

# IS PENSION COVERAGE A PROBLEM IN THE PRIVATE SECTOR?

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## Introduction

For decades, the government's *Current Population Survey* has shown that, at any given point in time, a significant share of private sector workers is not covered by any type of retirement plan. Recently, commentators, relying on data from the government's *National Compensation Survey*, have suggested that most employees – 80 percent – have access to a plan, even if not all of them chose to participate. This seems like a good time to take stock of the different measures of participation and to assess the extent to which the different surveys are telling a consistent or divergent story.

The discussion proceeds as follows. The first section reports on pension coverage from four household surveys, including the *Current Population Survey*, highlighting how their participation rates compare. The second section reports on pension coverage from the employer survey – the *National Compensation Survey* – and compares the results with similar definitions from the *Current Population Survey*. The third section describes efforts to improve the accuracy of reports in household surveys by matching household information with W-2 tax forms. The final section concludes that pension coverage and participation

may be somewhat higher than reported by respondents in the household surveys, but many private sector workers are not offered or do not participate in any type of retirement plan. Taking all the surveys and adjustments into account, our best estimate is that, at any given point, only about half of private sector wage and salary workers age 25-64 participate in any retirement plan. About 65 percent may have access to a plan through their current employer.

## Pension Coverage in Household Surveys

Four major household data sets that provide information about pension coverage are the *Current Population Survey*, the *Survey of Income and Program Participation*, the *Survey of Consumer Finances*, and the *Panel Study of Income Dynamics*.<sup>1</sup> For researchers, the advantage of these surveys is that they include extensive demographic and financial information about the household. The disadvantage is that they are subject to individual reporting error.

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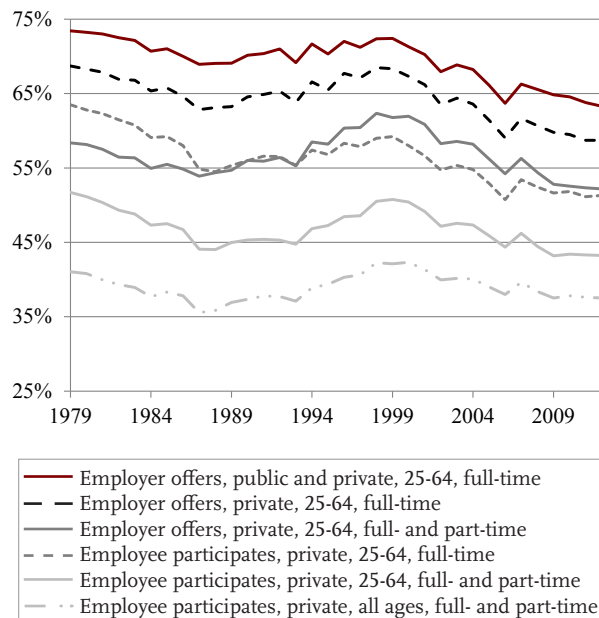
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## Current Population Survey (CPS)

The CPS, produced jointly by the U.S. Census Bureau and the U.S. Bureau of Labor Statistics, has been conducting interviews on a monthly basis for about sixty years. Since 1980, the Annual March Social and Economic Supplement has provided data on pension coverage. The CPS asks individuals two questions. Did the employer you worked for have a pension or other type of retirement plan for any of its employees? Were you included in the plan? The survey does not gather any information on whether the plan was defined benefit or defined contribution.<sup>2</sup>

The percentage of workers covered depends on two factors: 1) the definition of coverage – that is, does the individual’s employer have a plan or does the individual participate in a plan?; and 2) the population group under consideration. For example, restricting the population to full-time wage and salary workers age 25-64, including both public and private sector workers, and using employer sponsorship as the criterion, the CPS shows that 63 percent of workers have the potential for participation in a retirement plan (see Figure 1). At the other extreme, focusing on private sector workers only, using participation as the criterion, including both part-time and full-time

FIGURE 1. PENSION SPONSORSHIP AND PARTICIPATION, 1979-2012



Source: Authors’ calculations from U.S. Census Bureau, Current Population Survey.

workers, and eliminating the age constraint, the CPS shows that only 38 percent are covered by a plan. The oft-quoted number is the percent of private sector workers 25-64 participating in a plan – 43 percent in 2012. One question is how this coverage measure compares with those provided by other household data sets.

## Survey of Income and Program Participation (SIPP)

The Demographic Surveys Division of the U.S. Census Bureau has conducted the SIPP since 1984. Each year the SIPP interviews a new panel of individuals, asking them a series of core questions every four months for about two and a half years. Questions on pension participation are asked of each individual in the panel at least once as part of the topical module “Retirement Expectations and Pension Plan Coverage.” Each individual is asked whether he is offered a plan, whether he participates in a plan, and the type of plan for the primary and secondary plans. The design allows for only a biennial or triennial series beginning in 1985.

## Panel Study on Income Dynamics (PSID)

The PSID is a longitudinal survey conducted by the Survey Research Center at the University of Michigan’s Institute for Social Research. Since 1969 the PSID has followed the same set of households (with minor exceptions) with low sample attrition rates, which creates an excellent source of data for a variety of research issues. However, until 1999, pension data from the PSID were somewhat limited, making the derivation of a consistent measurement of pension participation difficult. In 1999, a new section, added to the core questionnaire, introduced questions on pension participation as well as the type of pension plan. This new section makes it possible to derive a biennial series on pension participation from 1999 on, using a variety of demographic characteristics and the intergenerational information unique to the PSID.

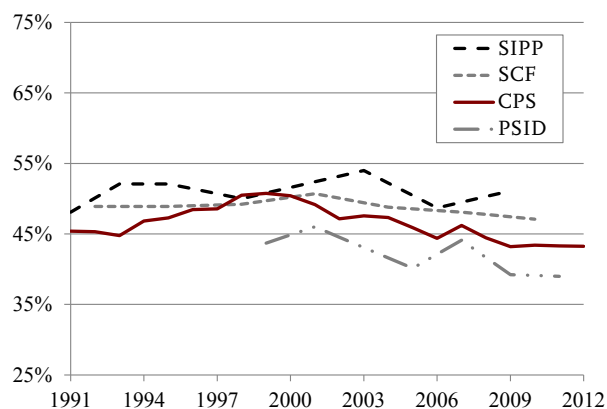
## Survey of Consumer Finances (SCF)

The Board of Governors of the Federal Reserve System has conducted the SCF every three years since 1983. The survey is designed to be nationally

representative, samples about 5,000 households, and oversamples the high income. The SCF is an excellent source of information on the type of plans people are involved in, as well as the levels of investment that households have in these plans. Like the other household surveys, the SCF allows breakdowns by demographic characteristics.

Figure 2 compares pension coverage data from the four household surveys for 1991 to the present. As discussed, the PSID has pension data only since 1999. The pension measure used is private sector wage and salary workers age 25-64 participating in a plan, although the timeframe and question wording vary from one survey to another.<sup>3</sup> While pension participation has risen and fallen for short intervals, all four data sets show relatively stable participation rates over the period 1991-2012. The surveys suggest that, over the last two decades, between 40 and 55 percent of private sector employees are participating in some kind of pension plan in any given year. Each data set does suggest slightly different levels of participation. The SIPP appears to provide an upper bound; the PSID provides a lower bound.

FIGURE 2. PERCENT OF PRIVATE SECTOR WAGE AND SALARY WORKERS, AGE 25-64, PARTICIPATING IN A PLAN FROM VARIOUS SURVEYS, 1991-2012



Sources: Authors' calculations from U.S. Census Bureau, *Current Population Survey*; U.S. Census Bureau, *Survey of Income and Program Participation*; U.S. Board of Governors of the Federal Reserve System, *Survey of Consumer Finances*; and University of Michigan, Institute of Social Research, *Panel Study of Income Dynamics*.

## Pension Coverage in Establishment Surveys

The *National Compensation Survey* (NCS), sponsored by the U.S. Bureau of Labor Statistics, is an *employer* survey that provides comprehensive measures of occupational earnings, employment cost trends, benefit incidence, and detailed benefit provisions. The data have been provided annually since 1999.<sup>4</sup> This survey replaced the previous *Employee Benefits Survey* and expanded its collection of retirement plan participation data to cover essentially all public and private employment every year.<sup>5</sup>

The NCS reports that nearly 80 percent of full-time workers have an employer that sponsors a retirement plan. This number looks very different from the participation rates shown in Figure 2. To sort out survey differences from differences in definitions, Table 1 compares the NCS and the CPS on an apples-to-apples basis. First, the NCS 78-percent figure refers to full-time workers in both the private and state/local sectors. Virtually all (99 percent) full-time state-local workers are offered a pension because most public sector workers are covered by defined benefit plans. Eliminate state/local employers and the coverage figure for full-time workers in the private sector – comparable to the 78-percent – drops to 74 percent. The second issue is full-time versus part-time. Add in part-time workers and the 74 percent drops to 64 per-

TABLE 1. COMPARISON OF PENSION COVERAGE AND PARTICIPATION IN THE CPS AND NCS FOR WORKERS AGE 25-64, 2012

Category	CPS	NCS
Employer offers, public and private, full-time	63	78
Employer offers, private, full-time	59	74
Employer offers, private, full- and part-time	52	64
Employee participates, private, full-time	51	59
Employee participates, private, full- and part-time	43	48

Sources: Authors' calculations from U.S. Census Bureau, *Current Population Survey*, and U.S. Department of Labor, *National Compensation Survey*.

cent. The third issue is participation versus access. Only three quarters of private sector workers who are offered a plan choose to participate. Thus, the NCS reports that only 48 percent of private sector workers (including both full-time and part-time) participate in a retirement plan.

Two conclusions emerge from Table 1. First, individual and employer assessments of employers offering a plan are very different – a 15-percentage-point difference. On the other hand, individual and employer assessments of participation are relatively close – a 5-percentage-point difference. That pattern seems intuitively correct; individuals have a much better sense about what they are doing in terms of retirement plans than they have of the more abstract notion of what plans their employer may offer.

## Evidence from Tax Data

The final issue is how well individuals understand their own situation.<sup>6</sup> A 2011 study investigated the extent of respondents' reporting errors by merging data from the SIPP with W-2 tax records.<sup>7</sup> About 85 percent of SIPP households were matched with

tax records. Since the W-2 form contains no record of employer contributions to defined benefit plans, the focus is on tax-deferred contributions to defined contribution plans.

The SIPP asks respondents if the employer offers a plan and whether the employee is included in the plan. If "yes", the SIPP asks about the type of plan (defined benefit, defined contribution or cash balance). The SIPP then asks about whether the respondents contributed to a retirement plan or an individual account, whether the contributions were tax-deferred, as well as whether their employer contributed to a plan and the amount of any contributions. The researchers use these self-reported data to determine whether the employer offers a defined contribution plan and whether the employee participates. Then they use information on tax-deferred contributions to a defined contribution plan from the W-2 tax records to supplement the SIPP data. A positive deferred tax contribution on an individual's W-2 tax record is an indication that he was both offered a plan and participated in it. The coverage and participation rates are then recalculated incorporating the W-2 data.

The results are shown in Table 2. SIPP respondents on net underreported being offered a defined contribution plan by 3 percentage points and participating in a plan by 5 percentage points. These relatively small net changes are the result of offsetting errors. For example, with respect to participation, about 30 percent of respondents actively participated in a defined contribution plan and reported *correctly*, as verified by the W-2. About 14 percent self-reported *incorrectly* that they did not participate when the W-2 records showed that they did. On the other hand, 9 percent of workers self reported *incorrectly* that they did participate in a defined contribution plan when their W-2 record showed no tax-deferred contributions. Once these "false positives" are taken into account, the net change is modest.

### *Department of Labor Form 5500 No Longer a Source of Pension Coverage Rates*

Private pension plan sponsors are required to file with the U.S. Department of Labor an annual return, the Form 5500 series, containing detailed information about their plans' finances and participants. These reports, however, overestimate the number of participants for two reasons: 1) employers must file one form for each plan they offer, which means that anybody who participates in more than one plan is counted two (or more) times; and 2) the form classifies all workers who are eligible to contribute to a 401(k) plan as "active" participants even if they do not make contributions. The Department of Labor used to make adjustments for these two sources of over-counting, using all available information. But the difficulty in doing so, the loss of some useful information when the Form 5500 was streamlined, and the emergence of consistent annual data from the *National Compensation Survey* led the Department of Labor to discontinue its adjustments.

TABLE 2. OFFER AND PARTICIPATION AMONG PRIVATE SECTOR WORKERS FROM SIPP AND W-2 ADJUSTED, 2006

Plan type	Offered a plan		Participated in a plan	
	SIPP	W-2 adjusted	SIPP	W-2 adjusted
Defined contribution	57	60	39	44
Any retirement plan	65	72	45	58

Source: Dushi, Iams, and Lichtenstein (2011).

The results for “any retirement plan” show larger discrepancies between the SIPP and the W-2 adjusted than those for defined contribution plans alone. One might have thought that, since the W-2 provides no information about defined benefit participation, the W-2 adjustment for all plans would simply reflect the W-2 adjustment for defined contribution plans. Instead, the researchers assumed that the 9 percent reporting “false positives” – those who claimed to participate in a defined contribution plan but showed no contribution on their W-2 – were in fact participating in a defined benefit plan. Adding the “false positives” to the total produced a participation rate 10 percentage points higher than that reported in the *National Compensation Survey*.<sup>8</sup> Instead, applying the defined-contribution W-2 adjustment to the self-reported data would produce an overall participation rate of 50 percent (45 percent + 5 percent), which is more in line with all the other survey information.

## Conclusion

The conclusion that emerges from this brief review is that individuals, on balance, underreport their coverage and participation in retirement plans. The under-reporting at the coverage level is greater than at the participation level, since individuals know more about their own retirement plans than about what their employers are offering. In the end, it is probably reasonable to say that about 50 percent of private sector workers participate in a retirement plan. Of course, a higher percentage will pick up coverage sometime over their worklife. But those workers who move in and out of coverage end up with inadequate retirement balances, and roughly one-third of households reach their sixties with no retirement plan at all. So, yes, coverage remains a serious problem.

## Endnotes

1 The *Health and Retirement Study* is not discussed in detail here because it focuses on a specific age cohort that is not conducive to calculating aggregate participation numbers. An excellent source of information on all relevant survey data sets is provided by Citro and Hanushek (1997).

2 Such information is available for the years 1983, 1988, and 1993 from the employee benefit supplement, although experts found signs of significant misreporting of pension type.

3 The SCF numbers include the self-employed, because the SCF's definition of this group, which encompasses those working as consultants/contractors and as partners in firms, is too broad to be excluded from the analysis.

4 No benefit data are available in 2001 and 2002.

5 The earlier survey's scope changed from year to year, with some years including just "medium and large" firms (with different size cut-offs in different industries), other years including just small firms, and still other years just state and local government employers.

6 An extensive literature exists on this issue. Early studies documented widespread discrepancies between how employees described their employer's defined benefit plan and the plan characteristics in the employer's plan summary (Mitchell 1988; Gustman and Steinmeier 2004, 2005; Gustman, Steinmeier, and Tabatabai 2009). Researchers have also documented respondent reporting error regarding defined contribution plans (Dushi and Iams 2010; Dushi and Honig 2008).

7 Dushi, Iams, and Lichtenstein (2011).

8 All of the percentages are biased slightly upward because the self-reported data were compared to W-2s for either 2005 or 2006. For example, participation in any plan would have been 56.5 percent rather than 58.2 percent if the comparison had been made with only 2006 W-2s (Dushi 2014).

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