Treasury Inspector General for Tax Administration
Office of Audit

STATISTICAL TRENDS IN RETIREMENT PLANS

Issued on August 9, 2010

Highlights

Highlights of Report Number: 2010-10-097 to the Internal Revenue Service Commissioner for the Tax Exempt and Government Entities Division.

IMPACT ON TAXPAYERS

American workers face a number of risks in both accumulating and preserving retirement benefits. While the number of individuals participating in and the amount invested in employer-sponsored retirement plans has increased substantially over the last 30 years, retirees may not have enough income from retirement plans alone to cover their financial needs during retirement. More individuals are also withdrawing retirement savings before retirement. With longer life expectancy, both taxpayers' investment decisions (including retirement plan investments) and changes in the economy will continue to play important roles in ensuring a financially secure retirement.

WHY TIGTA DID THE AUDIT

The overall objective of this review was to identify retirement plan trends based on a wide range of statistical indicators. The data cover the vast majority of employer-sponsored retirement plans, but may not include some retirement plans for churches, government agencies, and some smaller employers. This audit was conducted as part of the TIGTA Fiscal Year 2010 Annual Audit Plan and addresses the major management challenge of Tax Compliance Initiatives.

WHAT TIGTA FOUND

From Calendar Years 1977 to 2007, the number of options available for workers to save for retirement through employer-sponsored and individual retirement plans steadily increased. In addition, while there is no conclusive data to show the exact number of American workers who are saving for retirement, it is clear that a higher percentage of American workers are participating in employer-sponsored retirement plans. Participation has doubled in the last three decades and has significantly outpaced population growth among working age Americans. For example, from July 1977 to July 2007, the working age population (i.e., people between the age of 18 and 64 years) grew 44.8 percent; however, employer-sponsored retirement plan participation increased 102.1 percent between Calendar Years 1977 and 2007. Also, the type of retirement plans being offered has changed drastically from those where the benefits are based on earnings and years of service to plans where benefits are based on employee contributions, any employer contributions, and investment earnings and declines.

Between Calendar Years 1977 and 2007, the value of retirement plan assets grew substantially. This is good news, as the increased value of plan assets generally equates to additional income upon retirement. However, it is also clear that many retirees will continue to rely on Social Security and other forms of income for retirement and may run the risk of outliving their retirement assets. In addition, more individuals are withdrawing retirement savings before retirement, which reduces the amount of income available for future retirement.

While this report provides some positive trends and some concerning trends, much of what is presented may change substantially as data become available for Calendar Years 2008, 2009, and 2010 when the country experienced a significant economic downturn and the beginnings of a recovery. In addition, legislative changes being considered could increase participation in retirement plans and provide incentives for younger workers to participate in the future.

WHAT TIGTA RECOMMENDED

TIGTA made no recommendations in this report. Tax Exempt and Government Entities Division management reviewed the report before it was issued and offered clarifying comments.

READ THE FULL REPORT

To view the report, including the scope and methodology, go to:

http://www.treas.gov/tigta/auditreports/2010reports/201010097fr.pdf.