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At Small Firms or Large, Coverage Related to Workers' Ages and Earnings

Washington, DC, October 3, 2008 - Most workers who are likely to have the ability to save and to be focused primarily on saving for retirement have access to an employer-provided retirement plan, according to a new study released today by the Investment Company Institute. The study, [Who Gets Retirement Plans and Why](#), coauthored by ICI senior economist Peter Brady and ICI senior research associate Stephen Sigrist, takes a detailed look at the demographic and workforce factors that help determine whether an employer is likely to offer, and workers are likely to seek, deferred compensation in the form of retirement benefits to replace some cash compensation.

Policymakers seeking to expand retirement plan coverage tend to focus on barriers that make plans more expensive for smaller employers. Although costs may play a role, the study finds that the likelihood that an employer will offer a retirement plan is related to the characteristics of the firm's workforce, regardless of the size of the firm. Small firms with more workers who are older and higher-earning are just as likely to offer a plan as large companies with similar workers. Conversely, a large company with more workers who are younger and lower-earning is just as likely not to offer a plan as a similar small firm.

The study found that of full-time, full-year workers aged 21 to 64 earning \$40,000 a year or more, 76 percent have access to a retirement plan through their own employers or their spouses' employers, and 90 percent of those participate.

"It's well known that 50 percent of America's workers are covered by an employer-sponsored retirement plan—but less is known about who is in that 50 percent and why," says Brian Reid, chief economist of the Investment Company Institute. "As policymakers consider a wide range of ideas to

expand access to workplace retirement savings, it's vital that they understand the factors that shape today's voluntary employer-based retirement savings plans.”

The study provides a comprehensive analysis of the private pension system to provide facts for policymakers, employers, and the financial services industry to consider as they work to increase retirement plan coverage. The study's findings point to the vital need to maintain a Social Security system that provides adequate benefits to workers with low lifetime earnings to ensure that workers who lack the resources to save will have sufficient support in their retirement.

The study also finds:

- Younger and lower-income households are more likely to report that they save primarily for reasons other than retirement, such as to fund education, to purchase a house, to fund other purchases, or to have cash on hand in case of unexpected needs.
- Differences in workforce composition appear to be a primary cause for the low rate at which small employers sponsor retirement plans. Small firms are more likely to employ part-time and part-year workers and workers with lower lifetime earnings.
- Workers at small employers that sponsor retirement plans are as likely to participate as workers at large employers sponsoring retirement plans.

Readers may review supplementary figures with additional detail in [Appendix: Who Gets Retirement Plans and Why](#).