

The Coverage of Employer Provided Pensions: Partial and Uncertain

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AARP's Public Policy Institute informs and stimulates public debate on the issues we face as we age. Through research, analysis and dialogue with the nation's leading experts, PPI promotes development of sound, creative policies to address our common need for economic security, health care, and quality of life.

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Executive Summary

For most Americans, a work-based pension is necessary for a secure retirement. Social Security provides a solid safety net for the great majority of Americans who have substantial work experience, but it was never intended to be the sole source of retirement income. In practice, however, only one of every two workers participates in an employer-provided plan of any kind. Counting ownership of individual tax-favored retirement saving accounts toward coverage does not raise the coverage rate very much.

The large share of the workforce that is uncovered is not the only troubling feature of the *employer-provided pension* system. There are remarkable disparities in rates of coverage by age, income, education, and ethnicity. In particular, young, low-paid workers have very low rates of coverage. For example, the rate of coverage of the employer-provided pension system for workers earning less than \$20,000 is less than 20 percent; and for those earning between \$20,000 and \$30,000, it is just above 40 percent. The contrast with the coverage rate of 80 percent for those earning \$75,000 or more is striking. The likelihood of having an employer-provided pension also varies strongly with educational attainment. Race and ethnicity is also a factor: in particular, Hispanics are significantly less likely than other groups to participate in an employer-provided plan. The chart book explores the reasons for these and other disparities.

The relative stability of overall coverage masks the growing importance of the *defined contribution pension*—mainly the *401(k)* plan—and the decline in the traditional

final salary pension. In the past, most Americans working for larger employers would, if they worked long enough, be able to draw a reasonably sized pension that would complement Social Security, and, together with Social Security, would replace a substantial share of their salary. The decline in the coverage of the traditional final salary pension has made this goal much harder to achieve, even when a worker has long tenure.

The 401(k) plan is certainly better than no plan at all, but its growing dominance has effectively shifted the risks of achieving a secure retirement from the employer to the employee. The employee typically saves as much or as little as he or she likes, subject to the limits of the tax code, and is usually responsible for investing his or her savings. Undersaving is a real problem with these plans, and the combination of underperforming financial markets and bad investment decisions can result in the inadequate growth of a plan's balance. Moreover, the design of the 401(k) plan provides no insurance against the risk of

outliving one's resources in retirement. Consequently, although overall coverage may not be declining, there is reason to fear that the *quality* of coverage may be deteriorating. These concerns are borne out by the available data on holdings in IRAs and 401(k) plans, which show that median balances are very low.

The chart book's findings point to the importance of a well-designed program to expand coverage and participation while addressing some of the shortcomings of the 401(k) plan. The *auto IRA* proposal, which

AARP supports, is one measure that would expand coverage. Other measures would be concerted action to provide financial education to many more working Americans than now benefit from it, and to establish it more firmly in the formal educational curriculum. Measures like an auto 401(k) have the potential to achieve an even greater increase in coverage. Steps are also needed to ensure that an adequate share of wealth at retirement takes the form of an *annuity*, including measures to make the annuity market more efficient, and thereby lower annuity premiums.

Introduction

Employer-provided pensions are the second pillar of the U.S. retirement security system, the first being Social Security and the third voluntary private saving.^{1,2} For most Americans, employer-provided pensions are crucial to retirement security. Social Security has been designed to provide a basic safety net, but its *replacement rates* drop off noticeably as income increases.³

The average benefit is about \$1,050 per month, about 120 percent of the poverty guideline for a single person. Americans who have not accumulated substantial sums in an *individual retirement account* (IRA) or similar retirement savings vehicle and who lack other forms of wealth will find it very difficult to afford retirement if they have not been participating in an employer-provided plan for much of their career. It is in principle possible to save on one's own, as many self-employed people do. However, participation in an employer-provided plan is usually treated more favorably by the tax system than personal saving, and employer-provided pensions normally impose a discipline on saving during a working lifetime that is lacking with a personal saving plan. Consequently, the coverage of the employer-provided pension system, the subject of this chart book, is of great importance.

Coverage of an employer-provided or private pension system can be measured in various ways. This chart book emphasizes coverage on a per-worker basis but also examines the coverage of *working families* and coverage of all families. Coverage per *worker* is basic, in that it gives us some idea of the adequacy of retirement arrangements for individuals. It also allows us to consider the influence of variables like ethnicity and firm size, which are more appropriately examined on an individual rather than a family basis. In addition to the coverage of employer-provided pensions, the chart book considers how widespread ownership of an IRA or participation in a *Keogh plan* is in order to see whether taking these tax-favored retirement savings vehicles into account would change the assessment of the adequacy of coverage of employer-provided plans alone.

¹ These are the traditional three pillars of retirement security. AARP has recently combined two and three and added two more—earned income in retirement and health care insurance—to reflect more accurately the situation of future retirees.

² Employer-provided pensions include traditional *defined benefit plans* (final and average salary pensions), cash balance and other *hybrid plans*, and *defined contribution plans*. Of defined contribution plans, 401(k) plans have by far the largest coverage. See the glossary for definitions of these and other terms that the chart book uses.

³ For some one who has worked for thirty-five years and opts for Social Security at the normal retirement age in 2008 (which is 66 for anyone born between 1943 and 1954), Social Security will replace 90 percent of the first \$711 of *average indexed monthly earnings*, or AIME (roughly, average monthly earnings measured in current dollars), 32 percent of the next \$3,577, and 15 percent of any additional income up to the maximum of \$102,000. Someone with an AIME of \$2,500 would receive a monthly pension of \$1,212, implying a replacement rate of 48 percent. Taking the early retirement option at age 62 would reduce the benefit by about 25 percent, even if the retiree had been making contributions for thirty-five or more years by the date of his or her retirement. Because the benefit formula takes in as many as thirty-five years, and because salaries tend to grow in real terms over the course of a working lifetime, the AIME will normally be below the income a worker was earning at the end of his or her career. See the glossary entry for AIME for elaboration.

A worker may have coverage under an employer-provided pension under his or her current job, but may also have had coverage under a previous job. The chart book focuses on current coverage. It uses a broader definition of coverage, according to which a worker has pension coverage if he or she has coverage from any job, past or present, when it considers coverage under an employer-provided pension together with the share of workers who own an IRA or participate in a Keogh plan, because ownership of an IRA or participation in a Keogh cannot necessarily be attributed to the period of current employment.

The chart book's analysis is based on the results of the triennial *Survey of Consumer Finances* (SCF), a comprehensive survey of American families (some 4,500 of them for the 2004 survey) conducted for the Federal Reserve Board.⁴ Survey respondents answer a long list of questions on the state of their finances and the participation of family

members in the labor force. The list includes questions about participation in employer-provided pension schemes and ownership of an IRA or participation in a Keogh plan (for convenience, this combination will generally be referred to as having an IRA/Keogh plan). Because of the demographic and other economic information the SCF collects, it can be used to relate pension coverage to many variables, including age, salary, and race.⁵

An appendix includes an examination of trends in pension coverage that is more detailed than that of the text, a brief treatment of coverage on an all-families basis, and a set of supporting tables with much of the data underlying the charts as well as some additional information. The chart book also includes a glossary of technical terms for the benefit of the less specialized reader. These terms are italicized when they first appear in the text.

⁴ See the appendix to the article "Recent Changes in U.S. Family Finances: Evidence from the 2001 and 2004 *Survey of Consumer Finances*," available at www.federalreserve.gov/pubs/bulletin/2006/financesurvey.pdf, for a discussion of the procedures the survey used.

⁵ For the purposes of the chart book, a worker is defined to include the survey respondent, when the responses to the survey indicate that he or she is working for pay, and the respondent's spouse, if any, if he or she is working. The survey does not enumerate other family members who may be working. The self-employed are included in the definition. A working family is a family where either the respondent or the spouse is working. In a nonworking family, neither the respondent nor spouse is working.

Coverage of Workers

Only one in two American workers either participates in a pension plan sponsored by a current employer or has participated in a plan sponsored by a previous employer. With the broadest possible definition of coverage, according to which a worker is covered if he or she either has an IRA or Keogh plan or is or has been a participant in an employer-provided pension plan, the rate rises to about 63 percent (see figure 1, which shows that 37 percent of workers neither are members of an employer-provided plan nor have an IRA/Keogh plan). In light of the low average balances in IRA/Keogh plans, which is discussed below, this extra coverage may not greatly enhance retirement security.

The low rates of coverage of the employer-provided pension system might be less of a concern if coverage were on a strong upward trend. However, the rate of coverage has hardly varied since the late 1980s (figure 2, page 7). Some 50 percent of the workforce has participated in an employer-provided plan since that time, with little variation from period to period. Using the broader coverage based on either coverage under an employer-provided plan or ownership of an IRA raises the rate of coverage to just above 60 percent. The share of the workforce with an IRA/Keogh plan has remained fairly constant at around 25 percent. The introduction of the *Saver's Credit* in 2001 has not yet had a discernable impact on the participation of workers with low to moderate pay.

Figure 1 | Percentage of Workers with Pension Coverage and Retirement Savings, 2004

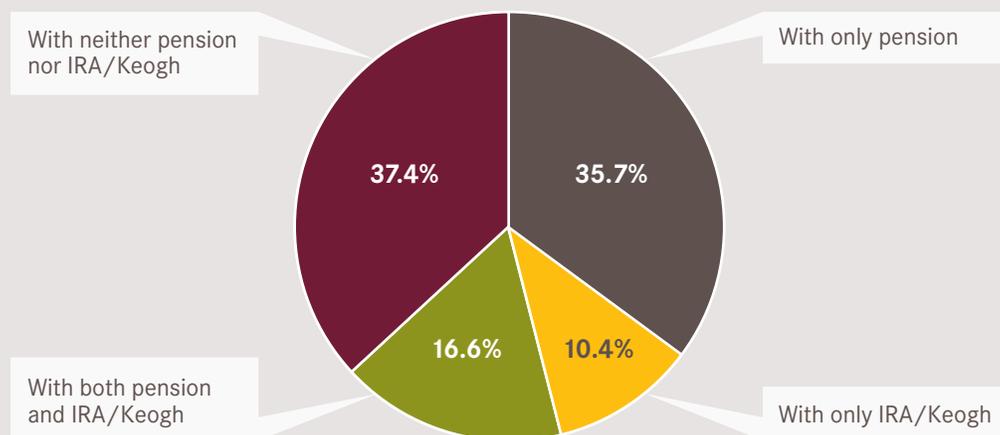


Figure 2 | Percentage of Workers with Pension Coverage and Retirement Savings, 1989 to 2004



COVERAGE OF EMPLOYER-PROVIDED PENSIONS AND IRA/KEOGH PLANS

Coverage by age. For the young, the coverage rate either from an employer-provided pension plan or through a retirement savings vehicle is very low. It rises with a worker's age, although even in the critical age bracket of 50 to 59, only about 60 percent of workers have coverage under an employer-provided pension plan from any point in their career. Less than 40 percent of this age group has an IRA/Keogh plan, although about 75 percent either have an IRA/Keogh plan or are covered by an employer-provided plan. If workers in their 50s have not been participating in an employer-provided plan or been contributing to an IRA/Keogh plan for some time, and if they have no

substantial nonpension wealth, they will find it well nigh impossible to retire at the normal age (figure 3, page 8).

Coverage by salary. Rates of coverage are very low for workers with low salaries. Fewer than 20 percent of workers earning less than \$20,000 annually have a pension from either their current or a previous job (figure 4, page 8). This share increases to 60 percent once salaries have reached the \$30,000 to \$44,999 range, and to over 80 percent once they have reached the \$75,000 to \$99,999 range. Extending coverage to include workers with an IRA/Keogh plan does not change the picture significantly: Fewer than 35 percent of workers earning under \$20,000 either have

Figure 3 | Percentage of Workers with Pension Coverage and Retirement Savings by Age Group, 2004

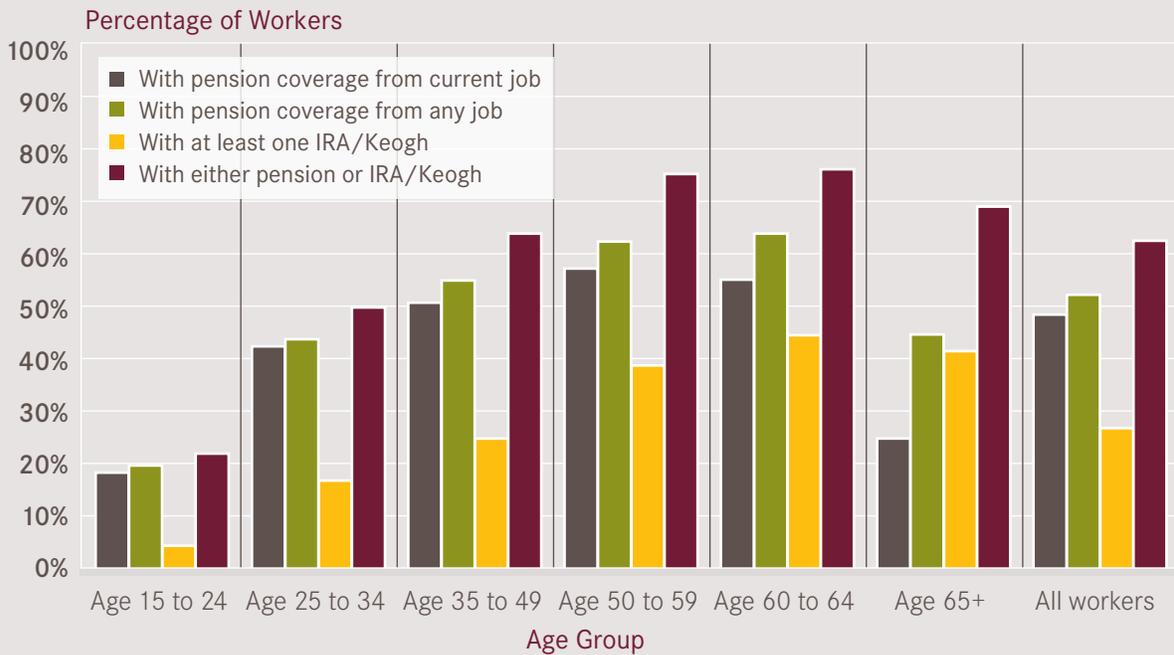
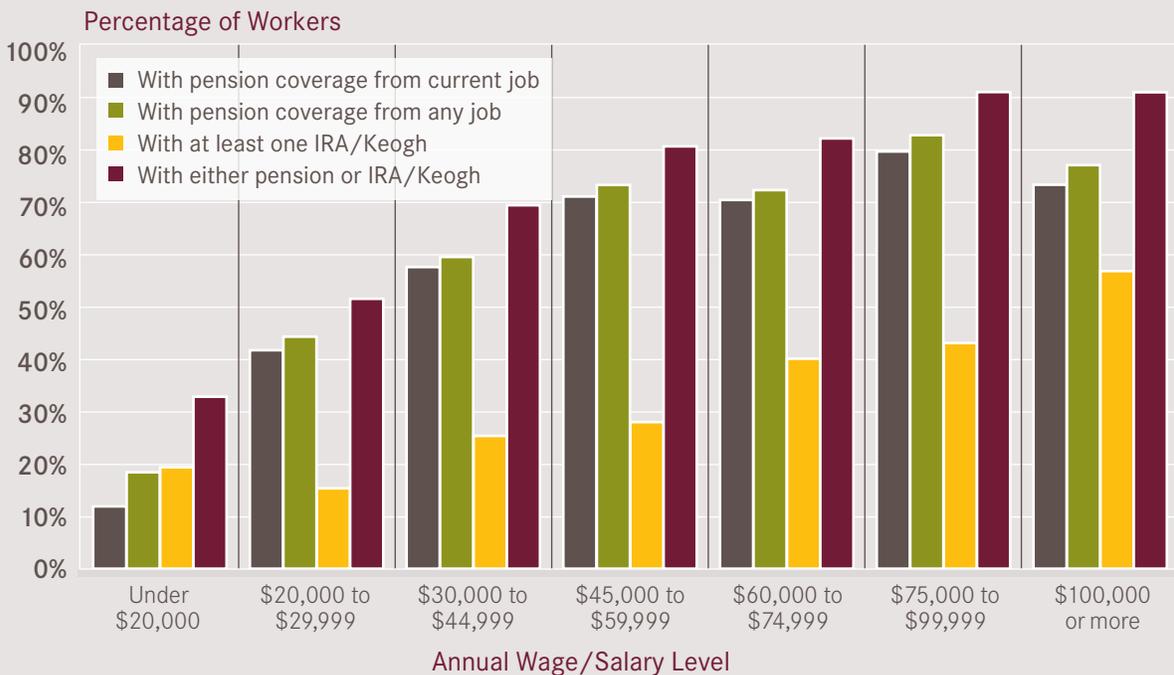


Figure 4 | Percentage of Workers with Pension Coverage and Retirement Savings by Annual Wage/Salary Level, 2004

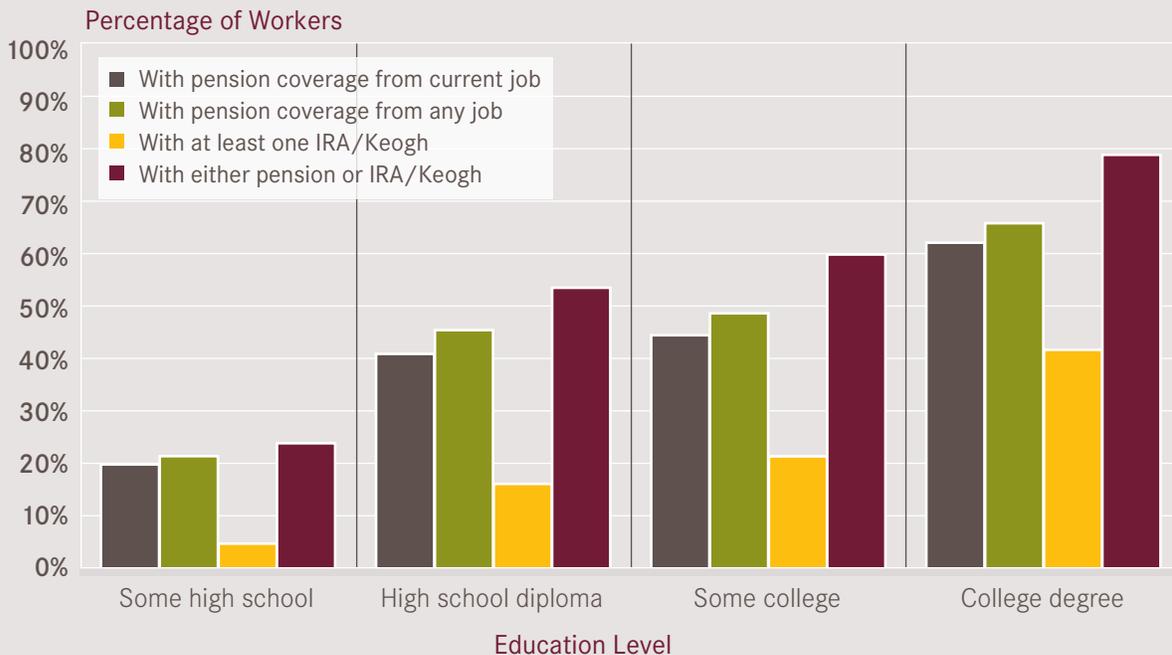


coverage under an employer-provided plan or have an IRA/Keogh plan. However, more than 90 percent of employed persons earning \$75,000 or more are covered under the broader definition.

The poor coverage of low-paid workers has many causes. Despite the *nondiscrimination tests* to which employer-provided pension plans are subject, employers are not obliged to enroll all their employees in a plan and may reserve plan membership for better-paid employees. The administrative costs of plan participation are a significantly lower share of labor cost for better-paid workers, and a pension may play an important role

in retaining the strong performers among them. In particular, small firms in the service sector do not typically pay high wages and may find the costs of administering a plan prohibitive. When contributions are voluntary, as with a 401(k) plan, both the young and the low paid contribute little.⁶ The tax benefits from contributing to an IRA or a 401(k) may be modest or nil if taxable income is low.⁷ Finally, efforts to encourage participation in IRA plans or 401(k) plans like the *SIMPLE IRA* and the Saver's Credit have not been particularly successful—in the case of the Saver's Credit because for many potential beneficiaries the tax credit is in practice not large, and because the

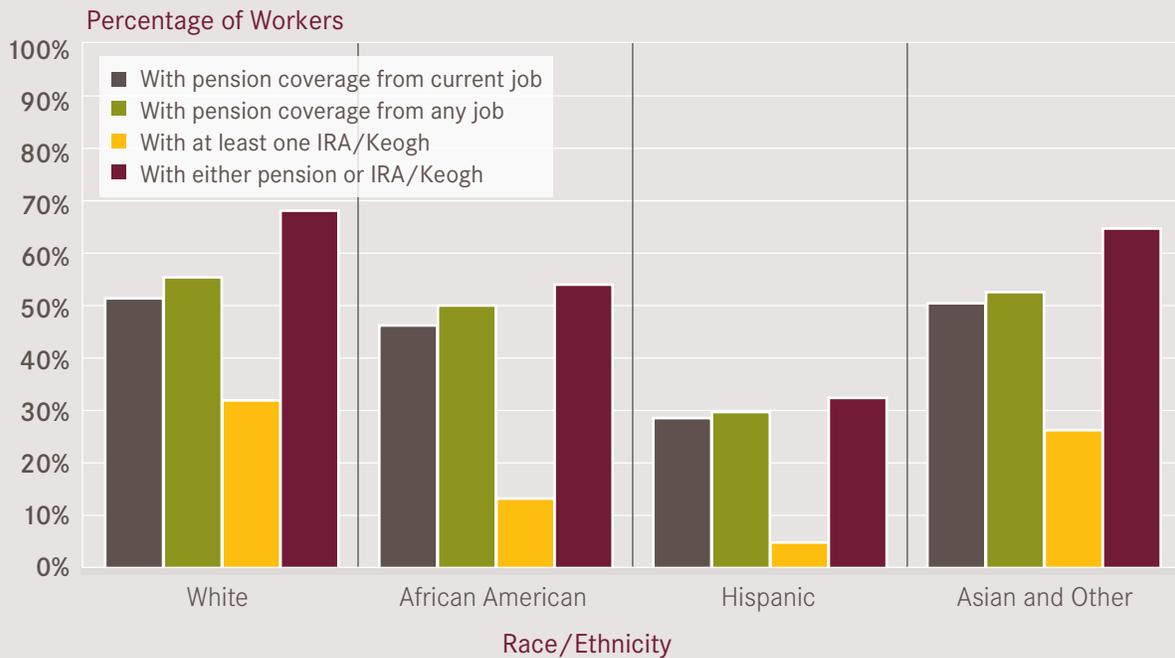
Figure 5 | Percentage of Workers with Pension Coverage and Retirement Savings by Education Level, 2004



⁶ The low paid, if they are having difficulty making ends meet, will not attach much value to saving for retirement. In general, studies of saving behavior have shown that people will not save willingly unless they earn a very high rate of return on their money. This is especially true of the young, for whom retirement is a distant and seemingly improbable event. For a discussion of the obstacles to adequate saving, see Blake, David, *Pension Economics*, New York: John Wiley and Sons, 2006, especially pp. 222 to 224.

⁷ See glossary entry for an elaboration of this point.

Figure 6 | Percentage of Workers with Pension Coverage and Retirement Savings by Race/Ethnicity, 2004



program is not well known. Even though Social Security replaces a higher share of the income of low-paid workers than that of the better paid, the lack of an employer-provided pension or IRA/Keogh plan will jeopardize the retirement security of many workers with low to moderate pay.

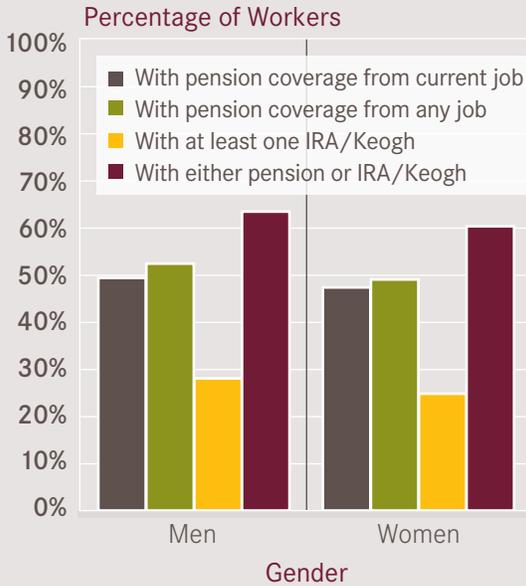
Coverage by level of formal education.

There is a very marked relationship between the level of a worker’s formal education and the chances of his or her having pension coverage (figure 5, page 9). Workers who have not graduated from high school have very low rates of coverage. More than 75 percent have no coverage whatsoever: They neither participate in an employer-sponsored pension plan nor do they have an IRA/Keogh plan. Coverage rises substantially, to about 55 percent for high school graduates, and rises again to nearly

80 percent for college graduates. Coverage for workers with just a few years of college, at about 60 percent, is not much higher than coverage for high school graduates. These findings imply that inadequate education not only lowers salaries, it increases the risk of financial insecurity in retirement.

Coverage by ethnic group. Coverage differs across racial and ethnic groups, although less for employer-provided plans than for IRAs/Keoghs (see figure 6). About 50 percent of African Americans have career pension coverage, versus about 55 percent of whites. However, a marked difference in coverage with an IRA/Keogh plan means that at about 55 percent, the share of African Americans with either a pension or an IRA/Keogh plan is significantly lower than the equivalent share for whites, which is nearly 70 percent. Coverage rates among

Figure 7 | Percentage of Workers with Pension Coverage and Retirement Savings by Gender, 2004

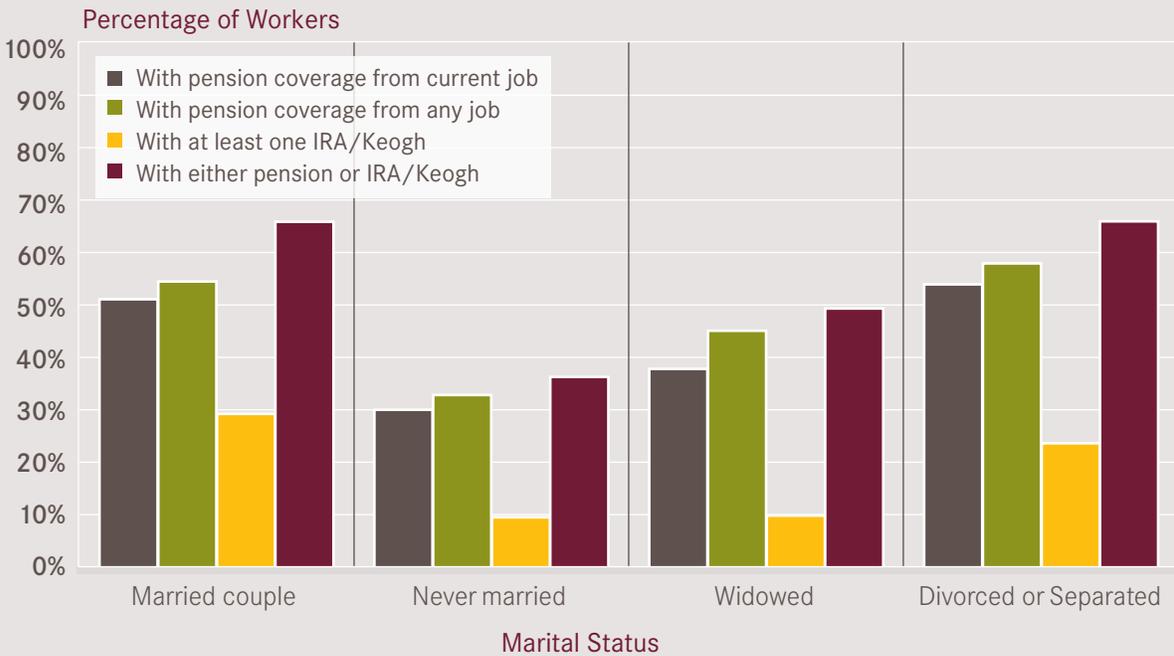


Hispanics are particularly low, which reflects in part lower average salaries—the median salary of Hispanics is about two-thirds that for all workers. The lower salaries of Hispanics undoubtedly reflect lower average educational attainments.⁸ Rates of coverage among Asian and other groups are close to those of whites.

Coverage by gender and marital status.

There is generally little difference between the rates of coverage of men and women. Under the broad definition of coverage based on either participation in an employer-provided plan or ownership of or participation in an IRA/Keogh plan, rates of coverage for the sexes are almost equal at about 63 percent (figure 7). Rates of coverage of employer-provided pensions alone are about 50 percent each for men and women.

Figure 8 | Percentage of Workers with Pension Coverage and Retirement Savings by Marital Status, 2004

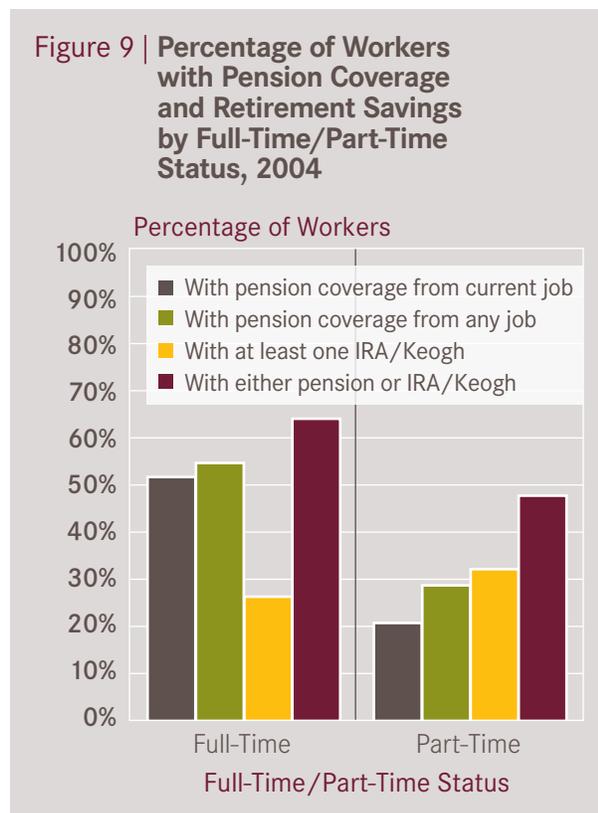


⁸ See “A visual essay: Blacks, Asians and Hispanics in the civilian labor force,” *Monthly Labor Review*, June 2004. About six in ten Hispanic and Latino workers have a high school diploma, compared with nine in ten for whites and African Americans. Hispanics tend to earn less than either whites or Asians at any educational level. An analysis like this one, which compares movements in the coverage rate with changes in just one other demographic or economic variable, is not intended to explain the extent to which low educational attainment exercises an independent effect over and above low income or other factors on coverage.

Workers who are married have about the same rates of coverage as divorced persons, and somewhat higher rates than widows and widowers (figure 8, page 11). Those who have never married have even lower rates, which could reflect the fact that the very young have typically never married and, possibly, the fact that those who have never married have lower incomes than those who have.

Coverage by type of employment.

Full-time employees are more than twice as likely as part-time employees to participate in an employer-provided pension plan (figure 9). Coverage via an IRA/Keogh plan is higher for part-time workers (over 30 percent) than for full-time workers, which narrows the gap in coverage significantly. Still, even broad coverage among part-time workers remains less than 50 percent.



EMPLOYER-PROVIDED PLAN COVERAGE BY TYPE OF PENSION

The constancy of overall rates of coverage noted above conceals a marked shift away from *defined benefit (DB) plans* toward 401(k)-type plans (figure 10, page 13). This shift has been going on since the 1970s, and DB plan coverage has not dropped markedly since 1995. Various explanations of the shift have been advanced, including the relative decline of industries where the DB has been dominant, declining tenure, and a perceived increase in the regulatory burdens of DB plans relative to DC plans.

Type of coverage by age and salary. Rates of coverage under the traditional DB pension and under 401(k)-type plans both increase with age and with salary (figure 11, page 13; and figure 12, page 14). The snapshot of plan coverage these charts provide shows clearly the dominance of the 401(k)-type plan over the traditional pension plan, particularly at young ages and low salaries, and the gap in coverage of employer-provided plans of any kind.

DB coverage is low for all age groups. Only one in five workers in the 50 to 59 age bracket—where DB coverage reaches its peak—are members of DB plans (figure 11, page 13). Coverage under any type of employer-provided plan from current employment does not quite reach 60 percent for this age group.

The relationship between salary and employer-provided plan coverage is very marked: Only about 40 percent of workers earning between \$20,000 and \$29,999 are covered by either type of plan, compared to 80 percent of workers earning between \$75,000 and \$99,999 (figure 12, page 14). For comparison's sake, the estimate of the median salary for full-time civilian workers in 2003 drawn from the SCF was \$38,600.

Figure 10 | Percentage of Workers with DB Coverage and with 401(k)-Type Coverage at Current Job, 1989 to 2004

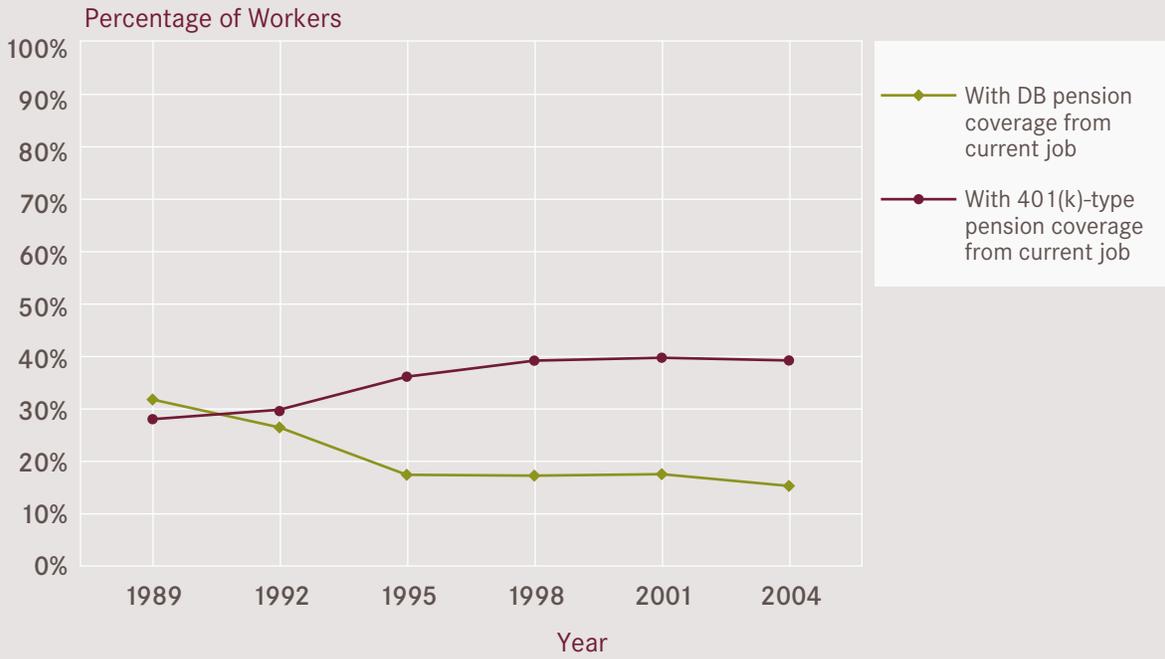


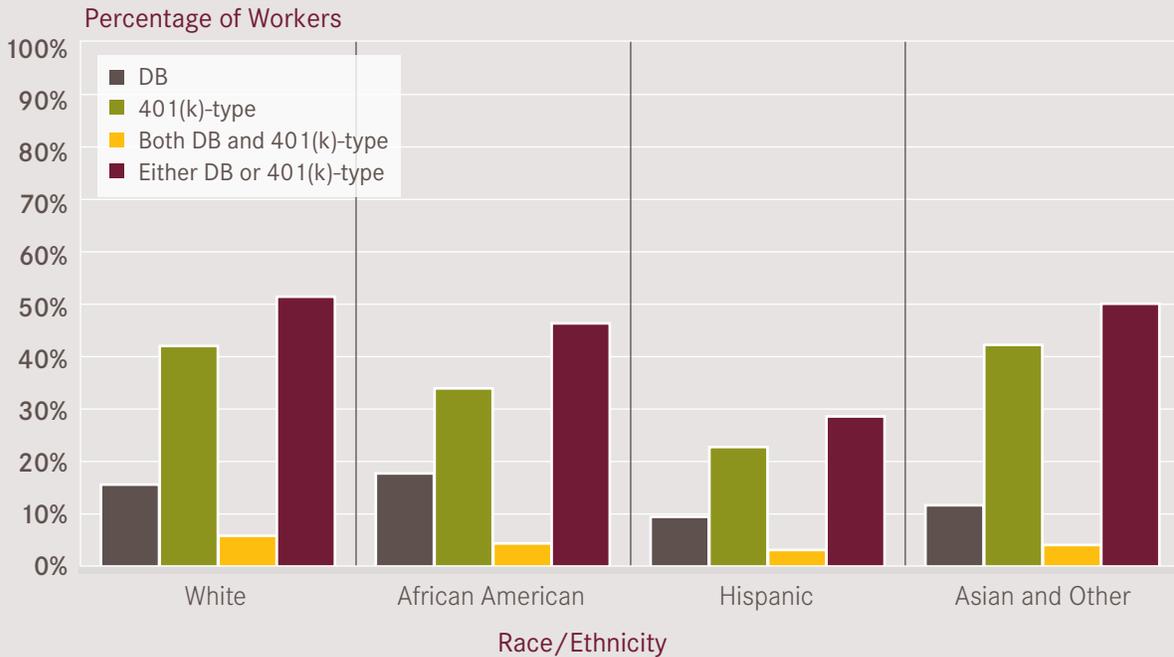
Figure 11 | Percentage of Workers with Pension Coverage at Current Job by Age Group, 2004



Figure 12 | Percentage of Workers with Pension Coverage at Current Job by Annual Wage/Salary Level, 2004



Figure 13 | Percentage of Workers with Pension Coverage at Current Job by Race/Ethnicity, 2004



Type of coverage by race and ethnicity.

Coverage under either DB or 401(k) plans is distinctly lower for Hispanics than it is for other ethnic groups (figure 13, page 14). Interestingly, DB plan coverage of African Americans is somewhat higher than it is for whites (although at 17 percent it is not high), but the impact of this difference on overall coverage by employer-provided plans is offset by the lower rate of coverage of 401(k) plans. This difference is partly explained by a greater concentration of African-American employment in government, where DB plans are more prevalent.⁹

Coverage by gender and marital status.

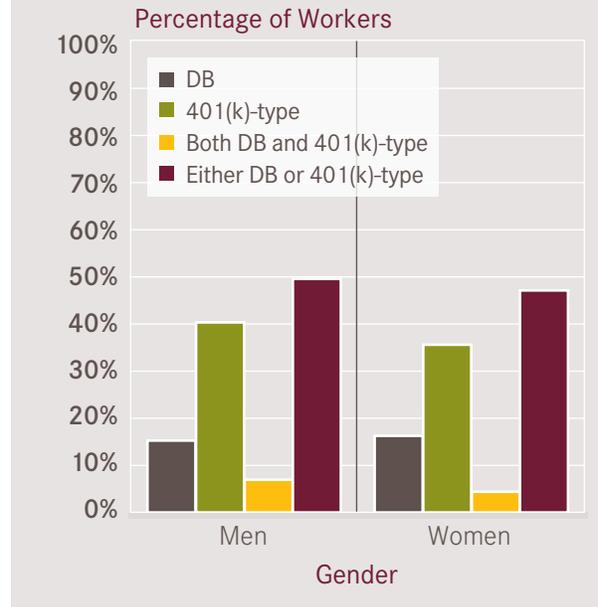
The pattern of coverage for both DB and 401(k) plans by both gender and marital status is much the same as the pattern for broader coverage (figure 14; and figure 15, page 16).

Coverage by firm size. Figure 16 (page 16) illustrates the well-known tendency of employer-provided pension coverage to increase markedly with firm size (as measured by the number of employees). The administration of both traditional DB plans and 401(k) plans is characterized by substantial economies of scale, making it less costly for larger firms to offer these plans than it is for smaller firms. Administrative costs per plan member are prohibitively high for small DB plans; they are lower but still substantial for small 401(k) plans.¹⁰ However, even for firms with 500 or more employees, the coverage of DB plans is not much above 20 percent of the workforce.

Coverage by job tenure and type of job.

Coverage by both DB and 401(k) plans increases with length of time on the job

Figure 14 | Percentage of Workers with Pension Coverage from Current Job by Gender, 2004



(tenure). The coverage of 401(k) plans is substantially higher than that of DB plans at any tenure but the gap in coverage between the two in proportional terms is particularly high for short tenures (figure 17, page 17). This probably reflects in part the fact that contributions to 401(k) plans *vest* more quickly than contributions to DB plans, making them more attractive to short-term employees and employees in industries where turnover is high.¹¹ Even for workers with twenty or more years on the job, the coverage rate under either plan is only about two-thirds.

Full-time workers are much more likely to have a pension plan than are part-time workers. Average coverage of full-time

⁹ See Michelle Singletary, "The Race Savings Gap," *Washington Post*, July 16, 2006.

¹⁰ McGill, Dan M., Kyle N. Brown, John J. Haley and Sylvester J. Schieber, *Fundamentals of Private Pensions*, 8th edition, New York: Oxford University Press, 2005, pp. 89 to 91, report on an analysis of the administrative costs of the two types of plans.

¹¹ Employee contributions to 401(k) plans vest immediately. Employer contributions to 401(k) plans must vest in three years, and employer contributions to DB plans must vest in five years, seven years under gradual vesting.

Figure 15 | Percentage of Workers with Pension Coverage at Current Job by Marital Status, 2004

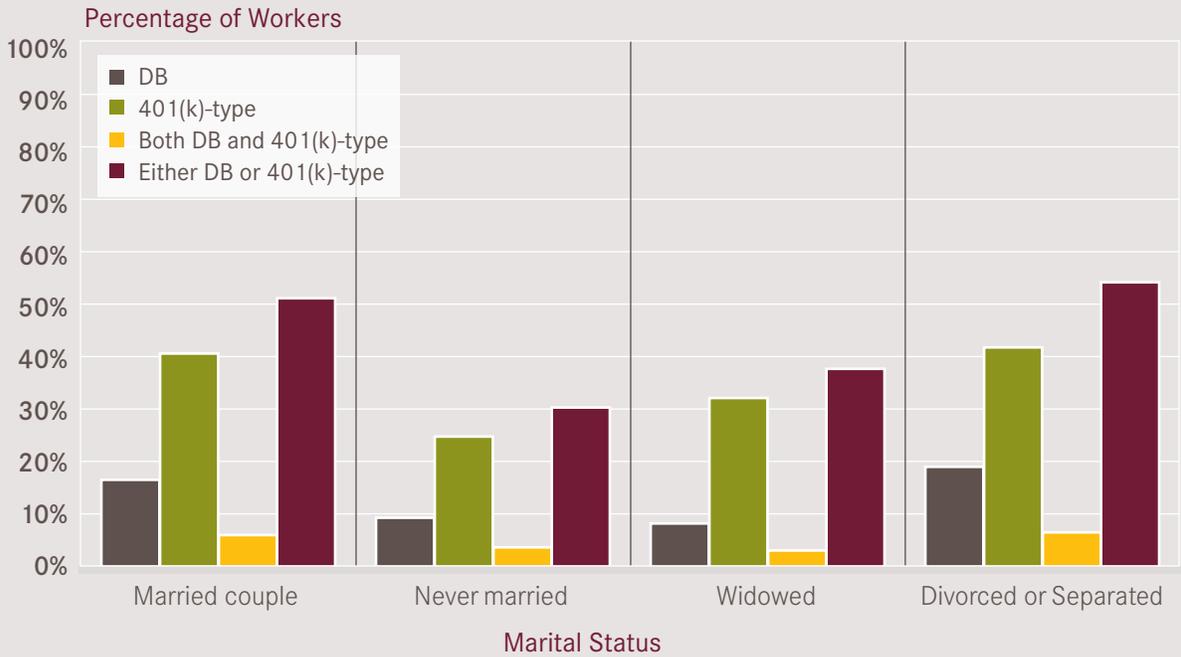


Figure 16 | Percentage of Workers with Pension Coverage at Current Job by Firm Size, 2004

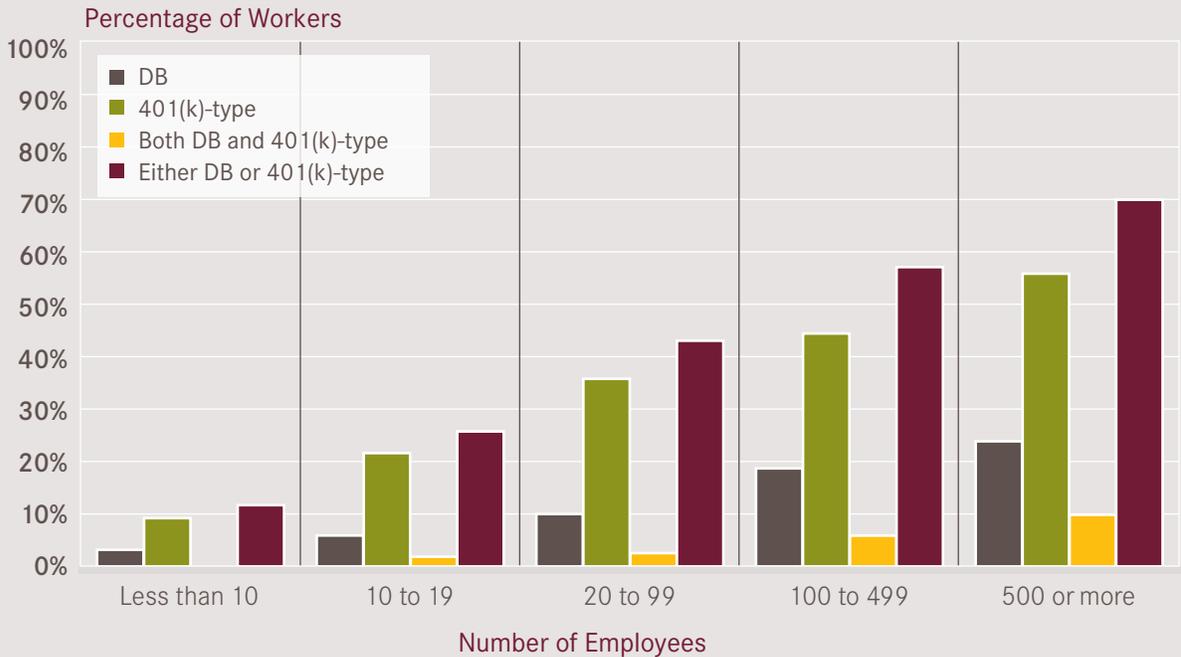


Figure 17 | Percentage of Workers with Pension Coverage at Current Job by Tenure, 2004

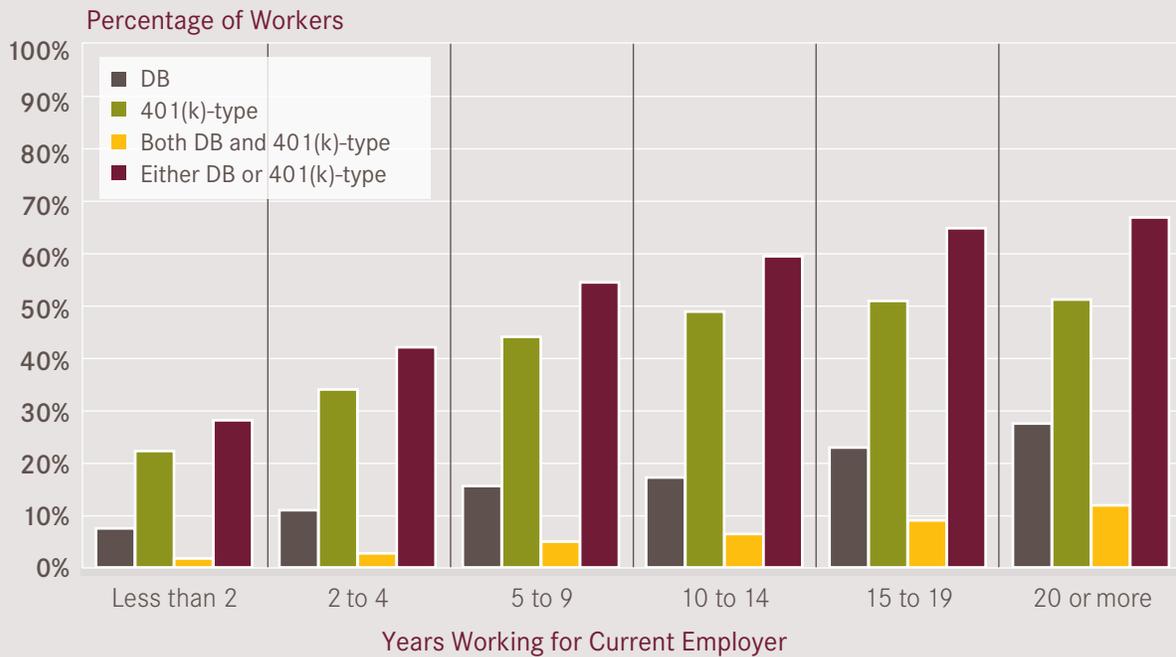
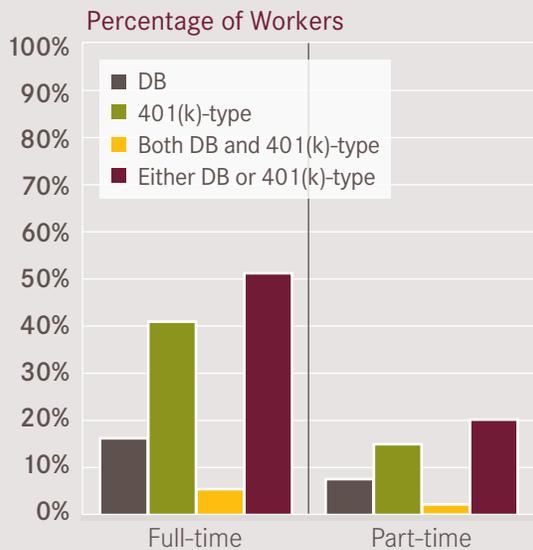


Figure 18 | Percentage of Workers with Pension Coverage at Current Job by Full-Time/Part-Time Status, 2004



workers is just above 50 percent, compared with about 20 percent for part-time workers (figure 18). This disparity in coverage reflects both the higher administrative cost of providing part-time workers with a pension and possibly a lesser interest by part-time workers in fringe benefits because of a weaker attachment to the firm that sponsors the pension plan. The share of part-time workers in the total is small, so their low coverage has relatively little impact on the aggregate figure.

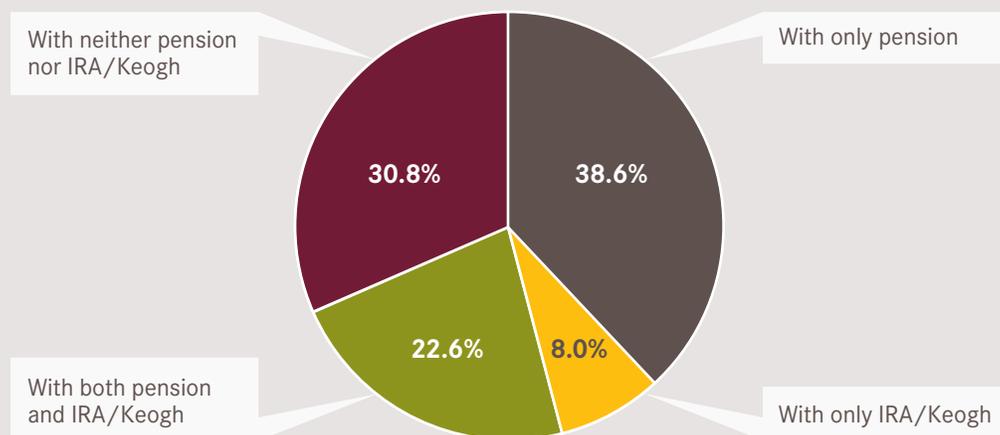
Coverage of Working Families

Overall coverage of working families—the share of working families with at least one working family member with coverage—is higher than coverage of individual workers.¹² While workers may not be covered by pensions themselves, a working family composed of two working spouses will be covered if at least one spouse is covered. The fact that coverage by working family is higher than coverage by worker, however, does not imply that the first definition of coverage is superior to the second, or that the second is understating the “true” rate of coverage.

It is certainly better for a family to have one pension rather than none at all, but it does not follow that the pension is adequate. Adequacy depends on the family’s circumstances. Consider, for example, a traditional family with a stay-at-home spouse that has always managed on one income.

Provided the working family member has been a pension plan member throughout his career, the pension he will ultimately receive may be able to replace a relatively high share of the family’s income from work. Contrast this case with that of a husband and wife, both working but neither very well paid, where only one has

Figure 19 | Percentage of Working Families with Pension Coverage and Retirement Savings, 2004



¹²This does not have to be true for the subgroups shown in the charts that follow. Depending on who is classified as head of household, the rate of coverage of married workers could be higher or lower than the rate of coverage calculated for workers.

been contributing to a pension or retirement plan for much but not all of his or her career. In this second case, the pension (or income that the plan's account balance can sustain) may not replace an adequate share of the couple's working income.

Turning to the survey data, the share of working families with an employer-provided pension is 61 percent, about 9 percentage points higher than the coverage rates of workers (figure 19, page 18). Similarly, the share of working families with coverage either under an employer-provided plan or through ownership of or participation in an IRA/Keogh plan is now about 69 percent, about 6 percentage points higher than coverage for workers. Even at these higher rates of coverage, some 40 percent of working families have no family member who is covered by an employer-provided

pension, and nearly a third have no member with either an employer-provided pension or an IRA/Keogh plan. Consequently, there is a large number of families who, unless they have other savings they can rely on, will face financial insecurity in retirement.

COVERAGE OF EMPLOYER-PROVIDED PENSIONS AND IRA/KEOGH PLANS

Coverage by age and salary. The pattern of coverage of employer-provided pensions of working families by age of family head is very similar to the pattern that characterizes the coverage pattern of workers by age (figure 20). The rate of coverage of working families is higher than that of individual workers for all age groups. The coverage differential by age group ranges from about 5 percent for the younger age groups to 10 percent for the older ages.

Figure 20 | Percentage of Working Families with Pension Coverage and Retirement Savings by Age Group, 2004

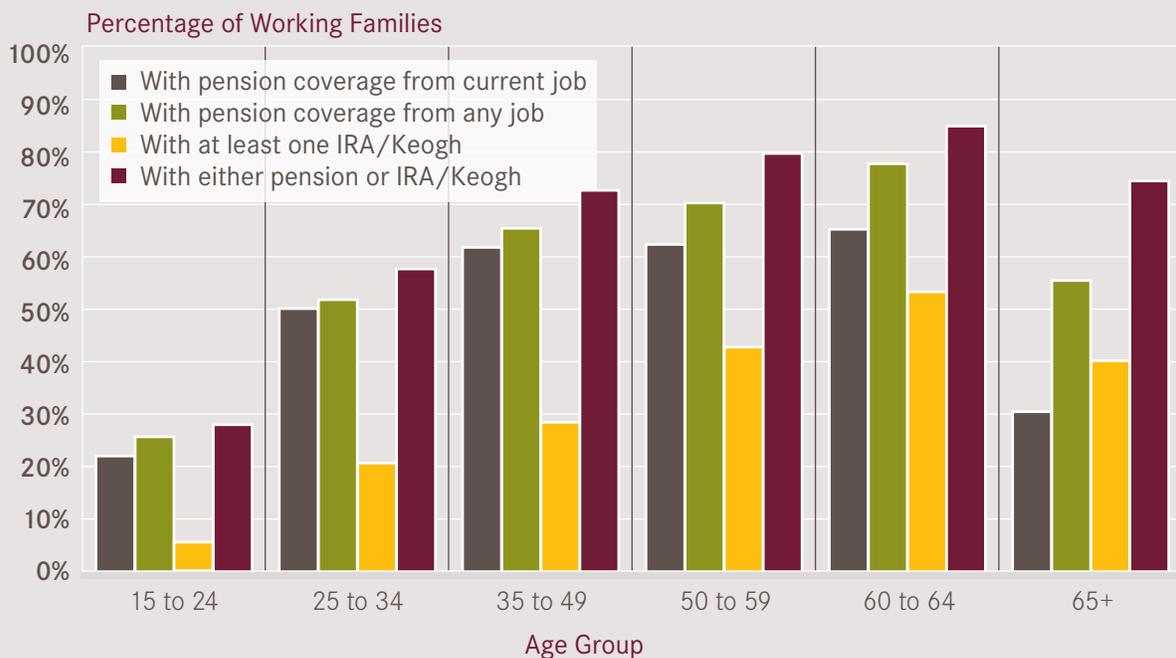


Figure 21 | Percentage of Working Families with Pension Coverage or Retirement Savings by Family Income Level, 2004

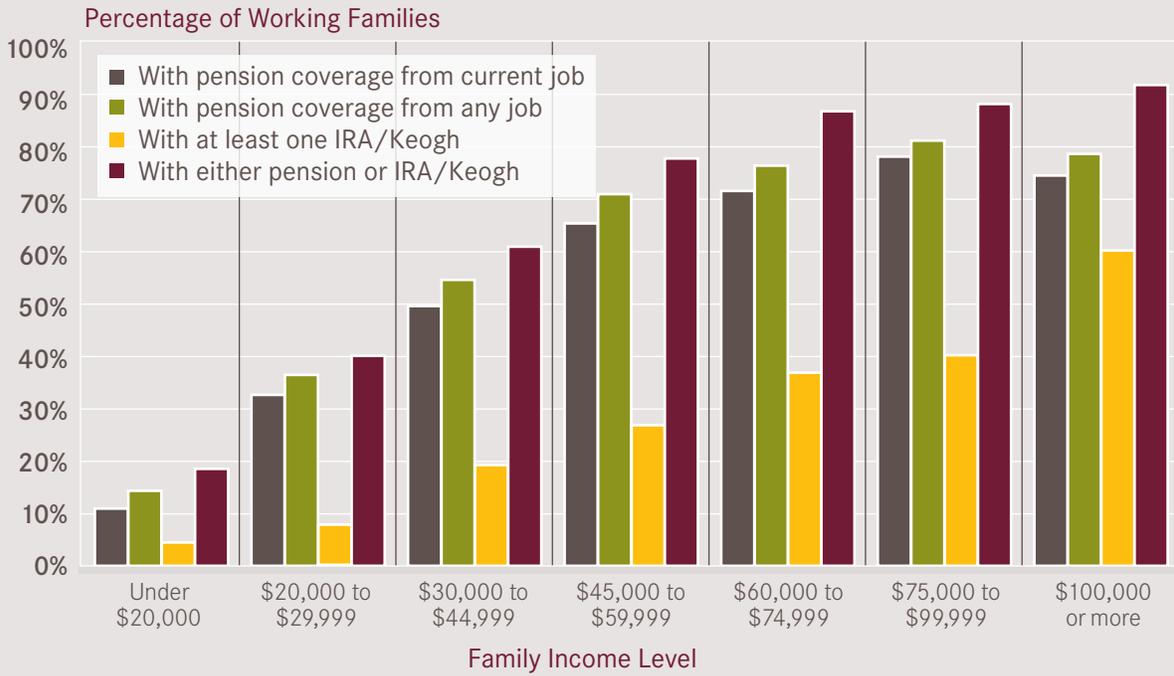


Figure 22 | Percentage of Working Families with Pension Coverage at Current Job by Age of Family Head, 2004

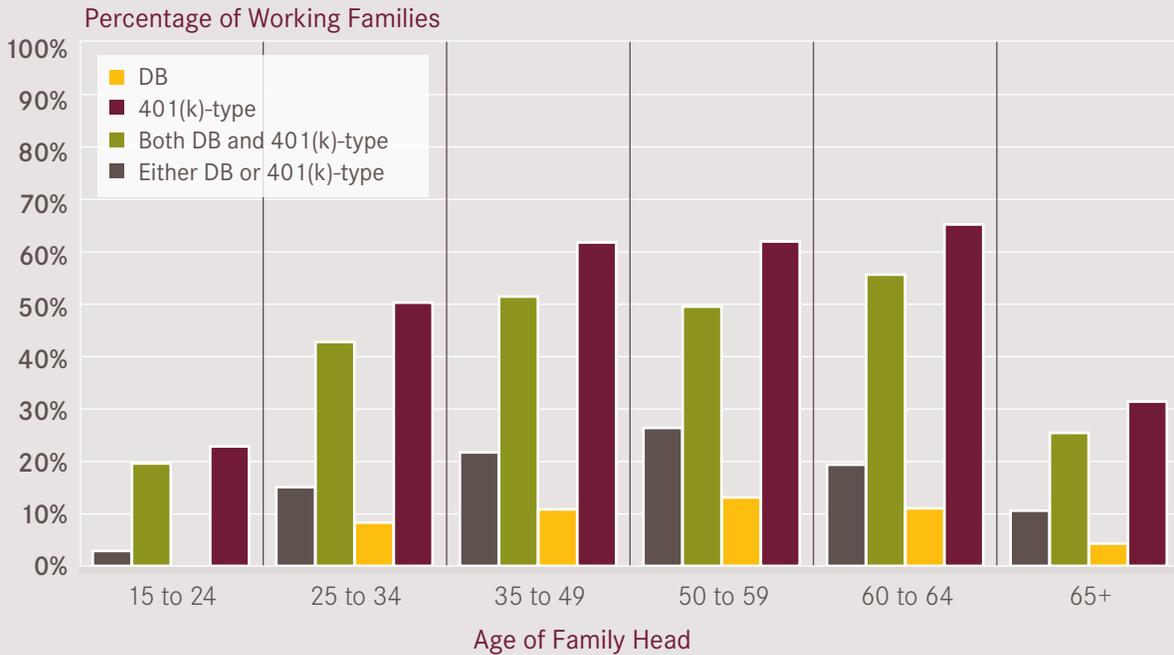
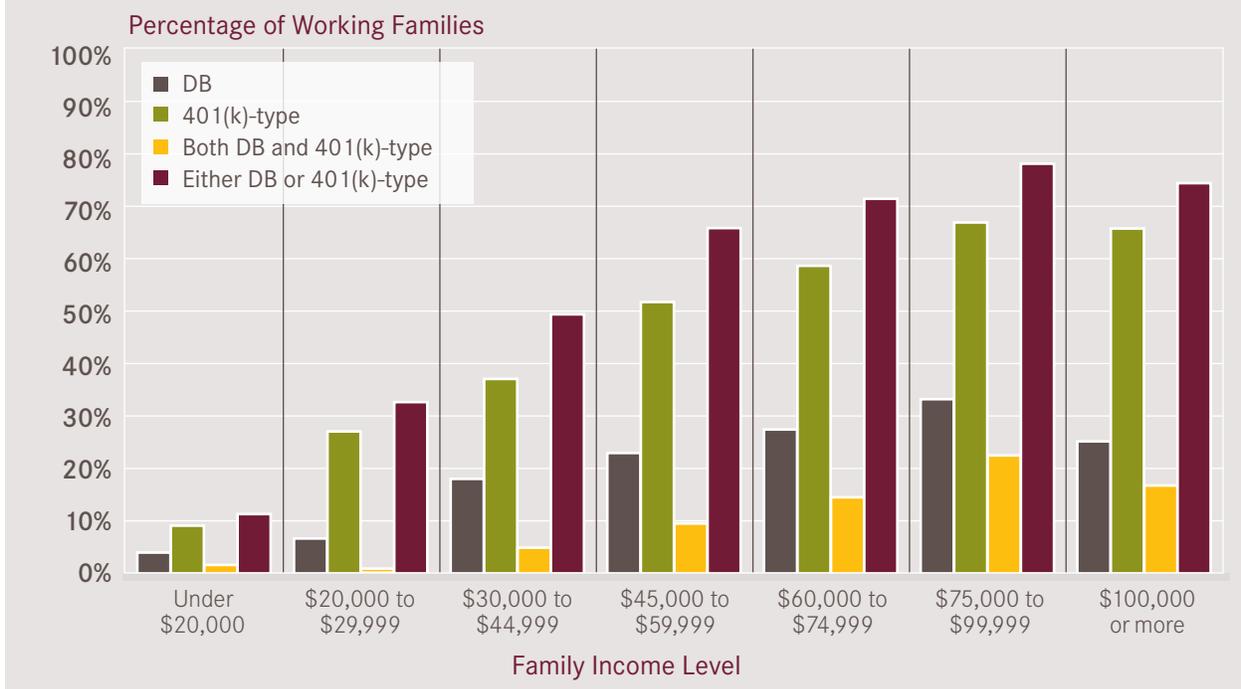


Figure 23 | Percentage of Working Families with Pension Coverage at Current Job by Family Income Level, 2004



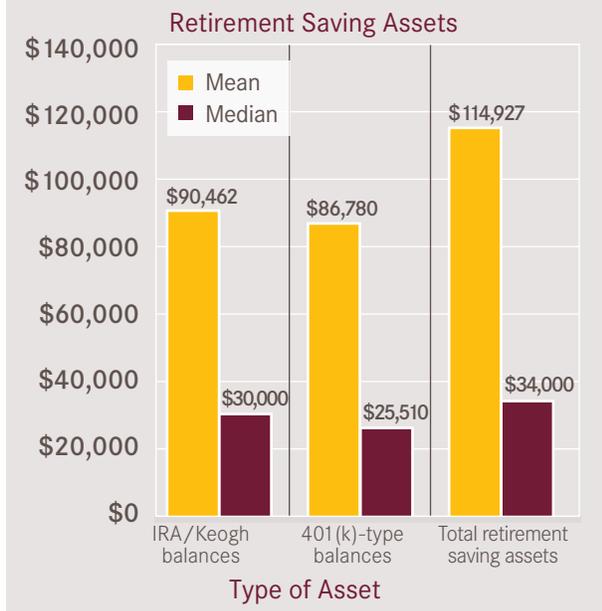
The pattern of coverage of working families by salary is also similar to the pattern for workers in that coverage rates rise substantially as salary increases (figure 21). It is, however, difficult to compare coverage by salary of workers with that of working families, because the coverage rates for working families will depend not only on the number of working spouses, but also on their average income, and not the family's income.¹³

EMPLOYER-PROVIDED PLAN COVERAGE BY TYPE OF PENSION

By age and salary. What was true of pension coverage as a whole is also true of DB and 401(k) plans. Coverage rates increase markedly with age, and coverage rates per working family are significantly higher than coverage rates per worker for some age ranges (compare figure 22 with figure 11). As might be expected, coverage rates rise significantly with salary (figure 23).

¹³ If we compare a worker with an income of \$100,000 with a family of two workers earning \$50,000 each, the probability that the high-income worker has a pension will be greater than the probability that one particular member of a two-worker family will have a pension, and might not be less than the probability that at least one of the workers in the family would have a pension. When we compare a worker age 51 to 59 with a family whose family head is in that same age bracket, income is not a factor.

Figure 24 | Mean and Median Retirement Saving Assets of Those Working Families That Have Them, 2004



PENSION WEALTH

Pension wealth takes two forms: the balances in 401(k)-type and other defined contribution plans and IRA/Keogh plans, and the *capitalized value* of the accrued pension rights of participants in DB plans.

It is difficult to estimate the value of the second form of pension wealth from the SCF data, and the chart book focuses on the value of defined contribution plans, IRAs, and Keogh plans. The median sizes of 401(k)-type and IRA/Keogh plan balances of working families are modest: The combined value is only \$34,000 (figure 24). The average value is more than three times as high, reflecting the skewed (unequal) distribution of these assets.¹⁴

Although the accumulated balances in both IRA/Keogh plan accounts and 401(k) plans should increase with the age of the holder, the balances of Americans nearing retirement are still low. In particular, the median balance for workers ages 60 to 64 is only about \$85,000 (figure 25, page 23). At these ages, it should be near its peak. This sum would purchase a nominal life annuity of no more than \$570 per month for a male retiree age 65. The same sum would purchase an indexed annuity—one with a payment indexed to the cost of living—with an initial payment of \$400 per month, or less than 40 percent of the average Social Security benefit.¹⁵ In practice, the balances in 401(k) plans are not used to buy annuities, and the actual return on them could be less. In interpreting these estimates, we must bear in mind that 401(k) plans have not been part of the American scene for the entire working life of this age cohort. Nonetheless, the holdings of other financial assets of the 60 to 64 age group are not large.

The holdings of retirement savings vary in a pronounced way with income and become significant only in the top quintile (figure 26, page 23). The median balance in the third income quintile is not quite \$19,000. In the fourth income quintile, where the median income is \$79,000, the median balance is about \$40,000. It rises to about \$135,000 for the highest quintile, where the median income is \$142,000.

¹⁴The discussion relies on the concept of the median rather than the mean because the unequal distribution of pension wealth reduces the usefulness of the mean as a descriptive statistic. As an example, consider a small population of eleven workers, ten of whom have balances of \$40,000 each, and one of whom has a balance of \$1,000,000. The mean balance is $\$1,400,000/11 = \$127,273$. The median balance, which is the sixth highest (the middle of the distribution), is \$40,000. The median in this case is a better summary statistic than the mean is; the mean in this particular case tells us nothing about the characteristics of the population.

¹⁵The estimated monthly income for the nominal annuity is based on a quote from Immediateannuity.com, June 16, 2008. The estimated income for the indexed annuity is based on a Public Policy Institute staff estimate and is used for the sake of illustration. A market for indexed annuities has yet to develop in the United States.

Figure 25 | Median Retirement Saving Assets of Those Working Families That Have Them by Age of Family Head, 2004

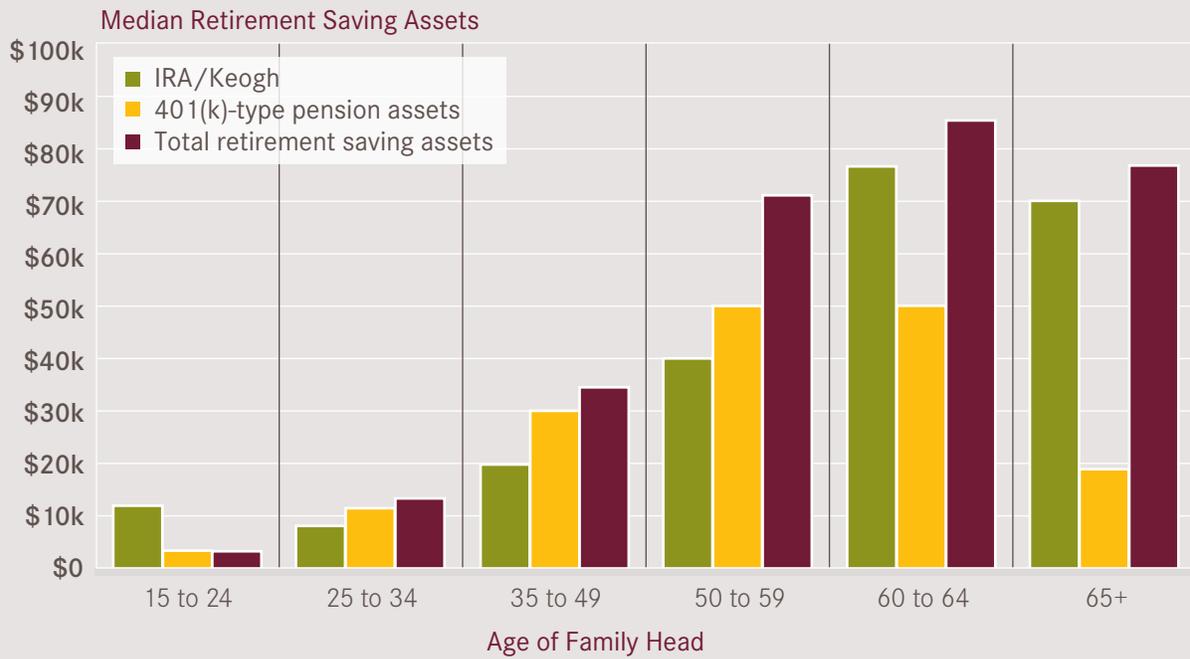


Figure 26 | Median Retirement Saving Assets of Those Working Families That Have Them by Family Income Quintile, 2004

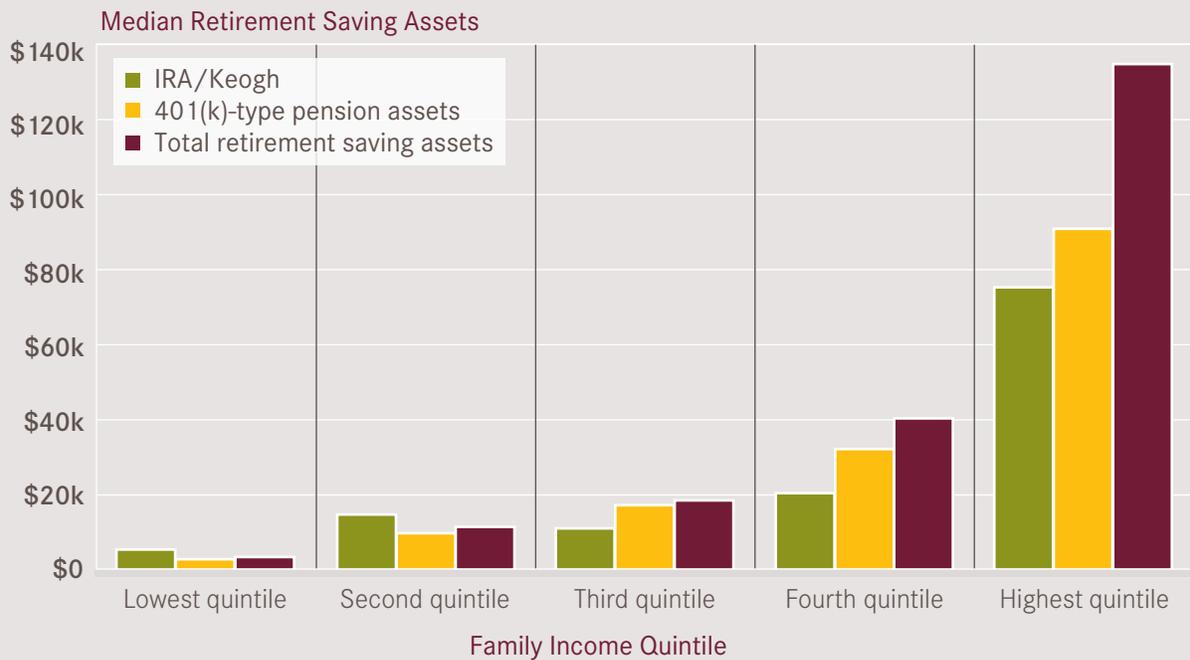


Figure 27 | Median Retirement Saving Assets and Net Financial Assets for Those Working Families That Have Them for Families With and Without Pension Coverage, 2004



Although, as we have seen, including holdings of IRA/Keogh plans in a definition of coverage does increase the coverage rate because some workers who have no coverage from an employer-provided pension do have an IRA/Keogh plan, the balances of workers with a pension are substantially higher than the balances of workers without a pension (figure 27). The same is true of *net financial assets*.

The disparities in holdings of retirement saving assets by race and educational level are if anything more marked than the disparities in pension coverage. Median holdings of retirement saving assets for Hispanic working families are only \$13,000, or less than one-third of the holdings of white families (table A.9, page 41). The holdings of African American families are only \$15,000. Holdings are also strongly related to educational level. A completed college degree is associated with a big increase in retirement assets (table A.10, page 42).

Appendix

DETAILED TRENDS

This section addresses trends in pension coverage by demographic and economic characteristics, and is a more detailed treatment than that in the text. It addresses trends in coverage by gender, salary range, and age for DB and 401(k)-type plans. On the whole, this more detailed examination does not come to conclusions that are different from those of the text.

The aggregate drop in DB coverage shown in figure A.1 has affected women and men about equally; in fact, the drop in percentage terms has been somewhat higher for men.

Similarly, women's rate of 401(k) coverage has increased slightly faster than men's, and

men's and women's rates of coverage are now roughly equal (figure A.2, page 26).

For employer-provided plans as a whole, the share of women covered by an employer-provided plan has increased slightly since 1989 and now equals that of men, which has declined marginally (figure A.3, page 26). The increase in the relative coverage of 401(k) plans may have contributed to this development, because these plans are more suitable for workers with short tenure, which women are more likely to be.

The drop in coverage of DB plans since 1989 has been quite similar for different age groups when measured in proportional terms. For example, the share of workers

Figure A.1 | Percentage of Workers with DB Pension Coverage in Current Job by Gender, 1989 to 2004



Figure A.2 | Percentage of Workers with 401(k)-Type Pension Coverage in Current Job by Gender, 1989 to 2004

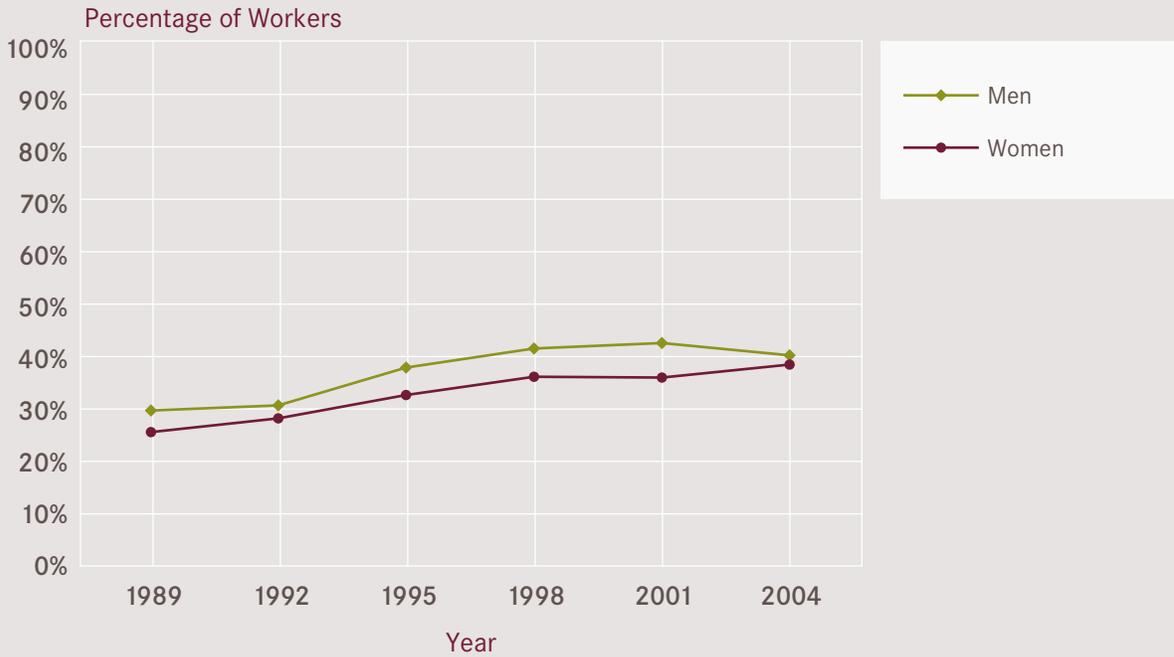


Figure A.3 | Percentage of Workers with either DB or 401(k)-Type Pension Coverage in Current Job by Gender, 1989 to 2004



Figure A.4 | Percentage of Workers with DB Pension Coverage in Current Job by Age Group, 1989 to 2004



Figure A.5 | Percentage of Workers with 401(k)-Type Pension Coverage in Current Job by Age Group, 1989 to 2004



ages 50 to 59 who are members of DB plans has dropped from about 40 percent to 20 percent (a drop of nearly 50 percent, but 20 percentage points) over that period, while the coverage of workers ages 25 to 34 has fallen from about 24 percent to 12 percent (a drop of almost 50 percent, but only 12 percentage points). For both young workers and workers ages 65 and over, the proportional decline is somewhat smaller, but their coverage was already low in 1989 (figure A.4, page 27). This pattern suggests that the decline in coverage may be affecting whole industries or firms—for example, as a result of measures like a hard freeze, where a defined benefit plan will be closed to all contributors. If older workers were grandfathered, the declines in their coverage would not be as great.

The increase in coverage of 401(k) plans since 1989 is more pronounced for older age groups (figure A.5, page 27).

Obvious trends in coverage of both types of employer-provided plans by age are hard to discern (figure A.6).

A substantial decline in the coverage of the DB plan marks all salary ranges (figure A.7). The decline for the two lowest ranges (less than \$20,000 and \$20,000 to \$30,000) is about two-thirds in proportional terms, and much larger than the declines that take place at higher salary ranges. Similarly, the increase in coverage under 401(k) plans is less pronounced for the low salary ranges (figure A.8, page 29).

Figure A.6 | Percentage of Workers with either DB or 401(k)-Type Pension Coverage in Current Job by Age Group, 1989 to 2004



Figure A.7 | Percentage of Workers with DB Pension Coverage in Current Job by Annual Wage/Salary Level in Constant 2004 Dollars, 1989 to 2004

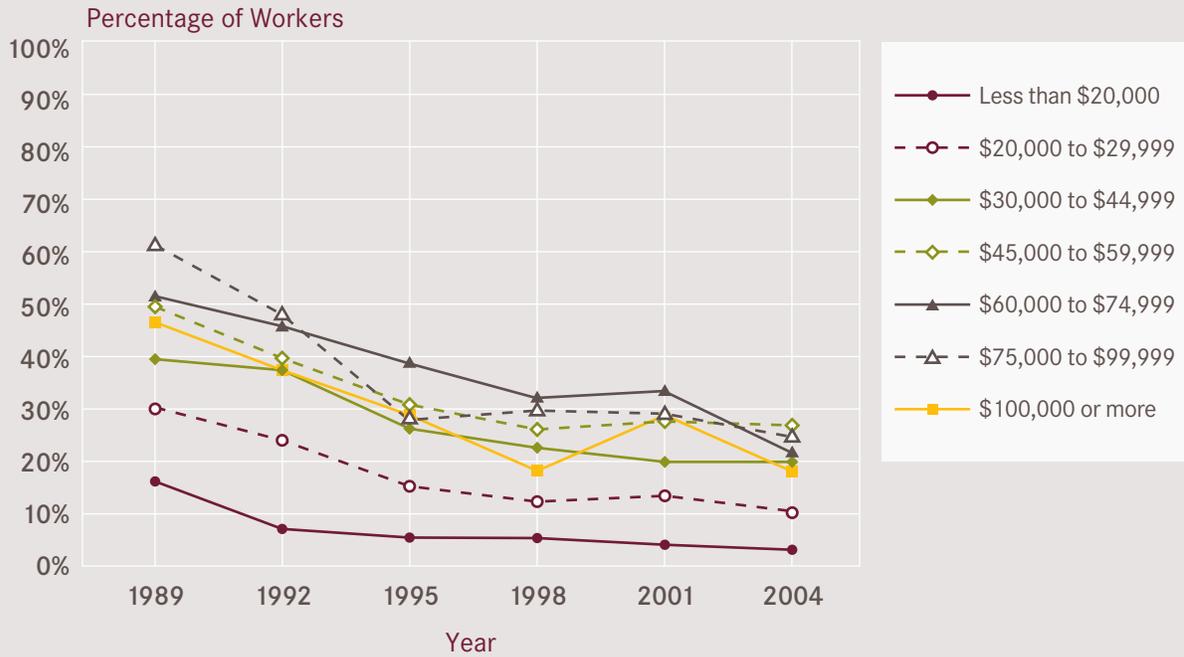


Figure A.8 | Percentage of Workers with 401(k)-Type Coverage in Current Job by Annual Wage/Salary Level in Constant 2004 Dollars, 1989 to 2004



Figure A.9 | Percentage of Workers with either DB or 401(k)-Type Pension Coverage in Current Job by Race/Ethnicity, 1989 to 2004



As for race/ethnicity, there has been some increase in the share of Asian workers and a decline in the share of Hispanic workers (figure A.9).

COVERAGE ON AN ALL-FAMILY BASIS

The definition of “all families” is the combination of all working families and all nonworking families. Nonworking families include families whose head (and spouse, if present) is unemployed or does not participate in the labor force. Families with a retired respondent would be the single most important group within nonworking families.

By the broadest category of coverage, the rate of coverage of all families is quite close to that of working families. Some 36 percent of families have had neither a member

contributing to a pension plan at some time in that person’s career nor a member with an IRA/Keogh, compared with 31 percent for working families (figure A.10, page 31). The share of families with a member who has at some time contributed to a pension plan, at 57 percent, is also close to the corresponding share for workers. These similar rates of coverage reflect the fact that although retired people have not been working recently, their rates of participation in pension plans in the past should be similar to the participation rates of current workers.

Figure A.10 | Percentage of All Families with Pension Coverage and Retirement Savings, 2004

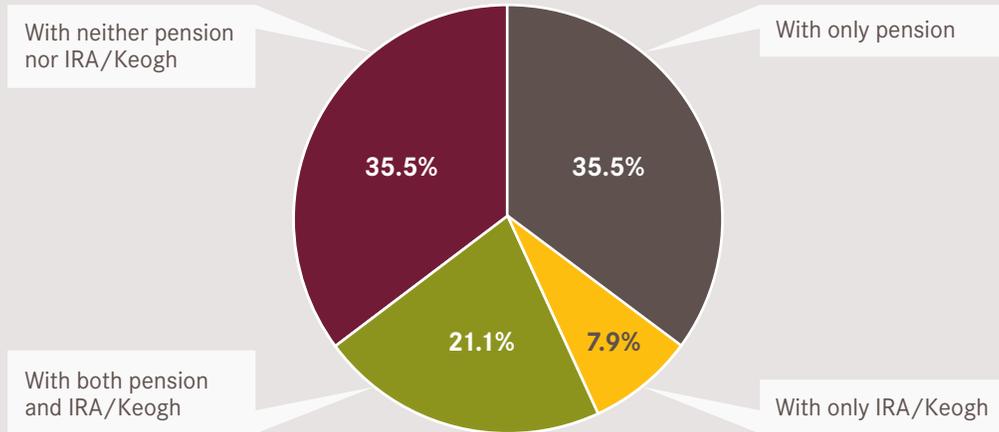


Figure A.11 | Percentage of All Families with Pension Coverage and Retirement Savings by Age Group, 2004

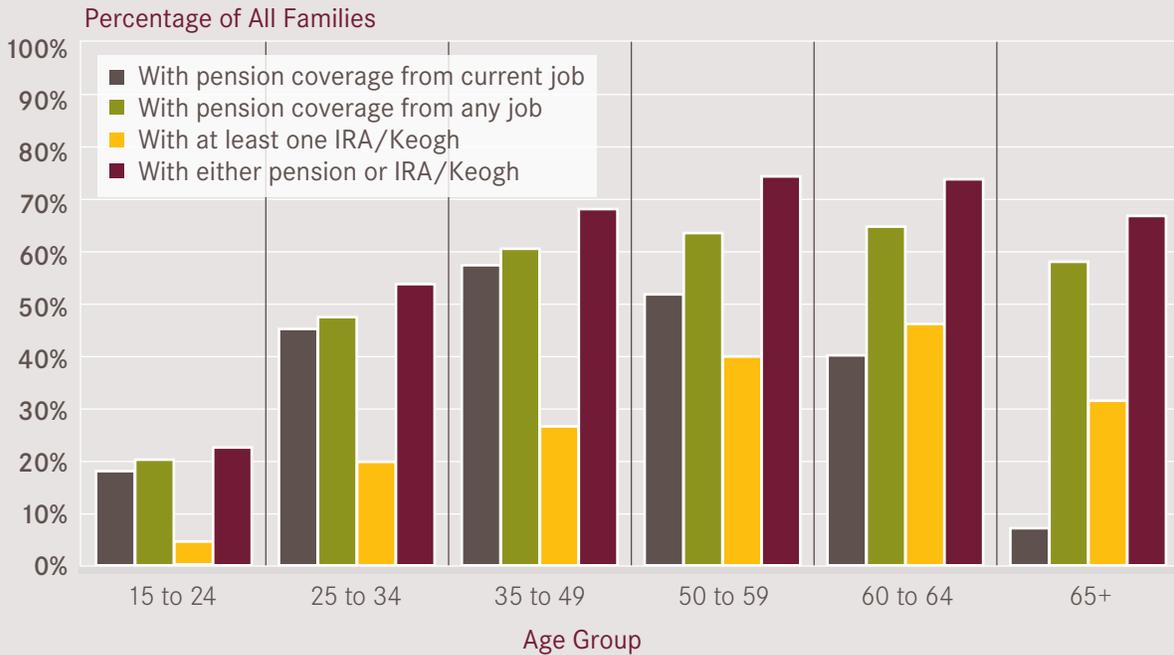
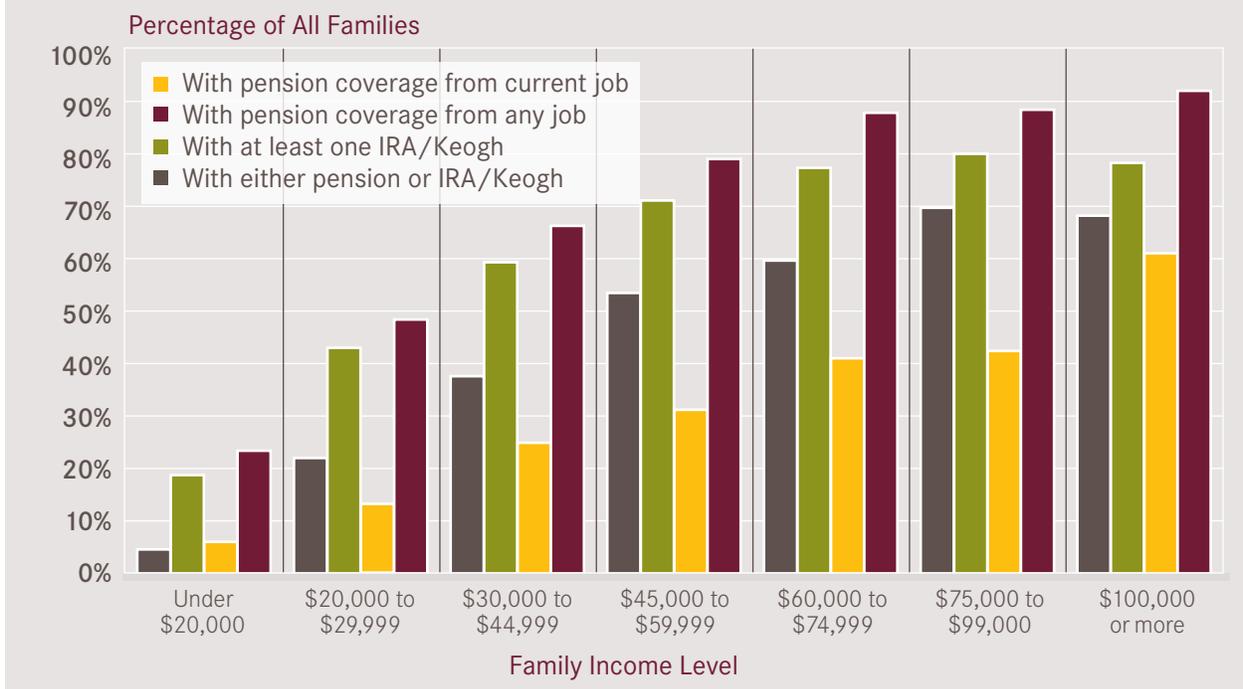


Figure A.12 | Percentage of All Families with Pension Coverage and Retirement Savings by Family Income Level, 2004



Coverage rates by age for all families are quite close to coverage rates for working families for younger ages, even when coverage of a pension from a current job is compared. For ages 35 to 49, the coverage rate for working families is about 62 percent, compared with 57 percent for all families. Above age 60, however, the difference balloons (compare figure A.11 and figure 2o). As could be expected, the difference is less marked or even reversed when the comparison is between rates of coverage from a pension plan from any job.

Coverage rates by family income are very similar for all families and working families (figure A.12), except that coverage under a pension from the current job is much lower for all families with incomes less than \$45,000. This may reflect the concentration of the incomes of retired family heads in this range.

Supporting Tables

Table A.1: Percentage of Workers with Pension and Retirement Savings by Gender, Age, and Race/Ethnicity, 2004

	With Pension Coverage from Current Job		With Pension Coverage from any Job		With at Least One IRA/Keogh		With either Pension or IRA/Keogh	
	Number (Thousands)	%	Number (Thousands)	%	Number (Thousands)	%	Number (Thousands)	%
Total Workers	53,860	48.7	57,862	52.3	29,840	27.0	69,322	62.6
Gender								
Men	37,599	49.3	40,843	53.6	21,403	28.1	48,556	63.7
Women	16,262	47.3	17,019	49.5	8,437	24.5	20,765	60.3
Age								
15 to 24	1,185	18.3	1,298	20.1	288	4.5	1,458	22.5
25 to 34	9,902	42.4	10,276	44.0	4,049	17.3	11,696	50.1
35 to 49	27,296	51.1	26,188	54.8	13,492	25.2	34,294	64.2
50 to 59	13,947	57.5	15,151	62.5	9,431	38.9	18,256	75.3
60 to 64	2,919	55.4	3,364	63.8	2,366	44.9	4,040	76.6
65 and older	884	25.0	1,585	44.9	1,469	41.6	2,439	69.1
Race/Ethnicity								
White	42,595	51.7	45,867	55.7	26,421	32.1	56,003	68.0
African American	5,660	46.2	6,153	50.2	1,647	13.4	6,632	54.2
Hispanic	3,311	28.8	3,456	30.0	586	5.1	3,741	32.5
Asian and Others	2,294	50.5	2,386	52.5	1,186	26.1	2,946	64.8

Data Source: AARP Public Policy Institute Tabulations of the Federal Reserve's Survey of Consumer Finances 2004.

Table A.2: Percentage of Workers with Pension and Retirement Savings by Education Level, Annual Wage/Salary Level, and Full Time/Part Time Status, 2004

	With Pension Coverage from Current Job		With Pension Coverage from any Job		With at Least One IRA/Keogh		With either Pension or IRA/Keogh	
	Number (Thousands)	%	Number (Thousands)	%	Number (Thousands)	%	Number (Thousands)	%
Education								
No High School Diploma	1,804	19.6	1,919	20.9	461	5.0	2,205	24.0
High School Diploma only	11,911	41.1	13,203	45.6	4,677	16.2	15,541	53.7
Some College	9,083	44.4	9,964	48.7	4,352	21.3	12,335	60.3
College Degree	29,402	62.3	31,056	65.8	19,810	42.0	37,345	79.1
Annual Wage/Salary								
Less than \$20,000	3,335	11.8	5,268	18.6	5,472	19.3	9,245	32.6
\$20,000 to \$29,999	8,097	41.8	8,653	44.7	3,022	15.6	10,058	51.9
\$30,000 to \$44,999	14,051	58.0	14,486	59.8	6,126	25.3	16,872	69.7
\$45,000 to \$59,999	10,405	71.5	10,754	73.9	4,048	27.8	11,874	81.5
\$60,000 to \$74,999	6,859	70.6	7,083	72.9	3,902	40.2	8,048	82.8
\$75,000 to \$99,999	5,617	80.1	5,843	83.3	3,046	43.4	6,411	91.4
\$100,000 or more	5,496	73.9	5,775	77.7	4,224	56.8	6,814	91.7
Full or Part Time Status								
Full Time	51,594	51.7	54,726	54.9	26,366	26.4	64,067	64.2
Part Time	2,267	20.8	3,136	28.7	3,473	31.8	5,254	48.1

Data Source: AARP Public Policy Institute Tabulations of the Federal Reserve's Survey of Consumer Finances 2004.

Table A.3: Percentage of Workers with Pension Coverage at Current Job by Gender, Age, Race/Ethnicity, and Annual Wage/Salary Level, 2004

	DB		401(k)-Type		Both DB and 401(k)-Type		Either DB or 401(k)-Type	
	Number (Thousands)	%	Number (Thousands)	%	Number (Thousands)	%	Number (Thousands)	%
Total Workers	16,873	15.2	43,163	39.0	6,176	5.6	53,860	48.7
Gender								
Men	11,452	15.0	30,863	40.5	4,716	6.2	37,599	49.3
Women	5,422	15.8	12,300	35.7	1,460	4.2	16,262	47.3
Age								
15 to 24	189	2.9	997	15.4	0	0.0	1,185	18.3
25 to 34	2,853	12.2	8,060	34.5	1,011	4.3	9,902	42.4
35 to 49	8,705	16.3	21,898	41.0	3,307	6.2	27,296	51.1
50 to 59	5,001	20.6	10,701	44.1	1,754	7.2	13,947	57.5
60 to 64	752	14.3	2,477	47.0	310	5.9	2,919	55.4
65 and older	308	8.7	741	21.0	165	4.7	884	25.0
Race/Ethnicity								
White	13,147	16.0	34,455	41.8	5,006	6.1	42,595	51.7
African American	2,125	17.4	4,133	33.8	598	4.9	5,660	46.2
Hispanic	1,079	9.4	2,644	23.0	412	3.6	3,311	28.8
Asian and Others	522	11.5	1,932	42.5	160	3.5	2,294	50.5
Annual Wage/Salary								
Less than \$20,000	985	3.5	2,570	9.1	221	0.8	3,335	11.8
\$20,000 to \$29,999	1,973	10.2	6,566	33.9	442	2.3	8,097	41.8
\$30,000 to \$44,999	4,861	20.1	10,482	43.3	1,291	5.3	14,051	58.0
\$45,000 to \$59,999	3,884	26.7	8,058	55.3	1,537	10.6	10,405	71.5
\$60,000 to \$74,999	2,083	21.4	5,929	61.0	1,153	11.9	6,859	70.6
\$75,000 to \$99,999	1,728	24.6	4,682	66.7	793	11.3	5,617	80.1
\$100,000 or more	1,358	18.3	4,876	65.6	738	9.9	5,496	73.9

Data Source: AARP Public Policy Institute Tabulations of the Federal Reserve's Survey of Consumer Finances 2004.

Table A.4: Percentage of Workers with Pension Coverage at Current Job by Worker's Tenure, Firm Size, and Full Time/Part Time Status, 2004

	DB		401(k)-Type		Both DB and 401(k)-Type		Either DB or 401(k)-Type	
	Number (Thousands)	%	Number (Thousands)	%	Number (Thousands)	%	Number (Thousands)	%
Tenure								
Less than 2 years	930	7.9	2,690	22.8	249	2.1	3,372	28.6
2 to 4 years	2,930	11.0	9,242	34.6	837	3.1	11,335	42.5
5 to 9 years	3,765	15.8	10,549	44.4	1,217	5.1	13,097	55.1
10 to 14 years	2,251	17.5	6,329	49.1	877	6.8	7,702	59.8
15 to 19 years	1,912	23.2	4,247	51.6	781	9.5	5,378	65.3
20 years or more	4,789	28.0	8,835	51.6	2,089	12.2	11,534	67.4
Firm Size								
Less than 10 employees	610	2.7	2,137	9.4	82	0.4	2,666	11.7
10 to 19 employees	451	5.7	1,703	21.4	137	1.7	2,018	25.4
20 to 99 employees	1,726	9.7	6,438	36.1	441	2.5	7,723	43.3
10 to 499 employees	3,273	19.0	7,666	44.5	1,040	6.0	9,900	57.4
500 or more employees	10,813	24.1	25,218	56.2	4,478	10.0	31,554	70.3
Full or Part Time Status								
Full Time	16,032	16.1	41,480	41.6	5,918	5.9	51,594	51.7
Part Time	841	7.7	1,684	15.4	258	2.4	2,267	20.8

Data Source: AARP Public Policy Institute Tabulations of the Federal Reserve's Survey of Consumer Finances 2004.

Table A.5: Percentage of Workers with Pension Coverage at Current or Previous Job by Gender, Age, Race/Ethnicity, and Annual Wage/Salary Level, 2004

	DB		401(k)-Type		Both DB and 401(k)-Type		Either DB or 401(k)-Type	
	Number (Thousands)	%	Number (Thousands)	%	Number (Thousands)	%	Number (Thousands)	%
Total Workers	23,444	21.2	44,207	39.9	9,790	8.8	57,862	52.3
Gender								
Men	16,534	21.7	31,717	41.6	6,252	10.8	40,843	53.6
Women	6,910	20.1	12,490	36.3	3,307	6.9	17,019	49.5
Age								
15 to 24	250	3.9	1,048	16.2	0	0.0	1,298	20.1
25 to 34	3,407	14.6	8,201	35.1	1,333	5.7	10,276	44.0
35 to 49	9,784	20.5	20,645	43.2	4,241	8.9	26,188	54.8
50 to 59	7,050	29.1	11,008	45.4	2,906	12.0	15,151	62.5
60 to 64	1,829	34.7	2,545	48.3	1,010	19.2	3,364	63.8
65 and older	1,125	31.8	760	21.5	300	8.5	1,585	44.9
Race/Ethnicity								
White	18,774	22.8	35,316	42.9	8,223	10.0	45,867	55.7
African American	2,774	22.6	4,199	34.3	820	6.7	6,153	50.2
Hispanic	1,314	11.4	2,695	23.4	553	4.8	3,456	30.0
Asian and Others	583	12.8	1,997	43.9	194	4.3	2,386	52.5
Annual Wage/Salary								
Less than \$20,000	2,956	10.4	2,920	10.3	608	2.1	5,268	18.6
\$20,000 to \$29,999	2,798	14.4	6,656	34.4	802	4.1	8,653	44.7
\$30,000 to \$44,999	5,995	24.8	10,643	44.0	2,152	8.9	14,486	59.8
\$45,000 to \$59,999	4,691	32.2	8,239	56.6	2,176	14.9	10,754	73.9
\$60,000 to \$74,999	2,581	26.6	6,054	62.3	1,551	16.0	7,083	72.9
\$75,000 to \$99,999	2,241	31.9	4,714	67.2	1,113	15.9	5,843	83.3
\$100,000 or more	2,183	29.4	4,981	67.0	1,388	18.7	5,775	77.7

Data Source: AARP Public Policy Institute Tabulations of the Federal Reserve's Survey of Consumer Finances 2004.

Table A.6: Percentage of Working Families with Pension Coverage and Retirement Savings by Age of Family Head, Marital Status, and Family Income Level, 2004

	With Pension Coverage from Current Job		With Pension Coverage from any Job		With at Least One IRA/Keogh		With either Pension or IRA/Keogh	
	Number (Thousands)	%	Number (Thousands)	%	Number (Thousands)	%	Number (Thousands)	%
Total Working Families	44,410	55.6	48,888	61.2	24,490	30.7	55,295	69.2
Age								
15 to 24	1,123	22.9	1,236	25.2	252	5.1	1,353	27.6
25 to 34	8,197	49.7	8,596	52.1	3,364	20.4	9,465	57.4
35 to 49	19,990	62.0	20,994	65.1	9,071	28.1	23,522	72.9
50 to 59	10,644	62.4	11,897	69.7	7,432	43.6	13,635	79.9
60 to 64	3,081	65.0	3,702	78.1	2,553	53.9	4,030	85.1
65 and older	1,375	31.1	2,463	55.7	1,819	41.1	3,289	74.4
Marital Status								
Married Couple	32,197	60.4	35,433	66.5	18,785	35.2	39,664	74.4
Never Married	4,748	40.8	5,149	44.2	2,185	18.8	6,020	51.7
Widowed	1,009	44.3	1,235	54.2	862	37.9	1,619	71.1
Divorced or Separated	6,455	51.1	7,071	56.0	2,657	21.0	7,992	63.3
Family Income								
Less than \$20,000	988	10.7	1,424	15.5	411	4.5	1,814	19.7
\$20,000 to \$29,999	3,153	32.0	3,653	37.1	809	8.2	4,028	40.9
\$30,000 to \$44,999	6,904	49.2	7,787	55.5	2,771	19.8	8,729	62.3
\$45,000 to \$59,999	7,571	64.2	8,452	71.7	3,344	28.4	9,342	79.2
\$60,000 to \$74,999	6,269	70.2	6,810	76.2	3,361	37.6	7,776	87.1
\$75,000 to \$99,999	7,295	77.0	7,655	80.8	3,939	41.6	8,374	88.4
\$100,000 or more	12,228	73.7	13,107	79.0	9,856	59.4	15,232	91.8

Data Source: AARP Public Policy Institute Tabulations of the Federal Reserve's Survey of Consumer Finances 2004.

Table A.7: Percentage of Working Families with Pension Coverage at Current Job by Age of Family Head, Marital Status, and Family Income Level, 2004

	DB		401 (k)-Type		Both DB and 401(k)-Type		Either DB or 401(k)-Type	
	Number (Thousands)	%	Number (Thousands)	%	Number (Thousands)	%	Number (Thousands)	%
Total Working Families	15,583	19.5	36,619	45.9	7,793	9.8	44,410	55.6
Age								
15 to 24	187	3.8	936	19.1	0	0.0	1,123	22.9
25 to 34	2,517	15.3	7,041	42.7	1,361	8.2	8,197	49.7
35 to 49	6,991	21.7	16,469	51.1	3,470	10.8	19,990	62.0
50 to 59	4,491	26.3	8,427	49.4	2,274	13.3	10,644	62.4
60 to 64	921	19.4	2,642	55.7	482	10.2	3,081	65.0
65 and older	476	10.8	1,105	25.0	205	4.6	1,375	31.1
Marital Status								
Married Couple	11,886	22.3	26,820	50.3	6,508	12.2	32,197	60.4
Never Married	1,325	11.4	3,852	33.1	429	3.7	4,748	40.8
Widowed	276	12.1	860	37.8	127	5.6	1,009	44.3
Divorced or Separated	2,095	16.6	5,088	40.3	728	5.8	6,455	51.1
Family Income								
Less than \$20,000	350	3.8	791	8.6	153	1.7	988	10.7
\$20,000 to \$29,999	682	6.9	2,530	25.7	59	0.6	3,153	32.0
\$30,000 to \$44,999	2,342	16.7	5,248	37.4	685	4.9	6,904	49.2
\$45,000 to \$59,999	2,705	22.9	5,948	50.4	1,082	9.2	7,571	64.2
\$60,000 to \$74,999	2,321	26.0	5,089	57.0	1,141	12.8	6,269	70.2
\$75,000 to \$99,999	3,181	33.6	6,106	64.5	1,991	21.0	7,295	77.0
\$100,000 or more	4,003	24.1	10,907	65.7	2,681	16.2	12,228	73.7

Data Source: AARP Public Policy Institute Tabulations of the Federal Reserve's Survey of Consumer Finances 2004.

Table A.8: Percentage of Working Families with Pension Coverage at Current or Previous Job by Age of Family Head and Family Income Level, 2004

	DB		401 (k)-Type		Both DB and 401(k)-Type		Either DB or 401(k)-Type	
	Number (Thousands)	%	Number (Thousands)	%	Number (Thousands)	%	Number (Thousands)	%
Total Working Families	23,575	29.5	37,563	47.0	12,250	15.3	48,888	61.2
Age								
15 to 24	249	5.1	987	20.1	0	0.0	1,236	25.2
25 to 34	3,186	19.3	7,199	43.6	1,789	10.8	8,596	52.1
35 to 49	9,196	28.5	16,847	52.2	5,049	15.7	20,994	65.1
50 to 59	6,710	39.3	8,684	50.9	3,498	20.5	11,897	69.7
60 to 64	2,462	51.9	2,714	57.3	1,474	31.1	3,702	78.1
65 and older	1,772	40.1	1,132	25.6	440	10.0	2,463	55.7
Family Income								
Less than \$20,000	823	8.9	800	8.7	199	2.2	1,424	15.5
\$20,000 to \$29,999	1,236	12.6	2,580	26.2	163	1.7	3,653	37.1
\$30,000 to \$44,999	3,609	25.7	5,400	38.5	1,222	8.7	7,787	55.5
\$45,000 to \$59,999	4,086	34.6	6,150	52.1	1,784	15.1	8,452	71.7
\$60,000 to \$74,999	3,273	36.6	5,172	57.9	1,635	18.3	6,810	76.2
\$75,000 to \$99,999	4,171	44.0	6,297	66.5	2,813	29.7	7,655	80.8
\$100,000 or more	6,377	38.4	11,164	67.3	4,434	26.7	13,107	79.0

Data Source: AARP Public Policy Institute Tabulations of the Federal Reserve's Survey of Consumer Finances 2004.

Table A.9: Number of Working Families with Retirement Savings and Mean and Median of Retirement Savings for Those Families Who Have This Type of Savings by Age of Family Head and Race/Ethnicity, 2004

	IRA/Keogh Assets			401 (k)-Type Pension Assets			Total Retirement Savings Assets		
	Number (Thousands)	Mean \$	Median \$	Number (Thousands)	Mean \$	Median \$	Number (Thousands)	Mean \$	Median \$
Total Working Families	22,505	90,462	30,000	33,535	86,780	25,510	43,037	114,927	34,000
Age									
15 to 24	252	10,696	11,400	1,005	8,662	3,000	1,174	9,707	3,000
25 to 34	3,244	19,439	8,000	6,685	24,557	11,000	7,911	28,722	13,000
35 to 49	8,811	65,094	20,000	15,294	68,438	30,000	18,845	85,979	34,000
50 to 59	6,898	105,748	40,000	7,829	155,372	50,000	10,676	182,270	71,000
60 to 64	2,004	162,665	77,000	2,039	175,172	50,000	2,780	245,797	85,400
65 and older	1,297	263,039	70,000	682	171,384	19,000	1,651	277,385	77,000
Race/Ethnicity									
White	19,876	95,777	30,000	26,830	93,569	29,000	34,866	126,601	40,000
African American	1,303	36,443	8,400	3,334	60,103	16,000	3,972	62,409	15,000
Hispanic	448	35,694	14,000	2,023	34,589	13,600	2,316	37,127	13,000
Asian and Others	878	78,295	48,000	1,348	95,969	38,000	1,883	105,218	43,000

Data Source: AARP Public Policy Institute Tabulations of the Federal Reserve's Survey of Consumer Finances 2004.

Table A.10: Number of Working Families with Retirement Savings and Mean and Median of Retirement Savings for Those Families Who Have This Type of Savings by Marital Status, Education Level, and Family Income Quintile, 2004

	IRA/Keogh Assets			401 (k)-Type Pension Assets			Total Retirement Savings Assets		
	Number (Thousands)	Mean \$	Median \$	Number (Thousands)	Mean \$	Median \$	Number (Thousands)	Mean \$	Median \$
Marital Status									
Married Couple	16,801	104,458	33,000	23,944	103,998	35,000	30,648	138,509	46,000
Never Married	2,185	36,612	14,000	3,868	31,169	9,700	4,985	40,240	12,000
Widowed	862	106,048	54,000	811	37,618	17,000	1,284	94,967	35,000
Divorced or Separated	2,657	41,192	15,000	4,912	54,764	16,000	6,120	61,844	19,000
Education									
No High School Diploma	313	16,055	14,000	1,306	28,857	14,000	1,503	28,410	14,000
High School Diploma	4,319	44,373	13,000	8,783	48,062	17,000	11,050	55,550	18,100
Some College	3,208	58,732	13,000	6,034	55,893	17,000	7,636	68,842	19,000
College Degree	14,666	112,564	36,000	17,411	121,361	40,000	22,848	164,737	60,000
Family Income Quintile									
Lowest Quintile	775	24,590	5,000	2,329	10,787	2,500	2,957	14,945	3,000
Second Quintile	2,485	28,828	14,000	4,934	19,864	9,000	6,406	26,481	11,000
Middle Quintile	4,348	36,642	10,500	7,606	35,178	16,500	9,460	45,126	18,100
Fourth Quintile	5,797	53,563	20,000	8,936	75,780	32,000	11,361	86,936	40,000
Highest Quintile	9,101	162,117	75,000	9,729	189,356	91,000	12,853	258,131	135,000

¹ Working Family Income Quintile break-points are: \$26,000, \$43,000, \$63,000, and \$100,000

Data Source: AARP Public Policy Institute Tabulations of the Federal Reserve's Survey of Consumer Finances 2004.

Table A.11: Percentage of All Families with Pension Coverage and Retirement Savings by Age of Family Head, Marital Status, and Family Income Level, 2004

	With Pension Coverage from Current Job		With Pension Coverage from any Job		With at Least One IRA/Keogh		With either Pension or IRA/Keogh	
	Number (Thousands)	%	Number (Thousands)	%	Number (Thousands)	%	Number (Thousands)	%
Total Families	45,148	40.3	63,382	56.5	32,530	29.0	72,278	64.5
Age								
15 to 24	1,123	17.7	1,268	20.0	290	4.6	1,424	22.5
25 to 34	8,401	45.3	8,832	47.6	3,662	19.7	9,942	53.6
35 to 49	20,159	57.4	21,274	60.6	9,332	26.6	23,988	68.3
50 to 59	10,744	51.7	13,322	64.1	8,296	39.9	15,453	74.4
60 to 64	3,081	40.6	4,923	64.9	3,495	46.1	5,616	74.1
65 and older	1,640	6.9	13,763	57.9	7,454	31.4	15,855	66.7
Marital Status								
Married Couple	32,619	50.2	41,974	64.6	23,286	35.8	47,576	73.2
Never Married	4,846	29.2	6,101	36.8	3,016	18.2	7,333	44.3
Widowed	1,099	9.4	5,696	48.7	2,577	22.0	6,597	56.4
Divorced or Separated	6,584	34.9	9,611	51.0	3,652	19.4	10,772	57.1
Family Income								
Less than \$20,000	1,045	4.3	4,649	18.9	1,496	6.1	5,788	23.5
\$20,000 to \$29,999	3,380	22.3	6,526	43.0	2,045	13.5	7,361	48.5
\$30,000 to \$44,999	7,103	37.9	11,141	59.4	4,670	24.9	12,461	66.4
\$45,000 to \$59,999	7,693	53.4	10,234	71.0	4,464	31.0	11,411	79.2
\$60,000 to \$74,999	6,313	59.6	8,186	77.3	4,344	41.0	9,306	87.8
\$75,000 to \$99,999	7,324	69.9	8,424	80.4	4,460	42.6	9,280	88.6
\$100,000 or more	12,290	67.9	14,223	78.5	11,052	61.0	16,671	92.1

Data Source: AARP Public Policy Institute Tabulations of the Federal Reserve's Survey of Consumer Finances 2004.

Table A.12: Percentage of All Families with Pension Coverage at Current Job by Age of Family Head, Marital Status, and Family Income Level, 2004

	DB		401 (k)-Type		Both DB and 401(k)-Type		Either DB or 401(k)-Type	
	Number (Thousands)	%	Number (Thousands)	%	Number (Thousands)	%	Number (Thousands)	%
Total Families	15,777	14.1	37,384	33.3	8,014	7.1	45,148	40.3
Age								
15 to 24	187	3.0	936	14.8	0	14.8	1,123	17.7
25 to 34	2,517	13.6	7,254	39.1	1,370	39.1	8,401	45.3
35 to 49	7,053	20.1	16,663	47.4	3,557	47.4	20,159	57.4
50 to 59	4,491	21.6	8,580	41.3	2,327	41.3	10,744	51.7
60 to 64	921	12.2	2,681	35.4	522	35.4	3,081	40.6
65 and older	608	2.6	1,269	5.3	237	5.3	1,640	6.9
Marital Status								
Married Couple	11,956	18.4	27,367	42.1	6,704	10.3	32,619	50.2
Never Married	1,351	8.2	3,949	23.8	455	2.7	4,846	29.2
Widowed	339	2.9	887	7.6	127	1.1	1,099	9.4
Divorced or Separated	2,131	11.3	5,180	27.5	728	3.9	6,584	34.9
Family Income								
Less than \$20,000	385	1.6	813	3.3	153	0.6	1,123	17.7
\$20,000 to \$29,999	746	4.9	2,694	17.8	59	0.4	8,401	45.3
\$30,000 to \$44,999	2,368	12.6	5,446	29.0	711	3.8	20,159	57.4
\$45,000 to \$59,999	2,743	19.0	6,085	42.2	1,135	7.9	10,744	51.7
\$60,000 to \$74,999	2,353	22.2	5,222	49.3	1,261	11.9	3,081	40.6
\$75,000 to \$99,999	3,181	30.4	6,157	58.8	2,014	19.2	1,640	6.9
\$100,000 or more	4,003	22.1	10,968	60.6	2,681	14.8	45,148	40.3

Data Source: AARP Public Policy Institute Tabulations of the Federal Reserve's Survey of Consumer Finances 2004.

Table A.13: Percentage of All Families with Pension Coverage at Current or Previous Job by Age of Family Head and Family Income Level, 2004

	DB		401 (k)-Type		Both DB and 401(k)-Type		Either DB or 401(k)-Type	
	Number (Thousands)	%	Number (Thousands)	%	Number (Thousands)	%	Number (Thousands)	%
Total Families	37,228	33.2	38,992	34.8	12,838	11.5	63,382	56.5
Age								
15 to 24	249	3.9	1,019	16.1	0	0.0	1,268	20.0
25 to 34	3,141	16.9	7,491	40.4	1,799	9.7	8,832	47.6
35 to 49	9,156	26.1	17,169	48.9	5,051	14.4	21,274	60.6
50 to 59	7,981	38.4	9,055	43.6	3,715	17.9	13,322	64.1
60 to 64	3,638	48.0	2,818	37.2	1,533	20.2	4,923	64.9
65 and older	13,063	55.0	1,439	6.1	740	3.1	13,763	57.9
Family Income								
Less than \$20,000	3,871	15.7	977	4.0	199	0.8	4,649	18.9
\$20,000 to \$29,999	3,931	25.9	2,803	18.5	208	1.4	6,526	43.0
\$30,000 to \$44,999	6,754	36.0	5,744	30.6	1,358	7.2	11,141	59.4
\$45,000 to \$59,999	5,757	40.0	6,413	44.5	1,936	13.4	10,234	71.0
\$60,000 to \$74,999	4,649	43.9	5,360	50.6	1,823	17.2	8,186	77.3
\$75,000 to \$99,999	4,860	46.4	6,379	60.9	2,816	26.9	8,424	80.4
\$100,000 or more	7,405	40.9	11,315	62.5	4,498	24.8	14,223	78.5

Data Source: AARP Public Policy Institute Tabulations of the Federal Reserve's Survey of Consumer Finances 2004.

Table A.14: Number of Families with Retirement Savings and Mean and Median of Retirement Savings for Those Families Who Have This Type of Savings by Age of Family Head and Race/Ethnicity, 2004

	IRA/Keogh Assets			401 (k)-Type Pension Assets			Total Retirement Savings Assets		
	Number (Thousands)	Mean \$	Median \$	Number (Thousands)	Mean \$	Median \$	Number (Thousands)	Mean \$	Median \$
Total Families	32,525	103,965	30,000	37,809	89,178	27,000	55,715	121,212	35,200
Age									
15 to 24	290	9,486	5,000	1,037	8,396	3,000	1,245	9,207	3,000
25 to 34	3,662	18,408	8,000	7,254	23,882	10,000	8,758	27,477	12,000
35 to 49	9,331	65,101	20,000	16,105	67,902	30,000	20,046	84,855	33,000
50 to 59	8,295	109,564	40,000	8,613	157,022	50,000	12,483	181,146	69,500
60 to 64	3,495	162,599	83,000	2,628	188,392	63,000	4,600	231,158	91,000
65 and older	7,453	164,611	48,000	2,172	114,499	32,000	8,583	171,923	55,000
Race/Ethnicity									
White	29,139	110,573	32,000	30,189	97,080	30,000	46,107	133,444	40,000
African American	1,718	32,950	10,000	3,935	59,051	15,000	4,856	59,513	15,000
Hispanic	610	47,273	15,000	2,212	33,356	13,600	2,620	39,171	14,000
Asian and Others	1,059	69,974	37,000	1,474	91,540	38,000	2,132	98,010	38,000

Data Source: AARP Public Policy Institute Tabulations of the Federal Reserve's Survey of Consumer Finances 2004.

Table A.15: Number of Families with Retirement Savings and Mean and Median of Retirement Savings for Those Families Who Have This Type of Savings by Marital Status, Education Level, and Family Income Quintile, 2004

	IRA/Keogh Assets			401 (k)-Type Pension Assets			Total Retirement Savings Assets		
	Number (Thousands)	Mean \$	Median \$	Number (Thousands)	Mean \$	Median \$	Number (Thousands)	Mean \$	Median \$
Marital Status									
Married Couple	23,282	123,987	40,000	27,068	105,861	35,000	39,108	147,081	49,000
Never Married	3,016	38,970	14,000	4,279	34,124	10,000	5,975	44,108	13,000
Widowed	2,576	66,025	25,000	1,040	38,494	17,000	3,161	66,470	24,000
Divorced or Separated	3,651	56,754	18,000	5,422	59,071	17,000	7,470	70,619	22,000
Education									
No High School Diploma	1,036	28,711	12,200	1,795	28,912	12,000	2,622	31,136	12,400
High School Diploma	7,549	53,436	17,500	9,901	47,929	18,000	14,982	58,597	20,000
Some College	4,695	69,754	20,000	6,945	57,535	17,000	9,833	73,942	21,000
College Degree	19,246	136,181	44,000	19,169	127,592	45,000	28,278	179,175	64,800
Family Income Quintile									
Lowest Quintile	1,323	36,702	9,000	1,037	14,690	1,200	2,283	27,933	5,000
Second Quintile	3,165	36,268	15,000	4,126	16,044	5,400	6,773	26,725	10,000
Middle Quintile	6,293	49,767	16,000	7,853	27,096	12,000	11,884	44,259	17,000
Fourth Quintile	8,877	58,817	24,000	10,929	58,331	24,000	15,711	73,807	32,000
Highest Quintile	12,868	185,183	72,000	13,864	175,997	81,000	19,064	252,992	114,000

¹ Family Income Quintile break-points are: \$ 18,000, \$33,000, \$52,000, and \$87,000.

Data Source: AARP Public Policy Institute Tabulations of the Federal Reserve's Survey of Consumer Finances 2004..

Glossary

401(k) plan—A type of employer-provided defined contribution plan sanctioned by §401(k) of the Internal Revenue Code. Participation in a 401(k) plan is not a condition of employment. The employer sets the maximum contribution rate, subject to the limits the IRS imposes on contributions. Employers typically provide a matching contribution up to some specified percentage of salary, usually 3 percentage points. Contributions to 401(k) plans may be deducted from taxable income in the year they are made and are taxed in the year in which they are withdrawn. The accumulated balance is almost always withdrawn in a lump sum. The higher the rate at which the taxpayer’s marginal (additional) income is taxed, the greater the tax advantage from contributing to a 401(k) plan.

Annuity—A financial instrument that entitles the investor to a stream of regular payments over a period defined in the contract. In the case of a single-payment life annuity, the investor makes a single payment up front in return for regular payments, usually monthly, for the rest of his or her life. The term “annuitized wealth” refers to wealth taking the form of a regular income stream (see also capitalized value).

Auto IRA—A proposed version of the IRA that, unlike the traditional IRA, would be offered through the workplace by employers that do not now offer their own pension. Enrollment would be automatic unless an employee explicitly chose to opt out.

Average indexed monthly earnings (AIME)—The AIME is the starting point for the calculation of the Social Security benefit. The annual wages (Social Security wages) a worker has earned during his or her career are first indexed to the general wage level. (For example, if the general wage level has doubled over the past fifteen years, then the salary earned fifteen years ago would be multiplied by two.) If there are more than thirty-five years of work experience, the best thirty-five annual salaries are added up and averaged. If work experience is less than thirty-five years, then the indexed salaries are simply added up and divided by thirty-five. The result is the AIME.

Capitalized value—The lump-sum equivalent of a stream of income or payments. The term is equivalent to present discounted value. Each payment of income in the future is discounted by a factor that depends on the applicable rate of interest, and the result is summed to arrive at the present discounted value.

Defined benefit (DB) pension—A pension with a benefit that is determined by the terms of the pension plan. DB pensions can take many forms. The traditional form is a final salary plan, where the pension is determined by the number of years of plan participation and salary at the end of an employee’s career. For full-time workers, participation in the plan offered by the employer is normally a condition of employment. A cash balance plan, although typically classified as a type of DC plan, is

technically a DB plan because the benefit is determined by the rate of contribution, which the plan sets, and the normally fixed rate of interest applied to plan member balances.

Defined contribution (DC) pension—

A pension plan in which the contributions the employee pays, and not the benefit he or she receives, is determined by the terms of the plan. A typical defined contribution plan will set a contribution rate of some specified proportion of salary. With some DC plans the participant has no say in how the funds are invested, but in most plans investments are self-directed.

Employer-provided pension—Any pension plan organized or administered by the employer. A 401(k) plan is considered to be an employer-provided pension. However, it differs from traditional employer-provided pensions in important respects (see 401(k) plan).

Final salary pension—The traditional form of the defined benefit pension. See *Defined benefit pension*.

Hybrid pension plan—A pension that has features of both DB and DC plans, or, as some pension specialists have said, that looks like a DC but is legally a DB plan. A cash balance plan looks like a DC plan because it has a balance, and the benefit is normally in lump-sum, not annuitized form.

Individual retirement account (IRA)—A tax-favored retirement saving plan. Contributions to a traditional IRA, which are subject to various conditions

and limits depending on age, income, and employment status, may be deducted from taxable income. The reduction in tax liability that a contribution entails varies with the taxpayer's bracket. Distributions are included in taxable income in the year they are made and are subject to a penalty if made before the age of 59½. A minimum distribution rule applies after the age of 70½. Contributions to a Roth IRA are not deductible from taxable income, but distributions are tax free.

Keogh plan—A tax-favored retirement plan for the self-employed and owners of unincorporated businesses and their employees. These plans may be either defined benefit or defined contribution plans. The DC plans are normally profit sharing, with a relatively generous limit on contributions. The rules applying to distributions are the same as those applying to IRAs.

Net financial assets—A measure of wealth that for the purposes of the chart book is defined to be equal to net worth minus net housing equity.

Nondiscrimination tests—Provisions or tests that are part of U.S. pension law and intended to insure that employer-provided pension plans include more than only a company's better-paid employees. The tests take various forms intended to insure that the number of highly paid plan members is not excessive in relation to other employees, and that the pensions paid them are not excessively generous.

Pension wealth—In the case of the typical defined contribution plan, pension wealth is the accumulated balance in a participant’s account. In the case of a defined benefit plan, pension wealth is the estimated present discount value or capitalized value of accrued benefits.

Replacement rate—The ratio of the value of pension income to some measure of income during working life, which is usually salary in the last year or last few years of work, but sometimes a career-average salary.

Saver’s Credit—A program that provides low- and moderate-income taxpayers who contribute to an IRA or to a 401(k)-Type plan with a nonrefundable tax credit. In 2008, taxpayers filing as single persons are eligible if their modified adjusted gross income does not exceed \$26,500. Heads of households are eligible if their income does not exceed \$39,750, and taxpayers filing jointly are eligible if their income does not exceed \$53,000. The credit may be as high as \$2,000 for taxpayers filing jointly. The credit is calculated by applying a stipulated percentage to the contribution to the IRA or 401(k)-Type plan. The rate declines with income.

SIMPLE IRA—A simplified employer-provided plan (the acronym SIMPLE stands for savings incentive match plan for employees of small employers). This plan is a simplified employer-provided plan, despite its name, and is less costly to administer than a 401(k) plan. Employers are expected either to match contributions up to some specified percentage of salary or to make contributions to the accounts of all participating employees of some specified percentage of salary.

Vesting, vested—A plan member becomes vested when his or her separation from the employer does not entail the forfeiture of the pension benefits accrued to that point. ERISA (Employee Retirement Income Security Act) places a limit on the number of years of service a plan member must have before the employer’s contributions on his or her behalf are vested. The employee’s contributions are always immediately vested. The law provides for two types of vesting. With cliff vesting, a plan can require that a member participate in the plan for up to five years to secure all of his or her accrued benefits (three years in the case of the matching contributions the employer makes in the case of a 401(k) plan). If the plan applies this limit, and the period of service is less than five years, all the benefits accrued to the date of separation are lost. With gradual vesting, the right to accrued pension benefits is earned gradually.

Worker—(in the sense of the Survey of Consumer Finances)—A head of household or a spouse (including common-law spouses) who is working either part-time or full-time, including the self-employed.

Working family—(in the sense of the Survey of Consumer Finances)—A family in which the survey respondent and/or his or her spouse is working.

AARP is a nonprofit, nonpartisan membership organization that helps people 50+ have independence, choice and control in ways that are beneficial and affordable to them and society as a whole. We produce *AARP The Magazine*, published bimonthly; *AARP Bulletin*, our monthly newspaper; *AARP Segunda Juventud*, our bimonthly magazine in Spanish and English; *NRTA Live & Learn*, our quarterly newsletter for 50+ educators; and our website, www.aarp.org. AARP Foundation is an affiliated charity that provides security, protection, and empowerment to older persons in need with support from thousands of volunteers, donors, and sponsors. We have staffed offices in all 50 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands.



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