Statistical Brief

From the Bureau of the Census
Survey of Income and Program Participation

Pensions: Planning for the Future

In 1984, two-thirds of American workers were covered by a pension plan provided by their employers.

The ability of the Social Security system to provide for the retirement income needs of a rapidly aging population has focused the attention of many working Americans on other pension plans. This Brief looks at the extent to which American workers 25 years old and over are covered by retirement plans other than Social Security. Covered workers are those who work for a firm that offers a pension plan even though all workers may not be eligible to participate. The data described here were collected during the last 4 months of 1984 in the Survey of Income and Program Participation.

In 1984, 53 million workers were employed by firms that offered a pension plan, and 43 million workers participated in these plans. Vesting refers to the eligibility to receive pension payments either at retirement or through a lump-sum payment and is usually determined by number of years on the job; 35 million workers reported that they were vested in a plan.

The current legal framework for employer-provided pension plans is the Employee Retirement Income Security Act (ERISA) passed in 1974. This law governs the administration of pension plans, protects their assets through the Pension Benefit Guaranty Corporation, and establishes the use of individual retirement accounts for persons not covered by an employer-provided plan. The character of current plans is very much determined by the regulations laid down by ERISA and succeeding legislation.

Pension plan coverage is linked to such job-related factors as type of industry and size of company.

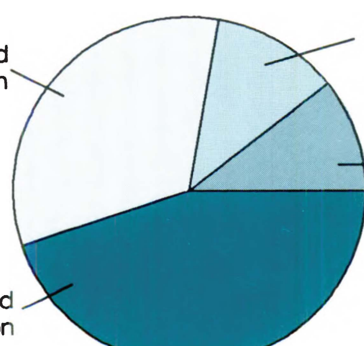
Employees of larger firms are far more likely to be covered than workers in smaller firms. Large firms (1,000 or more workers) have coverage rates of close to 90 percent, while in firms with less than 25 workers, only 1 in 4 workers is covered by a pension plan. Although workers in small companies represent less than one-quarter of the working population, they make up one-half of all workers not covered by a pension plan.

Workers in the agricultural and personal service industries have the lowest pension coverage rates: just over one-fifth of these workers are covered. Other industries with less than half their employees covered include business and repair services and retail trade. Nearly all public administration workers are covered by employer-sponsored pensions, with Federal and State government workers appearing to have somewhat higher pension coverage rates than workers employed by local governments. Other industries with relatively high (70 percent or more) coverage rates are public utilities, professional and related services, manufacturing, and mining.

Pension eligibility is closely tied to job tenure and hours worked.

Women and younger workers are more likely to have fewer years of service and women are more likely to work part-time than men. As a result, women have lower pension coverage rates than men, and workers 25 to 29 years old have lower coverage rates than workers 30 to 64 years old. Since earnings are

Pension Coverage of Workers: 1984



*Although two-thirds of workers work for companies that offer pension plans, some workers are not eligible to participate because of restrictions on length of service, hours worked, or job category. Because workers are not always certain about their pension eligibility, the distinction between these two groups may not be accurate.

SB-1-88 Issued January 1988

U.S. Department of Commerce
BUREAU OF THE CENSUS

Profile of IRA Owners

76% were covered by an employer-provided pension plan
59% were vested in a pension plan
19% earned less than $1,000 a month
22% earned $3,000 or more a month
11% also participated in a 401(k) plan

also related to years on the job and hours worked, pension coverage is lower for workers at the lower end of the earnings scale. (These workers are more likely to work in industries where coverage is low.) Less than half of workers who earn under $1,000 a month are covered by an employer-sponsored pension. In contrast, more than three-quarters of workers with monthly earnings of $1,000 or more work for companies that provide pensions. The median monthly earnings of workers covered by an employer-sponsored pension plan ($1,590) is considerably higher than the median for uncovered workers ($950).

Two-thirds of covered workers are vested in their plans.

Vesting is usually tied to number of years on the job, so older workers are more likely to be vested than younger workers. Less than half of covered workers aged 25 to 29 are vested, while three-quarters of covered 40-to-49-year-olds and four-fifths of 50-to-64-year-olds are vested. Male workers are more likely to be vested than female workers, largely because of job-related differences.

Most workers who own IRA's use them to supplement a pension plan rather than as a primary source of future retirement income.

Individual Retirement Accounts (IRA's) were first established in 1974 as a means of retirement savings for those not covered by a pension plan. In 1982, eligibility was expanded to include all workers. By 1984, one-fifth of workers 25 years old or over had IRA's. A large majority of workers with IRA's are also covered by a pension plan at work. Since IRA's represent a way of deferring current earnings in anticipation of future benefits, it is not surprising that workers who have IRA's earn considerably more than those who do not (median monthly incomes of $1,890 vs. $1,270). The Tax Reform Act of 1986 limits the use of IRA's for higher income workers who are covered by employer-provided pension plans by eliminating their tax-exempt status.

About 6 percent of all workers participate in employer-sponsored thrift savings plans, known as 401(k) plans. This participation rate is low in part because few employers offer such plans. A much smaller proportion of workers participate in both IRA and 401(k) plans.

Private pension plans had assets of $863 billion in 1983, according to the Employee Benefit Research Institute.

This tremendous amount represents the nest eggs of millions of workers. To protect these assets, Congress established the Pension Benefit Guaranty Corporation, a Federal agency that insures the assets of certain types of pension plans through premiums paid by employers. Recent failures of some pension plans have raised fears that commitments made now may not be met in the future. Congress is currently considering legislation to further strengthen our private pension system.

For Further Information on Pension Coverage

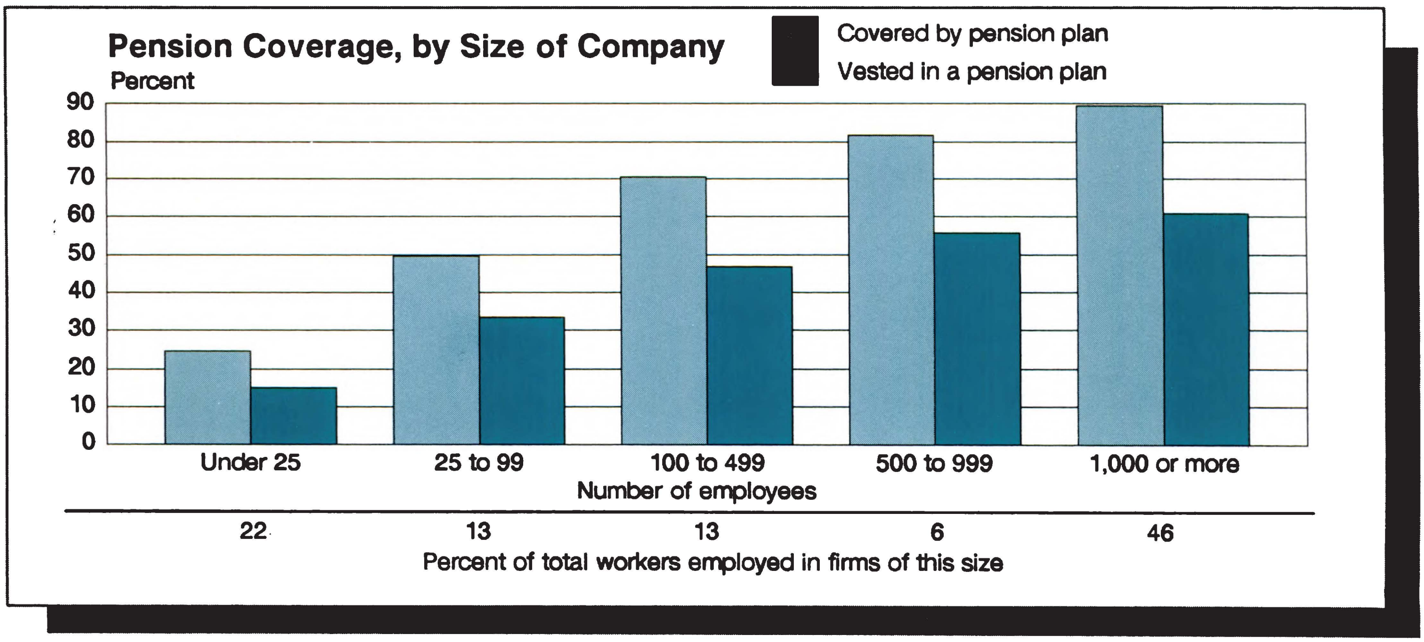
See: Current Population Reports, Series P-70, No. 12, *Pension Coverage and Retirement Income: 1984*

Contact: Chuck Nelson
(301) 763-5060

For Information on Statistical Briefs

Contact: Jennifer Marks
(301) 763-3814

This is one of a series of occasional reports providing timely data on specific policy-related issues. The Bureau of the Census conducts various demographic surveys of the U.S. population; this Brief presents data from one or more such surveys. The data are subject to various errors such as undercoverage of the population, processing errors, and respondent reporting errors. Certain measures, such as quality control programs, are implemented to reduce these errors. In addition, if each of the surveys was repeated with different samples of respondents, the results would vary from sample to sample. The results in this Brief have been tested to conform to the Bureau's statistical standards. Caution should be used when comparing these data to other data sets.



For sale by the Superintendent of Documents, U.S. Government Printing Office
Washington, D.C. 20402