle

Percentage of taxpayers aged 26 to 64 with a Form W-2, by age, 2018

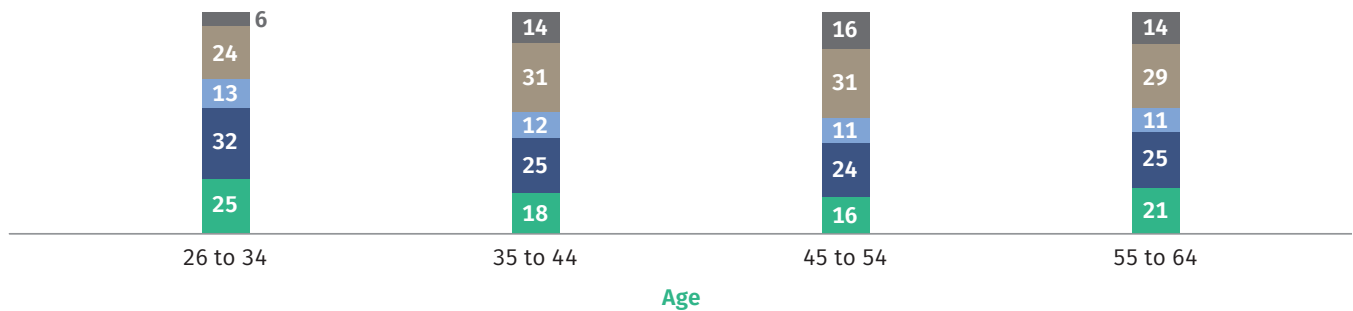
#### Type of tax return filed

- Non-joint
- Joint



#### Wage and salary income

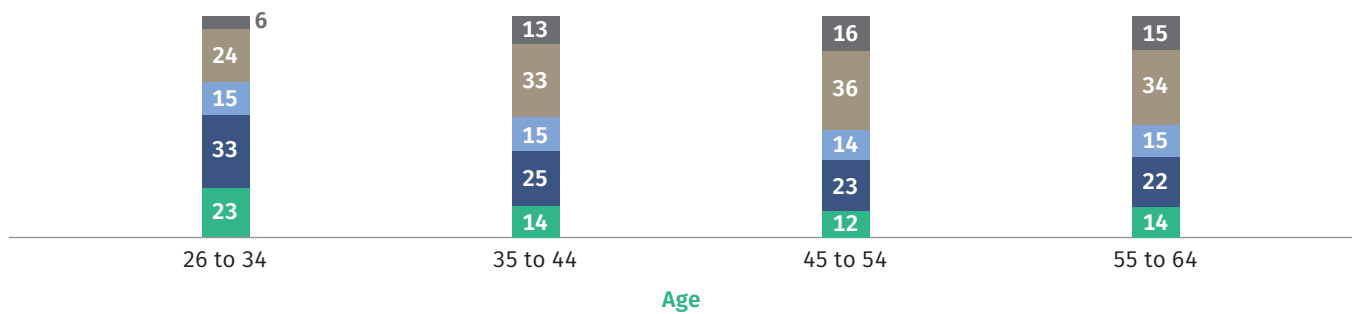
- \$100,000 or more
- \$50,000 to <\$100,000
- \$40,000 to <\$50,000
- \$20,000 to <\$40,000
- Less than \$20,000



#### Adjusted gross income

Non-joint / joint

- \$100,000 or more/\$200,000 or more
- \$50,000 to <\$100,000/\$100,000 to <\$200,000
- \$40,000 to <\$50,000/\$75,000 to <\$100,000
- \$20,000 to <\$40,000/\$40,000 to <\$75,000
- Less than \$20,000/less than \$40,000



Source: IRS Statistics of Income Division

## Married Workers Are More Likely to Have Higher Income

As a group, married workers have higher income, even when controlling for the number of taxpayers on the return (Figure 6). For example, among working taxpayers aged 45 to 54 who filed a non-joint return in 2018, 18 percent had AGI less than \$20,000 and 40 percent had AGI of \$50,000 or more. By comparison, among workers the same age who filed a joint return, 8 percent had AGI less than \$40,000 (or \$20,000 per person) and 59 percent had AGI of \$100,000 (or \$50,000 per person) or more.

## Participation Analysis

### Participation Rates: Overall and by Age, Earnings, and Income

#### Two-Thirds of Workers Participate in Retirement Plans

Among all working taxpayers aged 26 to 64 in 2018, 67 percent either actively participated in an employer-sponsored retirement plan or had a spouse who did (Figure 7).<sup>\*</sup> Sixty percent of these workers were active participants; for another 7 percent, only their spouse actively participated.

FIGURE 6

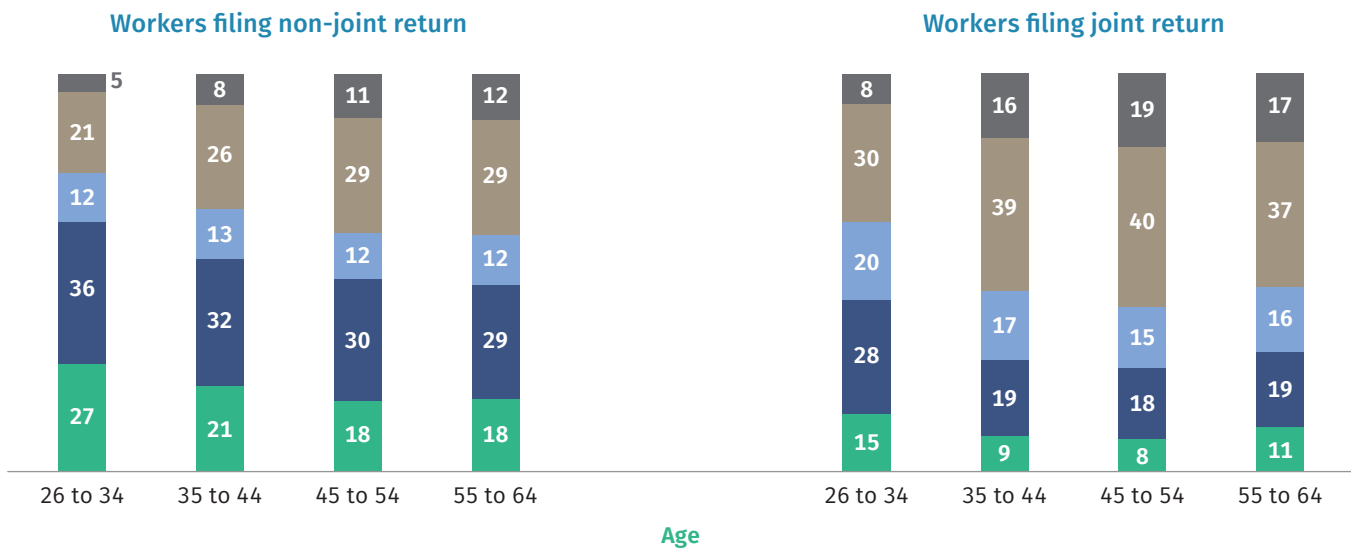
### Married Workers Have Higher Income on Average Even Adjusting for Number of Adults

Percentage of taxpayers aged 26 to 64 with a Form W-2, by age and filing status, 2018

#### Adjusted gross income

Non-joint / joint

- \$100,000 or more/\$200,000 or more
- \$50,000 to <\$100,000/\$100,000 to <\$200,000
- \$40,000 to <\$50,000/\$75,000 to <\$100,000
- \$20,000 to <\$40,000/\$40,000 to <\$75,000
- Less than \$20,000/less than \$40,000



Source: IRS Statistics of Income Division

<sup>\*</sup> For the definition of *active participants*, see the discussions in the introduction and in IRS Statistics of Income Division Form W-2 Tabulations on page 4.

Consistent with expectations, older workers, higher-earning workers, and higher-income workers are more likely to be active participants in an employer-sponsored retirement plan.

By age, the share who participated in a retirement plan in 2018, either directly or through a spouse, ranged from 59 percent of workers aged 26 to 34 to 71 percent

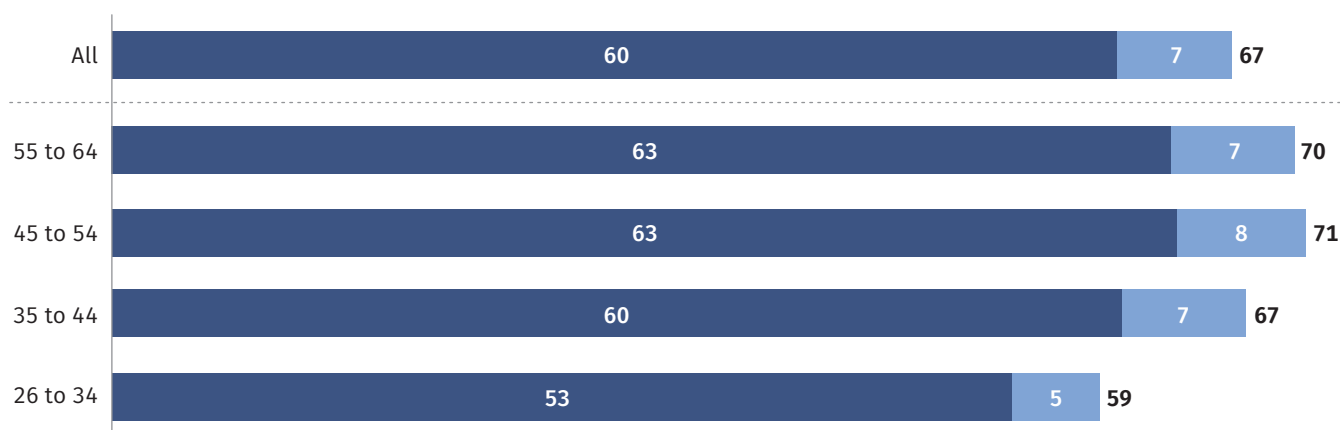
of workers aged 45 to 54 (Figure 7). The share who directly participated ranged from 53 percent of workers aged 26 to 34 to 63 percent of workers aged 45 to 54. Another 5 percent of workers aged 26 to 34 and 8 percent of workers aged 45 to 54 did not directly participate in a retirement plan, but had a spouse who was an active participant.

FIGURE 7

### Older Workers Are More Likely to Participate in a Retirement Plan

Percentage of taxpayers aged 26 to 64 with a Form W-2 who are active participants in a retirement plan or who have a spouse who is an active participant, by age, 2018

- Individual participates
- Spouse participates only



Source: IRS Statistics of Income Division

By earnings, the share who directly participated in a retirement plan in 2018 ranged from 22 percent of workers with wage and salary income less than \$20,000, to 68 percent of workers with wage and salary income of \$40,000 to \$50,000, to 87 percent of workers with wage and salary income of \$100,000 or more (Figure 8, upper panel).

By income, the share who participated in a retirement plan in 2018, either directly or through a spouse, ranged from 25 percent of workers who had AGI less than \$20,000 per person, to 88 percent of workers who had AGI of \$100,000 per person or more (Figure 8, lower panel).

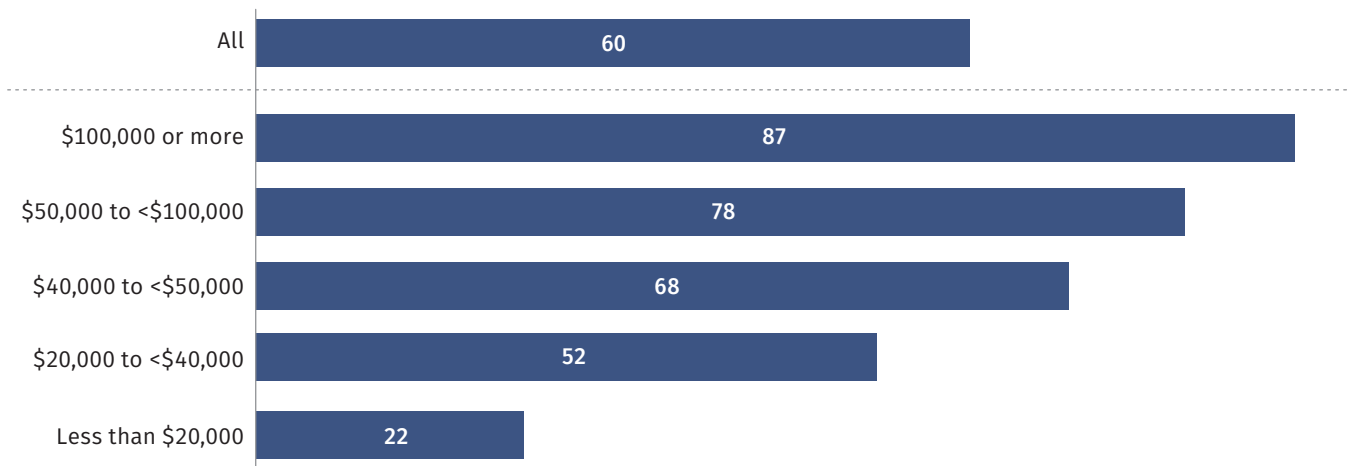
FIGURE 8

**Higher-Earning and Higher-Income Workers Are More Likely to Participate in a Retirement Plan**

Percentage of taxpayers aged 26 to 64 with a Form W-2 who are active participants in a retirement plan or who have a spouse who is an active participant, by wage and salary income or adjusted gross income, 2018

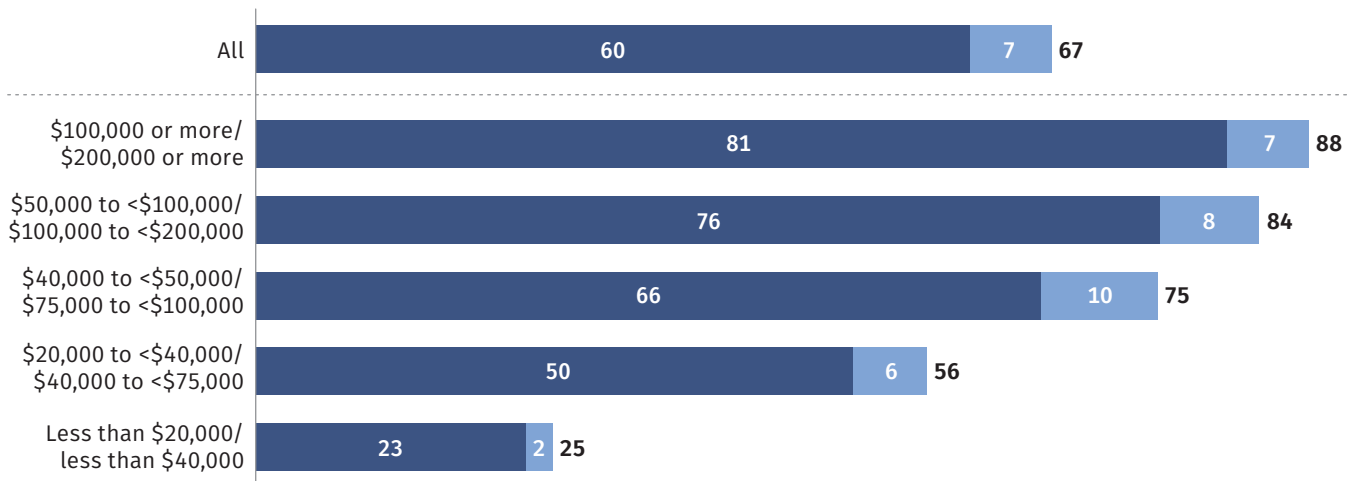
- Individual participates
- Spouse participates only

**Wage and salary income**



**Adjusted gross income**

Non-joint / joint



Source: IRS Statistics of Income Division



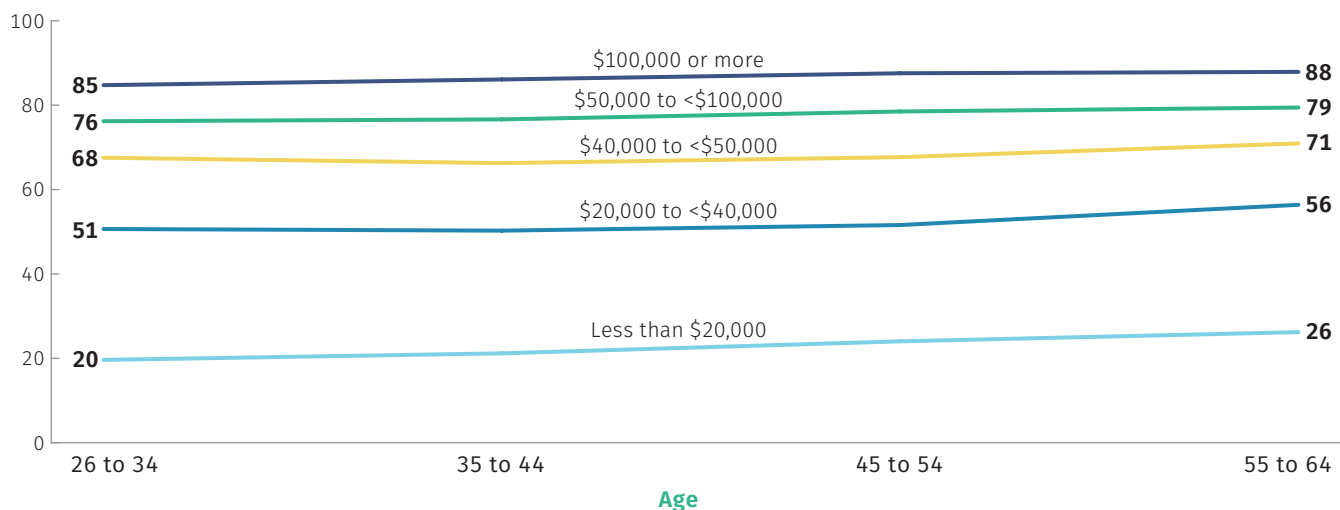
Older workers are more likely to directly participate in a plan both because they were more likely to have higher earnings (see Figure 5, middle panel), and because older workers are more likely to directly participate than younger workers with similar earnings (Figure 9). For example, among workers with wage and salary income of \$20,000 to \$40,000 in 2018, the direct participation

rate was 6 percentage points higher for those aged 55 to 64 than for those aged 26 to 34 (56 percent versus 68 percent).

FIGURE 9

**Share of Workers Who Participate in a Retirement Plan Increases with Both Earnings and Age**

Percentage of taxpayers aged 26 to 64 with a Form W-2 who are active participants in a retirement plan, by age and wage and salary income, 2018



Source: IRS Statistics of Income Division

Similarly, older workers are more likely to participate in a retirement plan either directly or through a spouse both because they are more likely to have higher income (see Figure 5, lower panel), and because older workers are generally more likely to participate either directly or through a spouse than younger workers with

similar income (Figure 10). For example, among workers who had AGI of less than \$20,000 per person in 2018, 22 percent of those aged 26 to 34 participated directly or through a spouse, compared with 30 percent of those aged 55 to 64.

FIGURE 10

**Share of Workers Who Participate in a Retirement Plan Directly or Through a Spouse Generally Increases with Both Income and Age**

Percentage of taxpayers aged 26 to 64 with a Form W-2 who are active participants in a retirement plan or who have a spouse who is an active participant, by age and adjusted gross income, 2018



Source: IRS Statistics of Income Division

### ***Which Workers Do Not Participate in a Retirement Plan?***

Some lower-income workers and some younger, moderate-income workers may rationally choose not to participate in a retirement plan—that is, choose not to seek out jobs that provide retirement benefits or, if they have a job that provides retirement benefits and are given the choice, choose not to participate.

The lowest-income workers may not desire to participate in a retirement plan at any age if it means reducing current spendable income, given that Social Security benefits alone will replace a high percentage of their earnings. The Social Security benefit formula is progressive, replacing a much higher share of average lifetime earnings for lower-earning workers (see Figure 3). Workers who expect to be able to maintain their pre-retirement standard of living on Social Security benefits alone may rationally choose not to participate in a retirement plan (see Two Concepts of Retirement Resource Adequacy on pages 9–10).

Other workers may want to accumulate resources from employer plans to supplement Social Security benefits in retirement, but may delay seeking out or participating in retirement plans until they are older, when their earnings will be higher and other priorities have been taken care of. Younger workers typically invest in other ways, such as funding education, purchasing a home, and raising children. Retirement saving typically ramps up as workers get older, both because earnings typically increase with age and because other expenses, such as childcare and education, decline.

### **Defining Workers Least Likely to Have the Ability and Desire to Save for Retirement**

Two groups of workers are the least likely to have the ability and desire to save for retirement in the current year.<sup>4</sup> The first is the *lowest-income workers*, defined as workers with AGI less than \$20,000 per person. Single workers earning less than \$20,000 per year (in constant 2018 dollars) and married couples earning less than \$40,000 per year may rationally choose not to seek out jobs with retirement benefits, or choose not to participate if eligible, because of the high replacement rates they are scheduled to get from Social Security benefits alone.\* The second is *young, moderate-income workers*, defined as workers younger than age 45 with income per person between \$20,000 and roughly \$40,000. Workers aged 26 to 44 who are single and earn from \$20,000 to \$40,000 or who are married with combined earnings from \$40,000 to \$75,000 would likely want to accumulate resources in employer-sponsored retirement plans to supplement Social Security benefits in retirement, but may rationally choose to delay seeking out jobs with retirement benefits, or delay participating in a plan if given the choice, until they are older.<sup>†</sup>

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\* After-tax Social Security benefits are predicted to replace 99 percent of average inflation-indexed after-tax earnings for a single worker earning \$15,000 (in constant 2018 dollars) when 55 years old, and 87 percent for a single worker earning \$20,000 when 55 years old. Predicted replacement rates for married couples earning twice those amounts at the same age would be similar—99 percent and 87 percent, respectively, for a married couple where both spouses work and earn equal amounts; and 105 percent and 96 percent, respectively, for a married couple where only one spouse works. See Brady 2016 for examples of when workers with various levels of earnings need to begin participating in a retirement plan to meet target replacement rates.

† After-tax Social Security benefits are predicted to replace 73 percent of average inflation-indexed after-tax earnings for a single worker earning \$30,000 (in constant 2018 dollars) when 40 years old, and 67 percent for a single worker earning \$40,000 when 40 years old. Predicted replacement rates for married couples earning twice those amounts at the same age would be similar—73 percent and 68 percent, respectively, for a married couple where both spouses work and earn equal amounts; and 88 percent and 79 percent, respectively, for a married couple where only one spouse works. See Brady 2016 for examples of when workers with various levels of earnings need to begin participating in a retirement plan to meet target replacement rates.

## Those Least Likely to Save for Retirement Account for Majority of Nonparticipants

Workers who do not participate in an employer-sponsored retirement plan tend to be both younger and lower-income (Figure 11). Of the 110.8 million working taxpayers aged 26 to 64 in 2018, 37.1 million neither participated in a plan nor had a spouse who participated. Among workers who did not participate in a plan (either directly or through a spouse), 12.4 million, or 33 percent, were aged 26 to 34; and 13.2 million, or 36 percent, had AGI less than \$20,000 per person. In contrast, among workers who participated in a plan (either directly or through a

spouse), 24 percent were aged 26 to 34 and 6 percent had AGI less than \$20,000 per person.

The lowest-income workers and young, moderate-income workers\* account for the majority of workers who do not participate in an employer-sponsored retirement plan. Among workers who did not participate in a plan (either directly or through a spouse) in 2018, 20.9 million, or 56 percent, were in these two categories of workers and 16.2 million were not (Figure 12). In contrast, only 19 percent of workers who participated in a plan (either directly or through a spouse) were in these two categories of workers.

FIGURE 11

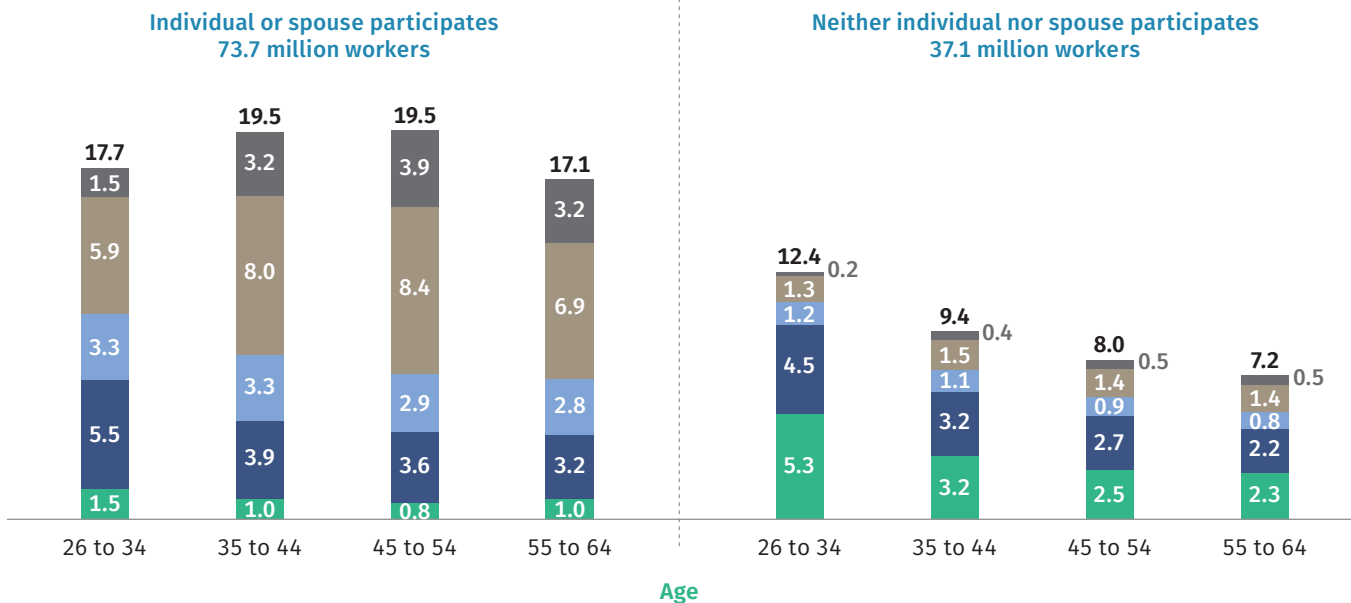
### Workers Who Do Not Participate in a Retirement Plan Are More Likely to Be Younger and Lower Income

Millions of taxpayers aged 26 to 64 with a Form W-2, 2018

#### Adjusted gross income

Non-joint / joint

- \$100,000 or more/\$200,000 or more
- \$50,000 to <\$100,000/\$100,000 to <\$200,000
- \$40,000 to <\$50,000/\$75,000 to <\$100,000
- \$20,000 to <\$40,000/\$40,000 to <\$75,000
- Less than \$20,000/less than \$40,000



Source: IRS Statistics of Income Division

\* *Lowest-income workers* is defined as workers with AGI less than \$20,000 for non-joint returns or with AGI less than \$40,000 for joint returns, and *young, moderate-income workers* is defined as workers aged 26 to 44 with AGI from \$20,000 to \$40,000 for non-joint returns or with AGI from \$40,000 to \$75,000 for joint returns.

FIGURE 12

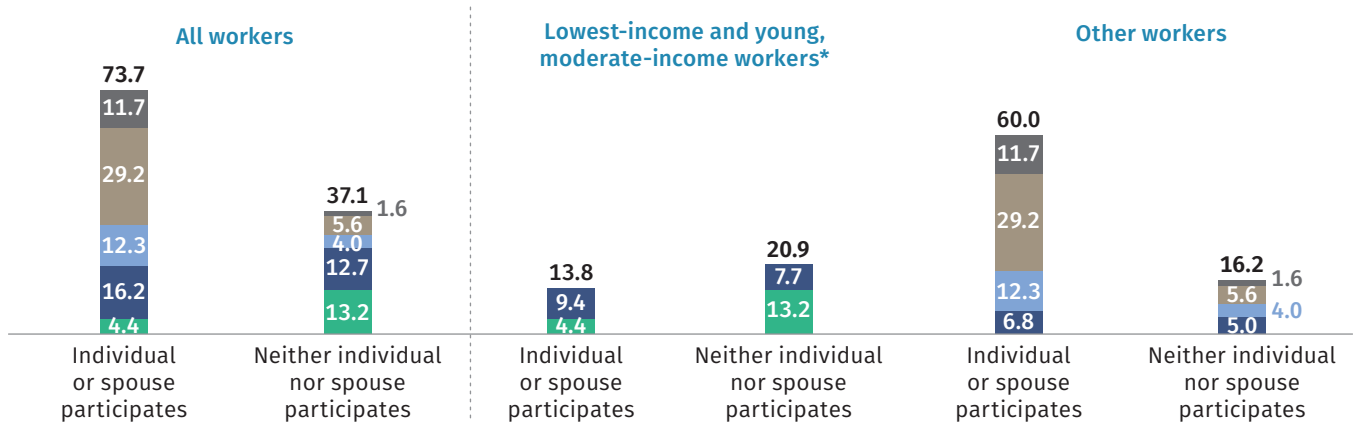
## Majority of Workers Who Do Not Participate in a Retirement Plan Have Very Low Income or Are Young with Moderate Income

Millions of taxpayers aged 26 to 64 with a Form W-2, 2018

### Adjusted gross income

Non-joint / joint

- \$100,000 or more/\$200,000 or more
- \$50,000 to <\$100,000/\$100,000 to <\$200,000
- \$40,000 to <\$50,000/\$75,000 to <\$100,000
- \$20,000 to <\$40,000/\$40,000 to <\$75,000
- Less than \$20,000/less than \$40,000



### Age

- 55 to 64
- 45 to 54
- 35 to 44
- 26 to 34



\* *Lowest-income workers* is defined as workers with adjusted gross income (AGI) less than \$20,000 for non-joint returns or with AGI less than \$40,000 for joint returns. *Young, moderate-income workers* is defined as workers aged 26 to 44 with AGI from \$20,000 to \$40,000 for non-joint returns or with AGI from \$40,000 to \$75,000 for joint returns.

Source: IRS Statistics of Income Division

## Reexamining Retirement Plan Participation

Most workers who are likely to have the ability and desire to save for retirement participate in an employer-sponsored retirement plan. Overall, 67 percent of workers age 26 to 64 participated in a retirement plan, either directly or through a spouse, in 2018 (Figure 13). If the lowest-income workers—those with income of less than \$20,000 per person—are excluded from the analysis, 72 percent of workers participated. If younger, moderate-income workers—workers aged 26 to 44 who are single and earn from \$20,000 to \$40,000 or who are married with combined earnings from \$40,000 to \$75,000—are also excluded from the analysis, 79 percent of workers participated.

## Conclusion

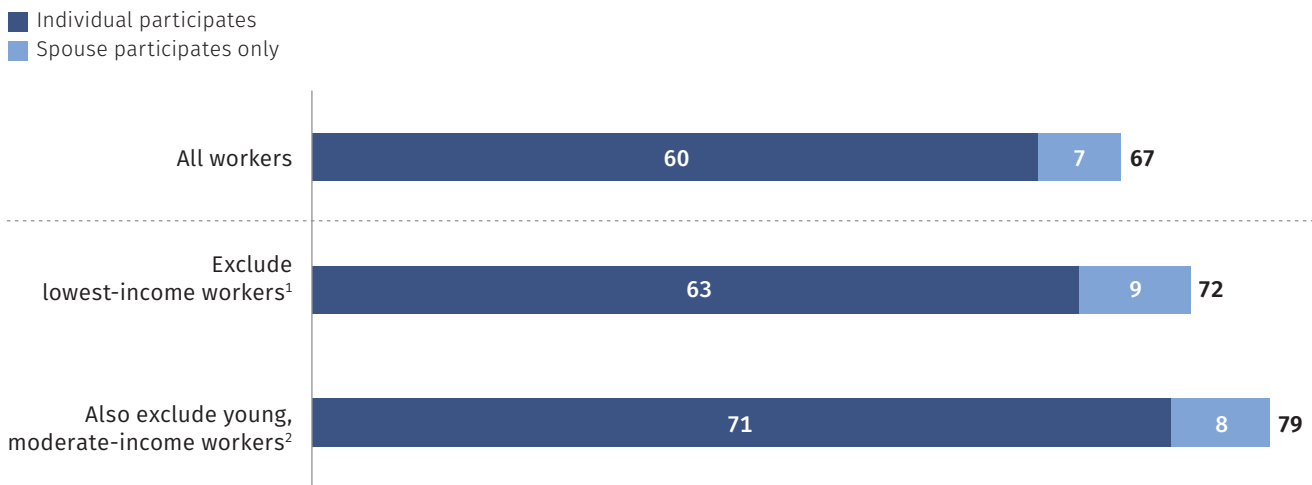
Employer-sponsored retirement plans (both DB plans and DC plans) are more important to retirees than typical retirement plan participation rates suggest for two reasons.

First, traditional measures of retirement plan participation derived from household surveys tend to understate participation. Comparison of tabulations of administrative tax data from the SOI with data from the ASEC—the most commonly cited source of participation statistics—suggest that the ASEC understated the overall participation rate by about 5 percentage points from 2008 through 2013. This understatement worsened following a redesign of the

FIGURE 13

### Most Workers Focused on Saving for Retirement Participate in a Retirement Plan Directly or Through a Spouse

Percentage of taxpayers aged 26 to 64 with a Form W-2 who are active participants in a retirement plan or who have a spouse who is an active participant, by income category, 2018



<sup>1</sup> *Lowest-income workers* is defined as workers with adjusted gross income (AGI) less than \$20,000 for non-joint returns or with AGI less than \$40,000 for joint returns.

<sup>2</sup> *Young, moderate-income workers* is defined as workers aged 26 to 44 with AGI from \$20,000 to \$40,000 for non-joint returns or with AGI from \$40,000 to \$75,000 for joint returns.

Source: IRS Statistics of Income Division

questionnaire used by the ASEC, which was associated with a precipitous drop in the reported participation rate (beginning with annual data from 2014) that is not corroborated in any other data source. By 2018, the SOI participation rate was 21 percentage points higher than the ASEC participation rate.

The larger problem, however, is that the overall participation rate, which represents a snapshot of participation among all workers at a single point in time, is simply the wrong statistic to focus on. At any given point in time, many workers may rationally choose jobs that do not offer a retirement plan or rationally decide not to participate even if eligible. The very lowest-income workers may not desire to participate at any time during their career, given that Social Security benefits replace a very high percentage of their average lifetime earnings. Younger, moderate-income workers may delay seeking out or participating in retirement plans until they are older, when their earnings will be higher and other priorities—such as starting a family, purchasing a house, or paying for education—have been taken care of.

Indeed, many workers who are not participating today will reach retirement having earned pension benefits or accumulated retirement assets. In addition, even if they have not done so themselves by the time they retire,

some married workers will have a spouse who has. The result is that most workers will have accumulated resources from employer-sponsored retirement plans by the time they reach retirement age.

The SOI tabulations show that most workers who are likely to have the ability and desire to save for retirement already participate in an employer-sponsored retirement plan. Among all workers aged 26 to 64 in 2018, 67 percent participated in a retirement plan, either directly or through a spouse. If those least likely to have the ability and desire to save for retirement in the current year are excluded from the analysis, however, the participation rate increases to 79 percent.

The analysis in this paper supports the proposition that the retirement plan system can and should be improved. However, the analysis also suggests caution when proposing reforms to a system in which most workers who are likely to value retirement benefits more highly than cash compensation already participate in employer-sponsored retirement plans, either directly or through a spouse. The incentives faced by both employees and employers should be taken into account when crafting pension reforms, and realistic goals should be set for increasing employer-based retirement plan coverage.

## ***Additional Reading***

- » ***How America Supports Retirement: Challenging the Conventional Wisdom on Who Benefits***  
[www.ici.org/whobenefits](http://www.ici.org/whobenefits)
- » ***Using Panel Tax Data to Examine the Transition to Retirement***  
[www.ici.org/pdf/ppr\\_17\\_brady\\_tax\\_panel\\_data.pdf](http://www.ici.org/pdf/ppr_17_brady_tax_panel_data.pdf)
- » ***Decoding Retirement: A Detailed Look at Retirement Distributions Reported on Tax Reforms***  
[www.irs.gov/pub/irs-soi/20rpdecodingretirement.pdf](http://www.irs.gov/pub/irs-soi/20rpdecodingretirement.pdf)
- » ***ICI Resources on 401(k) Plans***  
[www.ici.org/401k](http://www.ici.org/401k)
- » ***ICI Resources on the Retirement System***  
[www.ici.org/retirement](http://www.ici.org/retirement)

## Appendix

### Additional Statistics on Elective Deferrals

The IRS Statistics of Income Division's 2008–2018 Form W-2 Tabulations also provided detailed tabulations on elective employee contributions. This appendix reports some descriptive statistics from those tabulations.

Figure A1 shows the percentage of workers aged 26 to 64 in 2018 who made elective employee contributions to a DC plan, and the percentage of workers who were active participants in a retirement plan but who did not make elective employee contributions. Active participants who do not make elective employee contributions include workers eligible to participate in a DB plan and workers who receive nonelective employer contributions to a DC plan.

Figure A2 illustrates how the share of workers who make elective contributions varies by age and wage and salary income.

For workers who make elective employee contributions:

- » Figure A3 reports the average amount of contributions and the average contribution rate by age or wage and salary income.
- » Figure A4 reports the average contribution amount and the average contribution rate by age and wage and salary income.
- » Figure A5 reports the average contribution rate by age and selected wage and salary income categories.



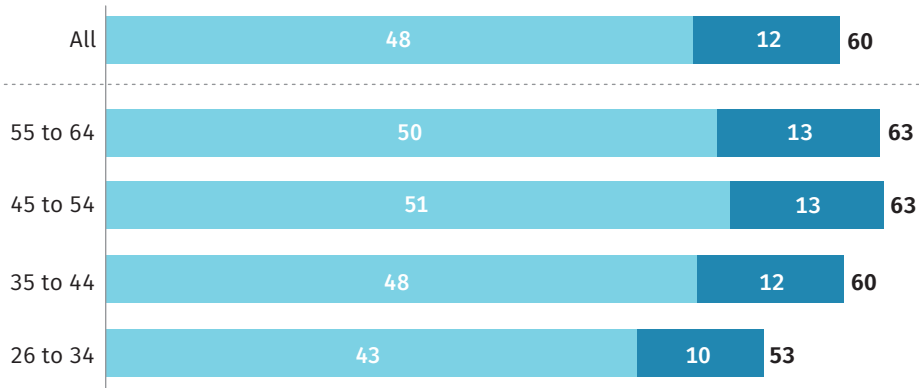
FIGURE A1

### Not All Retirement Plan Participants Make Elective Employee Contributions to DC Plans

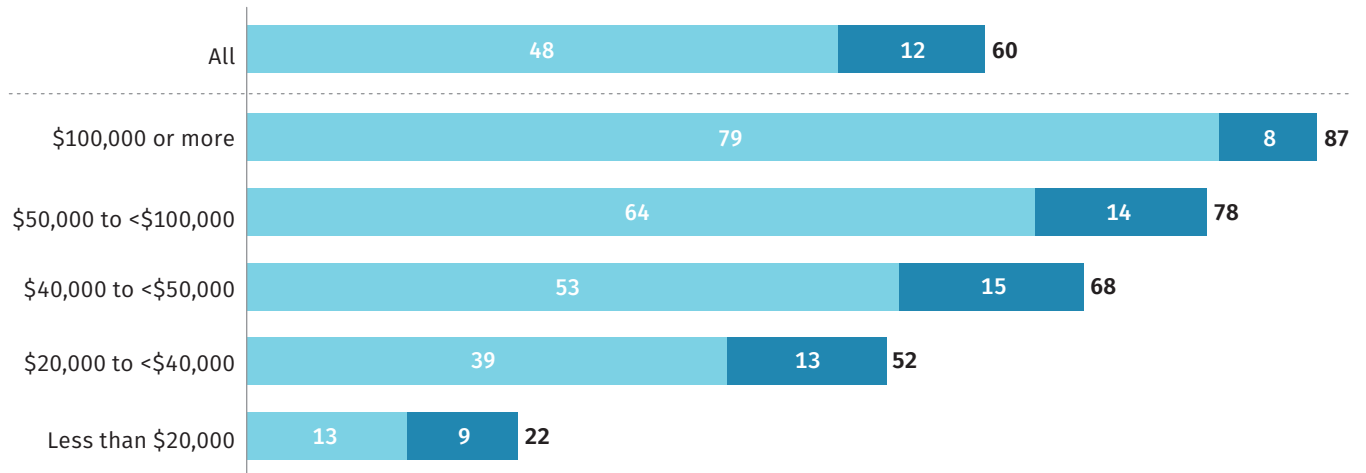
Percentage of taxpayers aged 26 to 64 with a Form W-2 who are active participants in a retirement plan, by age or wage and salary income, 2018

- Worker makes an elective employee contribution
- Worker participates but does not make an elective employee contribution\*

#### Age



#### Wage and salary income



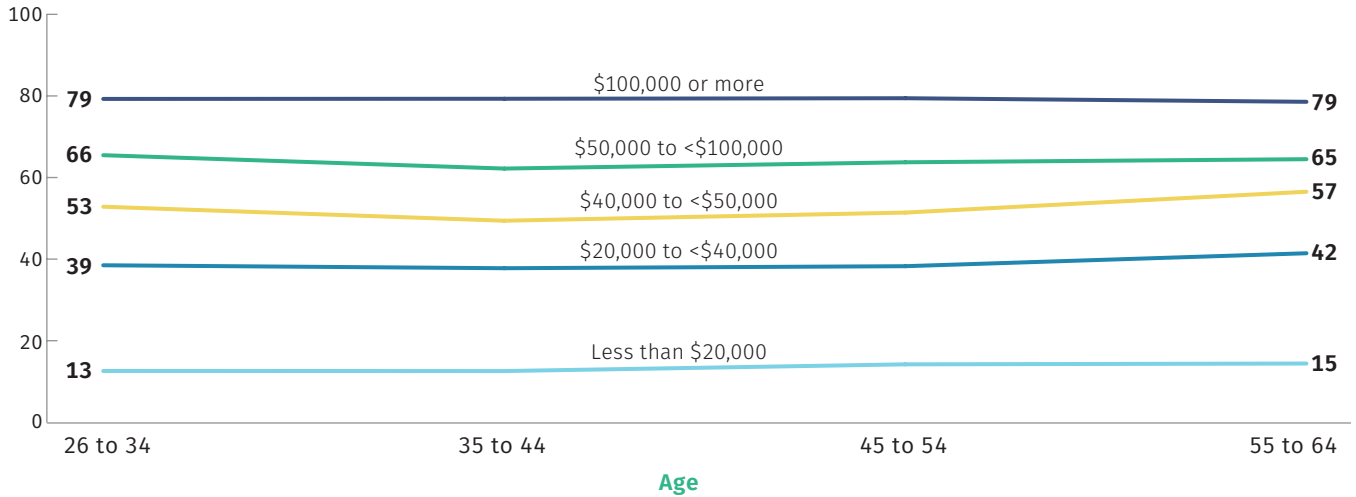
\* Individuals are either eligible to participate in defined benefit plans or their employers contribute to defined contribution plans on their behalf.

Source: IRS Statistics of Income Division

FIGURE A2

### Share of Workers Who Make Elective Employee Contributions to DC Plans Increases with Both Age and Earnings

Percentage of taxpayers aged 26 to 64 with a Form W-2 who make an elective employee contribution to a defined contribution plan, by age and wage and salary income, 2018



Source: IRS Statistics of Income Division

FIGURE A3

### Average Contributions Increase with Age and Earnings

Average contributions and contribution rate among working taxpayers aged 26 to 64 who make an elective employee contribution to a defined contribution plan, 2018

	Average employee contribution	Average employee contribution rate*
<b>All workers</b>	<b>\$5,510</b>	<b>6.6%</b>
<b>By age</b>		
26 to 34	3,579	5.8
35 to 44	5,282	5.9
45 to 54	6,525	6.4
55 to 64	7,669	7.8
<b>By wage and salary income</b>		
Less than \$20,000	1,354	11.0
\$20,000 to <\$40,000	1,956	6.4
\$40,000 to <\$50,000	3,061	6.6
\$50,000 to <\$100,000	5,580	7.4
\$100,000 to <\$200,000	11,466	7.8
\$200,000 or more	18,433	4.1

\* The average employee contribution rate is calculated as total employee contributions divided by total Medicare wages and tips (reported in Form W-2 box 5).

Source: IRS Statistics of Income Division

FIGURE A4

**Within Age Groups, Contributions Increase with Earnings**

Working taxpayers aged 26 to 64 who make an elective employee contribution to a defined contribution plan, by age and wage and salary income, 2018

*Average employee contributions*

Wage and salary income	Age			
	26 to 34	35 to 44	45 to 54	55 to 64
Less than \$20,000	\$655	\$1,349	\$1,969	\$2,653
\$20,000 to <\$40,000	1,456	1,736	2,145	3,013
\$40,000 to <\$50,000	2,281	2,531	3,090	4,464
\$50,000 to <\$100,000	4,343	4,824	5,804	7,252
\$100,000 to <\$200,000	9,483	10,024	11,438	13,901
\$200,000 or more	15,258	16,183	18,153	21,503

*Average employee contribution rates\**

Wage and salary income	Age			
	26 to 34	35 to 44	45 to 54	55 to 64
Less than \$20,000	5.6%	10.7%	14.2%	18.8%
\$20,000 to <\$40,000	5.0	5.5	6.6	9.0
\$40,000 to <\$50,000	5.1	5.5	6.6	9.1
\$50,000 to <\$100,000	6.1	6.4	7.4	9.2
\$100,000 to <\$200,000	6.8	6.9	7.8	9.1
\$200,000 or more	4.4	4.0	3.9	4.3

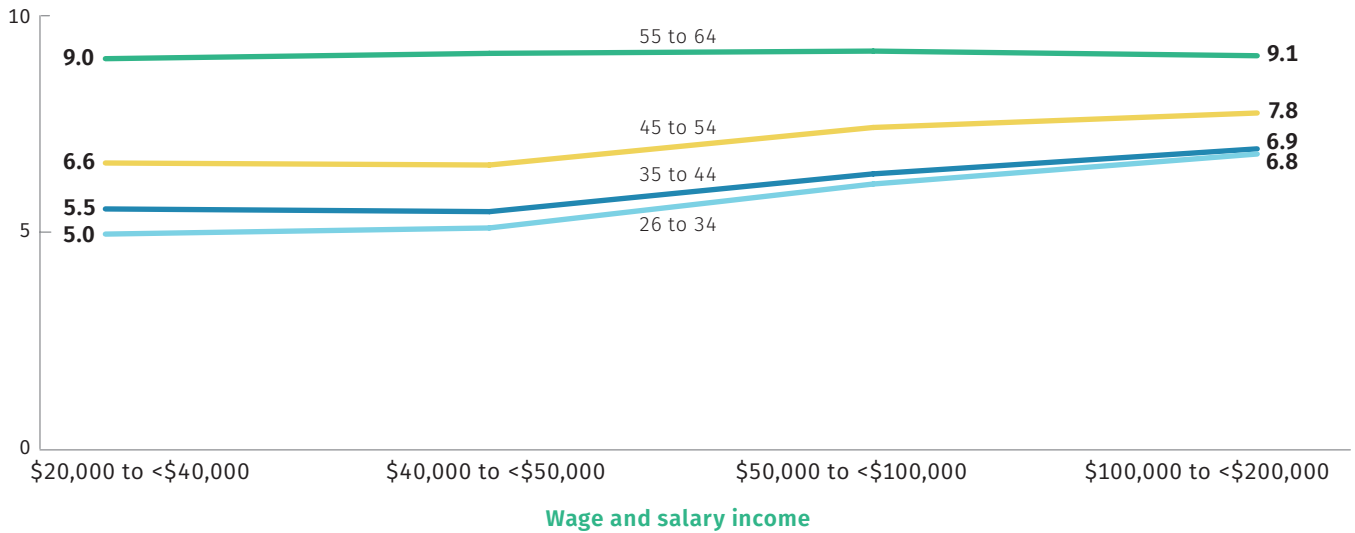
\* The average employee contribution rate is calculated as total employee contributions divided by total Medicare wages and tips (reported in Form W-2 box 5).

Source: IRS Statistics of Income Division

FIGURE A5

### For Older Workers, Contribution Rates Are Similar Across a Wide Range of Earnings

Average contribution rate\* among working taxpayers aged 26 to 64 who make an elective employee contribution to a defined contribution plan, by age and selected wage and salary income categories, 2018



\* The average employee contribution rate is calculated as total employee contributions divided by total Medicare wages and tips (reported in Form W-2 box 5).

Source: IRS Statistics of Income Division

## Notes

- <sup>1</sup> The data are available at [www.irs.gov/statistics/soi-tax-stats-individual-information-return-form-w2-statistics](https://www.irs.gov/statistics/soi-tax-stats-individual-information-return-form-w2-statistics).
- <sup>2</sup> Brady and Bogdan 2014 primarily focused on the share of workers with an employer that sponsored a retirement plan. This report uses tabulations from Form W-2 and focuses on the share of workers who are active participants in a retirement plan. For workers who are not active participants, employers do not report on Form W-2 whether the employee was eligible to participate in a retirement plan, nor do they report whether they offer plans to other workers.
- <sup>3</sup> The statistics on the share of households with resources from DB plans, DC plans, and IRAs are from Investment Company Institute tabulations of 2019 Federal Reserve Board Survey of Consumer Finances, as reported in Figure 8.4 of Investment Company Institute 2021.
- <sup>4</sup> The projected Social Security replacement rates used to identify those with the lowest desire to save for retirement were derived using the simulation model from Brady 2016, and measure net income in retirement as percentage of average inflation-adjusted net income from age 32 to 66.

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