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Who Participates in Retirement Plans, 2016

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, 78 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, for the family, or education.** Economic analysis suggests that these preferences are rational. Older and higher-earning workers are more likely to save primarily for retirement and thus are more likely to prefer having a portion of their compensation in the form of retirement benefits rather than fully in cash.
- » **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 2016, 64 percent participated in a retirement plan either directly or through a spouse. That number ranged, however, from 55 percent of those aged 26 to 34 to 69 percent of those aged 45 to 64; and from 24 percent for those with adjusted gross income (AGI) less than \$20,000 per person to 86 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. Between 2013 and 2016, the difference increased to 18 percentage points following a revision to the survey questionnaire used for the ASEC.

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The following methodology, unless otherwise specified, applies to all data in this report: percentages 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 newly available data—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.¹ 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.)

* 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.² (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 2016, 57 percent were active participants in a retirement plan (DB, DC, or both), and

64 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 (69 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, 81 percent of working households aged 55 to 64 in 2016 had accrued benefits in a DB plan, accumulated assets in a DC plan or individual retirement account (IRA), or both.³

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 2016 tax year, 150.3 million tax returns were filed by 204.3 million individuals who were either a primary or secondary taxpayer on those returns.† For the Form W-2 tabulations, the SOI examined the 144.2 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 2017 CPS data, which show that 149.5 million individuals worked as wage and salary employees in 2016, 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 110.7 million working taxpayers aged 26 to 64, who represent the bulk (77 percent) of workers. It excludes 24.8 million workers (representing 17 percent of workers) who are aged 25 or younger, and it excludes 8.7 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 2018.

† Of the 150.3 million tax returns filed for tax year 2016, 54.0 million were joint returns filed by married couples and 96.2 million returns were filed by single individuals, heads of households, surviving spouses, and married individuals filing separately. On these returns, there were 204.3 million primary and secondary taxpayers, including 108.1 million primary and secondary taxpayers on joint returns and 96.2 million primary taxpayers on non-joint returns.

‡ In tax year 2016, 119.6 million tax returns were filed that were associated with a Form W-2, including 43.1 million joint returns and 76.5 million non-joint returns. Of the 43.1 million joint returns, both spouses worked on 24.6 million and only one spouse worked on 18.5 million. Overall, there were 144.2 million workers, including 76.5 million workers filing a non-joint return, 49.2 million workers filing a joint return where both the primary and secondary taxpayer worked, and 18.5 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 2016, 9.4 million dependents filed a tax return, including 8.8 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 was recently revised, with the new questionnaire first used for the 2015 survey (which measured participation in 2014).* The revised questionnaire was 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 2016 (Figure 1). In contrast, the SOI participation

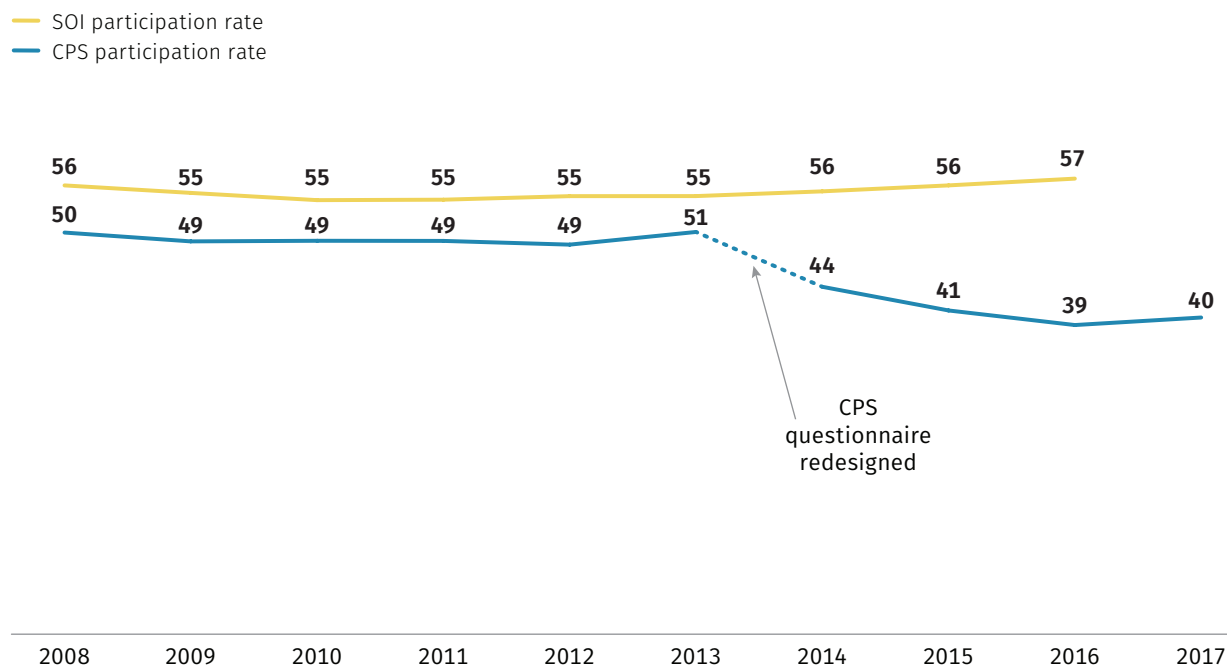
rate for workers aged 26 to 64 increased from 55 percent in 2013 to 57 percent in 2016.

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,
- » 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 who 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 the family, or to fund education (Figure 2).

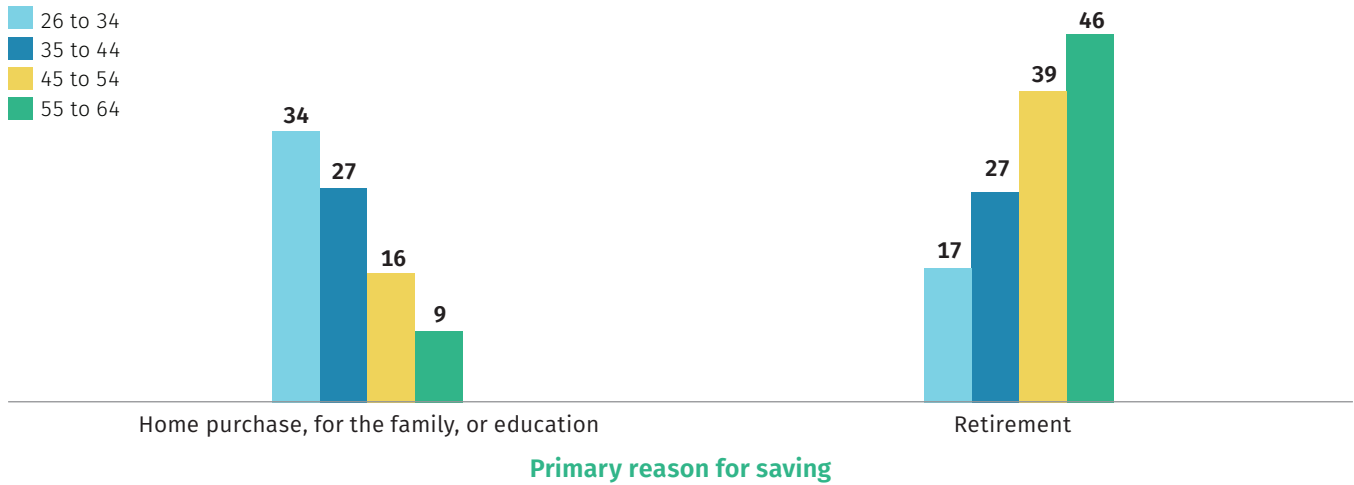
FIGURE 2

Household Focus on Retirement Increases with Age and Income

Percentage of households aged 26 to 64, by age of household head or household income, 2016

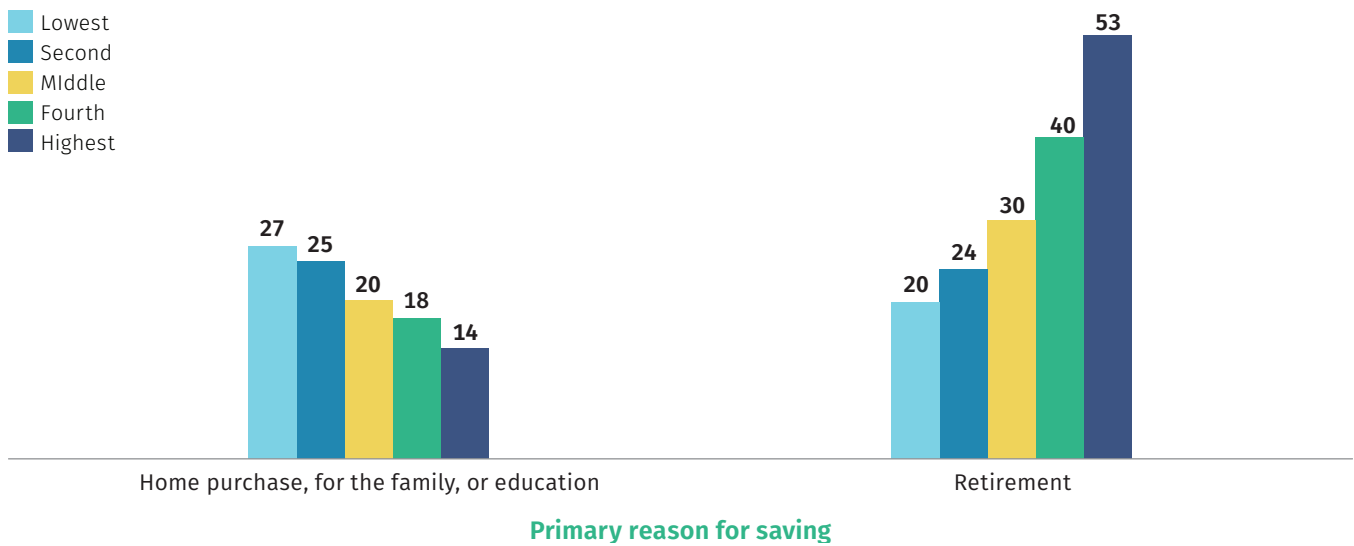
Age of household head

- 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 2016 Federal Reserve Board Survey of Consumer Finances

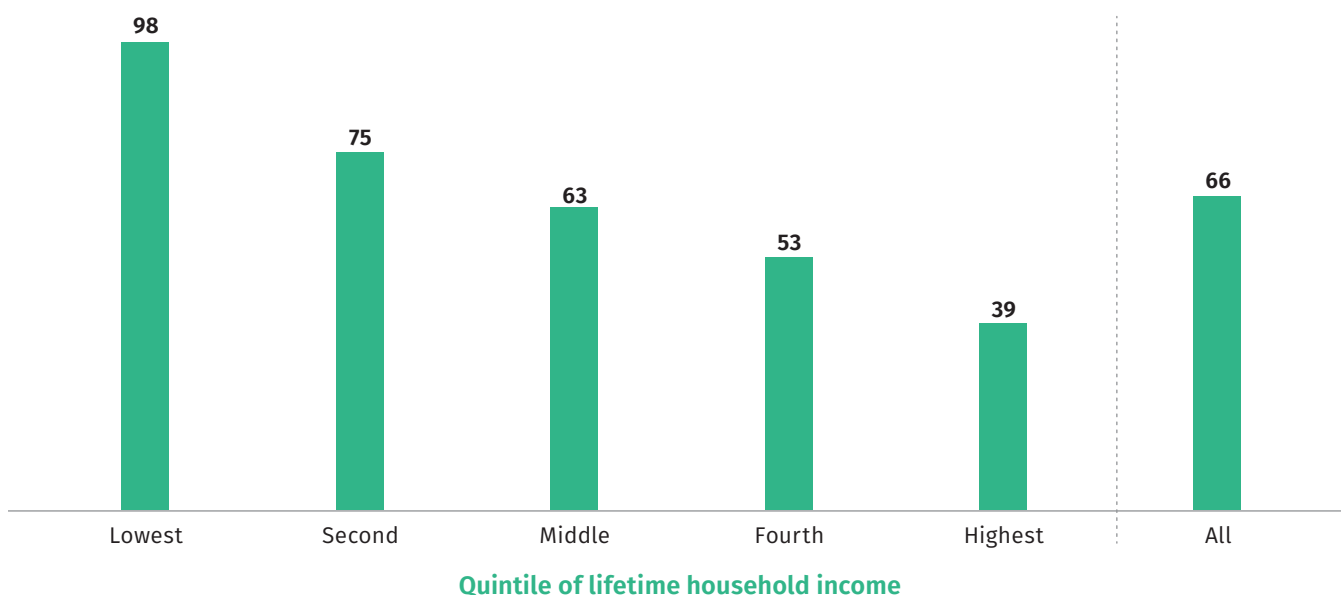
These saving preferences are consistent with predicted rational behavior. The tendency of younger households to focus less on retirement savings is consistent with economic models of life-cycle consumption, which predict that most workers will delay saving for retirement until later in their working 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 and 10).

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.

* Federal Supplemental Security Income (SSI) annual benefits in 2019 are \$9,252 for single individuals and \$13,884 for married couples. Some states provide supplemental benefits in addition to the federal benefit. See 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 the desire of workers to participate in employer plans is discussed in this report, 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.

* 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.

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.

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 110.7 million working taxpayers aged 26 to 64 in 2016.* Figure 4 illustrates the composition of these workers by age, the types of tax returns they filed,[†] wage and salary income, and adjusted gross income (AGI). Similar categories are used to rank working taxpayers by their wage and salary income and by AGI.[‡]

Of the 110.7 million working taxpayers aged 26 to 64 in 2016, 21 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-four percent of workers were married individuals filing a joint tax return. By wage and salary income,

23 percent of working taxpayers earned less than \$20,000 and 38 percent earned \$50,000 or more. Similarly, 18 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 39 percent had AGI of \$50,000 per person or more.

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

There is a life-cycle pattern to household composition, earnings, and income (Figure 5). For example, older workers are more likely to be married. In 2016, the share of working taxpayers who were married individuals filing a joint tax return was 38 percent for workers aged 26 to 34 and 64 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 2016 fell from 28 percent for workers aged 26 to 34, to 19 percent for workers aged 45 to 54; and the share who earned \$50,000 or more rose from 26 percent for workers aged 26 to 34, to 44 percent for workers aged 45 to 54. Similarly, the share of workers who had AGI less than \$20,000 per person in 2016 declined from 26 percent of workers aged 26 to 34, to 14 percent for workers aged 45 to 54; and the share of workers who had AGI of \$50,000 per person or more increased from 25 percent for workers aged 26 to 34, to 47 percent for workers aged 45 to 54.

* *Working taxpayers* are 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.

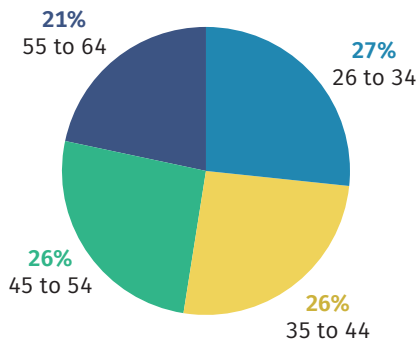
[†] Tax returns are divided into two categories: joint returns filed by married couples; and non-joint returns, which would include tax returns filed by single individuals, heads of households, surviving spouses, and married individuals filing separately.

[‡] 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 2019.

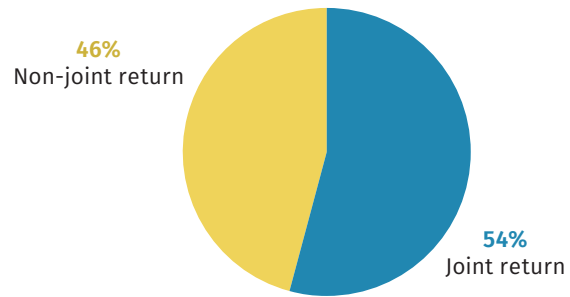
FIGURE 4

What the Workforce Looks Like

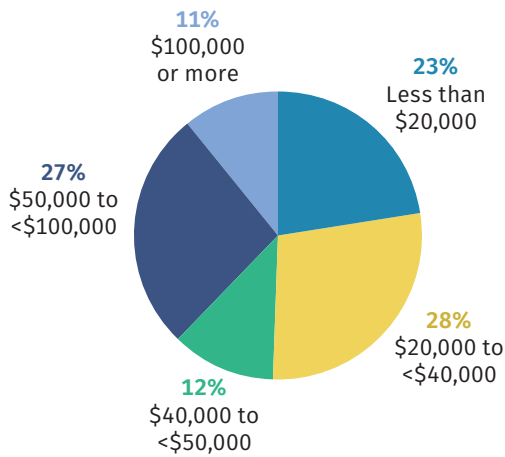
Percentage of taxpayers aged 26 to 64 with a Form W-2, by various characteristics, 2016



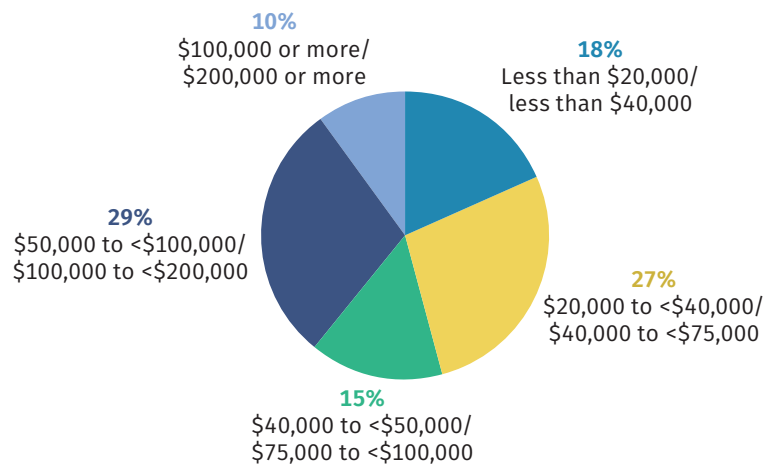
Worker's age



Type of tax return filed



Wage and salary income



Adjusted gross income

Non-joint/joint

Source: IRS Statistics of Income Division

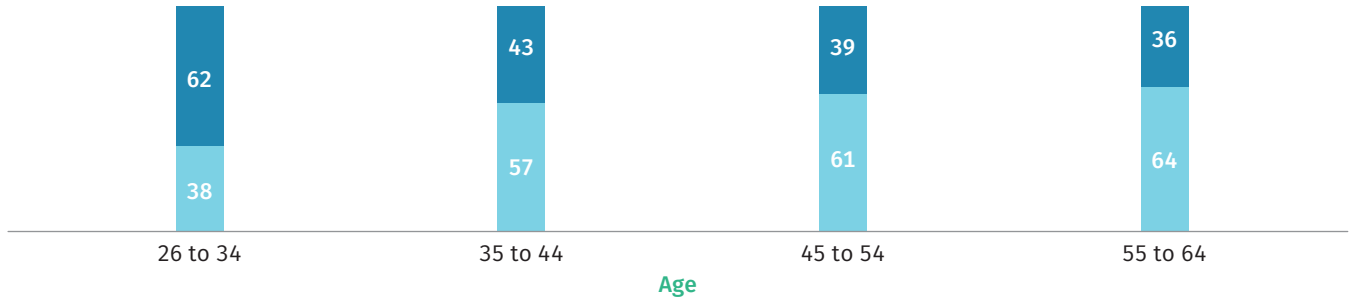
FIGURE 5

Household Composition, Earnings, and Income Change over the Lifecycle

Percentage of taxpayers aged 26 to 64 with a Form W-2, by age, 2016

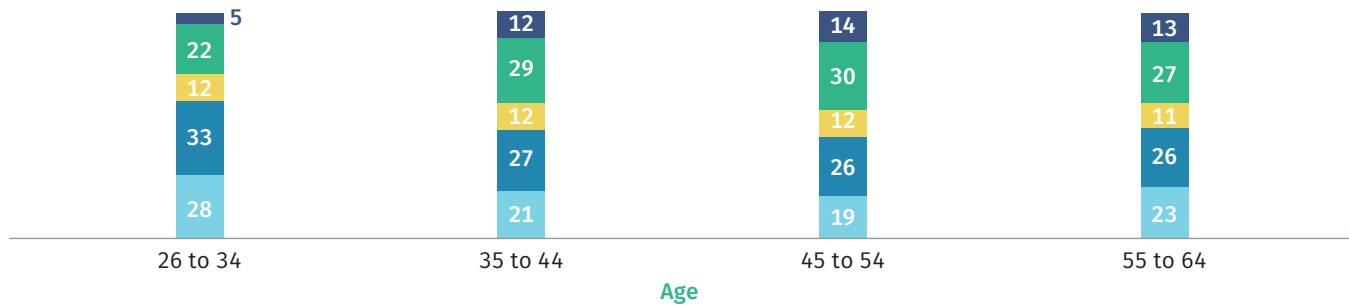
Type of tax return filed

- Non-joint
- Joint



Wage and salary income

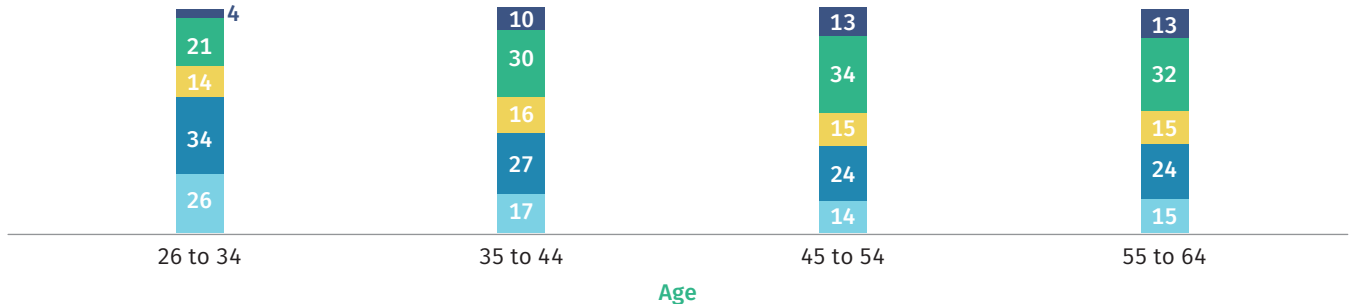
- \$100,000 or more
- \$50,000 to <\$100,000
- \$40,000 to <\$50,000
- \$20,000 to <\$40,000
- Less than \$20,000



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 55 to 64 who filed a non-joint return in 2016, 20 percent had AGI less than \$20,000 and 38 percent had AGI of \$50,000 or more. By comparison, among workers the same age who filed a joint return, 13 percent had AGI less than \$40,000 (or \$20,000 per person) and 49 percent had AGI of \$100,000 (or \$50,000 per person) or more.

Participation Analysis

Participation Rates: Overall and by Age, Wages, and Income

More Than 60 Percent of Workers Participate in Retirement Plans

Among all working taxpayers aged 26 to 64 in 2016, 64 percent either were active participants in an employer-sponsored retirement plan or had a spouse who was (Figure 7).^{*} Fifty-seven percent of these workers actively participated in a retirement plan; another 7 percent did not directly participate, but had a spouse who did.

FIGURE 6

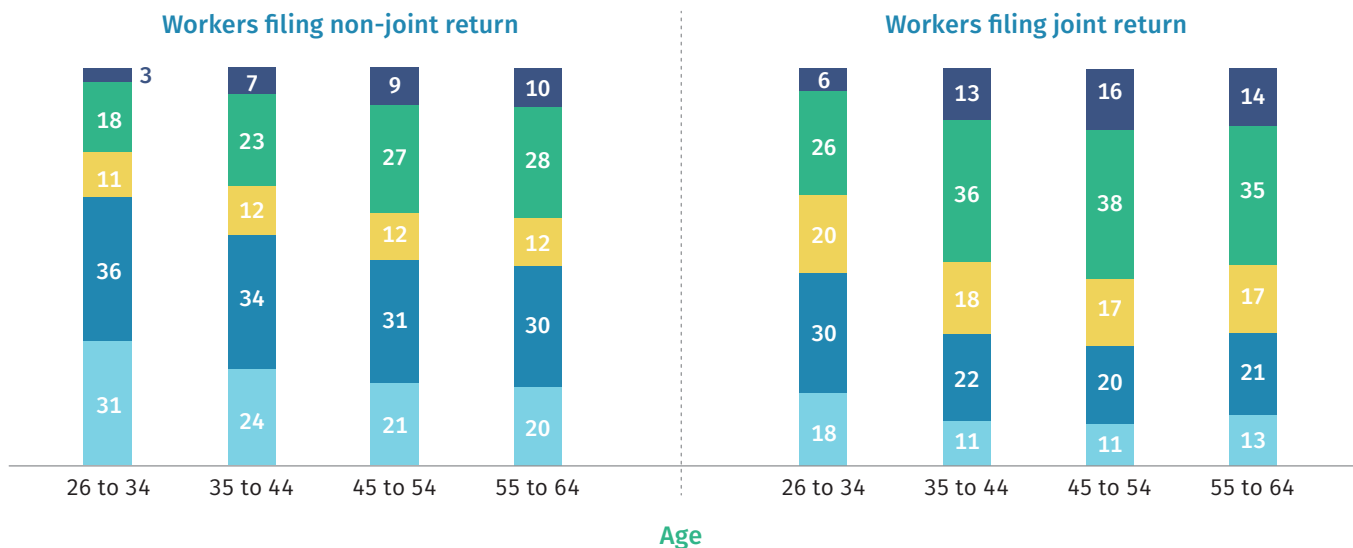
Married Workers Have Higher Income on Average Even Adjusting for Number of Adults

Percentage of taxpayers aged 26 to 64 with a Form W-2, by age and filing status, 2016

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

^{*} 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.

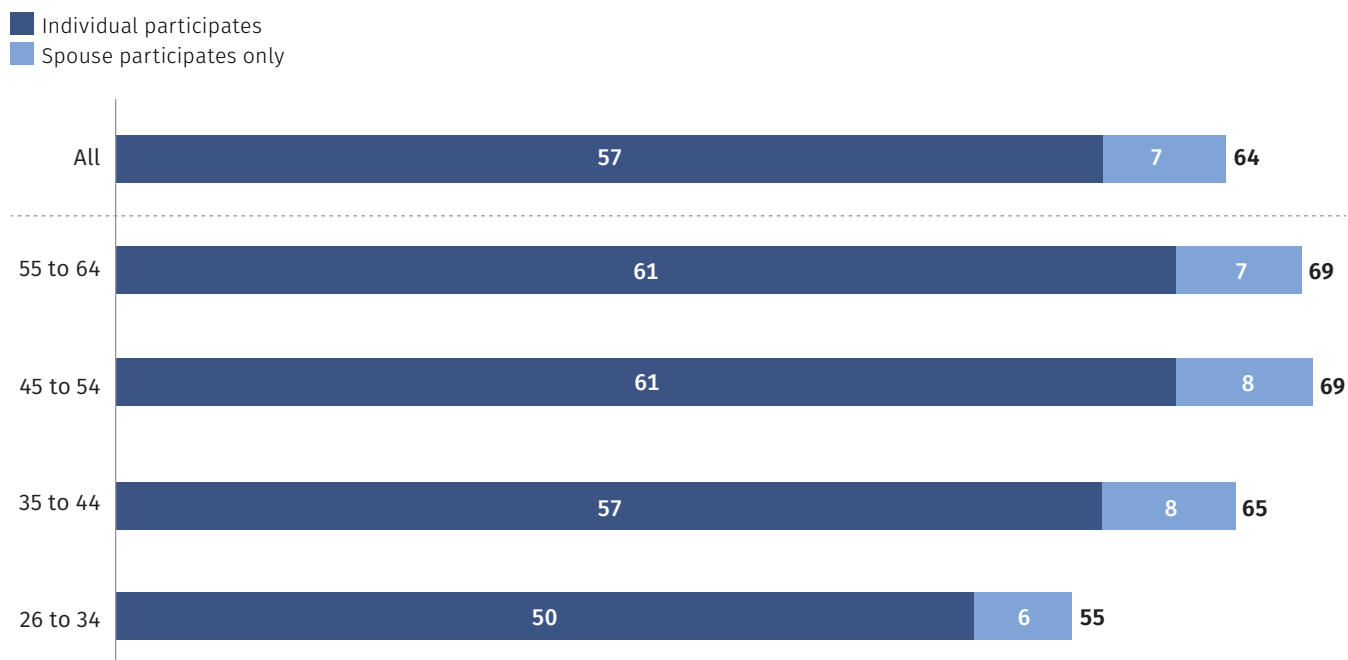
Consistent with expectations, older workers, higher-earning workers, and higher-income workers are more likely to be active participants in an employer-sponsored retirement plan. In 2016, the share who participated in a retirement plan, either directly or through a spouse, increased from 55 percent of workers aged 26 to 34 to 69 percent

of workers aged 55 to 64 (Figure 7). The share who directly participated increased from 50 percent of workers aged 26 to 34 to 61 percent of workers aged 55 to 64. Another 6 percent of workers aged 26 to 34 and 7 percent of workers aged 55 to 64 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, 2016



Source: IRS Statistics of Income Division

The share who directly participated in a retirement plan in 2016 ranged from 22 percent of workers earning less than \$20,000 in wage and salary income, to 67 percent of workers earning \$40,000 to \$50,000, to 85 percent of workers earning \$100,000 or more (Figure 8, upper panel).

The share who participated in a retirement plan in 2016, either directly or through a spouse, ranged from 24 percent of workers who had AGI less than \$20,000 per person, to 86 percent of workers who had AGI of \$100,000 per person or more (Figure 8, lower panel).

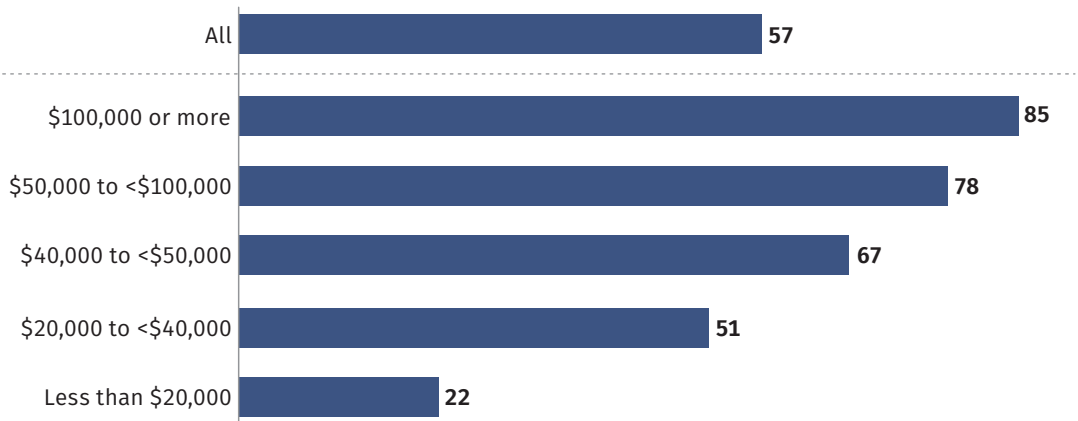
FIGURE 8

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

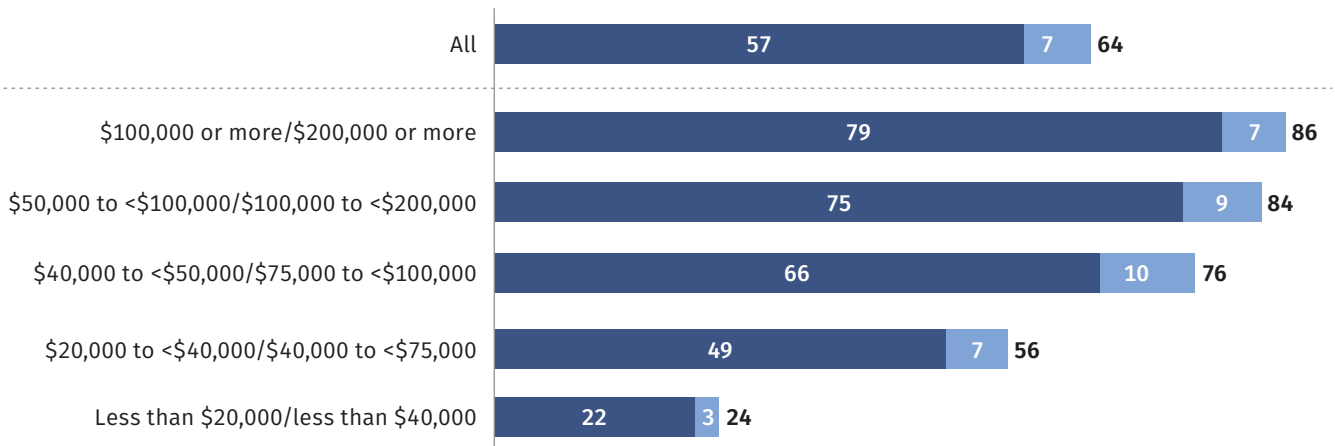
Percentage of taxpayers aged 26 to 64 with a Form W-2 who are active participants in a retirement plan or who have a spouse who is an active participant, by wage and salary income or adjusted gross income, 2016

- Individual participates
- Spouse participates only

Wage and salary income



Adjusted gross income
Non-joint/joint



Source: IRS Statistics of Income Division

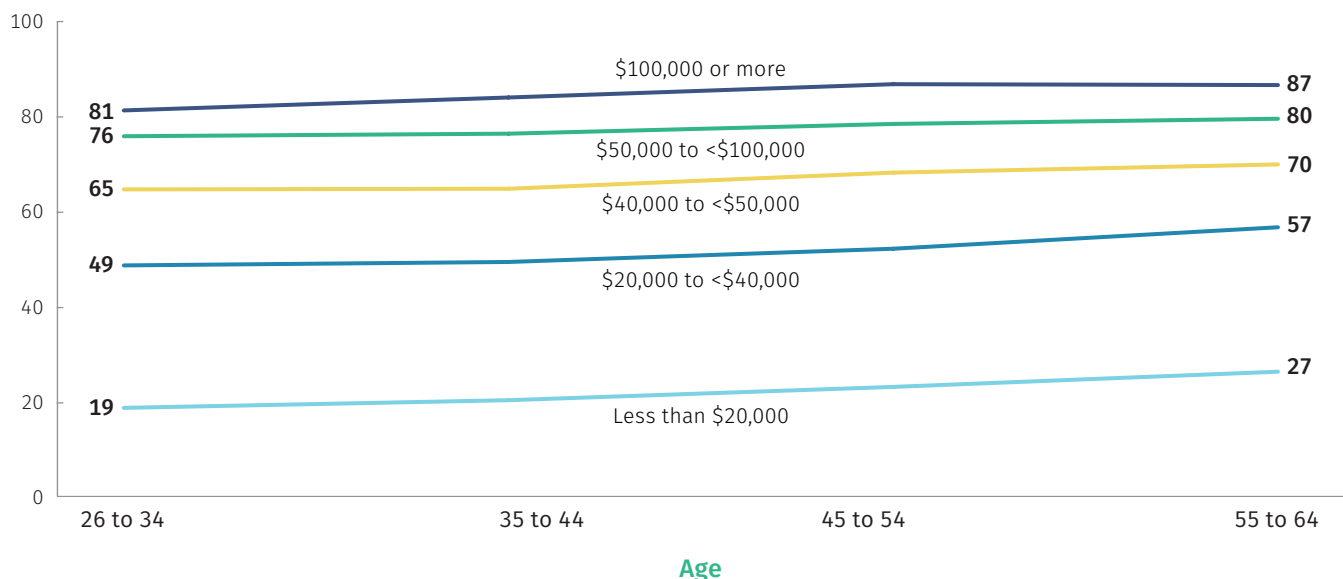
Older workers are more likely to directly participate in a plan both because they were more likely to be higher earners (see Figure 5, middle panel), and because older workers are more likely to directly participate than younger workers with similar earnings (Figure 9). For example, among workers with wage and salary income of \$20,000 to \$40,000 in 2016, the direct participation

rate was 8 percentage points higher for those aged 55 to 64 than for those aged 26 to 34 (57 percent versus 49 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, 2016



Source: IRS Statistics of Income Division

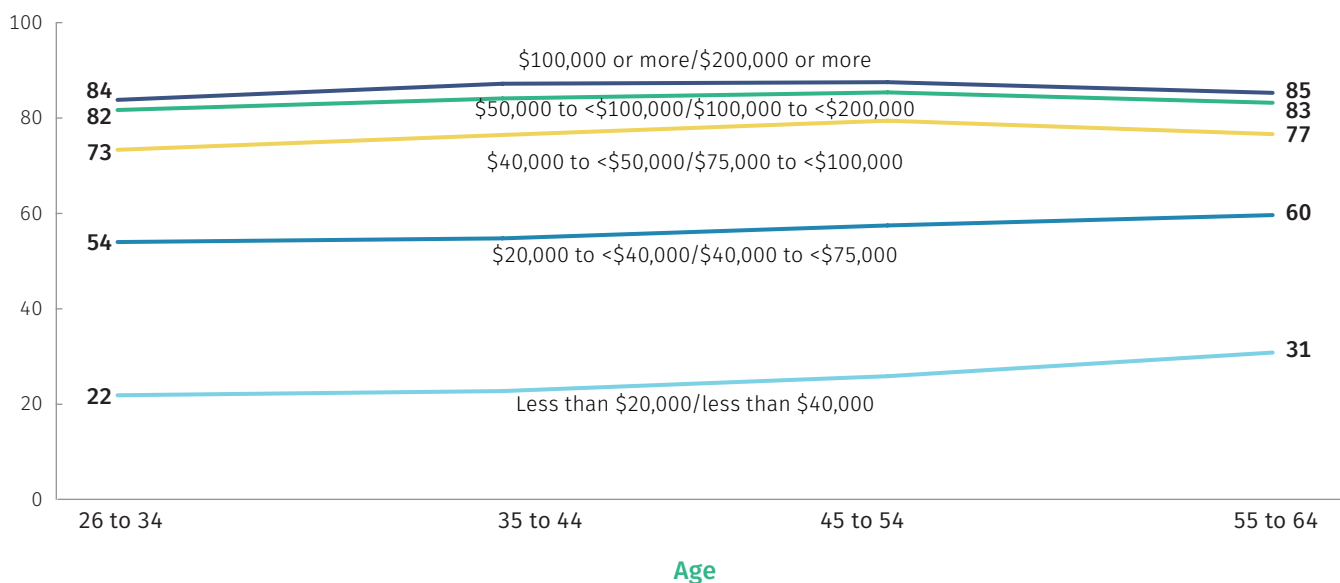
Similarly, older workers are more likely to participate in a retirement plan either directly or through a spouse both because they are more likely to have higher income (see Figure 5, lower panel), and because older workers are generally more likely to participate either directly or through a spouse than younger workers with similar income (Figure 10). The differences in participation rates by age, however, are more pronounced for lower-income workers. In 2016,

for example, among workers who had AGI of less than \$20,000 per person, 22 percent of those aged 26 to 34 participated directly or through a spouse, compared with 31 percent of those aged 55 to 64—a difference of 9 percentage points. Among workers who had AGI of \$50,000 to \$100,000 per person, 82 percent of those aged 26 to 34 participated directly or through a spouse, compared with 83 percent for those aged 55 to 64—a difference of only 2 percentage points.

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, 2016



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 and 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

The *lowest-income workers*, who are the least likely to have the ability and desire to save for retirement in the current year, are defined as workers aged 45 to 64 who had AGI less than \$20,000 per person; and workers aged 26 to 44 who either filed a non-joint return and had AGI less than \$40,000 or filed a joint return and had AGI less than \$75,000. This categorization is based on projected Social Security replacement rates.⁴ Single workers earning less than \$20,000 per year (in constant 2016 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.* 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.[†]

* After-tax Social Security benefits are predicted to replace 97 percent of average inflation-indexed after-tax earnings for a single worker earning \$15,000 (in constant 2016 dollars) when 55 years old, and 85 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—97 percent and 86 percent, respectively, for a married couple where both spouses work and earn equal amounts; and 103 percent and 95 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 72 percent of average inflation-indexed after-tax earnings for a single worker earning \$30,000 (in constant 2016 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—72 percent and 67 percent, respectively, for a married couple where both spouses work and earn equal amounts; and 87 percent and 77 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 60 Percent 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 110.7 million working taxpayers aged 26 to 64 in 2016, 39.4 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), 13.2 million, or 34 percent, were aged 26 to 34; and 15.4 million, or 39 percent, had AGI less than \$20,000 per person. In contrast, among workers who participated in a plan (either directly or through a

spouse), 23 percent were aged 26 to 34 and 7 percent had AGI less than \$20,000 per person.

The lowest-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 2016, 23.5 million, or 60 percent, were in the lowest-income workers category and 15.9 million were not (Figure 12). In contrast, only 21 percent of workers who participated in a plan (either directly or through a spouse) were in the lowest-income workers category.

FIGURE 11

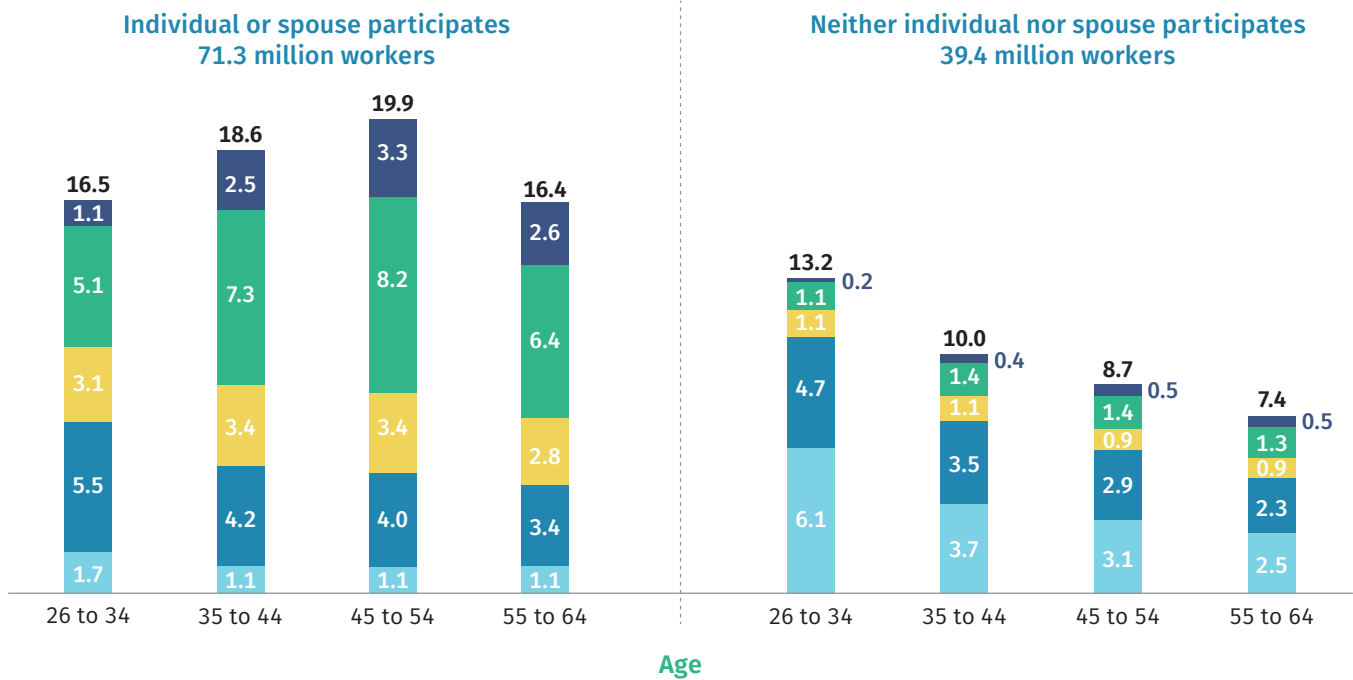
Workers Who Do Not Participate in a Retirement Plan Are More Likely to Be Younger and Lower Income

Millions of taxpayers aged 26 to 64 with a Form W-2, 2016

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 are defined as workers with AGI less than \$20,000 for non-joint returns or with AGI less than \$40,000 for joint returns, and 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

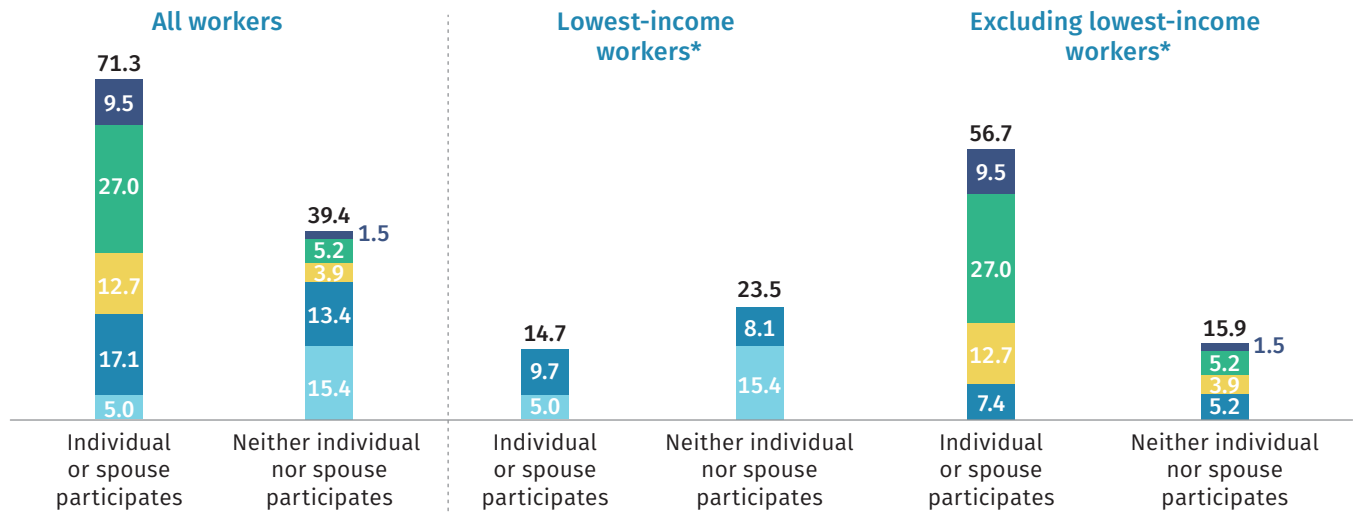
Sixty Percent of Workers Who Do Not Participate in a Retirement Plan Have Very Low Income

Millions of taxpayers aged 26 to 64 with a Form W-2, 2016

Adjusted gross income

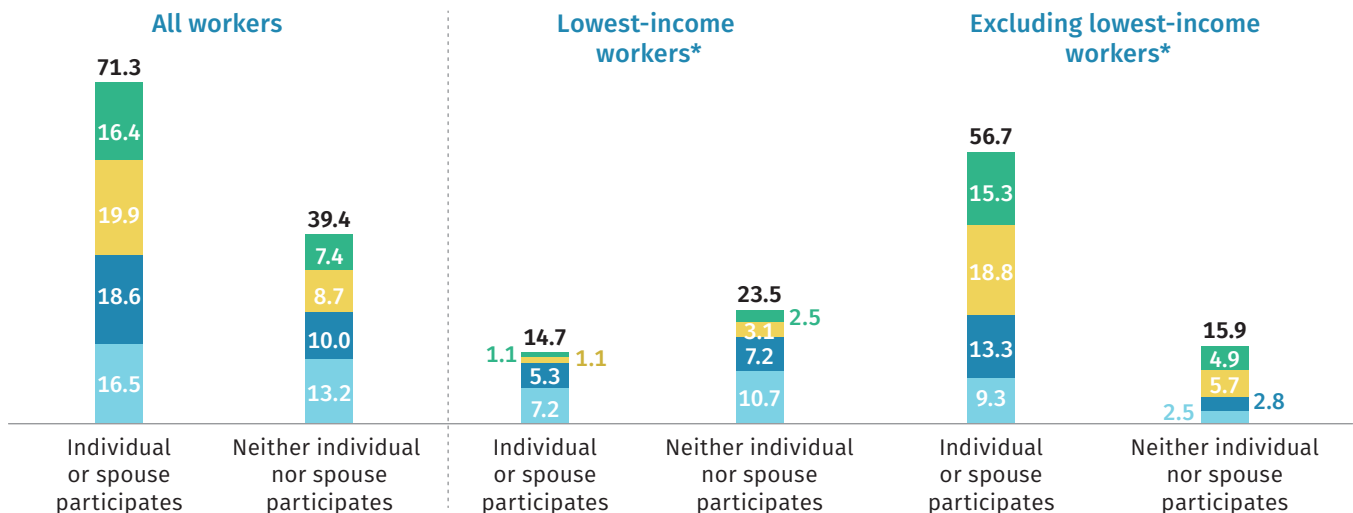
Non-joint/joint

- \$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* are 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, and 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

Other than the lowest-income workers, most workers participate in an employer-sponsored retirement plan. If the lowest-income workers are excluded from the analysis, 78 percent of workers participated in a retirement plan, either directly or through a spouse, in 2016 (Figure 13). In contrast, only 38 percent of the lowest-income workers participated.

Conclusion

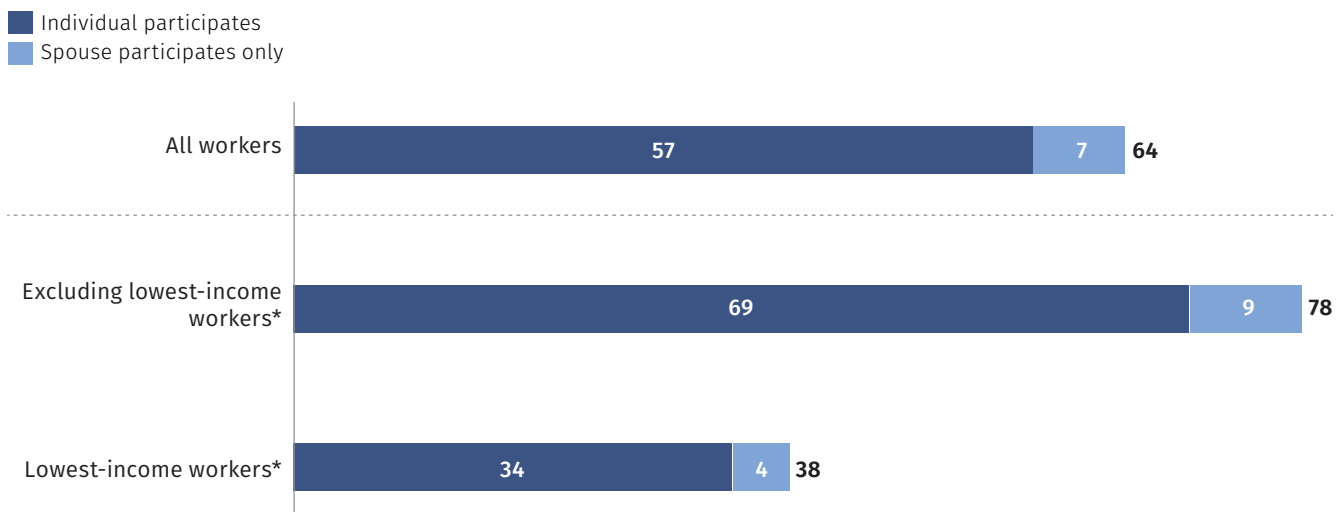
Employer-sponsored retirement plans (both DB plans and DC plans) are more important to retirees than typical retirement plan participation rates suggest for two reasons.

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 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 2016, the SOI participation rate was 18 percentage points higher than the ASEC participation rate.

FIGURE 13

Other Than Lowest-Income, Most Workers 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, 2016



* *Lowest-income workers* are 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, and 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

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. Other 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 2016, 64 percent participated in a retirement plan, either directly or through a spouse. If we exclude from the analysis those least likely to have the ability and desire to save for retirement in the current year, however, the participation rate increases to 78 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
- » **Using Panel Tax Data to Examine the Transition to Retirement**
www.ici.org/pdf/ppr_17_brady_tax_panel_data.pdf
- » **ICI Resources on 401(k) Plans**
www.ici.org/401k
- » **ICI Resources on the Retirement System**
www.ici.org/retirement

Appendix

Additional Statistics on Elective Deferrals

The IRS Statistics of Income Division's 2008–2016 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 2016 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.

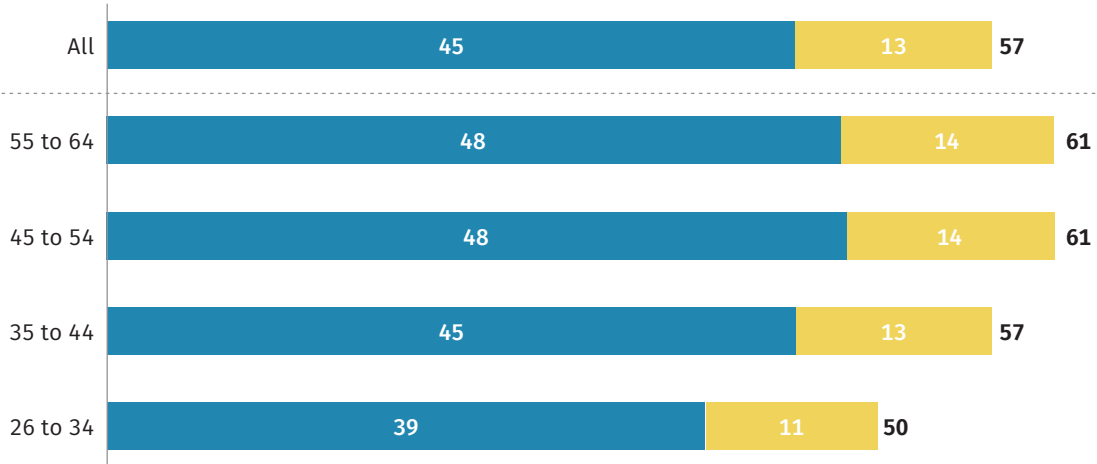
FIGURE A1

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

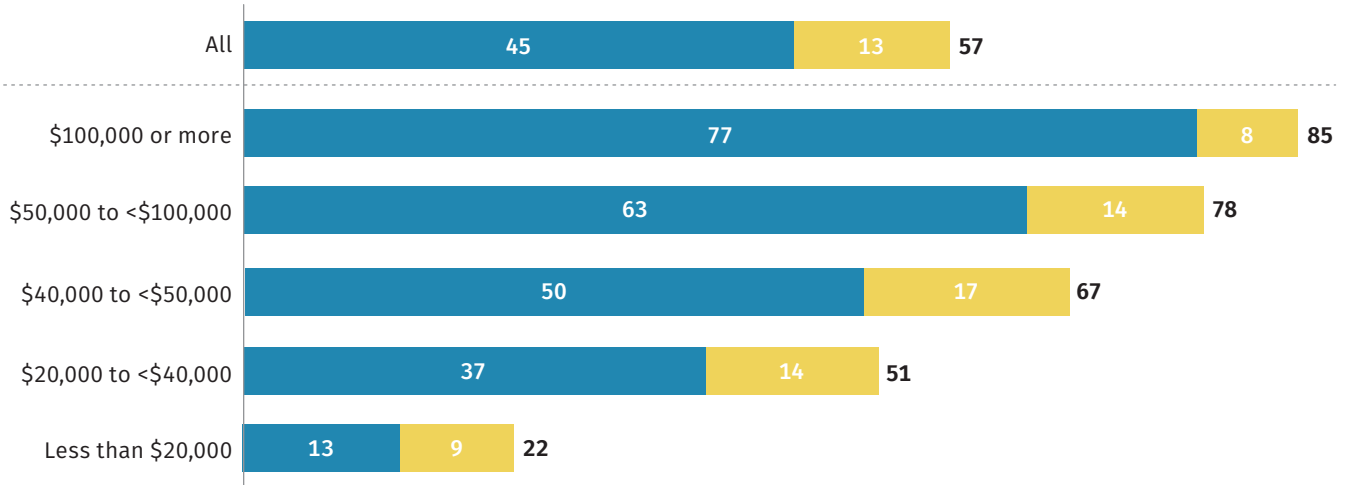
Percentage of taxpayers aged 26 to 64 with a Form W-2 who are active participants in a retirement plan, by age or wage and salary income, 2016

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

Age



Wage and salary income



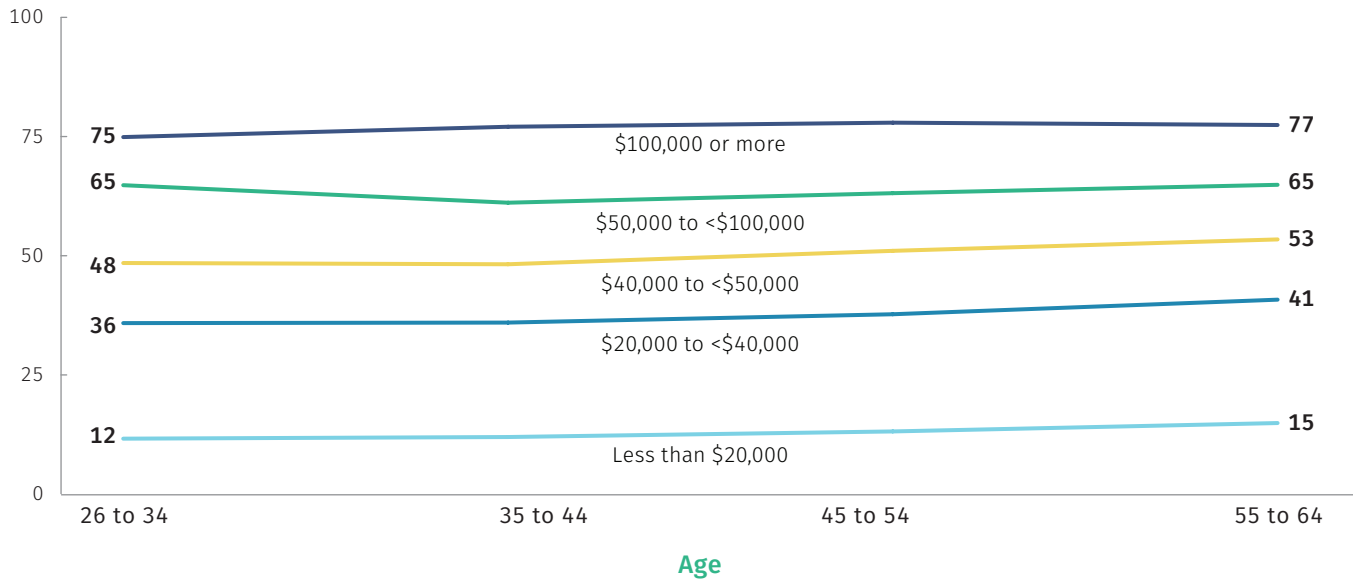
* Individuals are either eligible to participate in defined benefit plans or their employers contribute to defined contribution plans on their behalf.

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, 2016



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, 2016

	Average employee contribution	Average employee contribution rate*
All workers	\$5,204	6.4%
By age		
26 to 34	3,252	5.4
35 to 44	4,851	5.6
45 to 54	6,166	6.3
55 to 64	7,352	7.8
By wage and salary income		
Less than \$20,000	1,233	9.8
\$20,000 to <\$40,000	1,931	6.1
\$40,000 to <\$50,000	2,984	6.3
\$50,000 to <\$100,000	5,548	7.2
\$100,000 to <\$200,000	11,294	7.6
\$200,000 or more	18,047	4.0

* 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, 2016

Average contributions

Wage and salary income	Age			
	26 to 34	35 to 44	45 to 54	55 to 64
Less than \$20,000	\$540	\$1,111	\$1,722	\$2,490
\$20,000 to <\$40,000	1,385	1,615	2,127	3,075
\$40,000 to <\$50,000	2,115	2,434	3,199	4,358
\$50,000 to <\$100,000	4,252	4,711	5,727	7,292
\$100,000 to <\$200,000	9,121	9,757	11,307	13,703
\$200,000 or more	14,661	15,860	17,972	20,602

*Average contribution rates**

Wage and salary income	Age			
	26 to 34	35 to 44	45 to 54	55 to 64
Less than \$20,000	4.6%	8.5%	12.3%	17.0%
\$20,000 to <\$40,000	4.5	4.9	6.5	9.1
\$40,000 to <\$50,000	4.7	5.2	6.6	8.9
\$50,000 to <\$100,000	5.8	6.1	7.3	9.1
\$100,000 to <\$200,000	6.4	6.7	7.6	9.0
\$200,000 or more	4.0	3.9	3.9	4.1

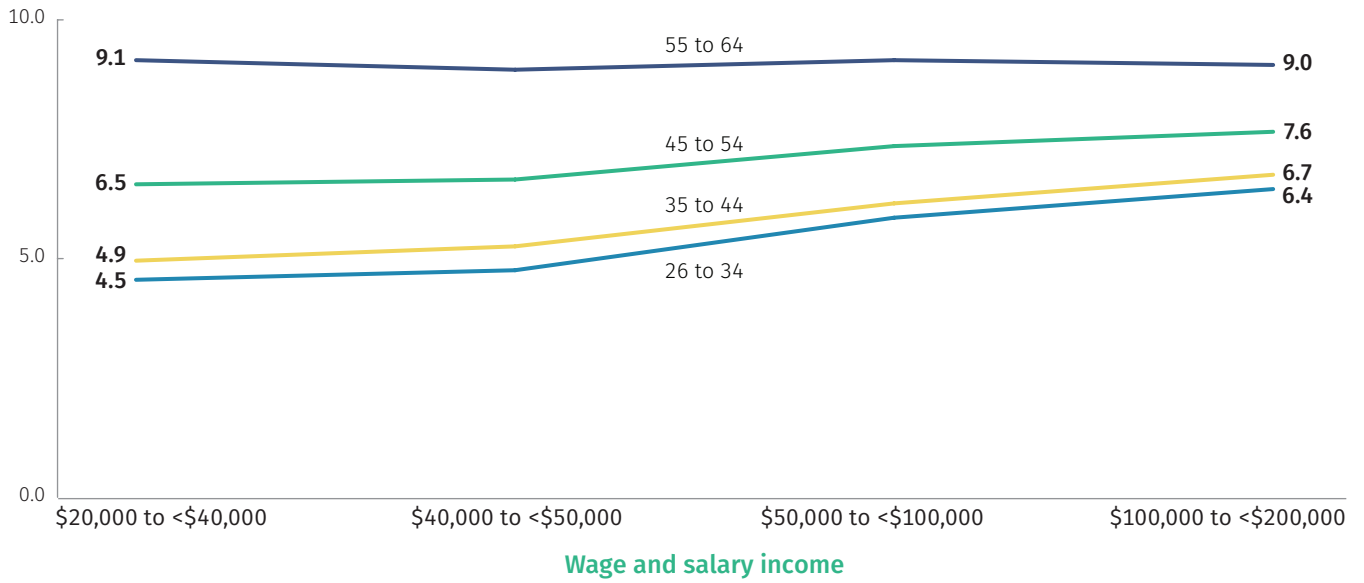
* The average employee contribution rate is calculated as total employee contributions divided by total Medicare wages and tips (reported in Form W-2 box 5).

Source: IRS Statistics of Income Division

FIGURE 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, 2016



* 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

- ¹ The data are available at www.irs.gov/statistics/soi-tax-stats-individual-information-return-form-w2-statistics.
- ² Brady and Bogdan 2014 primarily focused on the share of workers with an employer who 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.
- ³ The statistics on the share of households with resources from DB plans, DC plans, and IRAs are from Investment Company Institute tabulations of 2016 Federal Reserve Board Survey of Consumer Finances, as reported in Figure 8.4 of Investment Company Institute 2019.
- ⁴ The replacement rates 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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