Only 6% of DC plan participants contribute the max: GAO

By Editorial Staff *Fri, Apr 25, 2014*

An update of a GAO report shows that few retirement plan participants defer as much salary as they can, and that higher limits on contributions in recent years have not prevented a net decline in the number of retirement plans in the U.S.

Despite an increase in the limits on tax-deferred contributions to defined contribution plans in recent years, the number of retirement plans declined in 2011 and only 6% of participants—about 2.4 million people—contributed as much or more than the limits, according to study by the U.S. Government Accountability Office that was published in March and released this week.

The latest GAO study, like its 2011 study of the same issue, found that high-income participants are most likely to contribute the maximum. "An estimated 76% of participants who contributed at or above the 2010 limits were in the top tenth percentile of earners; 47% were in the top fifth percentile. By contrast, an estimated 2% of participants who contributed at or above any of the 2010 limits had median incomes or below." Only one-tenth of one percent of participants contributed the maximum combined employer/participant amount of $49,000 in 2010.

According to a summary of the study:

"Since 2000, the dollar amount of these limits has increased over time," the GAO said in the summary of the report published in March and released to the public on April 21. "However, from 2009 through 2011, the number of new pension plans formed each year in the private sector remained relatively flat, and was below the levels reported previously for 2003 through 2007.

"Specifically, from 2009 through 2011, private-sector employers sponsored about 81,000 new pension plans, including 75,000 defined contribution (DC) plans and 6,000 defined benefit (DB) plans. DC plans with fewer than 100 participants accounted for about 90% of all new plan growth over this period.

"Moreover, the net change in the number of pension plans over this period was negative, with the number of terminated plans more than offsetting new plan formation by nearly 34,000 plans. Over the three-year span from 2009 through 2011, private-sector employers terminated about 106,000 DC and 9,000 DB plans.

"Overall, there were about 52,000 fewer employer-sponsored pension plans in the private sector in 2011 than there were in 2000. Thus, while tax incentives from increased contribution limits may have spurred new plan formation, other events—such as company consolidations and bankruptcies stemming from the recent recession—may have discouraged it. Nevertheless, despite the overall decline in number of plans, the total number of participants rose throughout the decade.

"The percentage of DC participants affected by the 2010 statutory limits and their income characteristics were similar to those reported previously for participants affected by the 2007 limits. In 2011, GAO reported that an estimated five percent of all DC participants who contributed to their plans in 2007 were affected by the statutory limits.

“Based on an analysis of the most recent data from the Federal Reserve’s *Survey of Consumer Finances*, about six percent of all DC participants who contributed to their plans in 2010 were affected by the statutory limits in that their annual contributions in 2010 reached or exceeded one or more of the three limits examined. Of this group:

- About three percent were under age 50 and contributed at least $16,500 (the elective deferral limit).
- About three percent were aged 50 or older and contributed at least $22,000 (the combined elective deferral and catch-up contribution limits).
- Another one-tenth of one percent of all ages contributed at or above the combined employer-participant contribution limit of $49,000.

Participants affected by the 2010 statutory limits shared similar income characteristics with their counterparts in 2007. When compared with other DC participants who contributed below all of the 2010 statutory limits, this group had disproportionately higher earnings (90th percentile and higher) and were more likely to have additional assets of greater average value in their households.