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Retirement Savings and Household Wealth: A Summary of Recent Data

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Summary

Pension analysts refer to Social Security, employer-sponsored retirement plans, and personal savings as the "three-legged stool" of retirement income, but for many workers at least one of the legs is missing. Many workers fail to save adequately for retirement. Data from the Federal Reserve Board's *Survey of Consumer Finances* indicate that in 2001 only 58% of families with an employed family head or spouse between the ages of 21 and 64 included at least one worker who participated in an employer-sponsored retirement plan. Most participated in savings and thrift plans, in which the worker must decide whether to contribute to the plan, and how to invest the funds. Only 25% of families included at least one worker who was covered by a defined benefit plan that guarantees a fixed monthly payment for life.

The Federal Reserve Board collects data on household assets and liabilities through its *Survey of Consumer Finances* (SCF). The most recent available data from this survey were collected in 2001. According to the SCF, an estimated 47.8 million families with at least one worker between the ages of 21 and 64 — (63%) — owned one or more retirement accounts in 2001. An estimated 27.8 million families — (37%) — did not own a retirement savings account of any kind. Among the families who owned a retirement savings account of any kind in 2001, the *mean* value of all such accounts was $95,943. The *median* value of all accounts was $27,000. The median value of the retirement accounts held by families headed by a worker between the ages of 55 and 64 was $55,000 in 2001. For a 65-year-old retiring in December 2003, $55,000 would be sufficient to purchase a level, single-life annuity that would pay $408 per month, based on the federal Thrift Savings Plan's current annuity interest rate of 4.375%. A balance of $55,000 would be sufficient to purchase a joint-and-survivor annuity of $394 per month at age 65 at an interest rate of 4.375%.

The Bureau of the Census collects data on household assets and liabilities through its *Survey of Income and Program Participation* (SIPP). The SIPP most recently collected data on household assets and liabilities in late 1999 and early 2000. According to the SIPP, an estimated 38.1 million families with at least one worker between the ages of 21 and 64 — (49%) — owned one or more retirement accounts, including IRAs, Keogh accounts, and 401(k)-type accounts in 2000. An estimated 39.9 million such families — (51%) — did not own a retirement savings account of any kind. Among the 38.1 million families who owned a retirement savings account of any kind in 2000, the *mean* value of all such accounts was $60,510. The *median* value of all the families' accounts was $24,000.

Both surveys show that rates of retirement plan ownership and average account balances rise steadily with family income and with level of education. Homeowners and married couples are more likely to have a retirement account than are renters or single persons. Both surveys show that while the rate of IRA ownership among employees of small businesses differs only a little from that of workers at large businesses, workers at firms with more than 100 employees are much more likely to participate in a 401(k)-type plan than are employees of smaller businesses.

Contents

List of Tables

Retirement Savings and Household Wealth: A Summary of Recent Data

Background: America's Aging Population

The aging of the American population and the impending retirement of the "baby boom" generation will place significant strains over the next several decades on Social Security and on retirees' own financial resources. The decline in birth rates since the 1960s and increases in life expectancy will result in fewer workers relative to the number of retirees. Consequently, Social Security benefits will have to be financed by a working population that is shrinking relative to the number of retirees and retirees will have to stretch their savings and other assets over longer periods of retirement than their parents and grandparents experienced.

Americans Are Living Longer Then Ever Before. The average life expectancy of Americans born in 1960 was 69.7 years. It has been estimated that those who were born in 2000 will live for an average of 76.4 years.[1] A man who reached age 65 in 1960 could expect to live another 13 years, while a woman who turned 65 in 1960 had a remaining life expectancy of 16 years. A man who reached age 65 in 2000 could expect to live another 15.6 years, while a woman who turned 65 in 2000 had a remaining life expectancy of 19.4 years. As more people live into old age, the age-profile of the population will shift. In 1960, 16.7 million people in the United States — 9.2% of the population — were age 65 or older. In 2000, there were 35.0 million Americans age 65 or older, representing 12.4% of the population. By 2025, according to projections made by the Bureau of the Census, there will be 62 million people age 65 or older, comprising 18.5% of the U.S. population.

These demographic trends will strain the components of the traditional "three-legged stool" of retirement income: Social Security, pensions, and personal saving. The Social Security Board of Trustees has estimated that the Social Security trust fund will be exhausted by 2044 unless actions are taken to preserve it.[2] Pensions are the second largest source of income among the elderly, after Social Security, but only about half of all workers in the United States have pension coverage through their jobs. Moreover, the traditional pension that provides a lifelong annuity is becoming less common. Today, more workers participate in savings and thrift plans than in traditional pension plans. A key characteristic of these savings plans is that the worker must actively participate, deciding whether to contribute to the plan, how much to contribute, and how to invest the funds. Workers who do not choose to save, or who save too little, may face difficult financial circumstances in retirement.

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[1] U.S. National Center for Health Statistics, *Vital Statistics of the United States.*

[2] Social Security and Medicare Boards of Trustees, *Status of the Social Security and Medicare Programs: A Summary of the 2003 Annual Reports*, Washington DC, March 2003.

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 and/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 Rep. 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 these retirement plans. Earnings are tax-deferred.

- *The Revenue Act of 1978* also added Internal Revenue Code **section 457** to permit state and local government employees to defer income taxes on a portion of salary that is deposited into a retirement plan.

- 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.

- *The Economic Growth and Tax Relief Reconciliation Act of 2001* (P.L. 107-16) increased the maximum contribution to an IRA to \$3,000 in 2002, 2003, and 2004; to \$4,000 in 2005, 2006, and 2007, and to \$5,000 in 2008. It then will be indexed to inflation in \$500 increments. Individuals age 50 and older may contribute an additional \$500 to an IRA in 2002 through 2005 and \$1,000 in each year thereafter. The law increased the maximum employee salary deferral under I.R.C. §401(k) to \$11,000 in 2002 and by an additional \$1,000 each year through 2006, when it will reach \$15,000. After 2006, the maximum deferral will be indexed to inflation. The law raised the maximum contribution to retirement plans under §§403(b) and 457 to the same amount as under section 401(k). People age 50 or older can make additional contributions to retirement plans authorized under I.R.C. §§401(k), 403(b), or 457. The maximum permissible additional contribution is \$1,000 in 2002, \$2,000 in 2003, \$3,000 in 2004, \$4,000 in 2005, and \$5,000 in 2006. This amount is indexed to inflation in years after 2006.

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 is missing. Coverage under Social Security is nearly universal, but access to employer-sponsored retirement plans is limited. Data from the Federal Reserve Board's *Survey of Consumer Finances* indicate that in 2001, 58% of families in which the head or spouse was a worker between the ages of 21 and 64 included at least one worker who participated in an employer-sponsored retirement plan. (See **Table 1**.) Forty-seven percent of families with a worker between the ages of 21 and 64 included someone who participated in a defined contribution plan. Only 25% of families included at least one worker who was covered by a defined benefit plan that guarantees a fixed monthly payment for life.

Trends in Retirement Plan Design. Over the past 25 years, there has been a shift in the distribution of retirement plans and of plan participants from *defined benefit* plans to *defined contribution* plans. In a defined benefit or "DB" plan, the retirement benefit is usually paid as a lifelong annuity based on the employee's length of service and average salary in the years just before retirement. DB plans usually are funded by employer contributions. A defined contribution or "DC" plan is much like a savings account maintained by the employer on behalf of each participating employee. The employer contributes a specific dollar amount or percentage of pay, which is invested in stocks, bonds, or other assets. The employee usually contributes to the plan, too. In a DC plan, it is the employee who bears the investment risk. At retirement, the balance in the account is the sum of all contributions plus interest, dividends, and capital gains — or losses. The account balance is usually distributed as a single lump sum. Many large employers recently have converted their traditional DB pensions to hybrid plans that have characteristics of both DB and DC plans, the most popular of which has been the *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. They are not individual accounts owned by the participants. Legally, therefore, a cash balance plan is a defined benefit plan.

The Growth of Defined Contribution Plans. After section 401(k) was added to the IRC in 1978, DC plans overtook traditional defined benefit pensions in number of plans, participants, and total assets. Earlier defined contribution plans had been funded exclusively by employer contributions. In a 401(k) plan, however, both the employer and the employee can make contributions. These characteristics leave most of the responsibility of preparing for retirement with the employee, who 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 a 401(k) plan. IRS Revenue Ruling 98-30 allows employers to provide for automatic enrollment into 401(k) plans for newly eligible employees. Under a so-called "negative election" workers may be automatically enrolled in their employer's retirement savings plan. Employees who are enrolled automatically must be given an option to drop out of the plan. IRS Revenue Ruling 2000-8 allows automatic enrollment in 401(k) plans of current employees who had not elected to participate.

Table 1. Participation in Retirement Plans at Current Main Job in 2001[a]

Family Head Characteristics	Number of Families (in thousands)	Any Type of Plan[b]	Defined Contribution[b]	Defined Benefit[b]	Both Types[b]
Age					
Under 35	21,372	48.1%	41.0%	14.6%	7.5%
35 to 44	22,440	63.1	52.7	25.6	15.2
45 to 54	19,759	64.7	49.5	33.2	18.0
55 or older	12,043	54.0	40.3	25.7	12.0
Race					
White, non-Hispanic	56,993	59.8	48.6	26.1	14.9
Black, Hispanic, or Asian	18,620	51.7	40.4	19.5	8.2
Sex and Marital Status					
Couple	43,791	65.0	52.5	29.9	17.5
Single Male	16,183	50.3	41.0	18.1	8.8
Single Female	15,639	45.6	35.6	15.8	5.8
Education					
Did not graduate High School	8,938	32.1	24.3	12.9	5.1
High School graduate	22,404	53.8	41.7	22.7	10.6
Some college	18,776	57.3	45.8	22.9	11.4
College graduate	25,495	70.8	59.2	31.3	19.7
Annual family income					
Under $25,000	15,450	24.9	22.8	7.9	1.6
$25,000 to $49,999	22,391	51.9	38.8	18.6	5.4
$50,000 to $74,999	15,765	72.5	59.0	31.5	18.0
$75,000 or more	22,008	76.6	65.3	37.1	26.0
Own or rent home					
Own	50,887	66.5	54.2	29.7	17.3
Rent	24,726	39.9	30.9	13.8	4.8
Full time or part time worker					
Not currently working	3,276	33.0	26.2	14.3	7.5
Full time (35+ hours per week)	6,915	29.5	23.3	10.8	4.7
Part time	65,422	62.1	50.1	26.4	14.4
Establishment size					
Not currently working	3,276	33.0	26.2	14.3	7.5
Under 20 employees	19,288	29.4	24.3	9.1	4.0
20 to 99 employees	11,135	53.4	45.0	17.9	9.6
100 to 499 employees	12,378	67.2	54.3	25.9	13.0
500 or more employees	29,536	76.9	60.7	37.5	21.4
Covered by Union contract?					
Not currently working	3,276	33.0	26.2	14.3	7.5
Union	13,539	81.7	53.9	51.3	23.5
Non-union	58,798	53.7	46.0	18.9	11.2
Have an IRA or Keogh plan?					
Yes	25,238	66.8	53.8	30.3	17.2
No	50,375	53.3	43.0	21.6	11.2
Total	**75,613**	**57.8%**	**46.6%**	**24.5%**	**13.2%**

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

Notes: Includes single persons as well as families.
a. Families with an employed head or spouse age 21-64
b. Percentage of families in which head or spouse participated, by type of plan

Retirement Savings of American Families

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 can contribute to an Individual Retirement Account (IRA). In both cases, taxes are paid when the funds are withdrawn, and a penalty may apply if the withdrawals occur before retirement.[3] 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 Survey of Consumer Finances. The Survey of Consumer Finances (SCF) is 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 households, their pension coverage, sources and amounts of income, and demographic characteristics. Data from the SCF are widely used by analysts at the Federal Reserve, in other branches of government, and by scholars in private-sector research organizations and academic institutions. Since 1992, SCF data have been collected by the National Organization for Research at the University of Chicago (NORC). The most recent available SCF data were collected in 2001.[4] For the 2001 *Survey of Consumer Finances*, members of 4,449 families were interviewed.

Defining the Terms of the Analysis. In the Survey of Consumer Finances, each household is divided into a "primary economic unit" (PEU) and everyone else in the household. The PEU in the Survey of Consumer Finances is the economically dominant single individual or couple in the household together with everyone else who is economically interdependent with them. In the tables that follow, the primary economic unit is called a family, even if it is a single individual. The tables present information on the retirement savings of families in which the family head or spouse was an employed adult between 21 and 64 years old.[5] According to the SCF there were 75.6 million families in which the family head or spouse was an employed adult between 21 and 64 years old in 2001. We restricted the analysis to families with a worker between the ages of 21 and 64 because younger workers have low rates of participation in retirement plans and are generally more concerned with establishing themselves in their careers than in accumulating assets for retirement. Workers age 65 or older are more likely than those under 65 to have retired from their career jobs and to be working part-time. The tables do not include the portion of retirement wealth that is represented by the present value of benefits accrued under Social

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[3] 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*.

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

[5] The term "family head" is used here for convenience, not to indicate status in the family.

Security and employer-sponsored defined-benefit pension plans. They include only the balances accumulated in individual retirement accounts (IRAs), Keogh plans for the self-employed, and employer-sponsored defined contribution plans, such as those authorized under sections 401(k), 403(b), and 457 of the tax code.

The following tables show the retirement savings of American families in which there was at least one worker between the ages of 21 and 64. The tables show the number of families that owned at least one retirement account as well as the average balances held in those accounts.

Summary of Retirement Plan Ownership. According to the SCF, there were 75.6 million families with an employed head or spouse between the ages of 21 and 64 in 2001. An estimated 47.8 million of these families (63.2%) owned one or more retirement accounts, including IRAs, Keogh accounts, 401(k) accounts and other employer-sponsored savings or thrift plans. (See **Table 2**). According to the SCF, an estimated 36.4 million families (48.1%) owned a 401(k)-type plan, 25.2 million (33.4%) owned an IRA or Keogh plan, and 13.8 million (18.3%) owned both an IRA/Keogh and a 401(k) plan. An estimated 27.8 million families with at least one worker between the ages of 21 and 64 (36.8%) did not own a retirement savings account of any kind, according to the Survey of Consumer Finances.

The data displayed in **Table 2** also summarize the average account balances among families that owned at least one retirement account. According to the SCF, among the 47.8 million families who owned a retirement savings account of any kind in 2001, the *mean* value of all such accounts was $95,943. The *median* value of all the families' accounts was $27,000. (Half of the families owned accounts totaling more than $27,000 and half owned accounts with a total value of less than $27,000.) The mean balance of 401(k)-type plans was reported as $68,320, and the median balance was $20,000. The mean balance of IRA/Keogh plans was reported as $83,240 on the SCF, and the median account balance was reported as $21,000.

Means and Medians

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.[6] 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.

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[6] A *survey weight* has been assigned to each family. The weights sum to the number families in the U.S. The means in the tables are the *weighted* means for each observation.

Table 2. Retirement Account Balances in 2001[a]

(in thousands)

	Number of Families	Percent of Families	Mean Value of Accounts	Median Value of Accounts
All families	75,613	100%		
Owned either an IRA/Keogh or a 401(k)-type plan	47,806	63.2		
All retirement accounts in family, all types			$95,943	$27,000
Owned a 401(k) or other type of thrift plan[b]	36,385	48.1		
All 401(k)-type accounts in family			68,320	20,000
All retirement accounts in family, all types			97,298	29,000
Owned an IRA or Keogh plan[c]	25,238	33.4		
All IRA/Keogh accounts in family			83,240	21,000
All retirement accounts in family			144,880	49,000
Owned both a 401(k) and an IRA/Keogh plan	13,817	18.3		
All 401(k)-type accounts in family			112,589	35,000
All IRA/Keogh accounts in family			76,307	24,000
All retirement accounts in family, all types			188,896	83,000
Owned neither an IRA/Keogh nor a 401(k)-type plan	27,807	36.8		

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

Notes: Includes single persons as well as families.
a. Families with an employed head or spouse age 21-64.
b. May also have owned an IRA or Keogh plan.
c. May also have owned a 401(k)-type plan.

Retirement Account Balances by Age of Family Head. A worker's age is an important consideration when evaluating the adequacy of his or her retirement wealth. The more time that a worker has until reaching retirement age, the greater will be the opportunity for additional contributions and investment earnings to build up the account balance. **Table 3** shows average retirement account balances, categorized by the age of the family head. The SCF indicates that 10.9 million families headed by a worker 21 to 34 years old (51.2% of families in this age group) owned one or more retirement accounts. The SCF data show mean and median account balances for these families of $19,123 and $7,000, respectively. Even among workers 55 to 64 years old, median retirement account balances were not very large. The median value of the retirement accounts held by families headed by a worker between the ages of 55 and 64 was $55,000 in 2001, according to the SCF. For a 65-year-old retiring in December 2003, $55,000 would be sufficient to purchase a level, single-life annuity that would pay $408 per month, based on the federal Thrift Savings Plan's current annuity interest rate of 4.375%.[7] A balance of $55,000 would be sufficient to purchase a joint-and-survivor annuity of $394 per month at age 65 at an interest rate of 4.375%.

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[7] Example is based on 50% annuity for a spouse 3 years younger than the annuitant.

Of course, the median account values reflect only balances of families that own a retirement account. The data collected by the SCF show a median account balance of $55,000 among families headed by a worker 55 to 64 years old. This means that half of all retirement account owners in this age category had total account balances of more than $55,000 and half had account balances of less than $55,000. However, when we take into account those who had no retirement accounts, and thus had total retirement account balances of zero, 7.8 million families headed by a worker 55 to 64 years old — 65.1% of families in this age group — had total retirement account balances of $55,000 or less in 2001.

Table 3. Retirement Account Balances by Age in 2001[a]

(in thousands)

Age of Family Head	Number Of Families	Families With Accounts	Percent with Accounts	Mean Value, All Accounts[b]	Median Value, All Accounts[b]
21 to 34 years old					
Value of all retirement accounts, all types	21,372	10,944	51.2%	$19,123	$7,000
35 to 44					
Value of all retirement accounts, all types	22,439	14,815	66.0	65,583	29,000
45 to 54					
Value of all retirement accounts, all types	19,759	13,643	69.0	132,741	48,000
55 or older					
Value of all retirement accounts, all types	12,043	8,403	69.8	189,779	55,000
All households					
Value of all retirement accounts, all types	75,613	47,806	63.2	95,943	27,000

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

Notes: Includes single persons as well as families. Includes defined contribution plan account balances from both current and past employment.

a. Families with an employed head or spouse age 21-64.

b. Means and medians reflect balances in all types of plans.

Retirement Plan Ownership and Demographic Traits. **Table 4** and **Table 5** show the rate of ownership and average account balances for individual retirement accounts (IRAs) and Keogh plans in 2001 as reported on the *Survey of Consumer Finances*. The rates of ownership and average account balances are shown in these tables in relation to the demographic characteristics of the family head or householder. In summary:

- IRA ownership and average account balances rose steadily with family income;
- Families headed by a white worker were twice as like as those in which the family head was a non-white worker to own an IRA;

- Married couples were almost twice as likely as unmarried individuals to have owned an IRA, in part because these data measure retirement plan ownership at the family level, and many married couples include two workers;

- IRA ownership rose with education, and college graduates were much more likely than those who had not graduated from college to own an IRA;

- homeowners were about three times as likely as renters to own an IRA;

- IRA ownership differed little between full-time workers and part-time workers;

- IRA ownership among employees of small businesses differed only a little from that of workers at large businesses;

- Union membership appears to have little relationship to IRA ownership, and

- Families where one or more workers participated in a 401(k) were more likely to own an IRA than families in which no one participated in an 401(k) plan.

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 in each age group, 401(k) ownership dropped in the 55-or-older category. This can likely be attributed in part to the large number of people who roll over 401(k) account balances into an IRA when they retire. While 401(k) ownership was greater among families headed by a white worker than a non-white worker, 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. Finally, while IRA ownership differed little among employees of small firms and large firms, 401(k) ownership was higher among workers at large businesses than among workers at small businesses by a ratio of about 2:1.

Table 4. Ownership of Individual Retirement Accounts/Keogh Accounts in 2001[a]

(in thousands)

Family head characteristics:	Number of Families with One or More Workers	Percent that own an IRA or Keogh Plan[b]	Mean Balance in All Ira/keogh Plans[b]	Median balance in All IRA/Keogh Plans[b]
Age				
Under 35	21,372	20.3%	$ 15,081	$ 7,000
35 to 44	22,440	30.9	43,277	15,000
45 to 54	19,759	41.0	102,943	40,000
55 or older	12,043	48.6	153,961	45,000
Race				
White, non-Hispanic	56,993	38.5	90,926	25,000
Black, Hispanic, or Asian	18,620	17.7	31,926	7,500
Sex and Marital Status				
Married	43,791	42.1	98,521	28,000
Single Male	16,182	21.3	47,481	12,000
Single Female	15,639	21.5	36,172	7,500
Education				
Did not graduate High School	8,938	12.3	24,558	10,000
High School graduate	22,404	22.2	53,718	15,000
Some college	18,776	27.0	50,145	14,000
College graduate	25,495	55.2	110,178	31,000
Family income in 2000				
Under $25,000	15,449	10.1	16,563	5,000
$25,000 to $49,999	22,391	23.3	30,486	10,000
$50,000 to $74,999	15,765	33.4	60,479	16,000
$75,000 or more	22,008	60.0	121,055	40,000
Own or rent home				
Own	50,887	42.2	93,538	27,000
Rent	24,726	15.3	24,640	7,000
Full time or part time worker				
Not currently working	3,276	32.4	165,397	43,000
Full time (35+ hours per week)	65,422	33.5	76,235	20,000
Part-time	6,914	32.3	113,121	40,000
Establishment size				
Not currently working	3,276	32.4	165,397	43,000
Under 20 employees	19,288	36.5	110,187	30,000
20 to 99 employees	11,135	31.9	57,069	16,500
100 to 499 employees	12,378	27.6	72,041	20,000
500 or more employees	29,536	34.4	68,915	16,000
Covered by Union contract?				
Not currently working	3,276	32.4	165,397	43,000
Union	13,539	29.9	50,490	10,000
Non-union	58,797	34.2	85,492	24,000
Have a 401(k) type plan?				
Yes	36,385	38.0	76,307	24,000
No	39,228	29.1	91,627	20,000
Total	**75,613**	**33.4%**	**$ 83,240**	**$ 21,000**

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

Notes: Includes single persons as well as families.
a. Families with an employed head or spouse age 21-64.
b. Percentage of families in which head or spouse participated in plan, by type of plan.

Table 5. Ownership of 401(k)-type Plans from Current or Past Job in 2001[a]

(in thousands)

Family Head Characteristics	Number of Families with One or More Workers	Percent That OwnOne or More DC Plans[b]	Mean Balance In All Such Plans	Median Balance in All Such Plans
Age				
Under 25	21,372	41.8%	$16,098	$ 6,000
35 to 44	22,440	54.5	54,920	24,000
45 to 54	19,759	51.4	96,271	30,000
55 or older	12,043	42.2	136,518	43,000
Race				
White, non-Hispanic	56,993	50.1	77,863	24,000
Black, Hispanic, or Asian	18,620	42.1	33,547	9,000
Sex and Marital Status				
Married	43,791	53.8	85,816	27,000
Single Male	16,182	43.0	40,537	10,000
Single Female	15,639	37.7	31,197	8,000
Education				
Did not graduate High School	8,938	25.9	32,038	6,000
High School graduate	22,404	43.6	33,838	12,000
Some college	18,776	47.3	49,564	16,000
College graduate	25,495	60.5	106,383	31,000
Family income in 2000				
Under $25,000	15,449	20.2	9,076	2,200
$25,000 to $49,999	22,391	40.3	21,795	7,800
$50,000 to $74,999	15,765	60.4	41,538	21,000
$75,000 or more	22,008	66.9	126,703	50,000
Own or rent home				
Own	50,887	55.8	81,542	27,000
Rent	24,726	32.3	21,244	4,650
Full time or part time worker				
Not currently working	3,276	31.5	64,670	25,000
Full time (35+ hours per week)	65,422	51.2	68,116	20,000
Part time	6,914	26.5	74,101	11,000
Establishment size				
Not currently working	3,276	31.5	64,670	25,000
Under 20 employees	19,288	26.2	95,334	18,000
20 to 99 employees	11,135	46.3	52,653	12,000
100 to 499 employees	12,378	55.9	54,909	16,000
500 or more employees	29,536	61.7	70,581	23,000
Covered by Union contract?				
Not currently working	3,276	31.5	64,670	25,000
Union	13,539	54.2	52,204	23,000
Non-union	58,797	47.7	72,673	18,000
Have an IRA or Keogh plan?				
Yes	25,238	54.7	112,589	35,000
No	50,375	44.8	41,217	11,000
Total	**75,613**	**48.1%**	**$68,320**	**$20,000**

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

Notes: Includes single persons as well as families.
a. Families with an employed head or spouse age 21-64.
b. Percentage of families in which head or spouse participated in plan, by type of plan.

Family Net Worth. Most families have forms of wealth other than retirement accounts on which they will be able to draw during retirement. More than 95% of workers in the United States are covered by Social Security, and about a quarter of families included a worker who participated in a defined-benefit pension plan in 2001.[8] In addition, many workers have assets that could be used to pay expenses during retirement. For example, the most valuable asset owned by most 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. "Net worth" is the difference between a family's assets and liabilities. The median net worth of all families in the U.S. in 2001, categorized by the age of the family head or householder, is shown in **Table 6**.

Table 6. Median Family Net Worth in 2001, by Age of Family Head

(All families)

Age of Family Head or Householder	Amount
Under 35 years old	$11,600
35 to 44	77,600
45 to 54	132,000
55 to 64	181,500
65 to 74	176,300
75 or older	151,400
All families	86,100

Source: *Federal Reserve Bulletin*, January 2003, vol. 89, no. 1.

The Survey of Income and Program Participation. The Bureau of the Census collects data on household assets and liabilities through its *Survey of Income and Program Participation* (SIPP). The households selected to participate in the SIPP are a nationally representative sample of the civilian, noninstitutionalized population of the United States. The SIPP is a *longitudinal* survey, meaning that it measures changes in the economic and demographic characteristics of individuals and households over time. Families who participate in the survey are interviewed once every 4 months over a period that ranges from 2½ years 4 years. At each interview, respondents are asked to provide information covering the 4 months since the previous interview. This 4-month span is called the "reference period" for the interview. While it was designed as a longitudinal survey, the SIPP also can be used to study characteristics of the population at a point in time (*cross-sectional analysis*) by looking at the data from a particular 4-month reference period.

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[8] See **Table 1**.

The SIPP is an important source of information about the demographic and economic status of United States residents. By collecting data on labor force participation, sources of income, and participation in federal and state programs, the SIPP provides a wealth of information about government programs and their effects on the economic situations of families and individuals. For example, the SIPP can be used to examine participation in means-tested programs (such as Temporary Aid to Needy Families, Food Stamps, and Medicaid) and in programs that are not means-tested (such as Social Security and Medicare). In addition to asking about amounts and sources of income, the SIPP collects information on asset ownership to provide a more complete picture of the total economic resources available to families and individuals. The SIPP data on household wealth and asset ownership presented in this report are the most recent available from the Bureau of the Census.

According to the Census Bureau, the main objective of SIPP is to provide accurate and comprehensive information about the income and program participation of individuals and households in the United States, and about the principal determinants of income and program participation. The large sample size of the SIPP allows it to be used to analyze the demographic and economic characteristics of various sub-populations of interest to policy makers. The initial four-month wave of the 1996 panel of the SIPP included almost 37,000 households. The twelfth wave of the 1996 panel of the SIPP — on which the analysis in this report is based — included more than 28,000 households. The SIPP collects detailed information on income from all sources, on taxes paid, and on participation in government transfer programs. More importantly for purpose of this report, the SIPP collects data on household assets and liabilities, including ownership of individual retirement accounts (IRAs) and Keogh accounts for the self-employed, and on participation in employer-sponsored retirement savings plans, such as those authorized under sections 401(k), 403(b), and 457 of the Internal Revenue Code.[9]

SIPP Data on Retirement Savings. The SIPP most recently collected data on household assets and liabilities in late 1999 and early 2000. In comparing the data from the SIPP with that collected on the Survey of Consumer Finances, it is important to note that the Census Bureau and the Federal Reserve Board define families differently. The Census Bureau defines a family as any two or more people related by birth, marriage, or adoption who live together. Households may contain more than one family, but all members of the household who are related by birth, marriage, or adoption are members of the same family. In the Survey of Consumer Finances, each household is divided into a "primary economic unit" (PEU) and everyone else in the household. The PEU is the economically dominant single individual or couple in the household. It is roughly equivalent to a family in the SIPP. Using these definitions of family — and treating single adults living alone as one-persons families — the SIPP and the SCF yield similar numbers of family units. According to the SIPP, there were 78 million families with an employed head or spouse between the ages of 21 and 64 in 2000, while according to the SCF there were 75.6 million such families in 2001.

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[9] [http://www.sipp.census.gov/sipp/intro.html]

Summary of Account Ownership. According to the SIPP, an estimated 38.1 million families headed by a worker 21 to 64 years old (48.9% of all such families) owned one or more retirement accounts, including IRAs, Keogh accounts, 401(k) accounts and other employer-sponsored savings or thrift plans in 2000. An estimated 29.9 million families (38.4%) owned a 401(k)-type plan, 18.0 million (23.1%) owned an IRA or Keogh plan (mostly IRAs), and 9.8 million (12.6%) owned both an IRA/Keogh and a 401(k)plan. An estimated 39.9 million families with at least one worker between the ages of 21 and 64 (51.1%) did not own a retirement savings account of any kind.[10] Among the 38.1 million families who owned a retirement savings account of *any kind* in 2000, the *mean* value of all such accounts was $60,510. For families with more than one account, this is the mean value of all accounts summed together. The *median* value of all the families' accounts was $24,000. (Half of the families owned accounts totaling more than $24,000 and half owned accounts with a total value of less than $24,000.) Mean retirement account balances reported on the SIPP were substantially lower than those reported on the SCF, but the median account balances on the two surveys differed by much less.

Table 7. Retirement Account Balances in 2000[a]

(in thousands)

	Number of Families	Percent of Families	Mean Value of Accounts	Median Value of Accounts
All families	77,984	100%		
Owned either an IRA/Keogh or a 401(k)-type plan	38,119	48.9		
All retirement accounts in family, all types			$60,510	$24,000
Owned a 401(k) or other type of thrift plan[b]	29,937	38.4		
All 401(k)-type accounts in family			47,949	20,000
All retirement accounts in family, all types			64,586	26,000
Owned an IRA or Keogh plan[c]	18,018	23.1		
All IRA/Keogh accounts in family			48,348	19,000
All retirement accounts in family			86,871	41,500
Owned both a 401(k) and an IRA/Keogh plan	9,837	12.6		
All 401(k)-type accounts in family			70,565	35,000
All IRA/Keogh accounts in family			50,635	20,000
All retirement accounts in family, all types			121,200	75,500
Owned neither an IRA/Keogh nor a 401(k)-type plan	39,865	51.1		

Source: CRS analysis of the Census Bureau's *Survey of Income and Program Participation*.

Notes: Includes single persons as well as families.
a. Families with an employed head or spouse 21 to 64 years old.
b. May also have owned an IRA or Keogh plan.
c. May also have owned a 401(k)-type plan.

[10] These figures also indicate that 20.1 million families had only a 401(k)-type plan: (29.9-9.8=20.1). An estimated 8.2 million families had only an IRA: (18.0-9.8=8.2).

Account Balances, by Age . The SIPP and the CPS show very similar mean and median account balances among families headed by someone between the ages of 21 and 34, although the SIPP reports fewer families owning retirement accounts in this age group. According to the SIPP, 8.4 million families — 37.3% of families headed by a person 21 to 34 years old — owned at least one retirement account. The SIPP reports mean and median account balances of $19,695 and $7,500, respectively. The data collected on the SIPP show a median account balance of $48,000 among families headed by a worker 55 to 64 years old. However, when we take into account those who had no retirement accounts — and thus had retirement account balances of zero — 7.9 million families headed by a worker 55 to 64 years old — 71.4% of families in this age group — had total retirement account balances of $48,000 or less, according to the SIPP.

Table 8. Retirement Account Balances by Age in 2000[a]

(in thousands)

Age of Family Head	Number Of Families	Families That Owned Accounts	Percent with One or More Accounts	Mean Value, All Accounts[b]	Median Value, All Accounts[b]
21 to 34 years old					
Value of all retirement accounts, all types	22,570	8,423	37.3%	$19,695	$ 7,500
35 to 44					
Value of all retirement accounts, all types	24,264	12,276	50.6	54,498	25,000
45 to 54					
Value of all retirement accounts, all types	20,049	11,074	55.2	78,567	37,875
55 or older					
Value of all retirement accounts, all types	11,102	6,346	57.2	94,807	48,000
All households					
Value of all retirement accounts, all types	77,984	38,119	48.9	60,511	24,000

Source: CRS analysis of the Census Bureau's *Survey of Income and Program Participation*.

Notes: Includes single persons as well as families. Includes defined contribution plan account balances from both current and past employment.

a. Families with an employed head or spouse age 21-64.

b. Means and medians reflect balances in all types of plans.

Table A-3 and Table A-4 show the rate of ownership and average account balances for individual retirement accounts (IRAs) and Keogh plans as reported on the *Survey of Income and Program Participation*. The rates of ownership and average account balances are shown in these tables in relation to the demographic characteristics of the family head or householder. As was noted earlier, among all families that included a worker between the ages of 21 and 64, rates of IRA ownership and average account balances were higher on the *Survey of Consumer Finances* than on the SIPP. Nevertheless, the relationship between IRA ownership and demographic characteristics are broadly similar in the two surveys.

Table 9. Ownership of Individual Retirement Accounts/Keogh Accounts in 2000[a]

(in thousands)

Family Head Characteristics	Number of Families with One or More Workers	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	22,570	12.0%	$ 14,529	$ 5,000
35 to 44	24,264	21.2	39,324	15,000
45 to 54	20,049	29.5	55,661	23,000
55 or older	11,102	38.3	70,600	35,000
Race				
White, non-Hispanic	65,800	25.4	49,878	20,000
Black, Hispanic, or Asian	12,184	11.0	29,233	8,200
Sex and Marital Status				
Married	44,713	28.7	54,506	22,541
Single Male	14,950	15.6	36,693	13,000
Single Female	18,321	15.5	30,103	10,000
Education				
Did not graduate High School	9,430	4.9	31,205	12,221
High School graduate	22,415	14.7	38,142	14,900
Some college	23,943	21.4	38,888	13,000
College graduate	22,196	41.1	58,239	25,000
Family income (annualized)				
Under $25,000	18,647	8.9	28,136	8,892
$25,000 to $49,999	25,996	16.6	35,067	12,000
$50,000 to $74,999	16,499	28.0	38,457	15,000
$75,000 or more	16,843	44.0	66,786	30,000
Own or rent home				
Own	51,412	29.9	52,012	20,600
Rent	26,572	9.9	26,921	8,000
Full time or part time worker				
Not currently working	4,994	27.2	65,998	29,735
Full time (35+ hours per week)	54,324	21.7	45,137	17,000
Part-time	18,667	26.0	51,207	20,000
Establishment size				
Not reported	12,940	31.5	61,369	27,000
Under 25 employees	18,485	21.4	43,228	15,000
25 to 99 employees	12,726	19.1	43,374	18,000
100 or more employees	22,193	21.6	48,297	16,000
Public sector employees	11,641	23.9	40,956	17,000
Covered by Union contract?				
Yes	10,205	21.3	38,061	16,000
No	67,780	23.4	49,762	20,000
Have a 401(k)-type plan?				
Yes	29,937	32.9	50,635	20,000
No	48,047	17.0	45,598	17,000
Total	**77,984**	**23.1%**	**$ 48,348**	**$ 19,000**

Source: CRS analysis of the Census Bureau's *Survey of Income and Program Participation*.

Notes: Includes single persons as well as families.
a. Families with an employed head or spouse age 21-64.
b. Percentage of families in which head or spouse participates in plan, by type of plan.

Table 10. Ownership of 401(k)-type Plans from Current or Past Job in 2000[a]

(in thousands)

Family Head Characteristics	Number of Families with One Or More Workers	Percent That Own One or More DC Plans[b]	Mean Balance In All Such Plans	Median Balance in All Such Plans
Age				
Under 25	22,570	31.1%	$18,065	$ 7,000
35 to 44	24,264	42.1	45,643	21,000
45 to 54	20,049	43.1	62,676	30,869
55 or older	11,102	36.7	73,933	37,000
Race				
White, non-Hispanic	65,800	40.1	50,162	20,000
Black, Hispanic, or Asian	12,184	28.9	31,324	12,000
Sex and Marital Status				
Married	44,713	44.9	56,406	25,000
Single Male	14,950	30.9	32,537	14,000
Single Female	18,321	28.7	29,241	10,000
Education				
Did not graduate High School	9,430	16.0	23,748	8,900
High School graduate	22,415	31.3	34,265	15,000
Some college	23,943	41.1	39,610	16,000
College graduate	22,196	52.1	66,542	32,000
Family income (annualized)				
Under $25,000	18,647	12.8	20,585	5,000
$25,000 to $49,999	25,996	33.6	25,404	10,000
$50,000 to $74,999	16,499	51.2	41,040	19,602
$75,000 or more	16,843	61.5	78,878	45,000
Own or rent home				
Own	51,412	45.6	54,871	25,000
Rent	26,572	24.4	22,888	8,000
Full time or part time worker				
Not currently working	4,994	34.5	67,204	30,000
Full time (35+ hours per week)	54,324	39.8	45,030	19,000
Part time	18,667	35.2	52,511	20,000
Establishment size				
Not reported	12,940	26.8	64,619	30,000
Under 25 employees	18,485	27.7	41,555	15,000
25 to 99 employees	12,726	39.9	38,075	15,000
100 or more employees	22,193	52.2	49,387	20,000
Public sector employee	11,641	40.2	49,720	23,000
Covered by Union contract?				
Yes	10,205	42.3	46,367	23,260
No	67,780	37.8	48,215	18,500
Have an IRA or Keogh plan?				
Yes	18,018	54.6	70,565	35,000
No	59,966	33.5	36,881	15,000
Total	**77,984**	**38.4%**	**$47,949**	**$20,000**

Source: CRS analysis of the Census Bureau's *Survey of Income and Program Participation*.

Notes: Includes single persons as well as families.
a. Families with an employed head or spouse age 21-64.
b. Percentage of families in which head or spouse participates in plan, by type of plan.

Family Net Worth. The net worth of households is the difference between their assets and liabilities. As with the average balances in retirement accounts that are the principal focus of this report, family net worth as measured by the SIPP is lower than the family net worth recorded on the SCF.[11]

Table 11. Median Family Net Worth in 2000, by Age of Family Head
(All families)

Age of family head	Amount
Under 35 years old	$ 7,200
35 to 44	44,300
45 to 54	83,200
55 to 64	112,000
65 to 74	117,000
75 or older	100,100
All families	55,000

Source: U.S. Census Bureau, *Current Population Reports*, P70-88.

Policy Issues

Are Americans saving adequately for retirement? The median retirement account balances reported by respondents to the Survey of Consumer Finances would not by themselves provide an income in retirement that most people in the United States would find to be adequate. The median retirement account balance reported on the SCF among families headed by a worker 55 to 64 years old who owned one or more retirement accounts was just $55,000 in 2001. This amount would provide a monthly annuity of $408 per month to a person retiring at age 65 if converted to an annuity. Moreover, as the data in preceding tables show, an estimated 28 million families headed by a worker under age 65 had *no* retirement savings accounts in 2001.

Although most workers in the United States — about 96% — are covered by Social Security, only about 25% of families include a worker who participates in a defined-benefit pension plan. For workers who do not have coverage through a

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[11] On the public use file of the SIPP, total household wealth is defined as the sum value for all adults in the household of home equity, net equity in vehicles, business equity, interest-earning assets held in banking institutions, interest earning assets held in other institutions, equity in stocks and mutual fund shares, equity in real estate other than the home, equity in other assets, and equity in IRA and Keogh accounts. For this table of net worth, the Census Bureau has added the sum value for all adults in the household of all 401(k) plans and other thrift plans. This is consistent with the method used by the Federal Reserve Board, which includes the value of such accounts in the estimates of household wealth that it derives from the *Survey of Consumer Finances*. Household debt is the sum of debts owed by all adults in the household, including home mortgages, home equity loans, other real estate debts, automobile loans, installment loans, credit card debt, and other household debt.

defined-benefit pension, personal saving is an essential element of preparing for retirement. Whether workers save by putting money aside in an account that is earmarked specifically 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 at 28 million families headed by a worker under age 65 have *no* retirement savings accounts indicates that, at the very least, many people are not using the most tax-efficient means of setting aside funds for retirement.

While the widespread adoption of tax-favored retirement savings plans over the past 25 years can be viewed as a substantial public policy success, greater personal saving will be needed for the current generation of workers to maintain their desired standard of living in retirement. The uncertain future of Social Security and the declining prevalence of traditional defined-benefit pensions that provide a guaranteed lifelong annuity have put much of the responsibility for preparing for retirement on the shoulders of the worker. The low rate of personal saving in the United States, and the lack of any retirement savings accounts among millions of American workers, 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.

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Appendix: Why Do the Survey Results Differ?

The tables in this report summarize the rate of retirement plan ownership, and the mean and median balances of retirement accounts, as reported on the Census Bureau's *Survey of Income and Program Participation* (SIPP) and the Federal Reserve Board' *Survey of Consumer Finances* (SCF). The survey results differ substantially with respect to two of these variables: the rate of retirement plan ownership and the *mean* value of families' retirement account balances. They differ much less with respect to the *median* value of families' retirement account balances. The results of a survey depend mainly on four factors, the most important of which is *why* the survey is being conducted. The reasons for conducting the survey critically influence *what* questions are asked, *who* is asked, and to a lesser extent, *when* they are asked. The SIPP and the SCF differ with respect to all four factors.

Why Was the Survey Conducted?

The Federal Reserve Board conducts the Survey of Consumer Finances "to provide detailed information on the finances of U.S. families."[12] The SCF questionnaire has been developed over the years to elicit responses that will provide the most complete information on household finances that can be obtained without subjecting the respondents to an interview of such length that their willingness to participate in the survey is adversely affected. The method of selecting households to participate in the survey has been developed to take into account the skewed distribution of wealth in the United States. (A relatively small percentage of households own a substantial percentage of total household wealth.) The sample of households is selected to ensure that a sufficient number of high-income families are included so that even relatively infrequently held assets are represented in the survey.

In contrast to the SCF, the SIPP is a multi-purpose survey that must satisfy the needs of the many government agencies that co-sponsor it and that make use of the data the SIPP collects. According to the Census Bureau, the main objective of SIPP is "to provide accurate and comprehensive information about the income and program participation of individuals and households in the United States, and about the principal determinants of income and program participation. SIPP data allow the government to evaluate the effectiveness of federal, state, and local programs."[13] The portions of the survey that focus on collecting information on household assets and liabilities are shorter and the questions less detailed than on the SCF. The method of selecting households to participate in the survey takes into account the higher rate of participation in income-support programs among low-income families.

What Questions Were Asked?

The SIPP contains a "core" set of questions that focus on income and employment. These are asked during each of the six to twelve interviews in which a household participates over the 24- to 48-month life of each panel of the survey.

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[12] http://www.federalreserve.gov/pubs/oss/oss2/about.html

[13] http://www.sipp.census.gov/sipp/intro.html

Among the core set of questions are two that ask whether anyone in the household owned an IRA or Keogh plan during the previous four months and whether anyone in the household owned a 401(k) plan or other thrift plan during the same period. In addition to the core questions, the SIPP includes in each wave one or more "topical modules" that ask detailed questions on topics of particular interest to policymakers and analysts. A topical module on assets, liabilities, and eligibility for means-tested government programs is typically administered three times over the course of each panel of the SIPP. In the topical module, respondents who answered "yes" to either of the questions about IRA/Keogh ownership or 401(k) ownership in the core are asked up to six follow-up questions:

- As of the last day of the reference period did ... have any Individual Retirement Accounts — any IRAs — in ...'s own name?

- As of the last day of the reference period, what was the total balance or market value (including interest earned) of the IRA accounts in ...'s own name?

- As of the last day of the reference period, did ... have a Keogh account in ...'s own name?

- As of the last day of the reference period, what was the total balance or market value of assets in ...'s Keogh account(s)?

- As of the last day of the reference period, did ... have any 401K or thrift plans in ...'s own name?

- As of the last day of the reference period, what was the total balance or market value (including interest earned) of any 401K or thrift plans held in ...'s own name?[14]

The SCF asks a more detailed series of questions about ownership of, and account balances in, IRAs, Keogh plans, 401(k) plans, and other employer-sponsored thrift plans. One advantage of this more extensive series of questions is that they provide more opportunities for respondents to introduce information about plans that might have been overlooked or forgotten during the first few questions. Furthermore, because the SCF is designed primarily to collect information about family finances, respondents are likely to be more focused on these aspects of their families and more prepared with papers and documents that would help them provide complete information. Interviewers also are able to focus their efforts at maximizing participant cooperation on a single topic. In contrast, because the SIPP interview must move from one subject area to another to meet its more diverse objectives, respondents are more likely to overlook or omit some information about their assets and liabilities when answering those questions.

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[14] The corresponding variables on the SIPP data file are EALR, TALRB, EALK, TALKB, EALT, and TALTB. These are "person-level" variables, but they can easily be summed over all members of a family or household.

Who Was Asked the Questions?

The SIPP and the SCF differ in sample size and, more importantly, in sampling methodology. The 12th wave of the 1996 panel of the SIPP, during which the data analyzed in this report were collected, was conducted among approximately 28,000 households. The analysis in this report was based on the records of 20,448 respondents representing an estimated 78 million families in which the family head or spouse was employed and between the ages of 21 and 64. For the 2001 *Survey of Consumer Finances*, members of 4,449 families were interviewed. The analysis in this report was based on the records of 3,230 respondents representing an estimated 75.6 million families in which the family head or spouse was employed and between the ages of 21 and 64.

Both the SIPP and the SCF are conducted among samples of households that — when used in conjunction with the appropriate *sample weights* — are intended to be representative of the civilian, non-institutional resident population of the United States.[15] The survey results must be used with the appropriate sample weights because neither survey employs simple random sampling of the population. A *simple random sample* consists of a number (*n*) of individuals or households chosen from the population in such a way that every set of *n* individuals or households has an equal chance of being selected for the sample. Both the SIPP and SCF employ complex sample designs that are intended to allow detailed analysis of sub-populations that are of particular interest to policymakers. In the case of the SIPP, the sub-populations of particular interest are low-income households and households headed by African-American and Hispanic householders. In the SCF, the sub-population of interest is households that hold specific forms of wealth — such as individual corporate stocks, corporate bonds, and municipal bonds — that are owned by a relatively small percentage of all U.S. households. Consequently, each survey over-samples some households. The SIPP over-samples households in census tracts with above-average rates of poverty and the SCF over-samples high-income households using data derived from tax returns.

According to the documentation of the *Survey of Consumer Finances,*

> The SCF combines two techniques for random sampling. First, a standard multi-stage area probability sample (a geographically based random sample) is selected to provide good coverage of characteristics, such as home ownership, that are broadly distributed in the population. Second, a supplemental sample is selected to disproportionately include wealthy families, who hold a relatively large share of such thinly held assets as noncorporate businesses and tax-exempt bonds. Called the list sample, this group is drawn from a list of statistical records derived from tax returns. Of the 4,449 interviews completed for the 2001 SCF, 2,917 were from the area probability sample, and 1,532 were from the list sample. The 2001 survey represents 106.5 million families.[16]

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15 Thus, both surveys exclude uniformed military personnel (unless living off-base in civilian housing), residents of nursing homes and prisons, and Americans living abroad.

16 *Federal Reserve Bulletin*, January 2003 (89, 1), page 30.

The Census Bureau employs a two-stage sample design to select the SIPP sample. First, *primary sampling units* (PSUs) are selected from a list of counties and cities. Counties are either grouped with adjacent counties to form PSUs or a single county may constitute a PSU by itself. Second, specific addresses are selected within the PSUs for inclusion in the survey sample.[17] In the 1996 panel of the SIPP, the Census Bureau over-sampled the low-income population, based on 1990 decennial census information. As described by the Census Bureau:

> Housing units within each PSU were split into high- and low-poverty strata. If the housing unit received the Census long form that included income questions, the unit's poverty status was determined directly; for other housing units, poverty status was assumed on the basis of responses to Census short-form items predictive of poverty rates. The Census Bureau then sampled the low-income stratum at 1.66 times the rate of the high-income stratum in each PSU. Compared with the number of cases produced without over-sampling, this over-sampling produced an 18 percent increase in the number of cases in and near poverty at Wave 1. Even greater gains occurred in some subgroups, such as blacks and Hispanics in poverty, with a gain in the number of sample cases as high as 24 percent. The increases in effective sample sizes were somewhat smaller after allowance was made for the increased variance associated with differential weighting. Also, the sample sizes for the higher income and higher age groups were reduced.[18]

When were the questions asked?

The reference periods for the SIPP and SCF data presented in this report differ by a about a year and a half, on average. The SIPP questions on retirement assets were asked between December 1999 and March 2000, and they reflect account balances at the end of November 1999 through the end of February 2000, depending on when each particular household was interviewed. The SCF data were collected between May and December 2001. It's uncertain how much this difference in data collection periods contributed to the difference in survey results between the SIPP and the SCF. Other things being equal (which they were not), new contributions would have increased average account balances from 2000 to 2001. The performance of financial markets also affects account balances. The major stock indices fell in 2000 and 2001, but bond funds performed well.[19] About all that can be said with some measure of confidence is that if equity markets had risen from 2000 to 2001, the difference in average account balances between the 2000 SIPP and the 2001 SCF would have been greater. However, the roughly 1.5 year difference in the dates of data collection between the two surveys probably is not the most important factor contributing to the difference in rates of ownership and average account balances between the two surveys.

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[17] For more information, see [http://www.sipp.census.gov/sipp/selecting.html].

[18] For more information, see [http://www.sipp.census.gov/sipp/oversample.html].

[19] The *Standard & Poor's 500* index fell by 9.1% in 2000 and 11.9% in 2001. The *Lehman Brothers U.S. Aggregate Bond Index* gained 11.7% in 2000 and 8.6% in 2001. The average rate of return on outstanding long-term Treasury Bonds was 6.4% in 2000 and 5.4% in 2001,

In summary, the SIPP and the SCF differ in their main purpose. The SIPP is intended to collect information on a much wider range of topics than the SCF. Consequently, the surveys differ with respect to the number of questions asked about retirement assets, with the questions on the SCF being both more numerous and more detailed than those on the SIPP. Because the main focus of the SCF interview is family assets and liabilities, and because the questions it asks are more numerous and detailed, the data on assets and liabilities from the SCF are likely to be more representative of the full population than the asset and liability data from the SIPP.

The SIPP and the SCF also differ with respect to sample size and the sub-populations that they over-sample. The greater sample size of the SIPP allows more detailed analysis of certain sub-populations with above-average rates of poverty, such as female-headed households and or households headed by African-Americans. In general, the standard error of an estimate falls as the sample size increases. (Think, for example, of the "margin of error" that is reported along with the results of most polls. The larger the number of people in the poll, the smaller is the margin of error.) The difference in sample size, however, does not adequately explain the lower rates of ownership of retirement plans and the lower mean balances of those accounts as reported on the SIPP. If, for example, exactly the same survey were conducted among two random samples of the population that differed only in that one sample was significantly larger than the other, the survey results should be centered around the same mean, with the difference attributable mainly to the "sampling error" inherent in selecting any sample from a population.

While the difference in sample size between the SIPP and the SCF is not likely to have contributed significantly to the different results obtained in the two surveys, the specific sub-populations selected for over-sampling may have contributed to these differences. Survey designers take account of the effect of over-sampling by assigning an appropriate survey weight to each observation. The weighted number of observations is matched to a set of control totals — such as the number of people with certain characteristics that were counted in a recent census of the population. It is possible, however, that even if the weighted number of observations matches the control totals for a population along a range of characteristics such as age, race, and sex, that the weights may not fully capture differences between the sample and the population with respect to some other traits — such as ownership of retirement assets, for example. We merely note here that the SCF — which over-samples *high income* households — shows significantly higher rates of account ownership and higher mean balances than does the SIPP — which over-samples *low-income* households.[20]

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[20] As can be seen by comparing the distribution of families by annual income in Tables 4 and 5 and Tables A-3 and A-4, the SIPP data indicate that 23.9% of families with a working head or spouse between the ages of 21 and 64 had annual incomes under $25,000 in the year preceding the survey, and 21.6% had incomes of $75,000 or more. In contrast, the SCF data indicate that only 20.4% of families had incomes under $25,000 in the year preceding the survey while 29.1% of families had incomes of $75,000 or more. Some — perhaps most — of this difference may be due to under-reporting of income on the SIPP, but we cannot fully exclude the possibility that some of the difference may be due to the over-sampling of poor households on the SIPP and/or the over-sampling of high-income households on the SCF.

Researchers who have compared the asset values reported on the SIPP with aggregate data from the National Income and Product Accounts have found that the values of financial assets are under-reported on the SIPP. In part because it more closely matches these national aggregate totals, the SCF is considered by many economists to be more accurate than the SIPP in representing the assets owned by American families. The asset data collected on the SIPP, however, are extremely useful in public policy analysis, both because the large sample size allows analysis of sub-populations at high risk of needing assistance through government income support programs, and because the SIPP is a rich source of information on economic, demographic, and social characteristics that are not recorded on the SCF or other surveys.