

PARTICIPATION AND CONTRIBUTIONS IN TAX-DEFERRED RETIREMENT ACCOUNTS: EVIDENCE FROM SOCIAL SECURITY RECORDS

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Due to the shift in recent decades from defined benefit to defined contribution plans, the income available to workers in retirement will increasingly depend on assets accumulated in tax-deferred retirement accounts. Different birth cohorts of workers, however, may have been affected differently by this change in the pension environment. More recent cohorts, who have spent more of their working lives covered under defined contribution plans, will have had more time to contribute to plans and thus are likely to have accumulated larger account balances at a given age compared to earlier cohorts.

We use Social Security W-2 earnings records linked to survey information from the Health and Retirement Study (HRS) to examine the participation in tax-deferred accounts of three birth cohorts born between 1931 and 1953. We use this information to determine whether recent cohorts were more likely to contribute to plans, and to make larger contributions to their plans, at the same stage of their life cycle than the earliest cohort. We address a number of questions related to participation in tax-deferred retirement plans. Did the three HRS cohorts (born 1936–41, 1942–47, and 1948–53) differ with respect to their participation and contributions in 1991, 1997, and 2003 when they were of the same ages (50–55)? What trends regarding participation and contributions do we observe over time for each of these cohorts? What are the trends in participation and contributions by age in a given year and by cohort as each cohort ages? Finally, do we observe different patterns of participation by earnings levels?

We find that participation in tax-deferred retirement plans increased substantially in all cohorts from 1984 to 2003. Respondents in the War Babies cohort (born 1942–47) were more likely to contribute to a tax-deferred plan than respondents of the same ages in the original HRS cohort (born 1931–41). However, the participation rate of the Early Baby Boomer cohort (born 1948–53) was lower than that of the War Babies cohort, which may reflect their relatively less favorable earnings experience throughout their working lives. Throughout the period of our analysis, the overall participation rate increased, but it remained unchanged at below 20 percent for respondents in the lowest two earning quartiles. Furthermore, median annual contributions of those in the lowest three quartiles remained at \$2,000 or less. In contrast, the participation rate of those in the highest quartile increased from about 20 percent in 1984 to 60 percent in 2003, and the median annual contribution increased from about \$2,000 to \$6,000. These findings suggest that respondents in the highest earnings quartile benefited most from the increased availability of employer provided tax-deferred plans.

Our findings also reveal that the pattern of participation by age changed over this period. In the early years, participation rates in these plans initially increased with age but then remained constant through respondents' late

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fifties. In more recent years, participation rates initially increase with age but then decline sharply in respondents' late fifties. Median contribution rates increased with age from approximately four percent of earnings among respondents in their early forties to about seven percent among respondents in their early sixties. At the same ages, respondents in 2003 were more likely to contribute to tax-deferred plans than in 1984 or 1991.

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