
Unequal plan coverage persists, report shows

By Editorial Staff Thu, May 10, 2018

'In 2016, the participation rate [in retirement plans] was just 47.3% of family heads with annual family income of \$10,000 - \$24,999, compared with 89.9% for those with annual family income of \$100,000 or more,' a new report from the Employee Benefits Research Institute said.

The benefits of tax-deferred savings plans in the U.S., though nominally available to all Americans, accrue disproportionately to workers who are white, well-educated, and have salaries that enable them to save, the data in a recent report from the Employee Benefits Research Institute show.

The report, like some previous EBRI reports, that people who contribute to IRAs, Keogh accounts 401(k) plans have a much better chance for a secure retirement. But the data indicate only a correlation between the two. Access to a plan and the ability to save might merely be markers for economic success in general.

Demographic disparities in plan coverage and usage, the EBRI data show, echo other disparities in the workplace, where minority and lower-income workers are concentrated in smaller businesses that, besides offering lower salaries and shorter job tenures, rarely offer retirement savings plans.

This is the much talked-about “coverage gap” that state-sponsored IRAs and retirement plan marketplaces are trying to narrow, that provides opportunity for robo-advice startups, and which some large financial services firms hope to address by sponsoring low-cost, low-maintenance multi-employer plans (which will require changes in pension laws).

“A number of demographic differences have persisted over the six survey periods: the increased likelihood of plan participation with higher levels of family income (above \$10,000), net worth, and educational attainment,” said the report, entitled *Individual Account Retirement Plans: An Analysis of the 2016 Survey of Consumer Finances*.

“For example, in 2016, the participation rate was just 47.3% of family heads with annual family income of \$10,000 - \$24,999, compared with 89.9% for those with annual family income of \$100,000 or more. Additionally, racial disparities existed; white family heads were more likely to participate when eligible than nonwhite family heads.”

The same pattern held for accumulation levels. “Among all families with an IRA/Keogh in

2016, the median balance was \$53,000, the report said. “This was a 109% increase from the 1992 value of \$25,401 and a 3% increase from the 2013 value of \$51,555.

“The median IRA/Keogh balance increased in 2016 with family income, family head age, and family net worth—a pattern that held true in 1992-2013... [The] median balance of families with a white family head that had IRA/Keoghs was \$62,000 in 2016, compared with \$23,000 for families without a white family head.”

The report goes on to say, “Among families with an IRA/Keogh plan, the average value of their account holdings was \$203,904 in 2016, a 2% real increase from \$199,934 in 2013. From 1992-2016, the average IRA/Keogh balance increased 228%, from \$62,147 (in 2016 dollars) in 1992. The factors related to higher average IRA/Keogh balances were higher family income, older family head, higher educational level of the family head, white family head, and higher net worth.”

The concentration of plan usage and accumulations among more successful workers was a topic of debate during the run-up to the passage of the 2016 tax reform package. Seeing that a majority of the benefits of tax deferral were going primarily to a minority of workers, some legislators suggested that the tax benefits be curtailed, at least for those who contributed the most to the plans.

But lobbying by the retirement industry, and a tweeted promise by President Trump not to change the 401(k), led to a continuation of current retirement tax policy under the new law.

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