March 2011

PRIVATE PENSIONS

Some Key Features Lead to An Uneven Distribution of Benefits

GAO
Accountability • Integrity • Reliability
Highlights

Highlights of GAO-11-333, a report to congressional requesters

Why GAO Did This Study

Despite sizeable tax incentives, private pension participation has remained at about 50 percent of the workforce. For those in a pension plan, there is concern that these incentives accrue primarily to higher income employees and do relatively little to help lower income workers save for retirement. The financial crisis and labor-market downturn may have exacerbated these difficulties. Therefore, we examined (1) recent trends in new private pension plan formation, (2) the characteristics of defined contribution plan participants contributing at or above statutory limits, (3) how suggested options to modify an existing credit for low-income workers might affect their retirement income, and (4) the long-term effects of the recent financial crisis on retirement savings.

To answer these questions, GAO reviewed reports, federal regulations, and laws, and interviewed academics, agency officials, and other relevant experts. We also analyzed Department of Labor and 2007 Survey of Consumer Finance (SCF) data, and used a microsimulation model to assess effects of modifying tax incentives for low-income workers.

We incorporated technical comments from the departments of Labor and Treasury, the Internal Revenue Service, and the Pension Benefit Guaranty Corporation as appropriate.

View GAO-11-333 or key components.
For more information, contact Charles A. Jeszeck at (202) 512-7215 or jeszeckc@gao.gov.

What GAO Found

Net new plan formation in recent years has been very small, with the total number of single employer private pension plans increasing about 1 percent from about 697,000 in 2003 to 705,000 in 2007. Although employers created almost 180,000 plans over this period, this formation was largely offset by plan terminations or mergers. About 92 percent of newly formed plans were defined contribution (DC) plans, with the rest being defined benefit (DB) plans. New plans were generally small, with about 96 percent having fewer than 100 participants. Regarding the small percentage of new DB plans, professional groups such as doctors, lawyers, and dentists sponsored about 43 percent of new small DB plans, and more than 55 percent of new DB plan sponsors also sponsored DC plans. The low net growth of private retirement plans is a concern in part because workers without employer-sponsored plans do not benefit as fully from tax incentives as workers that have employer-sponsored plans. Furthermore, the benefits of new DB plans disproportionately benefit workers at a few types of professional firms.

Most individuals who contributed at or above the 2007 statutory limits for DC contributions tended to have earnings that were at the 90th percentile ($126,000) or above for all DC participants, according to our analysis of the 2007 SCF. Similarly, consistent with findings from our past work, high-income workers have benefited the most from increases in the limits between 2001 and 2007. Finally, we found that men were about three times as likely as women to make so-called catch-up contributions when DC participants age 50 and older were allowed to contribute an extra $5,000 to their plans.

We found that several modifications to the Saver's Credit—a tax credit for low-income workers who make contributions to a DC plan—could provide a sizeable increase in retirement income for some low wage workers, although this group is small. For example, under our most generous scenario, Saver's Credit recipients who fell in the lowest earnings quartile experienced a 14 percent increase in annual retirement income from DC savings, on average.

The long-term effects of the financial crisis on retirement income are uncertain and will likely vary widely. For those still employed and participating in a plan, the effects are unclear. Data are limited, and while financial markets have recovered much of their losses from 2008, it is not fully known yet how participants will adjust their contributions and asset allocations in response to market volatility in the future. In contrast, although data are again limited, the unemployed, especially the long-term unemployed, may be at risk of experiencing significant declines in retirement income as contributions cease and the probability of drawing down retirement accounts for other needs likely increases. The potential troubling consequences of the financial crisis may be obscuring long standing concerns over the ability of the employer-provided pension system in helping moderate and low-income workers, including those with access to a plan, save enough for retirement.