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Worker Participation in Employer-Sponsored Pensions: Data in Brief

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Introduction

This report 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]

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 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 federal government's Thrift Savings Plan are the most common—workers contribute a percentage of their wages to individual accounts established by the employers. 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. Workers determine individually how their account contributions are invested (among options provided by the plan sponsor). The account may accrue investment returns and can then be used as a source of income in retirement.[5]

Over 70% of all U.S. workers have access to employer-sponsored pensions, and 56% of U.S. workers participate in employer-sponsored pensions. Access and participation rates vary with various worker attributes. These attributes include whether the workers are full-time or part-time, whether they work in the private or public sector, and whether or not they belong to a union. The data also classify access and participation rates by the average wages of workers' occupations and the number of employees at workers' places of employment.

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[1] The 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 requirements with respect to plan participation, vesting of benefits, and distribution of benefits. See Title 26, Section 401(a), of the *United States Code*. 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 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 x 20 x .015 = $1,250). As an example of a flat-rate benefit, a plan might offer a benefit of $50 per month of service in the plan, so an individual with 20 years (240 months) would receive a monthly pension benefit of $1,000 ($50 x 240 / 12 = $1,000).

[5] Except for the Thrift Savings Plan, which is sponsored by the federal government, the plans are named for the section of the Internal Revenue Code 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*.

Worker Participation in Employer-Sponsored Pensions

Table 1 contains both access and participation rates separately for workers in DB and DC plans and combined for workers in either a DB or a DC 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 plans to which they have access. Because many DB plans are funded entirely from employer contributions, among workers who have access to DB plans, the take-up rate is 80%.[6] Among workers who have access to DC plans, the take-up rate is 71%. Reasons for the lower take-up rates for DC plans compared with DB plans include the following: (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]

[6] The access rate for civilian workers in DB plans is 25%, and the participation rate is 20%, which means that 80% (or 20% / 25%) of workers participate in DB plans to which they have access. (Participation rate differences with the BLS data are due to rounding.) U.S. Department of Labor 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 employee contributions to the plans. Among public sector workers who participated in DB plans, 79% were required to make employee contributions 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, http://www.bls.gov/ncs/ebs/benefits/2011/ebbl0048.pdf.

[7] An increasing number of DC plans have automatic enrollment in which new participants are deemed to participate in accessible DC plans unless they opt out. Plan Sponsor Council of America's 63rd Annual Survey of Profit Sharing and 401(k) plans found that 60.2% of plans included automatic enrollment features in plan year 2019. Vanguard found that the percentage of DC plans with automatic enrollment features increased from 10% in 2006 to 54% in 2020. See Vanguard, *How America Saves 2021,* https://institutional.vanguard.com/content/dam/inst/vanguard-has/insights-pdfs/21_CIR_HAS21_HAS_FSreport.pdf. Employees who are automatically enrolled may opt out of the plan. Vanguard found that 7% of employees hired from 2014 and before 2017 who were automatically enrolled in DC plans had opted out as of mid-2017. See Jeffrey Clark and Jean Young, *Automatic Enrollment: The Power of the Default,* Vanguard, February 2018, https://www.vanguardcanada.ca/documents/automatic-enrolment-power-of-the-default.pdf. In DB pensions, employees are usually automatically enrolled. See Barbara Butrica and Nadia Karemcheva, *The Relationship Between Automatic Enrollment and DC Plan Contributions: Evidence from a National Survey of Older Workers,* Center for Retirement Research at Boston College, July 2015, https://crr.bc.edu/wp-content/uploads/2015/06/wp_2015-14.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 employees' contributions. See, for example, James J. Choi, David Laibson, and Brigitte C. Madrian, "$100 Bills on the Sidewalk: Violations of No-Arbitrage in 401(k) Accounts," *Review of Economics and Statistics*, vol. 93, no. 3 (August 2011), pp. 748-763.

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:

- Among part-time civilian workers, 42% had access to pension plans. Among full-time civilian workers, 81% had access to pension plans.[9]
- A greater percentage of *state and local public sector* workers (92%) have access to pension plans compared with *private sector* workers (68%). State and local public sector workers are more likely to have access to DB pension plans (86%, compared with 15% of private sector workers), whereas private sector workers are more likely to have access to DC pension plans (65%, compared with 38% of public sector workers).[10] In 2018, about 28% of state and local government workers did not participate in Social Security.[11]
- In the private sector, union workers are more likely to have access to pension plans than are nonunion workers (93%, compared to 66% of nonunion workers). However, nonunion workers are more likely to have DC plan access (66%) than union workers are (61%).
- Access rates are higher for workers in higher-paying occupations. For example, 44% of private sector workers in occupations with the *lowest 25% of average wages* have access to employer-sponsored pensions, whereas 90% of workers in occupations with the *highest 25% of average wages* do.
- Access rates increase as the size of workers' firms increases. For example, 52% of private sector workers in *firms with fewer than 50 employees* have access to employer-sponsored pensions, whereas 91% of workers in *firms with 500 or more employees* do.

[9] *Civilian workers* is 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 or the Federal Employees' Retirement System. For more information, see CRS Report 98-810, *Federal Employees' Retirement System: Benefits and Financing*.

[11] See CRS Report R46961, *Social Security Coverage of State and Local Government Employees*, by Dawn Nuschler.

Table 1. Access and Participation Rates in Employer-Sponsored Pension Plans, March 2021

		Either Defined Benefit or Defined Contribution		Defined Benefit		Defined Contribution	
		Access	Participation	Access	Participation	Access	Participation
Civilian Workers[a]	All workers	72%	56%	25%	20%	61%	43%
	Full-time	81%	66%	30%	24%	69%	52%
	Part-time	42%	22%	10%	7%	36%	17%
Private Sector[b] Workers	All workers	68%	51%	15%	11%	65%	47%
	Full-time	78%	62%	18%	14%	74%	57%
	Part-time	41%	21%	7%	5%	38%	18%
	Union	93%	84%	64%	56%	61%	53%
	Nonunion	66%	49%	11%	8%	66%	47%
	Average Wage of Occupation						
	Lowest 25%	44%	23%	4%	2%	42%	22%
	Second 25%	68%	48%	13%	9%	64%	44%
	Third 25%	79%	63%	18%	13%	75%	58%
	Highest 25%	90%	79%	30%	23%	85%	73%
	Number of Employees at Place of Employment						
	1-49	52%	35%	6%	4%	51%	33%
	50-99	70%	51%	10%	7%	68%	48%
	100-499	80%	60%	16%	12%	76%	55%
	500 or more	91%	79%	42%	30%	85%	71%

		Either Defined Benefit or Defined Contribution		Defined Benefit		Defined Contribution	
		Access	**Participation**	**Access**	**Participation**	**Access**	**Participation**
State and Local[c] Government Workers	All workers	92%	82%	86%	75%	38%	18%
	Full-time	99%	88%	94%	81%	42%	20%
	Part-time	45%	39%	40%	35%	16%	7%
	State government	96%	84%	90%	74%	52%	25%
	Local government	90%	81%	85%	75%	34%	16%

Source: March 2021 National Compensation Survey (NCS), https://www.bls.gov/ncs/ebs/benefits/2021/employee-benefits-in-the-united-states-march-2021.pdf.

Notes: Definitions are from the NCS's Glossary of Employee Benefit Terms, available at https://www.bls.gov/ncs/ebs/national-compensation-survey-glossary-of-employee-benefit-terms.pdf, and Bureau of Labor Statistics (BLS) Information Glossary, at https://www.bls.gov/bls/glossary.htm.

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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