

SUMMARY FACTS

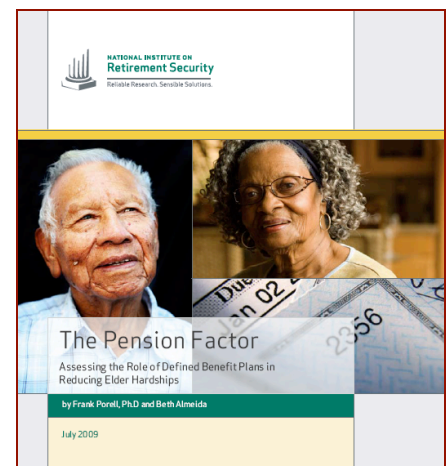
The Pension Factor: Assessing the Role of Defined Benefit Plans in Reducing Elder Hardships



Overview

The National Institute on Retirement Security has released a research report entitled *The Pension Factor: Assessing the Role of Defined Benefit Plans in Reducing Elder Hardships*. The report analyzes U.S. Census Bureau data to find that defined benefit pension income plays a unique and critical role in reducing the risk of poverty and hardship among older Americans.

This “pension factor” is particularly powerful for improving the economic security of vulnerable older households - women and members of racial/ethnic minority groups. The analysis finds that pensions reduce – and in some cases eliminate – the greater risk of poverty and public assistance dependence that women and minority populations otherwise would face.



The study calculates for 2006 a **savings of \$7.3 billion in public assistance expenditures** and **4.7 million fewer households in poverty or “near-poverty”** attributable to pension income.

Why This Report

We know that defined benefit pensions have long been an important source of income for elder households seeking to maintain a middle-class standard of living after a lifetime of work. Evidence of the important role of DB plans to the retirement readiness of Americans has long been noted by experts and academics. However, this proposition had not been tested empirically.

The Pension Factor undertakes an original empirical analysis of the contribution of pensions in enhancing the economic welfare of older American households. That is, how much do pensions protect older Americans from poverty, material hardships, and reliance on public assistance?



Key Findings

The Pension Factor finds that pensions have helped substantial numbers of older Americans avoid material hardships associated with inadequate food, shelter, and health care, and also avoid reliance on public assistance. For 2006, pension income among older American households in 2006 was associated with:

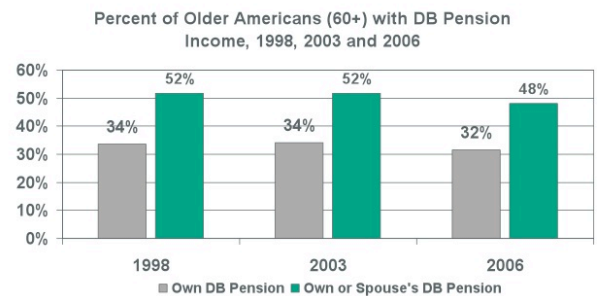
- 1.72 million fewer poor households and 2.97 million fewer near poor households
- 560,000 fewer households experiencing a food hardship
- 380,000 fewer households experiencing a shelter hardship
- 320,000 fewer households experiencing a health care hardship
- 1.35 million fewer households receiving means-tested public assistance
- \$7.3 billion in public assistance expenditures savings, representing about 8.5 percent of aggregate public assistance dollars received by all American households in 2006 for the same benefit programs

23 Million Older Americans Relied on Pensions, But Declines Likely

In 2006, a significant number of older Americans received pension income -- some 23 million retirees.

Although there have been dramatic declines in pension coverage since the early 1980s, the data suggest that this change has not yet produced sharp declines in coverage among older Americans. Since many workers affected by the switch from pensions to individual defined contribution accounts over last two decades may have not retired, future data may show more marked declines.

More Than 23 Million Older Americans Received DB Pension Income in 2006



Source: *The Pension Factor*, Table 1.



Pensions Ensure Middle Class Stays Middle Class in Retirement

DB Pensions Still an Important Source of Income to Middle Class Retirees

DB Pension Income Received by Persons Age 60 or Older (from Own or Spouse's Former Employer)				
	# of Persons (millions)	% of Persons	Mean Pension Amount	Median Pension Amount
All Households	48.6	48.2%	\$18,195	\$12,480
Lowest Quintile	10.9	24.4%	\$4,782	\$3,283
2 nd Quintile	12.7	49.7%	\$9,193	\$7,656
3 rd Quintile	11.2	61.7%	\$17,493	\$15,600
4 th Quintile	8.0	59.1%	\$28,769	\$27,950
Highest Quintile	5.8	47.8%	\$35,335	\$30,574

Traditional pensions remain an important source of income for middle class retirees.

For persons aged 60 or older in the third and fourth quintile of income, 61.7% and 59.1% of these older households receive pension income, respectively.



Source: *The Pension Factor*, Table 2.

Pension Race & Gender Gaps Exist

When looking at people receiving pensions just from their own former job(s), there is a clear gender gap, with 42% of men age 60 or older receiving pension income, as compared to 23.3% of women.

Further, there is a gender disparity in the amount of pension income received, with men receiving an average of about \$18,000, and women just \$12,500.

With regard to race/ethnicity, the percentage of whites and blacks receiving pension income is about equal at about 32%, while only 22.6% of other races/ethnicity receive pension income. Whites have a higher mean pension amount at about \$16,000 annually as compared to about \$14,000 for blacks and other races.

DB Pension Receipt and Income by Gender and Race

DB Pension Income Received by Persons Age 60 or Older (from Own Former Employer Only)				
	# of Persons (millions)	% of Persons	Mean Pension Amount	Median Pension Amount
All Persons	48.6	31.5%	\$15,784	\$11,467
Gender				
Male	21.4	42.0%	\$18,040	\$13,509
Female	27.2	23.3%	\$12,589	\$8,400
Race/ethnicity				
Non-Hispanic White	39.1	32.7%	\$16,136	\$11,730
Non-Hispanic Black	4.2	32.0%	\$13,857	\$9,592
Other Race/Ethnicity	5.3	22.6%	\$14,225	\$10,629

Source: *The Pension Factor*, Table 2.





Spousal Benefits Shrinks the Gender Gap

Spousal Benefits Shrink the Gender Gap in Pension Receipt and Income

DB Pension Income Received by Persons Age 60 or Older		
	Own Pension Only	Own Pension or Spouse's Pension
% Receiving a Pension		
Female	23.3%	46.9%
Male	<u>42.0%</u>	<u>49.8%</u>
Gender Gap	-23.3%	- 2.9%
Median Amount of Pension		
Female	\$8,400	\$11,664
Male	<u>\$13,509</u>	<u>\$14,364</u>
Gender Gap	-\$5,109	-\$2,700

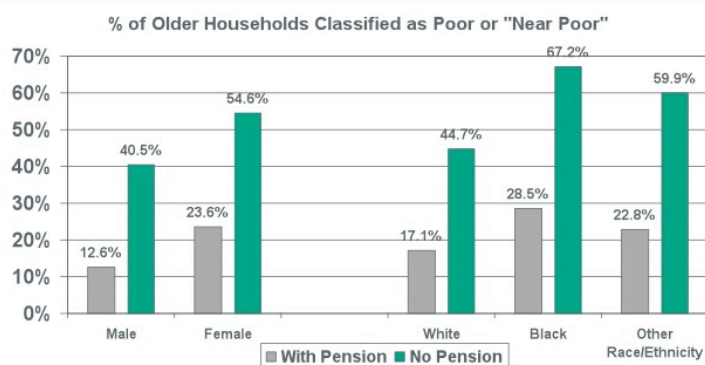
The gender gap drops significantly when spousal benefits are counted, with the percentage of women receiving pensions more than doubling - from 23.3% to 46.9%.



Source: *The Pension Factor*, Table 2.

Pensions Also Shrink Gender & Race Gaps

Gender and Race Gaps in Poverty Shrink Among Those with Pensions



The percentage of American households classified as poor and near poor drops across gender and race categories when older Americans have income pension income.



Source: *The Pension Factor*, Table 4.



Older Americans with Pensions Less at Risk To Be Poor, Near Poor

The report finds that households with pension income are less likely to be poor - as defined by the Census Bureau's Federal Poverty Level (FPL) - or "near poor" - defined here as two times the poverty level. The report examines both poor and "near poor" because research indicates that the FPL may not be an accurate measure of economic hardship, especially for older Americans. In 2006, for a household with two people over the age of 65, the FPL was \$12,201 while two times FPL was \$24,402.

For all households, 34.5% are classified as poor or near poor. That number drops significantly for households with pension income - to 18.6%. About half of older households without pension income are classified as poor or near poor.

Households with Pension Income Less Likely to be Poor, "Near Poor"

% of Older Households with Incomes Exceeding Poverty Thresholds	# of Households (millions)	% of Households Classified as...		
		Poor*	Near Poor**	Not Poor
All Households	31.6	9.0%	25.5%	65.5%
Households with DB Pension Income	15.0	2.4%	16.2%	81.5%
Households with No DB Pension Income	16.6	15.1%	33.9%	51.0%

**"Poor" is defined as income at or below the federal poverty line
 ***"Near poor" is defined as 2x the federal poverty line



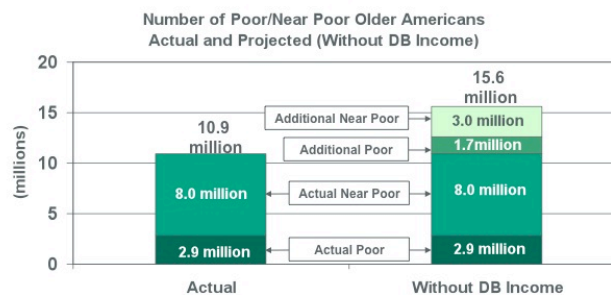
Source: *The Pension Factor*, Table 4.

Pensions Kept 4.6 Million Americans from Poverty, Near Poverty

The report estimates that 1.7 million Americans would be classified as poor, while another 3 million would be categorized as near poor, absent their pension income.

This would represent a 43% increase in the number of older Americans classified as poor and near poor.

DB Income Helps Large Numbers Avoid Being Poor, Near Poor

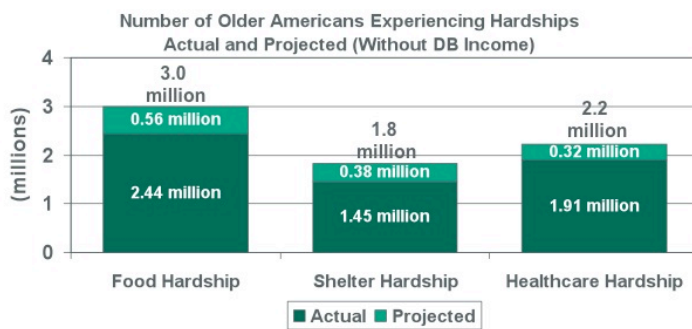


Source: *The Pension Factor*, Table 7.



560,000 Americans Would Face Hardship without Pensions

DB Income Helps Large Numbers Avoid Hardships



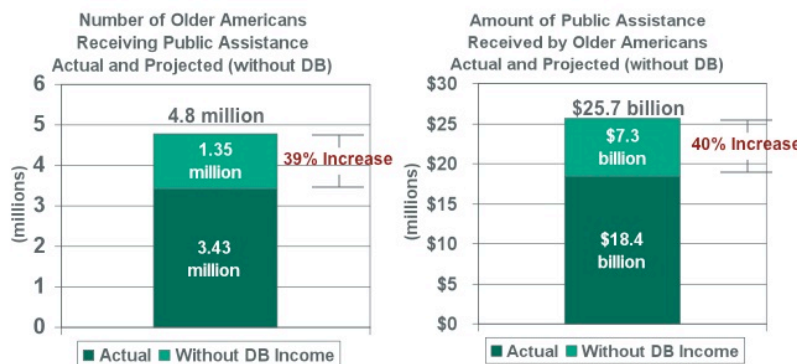
Absent pension income, more than a half million retirees would face various material hardships. This means these Americans would struggle financially in different ways, such as being unable to buy sufficient food, pay for their home, or see a doctor when needed.



Source: *The Pension Factor*, Table 8.

“Pension Factor” Drives \$7.3 Billion in Public Assistance Savings

DB Income Helps Large Numbers Avoid Public Assistance



In 2005, 3.43 million Americans received public assistance. This number would jump to 4.8 million without pension income, or a 39% increase.

In dollar terms, older Americans received some \$18.4 billion in public assistance in 2006. This would increase by \$7.3 billion, or a 40% increase, absent pension income.



Source: *The Pension Factor*, Table 8.



About the Report

The analysis in *The Pension Factor* was conducted using the U.S. Census Bureau's Survey of Income Program Participation (SIPP) panels from 1996, 2001, and 2004. The study sample included SIPP respondents age 60 years or older and all households with a head age 60 and older, who had records in both the Pension and Adult Well-Being topical modules of the survey. This totaled 10,259 households.

The study was co-authored by Dr. Frank Porell, Professor of Gerontology at the John W. McCormack Graduate School of Policy Studies at the University of Massachusetts-Boston, and Beth Almeida, Executive director of the National Institute on Retirement Security in Washington, D.C.

Additional data and analysis is available in the full research report, available at www.nirsonline.org.

About NIRS

The National Institute on Retirement Security is a non-profit organization established to contribute to informed policymaking by fostering a deep understanding of the value of retirement security to employees, employers, and the economy through national research and education programs. Located in Washington, D.C., NIRS has a diverse membership of organizations interested in retirement including employee benefit plans, state or local agencies that manage retirement plans, trade associations, financial services firms, and other retirement service providers.