

ICI Study Examines Who Gets Retirement Plans

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Workers Who Are Likely to Value Retirement Savings Have Pension Access

Washington, DC, October 31, 2011 - An updated study released today by the Investment Company Institute finds that most workers who are likely to have the ability to save and to be focused primarily on saving for retirement have access to an employer-provided retirement plan. In *Who Gets Retirement Plans and Why, 2010*, ICI uses the most recent data on pension coverage to update its analysis of the employee characteristics that make some employers more likely to offer, and some workers more likely to seek, compensation packages that include retirement benefits.

Study Illustrates Link Between Savings Goals and Access to Retirement Plans

The study 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 primarily focused on saving to fund education, to purchase a house, to fund other purchases, or to have cash on hand in case of unexpected need.

The fact that fewer younger workers cite retirement as the primary reason they save 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. Similarly, the fact that lower-income workers are less focused on retirement savings is consistent with the design of Social Security, which replaces a higher percentage of pre-retirement income for workers with low lifetime earnings. Indeed, the report notes the important role Social Security plays in retirement, suggesting it is vital to maintain a Social Security system that provides adequate benefits to workers with low lifetime earnings.

Older and higher-earning workers are more likely to save primarily for retirement, and are therefore more likely to prefer having a portion of their compensation in the form of retirement benefits rather than being paid fully in cash. The study finds that these workers are also much more likely to work for an employer that offers a plan. For example, of full-time, full-year workers aged 45 to 64 and earning \$25,000 a year or more in 2010, 74 percent had access to retirement plans through their own employers or their spouses' employers, and 93 percent of those with access participated.

"Policy discussions surrounding retirement often focus on the headline statistic that about 50 percent of America's workers are covered by a workplace retirement plan. But the percentage of the workforce with a retirement plan today is an underestimate of the percentage of workers who will reach retirement having accrued employer-provided retirement benefits," said Peter Brady, ICI senior economist and co-author of the study. "Many more workers will have access to a plan at some point in their career than is indicated by taking a snapshot of coverage at any single point in time."

Study's Findings Are Valuable for Policymakers

The study gives a framework to help explain the fact that small firms are less likely to sponsor retirement plans than large firms. To date, policies designed to encourage small employers to adopt retirement plans have focused on reducing the cost of providing a plan. While costs may play a role, this study shows that differences in workforce composition appear to be a major cause for the low rate at which small employers sponsor retirement plans.

As a group, workers at small firms differ considerably from those at large firms. For example, workers at small firms are less likely to work full-time and they have lower earnings than workers at large firms—factors associated with less ability and desire to set aside current income for retirement savings. Despite the differences between small firms and large firms overall, small firms that offer plans tend to have workers who are very similar to workers at large firms that offer plans. That is, small firms with an older and higher-earning workforce are just as likely to offer a plan as large companies with a similar workforce. In short, the characteristics of one's

coworkers are more of an influence on whether a plan is available than the size of one's employer.

The data analyzed are from the U.S. Census Bureau and U.S. Bureau of Labor Statistics' March 2011 Current Population Survey. The study was co-authored by Brady and ICI associate economist Michael Bogdan. Readers may review supplementary figures with additional detail at www.ici.org/info/per17-07_data.xls.

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