

IN BRIEF ■ Retirement Plan Coverage of Baby Boomers and Retired Workers: Analysis of 1998 SIPP Data

Introduction

The pension coverage and the retirement prospects of baby boomers are a growing concern. Observers point to several pension trends that could threaten boomers' retirement security. Among these are low and stagnant pension coverage rates and the contraction in the number of traditional defined benefit (DB) plans and their replacement by defined contribution (DC) plans—which are voluntary and shift the investment risk from employers to the employee. Time may be running out for boomers who still lack pensions to participate in a plan that will provide adequate benefits for retirement.

Methodology

The paper explores the retirement plan coverage among boomers (aged 33 to 52 in 1998), pre-boomers (aged 53 to 64 in 1998), and retired workers (aged 65+ in 1998) as well as among subgroups of this workforce—women, minorities, and low-income workers. *Pension plan coverage* is examined from a broad-gauged perspective, defined as pension coverage obtained at any time during a career (i.e., current primary, current secondary, and any previous job). *Retirement plan coverage* includes participation in employer-sponsored pension plans, such as DB plans and DC or 401(k)-type plans (which include 401(k) plans, 403(b) plans, employee stock ownership plans, and profit sharing plans) as well as IRAs. This analysis is based on 1998 data from the "Retirement Expectations and Pension Plan Coverage" Topical Module (Wave 7) of the Survey of Income and Program Participation (SIPP) released by the Census Bureau in February 2002.

Principal Findings

In 1998, pension coverage for all workers age 16 and over was 50.9 percent when coverage was measured as having a

pension at any time during a career. This rate was almost 9 percentage points higher than the rate typically measured, i.e., pension coverage on a worker's current primary job (42.2 percent). As expected, workers in different age groups also had higher coverage rates when the rate of coverage on a current primary job was compared with the career-long measure of coverage: boomer coverage was 9 percentage points higher using the career coverage definition; pre-boomer coverage was 13 percentage points higher; and retired worker coverage was 25 percentage points higher using the career-long measure.

When the measure of coverage was further expanded to include participation in an IRA, coverage rates further increased for all workers and workers in different age groups. Pre-boomers had the highest level of retirement plan coverage (73.4 percent) largely due to substantial coverage from a previous job as well as a very high rate of IRA coverage. Among boomers, as expected, older boomers had a higher rate of retirement plan coverage from any source (71.5 percent) than their younger counterparts. Retired workers had the lowest rate of overall retirement plan coverage (61.4 percent).

Women were less likely to have retirement plan coverage than their male counterparts, regardless of age group. However, the SIPP data suggest that the difference between men's and women's rates of pension coverage over a career is narrowing. Non-whites were less likely to have such coverage compared to their white counterparts, irrespective of age group. Of particular concern is the low rate of IRA coverage among minorities compared with whites. Most IRA assets are rollovers from previous pension plans. Low minority IRA participation may reflect the fact that minorities are more likely to have DB than DC plans, i.e., plans with lower rollover

potential. In addition, minority individuals may value current income over saving for retirement more than whites do and therefore may be less likely to open an IRA regardless of its value for pension rollovers.

Retirement coverage is highly dependent on personal income levels. Those with annual incomes of \$30,000 or more were much more likely to have retirement plan coverage than those with incomes of less than \$30,000. Low-income workers were most vulnerable to entering retirement without coverage.

The type of pension plan sponsored by an employer has implications for worker mobility, decisions about withdrawal from the labor force, and future retirement income. There has been a shift from DB to DC plans, especially to 401(k) plans. SIPP data on plan type in a current job indicates that boomers were more likely to have only-DC coverage than the older age groups. This was not the case for only-DB coverage or dual coverage where boomers and pre-boomers were equally likely to have such coverage.

In all age cohorts, women were somewhat less likely than men to have only-DB plan or only-DC plan coverage. For both men and women, there was generally a higher rate of coverage in DB plans than in DC plans. Older minorities—i.e., boomers, pre-boomers, and retired workers—were more likely than their white counterparts to have only-DB plan coverage, but minorities in all age groups were less likely than their white counterparts to have only-DC coverage. Higher income workers were much more likely to have only-DB plan, only-DC plan, and dual coverage than their lower income counterparts.

A comparison of the 1993 Current Population Survey data with the 1998 SIPP data revealed a significant increase, five percentage points, in the rate of coverage from any source. But there was a three-percentage-point decline in employer-sponsored pension coverage on a current job from 1993 to 1998. However, retirement plan coverage, including IRAs, for both men and women increased during this period. Minority retirement plan coverage decreased while white coverage increased.

Conclusions

Using a broad-gauged measure, only two-thirds of working baby boomers had retirement plan coverage. Women, non-whites, and low-income groups were much less likely than their male, white, and higher-income counterparts to have retirement plan coverage and, therefore, remain vulnerable to reaching retirement without adequate retirement income security.

From 1993 to 1998, women narrowed the retirement plan coverage gap with men, largely due to higher IRA coverage. Ways to enhance boomers' retirement income and savings must be developed very soon because the majority of the oldest boomers will begin retiring before the end of the decade. Policies to enhance coverage could include the universal availability of pension payroll deductions for all workers, reducing the administrative costs for establishing plans, especially for small businesses, and expanding automatic enrollment in 401(k) plans. Measures could be adopted which include the expansion of coverage to employees who work less than full time and have low incomes. ■

Source: Satyendra K. Verma and Jules H. Lichtenstein, *Retirement Plan Coverage of Baby Boomers and Retired Workers: Analysis of 1998 SIPP Data*. For a copy of the full paper, write for Public Policy Institute Issue Paper #2003-10, July 2003, AARP, 601 E Street, NW, Washington, DC 20049. See www.aarp.org/ppi © 2003 AARP.