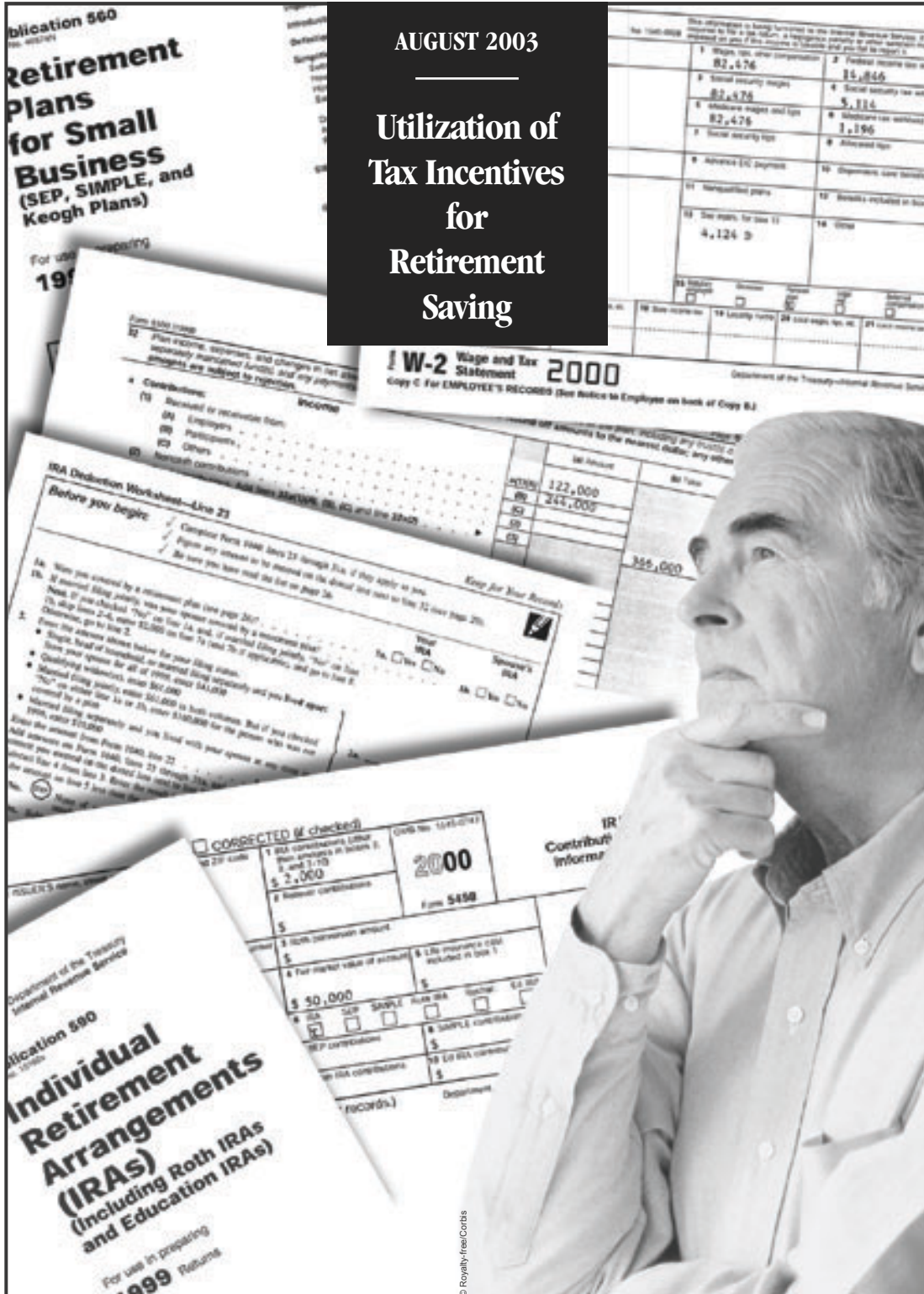


A  
**CBO**  
PAPER

AUGUST 2003

Utilization of  
Tax Incentives  
for  
Retirement  
Saving







# Utilization of Tax Incentives for Retirement Saving

August 2003

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## **Note**

Numbers in the text and tables may not add up to totals because of rounding.

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# Preface

**T**his Congressional Budget Office (CBO) paper examines the utilization of tax incentives for retirement saving, focusing on 1997. The paper breaks down rates of participation in and contributions to retirement savings plans by age, income, and marital status/earner role and discusses the patterns that emerge and their implications for public policy. The paper was prepared at the request of the Senate Finance Committee to analyze the various incentives in the tax code that encourage people to save for retirement. A companion publication, available at CBO's Web site ([www.cbo.gov](http://www.cbo.gov)), describes those tax code features in detail along with the requirements that federal law imposes on pensions and other forms of savings.

Paul Burnham of CBO's Tax Analysis Division (TAD) wrote the paper under the direction of Robertson Williams and G. Thomas Woodward. The report's quantitative analysis built on programs written by David Weiner and John Sabelhaus. Within CBO, Robert Dennis, Douglas Hamilton, Arlene Holen, Deborah Lucas, and John Sturrock provided useful comments. In addition, John Gist and John Taylor of AARP and Richard Ippolito of the George Mason University School of Law reviewed early drafts of the paper and offered valuable criticism and suggestions.

Leah Mazade edited the manuscript, and Christine Bogusz proofread it. Denise Williams prepared early drafts of the text, tables, and figures, and Kathryn Winstead prepared the report for publication. Lenny Skutnik produced the printed copies, and Annette Kalicki prepared the electronic versions for CBO's Web site.

Douglas Holtz-Eakin  
Director

August 2003





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# Utilization of Tax Incentives for Retirement Saving

**T**he second half of the 20th century saw continuing development of the system of employment-based and individual retirement saving in the United States. This Congressional Budget Office (CBO) paper profiles retirement plan utilization in 1997 on the basis of data from tax information returns (for example, Form W-2 for wages, pension coverage, and 401(k) contributions, and Form 5498 for individual retirement account contributions). The paper breaks down participation and contributions by age, income, and marital status/earner role and discusses the patterns that emerge and their implications for public policy. The paper does not attempt to explore in detail the characteristics of and rules applying to the wide range of tax incentives for saving. However, a companion publication, *CBO's Online Guide to Tax Incentives for Retirement Saving*, available at [www.cbo.gov](http://www.cbo.gov), provides such an examination, and readers are encouraged to use it in conjunction with the analysis provided here.

In 1997, just over half of all U.S. workers actively participated in a tax-deferred retirement savings plan; that is, they either contributed to a plan themselves, or their employers contributed to a plan on their behalf.<sup>1</sup> Participation rates varied widely, however, depending on the worker's age, income, and marital status/earner role (*see Table 1*). Workers under age 30 who had income of less than \$20,000 or were unmarried were substantially less

1. The tax incentives offered for retirement saving should be understood in the context of an income tax, in which income from capital is typically subject to regular rates of taxation. In that context, retirement savings receive more favorable tax treatment than many other forms of capital. Some economists feel that any tax on capital is inappropriate because it imposes too large a deadweight loss on the economy. This paper does not address that or other, related issues.

**Table 1.**  
**Summary of Workers' Participation  
in Tax-Deferred Retirement Plans  
in 1997**

Category	Participation Rate (Percent)
<b>By Age Cohort</b>	
Under 30	35
30 to 44	58
45 to 59	64
60 and over	42
<b>All Cohorts</b>	<b>51</b>
<b>By Adjusted Gross Income</b>	
Under \$20,000	22
\$20,000 to \$40,000	56
\$40,000 to \$80,000	70
\$80,000 to \$120,000	79
\$120,000 to \$160,000	78
\$160,000 and over	76
<b>All Income Groups</b>	<b>51</b>
<b>By Marital Status/Earner Role</b>	
Single Earners	41
Married Earners	
Sole	53
Primary	72
Secondary	54
<b>All Earners</b>	<b>51</b>
<b>Memorandum:</b>	
Nonearning Spouse	6

Source: Congressional Budget Office tabulations of 1997 individual income tax returns and tax information returns.

Note: Tax-deferred retirement plans include individual retirement accounts, Keogh plans, and all employment-based retirement plans.

likely than the average worker to participate in retirement savings plans. In contrast, higher-income, middle-aged, and married workers with working spouses were much more likely to be saving in a formal retirement plan.

Those differences are not surprising. Middle-aged workers who are in their peak earning years and nearing retirement generally have more disposable income available for saving and are more concerned about building up retirement funds. Young workers tend both to be single and to have low income; with retirement far in the future, they may be less concerned about saving for that distant day. As they age and see their income rise, however, today's young workers are likely to increase their saving.

This analysis focuses on saving in formal retirement plans—specifically, plans sponsored by employers or unions (employment-based plans), individual retirement accounts (IRAs), and Keogh plans. Not all saving for retirement can be found in such plans, however. Owner-occupied homes, to which a variety of tax incentives apply, provide a major source of funds for many people, who can use their home equity for retirement needs either by moving into less expensive housing or by drawing on reverse mortgages.<sup>2</sup> Starting a business can be another form of saving; it offers income during working years and can then be sold to finance retirement. By omitting such alternative forms of saving, this analysis provides only a partial picture of workers' financial preparation for retirement.

## The Structure of Retirement Savings Plans

Workers can save for retirement through employment-based plans or on their own, in either tax-favored or ordinary accounts. Employers offer different types of plans; each has limitations that affect who may and who will choose to participate. Workers can also save on their own, most often through IRAs, which come in various forms and have constraints that limit participation. The following brief description of the options for retirement saving will make statistics on participation easier to understand.

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2. Reverse mortgages are loans against one's home that do not have to be repaid until the owner dies, sells the residence, or moves out permanently.

### Employment-Based Plans

Employment-based retirement plans are of two types: defined benefit and defined contribution. *Defined-benefit plans* promise a specific benefit, or pension, in retirement, and the employer is responsible for accumulating sufficient funds to pay it. A worker receives fixed benefits regardless of the return on the funds invested in the retirement plan. Benefits are based on a number of factors that may include a worker's years of service and earnings history.

*Defined-contribution plans*, by contrast, specify only how much the employer will contribute annually; the worker's benefits in retirement depend on what happens to the invested funds. Poor returns on those funds yield lower income in retirement, whereas higher returns result in increased retirement income. "Contributory" defined-contribution plans allow employees to make tax-deferred contributions—that is, the money workers put into the plans is exempt from income taxes in the year the contributions are made, and taxes are not levied until the funds are withdrawn. Such plans are of four major types:

- *401(k) plans*, available primarily to employees of private companies;
- *403(b) plans*, available to employees of nonprofit organizations and public education agencies;
- *457 plans*, available primarily to employees of state and local governments; and
- *Savings Incentive Match Plans for Employees (SIMPLEs)*, available to employees of small private businesses.

All other defined-contribution plans and all defined-benefit plans are "noncontributory" plans, meaning not that employees do not contribute but rather that any contributions come from after-tax income and are thus not tax-deferred. (Such plans, however, are funded primarily by employers, whose contributions are tax-deferred.)

A *cash balance plan* is a type of defined-benefit plan that has many of the characteristics of a defined-contribution plan. Such plans specify annual contributions instead of a benefit level, but participants are guaranteed a certain

rate of return on their account balances each year. In recent years, many employers have converted traditional defined-benefit plans to cash balance plans, at least partly because the cash balance funding formula can reduce employers' costs.

*Keogh plans* are used by self-employed individuals and are typically defined-contribution plans. The employer and the participant in this case are the same person, so Keoghs could logically be classified as either employment-based plans or personal saving. Because contributions are reported to the Internal Revenue Service (IRS) directly on taxpayers' 1040 forms (as IRA contributions are) rather than on their W-2 forms (as 401(k) contributions are), this analysis treats Keogh plans as personal saving.

Contributions to and withdrawals from employment-based retirement plans are limited in a variety of ways, in part to discourage participants from consuming their savings before retirement and in part to ensure that tax benefits do not go only to higher-income workers. A *penalty tax* on early withdrawals, enacted in the Tax Reform Act of 1986, imposes a levy of 10 percent—with certain exceptions—on retirement plan withdrawals that occur before the participant reaches age 59½. *Nondiscrimination rules*, originally introduced in 1942, require that the coverage of rank-and-file workers by an employer's retirement plan be roughly equivalent to that of "highly compensated" employees (now defined to include employees earning over \$90,000 and most owners of firms). More recent rules of that kind—unique to 401(k) plans—constrain participation by the highly compensated on the basis of the rank-and-file's actual participation (and not just on the basis of their eligibility to participate). Finally, a *limit on 401(k) plan contributions* allows workers to contribute no more than \$12,000 (or 100 percent of their compensation, if it is less than that) to their accounts in 2003.<sup>3</sup> Changes enacted in 2001 allow participants ages 50 and older to make additional "catch-up" contributions beyond the \$12,000 limit.

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3. The limit is scheduled to rise by \$1,000 each year through 2006, when it will reach \$15,000. In 1997—the latest year for which data showing distributional patterns are available—the limit was the lesser of \$9,500 or 25 percent of compensation. For SIMPLEs, the limit is \$8,000 in 2003, increasing to \$10,000 by 2005.

### Individual Retirement Accounts

IRAs are a form of retirement saving that is not tied to a person's employer. Currently, anyone who has earned income or whose spouse has earned income may participate in an IRA. There are two types of accounts, which are distinguished by whether contributions and earnings are taxable. Contributions to *traditional IRAs* may be either deductible or nondeductible (see the discussion below), and earnings accrue tax-free; however, withdrawals in excess of a participant's nondeductible contributions are taxable. In contrast, contributions to *Roth IRAs*—created in 1998—are nondeductible, but earnings accrue tax-free and withdrawals in excess of a participant's contributions are exempt from income tax after five years.<sup>4</sup>

The maximum annual contribution to either kind of IRA was initially \$2,000, but it increased to \$3,000 in 2002. It will increase to \$5,000 by 2008, after which it will be indexed to inflation. As is the case for 401(k) participants, IRA owners ages 50 and older may make catch-up contributions, starting in 2002.<sup>5</sup>

Beginning in 1974, people who were not covered by a qualified pension plan could contribute up to \$2,000 to a traditional IRA, and all contributions were deductible.<sup>6</sup> In 1981, the exclusion of workers covered by employer pension plans was lifted; however, the Tax Reform Act of 1986 established phased-in limits on the deductibility of contributions by people who are covered by a pension plan themselves or have a covered spouse. Affected taxpayers with adjusted gross income (AGI) that is within or above the phaseout range can still contribute to an IRA,

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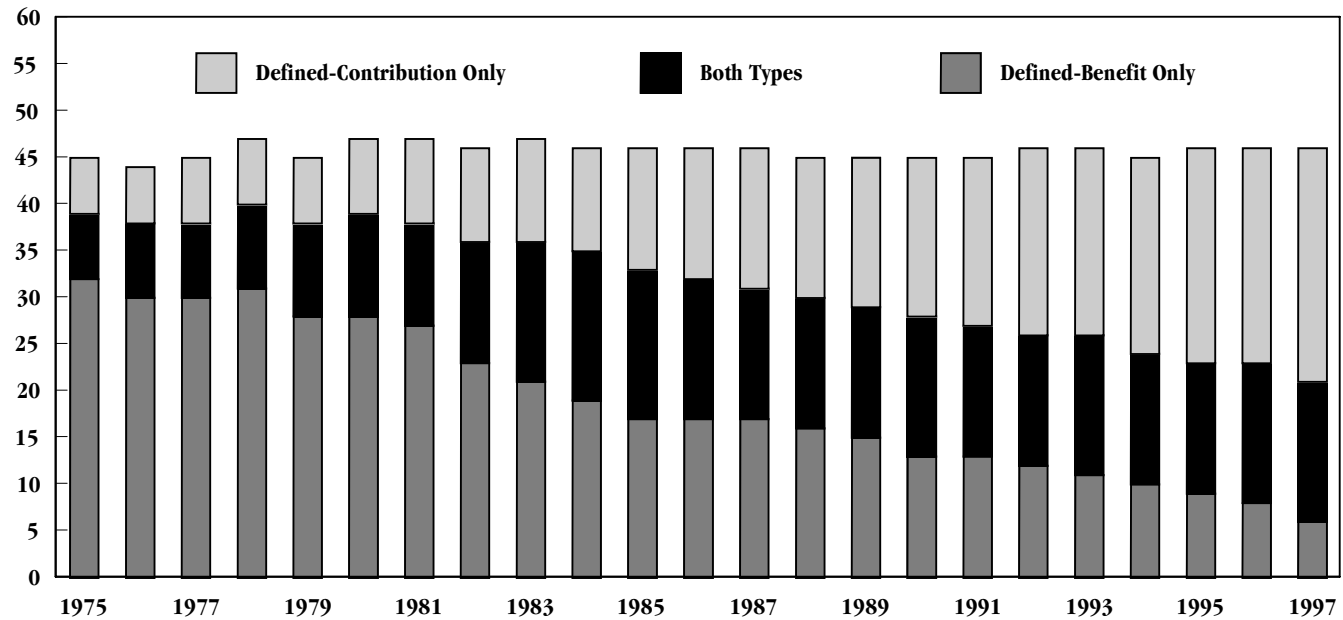
4. At present, no employment-based plan receives a tax incentive analogous to the Roth IRA's, but such an incentive will be permitted for 401(k) plans beginning in 2006.

5. Catch-up contributions are limited to \$500 in 2002 but rise to \$1,000 in 2006.

6. Nonworking spouses of participants in qualified pension plans were limited to contributions of \$250 until 1997, when they, too, became subject to the \$2,000 annual limit.

**Figure 1.****Private-Sector Workers Covered by Employment-Based Retirement Plans**

(In percent)



Source: Congressional Budget Office based on Department of Labor, Pension and Welfare Benefits Administration, "Abstract of 1997 Form 5500 Annual Reports," *Private Pension Plan Bulletin*, no. 10 (Winter 2001), Table E4, available at [www.dol.gov/ebsa/programs/opr/oprpubs.htm](http://www.dol.gov/ebsa/programs/opr/oprpubs.htm).

but they cannot claim a tax deduction for the full amount of their contribution.<sup>7</sup>

Roth IRAs do not limit participation on the basis of a worker's coverage under an employment-based plan, but they do have an income test. Eligibility phases out between \$95,000 and \$110,000 of AGI for unmarried taxpayers and between \$150,000 and \$160,000 for couples filing joint tax returns.<sup>8</sup>

7. The phaseout ranges of adjusted gross income in 1997 were between \$25,000 and \$35,000 for single taxpayers, between \$40,000 and \$50,000 for married couples filing jointly, and between zero and \$10,000 for married taxpayers filing separately. Beginning in 1998, the phaseout range for workers who are not covered by a pension plan but whose spouses are covered was increased to between \$150,000 and \$160,000. The phaseout ranges for all other workers will increase gradually through 2007.

8. For married taxpayers filing separate returns, eligibility phases out over the first \$10,000 of AGI.

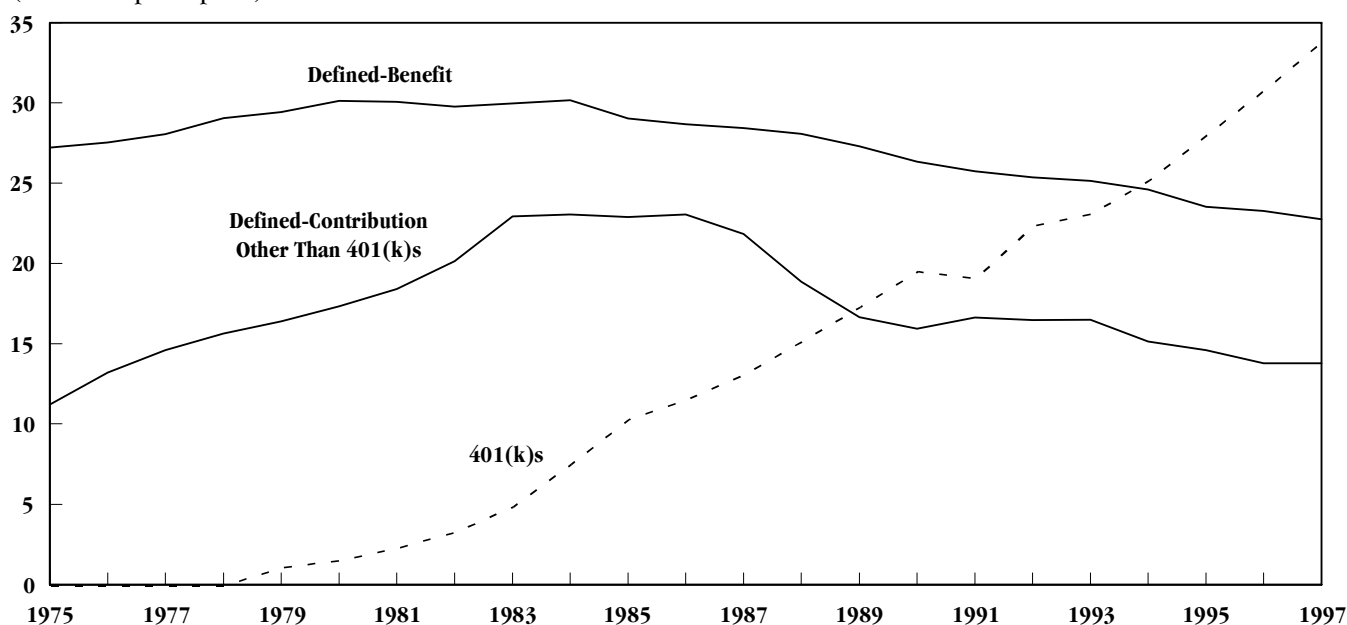
## Trends in Employment-Based Retirement Plans Since 1975

Over the past quarter-century, the biggest change with regard to employment-based retirement plans has been the shift from defined-benefit to defined-contribution plans (see Figure 1). Yet the overall participation rate has been remarkably stable. From 1975 to 1997, between 45 percent and 47 percent of private-sector workers participated in an employment-based retirement plan. The mix of plans, however, changed dramatically over that period. In 1975, 39 percent of private-sector workers were covered by defined-benefit plans. By 1997, that figure had dropped to 21 percent. Over the same period, the percentage participating in defined-contribution plans increased from less than 15 percent to 40 percent.<sup>9</sup>

9. Department of Labor, Pension and Welfare Benefits Administration, "Abstract of 1997 Form 5500 Annual Reports," *Private Pension Plan Bulletin*, no. 10 (Winter 2001), Table E4, available at [www.dol.gov/ebsa/programs/opr/oprpubs.htm](http://www.dol.gov/ebsa/programs/opr/oprpubs.htm).

**Figure 2.****Number of Active Participants in Private-Sector Plans, by Type of Plan**

(Millions of participants)



Source: Congressional Budget Office based on Department of Labor, Pension and Welfare Benefits Administration, "Abstract of 1997 Form 5500 Annual Reports," *Private Pension Plan Bulletin*, no. 10 (Winter 2001), Table E8, available at [www.dol.gov/ebsa/programs/opr/oprpubs.htm](http://www.dol.gov/ebsa/programs/opr/oprpubs.htm).

All of the growth in participation in defined-contribution plans between 1975 and 1997 can be attributed to 401(k) plans. Such plans did not exist prior to 1979, and they did not account for a significant share of all employment-based plans until the mid-1980s. Participation in non-401(k) plans, both defined-benefit and defined-contribution, peaked in 1984 at 53 million.<sup>10</sup> After that, participation in non-401(k) plans declined steadily until in 1997, fewer workers were covered by such plans than in 1975. Over that same period (1984 to 1997), participation in 401(k) plans grew from less than 8 million to 34 million (see *Figure 2*).

During the late 1990s, a new trend toward the use of cash balance plans emerged. By 2000, 23 percent of private-sector workers covered by defined-benefit plans were in

cash balance plans.<sup>11</sup> Some observers estimate that as much as 30 percent of the assets of defined-benefit plans are now in cash balance plans.<sup>12</sup>

### A Snapshot of Participation in 1997

Information returns filed with the IRS provide data on who contributed to IRAs and 401(k)-type plans. Specifically, IRA contributions (whether or not they are deductible) are reported on Form 5498 and contributions to 401(k)-type plans are reported on Form W-2. (See Appendix A for details on how those forms were prepared for

10. *Ibid.*, Table E8. Unlike Table E4, this table counts participants in each plan in which they participate, leading to some double counting.

11. Department of Labor, Bureau of Labor Statistics, *National Compensation Survey: Employee Benefits in Private Industry in the United States, 2000* (January 2003), Table 61, available at [www.bls.gov/ncs/ebs](http://www.bls.gov/ncs/ebs).

12. Phillip C. Copeland and Julia Lynn Coronado, "Cash Balance Pension Plan Conversions and the New Economy" (unpublished issue brief of the ERISA Industry Committee, Washington, D.C., April 2002).

**Table 2.****Workers' Participation in Tax-Deferred Retirement Plans in 1997**

Category	Number of Workers (Thousands)	Percentage of Workers Actively Participating in		
		Employment- Based Plans	IRAs or Keogh Plans	Any Tax- Deferred Plan <sup>a</sup>
<b>By Age Cohort</b>				
Under 30	40,765	33	3	35
30 to 44	50,205	54	7	58
45 to 59	31,822	58	11	64
60 and Over	<u>10,605</u>	34	11	42
<b>All Cohorts</b>	<b>133,397</b>	<b>47</b>	<b>7</b>	<b>51</b>
<b>By Adjusted Gross Income</b>				
Under \$20,000	45,790	20	2	22
\$20,000 to \$40,000	32,867	52	7	56
\$40,000 to \$80,000	37,145	65	8	70
\$80,000 to \$120,000	10,812	72	12	79
\$120,000 to \$160,000	3,097	67	19	78
\$160,000 and Over	<u>3,686</u>	59	26	76
<b>All Income Groups</b>	<b>133,397</b>	<b>47</b>	<b>7</b>	<b>51</b>
<b>By Marital Status/Earner Role</b>				
Single Earners	64,388	38	4	41
Married Earners				
Sole	18,955	47	10	53
Primary	25,028	67	10	72
Secondary	<u>25,028</u>	49	8	54
<b>All Earners</b>	<b>133,397</b>	<b>47</b>	<b>7</b>	<b>51</b>
<b>Memorandum:</b>				
Nonearning Spouse	18,955	n.a.	6	6

Source: Congressional Budget Office tabulations of 1997 individual income tax returns and tax information returns.

Notes: For cross-tabulations of the categories, see Tables B-1 (number of workers) and B-4 (percentage participating in any tax-deferred plan).

n.a. = not applicable.

a. Includes individual retirement accounts (IRAs), Keogh plans, and all employment-based retirement plans.

analysis.) The most recent data available for this paper covered 1997—before the introduction of Roth IRAs. As a result, only tax-deferred plans are covered in this snapshot.

Despite the fact that employed taxpayers are universally eligible to participate in some form of tax-deferred retirement savings plan, only about half of them do so. In 1997, 51 percent of workers participated in tax-deferred retirement plans, the vast majority in employment-based plans

(see Table 2). Contributory, or 401(k)-type, plans were the most common, covering 27 percent of workers; another 20 percent participated only in noncontributory plans (see Table 3).<sup>13</sup> About 4 percent of workers actively

13. Some workers participate in both a 401(k)-type plan and a non-contributory plan. However, such workers cannot be identified through tax data alone. Evidence from the Federal Reserve Board's Survey of Consumer Finances indicates that approximately 5 percent of workers participate in both types (see Table C-1 for details).



**Table 3.****Workers' Participation in Employment-Based Retirement Plans in 1997**

Category	Number of Workers (Thousands)	Percentage of Workers Participating in	
		401(k)-Type Plans <sup>a</sup>	Noncontributory Plans Only <sup>b</sup>
<b>By Age Cohort</b>			
Under 30	40,765	15	18
30 to 44	50,205	32	22
45 to 59	31,822	36	22
60 and Over	<u>10,605</u>	18	16
<b>All Cohorts</b>	<b>133,397</b>	<b>27</b>	<b>20</b>
<b>By Adjusted Gross Income</b>			
Under \$20,000	45,790	6	14
\$20,000 to \$40,000	32,867	27	25
\$40,000 to \$80,000	37,145	40	25
\$80,000 to \$120,000	10,812	53	19
\$120,000 to \$160,000	3,097	52	15
\$160,000 and Over	<u>3,686</u>	45	14
<b>All Income Groups</b>	<b>133,397</b>	<b>27</b>	<b>20</b>
<b>By Marital Status/Earner Role</b>			
Single Earners	64,388	19	19
Married Earners			
Sole	18,955	27	20
Primary	25,028	44	23
Secondary	<u>25,028</u>	29	20
<b>All Earners</b>	<b>133,397</b>	<b>27</b>	<b>20</b>

Source: Congressional Budget Office tabulations of 1997 individual income tax returns and tax information returns.

Note: For cross-tabulations of the categories, see Tables B-1 (number of workers) and B-2 (percentage contributing to a 401(k)-type plan). For more details on noncontributory plans, see Table C-1.

a. Includes 401(k)s, 403(b)s, 457s, and the federal Thrift Savings Plan.

b. Includes all defined-benefit and defined-contribution plans other than 401(k)-type plans.

participated in (that is, contributed to) an IRA or a Keogh plan but did not participate in an employment-based plan.

Overall, approximately 6 percent of workers (and spouses without earnings) contributed to IRAs in 1997 (see Table 4); about half of that group also participated in an employment-based plan. Another 1 percent of workers contributed to Keogh plans. Rates of participation in every type of retirement plan varied significantly by age, income, and marital status/earner role.

### Participation by Age Group

Workers' participation in tax-deferred retirement plans in 1997 varied by age, rising from 35 percent of workers under age 30 to about 60 percent of those between 30 and 60 years of age, then falling to just 42 percent of those 60 and older (see the top panel of Table 2). The figure for older workers, however, is misleadingly low. Many older workers are inactive participants who either are already partially retired and receiving benefits, expect to receive benefits from a previous employer, or own an IRA

**Table 4.****Workers' Participation in Individual Retirement Accounts and Keogh Plans in 1997**

Category	Number of Workers (Thousands)	Percentage of Workers Participating in	
		Keogh Plans	Individual Retirement Accounts
<b>By Age Cohort</b>			
Under 30	40,765	*	3
30 to 44	50,205	1	6
45 to 59	31,822	2	9
60 and Over	<u>10,605</u>	1	10
<b>All Cohorts</b>	<b>133,397</b>	<b>1</b>	<b>6</b>
<b>By Adjusted Gross Income</b>			
Under \$20,000	45,790	*	2
\$20,000 to \$40,000	32,867	*	7
\$40,000 to \$80,000	37,145	1	7
\$80,000 to \$120,000	10,812	3	9
\$120,000 to \$160,000	3,097	5	14
\$160,000 and Over	<u>3,686</u>	9	17
<b>All Income Groups</b>	<b>133,397</b>	<b>1</b>	<b>6</b>
<b>By Marital Status/Earner Role</b>			
Single Earners	64,388	*	4
Married Earners			
Sole	18,955	2	8
Primary	25,028	2	8
Secondary	<u>25,028</u>	1	7
<b>All Earners</b>	<b>133,397</b>	<b>1</b>	<b>6</b>
<b>Memorandum:</b>			
Nonearning Spouse	18,955	n.a.	6

Source: Congressional Budget Office tabulations of 1997 individual income tax returns and tax information returns.

Notes: For cross-tabulations of the categories, see Tables B-1 (number of workers) and B-3 (percentage contributing to an IRA).

\* = less than 0.5 percent; n.a. = not applicable.

to which they did not contribute in 1997.<sup>14</sup> Counting those inactive participants raises the measure of coverage

for elderly workers to 75 percent—close to the comparable rate of 77 percent for the 45-to-59 age group.

14. The percentage of workers who do not actively participate in a retirement plan but who expect to receive benefits from a previous employer was tabulated from the Federal Reserve Board's 1998 Survey of Consumer Finances. The percentage currently receiving benefits was tabulated from IRS Forms 1099-R. The percentage owning an IRA to which they did not contribute was tabulated from 5498 forms. Counting inactive participants, coverage among all age groups was 61 percent (see Table C-2 for more details).

Much of the pattern of participation in retirement plans may be ascribed to the life cycle of workers. In what is sometimes termed the life-cycle model of saving, workers spend their early years investing in education, housing, and durable goods and not saving for retirement. In their middle years, they focus more on retirement saving, because they have more resources available to save and their

retirement is drawing nearer. People who continue to work in their later years tend to be those who need to work because their savings are limited or those who simply prefer working and for whom retirement savings are unlikely to be an issue. Some observers have expressed concern that the low participation rates of younger workers in retirement savings plans are symptomatic of a generation of nonsavers who will be poorly prepared for retirement. The life-cycle model indicates, however, that saving for retirement naturally increases as workers age. Thus, young workers are more likely to participate as they grow older.

**Employment-Based Plans.** The gap between the participation rates of workers over and under 30 is most pronounced for 401(k)-type plans. Only 15 percent of workers under age 30 participated in them in 1997, which is less than half the rate for the 30-to-59 age group (see Table 3). Participation rates in noncontributory plans varied much less among age groups, ranging from 16 percent to 22 percent. The trend toward employers' offering 401(k)-type plans, if it continues, is likely to widen the gap between the participation rates of younger workers and their older counterparts.

**IRAs and Keogh Plans.** The fraction of workers contributing to IRAs in 1997 rose steadily with age, climbing from 3 percent of those under age 30 to 10 percent of those ages 60 and older (see Table 4). Rates of participation in Keogh plans were lower, reaching a maximum of 2 percent of workers ages 45 through 59. That rate is deceptively low, however, given that only self-employed workers may contribute to Keoghs and only about 8 percent of all workers are self-employed.

### Participation by Income Group

In 1997, the percentage of workers who participated in a tax-deferred retirement plan generally increased with income (see the middle panel of Table 2). The third of workers with the lowest income—less than \$20,000—were least likely to participate: only 22 percent of them were active in any plan. In contrast, more than half of workers with income between \$20,000 and \$40,000 participated, as did two-thirds of those with income between \$40,000 and \$80,000. Above that income level, participation rates were fairly stable at just under 80 percent.

Workers at the bottom of the income scale are more likely than workers in other income groups to be young; their rates of participation will probably rise as they age. Regardless of age, however, low-income workers spend a higher percentage of their income on basic living expenses and save less for retirement. Beyond that, workers whose income is low throughout their lives may qualify in retirement for Social Security benefits that will replace nearly all of their preretirement earnings.

Many low-income workers also experience lower marginal tax rates (the rate on the last dollar of income), which for them reduces the value of the tax incentive to participate in a retirement plan. If they have no tax liability, and many do not, then the tax incentive to participate is altogether absent.

**Employment-Based Plans.** In 1997, 53 percent of workers with income between \$80,000 and \$120,000 participated in 401(k)-type plans. For groups with income below \$80,000, participation declined as income fell, reaching a low of 6 percent among those with income of less than \$20,000. Participation rates were also slightly lower at the highest income levels.

Participation solely in noncontributory employment-based plans was greatest—at 25 percent—for workers with income between \$20,000 and \$80,000. For the group with income below \$20,000, participation rates were lower than that but still exceeded those for 401(k)-type plans by a factor of more than two. Furthermore, participation rates declined as income increased above \$80,000, ultimately falling to 14 percent for the highest-income workers—much lower than the rate for 401(k)-type plans.<sup>15</sup>

Those data suggest that the nondiscrimination rules that are unique to 401(k)-type plans fail to spread the benefits

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15. The lower levels of participation in both 401(k)-type plans and noncontributory plans at the highest income levels are not as big an anomaly as they may at first seem. They mainly reflect the higher percentage of self-employed individuals in those income groups. By statute, their participation in either type of plan is not reflected on Form W-2—the data source used to identify participants in employment-based retirement plans. Instead, self-employed workers participate in Keogh plans, which are reported directly on Form 1040.

of the tax incentives among all workers as evenly as is the case for noncontributory plans. That is not to say, however, that those rules do not have some effect. The proportion of the tax benefits of 401(k)s that goes to the highly compensated might have been even greater in the absence of those rules. Nevertheless, the trend toward 401(k)-type plans and the failure of many low-income workers to take part in those plans may lead to further declines in their already low rates of participation in all types of retirement plans.

**IRAs and Keogh Plans.** Rates of workers' participation in IRAs in 1997 increased with income, rising from 2 percent of workers with income below \$20,000 to 17 percent of those with income above \$160,000 (see Table 4). Rates of participation in Keogh plans followed a similar pattern, ranging from less than 1 percent of workers with income below \$20,000 to 9 percent of those with income above \$160,000. The relatively high IRA and Keogh participation rates for workers with income above \$80,000 almost completely offset the decline of participation in employment-based plans among workers in that income group. Hence, the rate of participation in any tax-deferred plan is relatively flat for those with income above \$80,000.

### Participation by Marital Status/Earner Role

Participation in retirement plans is likely to vary with family circumstances—in particular, with the number of adults in the family and with whether they work. CBO's analysis distinguishes families on the basis of whether the head of the family is married and, within couples, whether an individual is the sole earner, the primary earner, the secondary earner, or a nonearner.<sup>16</sup> Rates of participation in retirement plans in 1997 ranged from 41 percent for unmarried workers to 72 percent for married primary earners (see the lower panel of Table 2). For other married workers, participation was approximately 54 percent.

**Employment-Based Plans.** Rates of participation in 401(k)-type plans were the most sensitive to a worker's role in

the family. About 44 percent of married primary earners participated in such a plan, compared with just 19 percent of unmarried workers. For married workers other than primary earners, participation averaged around 28 percent.

In contrast to 401(k) participation rates, those for noncontributory plans were not very sensitive to a worker's family situation. Again, married primary earners were most likely to participate and unmarried workers were least likely, but all participation rates were between 19 percent and 23 percent. Married workers were less likely to participate in a noncontributory plan than in a 401(k)-type plan, but there was no difference in participation among unmarried workers.

**IRAs and Keogh Plans.** Active participation in an IRA was distinctly lower, at 4 percent, for unmarried workers than for married workers—largely as a reflection of their lower income. Among married workers, the participation of both earners and nonearners was between 6 percent and 8 percent. Participation in Keogh plans followed a similar pattern, but the levels were lower.

## A Snapshot of Individual Contributions in 1997

Participants in IRAs, Keogh plans, and 401(k)-type plans contributed widely varying amounts to their accounts in 1997 (see Table 5). Because of the lower limit on contributions to IRAs, average deposits to them were lower than deposits to Keogh plans or 401(k)-type plans, whereas the percentage of workers contributing the maximum amount was much higher (see Table 6). Like participation rates, average contribution levels and the percentage of workers contributing the maximum amount varied by income, age, and marital status/earner role.

### Contributions by Age Group

The three types of retirement plan exhibited different patterns of contributions among age groups in 1997. Average contributions to IRAs increased slowly but steadily with age, rising from about \$1,400 for workers under age 30 to about \$1,700 for those ages 60 and over (see Table 5). More than half of contributing workers in each age category deposited the maximum amount allowed (see

16. A spouse earning less than \$2,000 was classified as a nonearner because he or she could make IRA contributions in excess of earnings. In such cases, the other spouse was classified as the sole earner.

**Table 5.****Workers' Average Contributions to Tax-Deferred Retirement Plans in 1997**

	Individual Retirement Accounts		Keogh Plans		401(k)-Type Plans <sup>a</sup>	
	Number of Workers Contributing (Thousands)	Average Contribution (Dollars)	Number of Workers Contributing (Thousands)	Average Contribution (Dollars)	Number of Workers Contributing (Thousands)	Average Contribution (Dollars)
<b>By Age Cohort</b>						
Under 30	1,020	1,407	24	4,675	6,128	1,592
30 to 44	2,815	1,530	469	8,050	16,288	2,681
45 to 59	2,971	1,675	546	8,211	11,360	3,466
60 and Over	<u>1,012</u>	1,713	<u>121</u>	8,612	<u>1,889</u>	3,213
<b>All Cohorts</b>	<b>7,818</b>	<b>1,593</b>	<b>1,159</b>	<b>8,115</b>	<b>35,666</b>	<b>2,772</b>
<b>By Adjusted Gross Income</b>						
Under \$20,000	1,083	1,489	42	2,245	2,695	630
\$20,000 to \$40,000	2,158	1,517	104	2,665	8,914	1,504
\$40,000 to \$80,000	2,511	1,502	286	4,098	15,020	2,621
\$80,000 to \$120,000	995	1,776	242	6,360	5,739	4,148
\$120,000 to \$160,000	443	1,854	145	9,433	1,624	5,451
\$160,000 and Over	<u>628</u>	1,918	<u>340</u>	14,578	<u>1,673</u>	7,015
<b>All Income Groups</b>	<b>7,818</b>	<b>1,593</b>	<b>1,159</b>	<b>8,115</b>	<b>35,666</b>	<b>2,772</b>
<b>By Marital Status/Earner Role</b>						
Single Earners	2,833	1,549	223	7,290	12,404	2,190
Married Earners						
Sole	1,444	1,626	290	11,311	5,147	3,580
Primary	1,878	1,613	377	9,812	10,973	3,398
Secondary	<u>1,663</u>	1,615	<u>268</u>	2,960	<u>7,141</u>	2,239
<b>All Earners</b>	<b>7,818</b>	<b>1,593</b>	<b>1,159</b>	<b>8,115</b>	<b>35,666</b>	<b>2,772</b>
<b>Memorandum:</b>						
Nonearning Spouse	1,142	1,583	n.a.	n.a.	n.a.	n.a.

Source: Congressional Budget Office tabulations of 1997 individual income tax returns and tax information returns.

Notes: For cross-tabulations of the categories, see Tables B-5 (average contribution to a 401(k)-type plan) and B-6 (average contribution to an IRA). For employer contributions to defined-contribution plans, see Table C-3.

n.a. = not applicable.

a. Includes 401(k), 403(b), and 457 plans.

Table 6). Contributions to Keogh plans averaged over \$8,000 for all but the youngest age group, for whom the average was only about \$4,700. Few Keogh participants contributed the maximum allowable amount.

Employee contributions to 401(k)-type plans increased rapidly up to age 60, with the average contribution in the 45-to-59 age group more than double that in the under-30 group. Above age 60, however, the average dropped

**Table 6.**

## Workers Who Contributed the Maximum Amount to Tax-Deferred Retirement Plans in 1997

	Individual Retirement Accounts		Keogh Plans		401(k)-Type Plans <sup>a</sup>	
	Number of Workers Contributing (Thousands)	Percentage Contributing Maximum Amount	Number of Workers Contributing (Thousands)	Percentage Contributing Maximum Amount	Number of Workers Contributing (Thousands)	Percentage Contributing Maximum Amount
<b>By Age Cohort</b>						
Under 30	1,020	51	24	1	6,128	2
30 to 44	2,815	56	469	5	16,288	6
45 to 59	2,971	69	546	7	11,360	9
60 and Over	<u>1,012</u>	70	<u>121</u>	9	<u>1,889</u>	10
<b>All Cohorts</b>	<b>7,818</b>	<b>62</b>	<b>1,159</b>	<b>6</b>	<b>35,666</b>	<b>6</b>
<b>By Adjusted Gross Income</b>						
Under \$20,000	1,083	58	42	6	2,695	1
\$20,000 to \$40,000	2,158	56	104	6	8,914	1
\$40,000 to \$80,000	2,511	57	286	3	15,020	4
\$80,000 to \$120,000	995	71	242	3	5,739	10
\$120,000 to \$160,000	443	79	145	3	1,624	21
\$160,000 and Over	<u>628</u>	87	<u>340</u>	12	<u>1,673</u>	40
<b>All Income Groups</b>	<b>7,818</b>	<b>62</b>	<b>1,159</b>	<b>6</b>	<b>35,666</b>	<b>6</b>
<b>By Marital Status/Earner Role</b>						
Single Earners	2,833	62	223	5	12,404	3
Married Earners						
Sole	1,444	62	290	9	5,147	12
Primary	1,878	62	377	6	10,973	8
Secondary	<u>1,663</u>	63	<u>268</u>	4	<u>7,141</u>	5
<b>All Earners</b>	<b>7,818</b>	<b>62</b>	<b>1,159</b>	<b>6</b>	<b>35,666</b>	<b>6</b>
<b>Memorandum:</b>						
Nonearning Spouse	1,142	62	n.a.	n.a.	n.a.	n.a.

Source: Congressional Budget Office tabulations of 1997 individual income tax returns and tax information returns.

Note: n.a. = not applicable.

a. Includes 401(k), 403(b), and 457 plans.

slightly below the level of the 45-to-59 group. For no age category did the percentage of workers contributing the maximum exceed 10 percent.

Those contribution patterns reflect primarily life-cycle factors. As noted earlier, individuals are more inclined to

save for retirement as the time for it approaches and are more likely then to have the means to do so. Hence, average IRA and Keogh contributions were highest among workers closest to retirement. In addition, that same group was most likely to contribute the maximum amount allowed to a 401(k)-type plan.

### Contributions by Income Group

Employee contributions to 401(k)-type plans increased with income, averaging roughly 4 percent of participants' earnings (see Table 5). At the highest income levels, 40 percent of participants made the maximum allowable contribution of \$9,500 (see Table 6). Virtually no one at the lowest income levels contributed the maximum.

As was the case with 401(k)-type plans, average contributions to Keogh plans increased with income, but their levels were consistently higher. The percentage contributing the maximum amount was actually higher for groups with income below \$40,000 than it was for groups with income between \$40,000 and \$160,000. That is because Keogh contributions are limited not only by a dollar cap of \$30,000 but also by the amount of an individual's self-employment income. It is the latter limit that is binding at lower levels of income.

Average IRA contributions varied little with income, rising from \$1,489 at the lowest income level to \$1,918 at the highest. A majority of participants in every income category contributed the maximum amount of \$2,000.

Average contributions to IRAs are much less affected by income levels than are contributions to 401(k)-type plans. In fact, for groups with income under \$40,000, average IRA contributions are higher than average 401(k) contributions. IRA contributions may be less sensitive to income simply because of the lower maximum amount—\$2,000 for IRAs versus \$9,500 for 401(k)s in 1997. Lower-income workers are also more likely to be able to deduct IRA contributions on their tax returns than higher-income workers are, because more higher-income workers participate in employment-based pension plans that make them ineligi-

ble to deduct IRA deposits.<sup>17</sup> A third factor could be that contributions to 401(k)-type plans generally come from regular payroll deductions specified as a percentage of earnings. As earnings rise, so do those contributions. In contrast, contributions to IRAs tend to be made in lump sums that appear to vary less with income.

### Contributions by Marital Status/Earner Role

Primary earners in two-earner married couples and earners in one-earner couples made the largest contributions to 401(k)-type plans in 1997, averaging approximately \$3,500 (see Table 5). Other workers' contributions averaged less than two-thirds of that amount.

Average Keogh contributions were distinctly lower among secondary earners than among any other earners. That may imply that secondary earners work primarily to enhance their current living standards rather than to save for retirement.

In sharp contrast, average contributions to IRAs varied little by a worker's marital status or earner role. Married workers made slightly larger contributions than did spouses without earnings or unmarried workers. The percentage contributing the maximum amount did not vary at all by marital status or earner role.

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17. Data from 5498 forms seem to indicate that lower-income individuals who are covered by an employment-based plan contribute to IRAs as if they were subject to the same limits as higher-income individuals are when, in fact, they are not. That tendency would serve to reduce contributions by lower-income individuals as well as by the higher-income individuals who are, indeed, subject to the limits.





## A

## Refinement of the Statistics of Income Databases

**T**he tabulations presented in this report come from a sample of 1997 tax returns created by the Statistics of Income (SOI) Division of the Internal Revenue Service (IRS). That file was enhanced by attaching data from two different tax information returns—Form 5498 and Form W-2—to each record. Those forms do not undergo the same degree of “cleaning” by the SOI Division as the tax returns themselves do. Without that cleaning, superseded records remain in the file as do current records with amounts and codes that are not consistent with amounts reported on the same taxpayer’s Form 1040. Therefore, the Congressional Budget Office (CBO) developed separate cleaning and reconciliation procedures for the two forms to delete superfluous records and impose consistency with the amounts reported on Forms 1040.

### Forms 5498

Forms 5498 are prepared annually by the administrators of individual retirement accounts (IRAs) and sent to the accounts’ owners to report their contributions, rollovers, and end-of-year balances. Individuals receive one 5498 form for each IRA they own, even if the IRAs are administered by the same party.

The original file of 5498s that CBO received from the IRS contained 179,791 forms, of which 1,933 were eliminated because they were for years other than 1997. Of the remainder, 907 were coded as amended or as “amended original” returns. CBO developed a set of rules to determine when amended returns should be used in place of original returns. In general, amended returns were retained, and

original returns that had been amended were deleted. In fact, however, most amended returns were not associated with an original return, so CBO actually deleted only 123 records from the file.

Because contributions reported on Form 5498 may be either deductible or nondeductible (the reporting institution has no way of knowing which), it is impossible to precisely reconcile an individual’s 5498s with his or her Form 1040. If a deduction was claimed on the 1040 without an accompanying 5498, CBO’s reconciliation procedure created a dummy 5498 with the deductible amount as the amount contributed. Otherwise, the procedure focused on classifying the amount as a simplified employee pension (SEP) contribution or as an IRA contribution that was deductible, nondeductible, or “unallowable.”

Some SEPs were easy to identify. SEPs are the only contributions reported on Form 5498 that can legitimately exceed \$2,000, so all contributions in excess of that amount were instant candidates for SEP status. Not all such contributions, however, could be so counted. SEPs are reported on the Keogh line of Form 1040 instead of the IRA line; consequently, if the Keogh line on a given return was zero, none of the contributions could be counted as SEPs. Frequently, the Keogh line was not zero but was still less than the amount of the contribution. In such cases, CBO counted as a SEP the portion of the contribution up to the amount reported on the Keogh line. It counted amounts in excess of the Keogh line (or the maximum SEP contribution of \$9,500) as unallowable.

After reconciling the W-2 forms (discussed below), CBO's reconciliation procedure for the 5498s determined which taxpayers (or spouses) were covered by a qualified plan. For those that were so covered, it calculated the maximum allowable IRA deduction using the filing status and adjusted gross income (AGI) from the individual's Form 1040. It then compared actual IRA deductions claimed with the calculated maximum amount. Deductions within the limit were counted as "deductible/deducted." Deductions in excess of the limit were counted as "nondeductible/deducted."

If the sum of all contributions exceeded the amount allowed as an IRA deduction, three tests were applied to determine if any 5498s should be deleted at this stage:

- Were any 5498s clearly duplicates of one another?
- Was any single contribution larger than \$9,500, meaning that it was too large even to be a SEP?
- Did any 5498 with a contribution of more than \$2,000 have a zero entered as the market value?

If the answer to any of those questions was yes, the 5498 was deleted.

Contributions reported on Form 5498 but not deducted on Form 1040 were first tested to see whether they could be SEPs. Contributions not deducted as IRAs were counted as SEPs up to the amount reported on the Keogh line. Additional amounts up to the maximum allowable deduction were counted as "deductible/not deducted." Amounts above the maximum were counted as "nondeductible/not deducted."

Those counting rules allowed the Keogh line on the 1040 form to be split between Keogh plans and SEPs. SEPs totaled \$564 million, leaving \$9,674 million from Keoghs. With regard to IRAs, tabulations using the above rules can be presented in two different ways: according to whether the contribution was deducted and according to whether the contribution was, in fact, deductible (*see Table A-1*). On the one hand, those tabulations showed that 5.3 percent of IRA deductions taken were not legitimately deductible. Of contributions that were legitimately

**Table A-1.**

### Contributions to Individual Retirement Accounts, by Deduction Status and Deductibility

Category	In Millions of Dollars	As a Percentage of Total Contributions
<b>By Deduction Status</b>		
Contributions That Were Deducted		
Deductible	8,201	56
Nondeductible	<u>462</u>	<u>3</u>
Subtotal	8,663	59
Contributions That Were Not Deducted		
Deductible	1,407	10
Nondeductible	<u>4,234</u>	<u>29</u>
Subtotal	5,641	39
Contributions That Were Unallowable		
	<u>288</u>	<u>2</u>
<b>Total Contributions</b>	<b>14,592</b>	<b>100</b>
<b>By Deductibility</b>		
Contributions That Were Deductible		
Deducted	8,201	56
Not deducted	<u>1,407</u>	<u>10</u>
Subtotal	9,608	66
Contributions That Were Not Deductible		
Deducted	462	3
Not deducted	<u>4,234</u>	<u>29</u>
Subtotal	4,696	32
Contributions That Were Unallowable		
	<u>288</u>	<u>2</u>
<b>Total Contributions</b>	<b>14,592</b>	<b>100</b>

Source: Congressional Budget Office tabulations of 1997 tax information returns.

deductible, on the other hand, 14.6 percent were not actually claimed as deductions. Overall, if taxpayers in 1997 had used all of the deductions to which they were entitled (and only those), IRA deductions would have been 10.9 percent higher than they were.

An alternative source of data on nondeductible IRAs is Form 8606, which must be filed for every nondeductible IRA contribution and for every distribution from an account to which nondeductible contributions have been made. Nondeductible contributions derived from Forms 5498 contrast markedly with those reported on Forms 8606. According to the 5498s, nondeductible contributions totaled \$5.9 billion, whereas the 8606s yielded a total of \$3.3 billion. There are, however, more reasons to doubt the accuracy of the 8606 figures than the accuracy of the 5498 figures. Form 8606 is filed by the taxpayer, and failure to complete and file it has no immediate tax consequences. Form 5498, however, is filed by the financial institution administering the IRA. Failure to file the form would deny customers a documentable tax deduction, not to mention trigger the possibility of IRS sanctions. Clearly, the incentive of the financial institutions to provide accurate information to both IRA owners and the IRS is greater than the incentive of taxpayers to fill out one more form that does not affect their tax liability for the current year. For that reason, CBO judged the data from the 5498s to be more credible than the data from the 8606s.

## Forms W-2

Each year, employers send every employee a Form W-2 that reports wages subject to tax, certain forms of deferred compensation, pension coverage, and taxes paid. Individuals receive one W-2 from each employer they had during the year.

The original file of W-2s that CBO received from the IRS contained 169,695 forms, of which 3,024 were eliminated because they were for years other than 1997. Of the remainder, 230 were coded as amended returns. CBO developed a set of rules, similar to those it used for the 5498 forms, to determine when to use amended returns in place of original returns. Because IRS cleaning procedures for W-2s are more thorough than for other forms, CBO deleted only 72 records as a result of those rules.

The purpose of analyzing the W-2s was to determine taxpayers' eligibility for IRA deductions and to estimate contributions to 401(k), 403(b), and 457 plans and to the

federal Thrift Savings Plan.<sup>1</sup> The form contains a box for "Deferred Compensation," the amount in which was assigned to a type of plan according to the following criteria:

- Unlike all other forms of deferred compensation, participation in a 457 plan does not preclude a deductible IRA contribution and therefore requires that the box designated "Pension Coverage" not be checked. Consequently, if the box was not checked, CBO deemed the deferred amount a contribution to a 457 plan.
- Of amounts reported as "Deferred Compensation," only contributions to 401(k) and 403(b) plans are subject to the Medicare Hospital Insurance (HI) tax but not to income tax. Therefore, if the pension coverage box was checked and the deferred amount equaled the difference between compensation subject to the HI tax and compensation subject to income tax, the deferred amount was deemed a contribution to a 401(k)-type plan.
- Otherwise, if the pension coverage box was checked, the contribution was deemed to have gone to some "Other" kind of plan (a category that would include 501(c)(18)(D) plans, an uncommon type of retirement savings vehicle offered by nonprofit organizations).

To fully reconcile the W-2s with the 1040s, CBO compared the taxable amounts (including tips and excess deferrals) from the W-2s with the amount reported as salaries and wages on the 1040. If the amounts on the two types of forms were within \$10 of one another, they were deemed a match. A frequent cause of mismatches was the failure to report on the 1040 tips and "excess deferrals" that appeared on a W-2. (Excess deferrals are amounts deferred in excess of the statutory maximum for a specific type of plan.)

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1. Because no further distinction is made among 401(k)s, 403(b)s, and the federal Thrift Savings Plan, they are collectively referred to as 401(k)-type plans. For purposes of this appendix, 457 plans are not included in that term.

CBO used several approaches to reconcile the W-2s with the 1040s. The first method was to temporarily exclude all amounts not included in Box 1 of the W-2 (wages, tips, and so forth). If the amount in Box 1 matched the amount on the 1040 and there were no excess deferrals, the excess was attributed to tips, and the amount shown as “Allocated Tips” in Box 8 was replaced with zero. If there were excess deferrals of less than \$2,000 attributable to a 457 plan, CBO converted the 457 contributions into 401(k)-type contributions, which have a higher statutory maximum, by imputing a check in the pension coverage box. If excess deferrals exceeded \$2,000 or were attributable to a 401(k)-type plan, CBO reduced deferred compensation to eliminate the excess.

The remaining cases fell into two categories: returns in which wages and salaries on a 1040 exceeded the corresponding amounts on all associated W-2s, and returns in which wages and salaries on a 1040 fell short of the corresponding amounts on the W-2s. In the former case, dummy W-2s that contained the missing wages were created. CBO assumed that all such returns had no deferred compensation and no pension coverage. In the latter case, specific W-2s were deleted, or—if no combination of W-2s matched the 1040—the wages on all W-2s were scaled to hit the proper total. CBO scaled deferred compensation amounts on those W-2s by the same factor that it used for wages.

Finally, CBO compared IRA deductions from the 1040 with the maximum allowable deduction based on AGI and the status of the pension coverage box. If the deduction was less than \$2,000 but exceeded the maximum allowable amount, and no amount was reported in the deferred compensation box, then CBO unchecked the pension coverage box.

As a result of those procedures, CBO deleted 3,549 W-2s and created 20,098 from scratch. Of the resulting 183,148 records, 1 percent were reclassified from “covered by a pension plan” to “not covered by a pension plan,” or vice versa; nearly 2½ percent had their compensation modified in some way; and less than ½ percent had other fields modified (*see Table A-2*).

**Table A-2.**  
**W-2 Forms Added, Deleted,  
and Modified**

Category	Number	Percentage of Reconciled Records
<b>Additions and Deletions</b>		
Original Number of Records	169,695	n.a.
Deleted for wrong year	-3,024	n.a.
Superseded by amended return	<u>-72</u>	n.a.
Records Subject to Reconciliation Procedure	166,599	n.a.
Deleted to reconcile with Form 1040	-3,549	n.a.
Added to reconcile with Form 1040	<u>20,098</u>	n.a.
<b>Total</b>	<b>183,148</b>	<b>100.0</b>
<b>Modifications</b>		
Pension Plan Box Checked or Unchecked as Appropriate	1,635	0.9
Box 1 (Wages, tips, etc.) Scaled by Form 1040 Amount Divided by Combined W-2 Amounts	4,479	2.4
Box 5 (Medicare wages) Reduced to Equal Box 1 Plus Deferred Compensation <sup>a</sup>	22	*
Box 8 (Allocated tips) Zeroed Out	123	0.1
Box 13 (Deferred compensation) Reduced to Equal Box 5 Minus Box 1 <sup>a</sup>	196	0.1

Source: Congressional Budget Office tabulations of 1997 tax information returns.

Note: n.a. = not applicable; \* = less than 0.05 percent.

a. Modified by using the same scale factor as in Box 1.

Once the W-2s were reconciled to the amounts on the 1040s, it was possible to tabulate deferred compensation by type (*see Table A-3*). That tabulation showed that of the nearly \$100 billion in deferred compensation, 92 percent was in the form of 401(k)-type plans, and 7 percent was in the form of 457 plans.

**Table A-3.****Deferred Compensation by Implied Type of Plan**

	<b>401(k) or 403(b) Plan</b>	<b>457 Plan</b>	<b>All Other Plans</b>	<b>Total Deferred Compensation</b>
Pension Coverage Box Checked?	Yes	No	Yes	n.a.
Compensation Excluded from Adjusted Gross Income but Subject to Medicare Hospital Insurance Tax?	Yes	Yes	No	n.a.
Amount of Deferred Compensation (Millions of dollars)	91,597	7,302	399	99,052

Source: Congressional Budget Office tabulations of 1997 tax information returns.

Note: n.a. = not applicable.



**B**

## Detailed Tabulations by Age, Income, and Marital Status/Earner Role

**T**he tables in the body of this report contain distributions by age, income, and marital status/earner role without showing how one category might be correlated with another. This appendix presents the complete cross-tabulations for the following variables (the text tables with the corresponding summary information are shown in parentheses):

Table B-1: Number of workers (Tables 2, 3, and 4);

Table B-2: Percentage of workers contributing to a 401(k)-type plan (Table 3);

Table B-3: Percentage of workers contributing to an individual retirement account (IRA) (Table 4);

Table B-4: Percentage of workers participating in any tax-deferred retirement plan (Table 2);

Table B-5: Average contribution to a 401(k) or 403(b) plan (Table 5); and

Table B-6: Average contribution to an IRA (Table 5).

Table B-7 cross-tabulates the number of nonearning spouses in one-earner families, the percentage of nonearning spouses contributing to an IRA, and their average IRA contribution by age and income group.

**Table B-1.****Number of Workers Eligible for Tax-Deferred Retirement Saving in 1997**

(In thousands)

<b>Adjusted Gross Income Group</b>	<b>Under 30</b>	<b>30 to 44</b>	<b>45 to 59</b>	<b>60 and Over</b>	<b>All Ages</b>
<b>Single Earners</b>					
Under \$20,000	23,167.3	9,223.0	3,885.9	2,159.2	38,435.4
\$20,000 to < \$40,000	5,524.1	7,388.2	3,846.5	971.0	17,729.7
\$40,000 to < \$80,000	874.4	3,126.3	2,416.8	505.2	6,922.6
\$80,000 to < \$120,000	58.1	337.1	301.7	96.0	792.8
\$120,000 to < \$160,000	11.7	102.6	84.2	27.0	225.6
\$160,000 and Over	<u>19.3</u>	<u>104.4</u>	<u>117.2</u>	<u>40.9</u>	<u>281.7</u>
<b>All Income Groups</b>	<b>29,654.9</b>	<b>20,281.5</b>	<b>10,652.2</b>	<b>3,799.1</b>	<b>64,387.8</b>
<b>Married/Sole Earners</b>					
Under \$20,000	871.8	1,625.1	1,172.1	1,336.9	5,006.0
\$20,000 to < \$40,000	793.7	2,002.1	1,569.9	1,000.2	5,365.9
\$40,000 to < \$80,000	299.2	2,272.5	1,930.1	1,076.8	5,578.6
\$80,000 to < \$120,000	32.4	520.7	529.1	348.0	1,430.1
\$120,000 to < \$160,000	9.7	200.1	223.2	127.5	560.5
\$160,000 and Over	<u>8.6</u>	<u>357.9</u>	<u>413.2</u>	<u>233.8</u>	<u>1,013.5</u>
<b>All Income Groups</b>	<b>2,015.3</b>	<b>6,978.4</b>	<b>5,837.6</b>	<b>4,123.2</b>	<b>18,954.5</b>
<b>Married/Primary Earners</b>					
Under \$20,000	344.4	399.1	284.7	146.1	1,174.3
\$20,000 to < \$40,000	1,401.9	2,003.9	1,169.4	310.6	4,885.8
\$40,000 to < \$80,000	1,867.2	6,126.4	3,754.7	573.7	12,322.1
\$80,000 to < \$120,000	312.8	1,870.6	1,897.0	214.0	4,294.4
\$120,000 to < \$160,000	53.4	506.3	516.7	79.0	1,155.4
\$160,000 and Over	<u>32.4</u>	<u>456.6</u>	<u>591.2</u>	<u>115.4</u>	<u>1,195.5</u>
<b>All Income Groups</b>	<b>4,012.1</b>	<b>11,362.9</b>	<b>8,213.7</b>	<b>1,438.8</b>	<b>25,027.5</b>
<b>Married/Secondary Earners</b>					
Under \$20,000	352.8	409.4	264.0	148.2	1,174.3
\$20,000 to < \$40,000	1,674.1	1,859.1	1,055.0	297.6	4,885.8
\$40,000 to < \$80,000	2,455.4	6,176.1	3,215.2	475.4	12,322.1
\$80,000 to < \$120,000	457.9	2,089.6	1,572.3	174.6	4,294.4
\$120,000 to < \$160,000	95.0	518.0	483.5	58.9	1,155.4
\$160,000 and Over	<u>47.6</u>	<u>530.3</u>	<u>528.8</u>	<u>88.8</u>	<u>1,195.5</u>
<b>All Income Groups</b>	<b>5,082.8</b>	<b>11,582.5</b>	<b>7,118.7</b>	<b>1,243.5</b>	<b>25,027.5</b>
<b>All Earners</b>					
Under \$20,000	24,736.3	11,656.7	5,606.7	3,790.3	45,790.1
\$20,000 to < \$40,000	9,393.7	13,253.2	7,640.7	2,579.4	32,867.1
\$40,000 to < \$80,000	5,496.2	17,701.3	11,316.8	2,631.0	37,145.3
\$80,000 to < \$120,000	861.1	4,817.9	4,300.1	832.5	10,811.6
\$120,000 to < \$160,000	169.9	1,327.1	1,307.6	292.5	3,097.0
\$160,000 and Over	<u>107.9</u>	<u>1,449.2</u>	<u>1,650.3</u>	<u>478.8</u>	<u>3,686.2</u>
<b>All Income Groups</b>	<b>40,765.2</b>	<b>50,205.4</b>	<b>31,822.2</b>	<b>10,604.6</b>	<b>133,397.3</b>

Source: Congressional Budget Office tabulations of 1997 tax information returns.



**Table B-2.****Percentage of Workers Contributing to 401(k)-Type Plans in 1997**

Adjusted Gross Income Group	Under 30	30 to 44	45 to 59	60 and Over	All Ages
<b>Single Earners</b>					
Under \$20,000	3.6	9.6	10.3	5.7	5.8
\$20,000 to < \$40,000	30.6	36.5	36.7	24.7	34.1
\$40,000 to < \$80,000	54.5	52.2	50.7	29.1	50.3
\$80,000 to < \$120,000	57.0	59.0	53.4	25.0	52.6
\$120,000 to < \$160,000	43.6	49.7	47.6	20.4	45.1
\$160,000 and Over	51.3	46.0	43.9	21.5	42.0
<b>All Income Groups</b>	<b>10.3</b>	<b>27.1</b>	<b>30.9</b>	<b>14.4</b>	<b>19.3</b>
<b>Married/Sole Earners</b>					
Under \$20,000	5.3	7.6	7.2	5.8	6.6
\$20,000 to < \$40,000	25.3	22.0	26.5	14.4	22.4
\$40,000 to < \$80,000	44.8	44.8	43.4	26.3	40.7
\$80,000 to < \$120,000	32.1	55.5	47.8	25.0	44.7
\$120,000 to < \$160,000	15.5	59.6	46.7	30.4	47.1
\$160,000 and Over	<u>39.5</u>	<u>48.9</u>	<u>49.6</u>	<u>23.4</u>	<u>43.2</u>
<b>All Income Groups</b>	<b>19.6</b>	<b>31.0</b>	<b>32.6</b>	<b>16.6</b>	<b>27.2</b>
<b>Married/Primary Earners</b>					
Under \$20,000	3.8	6.2	7.0	10.1	6.2
\$20,000 to < \$40,000	25.4	23.7	23.3	21.0	23.9
\$40,000 to < \$80,000	43.8	46.7	47.2	37.1	46.0
\$80,000 to < \$120,000	69.3	65.1	62.5	45.0	63.3
\$120,000 to < \$160,000	73.6	64.5	62.8	41.0	62.6
\$160,000 and Over	68.2	57.6	53.0	27.0	52.7
<b>All Income Groups</b>	<b>36.5</b>	<b>45.5</b>	<b>47.3</b>	<b>31.4</b>	<b>43.8</b>
<b>Married/Secondary Earners</b>					
Under \$20,000	4.3	3.2	5.9	0.9	3.8
\$20,000 to < \$40,000	9.1	11.1	11.8	7.7	10.3
\$40,000 to < \$80,000	30.2	29.6	29.3	19.2	29.2
\$80,000 to < \$120,000	50.3	43.7	48.7	31.6	45.8
\$120,000 to < \$160,000	48.6	47.4	46.7	30.9	46.4
\$160,000 and Over	53.4	45.6	38.7	16.8	40.7
<b>All Income Groups</b>	<b>23.8</b>	<b>29.8</b>	<b>32.0</b>	<b>16.4</b>	<b>28.5</b>
<b>All Earners</b>					
Under \$20,000	3.7	8.9	9.3	5.7	5.9
\$20,000 to < \$40,000	25.6	28.8	29.1	18.3	27.1
\$40,000 to < \$80,000	39.5	41.5	42.2	27.9	40.4
\$80,000 to < \$120,000	57.0	54.4	55.0	31.5	53.1
\$120,000 to < \$160,000	54.2	55.9	53.1	32.4	52.4
\$160,000 and Over	56.4	50.2	46.9	22.9	45.4
<b>All Income Groups</b>	<b>15.0</b>	<b>32.4</b>	<b>35.7</b>	<b>17.8</b>	<b>26.7</b>

Source: Congressional Budget Office tabulations of 1997 tax information returns.

**Table B-3.****Percentage of Workers Contributing to Individual Retirement Accounts in 1997**

Adjusted Gross Income Group	Under 30	30 to 44	45 to 59	60 and Over	All Ages
<b>Single Earners</b>					
Under \$20,000	1.4	2.3	4.9	2.9	2.1
\$20,000 to < \$40,000	4.5	5.9	9.7	10.4	6.6
\$40,000 to < \$80,000	9.8	8.3	10.6	8.6	9.3
\$80,000 to < \$120,000	11.9	11.7	20.6	12.7	15.2
\$120,000 to < \$160,000	16.2	25.0	24.9	11.1	22.9
\$160,000 and Over	22.8	19.4	19.4	7.8	18.0
<b>All Income Groups</b>	<b>2.3</b>	<b>4.9</b>	<b>8.7</b>	<b>5.9</b>	<b>4.4</b>
<b>Married/Sole Earners</b>					
Under \$20,000	0.6	3.1	4.3	5.4	3.5
\$20,000 to < \$40,000	2.5	5.0	9.0	12.2	7.1
\$40,000 to < \$80,000	2.8	6.5	10.7	11.2	8.7
\$80,000 to < \$120,000	3.1	10.0	12.0	10.9	10.8
\$120,000 to < \$160,000	26.8	11.1	19.7	14.9	15.7
\$160,000 and Over	16.3	16.2	17.2	11.7	15.6
<b>All Income Groups</b>	<b>1.9</b>	<b>6.2</b>	<b>9.9</b>	<b>9.7</b>	<b>7.6</b>
<b>Married/Primary Earners</b>					
Under \$20,000	1.3	4.1	6.5	10.3	4.6
\$20,000 to < \$40,000	2.5	6.2	12.1	17.3	7.2
\$40,000 to < \$80,000	3.5	5.2	7.2	13.2	5.9
\$80,000 to < \$120,000	10.6	7.2	9.2	12.7	8.6
\$120,000 to < \$160,000	13.9	10.2	16.5	21.5	13.9
\$160,000 and Over	9.9	14.6	20.3	17.0	17.5
<b>All Income Groups</b>	<b>3.7</b>	<b>6.3</b>	<b>9.9</b>	<b>14.5</b>	<b>7.5</b>
<b>Married/Secondary Earners</b>					
Under \$20,000	0.1	3.6	6.5	10.5	4.1
\$20,000 to < \$40,000	1.6	4.4	9.7	16.7	5.3
\$40,000 to < \$80,000	3.0	4.9	6.9	11.8	5.3
\$80,000 to < \$120,000	7.2	6.7	9.5	14.2	8.1
\$120,000 to < \$160,000	12.8	9.8	13.7	22.4	12.3
\$160,000 and Over	11.3	16.0	19.0	22.6	17.6
<b>All Income Groups</b>	<b>3.0</b>	<b>5.8</b>	<b>9.2</b>	<b>14.4</b>	<b>6.6</b>
<b>All Earners</b>					
Under \$20,000	1.4	2.5	4.9	4.4	2.4
\$20,000 to < \$40,000	3.5	5.6	9.9	12.7	6.6
\$40,000 to < \$80,000	4.3	5.8	8.4	11.2	6.8
\$80,000 to < \$120,000	8.6	7.6	10.5	12.3	9.2
\$120,000 to < \$160,000	14.2	11.3	16.5	17.8	14.3
\$160,000 and Over	13.3	15.9	19.0	14.7	17.0
<b>All Income Groups</b>	<b>2.5</b>	<b>5.6</b>	<b>9.3</b>	<b>9.5</b>	<b>5.9</b>

Source: Congressional Budget Office tabulations of 1997 tax information returns.

**Table B-4.****Percentage of Workers Participating in Any Tax-Deferred Retirement Plan in 1997**

Adjusted Gross Income Group	Under 30	30 to 44	45 to 59	60 and Over	All Ages
<b>Single Earners</b>					
Under \$20,000	18.5	28.0	28.5	20.3	21.9
\$20,000 to < \$40,000	59.2	66.8	69.5	55.0	64.3
\$40,000 to < \$80,000	80.3	82.3	84.5	57.6	81.0
\$80,000 to < \$120,000	80.7	87.5	85.1	46.4	81.1
\$120,000 to < \$160,000	66.7	84.3	77.6	44.1	76.1
\$160,000 and Over	73.6	78.9	76.0	54.8	73.8
<b>All Income Groups</b>	<b>28.1</b>	<b>52.0</b>	<b>58.5</b>	<b>35.3</b>	<b>41.1</b>
<b>Married/Sole Earners</b>					
Under \$20,000	24.6	21.6	25.9	22.5	23.4
\$20,000 to < \$40,000	56.2	52.9	55.9	39.2	51.7
\$40,000 to < \$80,000	71.7	73.2	76.3	53.5	70.4
\$80,000 to < \$120,000	48.8	81.0	79.4	50.1	72.2
\$120,000 to < \$160,000	69.1	82.0	79.8	58.4	75.5
\$160,000 and Over	62.8	78.4	79.7	53.4	73.0
<b>All Income Groups</b>	<b>44.8</b>	<b>56.4</b>	<b>61.4</b>	<b>39.8</b>	<b>53.1</b>
<b>Married/Primary Earners</b>					
Under \$20,000	23.9	23.0	27.6	35.6	25.9
\$20,000 to < \$40,000	53.8	52.4	56.5	50.2	53.6
\$40,000 to < \$80,000	73.1	76.2	78.1	68.5	76.0
\$80,000 to < \$120,000	85.9	87.1	88.0	75.4	86.8
\$120,000 to < \$160,000	92.9	86.8	86.0	72.0	85.7
\$160,000 and Over	88.3	84.6	83.6	60.5	81.9
<b>All Income Groups</b>	<b>63.5</b>	<b>72.8</b>	<b>76.5</b>	<b>61.8</b>	<b>71.9</b>
<b>Married/Secondary Earners</b>					
Under \$20,000	9.8	13.8	20.5	17.9	14.6
\$20,000 to < \$40,000	29.7	29.3	36.1	32.1	31.1
\$40,000 to < \$80,000	58.1	56.5	59.0	45.6	57.1
\$80,000 to < \$120,000	76.1	69.9	75.5	61.7	72.3
\$120,000 to < \$160,000	69.8	73.8	74.1	63.7	73.1
\$160,000 and Over	78.2	75.5	71.9	51.2	72.2
<b>All Income Groups</b>	<b>47.4</b>	<b>54.7</b>	<b>59.8</b>	<b>42.6</b>	<b>54.1</b>
<b>All Earners</b>					
Under \$20,000	18.7	26.4	27.5	21.6	22.0
\$20,000 to < \$40,000	52.9	57.2	60.1	45.6	55.7
\$40,000 to < \$80,000	67.4	70.0	73.7	56.2	69.8
\$80,000 to < \$120,000	78.9	79.0	82.2	58.6	78.7
\$120,000 to < \$160,000	76.8	80.8	80.0	61.7	78.4
\$160,000 and Over	79.2	79.3	78.3	54.8	75.7
<b>All Income Groups</b>	<b>34.8</b>	<b>57.9</b>	<b>64.0</b>	<b>41.5</b>	<b>51.0</b>

Source: Congressional Budget Office tabulations of 1997 tax information returns.

**Table B-5.****Average Employee Contribution to a 401(k)-Type Plan in 1997**

(In dollars)

<b>Adjusted Gross Income Group</b>	<b>Under 30</b>	<b>30 to 44</b>	<b>45 to 59</b>	<b>60 and Over</b>	<b>All Ages</b>
<b>Single Earners</b>					
Under \$20,000	442	552	861	627	570
\$20,000 to < \$40,000	1,397	1,510	1,921	2,034	1,596
\$40,000 to < \$80,000	2,910	3,375	3,856	4,410	3,524
\$80,000 to < \$120,000	6,127	5,452	5,356	6,058	5,502
\$120,000 to < \$160,000	4,647	6,890	8,504	9,036	7,523
\$160,000 and Over	6,071	7,521	8,029	9,466	7,765
<b>All Income Groups</b>	<b>1,442</b>	<b>2,154</b>	<b>2,856</b>	<b>2,719</b>	<b>2,190</b>
<b>Married/Sole Earners</b>					
Under \$20,000	434	914	948	1,017	881
\$20,000 to < \$40,000	1,303	1,453	1,878	1,873	1,626
\$40,000 to < \$80,000	2,597	3,158	3,563	3,661	3,337
\$80,000 to < \$120,000	3,212	5,380	5,353	5,224	5,314
\$120,000 to < \$160,000	7,467	6,135	7,069	5,437	6,407
\$160,000 and Over	8,441	8,120	8,145	7,190	8,018
<b>All Income Groups</b>	<b>1,776</b>	<b>3,544</b>	<b>4,002</b>	<b>3,567</b>	<b>3,580</b>
<b>Married/Primary Earners</b>					
Under \$20,000	323	1,547	2,080	824	1,326
\$20,000 to < \$40,000	977	1,224	1,621	1,573	1,261
\$40,000 to < \$80,000	1,875	2,359	3,013	3,169	2,524
\$80,000 to < \$120,000	3,676	4,446	4,824	4,910	4,566
\$120,000 to < \$160,000	5,059	5,695	6,169	5,463	5,863
\$160,000 and Over	7,380	7,497	7,723	7,183	7,590
<b>All Income Groups</b>	<b>2,078</b>	<b>3,216</b>	<b>4,107</b>	<b>3,673</b>	<b>3,398</b>
<b>Married/Secondary Earners</b>					
Under \$20,000	179	831	929	615	638
\$20,000 to < \$40,000	438	625	1,047	755	679
\$40,000 to < \$80,000	1,045	1,389	1,880	1,532	1,450
\$80,000 to < \$120,000	2,157	2,806	3,203	3,455	2,903
\$120,000 to < \$160,000	3,342	4,084	4,193	3,005	4,029
\$160,000 and Over	4,075	5,228	5,305	4,826	5,188
<b>All Income Groups</b>	<b>1,321</b>	<b>2,178</b>	<b>2,810</b>	<b>2,333</b>	<b>2,239</b>
<b>All Earners</b>					
Under \$20,000	436	622	924	780	630
\$20,000 to < \$40,000	1,266	1,420	1,828	1,859	1,504
\$40,000 to < \$80,000	1,863	2,454	3,102	3,404	2,621
\$80,000 to < \$120,000	3,120	4,053	4,392	4,813	4,148
\$120,000 to < \$160,000	4,213	5,315	5,795	5,181	5,451
\$160,000 and Over	5,836	6,895	7,217	7,043	7,015
<b>All Income Groups</b>	<b>1,592</b>	<b>2,681</b>	<b>3,466</b>	<b>3,213</b>	<b>2,772</b>

Source: Congressional Budget Office tabulations of 1997 tax information returns.

**Table B-6.****Average Employee Contribution to an Individual Retirement Account in 1997**

(In dollars)

<b>Adjusted Gross Income Group</b>	<b>Under 30</b>	<b>30 to 44</b>	<b>45 to 59</b>	<b>60 and Over</b>	<b>All Ages</b>
<b>Single Earners</b>					
Under \$20,000	1,457	1,476	1,492	1,704	1,490
\$20,000 to < \$40,000	1,418	1,398	1,544	1,617	1,468
\$40,000 to < \$80,000	1,529	1,595	1,732	1,919	1,663
\$80,000 to < \$120,000	1,304	1,766	1,925	1,803	1,824
\$120,000 to < \$160,000	2,053	1,930	1,957	2,033	1,948
\$160,000 and Over	1,841	1,828	1,828	1,906	1,830
<b>All Income Groups</b>	<b>1,455</b>	<b>1,503</b>	<b>1,627</b>	<b>1,718</b>	<b>1,549</b>
<b>Married/Sole Earners</b>					
Under \$20,000	1,196	1,338	1,620	1,538	1,493
\$20,000 to < \$40,000	934	1,339	1,736	1,715	1,585
\$40,000 to < \$80,000	1,714	1,407	1,526	1,628	1,519
\$80,000 to < \$120,000	2,000	1,906	1,829	1,456	1,764
\$120,000 to < \$160,000	2,769	1,833	1,827	1,816	1,854
\$160,000 and Over	2,071	1,919	1,939	1,985	1,941
<b>All Income Groups</b>	<b>1,334</b>	<b>1,535</b>	<b>1,693</b>	<b>1,656</b>	<b>1,626</b>
<b>Married/Primary Earners</b>					
Under \$20,000	756	1,473	1,875	1,147	1,461
\$20,000 to < \$40,000	765	1,433	1,690	1,937	1,548
\$40,000 to < \$80,000	1,191	1,378	1,481	1,690	1,431
\$80,000 to < \$120,000	1,811	1,678	1,793	1,860	1,758
\$120,000 to < \$160,000	1,500	1,816	1,879	1,812	1,836
\$160,000 and Over	1,875	1,948	1,963	2,046	1,964
<b>All Income Groups</b>	<b>1,250</b>	<b>1,532</b>	<b>1,707</b>	<b>1,780</b>	<b>1,613</b>
<b>Married/Secondary Earners</b>					
Under \$20,000	1,750	1,616	1,314	1,564	1,495
\$20,000 to < \$40,000	1,224	1,584	1,669	1,649	1,593
\$40,000 to < \$80,000	1,157	1,318	1,550	1,692	1,410
\$80,000 to < \$120,000	1,706	1,792	1,757	1,992	1,783
\$120,000 to < \$160,000	1,820	1,831	1,811	2,015	1,838
\$160,000 and Over	1,722	1,889	1,879	1,851	1,876
<b>All Income Groups</b>	<b>1,365</b>	<b>1,566</b>	<b>1,686</b>	<b>1,752</b>	<b>1,615</b>
<b>All Earners</b>					
Under \$20,000	1,444	1,459	1,530	1,568	1,489
\$20,000 to < \$40,000	1,306	1,416	1,624	1,712	1,517
\$40,000 to < \$80,000	1,323	1,419	1,574	1,699	1,502
\$80,000 to < \$120,000	1,720	1,764	1,804	1,734	1,776
\$120,000 to < \$160,000	1,842	1,844	1,856	1,877	1,854
\$160,000 and Over	1,839	1,907	1,921	1,959	1,918
<b>All Income Groups</b>	<b>1,407</b>	<b>1,530</b>	<b>1,675</b>	<b>1,713</b>	<b>1,593</b>

Source: Congressional Budget Office tabulations of 1997 tax information returns.

**Table B-7.****Contributions to Individual Retirement Accounts by Nonearning Spouses in 1997**

<b>Adjusted Gross Income Group</b>	<b>Under 30</b>	<b>30 to 44</b>	<b>45 to 59</b>	<b>60 and Over</b>	<b>All Ages</b>
<b>Number of Nonearning Spouses (Thousands)</b>					
Under \$20,000	1,184	1,469	1,186	1,264	5,006
\$20,000 to < \$40,000	1,193	1,821	1,538	922	5,366
\$40,000 to < \$80,000	594	2,245	1,877	967	5,579
\$80,000 to < \$120,000	62	578	502	317	1,430
\$120,000 to < \$160,000	37	219	202	112	561
\$160,000 and Over	28	417	393	195	1,014
<b>All Income Groups</b>	<b>3,096</b>	<b>6,744</b>	<b>5,703</b>	<b>3,790</b>	<b>18,955</b>
<b>Percentage of Nonearning Spouses Contributing to an IRA</b>					
Under \$20,000	0.8	2.1	2.9	2.4	2.1
\$20,000 to < \$40,000	2.0	3.4	7.6	7.1	5.0
\$40,000 to < \$80,000	4.6	5.9	8.3	8.3	7.1
\$80,000 to < \$120,000	6.3	8.4	11.4	11.3	10.2
\$120,000 to < \$160,000	16.2	10.3	18.1	11.9	14.0
\$160,000 and Over	17.7	14.2	16.2	10.4	14.6
<b>All Income Groups</b>	<b>2.4</b>	<b>5.3</b>	<b>8.2</b>	<b>6.5</b>	<b>6.0</b>
<b>Average Contribution (Dollars)</b>					
Under \$20,000	1,483	1,590	1,687	1,662	1,632
\$20,000 to < \$40,000	1,164	1,616	1,467	1,567	1,499
\$40,000 to < \$80,000	1,443	1,425	1,512	1,514	1,479
\$80,000 to < \$120,000	1,487	1,632	1,802	1,351	1,625
\$120,000 to < \$160,000	1,780	1,637	1,713	1,827	1,716
\$160,000 and Over	1,714	1,892	1,848	1,882	1,864
<b>All Income Groups</b>	<b>1,406</b>	<b>1,592</b>	<b>1,611</b>	<b>1,569</b>	<b>1,583</b>

Source: Congressional Budget Office tabulations of 1997 tax information returns.

## C

## Supplemental Data from the Survey of Consumer Finances

**B**ecause there is no pressing administrative need for it, much potentially useful information about tax-deferred saving is not recorded on either Form 1040 or any of the tax information returns (such as Forms W-2 and 5498). Much of that information—for example, 401(k) balances, employer contributions to 401(k)s, and expected benefits from defined-benefit plans—is available from the Survey of Consumer Finances (SCF), conducted by the Federal Reserve Board every three years. One such survey was conducted in 1998, making it comparable with income tax returns filed for tax year 1997. Although the SCF collects more-complete data on retirement plan contributions and balances than the Internal Revenue Service (IRS) does, it is based on a much smaller sample (fewer than 7,000 households) and depends largely on the memories and recordkeeping practices of voluntary participants. Furthermore, the SCF does not concern itself with details of the tax code, such as whether a plan is “qualified.” Nevertheless, the SCF data are considered to be of high quality and are widely used in studies of the distribution of wealth in the United States. For this analysis, the Congressional Budget Office (CBO) used the survey to answer questions for which tax-return data were inadequate.

### Reconciliation of Data

In cases in which items from the IRS’s Statistics of Income (SOI) files overlapped with those from the SCF, CBO gave precedence to the SOI data. Four important categories of data, however, could be derived only from the SCF:

- Employer contributions to defined-contribution plans;
- The number of workers participating in defined-benefit plans;
- The number of workers participating in noncontributory defined-contribution plans; and
- The number of workers expecting to collect retirement benefits from former employers in the future.

To ensure consistency with the SOI data, the relationships between variables from the SCF were maintained, but values were adjusted to conform to control totals from the SOI. For example, CBO estimated employer contributions to defined-contribution plans by calculating the ratio of employer contributions to employee contributions from the SCF by income, age, or marital status/earner role, and then applied those ratios to employee contributions in the same categories as tabulated from the SOI data.

Estimating the number of active participants in defined-benefit plans was more complicated. Both the SCF and SOI files were initially split between those participating in 401(k)-type plans and those participating only in noncontributory plans. The percentage of workers in each of those groups who were participating in a defined-benefit plan was calculated from the SCF, and those percentages were applied to the corresponding group in the SOI file. For workers participating only in a noncon-

tributory plan, the percentage participating in a defined-contribution plan was calculated from the SCF and was applied to the same group in the SOI file.

The estimate of the number of inactive participants in employment-based plans has three parts: those who owned an individual retirement account (IRA) to which they did not contribute in the current year; those who collected benefits from former employers; and those who expected to collect benefits from former employers in the future. The first two groups can be tabulated from the SOI file. To estimate the third group, CBO identified in the SCF

workers who were not participating in an employment-based plan and calculated the percentage expecting benefits from a former employer in the future. CBO then applied that percentage to workers in the SOI file who were not participating in employment-based plans.

### Discussion of Tables C-1 Through C-3

Table C-1 provides a finer breakdown of worker participation in employment-based plans than that presented in Table 3. The SCF makes it possible to tabulate all participants in noncontributory plans, not just those who do

**Table C-1.**

### Workers' Participation in 401(k)-Type and Noncontributory Plans in 1997

	Number of Workers (Thousands)	401(k)-Type Plans	Percentage of Workers Participating in			Noncontributory Plan Plus 401(k)-Type Plan
			Noncontributory Plans		Either Type of Plan	
			Defined-Contribution Plans	Defined-Benefit Plans		
<b>By Age Cohort</b>						
Under 30	40,765	13	10	12	19	1
30 to 44	50,205	29	10	21	28	6
45 to 59	31,822	32	7	26	31	9
60 and Over	<u>10,605</u>	16	6	15	20	4
<b>All Cohorts</b>	<b>133,397</b>	<b>24</b>	<b>8</b>	<b>19</b>	<b>25</b>	<b>5</b>
<b>By Adjusted Gross Income</b>						
Under \$20,000	45,790	5	7	9	15	1
\$20,000 to \$40,000	32,867	24	11	22	30	5
\$40,000 to \$80,000	37,145	36	10	28	35	10
\$80,000 to \$120,000	10,812	49	6	26	30	11
\$120,000 to \$160,000	3,097	49	7	17	22	7
\$160,000 and Over	<u>3,686</u>	43	8	16	23	9
<b>All Income Groups</b>	<b>133,397</b>	<b>24</b>	<b>8</b>	<b>19</b>	<b>25</b>	<b>5</b>
<b>By Marital Status/Earner Role</b>						
Single Earners	64,388	17	9	15	21	2
Married Earners						
Sole	18,955	25	9	20	26	6
Primary	25,028	40	10	26	33	10
Secondary	<u>25,028</u>	25	8	20	25	5
<b>All Earners</b>	<b>133,397</b>	<b>24</b>	<b>8</b>	<b>19</b>	<b>25</b>	<b>5</b>

Source: Congressional Budget Office tabulations of 1997 individual income tax returns and tax information returns (for data on numbers of workers and 401(k)-type plans) and tabulations of the Federal Reserve Board's 1998 Survey of Consumer Finances blended with CBO's tabulations for 1997 (for data in all other categories).



**Table C-2.****Total Participation by Workers in Tax-Deferred Retirement Plans in 1997**

	Number of Workers (Thousands)	Percentage of Workers Who Are Active Participants	Percentage of Workers Who Are Inactive Participants		Percentage of Workers Who Are Active or Inactive Participants
			In Employment- Based Plans <sup>a</sup>	In IRAs <sup>b</sup>	
<b>By Age Cohort</b>					
Under 30	40,765	35	2	3	38
30 to 44	50,205	58	4	10	66
45 to 59	31,822	64	7	19	77
60 and Over	<u>10,605</u>	42	24	23	75
<b>All Cohorts</b>	<b>133,397</b>	<b>51</b>	<b>6</b>	<b>11</b>	<b>61</b>
<b>By Adjusted Gross Income</b>					
Under \$20,000	45,790	22	6	2	30
\$20,000 to \$40,000	32,867	56	7	7	66
\$40,000 to \$80,000	37,145	70	5	15	80
\$80,000 to \$120,000	10,812	79	5	27	89
\$120,000 to \$160,000	3,097	78	5	34	91
\$160,000 and Over	<u>3,686</u>	76	6	41	94
<b>All Income Groups</b>	<b>133,397</b>	<b>51</b>	<b>6</b>	<b>11</b>	<b>61</b>
<b>By Marital Status/Earner Role</b>					
Single Earners	64,388	41	4	6	47
Married Earners					
Sole	18,955	53	10	16	69
Primary	25,028	72	4	17	80
Secondary	<u>25,028</u>	54	5	13	66
<b>All Earners</b>	<b>133,397</b>	<b>51</b>	<b>6</b>	<b>11</b>	<b>61</b>
<b>Memorandum:</b>					
Nonearning Spouse	18,954	6	5	1	12

Source: Congressional Budget Office tabulations of 1997 individual income tax returns and tax information returns (for data on numbers of workers, percentage of active participants, and percentage owning an individual retirement account) and tabulations of the Federal Reserve Board's 1998 Survey of Consumer Finances blended with CBO's tabulations for 1997 (for data in all other categories).

- a. Includes workers who do not participate in their current employer's plan but either receive or anticipate benefits from a former employer's plan.  
b. Includes workers who own an IRA but did not contribute to it in 1997.

not also participate in 401(k)-type plans. Furthermore, it allows noncontributory plans to be divided into defined-benefit and defined-contribution plans.

The SCF also makes it possible to tabulate inactive as well as active participants, as detailed in *Table C-2*. As noted above, inactive participants are those who did not con-

tribute to a retirement savings plan in 1997 but were either already collecting benefits, expected to receive benefits from a former employer's plan, or owned an IRA from which they could draw funds after their retirement. The resulting patterns are quite different from those revealed through active participation alone, particularly among the various age groups.

**Table C-3.****Average Contributions to Defined-Contribution Plans in 1997**

(In dollars)

Category	By Employee	By Employer
<b>By Age Cohort</b>		
Under 30	1,592	1,224
30 to 44	2,681	1,993
45 to 59	3,466	2,414
60 and Over	3,213	1,820
<b>All Cohorts</b>	<b>2,772</b>	<b>1,992</b>
<b>By Adjusted Gross Income</b>		
Under \$20,000	630	547
\$20,000 to \$40,000	1,504	1,101
\$40,000 to \$80,000	2,621	1,781
\$80,000 to \$120,000	4,148	2,691
\$120,000 to \$160,000	5,451	3,890
\$160,000 and Over	7,015	5,835
<b>All Income Groups</b>	<b>2,772</b>	<b>1,992</b>
<b>By Marital Status/Earner Role</b>		
Single Earners	2,190	1,769
Married Earners		
Sole	3,580	2,714
Primary	3,398	2,325
Secondary	2,239	1,485
<b>All Earners</b>	<b>2,772</b>	<b>1,992</b>

Source: Congressional Budget Office tabulations of 1997 individual income tax returns and tax information returns (for data on employee contributions) and tabulations of the Federal Reserve Board's 1998 Survey of Consumer Finances blended with CBO's tabulations for 1997 (for data on employer contributions).

*Table C-3* supplements the information on employee contributions to 401(k)-type plans, which is provided in *Table 5*, by presenting estimates of employer contributions

as well. Those contributions are, on average, smaller than those of employees but follow the same general income and age patterns.





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