

## Preparing for Retirement Who Had Pension Coverage in 1991?

There were 91 million wage and salary workers 25 years old and older in the United States in 1991. Many — but far from all — were covered by retirement plans other than Social Security. These included both employer-provided and employee-directed plans, such as IRA's and 401(k) plans.

This Brief examines how many of these workers had such coverage and the various factors influencing coverage rates. The data, collected by the Survey of Income and Program Participation (SIPP) in February-May 1991, are compared with those collected in January-April 1987 and September-December 1984.

### Coverage rates rise slightly.

In 1991, 68 percent of workers were covered by employer-provided pension plans, up from 66 percent in 1987, but not significantly different from 1984. These plans, incidentally, may include 401(k) plans. Covered workers are those whose employer offered a retirement plan for any employees. However, not every covered worker was a participant. In 1991, 53 percent of all workers participated in pension plans, the same as in

1987, but lower than the 55 percent who did in 1984. The chart below illustrates the reasons why persons who were covered in 1991 didn't participate.

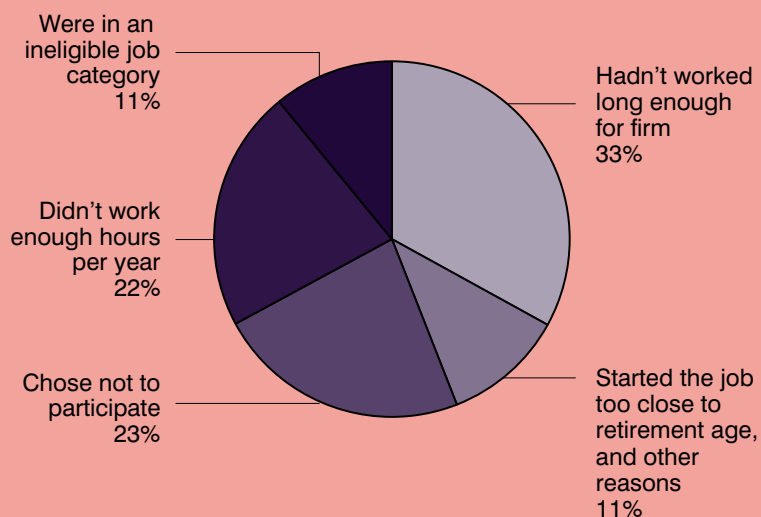
### Who is covered?

Many factors affect coverage rates:

- *Size of company:* Employees of larger firms have a much higher pension coverage rate than those in smaller firms. Coverage rates in 1991 ranged from 90 percent in firms with more than 1,000 employees to only 23 percent in those with fewer than 25 employees.
- *Level of earnings:* Highly-paid workers were more likely to be covered by pension plans. Coverage rates ranged from 82 percent for those with monthly earnings of \$2,000 or more to 43 percent for those who earned less than \$500 per month. Employees covered by employer-sponsored plans had much higher median monthly earnings than those not covered: \$2,003 versus \$1,253.
- *Union status:* Union members had a higher coverage rate than nonmembers (89 versus 62 percent).
- *Race and Hispanic origin:* The coverage rate of Whites and Blacks didn't differ (68 percent); 52 percent of Hispanic-origin workers were covered.

### Why Covered Workers Don't Participate

Reasons wage and salary workers age 25 and above covered by employer-sponsored pension plans didn't participate: 1991



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The table shows coverage also varied widely by industry.

### Pension Coverage Rates Vary by Industry

Percent of wage and salary workers age 25 years and over covered by employer-provided pension plans, by industry: 1991

Industry	Coverage rate
Armed Forces	100%
Public Administration	92%
Professional and Related Services	76%
Mining	75%
Transportation, Communications, and Public Utilities	75%
Manufacturing	74%
Finance, Insurance, and Real Estate	70%
Wholesale Trade	60%
Entertainment and Recreational Services	53%
Construction	50%
Retail Trade	49%
Business and Repair Services	47%
Personal Services	37%
Agriculture, Forestry, and Fisheries	34%

### More workers are vested.

In 1991, 47 percent of all workers were vested in a pension plan, an increase from the 1984 and 1987 rates of 45 percent. These workers were eligible to receive a lump-sum distribution at retirement or continuing payments during retirement. Since vesting is usually linked to the length of service on the job, young workers are less likely to be vested than older workers. Vesting rates ranged from 33 percent of workers under age 30 to 55 percent in the 50 to 59 year age range.

### IRA ownership down, 401(k) plan participation up.

Individual Retirement Accounts (IRA's) were established in 1974

as a means of building savings for retirement for workers not covered by an employer-provided pension plan. In 1982, eligibility was extended to all workers. IRA's thus became a popular way to supplement pension income: 77 percent of workers who had IRA's in 1991 were also covered by employer-sponsored pension plans, about the same as in 1987 and 1984.

However, ownership of IRA's, which had increased from 21 to 24 percent of all workers between 1984 and 1987, fell to 20 percent in 1991. This drop probably reflects:

- The effect of the *Tax Reform Act of 1986*, which limited the availability of tax-deductible IRA's.
- The growing popularity of 401(k) and other types of thrift savings plans.

Indeed, the percentage of workers participating in employer-sponsored thrift plans, known as 401(k)'s, tripled between 1984 and 1991, from 6 to 19 percent. Larger firms were likelier to offer 401(k)'s: participation in 1991 ranged from 3 percent at firms employing fewer than 25 people to 28 percent at those employing 1,000 or more.

Increasing numbers of workers are both IRA and 401(k) plan participants: 6 percent in 1991, up from 4 percent in 1987 and 2 percent in 1984. These workers had relatively high median monthly earnings — \$3,271. By comparison, those participating in neither plan earned \$1,468.

Though IRA's provide an important method of saving for retirement for those without employer-provided pension plans, only 15 percent of the 29 million workers without pension coverage were IRA participants in 1991.

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### Profile of IRA and 401(k) Plan Participants: 1991

Characteristic	IRA Owners	401(k) Participants
Number (millions)	18.6	17.4
Median monthly earnings	\$2,507	\$2,495
Percent earning under \$1,000 per month	12%	6%
Percent earning \$3,000 or more monthly	38%	36%
Covered by employer-provided pension	77%	100%
Vested in employer-provided pension	61%	93%
Percent employed by firm with under 25 employees	18%	3%
Percent employed by firm with 1,000 or more employees	50%	69%