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ICI Study Looks at Factors Affecting Workers' Savings Preferences, Availability of Plans

Washington, DC, March 24, 2011 - Updating research first released in 2008, an Investment Company Institute (ICI) study illustrates that most workers who are likely to have the ability to save and to be focused primarily on saving for retirement have access to employer-provided retirement plans. In the study, *Who Gets Retirement Plans and Why: An Update*, ICI uses the most recent data on pension coverage to update its analysis of the employee characteristics that make some employers more likely to offer, and some workers more likely to seek, compensation packages that include retirement benefits.

Study Illustrates Link Between Savings Goals and Access to Retirement Plans

Using household survey data, the study shows that younger and lower-income households are less likely to cite retirement as the primary reason they save. These households are more likely to be primarily focused on saving to fund education, to purchase a house, to fund other purchases, or to have cash on hand in case of unexpected need.

The fact that few younger workers cite retirement as the primary reason they save is consistent with economic models of life-cycle consumption, which predict that most workers will delay saving for retirement until later in their working careers. Similarly, the fact that lower-income workers are less focused on retirement savings is consistent with the design of Social Security, which replaces a higher percentage of pre-retirement income for workers with low lifetime earnings. Older and higher-earning workers are more likely to save primarily for retirement, and are therefore more likely to prefer having a portion of their compensation in the form of retirement benefits rather than being paid fully in cash.

The study finds that of full-time, full-year workers aged 45 to 64 and earning \$25,000 a year or more in 2009, 74 percent had access to a retirement plan through their own employers or their spouses' employers, and 92 percent of those participated. The report also notes the important role Social Security plays in the retirement picture, suggesting it is vital to maintain a Social Security system that provides adequate benefits to workers with low lifetime earnings.

Study's Findings About Incentives in Today's Retirement System Are Valuable for Policymakers

"Policy discussions surrounding retirement often focus on the headline statistic that about 50 percent of America's workers are covered by a workplace retirement plan. This study examines who is in that 50 percent and why," said Peter Brady, ICI senior economist and a co-author of the study. "When considering reform proposals, it is vital that policymakers understand the incentives that have shaped today's voluntary employer-based retirement system."

For example, the study gives a framework to help explain the fact that small firms are less likely to sponsor retirement plans than large firms. To date, policies designed to encourage small employers to adopt retirement plans have focused on reducing the cost of providing a plan. While costs may play a role, this study shows that differences in workforce composition appear to be a major cause for the low rate at which small employers sponsor retirement plans. As a group, workers at small firms differ considerably from those at large firms. For example, workers at small firms are less likely to work full-time, and they have lower current earnings and lifetime earnings than workers at large firms—all factors associated with less ability and desire to set aside current income for retirement savings.

Conversely, the small firms that do offer plans have workers who are very similar to workers at large firms that offer plans. Small firms with an older and higher-earning workforce are just as likely to offer a plan as large companies with a similar workforce. In

short, the characteristics of one's co-workers are more of an influence on whether a plan is available than the size of one's employer. The study also finds that workers at small employers that sponsor retirement plans are as likely to participate as workers at large employers sponsoring retirement plans.

The study was co-authored by Brady and ICI associate economist Michael Bogdan.

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