

ICI VIEWPOINTS

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Who Gets Retirement Plans and Why

By Peter Brady and Michael Bogdan

Most workers who are likely to have the ability to save and to be focused primarily on saving for retirement have access to employer-provided retirement plans, according to [research we just released](#). Following up on [a 2008 paper](#), we used the most recent data on pension coverage to update our 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.

Illustrating the Link Between Savings Goals and Access to Retirement Plans

We show 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 few 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. 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 of full-time, full-year workers aged 45 to 64 and earning \$25,000 a year or more in 2009, 74 percent had access to a retirement plan through their own employers or their spouses' employers, and 92 percent of those with access to a plan participated. Our report also notes the important role Social Security plays in the retirement picture, suggesting it is vital to maintain a Social Security system that provides adequate benefits to workers with low lifetime earnings.

Insights for Policymakers

When considering reform proposals, it is vital that policymakers understand the incentives that have shaped today's voluntary employer-based retirement system. This report can help foster that understanding.

For example, the study gives a new framework to help explain the fact that small firms are less likely to sponsor retirement plans than large firms. 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 current earnings and lifetime earnings than do workers at large firms—all factors associated with less ability and desire to set aside current income for retirement savings.

Despite these differences overall, workers at small firms that do offer plans are very similar—with regard to age, earnings, education, and other observable characteristics—to workers at large firms that offer plans. Conversely, workers at small firms that do not offer plans are very similar to workers at large firms that do not offer plans. In short, the analysis suggests that the characteristics of one's co-workers are more of an influence on whether a retirement plan is available than the size of one's employer.

- Read ICI's report, [Who Gets Retirement Plans and Why: An Update](#)
- Learn more about [401\(k\) plans](#).

- Read [Commitment to Retirement Security: Investor Attitudes and Actions](#)
- Find more ICI [retirement research](#).

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