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WHAT'S INSIDE

Peter Brady, ICI Senior Economist, and Michael Bogdan, ICI Associate Economist, prepared this report.

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This paper is an update to "Who Gets Retirement Plans and Why," originally published in September 2008 and updated in March 2011. Supplemental tables are also available, which provide all the data needed to update the full set of figures included in the original study.

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Who Gets Retirement Plans and Why, 2012

KEY FINDINGS

- **Most workers who are likely to have the ability to save and to be focused primarily on saving for retirement are covered by an employer-provided retirement plan.** Of those most likely to desire to save for retirement in the current year, nearly three-quarters had access to a pension plan through their own employer or their spouse's employer, and 93 percent of those with access participated.

- **Younger and lower-income households are more likely to report that they save primarily for reasons other than retirement—for example, to fund education, to purchase a house, to fund other purchases, or to have cash on hand in case of an unexpected need.** Economic analysis suggests that these preferences are rational. Older and higher-earning workers are more likely to save primarily for retirement, and thus are more likely to prefer having a portion of their compensation in the form of retirement benefits rather than fully in cash.

- **Access to retirement plans at work is not randomly distributed throughout the workforce.** The probability that an employee works for a firm that sponsors a plan is highly related to the employee's characteristics. In particular, employees who work for firms that sponsor plans are more likely to be older, have higher earnings, and work full-time for a full year.

- **Workers at small employers that sponsor retirement plans are as likely to participate as workers at large employers sponsoring retirement plans.** Although only 17 percent of workers at firms with fewer than 10 employees have an employer that sponsors a plan—compared with 68 percent of workers at firms with 1,000 employees or more—if a firm sponsors a plan, approximately 80 percent of employees participate, regardless of firm size.

- **Differences in workforce composition appear to be a primary cause for the lower rate at which small employers sponsor retirement plans.** As a group, the characteristics of small-firm employees differ substantially from the characteristics of large-firm employees. Nevertheless, workers at small firms that sponsor plans are very similar to workers at large firms that sponsor plans, and workers at small firms that do not sponsor plans are very similar to workers at large firms that do not sponsor plans.

Key findings continued on the next page

» **It is of vital importance to maintain a Social Security system that provides adequate benefits to workers with low lifetime earnings.** Even the best-designed voluntary private-sector retirement system is unlikely to provide adequate resources to fund retirement consumption for workers with inadequate resources to fund consumption in their working years.

Introduction

Increasing the number of employers that sponsor workplace retirement plans, as well as employee participation at firms that currently offer plans, has been a focus of public policy development. As the retirement industry and policymakers try to increase coverage, it is important to understand the motives at play, including why more employers do not currently sponsor plans. To that end, it is necessary to understand which workers currently have access to and participate in employer-sponsored retirement plans, and why certain employees desire, and certain employers offer, compensation in the form of retirement benefits.

Which Workers Want Retirement Benefits?

Workers search for jobs that offer them the most valuable compensation packages. Individuals who wish to save for retirement value pension benefits because the benefits offer favorable tax treatment and other advantages such as the pooling of investments. However, because of the restrictions and tax penalties placed on accessing retirement benefits prior to retirement, some individuals who are not focused on saving for retirement would prefer to have compensation that consists only of cash to an otherwise equivalent compensation package that includes both cash and pension benefits.

Why Do Firms Sponsor Retirement Plans?

Because employers compete with one another to hire workers, they create compensation packages that will help them attract and retain qualified workers. In structuring compensation, employers can compensate their workers with cash or noncash benefits, such as retirement plans. However, the amount of compensation they can offer their employees is limited by the need to keep the products and services that they sell competitively priced. Therefore, an employer is more likely to offer retirement benefits as part of the compensation package if their workforce values such benefits. It is reasonable to predict that the likelihood of a firm offering retirement benefits is greater if a higher proportion of its workforce has the ability to save and is focused on saving for retirement.

This paper is a summarized update to “Who Gets Retirement Plans and Why,” first published in September 2008 (available at www.ici.org/pdf/per14-02.pdf). For the most recent detailed analysis, see the March 2011 publication, “Who Gets Retirement Plans and Why: An Update” (available at www.ici.org/pdf/per17-03.pdf).

As part of this update, additional tabulations that provide the detailed data needed to replicate the figures contained in the March 2011 report for the years 1979 to 2012 are available in the supplemental tables (available at www.ici.org/info/per19-06_data.xls).

More formally, a firm sponsors a retirement plan if the associated reduction in the firm's direct compensation costs (cash compensation plus retirement benefits) is sufficient to cover the costs incurred by the firm to set up and administer the plan. A firm would not offer retirement benefits if doing so would increase their total compensation costs. Total compensation costs would increase if the costs incurred by the firm to set up and administer a retirement plan were greater than the associated reduction in the firm's direct compensation costs (cash compensation plus retirement benefits that accrue to employees). This would be the case if a firm's employees valued retirement benefits no more highly than cash compensation. It also would be the case if a firm's employees valued retirement benefits more highly than cash compensation, but the costs incurred by the firm to set up and administer a retirement plan would be greater than the associated reduction in the firm's direct compensation costs.

How the Terms *Pension Plan* and *Retirement Plan* Are Used in This Report

Often the term *pension plan* is used to refer to a traditional defined benefit (DB) plan, and *retirement plan* is used to refer to a defined contribution (DC) plan. In this *ICI Research Perspective*, the two terms are used interchangeably. Specifically, the term *pension plan* or *retirement plan* refers to both DB plans and DC plans, including 401(k) plans.*

The Department of Labor has stated:

> *"The Employee Retirement Income Security Act (ERISA) covers two types of pension plans: defined benefit plans and defined contribution plans….Examples of defined contribution plans include 401(k) plans, 403(b) plans, employee stock ownership plans, and profit-sharing plans."*†

The Current Population Survey (CPS), the primary source of the data on pension coverage used in this *ICI Research Perspective*, also does not distinguish between DB plans and DC plans when asking whether a worker's employer offers a plan.

The question for pension coverage in the March CPS is:

> *Other than Social Security, did [any] employer or union that (name/you) worked for in [the past year] have a pension or other type of retirement plan for any of its employees?*

* The Internal Revenue Code makes distinctions among pension, profit-sharing, and stock bonus plans. And, because most 401(k) plans are profit-sharing plans, they would be distinguished from pension plans under tax law. However, the distinction between the plans is not because one type is a DB plan and one is a DC plan. Rather, under tax law, the primary difference between pension plans and profit-sharing plans is that employer contributions to DC pension plans cannot be based on company profits, whereas employer contributions to profit-sharing plans may be based on company profits—although they are not required to be. (See 26 C.F.R. § 1.401-1 "Qualified pension, profit-sharing, and stock bonus plans.") For example, money purchase plans are a type of DC plan and they are classified as pension plans under tax law. In general, pension, profit-sharing, and stock bonus plans are governed by many of the same sections of the Internal Revenue Code.

† See www.dol.gov/dol/topic/retirement/typesofplans.htm.

Why Do Households Save?

Analysis of survey data shows that younger and lower-income households were less likely to cite retirement as the primary reason they save. These households were more likely to be focused primarily on saving to fund education, to purchase a house, to fund other purchases, or to have cash on hand for an unexpected need (Figure 1).

The tendency of younger workers to focus less on retirement savings 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.

The structure of government transfer programs is consistent with lower-income households focusing less on retirement savings. For example, most government programs aimed at lower-income households attempt to supplement income and increase these households' current consumption; it is unlikely that these same households are able to reduce current consumption to save for retirement. Moreover, Social Security benefits replace a higher percentage of pre-retirement earnings for individuals with low lifetime earnings, making lower earners less likely to desire to save for retirement at any given age.

FIGURE 1

Most Important Reason for Family's Savings

Percentage of households with household head aged 21 to 64 by household income and age of household head, 2010

		Aged 21 to 29	Aged 30 to 44		Aged 45 to 64	
Reason	**All**	**All household income**	**Below median household income[1]**	**Above median household income[1]**	**Below 25th percentile of household income[2]**	**Above 25th percentile of household income[2]**
Retirement	**32%**	**11%**	**14%**	**33%**	**26%**	**49%**
Liquidity	**34**	**39**	**37**	**35**	**33**	**30**
Education, home, or purchases	**24**	**32**	**35**	**25**	**28**	**15**
Education	10	9	16	15	7	6
Buy own home	4	11	6	3	3	1
Purchases	10	12	12	6	18	7
Other	**7**	**16**	**11**	**6**	**7**	**4**
Investments	1	2	1	1	1	1
For the family	6	13	9	5	5	2
No particular reason	1	2	1	0	0	1
Can't/Don't save	**3**	**2**	**4**	**1**	**7**	**2**
Total	**100**	**100**	**100**	**100**	**100**	**100**

[1] Among households with household heads aged 21 to 64, the median 2009 household income was $50,000.

[2] Among households with household heads aged 21 to 64, the 25th percentile of 2009 household income was $26,000.

Note: Components may not add to the totals because of rounding.

Source: Investment Company Institute tabulations of the 2010 Survey of Consumer Finances

In addition to age and income, part-time and part-year workers are unlikely to desire to save for retirement in the current year. To some degree, this is because the vast majority of these workers have low earnings and likely will receive a high earnings replacement rate from Social Security. But, in part, this also is because many workers who are currently working part-time or part-year typically may work full-time or for a full year. If earnings in the current year are below typical earnings, individuals are unlikely to want to reduce current consumption further by saving—for retirement or for any reason.

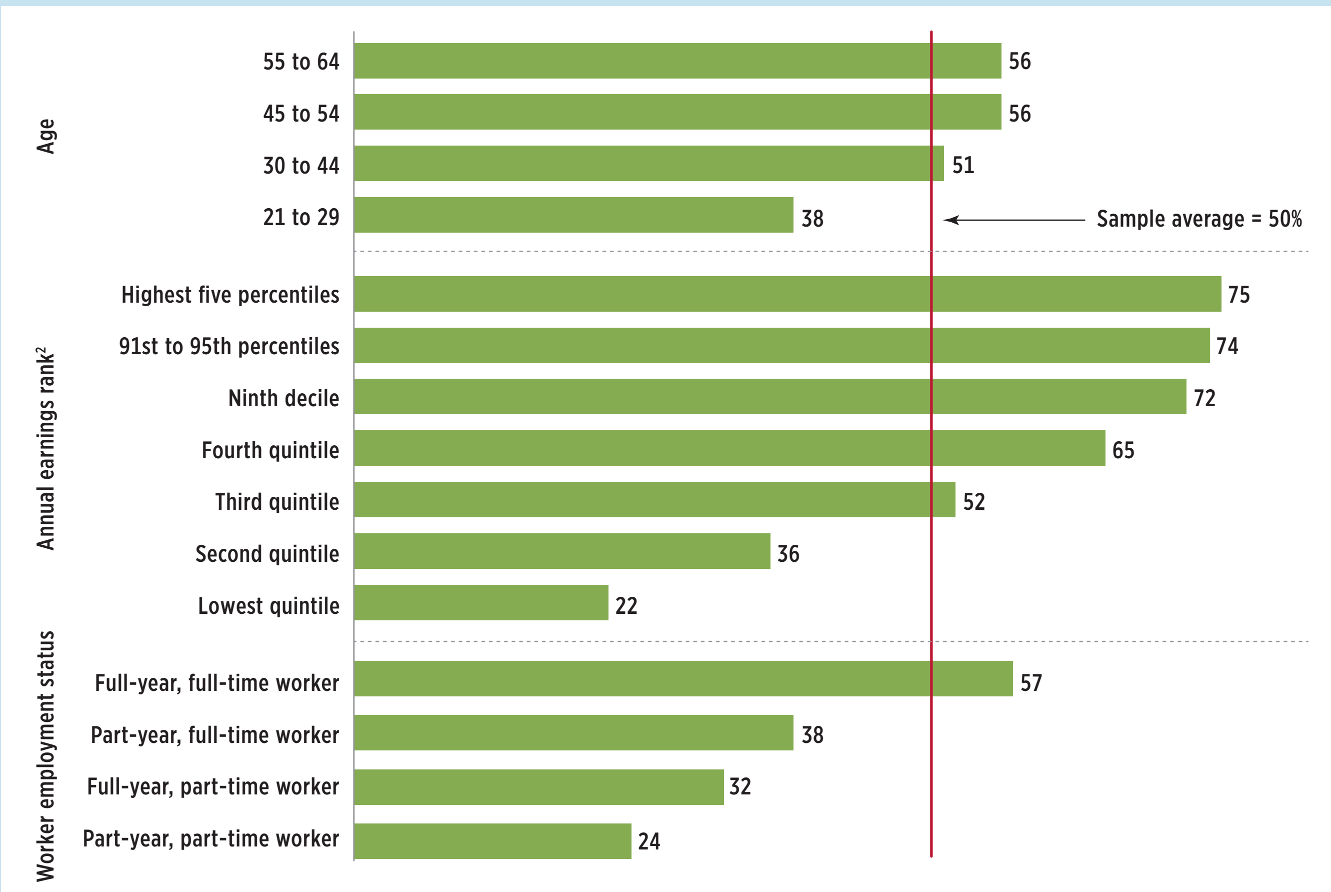
Are Certain Types of Workers More Likely to Work for Firms with Retirement Plans?

In 2012, 50 percent of private-sector wage and salary workers aged 21 to 64 reported that their employers sponsored retirement plans (Figure 2). However, access to employer-sponsored retirement plans is not distributed randomly throughout the workforce. Consistent with the focus of households on saving for retirement, younger workers, lower-earning workers, part-time workers, and part-year workers are less likely to work for firms that sponsor retirement plans.

FIGURE 2

Probability That Employers Sponsor Retirement Plans by Various Employee Characteristics

Percentage of private-sector wage and salary workers aged 21 to 64 whose employers sponsor plans,[1] 2012



[1] Survey respondents are asked whether any worker at their employer is eligible to participate in a retirement plan. The figure plots the percentage of employees answering affirmatively.

[2] The lowest earnings quintile includes individuals with $15,000 of earnings or less; the second quintile includes those with earnings of $15,000 to $26,000; the middle quintile includes those with earnings of $26,000 to $40,000; the fourth quintile includes those with earnings of $40,000 to $64,000; the ninth decile includes those with earnings of $64,000 to $90,000; the 91st to 95th percentiles includes those with earnings of $90,000 to $120,000; the highest five percentiles include those with earnings of $120,000 or more. For more detailed information on the earnings rank calculations, see the notes page in the supplemental tables (available at www.ici.org/info/per19-06_data.xls).

Source: Investment Company Institute tabulations of March 2013 Current Population Survey

Thirty-eight percent of workers aged 21 to 29 worked for employers that sponsored retirement plans in 2012, compared with 56 percent of workers aged 55 to 64 (Figure 2, top panel). Twenty-two percent of workers in the lowest quintile of annual earnings ($15,000 or less) worked for employers with retirement plans, compared with 73 percent of workers in the highest quintile ($64,000 or more) (Figure 2, middle panel). Employees also were more likely to report that they worked for an employer that sponsored a plan if they were more fully engaged in the workforce: 57 percent of employees who worked full-time for a full year reported that their employer sponsored a plan in 2012, compared with 24 percent of employees who worked part-time for part of the year (Figure 2, bottom panel).

The fact that worker characteristics are related to the employer's decision to sponsor a plan suggests that worker demand* for retirement benefits plays a key role in determining which employers sponsor retirement plans.

The starkest difference in sponsorship across groups of workers, however, is not related to a worker characteristic, but rather to a characteristic of the employer—namely, employer size as measured by the number of employees. Only 17 percent of workers at firms with fewer than 10 employees reported that their employer sponsored a retirement plan in 2012, compared with 68 percent at firms with 1,000 or more workers (Figure 3, left panel). Why sponsorship rates vary so markedly by firm size is examined below.

Are Certain Types of Workers More Likely to Participate in Retirement Plans?

As with employer sponsorship, there are significant differences between groups of workers in the proportion that participate in a retirement plan. For most characteristics used to classify workers, these differences are primarily driven not by the employee's decision to participate in a plan if one was offered, but by his or her employer's decision to offer a plan. For example, the percentage of workers participating in a plan ranged from 13 percent for workers at firms with fewer than 10 employees to 55 percent for workers at firms with 1,000 or more employees (Figure 3, right panel). However, this pattern primarily is driven by differences in sponsorship rates. Of those working for a firm that sponsored a plan, participation rates averaged 80 percent and varied little by firm size, ranging from 78 percent to 81 percent (Figure 3, middle panel).

Alternative Explanations for Why Retirement Plan Sponsorship Rates Differ by Firm Size

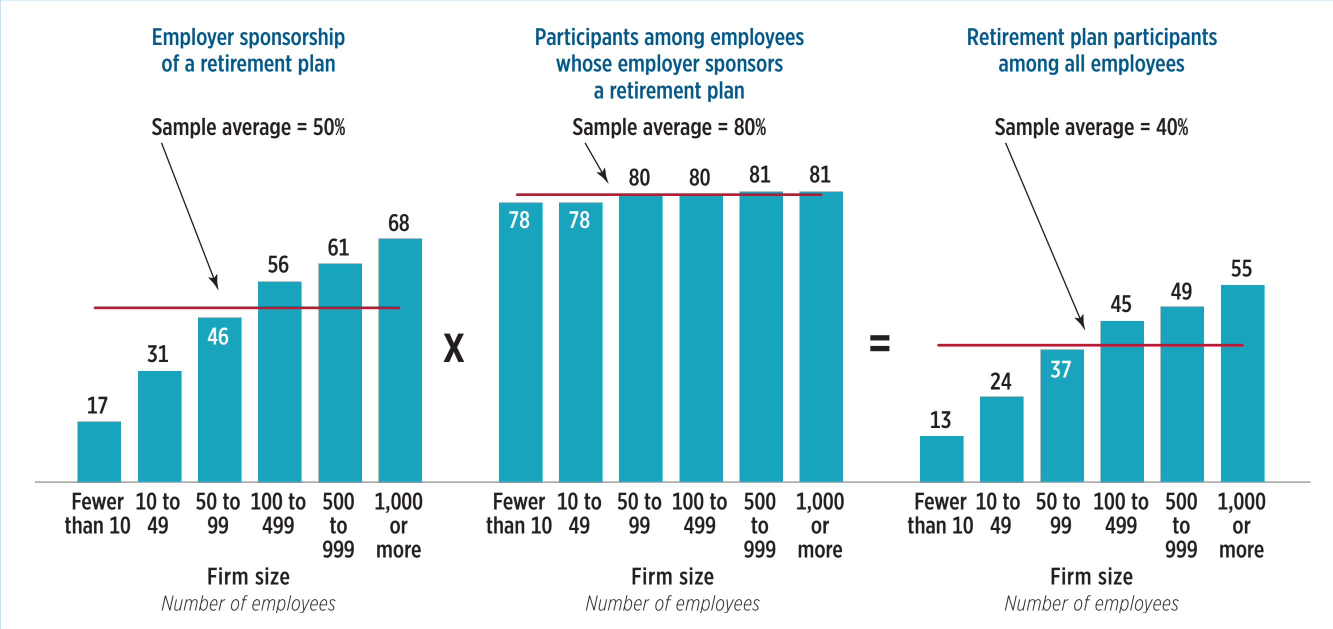
Given the importance of the employer's decision to sponsor a plan and the focus of public policy on increasing sponsorship by small firms, this section examines differences in sponsorship rates by firm size in more detail. There are two potential explanations for why small firms are less likely to sponsor retirement plans: (1) small firms incur higher per-employee administrative costs than large firms and (2) small-firm employees do not value retirement benefits as highly as large-firm employees do.

* In this paper, the term *demand* is used in accordance with its meaning in economic theory. An individual worker is said to "demand" pension benefits if he or she would prefer a compensation package that combines cash and pension benefits to a package with an equal amount of total compensation but consisting of cash alone. If an individual demands a pension, it in no way implies that the worker communicates this preference in any direct manner to his or her employer or that the individual will be offered a pension by an employer.

FIGURE 3

Retirement Plan Sponsorship and Participation Rates by Firm Size

Percentage of private-sector wage and salary workers aged 21 to 64 by firm size (number of employees), 2012



Note: Survey respondents are asked whether any worker at their employer is eligible to participate in a retirement plan. The first panel plots the percentage of employees answering affirmatively. Survey respondents who say their employer offers a plan are then asked if they participate in the plan. The second panel plots the percentage of individuals whose employer sponsors a plan and who answer the second question affirmatively. The third panel reports the percentage of all respondents who participate in a plan, including those who said that their employer does not sponsor a plan.

Source: Investment Company Institute tabulations of March 2013 Current Population Survey

If the costs of setting up and administering a plan have a significant fixed component that does not vary with the number of employees covered, then small firms will have much higher per-employee costs associated with a plan than large firms. In this case, even if employees at small firms value retirement benefits as much as employees at larger firms that sponsor plans, smaller firms will be less likely to sponsor a plan because of higher per-employee administrative expenses.

Alternatively, small firms may have lower sponsorship rates because small-firm employees are systematically different from large-firm employees. Specifically, they are less likely to desire to save for retirement in the current year and thus place less value on employer-provided retirement benefits. In fact, many may prefer cash wages to retirement benefits. On net, if total compensation costs, including administrative costs, are higher with retirement benefits, employers will choose not to offer plans.

In particular, for firms with few employees who desire to save for retirement, complying with nondiscrimination rules, rather than administrative costs, may be the largest barrier to adopting a plan. Nondiscrimination rules are designed to ensure that pension benefits do not disproportionately accrue to highly compensated employees. This is accomplished by linking the benefits received by high-paid workers to the benefits received by low-paid workers within a given firm. However, if few of a firm's low-paid workers choose to contribute to a 401(k) plan, the consequence of this linkage is that the amount high-paid employees at that firm can contribute is severely restricted. For these firms, the end result is that offering a 401(k) plan would provide little benefit to any employee.

Although both high fixed costs and differences in workforce composition could explain the observation that smaller firms are less likely to sponsor a retirement plan, the two alternative explanations generate other predictions that differ. If the fixed costs associated with starting up and administering retirement plans are the primary barrier to small firms adopting a plan, then noticeable differences should exist in sponsorship rates by firm size even if firms are similar in other observable characteristics. In contrast, if the primary reason small firms are less likely to sponsor a plan is that small-firm employees place a lower value on benefits relative to cash compensation compared to large-firm employees, the workforce composition of small firms should be noticeably different from that of large firms, and these differences should be consistent with small-firm employees having less desire to save for retirement in the current year.

Employees with Retirement Plans at Firms of All Sizes Have Similar Characteristics

For ease of exposition, this section will refer to firms with fewer than 100 employees as "small firms" and firms with 100 employees or more as "large firms."*

Despite substantial differences in worker characteristics by firm size in the aggregate, small firms that sponsor retirement plans have workers who are similar to workers at large firms that sponsor plans. Similarly, large firms that do not sponsor plans have workers who are similar to workers at small firms that do not sponsor plans.

For example, controlling for whether or not employers sponsor retirement plans, there is very little difference in the age distribution of employees between small firms and large firms (Figure 4, top panel). However, across all firm sizes, workers at firms that do not sponsor plans are younger: 30 percent of workers at firms without plans are 21 to 29 years of age, compared with 18 percent of workers at firms that offer plans.

Twenty-six percent of employees at small firms that sponsor plans are in the lowest two quintiles of annual earnings ($26,000 or less), compared with 22 percent of employees at large firms that sponsor plans (Figure 4, middle panel). Regardless of firm size, employees at firms that do not sponsor plans earn substantially less: 59 percent of employees at small firms that do not sponsor plans and 53 percent of employees at large firms that do not sponsor plans are in the lowest two quintiles of annual earnings.

Firms that do not sponsor retirement plans also have higher proportions of part-time or part-year employees (Figure 4, bottom panel). Of firms that sponsor plans, 77 percent of employees at firms with fewer than 50 employees are full-time, full-year workers, compared with around 81 percent of workers at other firms. Regardless of firm size, firms that do not offer plans have fewer full-time, full-year workers. Of firms that do not sponsor plans, the smallest and largest firms have the lowest percentage of full-time, full-year workers: 56 percent of workers at firms with fewer than 50 employees; 62 percent of workers at firms with 50 to 99 employees; 64 percent of workers at firms with 100 to 999 employees; and 60 percent of workers at firms with 1,000 or more employees.

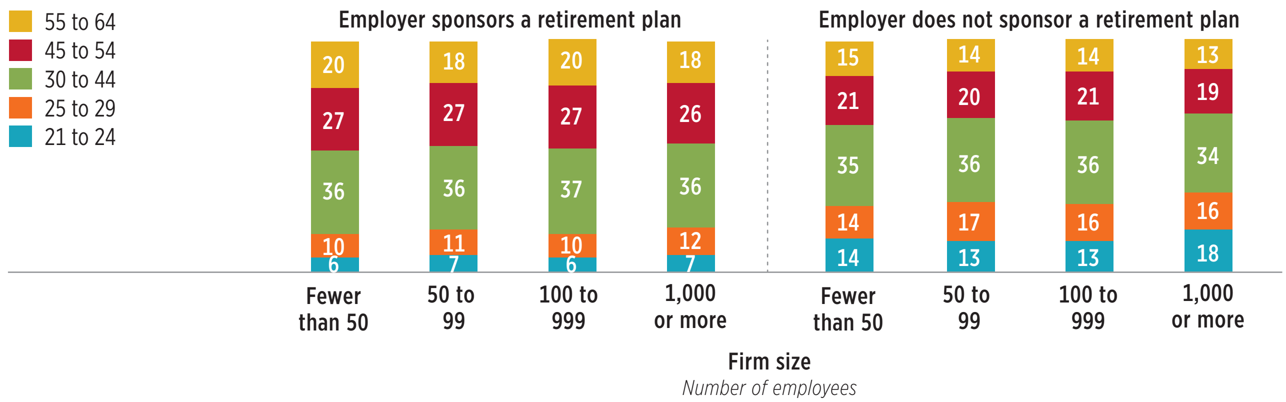
* For this reason, the numbers reported in the text are not reported directly on the figures (because they are an average of the categories presented).

FIGURE 4

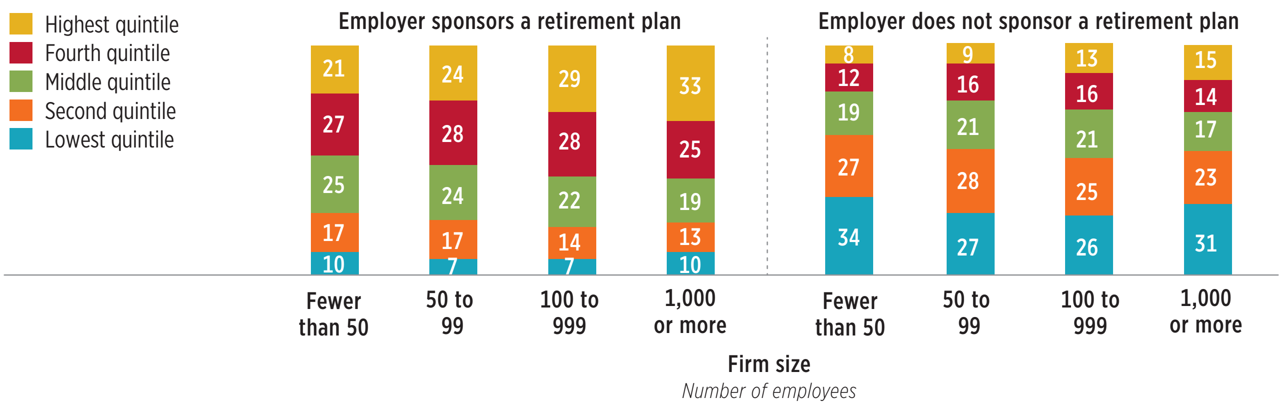
Many Employee Characteristics Are More Associated with Employer Retirement Plan Sponsorship Than Firm Size

Percentage of private-sector wage and salary workers aged 21 to 64 by various characteristics, 2012

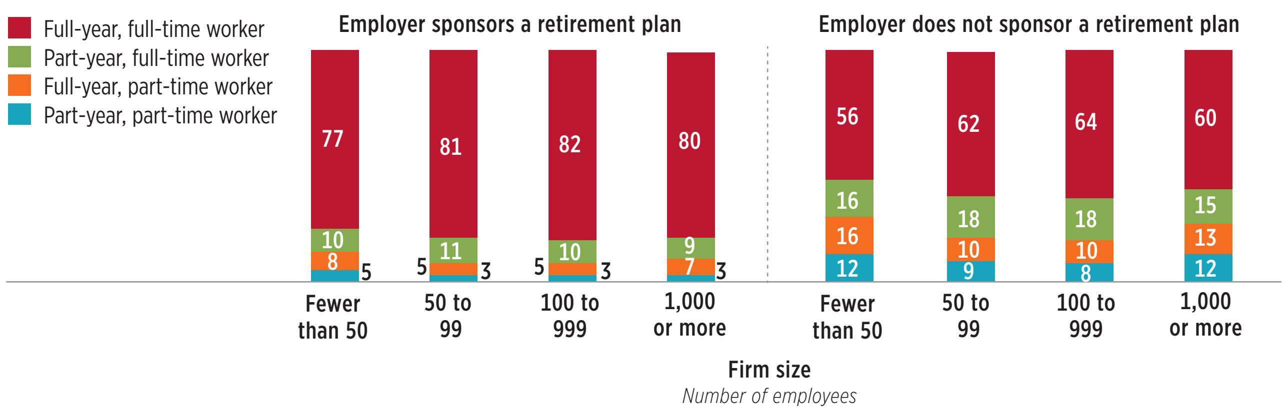
Employee age by employer size and employer retirement plan sponsorship



Employee annual earnings rank* by employer size and employer retirement plan sponsorship



Worker employment status by employer size and employer retirement plan sponsorship



*The lowest earnings quintile includes individuals with $15,000 of earnings or less; the second quintile includes those with earnings from $15,000 to $26,000; the middle quintile includes those with earnings from $26,000 to $40,000; the fourth quintile includes those with earnings from $40,000 to $64,000; the highest quintile includes those with earnings from $64,000 or more. For more detailed information on the earnings rank calculations, see the notes page in the supplemental tables (available at www.ici.org/info/per19-06_data.xls).

Note: Components may not add to 100 percent because of rounding.

Source: Investment Company Institute tabulations of March 2013 Current Population Survey

Although both administrative costs and workforce composition are likely to influence an employer's decision to sponsor a retirement plan, the data suggest that the low sponsorship rate at small firms is more likely due to differences in demand for retirement benefits by the firms' employees than to the fixed costs associated with starting up and administering a plan.

Reexamining Workers at Firms That Do Not Sponsor Retirement Plans

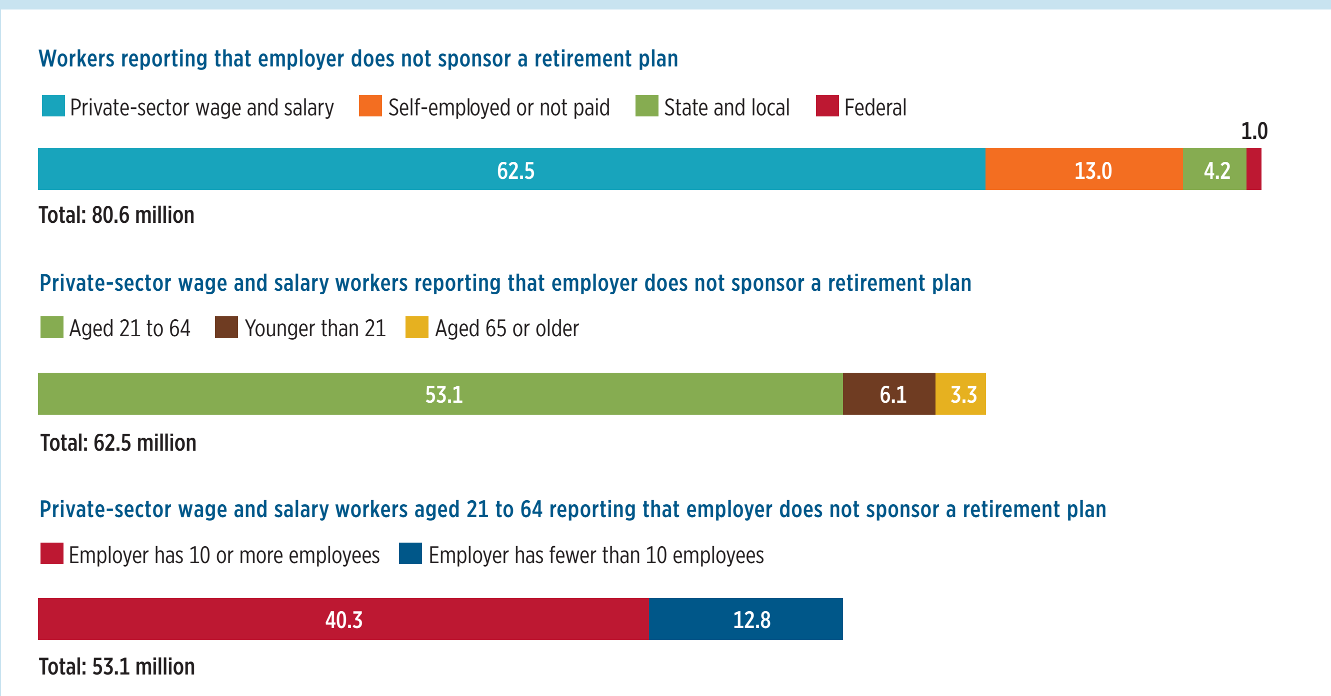
Figure 5 examines the data underlying the often-cited statistic that more than 70 million American workers do not have access to employer-sponsored retirement plans. In 2012, 80.6 million workers reported that their employers did not sponsor retirement plans. However, not all of these workers were private-sector wage and salary workers. Among government workers, 1.0 million federal government workers and 4.2 million state and local government workers reported that their employers did not sponsor retirement plans. Another 13.0 million workers without an employer-sponsored retirement plan were self-employed and approximately 149,000 reported that they worked without compensation of any type. Of the 80.6 million without a work-based retirement plan, 62.5 million were private-sector wage and salary workers. This study focuses on private-sector wage and salary workers between the ages of 21 to 64. Within this group, 53.1 million reported that they worked for employers that did not sponsor retirement plans.

Figure 6 categorizes these 53.1 million workers based on the likelihood that they would be focused on saving for retirement. Among this group, 21.7 million (or 41 percent) were part-time or part-year workers. As noted, this group is unlikely to be focused on saving for retirement in the current year, particularly if they typically work full-time or

FIGURE 5

Distribution of Workers Without Retirement Plan Coverage

Workers reporting that employer does not sponsor a retirement plan, millions of workers, 2012



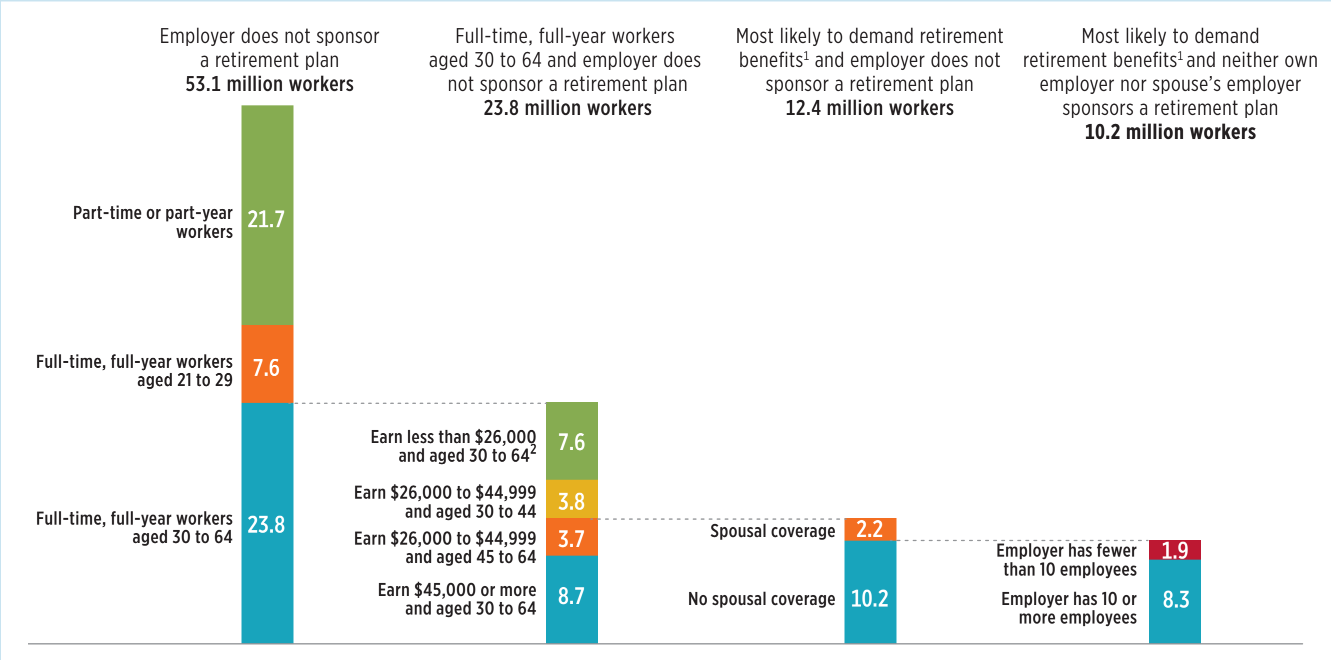
Note: Components may not add to the totals because of rounding.

Source: Investment Company Institute tabulations of March 2013 Current Population Survey

FIGURE 6

A Closer Look at Workers Whose Employer Does Not Sponsor a Retirement Plan

Millions of private-sector wage and salary workers aged 21 to 64, 2012



[1] Full-time, full-year workers who earn $45,000 or more and are aged 30 to 64 or earn $26,000 to $44,999 and are aged 45 to 64.

[2] Among full-time, full-year workers aged 35 to 44, $26,000 represents the top earnings of the 20th percentile of annual earnings and $45,000 represents the top earnings for the 50th percentile of annual earnings.

Note: Components may not add to the total because of rounding.

Source: Investment Company Institute tabulations of March 2013 Current Population Survey

for a full year. Another 7.6 million (or 14 percent) were full-time, full-year workers aged 21 to 29. Few in this age group save primarily for retirement; this group saves primarily for education, the purchase of a home, or for precautionary reasons.

Among the 23.8 million full-time, full-year employees aged 30 to 64, 7.6 million earned less than $26,000 a year. These workers are unlikely to have the capacity or desire to save for retirement. Another 3.8 million earned $26,000 to $44,999 in 2012 and were aged 30 to 44. Full-year, full-time workers earning $26,000 to $44,999 may have the ability to save, but because they have other saving priorities, they are likely to delay saving for retirement until after age 44. This leaves 12.4 million workers—or 23 percent of all 21- to 64-year-old private-sector wage and salary workers at firms that did not sponsor plans—who were the most likely to be focused on saving for retirement: 3.7 million who earned $26,000 to $44,999 in 2012 and were aged 45 to 64, and 8.7 million who earned $45,000 a year or more and were aged 30 to 64.

To some extent, the percentage of workers at firms that sponsor retirement plans underestimates access of individuals to employer-sponsored retirement benefits. Some individuals who do not have access to plans through their own employers have spouses who work for firms that sponsor plans. On net, of the 53.1 million employees who worked for firms that did not sponsor retirement plans, 10.2 million, or 19 percent, were both likely to demand retirement benefits from their employer and were without access to an employer plan through a spouse.

Indeed, limiting the sample to those workers likely to demand retirement benefits, 69 percent worked for a firm that sponsored a plan, and 74 percent had access to a plan either through their own employer or through their spouse's employer. Additionally, of those workers in this group whose own employer sponsored a plan or whose spouse's employer sponsored a plan, 93 percent participated in either their own employer's plan or their spouse's employer plan.

Conclusion

The private-sector pension system often is criticized because it is said that too few private-sector employees have access to employer-provided retirement plans. However, employer-sponsored retirement plans should not be analyzed in a vacuum; the U.S. retirement system includes both tax incentives to encourage employers to offer pension benefits and a social safety net of programs to help the elderly. Social Security is structured so that the portion of earnings replaced is much higher for workers with lower lifetime earnings; those with higher lifetime earnings rely more heavily on employer-sponsored retirement plans and private savings. This is not unintentional; from the inception of Social Security, policymakers understood that Social Security alone would be insufficient for those with higher lifetime earnings and intended for Social Security and employer-provided pensions to work together.*

The success of private-sector plans should be judged in light of these factors. Of those most likely to need to supplement Social Security benefits in retirement and to desire to save for retirement in the current year, nearly three-quarters have access to a plan through their own employer or their spouse's employer, and 93 percent of those with access participate.

The analysis in this paper supports the proposition that the private-sector pension system can and should be improved. However, the analysis also suggests caution when proposing reforms to a system that already provides retirement benefits to most of the workers who are likely to value retirement benefits more highly than cash compensation. The incentives faced by both employees and employers should be taken into account when crafting pension reforms, and realistic goals should be set for increasing employer-based retirement plan coverage.

Some workers do not have the resources to fund current consumption, much less the ability to set aside resources to fund consumption in retirement. Other workers may have the ability to save and will likely desire to save for retirement at some point in their careers, but have more immediate savings priorities in the current year. It is unlikely that either group of these workers will seek to work for a firm that offers a pension plan, or choose to participate in such a plan if offered.

More significantly, some households face a lifetime of low earnings. Even the best-designed voluntary private-sector retirement system is unlikely to provide adequate resources to fund retirement consumption for workers who have inadequate resources to fund consumption in their working years. Because of this, it is vitally important to maintain a Social Security system that provides adequate benefits to workers with low lifetime earnings.

* Since the enactment of Social Security, Congress has allowed private-sector employers to account for Social Security in their pension plans. This process—known as integration—permits a higher benefit formula or a higher employer contribution rate on earnings not covered by Social Security. Permitted disparity—the provision in the tax code that allows Social Security integration—is defined in Section 401(l) of the Internal Revenue Code.

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1401 H Street, NW
Washington, DC 20005
202-326-5800
www.ici.org

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