

An Evolving Pension System: Trends in Defined Benefit and Defined Contribution Plans

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Issue Brief

- This *Issue Brief* updates the October 1997 *EBRI Issue Brief* examining trends in employment-based defined benefit (DB) and defined contribution (DC) pension plans. It includes an appendix on plan design and operational issues to provide basic background on how retirement plans work.
- Between 1975, when the Employee Retirement Income Security Act (ERISA) became effective, and 1998, the latest year for which data are available, the total number of private-sector tax-qualified retirement plans more than doubled, from 311,000 to 730,000. The total number of participants in these plans—including active workers, separated vested, survivors, and retirees—rose from 45 million to 99 million over the period, while active participants in these plans increased from 31 million to 52 million.
- An increasing number of employers have been offering primary and supplemental DC plans as well as an array of hybrid plans, with the result that the share of qualified DC plans, participants, and contributions has grown substantially, relative to DB plans. Like the growth in the number of private-sector plans, the growth in DC participants has been concentrated primarily among smaller private firms, with DB plans tending to be more prevalent among public- and large private-sector employers.
- Among DB plans, the number of plans has decreased since ERISA, while the number of participants has remained fairly constant and assets grew. According to their most recent published report, in 2001 the Pension Benefit Guaranty Corp. (PBGC) insured just over 35,200 DB plans, down from an all-time high of 114,400 plans in 1985.
- When ERISA was enacted in 1974, approximately 29 percent of the total private qualified plan assets were held in DC plans. This figure held relatively constant until the early 1980s—when 401(k) plans became available. This share rose consistently to more than 50 percent in 1998, where it remained through 2001.
- Suggested explanations why DB plans have been steadily losing ground as the preferred plan type include: government regulation; changes in the work place, such as increased employee and employer appreciation and demand for DC plans; business environment and risk associated with funding and managing pension plans; firm size; the increase in global competition faced by employers in recent years, which has increased the need for more flexibility in plan design; and the successful marketing efforts of consultants and DC plan service providers.

Table of Contents

Introduction	4	Impact of Job Stability	27
Private Plan Trends	5	Lump-Sum Distributions	27
Putting the Past in Perspective	7	Plan Choice: DB, DC, or a Hybrid?	28
DB Plans	7	Looking Ahead	29
DC Plans	10	Economic Growth and Tax Relief Reconciliation	
Interpreting the Trends	12	Act (EGTRRA) of 2001	29
Number and Size of Plans	12	Increasing Portability for Participants	30
Participants	14	Vesting	30
Assets and Contributions	15	Contribution and Benefit Limits	30
Public Plan Trends	18	IRA Changes	30
DB Plans Are Predominant in State and Local		Other Pension Provisions	30
Jurisdictions	18	Corporate Governance Reform and Financial	
DC Plans Attract Interest and Use at the		Disclosure	31
Federal Level	20	Company Stock Limits	32
Individual State and Local Plans Innovate		Divestiture Rights	32
by Exploring DC Approaches	20	Blackout Periods	32
Evolving Pension Structure	22	Increasing Employer Liability	32
Impact of Government	22	Conclusion	33
Administrative Complexity and Frequent		Bibliography	33
Regulatory Change Have Disproportionately		APPENDIX: Plan Design and Operational Issues	39
Affected DB Plans	22	DB and DC Plan Features	39
Increasing PBGC Premiums Add to the Cost		Plan Definitions	39
of Private DB Plans	23	Qualified Plans	39
Full-Funding Limitations and Liquidity		How DB and DC Plans Operate	40
Requirements Mitigate One DB Advantage ...	23	Benefit Calculation and Plan Funding	40
Reversions	23	Plan Distributions	40
Impact on DB Plans by Suspension of 30-Year		Assuming Retirement Income Risk	41
Bonds	24	Plan Choice Considerations	42
Changes in the Work Place	24	Strategic Use of Plan Types to Influence and	
The Employer-Employee Relationship	24	Attract Desired Work Force	42
Economic Explanations	25	Plan Costs Considerations	46
Marketing of Retirement Plans	26	Administrative Complexity	47
Public Policy Implications	26	Single-Employer Versus Multi-Employer	
What Form Will Retirement Income Take?	26	Plans	47
		Integration With Social Security	48
		Other Considerations	48
		Philosophical Considerations in Plan Choice	48
		Differing Views of Paternalism	48
		Investment Horizons and Expected Impact on	
		Investment Income	49

Perceived Best Use of Plan Assets	49
Approach to Informational Parity Between Financial Service Consumers and Providers..	49
Endnotes	50

Figures

Figure 1, Sources of Assets for the Retirement Market, 2001	5
Figure 2, Private Pension Plans and Participants	6
Figure 3, Private Plan Financial Trends	7
Figure 4a, 4b, 4c, Defined Benefit–Defined Contribution Trends: Plans, Participants, Assets	8
Figure 5, 401(k) Financial Trends	9
Figure 6, Primary Plan Trends by Plan Size	9
Figure 7, 401(k) Trends	11
Figure 8, Number of Pension Plans by Type of Plan, 1979–1998	11
Figure 9, Comparison of the Net Change in the Number of Primary Defined Benefit and Defined Contribution Plans, 1985–1998	12
Figure 10a, Pension Plan Introductions and Termina- tions—Number of Defined Benefit (DB) and Defined Contribution (DC) Plans and Participants, 1988–2001	13
Figure 10b, 401(k) Plan Introductions and Terminations, 1988–2000	13
Figure 11, Defined Contribution Growth: As a Percent- age of Total Assets, 1975–2001	16
Figure 12, Defined Contribution Growth: Contributions as a Percentage of Total Assets, 1975–1998	16
Figure 13, Contributions vs. Benefits, 1975–1998	17
Figure 14, Contributions of Single-Employer Plans With 100 or More Participants, 1985–1998	17
Figure 15, Contributions Per Active Participant for Single-Employer Plans With 100 or More Partici- pants, 1985–1998	18
Figure 16, State and Local Retirement Pension Plans and Participants	19
Figure 17, Estimated Percentage of Full-Time Employees of State and Local Governments Participating by	

Pension Plan and Type, 1994 and 1998	19
Figure 18, Federal Public Pension Plans and Partici- pants	20
Figure 19, Significant Statewide Pension Plan Design Changes by State, Since 1990	21
Figure 20, Comparison of Traditional Defined Benefit With Traditional Defined Contribution Plans	44
Figure 21, Marginal Benefit of Accruing an Additional Year of Pension Service, Defined Benefit (DB) and Defined Contribution (DC) Plans	46
Figure 22, Comparison of the Marginal Change in Benefit for One Employee With 40 Years Service in One Final Average Defined Benefit Plan and a Similar Employee With 10 Years Service in Four Identical Final Average Defined Benefit Plans	47

David Rajnes of EBRI wrote this *Issue Brief* with assistance from the Institute's research and editorial staffs. Any views expressed in this report are those of the author and should not be ascribed to the officers, trustees, or other sponsors of EBRI, EBRI-ERF, or their staffs. Neither EBRI nor EBRI-ERF lobbies or takes positions on specific policy proposals. EBRI invites comment on this research.

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Introduction

Pension benefits provide a critical ingredient to the income security of today's Americans. As early as 1921, favorable tax treatment of employment-based retirement programs encouraged the expansion of the U.S. pension system (Salisbury, 2000). Following World War II and into the 1970s, the preferred model was the defined benefit (DB) plan for large employers and defined contribution (DC) for small employers. The adoption of the Employee Retirement Income Security Act of 1974 (ERISA) affected plans from a legal, tax, investment, and actuarial standpoint, and established new reporting disclosure and fiduciary requirements as well as a new agency—the Pension Benefit Guaranty Corporation (PBGC). The enactment of ERISA—with its resulting higher administrative costs and more complex legal, actuarial, and fiduciary requirements—occurred at a time when businesses were under increasing financial pressures in the 1970s, and DC retirement plans became more attractive to many employers as a consequence.

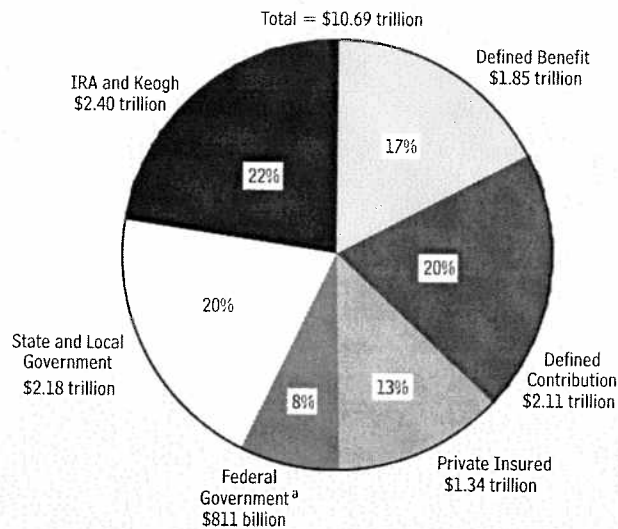
While many plan sponsors continued to use DB plans, legislators facilitated the attractiveness and use of DC plans through various regulations, and employers and employees responded. Congress provided employers with more options when, in 1978, it added Sec. 401(k) and Sec. 457 to the Internal Revenue Code (IRC), which expanded the means for employees to make before-tax plan contributions. Other IRC provisions have since increased the relative attractiveness of two other types of DC plans: employee stock ownership plans (ESOPs) and tax-deferred annuities for educational and nonprofit employees (Allen et al., 1997). In 1986, the movement toward DC plans received a further incentive when the federal government initiated the Thrift Savings Plan (TSP), a voluntary defined contribution plan for federal employees, and partially paid for it by estab-

lishing a new DB plan that was substantially less generous (and thus less costly) than the pre-1984 DB plan. A more recent incentive for a new type of DC option for small businesses was enacted in 1996, the savings incentive match plan for employees (SIMPLE) plan.¹ Most recently, broad-based changes to the retirement system came about with the enactment of the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001, which contains provisions favorable to participants and sponsors of both DB and DC plans.

The trends in DB and DC plans may be presented in a number of ways.² One method of analyzing private DB plans only would look at changes in those plans insured by the Pension Benefit Guaranty Corporation (PBGC). According to their most recent published report, in 2001 the PBGC insured just over 35,200 DB plans, down from an all-time high of 114,400 plans in 1985 (Pension Benefit Guaranty Corporation, 2002). This was a decline from the total recorded in 1998 of 43,300 insured plans. The trend in total participants (active, retired, and separated vested) covered by those plans has fared differently, rising each year since 1980. In 2001, the number of total participants equaled 44 million—an increase from the 42.4 million total participants reported for 1998.³ This *Issue Brief* refers to the total number of qualified plans and participants in both DB and DC plans through 1998 as taken from the Form 5500 reports submitted by plan sponsors and published by the U.S. Department of Labor (1997–2002). This dataset is quite extensive in terms of the amount of information available—on plans, participants, assets, and contributions—and tracks the record of tax-qualified plans beginning in 1975, after ERISA was passed.

Since the 1970s, qualified⁴ private DC plans, participants, and contributions have grown as a percentage of the employment-based retirement system. From 1975 to 1998, the number of qualified private-sector DC plans rose rapidly from 208,000 to 673,000, with growth concentrated primarily among smaller firms. Meanwhile, the number of private DB plans declined from 103,000 to 56,000. In 2000, an estimated 40 percent of all private-

Figure 1
SOURCES OF ASSETS FOR THE RETIREMENT MARKET, 2001



Source: EBRI's *Pension Investment Report*, Investment Company Institute, American Council of Life Insurers, Federal Deposit Insurance Corp., U.S. Census Bureau, Federal Reserve, Credit Union National Association, U.S. Department of Defense, U.S. Office of Personnel Management, and the Federal Thrift Investment Board.

^aIncludes civilian and military.

sector workers covered by a retirement plan participated in a DB plan—a decline from 84 percent 20 years earlier (U.S. Department of Labor, 1997–2002; U.S. Department of Labor, 2002).⁵ During 1975–1998, the number of total participants in private DC plans in-

creased from 12 million to nearly 58 million, while total participants in DB plans remained roughly steady at slightly more than 41 million. Among federal public-sector plans, participation in the federal TSP grew to 28 percent of total participants and 46 percent of active participants by 1999,⁶ and strong evidence suggests increased use of DC arrangements among state and local governments as well. Like the growth in number of plans through 1998, the growth in DC participants was concentrated primarily among smaller private firms, with DB plans tending to be populated by large participant groups and more prevalent among public and large private-sector employers. At year-end 2001, private trustee pension funds represented approximately 37 percent of total retirement market assets, estimated at \$10.7 trillion (Figure 1)—which also included state and local government plans, federal government plans (both military and civilian employees), private life insurance pension funds, as well as individual retirement accounts (IRAs) and Keogh plans. These amounts included 17 percent in defined benefit (DB) plans and 20 percent in defined contribution (DC) plans—of which 78 percent of the latter were held in 401(k) plans.

This report represents an effort to explain these trends by touching on many issues surrounding changes in the retirement system. It examines recent data, building on others' analyses and past Employee Benefit Research Institute (EBRI) private plan tabulations to

assess the current state of these trends in terms of the types of firms that are being affected by the increased use of DC plans, the number of participants involved, and the amount of fund resources. The sections that follow discuss some of the more frequently proposed explanations for this trend, identifying

the state of research in this area. It also discusses potential policy implications of the increasing use of DC plans, focusing primarily on implications for retirement income security. In addition, it highlights legislative and regulatory efforts to amend the current employment-based system, and explores these efforts in terms of their potential impact on the use of DC versus DB plans. Finally, the report provides an appendix in an effort to orient newcomers to the field, identifying the fundamental and typical differences between qualified DB and DC plans in relation to the current regulatory environment, as well as the types of decisions employers may consider in plan choice.

Private Plan Trends

Between 1975, when ERISA became effective, and 1998, the latest year for which these data are available, the total number of private tax-qualified plans⁷ more than doubled, from 311,000 to 730,000. The total number of participants in these plans, including active workers, separated vested, survivors, and retirees, rose from 45 million to 99 million over the same period (Figure 2). Data on active participants⁸ in private primary plans

Figure 2
PRIVATE PENSION PLANS AND PARTICIPANTS
*Summary of Private-Sector Qualified Defined Benefit and Defined Contribution
Plans and Participants, Selected Years 1975–1998*

	1975	1980	1985	1990	1992	1993	1994	1995	1996	1997	1998
	(thousands)										
Total Plans ^{a, b}	311	489	632	712	708	702	690	693	696	720	730
Defined benefit ^a	103	148	170	113	89	84	74	69	64	59	56
Defined contribution ^a	208	341	462	599	620	619	616	624	633	661	674
Defined contribution as percentage of total	67%	70%	73%	84%	87%	88%	89%	90%	91%	92%	92%
	(millions)										
Total Participants ^{b, c}	45	58	75	77	82	84	85	87	92	95	99
Defined benefit ^c	33	38	40	39	40	40	40	40	41	40	42
Defined contribution ^c	12	20	35	38	42	44	45	48	51	55	58
Defined contribution as percentage of total	26%	34%	47%	50%	52%	52%	53%	55%	55%	57%	58%
Active Participants	31	36	40	42	45	45	46	47	47	50	52
Primary plan is defined benefit ^d	27	30	29	26	25	25	25	24	23	23	23
Primary plan is defined contribution ^d	4	6	12	16	19	19	21	23	24	27	29
Defined contribution as percentage of total	13%	16%	30%	38%	42%	42%	46%	49%	51%	54%	56%

Source: Employee Benefit Research Institute tabulations based on U.S. Department of Labor, Pension and Welfare Benefits Administration, *Private Pension Plan Bulletin: Abstract of 1998 Form 5500 Annual Reports* (Winter 2001–2002).

^aExcludes single-participant plans.

^bDue to rounding, sums of individual items may not equal totals.

^cIncludes active, retired, and separated vested participants not yet in pay status. Not adjusted for double counting of individuals participating in more than one plan.

^dFor workers covered under both a defined benefit and a defined contribution plan, the defined benefit plan is designated as the primary plan unless the plan name indicates it provides supplemental or past service benefits.

show similar trends. The number of active participants increased from 31 million in 1975 to 52 million in 1998.⁹

While the number of private employment-based pension plans and plan participants has been increasing, proportionately fewer of these plans are DB plans. An increasing number of employers have been offering primary and supplemental DC plans as well as an array of hybrid¹⁰ plans. The total number of private DB plans increased from 103,000 plans (33 million total participants) in 1975 to 175,000 plans (40 million total participants) by 1983, and then decreased to 56,000 plans (42 million total participants) by 1998—much of the volatility in these periods driven by the rise and subsequent decline of small plans. The total number of private DC plans increased from 208,000 plans to 674,000 plans between 1975 and 1998, increasing from 67 percent to 92 percent of total private pension plans.

The number and percentage of individuals participating in private DC plans is increasing relative to the number and percentage participating in DB plans. The total number of participants in all DB plans was 33 million in 1975. As indicated above, participation increased to 40 million by 1985, and climbed slowly toward 42 million in the following 13 years. The total number of participants in DC plans increased from

12 million in 1975 to 58 million in 1998, eclipsing the number of participants in DB plans by 1992.

The trends for workers in private primary plans are similar to those for total participants.¹¹ In 1975, there were 27 million workers in primary DB plans. This number decreased to 23 million by 1996, where it has remained through 1998. Between 1975 and 1998, the number of workers with a primary DC plan significantly increased, from 4 million to 29 million.

Financial trends for DB and DC plans in past decades support the plan and participant figures described above. Accumulated assets in these qualified plans grew from \$260 billion in 1975 to more than \$4 trillion in 1998 (Figure 3). Changes in the relative shares for DB and DC plans are predictable, based on the trends in plans and participants just mentioned. Assets in DB plans grew from \$186 billion in 1975 to more than \$1.9 trillion in 1998.¹² At the same time, assets in DC plan rose from \$74 billion to nearly \$2.1 trillion—an increase in the relative share for DC assets with respect to all assets in qualified plans from 28 percent (1975) to 52 percent (1998). Key points thus far discussed with respect to comparative trends in Figure 2 and Figure 3 are captured in the series of graphics presented collectively as Figure 4a (number of

Figure 3
PRIVATE PLAN FINANCIAL TRENDS^a
*Summary of Private-Sector Qualified Defined Benefit and
 Defined Contribution Plan Trends, Selected Years 1975–1998*

	1975	1980	1990	1991	1992	1993	1994	1995	1996	1997	1998
	(\$ billions)										
Assets ^{b, c}	\$260	\$564	\$1,674	\$1,936	\$2,094	\$2,316	\$2,299	\$2,724	\$3,136	\$3,554	\$4,022
Defined benefit	186	401	962	1,102	1,147	1,248	1,211	1,402	1,585	1,736	1,937
Defined contribution	74	162	712	834	947	1,068	1,088	1,322	1,551	1,818	2,085
Defined contribution as percentage of total	28%	29%	43%	43%	45%	46%	47%	49%	49%	51%	52%
Contributions ^{b, d}	\$37	\$66	\$99	\$111	\$129	\$154	\$144	\$159	\$170	\$178	\$202
Defined benefit	24	43	23	30	35	52	39	41	36	30	35
Defined contribution	13	24	76	81	94	102	105	117	134	148	167
Defined contribution as percentage of total	35%	36%	77%	73%	73%	66%	73%	74%	79%	83%	83%
Benefit Payments ^{b, e}	\$19	\$35	\$129	\$136	\$152	\$156	\$164	\$183	\$213	\$232	\$273
Defined benefit	13	22	66	72	78	79	83	85	97	97	111
Defined contribution	6	13	63	64	75	77	81	98	116	135	162
Defined contribution as percentage of total	32%	37%	49%	47%	49%	49%	50%	53%	55%	58%	59%

Source: Employee Benefit Research Institute tabulations based on U.S. Department of Labor, Pension and Welfare Benefits Administration, *Private Pension Plan Bulletin: Abstract of 1994 Form 5500 Annual Reports* (Spring 1998); and *Private Pension Plan Bulletin: Abstract of 1998 Form 5500 Annual Reports* (Winter 2001–2002).

^aExcludes single-participant plans.

^bDue to rounding, sums of individual items may not equal totals.

^cExcludes funds held by life insurance companies under allocated group contracts for payment of retirement benefits. These funds make up roughly 10–15 percent of total private pension plan assets.

^dIncludes both employer and employee contributions.

^eIncludes both benefits paid directly from trust and premium payments made by plans to insurance carriers. Excludes benefits paid directly by insurance carriers.

plans), Figure 4b (active participants), and Figure 4c (assets). Assets in 401(k) plans, a subset of DC plans, rose from nearly \$92 billion in 1984 to more than \$1.5 trillion in 1998—an amount equal to 38 percent of all private assets and 74 percent of all private DC plan assets (Figure 5). Assets in DC plans exceeded those in DB plans from 1996 to 1998.

Putting the Past in Perspective

The above discussion of changes in the aggregate number of private pension plans and participants can be misleading because it ignores trends in plans by size. Examining DB and DC plans by plan size shows the number of participants being affected by trends in plan sponsorship. This section examines private DB and DC plan trends using EBRI and U.S. Department of Labor (DOL) tabulations of 1985, 1993, and 1998 Form 5500 annual reports filed with the Internal Revenue Service (IRS) and presents the number of plans and participants in these plans by participant size categories, using various participation definitions. The analysis examines DB and DC plan trends individually and then combines them to evaluate the extent to which the relative shares of DB and DC plans have changed.

DB Plans—An examination of private primary DB plan trends by plan size over the 1985–1998 period shows not only a decline in the absolute number of plans but a remarkable transformation in the distribution across plan sizes (Figure 6). In 1985, nearly 80 percent of DB plans were accounted for by plans with fewer than 50 active participants; by 1998, the corresponding share had dropped to 60 percent. During this time, it can be seen that the majority of plan terminations, particularly from 1985–1993, took place in the very small plans: those with two to nine active participants. Between 1985 and 1993 and then again between 1993 and 1998, the net number of primary DB plans decreased by 54 percent, or 86,000 plans, and by 37 percent, or 27,000 plans, respectively—for an overall net loss of almost 113,000 plans from 1985 to 1998. The net number of plans with two to nine active participants decreased by about 56,000 plans and 16,000 plans, during 1985–1993 and 1993–1998, respectively. This represented a decrease of 65 percent and 58 percent of the total reduction in DB plans for the two periods, respectively. It is sometimes suggested that very small plans were often top-heavy plans¹³ used by employers as tax shelters, and that enactment of the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA), which imposed penalties on top-heavy plans, and the Tax

Figure 4a
DEFINED BENEFIT-DEFINED CONTRIBUTION TRENDS: NUMBER OF PLANS

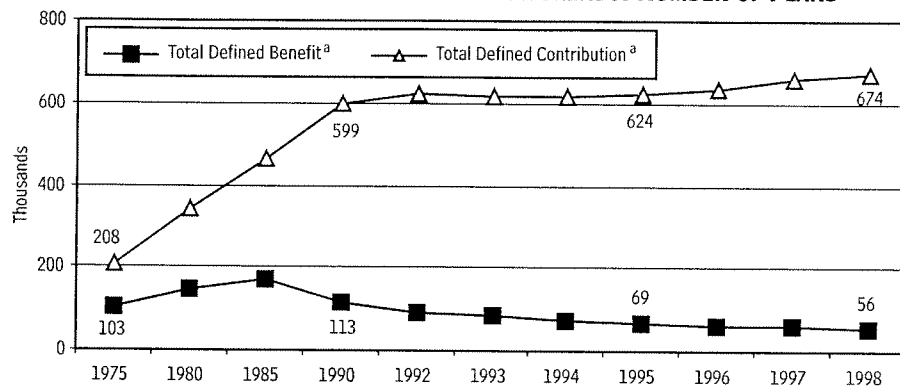


Figure 4b
DEFINED BENEFIT-DEFINED CONTRIBUTION TRENDS: PARTICIPANTS

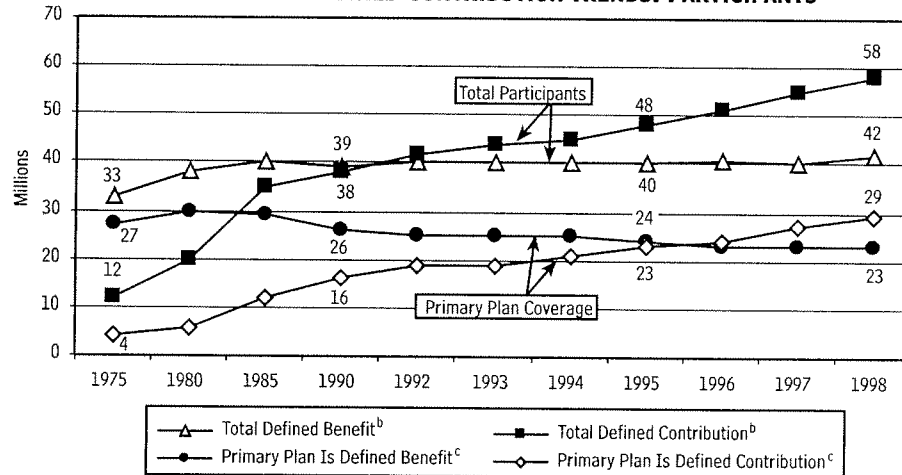
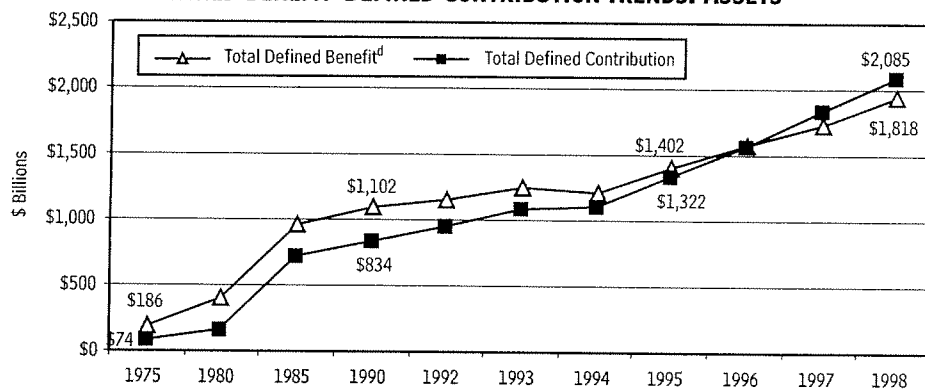


Figure 4c
DEFINED BENEFIT-DEFINED CONTRIBUTION TRENDS: ASSETS



Source: Employee Benefit Research Institute tabulations based on U.S. Department of Labor, Pension and Welfare Benefits Administration, *Private Pension Plan Bulletin: Abstract of 1994 Form 5500 Annual Reports* (Spring 1998); and *Private Pension Plan Bulletin: Abstract of 1998 Form 5500 Annual Reports* (Winter 2001-2002).

^aExcludes single participant plans.

^bIncludes active, retired, and separated vested participants not yet in pay status. Not adjusted for double counting of individuals participating in more than one plan.

^cFor workers covered under both a defined benefit and a defined contribution plan, the defined benefit plan is designated as the primary plan unless the plan name indicates it provides supplemental or past service benefits.

^dExcludes funds held by life insurance companies under allocated group contracts for payment of retirement benefits. These funds make up roughly 10 to 15 percent of total private pension plan assets.

Figure 5
401(k) FINANCIAL TRENDS
Private-Sector Qualified 401(k) Cash or Deferred Arrangement Financial Trends, 1984–1998^a

	1984	1986	1988	1990	1992	1994	1996	1997	1998
	(\$ millions)								
Assets	\$91,754	\$182,784	\$276,995	\$384,854	\$552,959	\$674,681	\$1,061,493	\$1,264,168	\$1,540,975
Percentage of all private assets	9%	13%	18%	23%	26%	29%	34%	36%	38%
Percentage of all private defined contribution assets	27%	37%	47%	54%	58%	62%	68%	70%	74%
Contributions	\$16,291	\$29,226	\$39,412	\$48,998	\$64,345	\$75,878	\$103,973	\$115,673	\$134,659
Percentage of all private contributions	18%	32%	43%	50%	50%	53%	61%	65%	67%
Percentage of all private defined contribution contributions	38%	50%	61%	65%	69%	72%	78%	78%	81%
Benefit Payments	\$10,617	\$22,098	\$25,235	\$32,028	\$43,166	\$50,659	\$78,481	\$93,070	\$120,693
Percentage of all private benefits	13%	17%	21%	25%	28%	31%	37%	40%	44%
Percentage of all private defined contribution benefits	33%	35%	43%	51%	58%	62%	67%	69%	75%

Source: Employee Benefit Research Institute tabulations based on U.S. Department of Labor, Pension and Welfare Benefit Administration, *Private Pension Plan Bulletin: Abstract of 1998 Form 5500 Annual Reports* (Winter 2001–2002).

^aExcludes single-participant plans.

Figure 6
PRIMARY PLAN TRENDS BY PLAN SIZE
Primary Defined Benefit and Defined Contribution Plan and Active Participant Trends, Selected Years 1985–1998

	Primary Plans					Active Participants (thousands)				
	1985	1993	1998	Net Change 1985–1993	Net Change 1993–1998	1985	1993	1998	Net Change 1985–1993	Net Change 1993–1998
Defined Benefit Plans										
2–9	88,124	32,121	16,223	–56,003	–15,898	353	141	79	–212	–62
10–24	24,267	10,903	6,978	–13,364	–3,925	369	168	111	–201	–57
25–49	14,178	7,252	4,862	–6,927	–2,390	491	252	173	–239	–79
50–99	11,303	7,499	5,790	–3,804	–1,709	808	537	421	–271	–116
100–249	9,534	6,209	4,606	–3,325	–1,603	1,498	978	741	–520	–237
250–499	4,670	3,444	2,745	–1,226	–699	1,651	1,224	976	–427	–248
500–999	3,149	2,450	1,927	–699	–523	2,222	1,751	1,362	–471	–389
1,000–2,499	2,360	2,122	1,713	–238	–409	3,636	3,285	2,666	–351	–619
2,500–4,999	847	790	725	–57	–65	2,930	2,790	2,550	–140	–240
5,000–9,999	455	428	430	–27	2	3,141	2,966	3,016	–175	50
10,000–19,999	198	223	230	25	7	2,749	3,088	3,219	339	131
20,000 or more	175	167	167	–8	0	8,985	7,912	8,010	–1,073	98
Total ^a	159,260	73,608	46,396	–85,652	–27,212	28,834	25,091	23,322	–3,743	–1,769
Defined Contribution Plans										
2–9	199,704	266,284	193,079	66,580	–73,205	852	1,165	1,034	313	–131
10–24	70,424	112,889	141,841	42,465	28,952	1,056	1,735	2,207	679	472
25–49	31,406	55,094	79,487	23,688	24,393	1,091	1,915	2,789	824	874
50–99	17,620	33,835	54,693	16,215	20,858	1,224	2,374	3,873	1,150	1,499
100–249	8,878	16,902	23,906	8,024	7,004	1,331	2,572	3,687	1,241	1,115
250–499	2,552	5,187	8,431	2,635	3,244	737	1,786	2,916	1,049	1,130
500–999	1,185	2,376	3,870	1,191	1,494	808	1,632	2,661	824	1,029
1,000–2,499	784	1,400	2,253	616	853	1,194	2,144	3,436	950	1,292
2,500–4,999	219	372	686	153	314	752	1,272	2,354	520	1,082
5,000–9,999	97	148	277	51	129	683	984	1,892	301	908
10,000–19,999	34	50	128	16	78	460	683	1,747	223	1,064
20,000 or more	29	35	74	6	40	1,100	1,518	3,409	418	1,891
Total ^a	332,932	494,572	508,726	161,640	14,154	11,420	19,779	32,005	18,359	12,226

Source: Employee Benefit Research Institute tabulations of 1985, 1993, and 1998 Form 5500 annual reports filed with the Internal Revenue Service.

^aTotal may not equal the sum of individual items due to rounding.

Reform Act of 1986 (TRA '86), which lowered basic income tax rates and imposed faster minimum vesting standards, thus potentially reducing the incentive for such employers to maintain their DB pension plans (Olsen and VanDerhei, 1997). TRA '86 also included a minimum participation provision¹⁴ that eliminated the tax-qualified status of some small DB plans, primarily single-participant plans. Under this provision, a plan was not qualified unless it included the lesser of 50 employees or 40 percent of an employer's work force. It is likely that this provision also caused many small plans to terminate—especially those covering a relatively small number of higher-paid employees, such as partnerships.

More recently, many employers have tried to control personnel costs by structuring their retirement programs with greater dependence on defined contribution alternatives (see below), where workers bear a significant share of the costs (Schieber, 1998). This has occurred with greater frequency among smaller plans—although the trend has been broad-based. Between 1985 and 1998, the net change in the number of primary DB plans was generally greater for plans with fewer active participants. The number of DB plans with 10–24 active participants decreased 55 percent between 1985 and 1993, while the number of DB plans with 500–999 active participants decreased 22 percent (Figure 6). During 1993 to 1998, losses in those same categories equaled 36 percent and 21 percent, respectively. Changes in individual plans' demographics account for some of the change in the number of plans by plan size. For example, a plan that had 400 participants in 1985 may have had 600 participants in 1998. Between 1985 and 1998, the number of large primary plans with 5,000 or more active participants increased 7 percent.

Because most of the decline in primary DB plans between 1985 and 1988 occurred in plans with two to nine participants, the decline in the number of employees covered by a primary DB plan is relatively small (5.5 million active participants in both periods). The impact in terms of actual numbers of participants was greater during the earlier (1985–1993) than the latter

(1993–1998) period—3.7 million active participants versus 1.8 million active participants, respectively.

DC Plans—Between 1985 and 1993, the number of private primary DC plans increased by 49 percent, or 162,000 plans. However, most of this increase occurred in plans with two to nine and 10–24 active participants. The net number of such plans increased by 67,000 plans, or 36 percent of the total increase in primary DC plans (Figure 6). In 1993–1998, the number of private primary DC plans increased only by 3 percent, or 14,000 plans due to the sizable decrease in plans with two to nine active participants of 73,000, which offset increases in all other categories. In comparison, the number of plans with 10–24, 25–49, and 50–99 active participants grew substantially by 29,000 (26 percent), 24,000 (44 percent), and 21,000 (62 percent), respectively during that time.

In the earlier 1985–1993 period examined, the net increase in the number of primary DC plans is smaller as plan size increases. Primary DC plans with 10–24 active participants increased by 42,000 plans, while plans with 100–249 active participants increased by 8,000 plans. Primary DC plans with 1,000 or more active participants increased by 842 plans, or 0.5 percent of the total increase. In 1993–1998, this trend holds beyond primary DC plans with two to nine active participants.

Much of the earlier growth observed in DC plans has been through primary and supplemental 401(k) plans. Some sense of trend for the latter can be found in (Figure 7). The growth in 401(k) plans has been quite remarkable since the early 1980s. Beginning in 1984 with slightly more than 17,000 plans (3 percent of all private plans and 4 percent of all private DC plans) and 7.5 million participants (12 percent of all active private participants and 25 percent of all private DC plan participants), usage of 401(k) plans grew by 1998 to more than 300,000 plans (41 percent of all private plans and 45 percent of all private DC plans) and more than 37 million participants (51 percent of all private plans and 74 percent of all private DC plans).¹⁵

Figure 7
401(k) TRENDS
 Summary of Private-Sector Qualified 401(k) Cash or
 Deferred Arrangement Trends, Selected Years, 1984–1998

	1984	1986	1988	1990	1992	1994	1996	1997	1998
Plans ^a	17,303	37,420	68,121	97,614	139,704	174,945	230,808	258,341	300,593
Percentage of all private plans	3%	5%	9%	14%	20%	25%	33%	36%	41%
Percentage of all private defined contribution plans	4%	7%	12%	16%	23%	28%	36%	39%	45%
Active Participants ^b	7,540	11,559	15,203 ^c	19,548	22,404	26,206	30,843	33,865	37,114
Percentage of all active private participants ^d	12%	18%	24%	32%	30%	40%	45%	48%	51%
Percentage of all private defined contribution plan participants	25%	33%	45%	55%	58%	62%	69%	71%	74%

Source: Employee Benefit Research Institute tabulations based on U.S. Department of Labor, Pension and Welfare Benefits Administration, *Private Pension Plan Bulletin: Abstract of 1998 Form 5500 Annual Reports* (Winter 2001–2002).

^aExcludes single-participant plans.

^b401(k) participants may participate in one or more additional plans.

^cIncludes some employees who are eligible to participate in the plan but have not elected to join.

^dIncludes active participants in both private-sector defined benefit and defined contribution plans.

A relatively small universe comprises the DB and DC multi-employer plans that operate under the provision of the Taft-Hartley Act (see Appendix under “Single-Employer versus Multi-Employer Plans”). While DC plans make up about half of all multi-employer

pension plans, they cover only about 20 percent of multi-employer participants (Drinkwater, 2000). However, the increased usage of DC plans made by plan sponsors in this area (Figure 8) gives further evidence of the acceptance of DC plan arrangements.¹⁶

Figure 8
NUMBER OF PENSION PLANS BY TYPE OF PLAN, 1979–1998

	Total Plans			Single Employer Plans ^a			Multi-Employer Plans ^b		
	Total	Defined benefit	Defined contribution	Total	Defined benefit	Defined contribution	Total	Defined benefit	Defined contribution
1979	470,921	139,489	331,432	468,265	137,243	331,022	2,656	2,246	410
1980	488,901	148,096	340,805	486,142	145,764	340,378	2,759	2,332	427
1981	545,611	167,293	378,318	542,789	165,042	377,747	2,822	2,252	570
1982	594,456	174,998	419,458	591,417	172,662	418,755	3,039	2,336	703
1983	602,848	175,143	427,705	599,822	172,843	426,979	3,026	2,300	726
1984	604,434	168,015	436,419	601,413	165,732	435,681	3,021	2,283	738
1985	632,135	170,172	461,963	629,069	167,911	461,158	3,066	2,261	805
1986	717,627	172,642	544,985	714,563	170,431	544,132	3,063	2,210	853
1987	733,029	163,065	569,964	729,909	160,904	569,005	3,112	2,157	955
1988	729,922	145,952	583,971	726,648	143,833	582,815	3,275	2,119	1,156
1989	731,356	132,467	598,889	728,276	130,472	597,804	3,080	1,995	1,085
1990	712,308	113,062	599,245	709,404	111,251	598,153	2,904	1,812	1,092
1991	699,294	101,752	597,542	696,300	99,931	596,369	2,994	1,821	1,173
1992	708,335	88,621	619,714	705,226	86,797	618,429	3,109	1,824	1,285
1993	702,097	83,596	618,501	698,918	81,737	617,180	3,179	1,859	1,320
1994	690,344	74,422	615,922	687,158	72,555	614,603	3,186	1,867	1,319
1995	693,404	69,492	623,912	690,265	67,682	622,584	3,139	1,810	1,328
1996	696,224	63,657	632,566	692,957	61,790	631,167	3,267	1,867	1,399
1997	720,041	59,499	660,542	716,912	57,720	659,192	3,130	1,779	1,351
1998	730,031	56,405	673,626	726,997	54,699	672,297	3,035	1,706	1,329

Source: U.S. Department of Labor, Pension and Welfare Benefit Administration, *Private Pension Plan Bulletin: Abstract of 1998 Form 5500 Annual Reports*, No. 11 (Winter 2001–2002): table E1, p. 64.

^aIncludes single-employer plans, plans of controlled groups of corporations, and multi-employer noncollectively bargained plans.

^bIncludes multi-employer plans and multi-employer collectively bargained plans.