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Worker Participation in Employer-Sponsored Pensions: A Fact Sheet

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Updated September 10, 2018

Congressional Research Service

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R43439

This fact sheet provides data on the percentage of U.S. workers who have access to and who participate in employer-sponsored pension plans. The data are from the National Compensation Survey (NCS), conducted by the Bureau of Labor Statistics (BLS).¹

Worker Participation in Employer-Sponsored Pensions

A pension is a voluntary benefit offered by some employers in which employees and employers defer a portion of current wages to receive as income in retirement. Pension plans that meet the requirements specified in the Internal Revenue Code are called qualified plans and receive specified tax advantages.² Employers may offer two types of pension plans: defined benefit (DB) plans or defined contribution (DC) plans. (Some employers offer both.) Since the late 1980s and early 1990s, DC pension plans have been more common than DB pension plans.³

In DB pension plans, participants receive monthly payments in retirement that are based on a formula that typically uses either (1) a combination of length of service, accrual rate, and average of final years' salary or (2) a flat dollar amount times the number of months or years in the plan. For example, a plan might specify that retirees receive an amount equal to 1.5% of their pay for each year of service, where the pay is the average of a worker's salary during his or her highest-paid five years.⁴

In DC plans—of which 401(k) plans, 403(b) plans, 457(b) plans, and the Thrift Savings Plan (TSP) are the most common—workers contribute a percentage of their wages to an individual account established by the employer. Employers may also contribute a match to the DC plan, which is an additional contribution equal to some or all of the worker's contribution. The account accrues investment returns and is then used as a basis for income in retirement.⁵

Table 1 contains both access and participation rates separately for workers in DB and DC plans (and for either plan). BLS indicates that employees are considered to have access to a benefit plan if it is available for their use and are considered participants if they have fulfilled any applicable service requirements and, where applicable, paid required contributions.

Not all workers who have access to a pension plan at work participate in the plan. In addition, the percentage of workers who participate in plans to which they have access differs between DB and DC plans. The take-up rate is defined as the percentage of workers who participate in a plan to which they have access. Because most DB plans are funded entirely from employer contributions,

¹ The National Compensation Survey (NCS) provides data on employer costs for employee compensation and the availability of employee benefits among U.S. workers. NCS's website is <http://www.bls.gov/ncs/home.htm>.

² For example, a pension plan is qualified if it meets Internal Revenue Code (IRC) requirements with respect to plan participation, vesting of benefits, and distribution of benefits. See 26 U.S.C. §401(a). Qualified plans are eligible for favorable tax treatment, such as deferred taxes on contributions and earnings.

³ For more information, see Sebastian Devlin-Foltz, Alice M. Henriques, and John Sabelhaus, *The Evolution of Retirement Wealth*, Board of Governors of the Federal Reserve System, 2015, <https://www.federalreserve.gov/econresdata/feds/2015/files/2015009pap.pdf>.

⁴ A worker with 20 years of service covered by a defined benefit (DB) plan that has an accrual rate of 1.5% with highest five years of salary of \$50,000 would receive a monthly pension benefit of \$1,250 ($\$50,000 / 12 \times 20 \times .015 = \$1,250$). As an example of a flat-rate benefit, a plan might offer benefit of \$50 per month of service in the plan, so an individual with 20 years (240 months) would receive an annual benefit of $\$50 \times 240 = \$12,000$.

⁵ Except for the Thrift Savings Plan (TSP), which is sponsored by the federal government, the plans are named for the section of the IRC that authorizes them. Private-sector employers sponsor 401(k) plans, public school systems and nonprofit organizations sponsor 403(b) plans, and state and local governments sponsor 457(b) plans. For more information, see <http://www.irs.gov/Retirement-Plans/Plan-Sponsor/Types-of-Retirement-Plans-1> or CRS Report R40707, *401(k) Plans and Retirement Savings: Issues for Congress*.

among workers that have access to a DB plan, the take-up rate is 83%.⁶ Among workers that have access to a DC plan, the take-up rate is 69%. Among the reasons for the lower take-up rates for DC plans compared with DB plans are as follows: (1) until recently, workers had to make an active decision to participate in DC plans, which meant that workers might delay (and eventually forget about) the decision to participate,⁷ and (2) because DC plans are at least partially funded by employee contributions, some workers might prefer to receive the money as current wages rather than delay the income until they retire.⁸

The data in **Table 1** are classified by a variety of attributes that highlight differences in pension plan participation rates among groups of workers. Key distinctions in the data include the following:

- A greater percentage of *full-time* workers have access to pension plans compared with *part-time* workers. Among part-time civilian workers, 38% had access to a pension plan; among full-time civilian workers, 81% had access to a pension plan.⁹
- A greater percentage of *state and local public-sector* workers (91%) have access to pension plans compared with *private-sector* workers (66%). State and local public-sector workers are more likely to have access to DB pension plans (86% compared with 18%), whereas private-sector workers are more likely to have access to DC pension plans (62% compared with 37%).¹⁰ In 2016, about 26% of state and local government workers did not participate in Social Security.¹¹
- Access rates are higher for workers in higher paying occupations. For example, 42% of private-sector workers in occupations with the *lowest 25% of average*

⁶ The access rate for civilian workers in DB plans is 28% and the participation rate is 23%, which means that 83% (or 23% / 28%) of workers participate in a DB plan to which they have access. (Participation rate differences with the BLS data are due to rounding. U.S. Department of Labor (DOL) data for 2011 (the most recent year for which data are available) indicated that among private-sector workers who participated in DB plans, 4% were required to make an employee contribution to the plans. Among public-sector workers who participated in DB plans, 79% were required to make an employee contribution to their DB pension plans. See U.S. Department of Labor and U.S. Bureau of Labor Statistics, *National Compensation Survey: Employee Benefits in the United States, March 2011* (Bulletin 2771), September 2011, at <http://www.bls.gov/ncs/ebs/benefits/2011/ebb10048.pdf>.

⁷ An increasing number of defined contribution (DC) plans have automatic enrollment, in which new participants are deemed to participate in accessible DC plans unless they opt out. Evidence suggests that about 10% of employees opt out of automatic enrollment DC plans. See, e.g., WorldatWork [sic] and the American Benefits Institute, *Trends in 401(k) Plans and Retirement Rewards*, March 2013, <https://www.americanbenefitscouncil.org/pub/?id=e613e2a9-cb3b-b159-6cff-6931bd1953a6>, and Jeffrey W. Clark, Stephen P. Utkus, and Jean A. Young, *Automatic Enrollment: The Power of Default*, Vanguard Research, January 2015, https://pressroom.vanguard.com/nonindexed/Automatic_enrollment_power_of_default_1.15.2015.pdf.

⁸ Workers who do not participate in DC plans for which they are eligible lose (1) the tax benefits from saving in a 401(k) plan and (2) any potential employer match to the employee's contributions. See, e.g., James J. Choi, David Laibson, and Brigitte C. Madrian, "\$100 Bills on the Sidewalk: Violations of No-Arbitrage in 401(k) Accounts," *The Review of Economics and Statistics*, vol. 93, no. 3 (August 2011), pp. 748-763.

⁹ Civilian workers are defined by the Bureau of Labor Statistics (BLS) as all private industry and state and local government workers. Federal government, military, and agricultural workers are excluded. See <http://www.bls.gov/bls/glossary.htm#C>.

¹⁰ The NCS refers to public-sector workers as state and local government workers. Nearly all federal civilian employees are covered by the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). For more information, see CRS Report 98-810, *Federal Employees' Retirement System: Benefits and Financing*.

¹¹ See U.S. Bureau of Labor Statistics, *National Compensation Survey: Retirement Plan Provisions in State and Local Government in the United States, 2016*, April 2017, Table 5, <https://www.bls.gov/ncs/ebs/detailedprovisions/2016/ownership/govt/ebb10060.pdf>.

wages participate in employer-sponsored pensions, whereas 88% of workers in occupations in the *highest 25% of average wages* do.

- Access rates increase as the size of workers' firms increases. For example, 49% of private-sector workers in *firms with fewer than 50 employees* participate in employer-sponsored pensions, whereas 89% of workers in *firms with 500 or more employees* do.

Table I. Access and Participation Rates in Employer-Sponsored Pension Plans, March 2017

| | | Either Defined Benefit or Defined Contribution | | Defined Benefit | | Defined Contribution | | |
|-------------------------------------|--|--|---------------|-----------------|---------------|----------------------|---------------|--|
| | | Access | Participation | Access | Participation | Access | Participation | |
| Civilian Workers ^a | All workers | 70% | 54% | 28% | 23% | 59% | 40% | |
| | Full-time | 81% | 65% | 33% | 28% | 68% | 48% | |
| | Part-time | 38% | 22% | 11% | 8% | 32% | 16% | |
| Private-Sector ^b Workers | All workers | 66% | 50% | 18% | 15% | 62% | 44% | |
| | Full-time | 77% | 60% | 22% | 18% | 73% | 54% | |
| | Part-time | 38% | 21% | 8% | 5% | 33% | 17% | |
| | Union | 92% | 82% | 71% | 66% | 55% | 44% | |
| | Nonunion | 64% | 47% | 13% | 9% | 63% | 45% | |
| | Average Wage of Occupation | | | | | | | |
| | Lowest 25% | 42% | 21% | 6% | 3% | 39% | 19% | |
| | Second 25% | 66% | 46% | 13% | 10% | 62% | 41% | |
| | Third 25% | 78% | 64% | 23% | 19% | 73% | 56% | |
| | Highest 25% | 88% | 77% | 35% | 29% | 82% | 70% | |
| | Number of Employees at Place of Employment | | | | | | | |
| 1 to 49 | 49% | 34% | 7% | 6% | 47% | 32% | | |
| 50 to 99 | 65% | 46% | 14% | 11% | 60% | 41% | | |
| 100 to 499 | 79% | 58% | 20% | 16% | 72% | 51% | | |
| 500 or more | 89% | 76% | 43% | 36% | 83% | 66% | | |

| | | Either Defined Benefit or Defined Contribution | | Defined Benefit | | Defined Contribution | |
|------------------------------------|------------------|--|---------------|-----------------|---------------|----------------------|---------------|
| | | Access | Participation | Access | Participation | Access | Participation |
| | All workers | 91% | 80% | 86% | 74% | 37% | 16% |
| State and Local Government Workers | Full-time | 99% | 87% | 94% | 81% | 40% | 18% |
| | Part-time | 46% | 39% | 40% | 35% | 16% | 7% |
| | State government | 96% | 83% | 91% | 76% | 49% | 21% |
| | Local government | 90% | 79% | 84% | 74% | 33% | 15% |

Source: March 2017 National Compensation Survey (NCS). Data on civilian workers are available at <http://www.bls.gov/ncs/ebs/benefits/2017/ownership/civilian/table02a.htm>; private-sector workers at <http://www.bls.gov/ncs/ebs/benefits/2017/ownership/private/table02a.htm>; and state and local government workers at <http://www.bls.gov/ncs/ebs/benefits/2017/ownership/govt/table02a.htm>.

Notes: Definitions are from the NCS's Glossary of Employee Benefit Terms, available at <http://www.bls.gov/ncs/ebs/glossary20152016.htm>, and BLS Information Glossary, at <http://www.bls.gov/bls/glossary.htm#C>.

- a. Defined by BLS as all private-industry and state and local government workers, excluding federal government, military, and agricultural workers.
- b. Referred to in the NCS as private-industry workers, excluding agricultural workers and private households.
- c. Referred to in the NCS as public-sector workers, excluding federal workers.

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Acknowledgments

Emma Sifre provided assistance in updating this report.

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