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A More Accurate Evaluation of Retirement Plan Participation

By Miriam Bridges

What's the actual participation rate of Americans preparing for retirement through a workplace retirement plan? It's an important question, and one that ICI economists Peter Brady and Steven Bass shed some light on in their new analysis of tax data, "Who Participates in Retirement Plans, 2014."

The retirement plan participation rate—that is, the percentage of employees who participate in either a defined contribution (DC) plan or a defined benefit (DB) plan at work—is often used to evaluate the performance of the US voluntary employer plan system. But the participation rate understates the true scope and importance of these plans. In their careful analysis, Brady and Bass give two reasons for this understatement.

The first is that the most widely cited statistics undercount participation. But because it's the largest problem, we're going to focus here on the second reason: the 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.

The Link Between Savings Goals and Participation

Focusing on the headline participation rate obscures the fact that some workers may *rationally* choose jobs that do not offer a retirement plan, or they may *rationally* decide not to participate even if eligible. Younger workers may delay participating in a retirement plan until their earnings are higher, or until they have finished paying for their education, or finished saving for the down payment on a house. The very lowest-income workers may not choose to participate at any given time in their career because Social Security benefits replace a very high percentage of their average lifetime earnings.

The participation rate also does not account for the fact that some married workers who do not participate in a retirement plan have a spouse who does.

In their study, Brady and Bass look beyond the overall participation rate and show that most workers who are likely to have the ability and desire to save for retirement are accumulating resources in an employer-sponsored retirement plan. In 2014, the latest year for which data are available, 56 percent of workers aged 26 to 64 participated in an employer-sponsored retirement plan, and another 7 percent did not participate but had a spouse who did. Consistent with household savings goals, participation increases with both age and income. For workers aged 45 to 64 with income of $30,000 or more, 77 percent participated or had a spouse who participated.

Most Workers Accumulate Resources from Employer-Sponsored Plans

Relying on a snapshot of participation among all workers at a single point in time understates the importance to retirees of the resources generated by employer-sponsored retirement plans. This is because 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 in low paying jobs for their entire career. And some workers who reach retirement having never participated in a plan will have a spouse who did.

As a result, most Americans reach retirement having accumulated resources through an employer plan. In fact, 81 percent of working households aged 55 to 64 have accrued benefits in a DB plan, assets in a DC plan or individual retirement account (IRA), or both.

Exercising Caution

Brady and Bass's research suggests that policymakers should exercise caution when proposing reforms to a system in which most workers who are likely to be focused on saving for retirement already participate in a retirement plan, and in which most workers reaching retirement have resources from these plans.

The employer plan system can and should be improved. The writers suggest we should build on the strengths of the current system by, for example, filling in gaps in coverage by making it easier for employers to voluntarily offer retirement plans at work.

ICI's Retirement Resource Center offers this report and more information about the US retirement system and its strengths. Additionally, see Brady and Bass's work about Americans' spendable income after claiming Social Security, find Brady's work challenging many myths about retirement, or read about myths surrounding the US "retirement crisis."

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