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NOV 12 1991

Statistical Brief

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Pensions: Who Is Covered?

How many of us have an employer-provided financial "nest egg" for our retirement years? Many do, but far from all of us.

This Brief examines the extent to which the 84 million American wage and salary workers 25 years old and over were covered by retirement plans other than Social Security. These include both employer-provided and employee-directed plans, such as IRA's and 401(k)'s. It also takes a look at various factors which influence coverage rates. The data were collected by the Survey of Income and Program Participation (SIPP) in January-April 1987, and are compared to those collected in September-December 1984.

Most workers were covered by pension plans.

About two in three were covered by employer-provided pension plans in 1987, the same as in 1984. Covered workers are those whose employer offered a retirement plan for any employees. Included are workers who aren't eligible to participate due to restrictions on length of service, hours worked, or job category and those who chose not to participate. In 1987, 53 percent of all

workers participated in pension plans, down from 55 percent in 1984.

Numerous factors affect coverage rates.

- **Size of company:** Employees in larger firms have a much better chance of being covered than those in smaller firms. Pension coverage rates ranged from 89 percent in firms with 1,000 or more employees to only 23 percent in

firms with fewer than 25 employees.

- **Level of earnings:** Highly paid workers were more likely to be covered. Coverage rates ranged from 83 percent for those with monthly earnings of \$2,000 or more to 37 percent for those who earned under \$500 per month. Those covered by employer-sponsored plans had much higher median monthly earnings than those not covered: \$1,726 versus \$1,021.

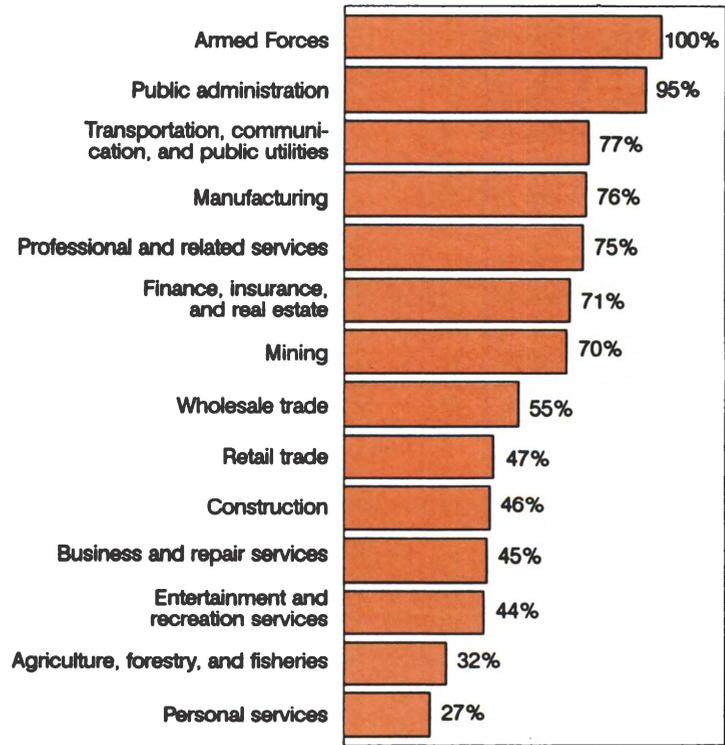


SB/91-21
Issued August 1991

U.S. Department of Commerce
Economics and Statistics Administration
BUREAU OF THE CENSUS

Pension Coverage Varies Widely by Industry

Wage and salary workers age 25 and above covered by employer-provided pension plan, by industry: 1987



- **Union status:** Union membership improved the chances of being covered. Nine in ten union workers were covered, compared to only six in ten non-union workers.
- **Race and Hispanic origin:** Black and White workers had the highest coverage rates (69 percent and 66 percent, respectively); half of Hispanic-origin workers were covered. There was no difference between the pension coverage rates of White and Black men. Among women, however, the pension coverage rate of Blacks (70 percent) was higher than that of Whites (63 percent).
- **Sex:** Men had a higher overall coverage rate than women (69 versus 64 percent), though for younger workers (those under the age of 30) pension coverage rates of men and women were about the same.

Fewer than half of workers were vested.

In 1987, 45 percent of all workers were vested in their plans, the same as in 1984. These workers were eligible to receive a lump-sum distribution at retirement or continuing payments during retirement. Vesting is usually linked to the number of years of service on a job. As a result, younger workers are less likely to be vested than older workers. While only 29 percent of workers under age 30 are vested, 48 percent of those age 35-39, 53 percent age 40-49, and 58 percent age 50-59 are.

More workers own IRA's and participate in 401(k) plans.

Individual Retirement Accounts (IRA's) were first established in 1974 as a means of retirement savings for those not covered by pension plans. In 1982, eligibility was extended to all workers. IRA's thus became a popular way

to supplement pension income: 77 percent of workers who had IRA's were also covered by employer-sponsored pension plans by 1987. IRA's became more popular between 1984 and 1987, with ownership rising from 21 percent to 24 percent. Ownership rose dramatically with earnings, from 13 percent of workers earning under \$1,000 monthly, to 62 percent earning over \$4,000.

About 10 percent of workers participated in employer-provided thrift plans, known as 401(k)'s, in 1987. This is up from 6 percent in 1984. Although most employers still don't offer them, large firms were more likely to offer them than small ones. Participation rates in 401(k)'s ranged from only 1 percent at firms employing under 25 people to 16 percent at those employing 1,000 or more.

Four percent of workers were both IRA and 401(k) participants in 1987 — up from 2 percent in 1984. These workers had higher earnings than other workers: \$2,872 versus \$2,332 for those with a 401(k) plan only, \$2,077 for those with an IRA only, and only \$1,286 for those with neither plan. Although IRA's and 401(k)'s provide an especially important retirement savings opportunity for

those not covered by employer-provided pensions, only 17 percent of the 28.2 million workers without pension coverage were IRA or 401(k) plan participants.

More Information: *Pensions: Worker Coverage and Retirement Benefits, 1987*, Current Population Reports, Series P-70, No. 25. For sale by U.S. Government Printing Office. Stock No. 803-044-000113-9. \$2.25.

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Profile of IRA and 401(k) Plan Participants: 1987

| Characteristic | IRA Owners | 401(k) Participants |
|---|------------|---------------------|
| Number (in millions) | 20.0 | 8.3 |
| Median monthly earnings | \$2,077 | \$2,332 |
| Percent earning under \$1,000 monthly | 16% | 8% |
| Percent earning \$3,000 or more monthly | 27% | 31% |
| Covered by employer-provided pension | 77% | 100% |
| Vested in employer-provided pension | 58% | 89% |
| Percent employed by firm with under 25 employees | 18% | 3% |
| Percent employed by firm with 1,000 or more employees | 49% | 70% |