



Issue Brief

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GAO REPORT REVEALS SUCCESSES OF EMPLOYER-BASED RETIREMENT SYSTEM

The Government Accountability Office (GAO) recently issued a Report to Congressional Requesters titled *“Private Pensions: Some Key Features Lead to an Uneven Distribution of Benefits”* (the “GAO Report”).¹ In spite of the title, the data presented in the report paints a bright picture of the employer-based retirement system.

The GAO Report found:

- **Good News for Defined Benefit Plans**
Not only are small businesses putting in new defined benefit plans, but most new defined benefit plans are created by small companies who are not professional organizations. The GAO Report indicates that 62% of new small defined benefit plans were sponsored by a wide variety of business types that were not doctors, dentists or lawyers.
- **New Plans Continue to be Created**
The GAO Report indicates that private employers have created thousands of new retirement plans. It also notes that “The increases in the [contribution and other statutory] limits may have encouraged DC participants to contribute more.”
- **Workers Are Contributing More to Plans**
Workers are contributing more to their retirement plans as a result of increased limits. In 2007, about 14 percent of all participants in defined contribution plans contributed at or above the 2001-level limits.

Although the GAO Report focuses on who benefits from retirement plans, it fails to mention that:

- **Most Plan Participants Are Not Highly Compensated**
The vast majority of employees who participate in retirement plans are not highly compensated. Data from the Internal Revenue Service indicates that 74% of workers participating in defined contribution plans come from households making less than \$100,000. Furthermore, households making less than \$50,000 who pay only 8 percent of all income taxes receive 30 percent of the tax incentives associated with defined contributed plans.
- **Plan Availability and Participation Rates are Significantly Higher Than Indicated in GAO Report**
The Social Security Administration found that W-2 tax records reveal significantly higher retirement plan availability and participation rates that the survey data relied on by the GAO Report.

Good News for Defined Benefit Plans

The GAO Report included good news for the private defined benefit system. The report notes that, as expected, most new plans are for employers with fewer than 100 employees. What was not expected is that most new defined benefit plan sponsors are not professional organizations.

The most recent data available for the GAO Report was 2007, so the statistics are already out-of-date.

¹U.S. Gen. Accounting Office, *GAO-11-333, Private Pensions: Some Key Features Lead to an Uneven Distribution of Benefits* (2011) (hereinafter “GAO Report”).

However, the report debunks a myth that has gained credibility among critics of the private pension system by documenting that more than half of new small defined benefit plans are for small businesses other than professional organizations. The GAO Report found that 57% of new small defined benefit plans were sponsored by non-professional services business types, with no single category of these business types sponsoring more than 3% of the new plans.²

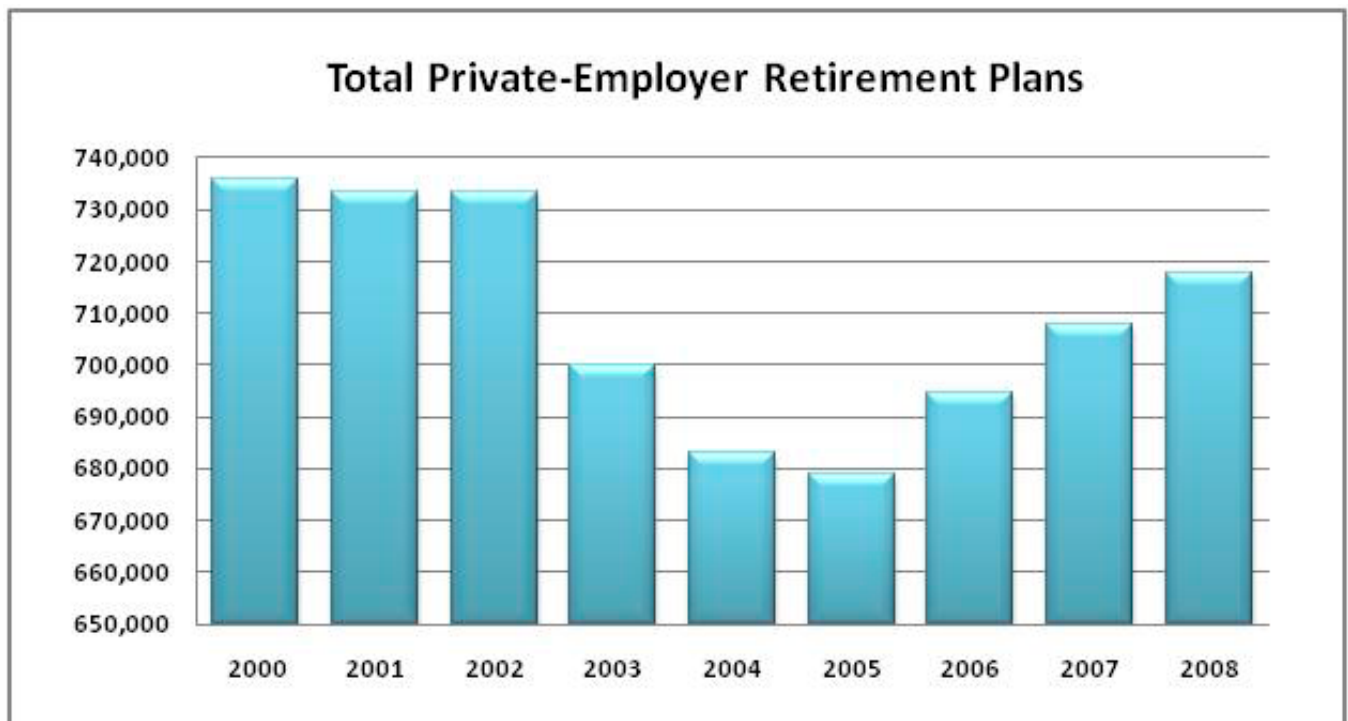
“Over the past few years, ASPPA has been telling anyone who will listen that there is growth in defined benefits plans for small business, and most of that growth is not doctors, dentists and lawyers”, said Brian Graff, CEO of ASPPA. “I am pleased that GAO has now documented that the majority of growth is actually other small businesses that have become stable enough to commit to the making the contributions required by these arrangements. Of course, employees of doctors and dentists deserve to have pension plans, so we shouldn’t talk about coverage in those sectors as if it was a bad thing. However, we are very pleased that there is now documentation from GAO that workers in other small businesses are also getting employer-funded benefits under these arrangements.”

There has been a surge in new defined benefit plan formation since the Pension Protection Act made it clear that cash balance plans are legal. If GAO looks at the number of new small plans in a few years, the picture is likely to look even better.

New Plans Continue to be Created

The GAO Report includes Form 5500 data which shows that a significant number of new retirement plans were created in recent years by private employers. The report states, “Each year, from 2003 to 2007 (the most recent data available), private employers created thousands of new retirement plans.”³

The Form 5500 data released by the US Department of Labor (which was used in the GAO Report) reflects that the total number of private-employer retirement plans had steadily declined from 2000 to 2005. However, the passage of the Pension Protection Act of 2006 (PPA), which finally made the temporary increase in contribution limits passed in 2001 permanent, reversed this trend and the total number of retirement plans has increased for each year since the law was enacted.⁴



Source: Data from U.S. Dep’t of Labor, *Private Pension Plan Bulletin Historical Tables and Graphs 1 (2010)*.

² GAO Report, p. 15.

³ GAO Report, p. 10 (indicating that their analysis was based on Form 5500 filings).

⁴ U.S. Dep’t of Labor, *Private Pension Plan Bulletin Historical Tables and Graphs 1 (2010)* (providing data from 1975 through 2008). The chart utilizes this data from 2000 through 2008.

Workers Are Contributing More to Plans

The GAO Report reflects that workers are contributing more to their retirement plans as a result of increased limits enacted in 2001. The report indicates that in 2007, about 14 percent of all DC participants contributed at or above the 2001-level limits.⁵ The GAO Report notes that “The increases in the [contribution and other statutory] limits may have encouraged DC participants to contribute more.”⁶ The GAO Report also indicates that the majority of the participants who contributed at or above the 2001 limits made less than \$126,000.⁷

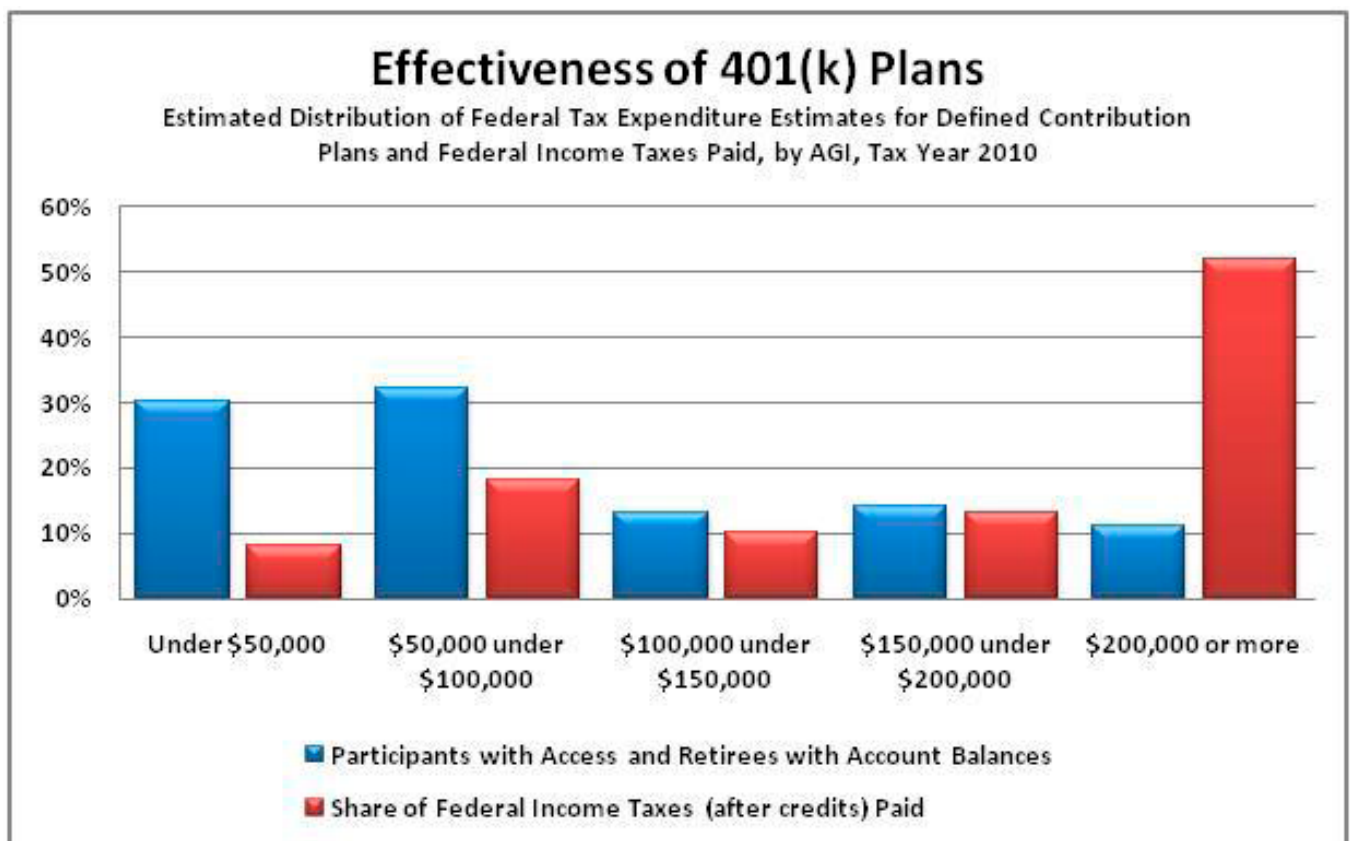
Most Plan Participants Are Not Highly Compensated

Although the GAO Report focuses on distribution of the benefits of retirement plans, it fails to mention that the vast majority of employees who participate in retirement plans are not highly compensated. Data from the Internal Revenue Service indicates that 74% of workers participating in defined contribution plans come from

households making less than \$100,000. Only 5 percent of participants come from households making more than \$200,000.

The positive impact on moderate income workers becomes even clearer when you focus on the distribution of tax benefits from these plans relative to the portion of income taxes paid under our progressive tax system. Households making less than \$50,000 pay only 8 percent of all income taxes, but receive 30 percent of all the tax incentives associated with defined contributed plans.

Thus, for every dollar of income taxes paid by these workers, they get almost four dollars back in tax incentives for these plans. This shows that these tax incentives are effectively and efficiently targeted at low and moderate income families. The reason is that these plans are subject to stringent nondiscrimination rules that are a part of the tax code and were designed by Congress to make sure these plans provide benefits fairly to everyone.



⁵ GAO Report, p. 21.

⁶ *Id.* at footnote 41.

⁷ GAO Report, p. 23.

Plan Availability and Participation Rates are Significantly Higher Than Indicated in GAO Report

Fortunately, the availability of retirement plans and participation rates reported is not as dismal as indicated in the GAO Report. Using data from the Department of Labor's (DOL) Current Population Survey, the report stated that in 2008, "about 53 percent of private-sector wage and salary workers, aged 25–64, worked for employers that sponsored a retirement plan and about 44 percent participated in a plan."⁸

However, the Social Security Administration (SSA) recently reported that 72 percent of all employees worked at private companies in 2006 that offered a retirement plan and that 58 percent of these workers participated in a retirement plan.⁹ As indicated above, the number of plans increased from 2006 to 2008. In addition, auto-enrollment provisions in PPA have led to higher participation levels in many plans. The increase in number of plans and participation rates mean these numbers were likely to be even higher by the time of the DOL's survey in 2008.

Unlike the DOL's survey, the SSA data was based on results from using information from W-2 tax records as a supplement to the Census Bureau's 2004 Survey of Income and Program Participation (SIPP). The SSA explains that "unless researchers use information on tax-deferred contributions in the W-2 tax records, estimates using only survey data are likely to underestimate the participation rate in DC plans."¹⁰

Conclusion

401(k) plans have proven to be incredibly successful at providing retirement benefits to moderate income workers and getting them to save. According to the Employee Benefits Research Institute, over 70 percent of workers making between \$30,000 and \$50,000 save when covered by a workplace savings program, whereas less than 5 percent of those same workers save on their own when not covered by a plan.

The report recently issued by the SSA demonstrates that retirement plans are a valuable tool that millions of American workers use to save for retirement. Of course, more needs to be done to expand retirement plan coverage to even more workers. As a result, ASPPA supports proposals, like the Auto-IRA proposal from the Retirement Security Project, that would give more workers access to these types of plans.

⁸ GAO Report, p. 9 (citing John J. Topoleski, *Pension Sponsorship and Participation: Summary of Recent Trends*, Congressional Research Service (Washington, D.C., September 2009)).

⁹ Irena Dushi, Howard M. Iams, and Jules Lichtenstein, *Assessment of Retirement Plan Coverage by Firm Size, Using W-2 Records*, Social Security Bulletin, Vol. 71, No. 2, 2011.

¹⁰ *Id.* at 63.