Order Code RL30922

CRS Report for Congress
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Retirement Savings and Household Wealth: Trends from 2001 to 2004

Updated May 22, 2006

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Retirement Savings and Household Wealth: Trends from 2001 to 2004

Summary

Since about 1980, the proportion of workers who participate in employer-sponsored retirement plans has remained stable at approximately half of the workforce. Over the past 25 years, however, there has been a shift by employers from defined benefit (DB) pensions — which pay a retirement benefit in the form of a lifelong annuity — to defined contribution (DC) plans, which are more like savings accounts maintained by employers on behalf of each participating employee. One of the key distinctions between a defined benefit plan and a defined contribution plan is that in a DB plan, it is the employer who bears the investment risk. The employer must ensure that the pension plan has sufficient assets to pay the benefits promised to workers and their surviving dependents. In a DC plan, the worker bears the risk of investment losses. The worker's account balance depends on how much he or she contributes to the plan and how the plan's underlying investments perform.

Once every three years, the Federal Reserve Board collects data on household assets and liabilities through the *Survey of Consumer Finances* (SCF). According to the most recent survey, 47.9% of workers under age 65 participated in employer-sponsored retirement plans — both DB and DC — in 2004, down from 49.6% in 2001. The decline in retirement plan participation between 2001 and 2004 was most heavily concentrated among workers under 45 years old, male workers, non-white workers, unmarried workers, those who did not attend college, and those with household incomes in the bottom half of the income distribution.

The Survey of Consumer Finances shows that 56.3 million households owned at least one retirement account in 2004 — whether an individual retirement account (IRA), a 401(k) plan, or other employment-based savings plan — compared to 56.9 million households that owned at least one such account in 2001. The proportion of households that owned a retirement account fell from 53.4% in 2001 to 50.2% in 2004. The median balance in all such accounts (measured in 2004 dollars) rose from $30,462 in 2001 to $36,000 in 2004. The number of households that owned a defined contribution plan from current or past employment rose from 38.3 million in 2001 to 38.8 million in 2004. The median balance in these accounts (in 2004 dollars) rose from $19,172 in 2001 to $28,000 in 2004. The number of households that owned an IRA or Keogh plan for the self-employed fell from 33.4 million in 2001 to 32.6 million in 2004. The median balance in these accounts (in 2004 dollars) rose from $28,758 in 2001 to $30,000 in 2004.

The median value in 2004 of all retirement accounts owned by households headed persons between the ages of 55 and 64 was $88,000, up from $58,580 in 2001. For a 65-year-old retiring in May 2006, $88,000 would be sufficient to purchase a level, single-life annuity that would pay $653 per month, based on the federal Thrift Savings Plan's current annuity interest rate of 5.375%. This amount would replace just 15% of the median household income of $53,400 among households headed by individuals who were 55 to 64 years old in 2004.

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Trends in Retirement Plan Design

Since about 1980, the proportion of workers who participate in employer-sponsored retirement plans has remained stable at approximately half of the workforce. Over the past 25 years, however, there has been a shift by employers from *defined benefit* plans to *defined contribution* plans. Defined benefit ("DB") plans usually are funded solely by employer contributions and investment earnings on those contributions and they pay a retirement benefit in the form of a lifelong annuity. The amount of the annuity usually is based on the employee's length of service and average salary. Defined contribution ("DC") plans, in contrast, are more like savings accounts maintained by employers on behalf of each participating employee. In the most common type of DC plan — those established under section 401(k) of the tax code — the employee defers a portion of his or her salary, which is invested in stocks, bonds, or other assets. The employer often matches some or all of the employee's contribution to the plan. At retirement, the balance in the account is the sum of past contributions plus interest, dividends, and capital gains — or losses. The account balance is often distributed to the departing employee as a single lump sum. One of the key distinctions between a defined benefit plan and a defined contribution plan is that in a DB plan, the employer bears the investment risk. The employer must ensure that the plan has sufficient assets to pay the benefits promised to workers and their surviving dependents. In a DC plan, the worker bears the risk of investment losses. The worker's account balance depends on how much he or she contributes to the plan and how the plan's underlying investments perform.

401(k) plans. In 1978, Congress added section 401(k) to the Internal Revenue Code. Three years later, the IRS published regulations for "cash or deferred arrangements" established under section 401(k). Since that time, DC plans have overtaken traditional defined benefit pensions in the number of plans, the number of participants, and total assets. Typically, in a 401(k) plan, the employee must decide whether to participate, how much to contribute, and how to invest the assets. In 1998 and 2000, the IRS issued rulings that permit employers to enroll employees automatically in 401(k) plans. Revenue Ruling 98-30 allows employers to automatically enroll new employees in 401(k) plans. Revenue Ruling 2000-8 allows automatic enrollment in 401(k) plans of current employees who previously had not elected to participate. In either case, employees who are enrolled automatically must be given the option to drop out of the plan. In 2004, the IRS published a general information letter clarifying that the amount deducted from the employee's pay and contributed to the plan can be any amount up to the annual contribution limit under IRC §402(g), and that the plan can automatically increase the employee's contribution over time, such as after each pay raise. Again, the IRS emphasized that employees must be informed of these plan provisions and must have the option to change the amount of their contribution or to stop contributing to the plan altogether.

Over the past ten years, many large employers have converted their traditional DB pensions to "hybrid" plans that have characteristics of both DB and DC plans. The most popular hybrid is called a *cash balance plan*. In a cash balance plan, the benefit is defined in terms of an account balance. The employer makes contributions to the plan and pays interest on the accumulated balance. However, these account balances are merely bookkeeping devices that describe the employee's accrued benefit. They are not individual accounts owned by the participants, as is the case with 401(k) plans. Because the employer is required to provide a benefit that is equal to at least the sum of the employer's contributions plus the accrued interest on those contributions, a cash balance plan is legally considered to be a defined benefit plan.

The Survey of Consumer Finances

This CRS Report presents data on retirement plan participation and retirement savings account ownership collected through the *Survey of Consumer Finances* (SCF) in 2001 and 2004. The SCF is an interview survey sponsored by the Board of Governors of the Federal Reserve System in cooperation with the Department of the Treasury. It is conducted once every three years to collect information on the assets and liabilities of U.S. households, the sources and amounts of their income, their demographic characteristics, employment, and participation in employer-sponsored health and retirement plans. Data from the SCF are widely used by economists at the Federal Reserve, other government agencies, and by private-sector research organizations and academic institutions to study trends in the amount and distribution of assets and liabilities among U.S. households. Since 1992, SCF data have been collected by the National Organization for Research at the University of Chicago (NORC). In 2001, 4,449 households were interviewed for the SCF, representing a total of 106.5 million U.S. households. For the 2004 SCF, members of 4,522 households were interviewed.[1] The 2004 interview sample represented 112.1 million households.

Most of the information collected in the Survey of Consumer Finances — such as total assets and liabilities — is reported at the household level. The only data reported separately for the householder and his or her spouse or partner describe these individuals' employment, pension coverage, and demographic characteristics. In the tables that follow, **Table 1** and **Table 2** show participation in retirement plans by individual workers, who were either the householder or the spouse or partner of the householder.[2] All of the other tables in the report, which describe ownership of retirement accounts and the average balances in those accounts, represent ownership of those accounts by households rather than by individual members of households.

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[1] For more information, see [http://www.federalreserve.gov/pubs/oss/oss2/scfindex.html].

[2] This report refers to *households* rather than to *families* because, according to the researchers at the Federal Reserve Board, the unit of analysis in the SCF is more comparable to the Census Bureau's definition of a household than to its definition of a family. In the survey, the head is designated as the male in a mixed-sex couple and the older person in a same-sex couple. This designation is not intended to convey "a judgment about how an individual family is structured." It is merely a means of organizing the data consistently. (For more information, see Bucks, Kennickell, and Moore, *Federal Reserve Bulletin*, 2006.)

Participation in Employer-Sponsored Retirement Plans

Social Security, employer-sponsored retirement plans, and personal savings are sometimes called the "three-legged stool" of retirement income, but for many workers at least one of the legs of the stool is missing. Coverage of workers under Social Security is nearly universal, but only about half of all workers in the United States are included in employer-sponsored retirement plans.

Recent Trends in Retirement Plan Participation. Data from the Survey of Consumer Finances indicate that the percentage of workers under age 65 who participated in employer-sponsored retirement plans fell from 49.6% in 2001 to 47.9% in 2004.[3] (See **Table 1** and **Table 2**.) Three-fourths of workers who participated in employer-sponsored retirement plans in 2004 were enrolled in defined contribution plans, such as 401(k) plans. Just 18.4% of workers participated in defined benefit pension plans, and only seven percent of workers participated in both types of plan. The decline in retirement plan participation between 2001 and 2004 was most heavily concentrated among workers in particular demographic groups:

- Among workers under 35 years old, retirement plan participation fell from 40.5% in 2001 to 35.6% in 2004. Participation among workers 35 to 44 years old fell from 54.2% in 2001 to 50.0% in 2004.

- Among non-white workers, participation in employer-sponsored retirement plans fell from 45.7% in 2001 to 39.1% in 2004.

- Among working men, participation in employer-sponsored retirement plans fell from 53.4% in 2001 to 49.2% in 2005.

- Participation in retirement plans among workers who were widowed, divorced, or never-married declined from 44.6% in 2001 to 40.6% in 2004.

- Participation among workers under age 65 who did not graduate from high school fell from 24.1% to 18.0% between 2001 and 2004, while among those who had only a high school diploma or a G.E.D. certificate, retirement plan participation fell from 43.5% in 2001 to 39.8% in 2004.

- Among workers with household incomes in the lowest quarter of the income distribution, participation in employer-sponsored retirement plans fell from 23.2% in 2001 to 18.7% in 2004, while among those with household incomes in the next-lowest income quartile, retirement plan participation fell from 43.7% to 42.8%.

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[3] CRS found similar results in an analysis of the Census Bureau's *Current Population Survey* (CPS). Data from this survey show that between 2001and 2004, participation in employer-sponsored retirement plans among working householders and spouses under age 65 fell from 50.5% to 48.8%.

Table 1. Workers' Participation in Retirement Plans in 2001

Worker characteristics	Number of workers[a]	Any type of plan[b]	Defined contribution[b]	Defined benefit[b]	Both types[b]
Relationship to householder					
Householder	71,710	51.5%	40.5%	19.6%	8.9%
Spouse/partner	38,161	46.1	34.1	18.6	6.6
Age					
Under 35	33,241	40.5	33.1	11.6	4.2
35 to 44	34,041	54.2	43.9	19.7	9.6
45 to 54	28,301	56.4	40.2	27.6	11.6
55 to 64	14,288	46.4	32.9	19.6	6.6
Race					
White, non-Hispanic	84,808	50.8	39.4	20.1	8.9
Black, Hispanic, or Asian	25,063	45.7	34.5	16.6	5.4
Sex					
Male	56,555	53.4	42.1	20.9	9.8
Female	53,317	45.5	34.1	17.5	6.3
Marital status					
Married	72,697	52.2	39.9	21.4	9.3
Not married	37,175	44.6	35.0	15.0	5.7
Education					
College graduate	37,209	64.1	50.4	27.0	13.6
Some college	28,183	46.6	36.2	17.1	6.9
High School graduate	35,130	43.5	32.7	15.5	4.9
Less than 12 years of school	9,350	24.1	16.6	9.2	1.8
Household income in 2000[c]					
Top income quartile	32,471	63.4	50.4	27.0	14.3
Second income quartile	29,291	59.5	46.2	23.2	10.0
Third income quartile	25,992	43.7	31.8	15.8	4.1
Bottom income quartile	22,117	23.2	17.4	6.8	1.1
Full-time or part-time worker					
Part-time	16,297	21.2	14.7	8.4	2.3
Full-time	93,575	54.6	42.4	21.1	9.1
Establishment size					
Under 20 employees	29,590	16.9	14.1	3.8	1.2
20 to 99 employees	16,885	41.9	34.3	11.5	4.3
100 to 499 employees	18,780	60.0	45.8	21.5	7.6
500 or more employees	44,616	69.8	52.5	31.5	14.3
Union status					
Union	18,915	77.4	46.1	46.1	15.0
Non-union	90,956	43.8	36.6	13.7	6.7
Total	**109,871**	**49.6%**	**38.2%**	**19.3%**	**8.1%**

Source: CRS analysis of the Federal Reserve Board's 2001 *Survey of Consumer Finances.*

a. Employed householders and spouses/partners under age 65, in thousands.
b. Percentage of workers who participated in employer-sponsored retirement plans, by type of plan.
c. Among households in which the householder or spouse was a worker under age 65, median income in 2000 (adjusted to 2004 dollars) was $53,645. Households with income of more than $87,584 were in the top income quartile and households with income under $29,560 were in the bottom quartile. Because median income is higher in larger households than smaller households, more than 50% of workers live in households that are in the top two quartiles of household income.

Table 2. Workers' Participation in Retirement Plans in 2004

Worker characteristics	Number of workers[a]	Any type of plan[b]	Defined contribution[b]	Defined benefit[b]	Both types[b]
Relationship to householder					
Householder	74,103	48.5%	37.8%	18.5%	7.8%
Spouse/partner	37,931	46.8	34.5	18.0	5.9
Age					
Under 35	31,978	35.6	28.6	10.7	4.2
35 to 44	32,448	50.0	38.2	18.8	7.0
45 to 54	30,976	54.6	40.0	24.2	9.7
55 to 64	16,810	55.4	43.1	21.4	9.4
Race					
White, non-Hispanic	80,794	51.4	39.7	19.6	8.1
Black, Hispanic, or Asian	31,239	39.1	28.8	15.0	4.7
Sex					
Male	57,375	49.2	38.7	19.3	8.8
Female	54,658	46.6	34.6	17.3	5.4
Marital status					
Married	72,985	51.9	39.3	20.5	7.9
Not married	39,049	40.6	31.9	14.4	5.6
Education					
College graduate	38,975	63.3	49.1	23.9	9.8
Some college	30,513	46.4	35.1	19.1	7.7
High School graduate	33,180	39.8	30.3	14.6	5.1
Less than 12 years of school	9,365	18.0	13.1	6.3	1.4
Household income in 2003[c]					
Top income quartile	32,712	64.1	53.0	23.1	12.0
Second income quartile	29,597	57.4	41.4	24.4	8.6
Third income quartile	26,796	42.8	31.1	16.5	4.8
Bottom income quartile	22,929	18.7	13.9	5.8	1.1
Full-time or part-time worker					
Part-time	19,872	23.1	17.6	8.6	3.3
Full-time	92,432	53.1	40.7	20.4	8.0
Establishment size					
Under 20 employees	31,148	15.1	11.9	3.9	0.8
20 to 99 employees	17,993	43.0	34.3	11.6	2.9
100 to 499 employees	17,615	56.2	41.4	22.1	7.3
500 or more employees	45,279	69.3	52.8	29.5	13.1
Union status					
Union	17,444	78.1	45.4	48.5	15.8
Non-union	94,590	42.4	35.1	12.8	5.5
Total	**112,034**	**47.9%**	**36.7%**	**18.4%**	**7.1%**

Source: CRS analysis of the Federal Reserve Board's 2004 *Survey of Consumer Finances.*

a. Employed householders and spouses/partners under age 65, in thousands.
b. Percentage of workers who participated in employer-sponsored retirement plans, by type of plan.
c. Among households in which the householder or spouse was a worker under age 65, median income in 2003 (adjusted to 2004 dollars) was $52,372. Households with income of more than $90,367 were in the top income quartile and households with income under $29,780 were in the bottom quartile. Because median income is higher in larger households than smaller households, more than 50% of workers live in households that are in the top two quartiles of household income.

Congress and Retirement Saving

Congress has acted several times over the years to encourage workers to save for retirement, mainly by allowing income taxes to be deferred on amounts that workers or their employers contribute to certain types of savings plans established to prepare for retirement. For example:

- The *Technical Amendments Act of 1958* (P.L. 85-866) added Internal Revenue Code Section 403(b), authorizing deferral of taxes on employer and employee contributions to retirement plans of religious, charitable, educational, research, and cultural institutions.

- The *Self-Employed Individuals Tax Retirement Act of 1962* (P.L. 87-792) authorized tax-deferred *Keogh Plans* (after Representative Eugene J. Keogh of New York) for workers who are self-employed.

- The *Employee Retirement Income Security Act of 1974* (P.L. 93-406) authorized *Individual Retirement Accounts* (IRAs) in which eligible contributions and investment earnings are tax-deferred.

- The *Revenue Act of 1978* (P. L. 95-600) added Internal Revenue Code Section 401(k). Employers and employees can make pre-tax contributions to retirement plans established under §401(k). Investment earnings accrue on a tax-deferred basis until withdrawn.

- The *Revenue Act of 1978* also added Section 457 to the Internal Revenue Code, permitting state and local government employees to defer income taxes on a portion of salary deposited into a retirement plan. Investment earnings are not taxed until they are withdrawn.

- The *Taxpayer Relief Act of 1997* (P.L. 105-34) authorized the *Roth IRA*, which accepts only after-tax contributions but provides for tax-free distributions of funds held for at least 5 years in the account.

- The *Economic Growth and Tax Relief Reconciliation Act of 2001* (P.L. 107-16) increased the maximum contribution to IRAs and employer-sponsored §401(k), §403(b), and §457 plans and allows people age 50 or older to make additional contributions to IRAs and to retirement plans authorized under §401(k), §403(b), and §457.

- Congress has authorized retirement savings plans that are designed specifically for small employers. These include the Simplified Employee Pension (SEP) — a type of IRA — authorized in 1978 and the Savings Incentive Match Plan for Employers (SIMPLE), authorized in 1996.

Retirement Savings of American Households

With the trend away from defined benefit plans to defined contribution plans, workers now bear much of the responsibility of preparing for retirement. Workers whose employers offer savings or "thrift" plans such as those authorized under sections 401(k), 403(b), and 457 of the Internal Revenue Code can accumulate assets on a tax-deferred basis while they are working. In addition, most people with earned income may contribute to an IRA. In both cases, taxes are paid when the funds are withdrawn, and a penalty may apply if the withdrawal occurs before retirement.[4] For many people, the marginal income tax rate that they will face in retirement will be lower than the rate that was applied to their earnings prior to retirement.

The following tables show the retirement savings of all households and those households in which there was at least one worker under age 65. According to the SCF, of the 106.5 million U.S. households in 2001, there were 75.7 million households in which the head or spouse was an employed adult under age 65. In 2004, out of 112.1 million households, there were 79.6 million households that included at least one worker under age 65. The tables show the number of households that owned at least one retirement account as well as the average balances held in those accounts. The tables do not include the portion of retirement wealth that is represented by the present value of benefits accrued under Social Security and employer-sponsored defined-benefit pension plans. They include only the balances accumulated in IRAs, Keogh plans for the self-employed, and employer-sponsored defined contribution plans, including — but not limited to — those authorized under §401(k), §403(b), and §457 of the tax code.

Mean and Median Values of Retirement Accounts

The average values of retirement accounts are shown in this report in terms of both the "mean" and the "median" values. The "mean" is a simple arithmetic average.* It is calculated by adding up the reported values of all accounts and then dividing this total by the number of account-holders. As a measure of central tendency — what an "average" represents — the mean is flawed because it can be influenced by a relatively small number of unusually high or low values. The median is another kind of average that is more representative of the population because it is not biased by unusually high or low values. The median is calculated by ordering all of the observed values from highest to lowest and finding the value that lies exactly at the midpoint of the distribution. One-half of all observed values are greater than the median and the other half are less than the median.

* A *survey weight* has been assigned to each household. The weights sum to the number of households in the United States. The means in the tables are the *weighted* means for each observation.

[4] In a traditional IRA, pre-tax contributions can be made only if the worker is not covered by an employer-sponsored retirement plan or has income below amounts specified in law. All investment earnings accrue on a tax-deferred basis. Roth IRAs accept *only* after-tax contributions; however, withdrawals from a Roth IRA during retirement are *tax-free*.

Summary of Retirement Plan Ownership. The data from the SCF show that both the number and percentage of households that owned a retirement account of any kind — whether an individual retirement account (IRA), a 401(k) plan, or other employment-based plan — fell from 2001 to 2004. (See the top panels of **Table 3** and **Table 4**.) The number of households that owned at least one retirement account fell from 56.9 million in 2001 to 56.3 million households in 2004. The proportion of households that owned a retirement account fell from 53.4% in 2001 to 50.2% in 2004. The number of households that owned a defined contribution plan from current or past employment — i.e., that owned a retirement plan other than a traditional IRA, a Roth IRA, or a Keogh account — rose from 38.3 million to 38.8 million, but this increase was not enough to prevent the percentage of households that owned an employment-based retirement account from falling from 36.0% in 2001 to 34.6% in 2004. Both the number and percentage of house holds that owned an IRA or Keogh plan also fell between 2001 and 2004. In 2004, 32.6 million households (29.0%) owned an IRA or Keogh plan, compared to 33.4 million (31.4%) in 2001. In both 2001 and 2004, only about 15 million U.S. households owned both an IRA or Keogh plan and a defined contribution plan from current or past employment. This number comprised 13.9% of all households in 2001 and 13.4% in 2004.

Although the percentage of U.S. households that owned a retirement account fell between 2001 and 2004, the mean and median account balances among those who owned such accounts rose during this period. Measured in constant 2004 dollars, among households who owned a retirement account of any kind, the median combined balance of their accounts rose from $30,462 in 2001 to $36,000 in 2004, an increase of 18.2%. The mean combined account balance increased from $110,210 to $129,310, a rise of 17.3%. Among households that owned at least one defined contribution plan from current or past employment, the median combined balance of all their defined contribution accounts rose from $19,172 in 2001 to $28,000 in 2004, an increase of 46.0%. The mean value of the accounts rose from $73,313 to $99,993. Among households that owned at least one IRA or Keogh plan, the median combined balance of all their IRA and Keogh accounts rose from $28,758 in 2001 to $30,000 in 2004, an increase of just 4.3%. The mean value of these accounts remained virtually unchanged at about $104,000.

According to the SCF, there were 75.7 million households with an employed head or spouse under age 65 in 2001, and 79.6 million such households in 2004. (See the bottom panels of **Table 3** and **Table 4**.) Both the number and percentage of these households that owned at least one retirement account fell between 2001 and 2004. An estimated 46.3 million households with a worker under 65 owned one or more retirement accounts in 2004, 1.2 million fewer households than owned at least one retirement account in 2001. The number of worker-households that owned a defined contribution plan from current or past employment remained unchanged at about 36.2 million, while the number of worker-households that owned an IRA or Keogh plan fell from 25.0 million in 2001 to 23.8 million in 2004. While the number and percentage of households with a worker under age 65 that owned a retirement account fell between 2001 and 2004, the average account balances of those who owned these accounts increased. Among worker-households that owned a retirement savings account of any kind, the median value (in 2004 dollars) of all such accounts rose from $28,760 in 2001 to $35,000 in 2001. The mean value of all the households' accounts rose from $101,422 in 2001 to $122,349 in 2004.

Table 3. Household Retirement Account Balances in 2001

(Amounts in 2004 dollars)

	Number of households (thousands)	Percent of households	Mean value of accounts	Median value of accounts
All households	**106,496**	**100%**		
Owned either an IRA/Keogh or a defined contribution plan	56,883	53.4		
All retirement accounts, all types			$110,210	$30,462
Owned a defined contribution plan[a]	38,295	36.0		
All defined contribution accounts			73,313	19,172
All retirement accounts, all types			107,611	30,888
Owned an IRA or Keogh plan[b]	33,400	31.4		
All IRA/Keogh accounts			103,637	28,758
All retirement accounts, all types			157,643	53,255
Owned both an IRA/Keogh plan and a defined contribution plan	14,812	13.9		
All IRA/Keogh accounts			88,670	27,693
All defined contribution accounts			121,777	35,148
All retirement accounts, all types			210,446	90,960
Owned neither an IRA/Keogh nor a defined contribution plan	49,613	46.6		
	Number of households (thousands)	**Percent of households**	**Mean value of accounts**	**Median value of accounts**
Households with a worker under 65	**75,693**	**100%**		
Owned either an IRA/Keogh or a defined contribution plan	47,487	62.7		
All retirement accounts, all types			$101,422	$28,760
Owned a defined contribution plan[a]	36,217	47.8		
All defined contribution accounts			72,322	20,237
All retirement accounts, all types			104,205	30,888
Owned an IRA or Keogh plan[b]	25,026	33.1		
All IRA/Keogh accounts			87,784	22,367
All retirement accounts, all types			153,005	51,125
Owned both an IRA/Keogh plan and a defined contribution plan	13,757	18.2		
All IRA/Keogh accounts			83,937	25,562
All defined contribution accounts			118,651	36,213
All retirement accounts, all types			202,588	87,338
Owned neither an IRA/Keogh nor a defined contribution plan	28,206	37.3		

Source: CRS analysis of the Federal Reserve Board's 2001 *Survey of Consumer Finances*.

a. May also have owned an IRA or Keogh plan.

b. May also have owned a defined contribution plan.

Table 4. Household Retirement Account Balances in 2004

	Number of households (thousands)	Percent of households	Mean value of accounts	Median value of accounts
All households	**112,109**	**100%**		
Owned either an IRA/Keogh or a defined contribution plan	56,331	50.2		
All retirement accounts, all types			$129,310	$36,000
Owned a defined contribution plan[a]	38,770	34.6		
All defined contribution accounts			99,933	28,000
All retirement accounts, all types			135,488	40,000
Owned an IRA or Keogh plan[b]	32,565	29.0		
All IRA/Keogh accounts			103,893	30,000
All retirement accounts, all types			174,238	61,000
Owned both an IRA/Keogh plan and a defined contribution plan	15,005	13.4		
All IRA/Keogh accounts			91,870	30,000
All defined contribution accounts			150,912	50,000
All retirement accounts, all types			242,782	107,000
Owned neither an IRA/Keogh nor a defined contribution plan	55,778	49.8		
	Number of households (thousands)	**Percent of households**	**Mean value of accounts**	**Median value of accounts**
Households with a worker under 65	**79,622**	**100%**		
Owned either an IRA/Keogh or a defined contribution plan	46,287	58.1		
All retirement accounts, all types			$122,349	$35,000
Owned a defined contribution plan[a]	36,280	45.6		
All defined contribution accounts			98,395	28,000
All retirement accounts, all types			132,282	40,000
Owned an IRA or Keogh plan[b]	23,842	29.9		
All IRA/Keogh accounts			86,706	27,000
All retirement accounts, all types			174,350	65,000
Owned both an IRA/Keogh plan and a defined contribution plan	13,834	17.4		
All IRA/Keogh accounts			88,868	30,000
All defined contribution accounts			149,149	50,000
All retirement accounts, all types			238,017	107,700
Owned neither an IRA/Keogh nor a defined contribution plan	33,335	41.9		

Source: CRS analysis of the Federal Reserve Board's 2001 *Survey of Consumer Finances*.

a. May also have owned an IRA or Keogh plan.

b. May also have owned a defined contribution plan.

Retirement Account Balances by Age of Household Head. An individual's age is an important consideration when evaluating the adequacy of his or her retirement savings. The more time that a person has until reaching retirement, the greater the opportunity to make additional contributions and for investment earnings to build up his or her retirement account balance. **Table 5** shows rates of retirement account ownership and average retirement account balances, categorized by the age of the household head.

Between 2001 and 2004, the percentage of households that owned a retirement account of any kind fell among households in which the householder was under 55 years old. Among households in which the householder was under 35 years old, the proportion that owned a retirement account fell from 46.0% in 2001 to 40.8% in 2004. Among households in which the householder was 35 to 44 years old, the proportion that owned a retirement account fell from 62.7% in 2001 to 56.7% in 2004. Among households in which the householder was 45 to 54 years old, the proportion that owned a retirement account fell from 64.2% in 2001 to 58.5% in 2004. The only households in which the rate of ownership of retirement plans increased between 2001 and 2004 were those in which the householder was 55 to 64 years old. Among this group, the proportion who owned at least one retirement account increased from 60.2% in 2001 to 63.5% in 2004. Among households headed by an individual age 65 or older, the proportion that owned a retirement account of any kind fell slightly from 2001 to 2004, declining from 36.8% to 36.3%.

The changes in average retirement account balances between 2001 and 2004 differed substantially according to the age of the household head. The median combined balance (in 2004 dollars) of all retirement accounts owned by households in which the householder was under age 35 rose from $7,456 in 2001 to $11,000 in 2004. Among households headed by individuals between 35 and 44 years old, the median retirement account balance actually fell between 2001 and 2004, declining from $30,888 to $30,000. Among households headed by persons between the ages of 45 and 54, the median combined balance of all retirement accounts grew from $51,125 in 2001 to $60,00 in 2004. The greatest increase in median retirement account balances between 2001 and 2004 — both in constant dollars and in percentage terms — occurred among households in which the household head was 55 to 64 years old. Among these households, the median balance of all retirement accounts rose from 58,580 in 2001 to $88,000 in 2004, an increase of 50%.

The increase in retirement account balances in the age group that is nearest to retirement age is encouraging, but the median account balance of $88,000 is still not very large. For an individual retiring at age 65 in May 2006, $88,000 could purchase a level, single-life annuity that would pay $653 per month ($7,836 per year), based on the federal Thrift Savings Plan's current annuity interest rate of 5.375%. This amount would replace just 15% of the median household income of $53,400 among households headed by individuals who were 55 to 64 years old in 2004. Moreover, these median values reflect only the balances of households that owned a retirement account. When we take into account households that had no retirement account — and thus had retirement account balances of zero — a total of 11.7 million households headed by individuals 55 to 64 years old had retirement savings of $88,000 or less in 2004. This represents 68.3% of all households headed by persons who were 55 to 64 years old in 2004.

Table 5. Household Retirement Account Balances, by Age of Householder
(Amounts in 2004 Dollars)

2001	Number of households[a]	Households with accounts[b]	Percent with accounts	Mean value, all accounts[c]	Median value, all accounts[c]
Age of householder					
Under 35 years old	24,211	11,147	46.0%	$20,144	$ 7,456
35 to 44	23,751	14,893	62.7	69,527	30,888
45 to 54	21,941	14,089	64.2	139,123	51,125
55 to 64	14,107	8,490	60.2	207,752	58,580
65 or older	22,486	8,264	36.8	155,511	53,255
All households	106,496	56,883	53.4	110,210	30,462
2004	**Number of households[a]**	**Households with accounts[b]**	**Percent with accounts**	**Mean value, all accounts[c]**	**Median value, all accounts[c]**
Age of householder					
Under 35 years old	24,874	10,143	40.8%	$27,098	$11,000
35 to 44	23,115	13,098	56.7	72,334	30,000
45 to 54	23,279	13,628	58.5	150,448	60,000
55 to 64	17,086	10,845	63.5	231,997	88,000
65 or older	23,755	8,617	36.3	173,552	55,000
All households	112,103	56,331	50.2	129,310	36,000

Source: CRS analysis of the Federal Reserve Board's *Survey of Consumer Finances*.
Note: Includes defined contribution plan account balances from both current and past employment.

a. All households, in thousands.
b. All retirement accounts of all types, whether IRAs, Keogh accounts, or employment based plans.
c. Means and medians reflect combined balances in all types of retirement plans.

Retirement Plan Ownership and Demographic Traits. The data presented in **Table 6** show rates of ownership and average account balances for IRAs and Keogh plans in 2004 as reported on the SCF. **Table 7** shows similar statistics for employer-sponsored defined contribution plans. The rates of ownership and average account balances are shown in these tables in relation to the demographic characteristics of the household head. In summary, in 2004:

- IRA ownership and average account balances rose steadily with household income through age 65, after which they declined;
- Households whose head was white were nearly three times likely as those in which the head was non-white to own an IRA, and their median account balance was 2.5 times greater;
- Married couples were much more likely than unmarried individuals to have owned an IRA, in part because these data measure retirement

plan ownership at the household level, and many married couples include two workers;

- IRA ownership rose with education, and college graduates were more than twice as likely than those who had not graduated from college to have owned an IRA in 2004;
- More than half of households in the top 25% of the income distribution owned an IRA in 2004, compared to one-third of households in the second-highest quartile, one-fifth of households in the third quartile and just 8% of households in the bottom 25%;
- homeowners were almost four times as likely as renters to have owned an IRA;
- IRA ownership differed little between full-time workers and part-time workers;
- IRA ownership among employees of businesses with fewer than 20 employees differed little from that of workers at large businesses;
- Union membership appears to have little relationship to IRA ownership.

Many of the relationships between demographic characteristics and 401(k) participation were similar to the relationships between demographic characteristics and IRA ownership, but there were some differences. For example, while IRA ownership increased with each age up to 65, 401(k) ownership dropped in the 55-to-64 age category. This could be attributable in part to the large number of people who roll over 401(k) account balances into an IRA when they retire, and also to the fact that older workers are more likely to be employed at firms that still offer defined benefit pension plans. While 401(k) ownership was greater among households headed by a white individual than a non-white individual, the difference was not as great as the difference in the rate of IRA ownership by race. Likewise, while 401(k) ownership was greater among couples than singles, the difference was not as great as the difference in the rate of IRA ownership by marital status. Full-time workers were 2.5 times as likely as part-time workers to have owned a defined contribution retirement plan in 2004. Finally, while IRA ownership differed little among employees of small firms and large firms, 401(k) ownership was substantially higher among workers at businesses with more than 500 employees than among workers at businesses with fewer than 20 employees. In 2004, 58% of workers at the largest firms owned a defined contribution plan, compared to 24% of workers at small firms.

Table 6. Household Ownership of Individual Retirement Accounts and Keogh Accounts in 2004

Household head characteristics	Number of households[a]	Percent that own an IRA or Keogh plan[b]	Mean balance in all IRA/Keogh plans	Median balance in all IRA/Keogh plans
Age				
Under 35	24,874	16.0%	$17,641	$8,000
35 to 44	23,115	25.2	52,506	20,000
45 to 54	23,279	33.6	91,050	35,000
55 to 64	17,086	43.9	142,544	60,000
65 or older	23,755	31.4	164,703	48,000
Race				
White, non-Hispanic	80,511	35.7	110,971	32,500
Black, Hispanic, or Asian	31,598	12.2	51,250	13,000
Sex and Marital Status				
Married	56,973	38.6	126,469	40,000
Single Male	24,170	21.6	70,414	20,000
Single Female	30,966	17.2	43,336	14,000
Education				
College graduate	41,038	47.0	136,066	43,000
Some college	20,590	22.9	69,619	19,000
High School graduate	34,300	22.0	53,438	17,500
Did not graduate High School	16,181	6.4	28,713	12,200
Household income in 2003				
Top income quartile	27,525	54.3	159,264	60,000
Second income quartile	27,692	34.6	63,532	21,500
Third income quartile	28,568	20.6	48,205	17,000
Bottom income quartile	28,324	7.7	51,934	11,200
Own or rent home				
Own	77,414	37.8	110,747	33,000
Rent	34,695	9.6	43,954	12,000
Full-time or part-time worker				
Not in the labor force	26,732	24.3	139,093	40,000
Full-time	71,470	30.2	87,736	26,000
Part-time	13,907	32.2	130,802	42,000
Establishment size				
Not in the labor force	26,732	24.3	139,093	40,000
Under 20 employees	25,076	30.0	121,170	35,200
20 to 99 employees	13,472	24.9	74,803	20,000
100 to 499 employees	12,939	29.2	78,762	25,700
500 or more employees	33,980	33.6	89,347	25,000
Union status				
Not in the labor force	26,732	24.3	139,093	40,000
Union	12,868	29.0	50,017	16,000
Non-union	72,509	30.8	102,663	30,000
Total	**112,109**	**29.0%**	**$103,893**	**$30,000**

Source: CRS analysis of the Federal Reserve Board's 2004 *Survey of Consumer Finances*.

a. All households, in thousands.
b. Percentage of households in which head or spouse participated in plan, by type of plan.

Table 7. Household Ownership of Defined Contribution Plans from Current or Past Job in 2004

Household head characteristics	Number of households[a]	Percent that own one or more DC plans[b]	Mean balance in all DC plans	Median balance in all DC plans
Age				
Under 25	24,874	34.1%	$24,124	$ 9,900
35 to 44	23,115	45.5	60,632	27,000
45 to 54	23,279	44.7	127,107	50,000
55 to 64	17,086	41.7	202,425	61,000
65 or older	23,755	9.4	119,300	30,000
Race				
White, non-Hispanic	80,511	37.6	111,605	31,000
Black, Hispanic, or Asian	31,598	26.8	58,122	17,000
Sex and Marital Status				
Married	56,973	43.5	126,034	40,000
Single Male	24,170	31.2	68,737	15,000
Single Female	30,966	20.9	36,298	13,000
Education				
College graduate	41,038	48.0	142,211	45,000
Some college	20,590	34.4	68,201	18,000
High School graduate	34,300	29.5	52,847	18,100
Did not graduate High School	16,181	11.5	29,046	12,000
Household income in 2003				
Top income quartile	27,525	62.1	176,109	74,200
Second income quartile	27,692	45.7	52,712	20,000
Third income quartile	28,568	25.4	22,281	9,900
Bottom income quartile	28,324	6.2	18,864	2,000
Own or rent home				
Own	77,414	41.0	115,625	35,000
Rent	34,695	20.2	28,753	9,200
Full-time or part-time worker				
Not in the labor force	26,732	5.3	106,939	40,000
Full-time	71,470	48.5	97,607	27,000
Part-time	13,907	19.1	126,531	38,000
Establishment size				
Not in the labor force	26,732	5.3	106,939	40,000
Under 20 employees	25,076	23.6	92,840	22,900
20 to 99 employees	13,472	39.5	58,048	14,000
100 to 499 employees	12,939	50.9	86,894	29,000
500 or more employees	33,980	57.5	117,386	34,000
Union status				
Not in the labor force	26,732	5.3	106,939	40,000
Union	12,868	51.6	84,467	32,000
Non-union	72,509	42.4	102,952	27,000
Total	**112,109**	**34.6%**	**$99,933**	**$28,000**

Source: CRS analysis of the Federal Reserve Board's 2004 *Survey of Consumer Finances*.

a. All households, in thousands.
b. Percentage of households in which head or spouse participated in plan, by type of plan.

Household Net Worth. Most households have wealth other than retirement accounts on which they will be able to draw during retirement. More than 96% of workers in the United States are covered by Social Security, and about one-fifth of workers participated in defined-benefit pension plans in 2004. In addition, many workers have other assets that could be used to pay expenses during retirement. For example, the most valuable asset owned by many people is their home, and some may find when they are older that they prefer to live in a smaller house or apartment, or they may choose to move to an area where property taxes and other living expenses are lower than where they lived during their working years. In addition to equity in their homes, many individuals have financial assets, equity in businesses, real estate, or other valuables that can either provide a stream of income through interest, dividends, or rents, or that can be fully or partially liquidated to finance their consumption needs during retirement. The broadest measure of net household wealth — the difference between total assets and total liabilities — is called "net worth." The median net worth of all households in the United States in 2001 and 2004, categorized by the age of the household head, is shown in **Table 8**.

Table 8. Median Household Net Worth in 2001 and 2004, by Age of Household Head
(Amounts in 2004 dollars)

Age of household head	Median net worth		Pct. change
	2001	2004	
Under 35 years old	$12,300	$14,200	15.4%
35 to 44	82,600	69,400	-16.0
45 to 54	141,600	144,700	2.2
55 to 64	193,300	248,700	28.7
65 to 74	187,800	190,100	1.2
75 or older	161,200	163,100	1.2
All households	91,700	93,100	1.5

Source: Bucks, Kennickell, and Moore, *Federal Reserve Bulletin*, 2006.

Between 2001 and 2004, median net worth among all U.S. households (in 2004 dollars) rose by just 1.5%, increasing from $91,700 to $93,100. Changes in median net worth between 2001 and 2004 differed substantially by the age of the household head. Net worth rose by 15.4% among households headed by persons under age 35, although this increase amounted to just $1,900 because the net worth of these younger households was quite low to begin with. Among households headed by individuals between 35 and 44 years old, net worth declined by 16% between 2001 and 2004, falling from $82,600 to $69,400. There was a small (2.2%) increase in the net worth of households headed by persons between the ages of 45 and 54. The greatest increase in net worth between 2001 and 2004 occurred in households headed by persons aged 55 to 64. Among these households, net worth rose from $193,300 to $248,700, an increase of nearly 29%. Households headed by persons 65 or older experienced a very small increase in net worth of 1.2% between 2001 and 2004.

Conclusion

Are Americans saving adequately for retirement? The median retirement account balances reported on the 2004 Survey of Consumer Finances would not by themselves provide an income in retirement that most people in the United States would find adequate. Among the 10.8 million households headed by persons aged 55 to 64 in 2004 and that owned at least one retirement account, the median balance of all their accounts was $88,000. Moreover, an estimated 6.2 million households headed by persons 55 to 64 years old had no retirement savings accounts in 2004. Including the households with zero balances, a total of 11.7 million households headed by persons age 55 to 64 — 68% of all households in this age group — had retirement account balances of $88,000 or less in 2004. Among the 79.6 million households that included at least one worker under age 65 in 2004, 33.3 million — or 42% — did not own a retirement savings account of any kind. The median balance among the worker-households that owned an account was just $35,000.

For workers who are not included in a defined-benefit pension where they are employed — which is about 80% of all workers — saving from current income is essential to preparing for retirement. Whether workers save by putting money into accounts that are earmarked for retirement or by accumulating other assets on which they can draw after they have retired is not necessarily important. The act of saving is of greater consequence to retirement security than the manner in which it is accomplished. Nevertheless, the fact that 33 million households that included a worker under age 65 had *no* retirement savings accounts in 2004 indicates that many households are not taking advantage of the tax deferrals available to virtually all workers through IRAs and to many workers through employer-sponsored plans.

On the one hand, the widespread adoption of tax-favored retirement savings plans over the past 25 years indicates that many workers are taking seriously their responsibility to save for retirement. On the other hand, the balances in these accounts — even among those who are near retirement — are generally low. For example, if the median retirement account balance of $88,000 among households headed by persons 55 to 64 years old in 2004 were converted to an annuity, it would provide a monthly income of $653 per month ($7,836) to a person retiring at age 65. This amount would replace just 15% of the median income of households headed by individuals who were 55 to 64 years old in 2004.[5]

The uncertain future of Social Security and the declining prevalence of defined-benefit pensions that provide a guaranteed lifelong income have put much of the responsibility for preparing for retirement directly on workers. The low rate of personal saving in the United States and the lack of any retirement savings accounts among millions of American households indicate that there is a need for greater awareness among the public about the importance of setting aside funds to prepare for life after they have stopped working. Most workers in the United States will need to begin saving more of their income if they wish to maintain a standard of living in retirement comparable to that which they enjoyed while working. The alternatives would be to work longer or to greatly reduce their standard of living in retirement.

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[5] The median income of households headed by persons aged 55 to 64 in 2004 was $53,400.

References

Bucks, Brian K., Arthur B. Kennickell, and Kevin B. Moore. "Recent Changes in U.S. Family Finances: Evidence from the 2001 and 2004 Survey of Consumer Finances." *The Federal Reserve Bulletin*, 2006. [http://www.federalreserve.gov/pubs/bulletin/2006/financesurvey.pdf]