Center for Financial Security
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FINANCIAL INCLUSION ACROSS THE UNITED STATES

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Employer provided retirement plans can provide a significant supplementary source of income for retirees in addition to SSI. However, access to and participation in these plans varies considerably across the income distribution. We use administrative tax data to measure differences in access and participation rates geographically, by income level, and by race.

A New Measure of Access to and Participation in Retirement Savings Plans

We use administrative tax data to study retirement and bank account participation for the universe of U.S. households with a member aged 50 to 59. Using a variety of tax and information returns, we measure both participation in (via an individual retirement account or an employer-provided retirement plan) and access to (through an employer) a retirement plan for each household in the dataset. We also observe households' income, zip code, and employment history. Using this novel measure and data, we study how retirement account participation varies with income, geography, and race. We observe large differences in participation across the income distribution and find that average income seems to drive much of the observed geographic variation in participation rates.

We also investigate the causal impact of access to an employer provided retirement plan on participation. Using an instrumental variables design, we estimate a large causal impact of access on participation, particularly at the bottom of the income distribution. This speaks to potential for policies that mandate access to an employer-provided plan to significantly increase participation.

Access, Participation and Type of Retirement Account Varies Widely with Income

While 70% of households in our sample have a retirement account, this measure varies widely across the income distribution. Only 21% of households in the bottom income quintile have a retirement account, as opposed to 97% of households in the top income quintile. Income also appears to be the primary determinant of participation rates from a geographic perspective at the zip code level.

BREAKDOWN OF RETIREMENT ACCOUNT PARTICIPATION

	Percentile of usual income					
Households with	0–20	20–40	40–60	60–80	80–100	All
Employer plan only	0.12	0.35	0.47	0.41	0.23	0.32
IRA only	0.05	0.06	0.06	0.05	0.05	0.05
Both	0.04	0.13	0.28	0.47	0.69	0.32
Total	0.21	0.54	0.81	0.93	0.97	0.69

This table reports a breakdown of retirement account participation for households with a member aged 50 to 59 in the 2019 administrative tax data.

Moreover, the type of retirement account – employer provided versus IRA – held by households also differs with income. Low-income households rely primarily on employer provided plans, while those in the upper portion of the income distribution tend to have both an IRA and an employer provided plan. Moreover, households in the lowest income quintile have the lowest rates of access to employer retirement plans. Only

40% of lowest income households have access to employer plans, as opposed to 96% of highest income households.

Access to an employer retirement plan significantly increases retirement account participation in the lowest income quintile

Several states have recently implemented mandates requiring most employers to enroll all workers in a state-sponsored retirement savings program if they do not already offer a retirement plan. These policies increase access, in hopes of boosting participation.

Using our data and an instrumental variables design, we estimate the causal impact of access to and automatic enrollment in an employer provided retirement plan on participation. On the extensive margin, access to an employer retirement plan increases retirement account participation by 15 percentage points in the lowest income quintile. Automatic enrollment further increases retirement account participation by 34 percentage points for these households.

The estimated treatment effects for access to an employer retirement plan increase with income, implying higher take-up rates for high-income households. For example, the impact of access to an employer retirement plan on participation increases from 15 percentage points for the lowest income quintile to 31 percentage paoints for the highest income quintile. However, the treatment effects for automatic enrollment decrease in income, implying that most high-income households enroll regardless of automatic enrollment.

Implications

- Universal access to an employer retirement plan could be an effective policy intervention to boost retirement account participation for low- and middle-income households. These households depend more heavily on employer-provided plans, but currently have lower access.
- However, while universal access to an employer retirement plan could boost retirement account participation and reduce reliance on Social Security benefits, it still targets only the employed population. Households that do not have sufficient work history will continue to rely on Supplemental Security Income as a safety net.

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