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The Pension Factor

Assessing the Role of Defined Benefit Plans in
Reducing Elder Hardships

by Frank Porell, Ph.D and Beth Almeida

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Why We Did This Study

- Examine contribution of defined benefit (DB) pensions to the economic well-being of older Americans
- How much does income from DB pensions protect older Americans from ...
 - Poverty
 - Material hardships
 - Reliance on public assistance



What We Found

- In 2006, income from DB pensions is 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 healthcare hardship
 - 1.35 million fewer households receiving means-tested public assistance, saving taxpayers \$7.3 billion



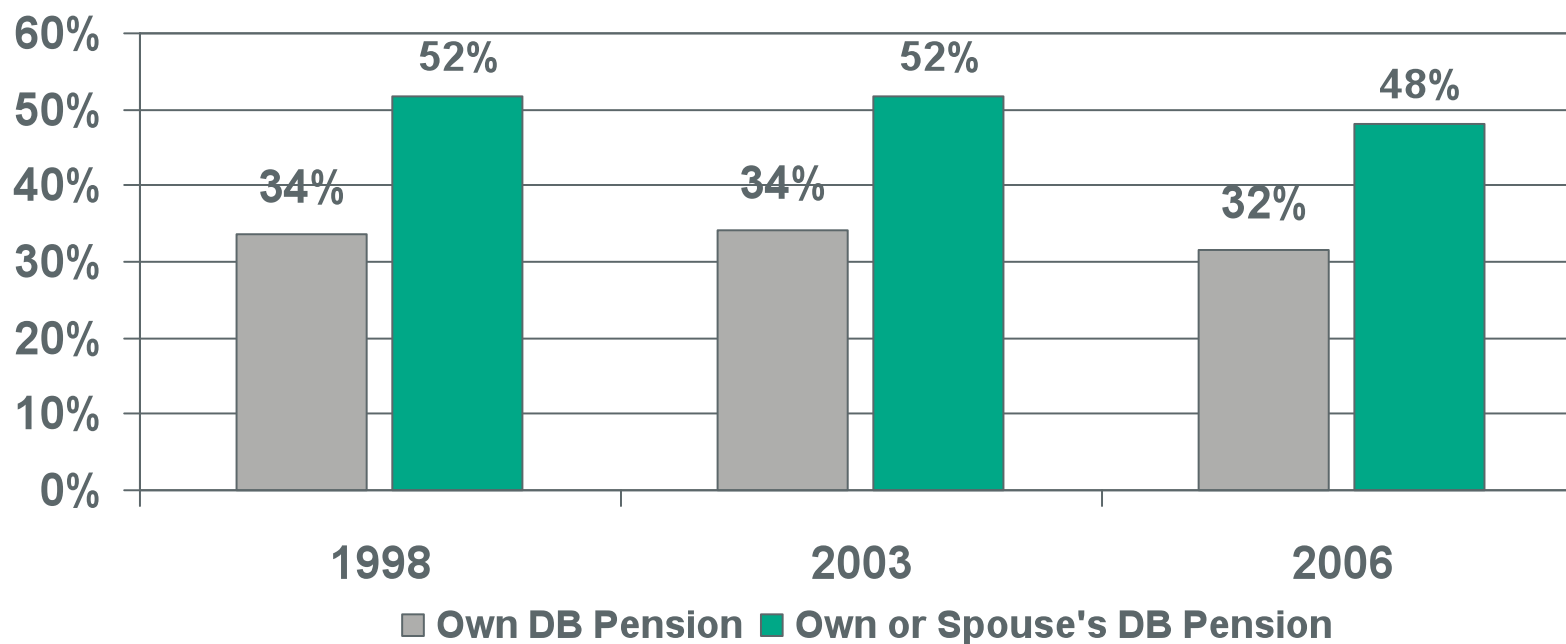
Methodology: What We Did

- Analyzed 2006 data from the U.S. Census Bureau's Survey of Income Program Participation on 10,259 "older households" (head of household was age 60+)
- Descriptive statistics
 - Who has pension income and how much? How has this changed over time?
 - Who experiences poverty, hardships, and public assistance?
- Statistically isolate the effect pensions have on avoiding poverty, hardships, public assistance
- Calculate the effect of pensions in reducing poverty, hardships and public assistance, and associated savings



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

Percent of Older Americans (60+) with DB Pension Income, 1998, 2003 and 2006



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Source: *The Pension Factor*, Table 1.

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



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Source: *The Pension Factor*, Table 2.

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



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



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Source: *The Pension Factor*, Table 2.

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

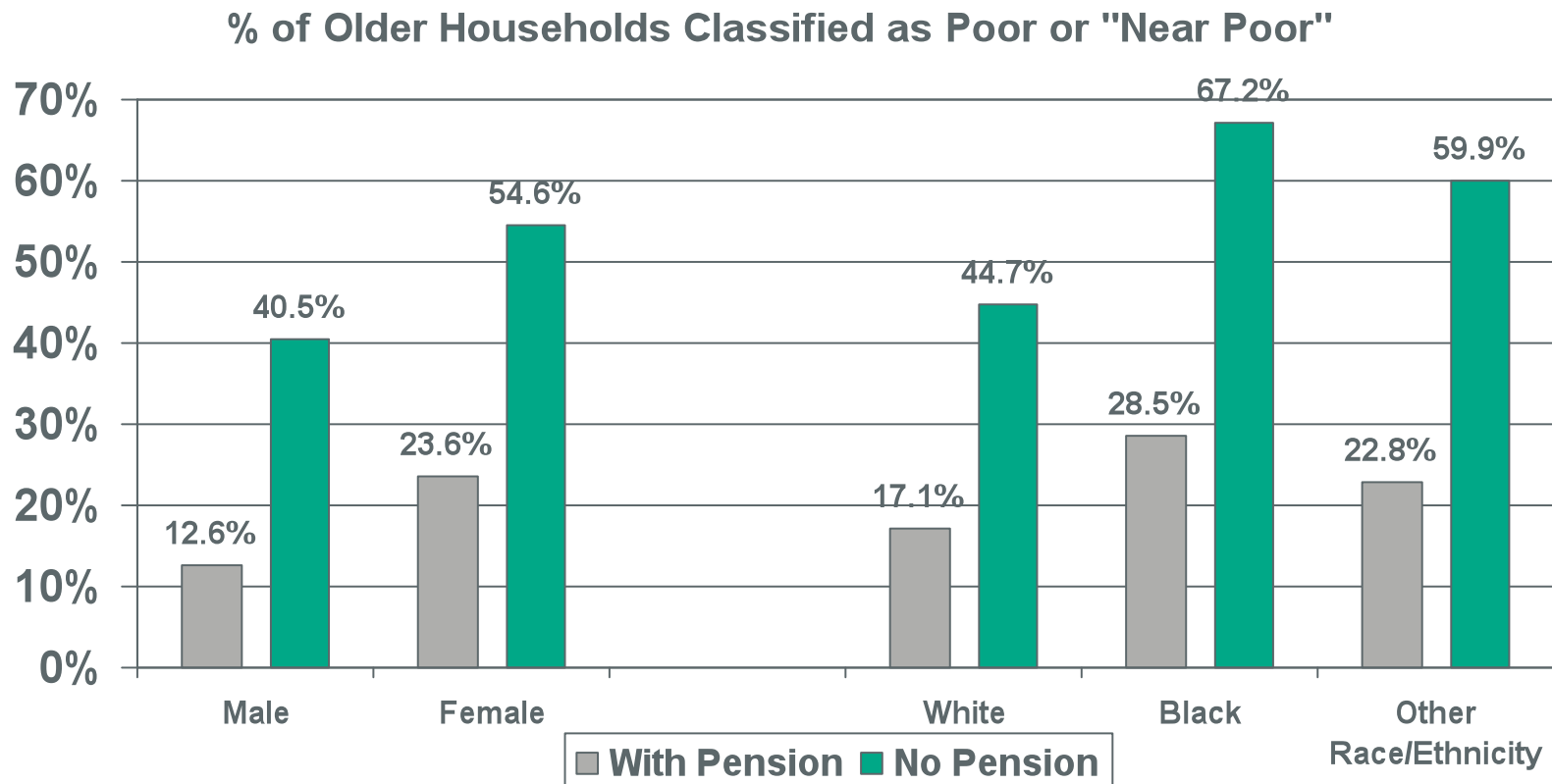
**“Near poor” is defined as 2x the federal poverty line



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Source: *The Pension Factor*, Table 4.

Gender and Race Gaps in Poverty Shrink Among Those with Pensions



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Source: *The Pension Factor*, Table 4.

Households with Pension Income Less Likely to Report Hardships

% of Older Households Reporting Hardships				
	# of Households (millions)	Food Insecurity Hardship*	One or More Shelter Hardships**	One or More Healthcare Hardships***
All Households	31.6	4.7%	4.6%	6.0%
Households with DB Pension Income	15.0	2.6%	2.4%	4.2%
Households with No DB Pension Income	16.6	6.7%	6.6%	7.8%

*These include running out of food, skipping meals, eating less than needed, etc.

**Unable to pay full amount of rent, mortgage or utilities

***In past year, did not see a doctor/dentist when there was a need to see one.

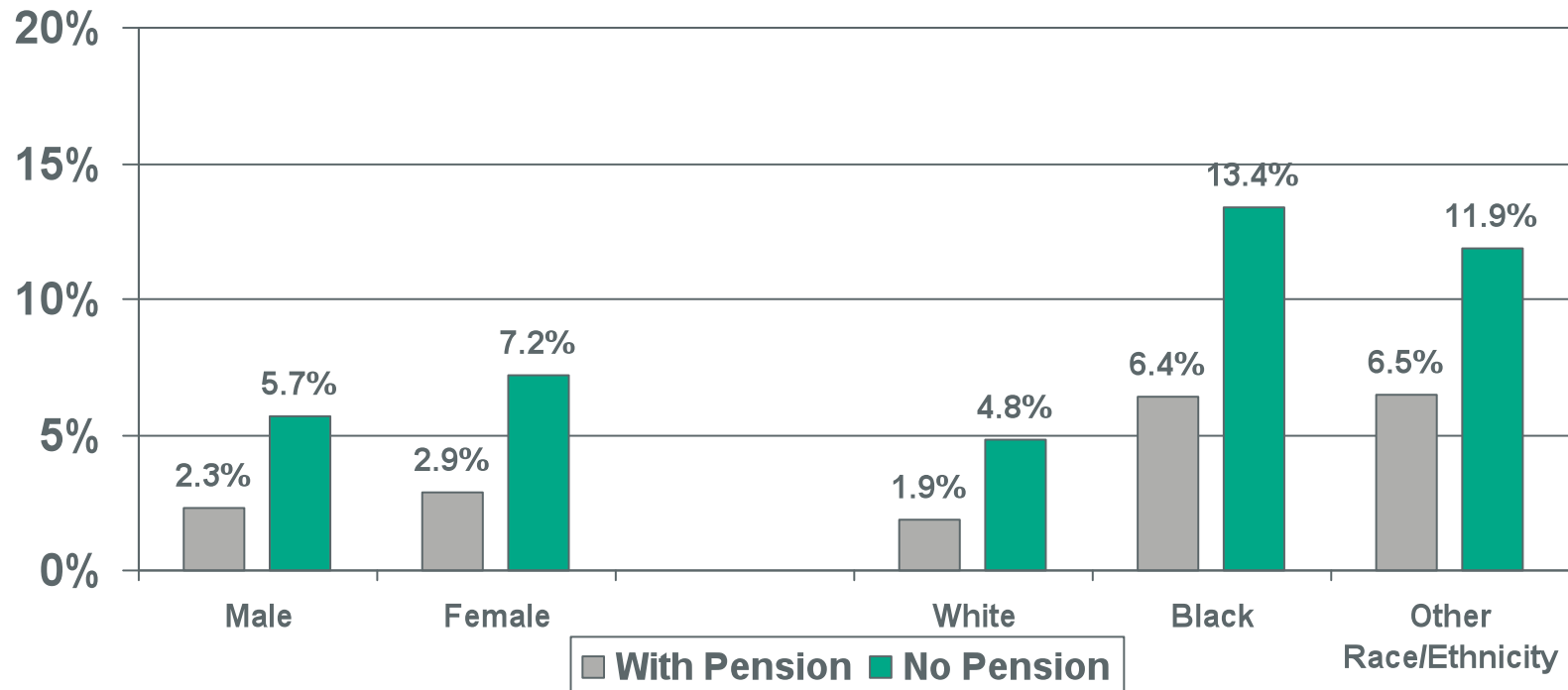


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Source: *The Pension Factor*, Table 5.

Gender and Race Gaps in Hardships Shrink Among Those with Pensions

% Of Older Households Reporting Food Insecurity Hardship



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Source: *The Pension Factor*, Table 5.

Households with Pension Income Less Likely to Receive Assistance

% of Older Households Receiving Public Assistance				
	# of Households (millions)	% with Public Assistance*	Mean Amount Received	Median Amount Received
All Households	31.6	10.9%	\$5,373	\$3,779
Households with DB Pension Income	15.0	4.6%	\$4,558	\$2,976
Households with No DB Pension Income	16.6	16.6%	\$5,578	\$3,890

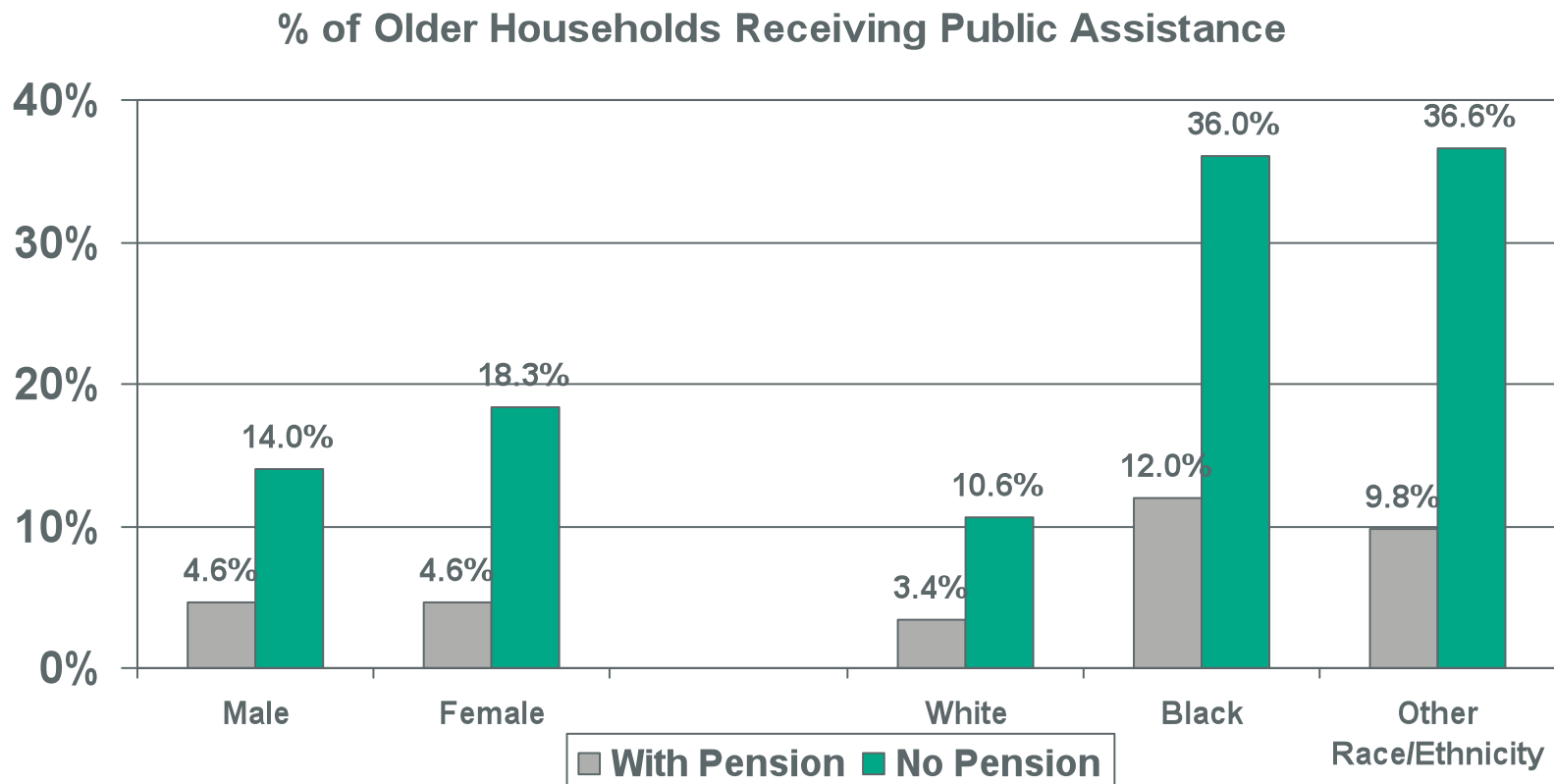
*Includes means-tested cash transfers (e.g. SSI, general assistance) and/or noncash assistance (e.g. food stamps, rent subsidies, energy assistance)



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Source: *The Pension Factor*, Table 6.

Gender and Race Gaps in Assistance Shrink Among Those with Pensions



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Source: *The Pension Factor*, Table 6.

Isolating “The Pension Factor”

- How do we know that it is DB income (and not some other factor) that is enabling older households to avoid poverty, hardships, public assistance?
- Other factors like education, work history, pre-retirement income, age, gender, race, marital status, etc. could all play a role in whether an older household experiences poverty or hardship
- Solution: statistical model that controls for these socio-demographic characteristics

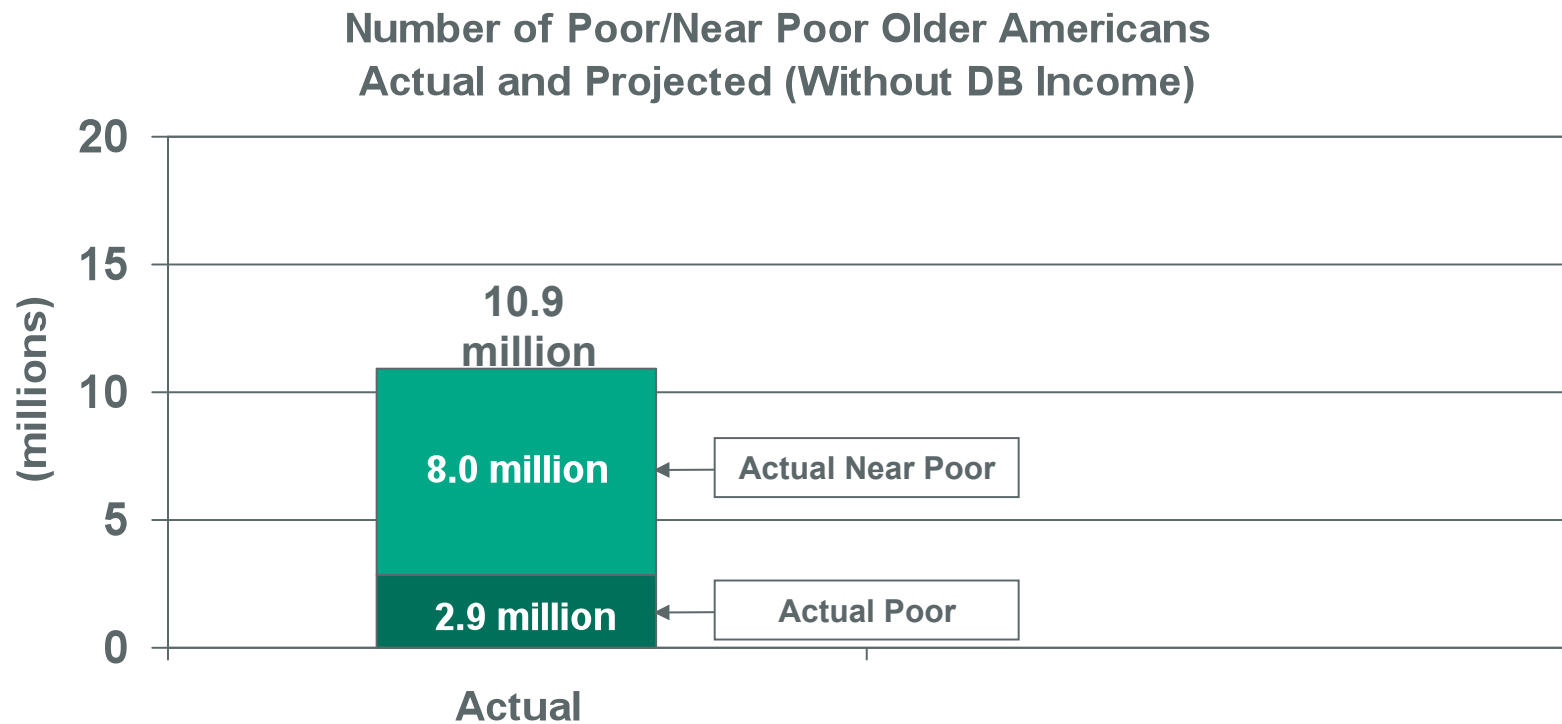


Statistical Approach

- Estimate models to derive predicted probabilities of whether a household experiences poverty, hardship, public assistance based on a range of socio-demographic factors, including whether household has DB pension, DC, and Social Security income.
- For each household with pension income, replaced its predicted probabilities with those of a household with the **same** socio-demographic factors but **no** DB pension income.
- Project how much poverty, hardships, public assistance increases as a result.



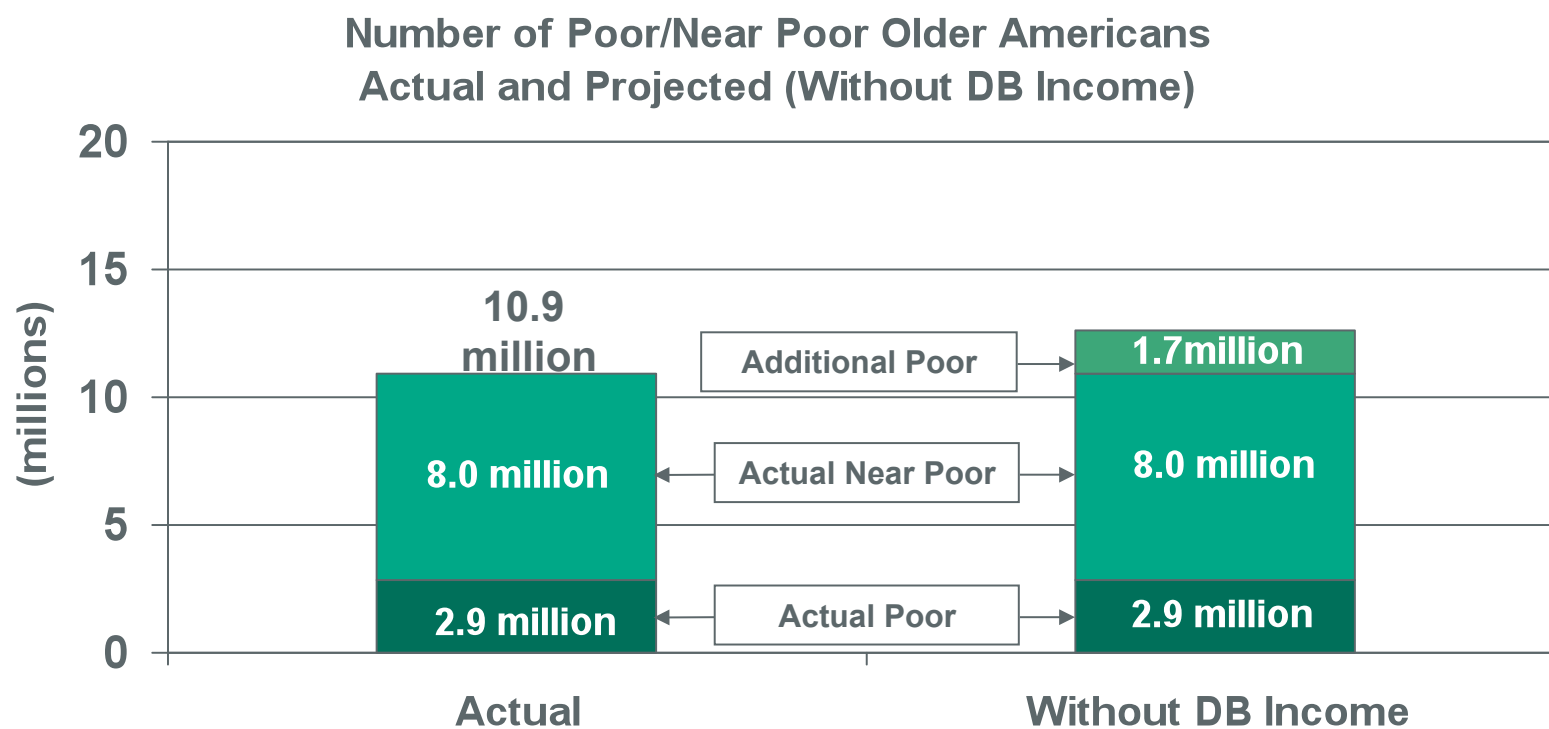
DB Income Helps Large Numbers Avoid Being Poor, Near Poor



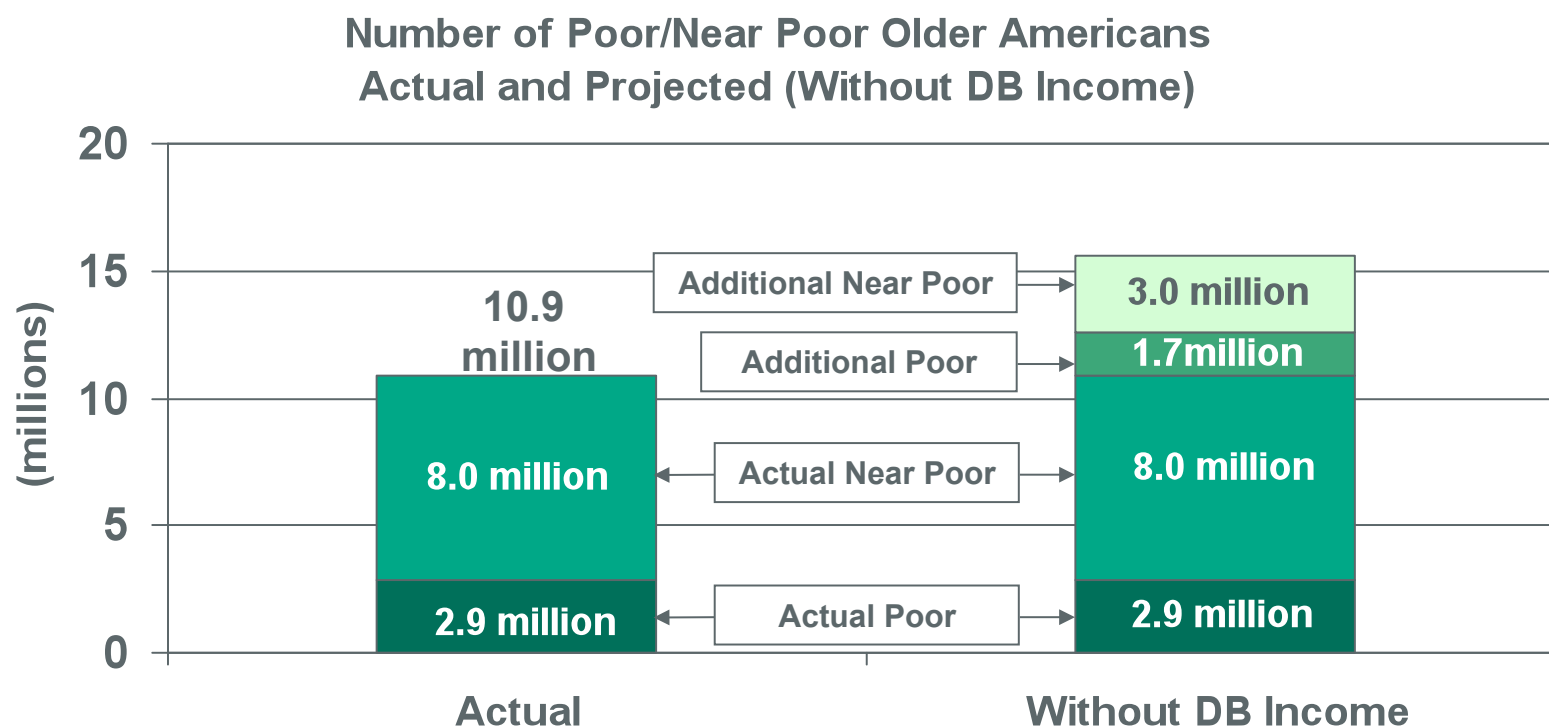
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Source: *The Pension Factor*, Table 7.

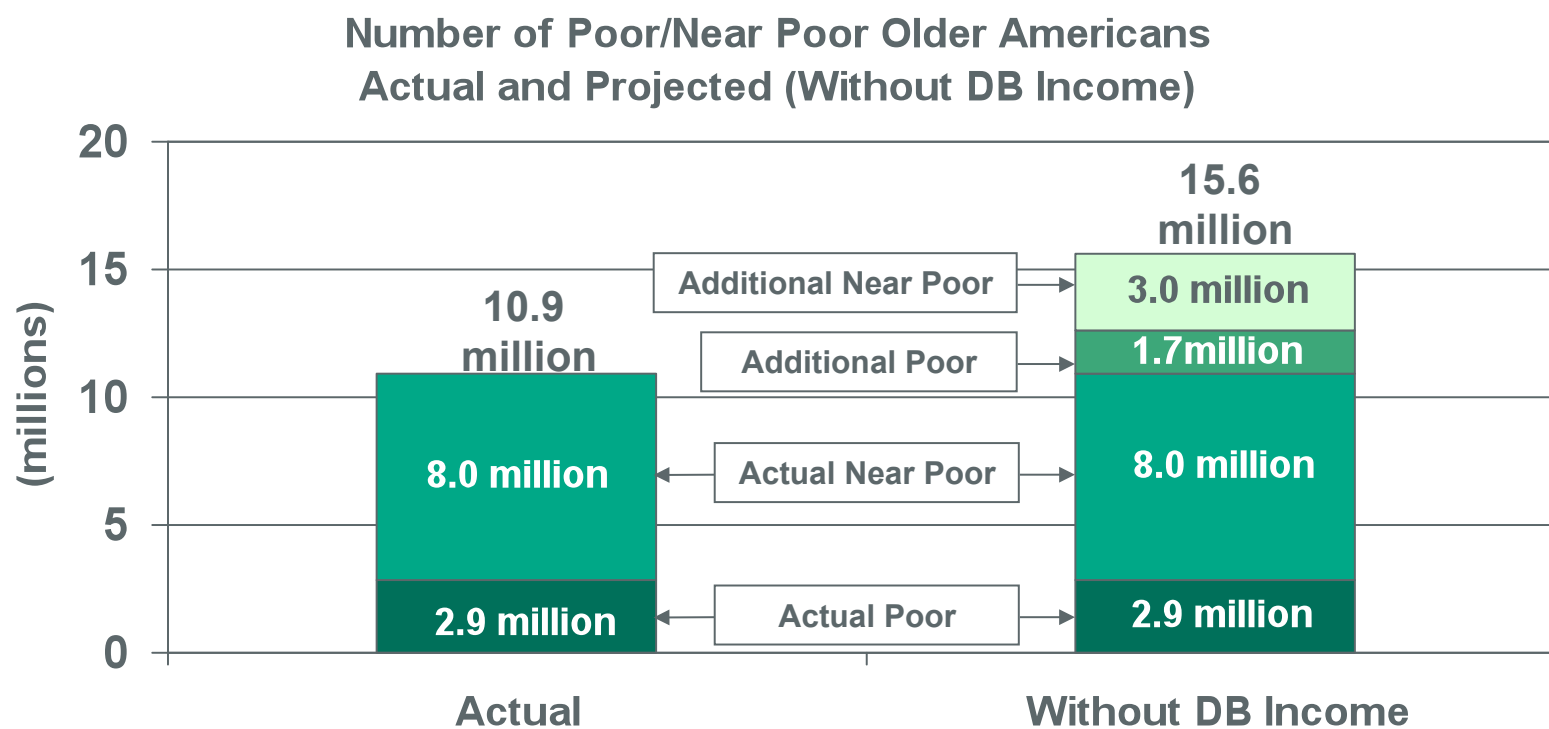
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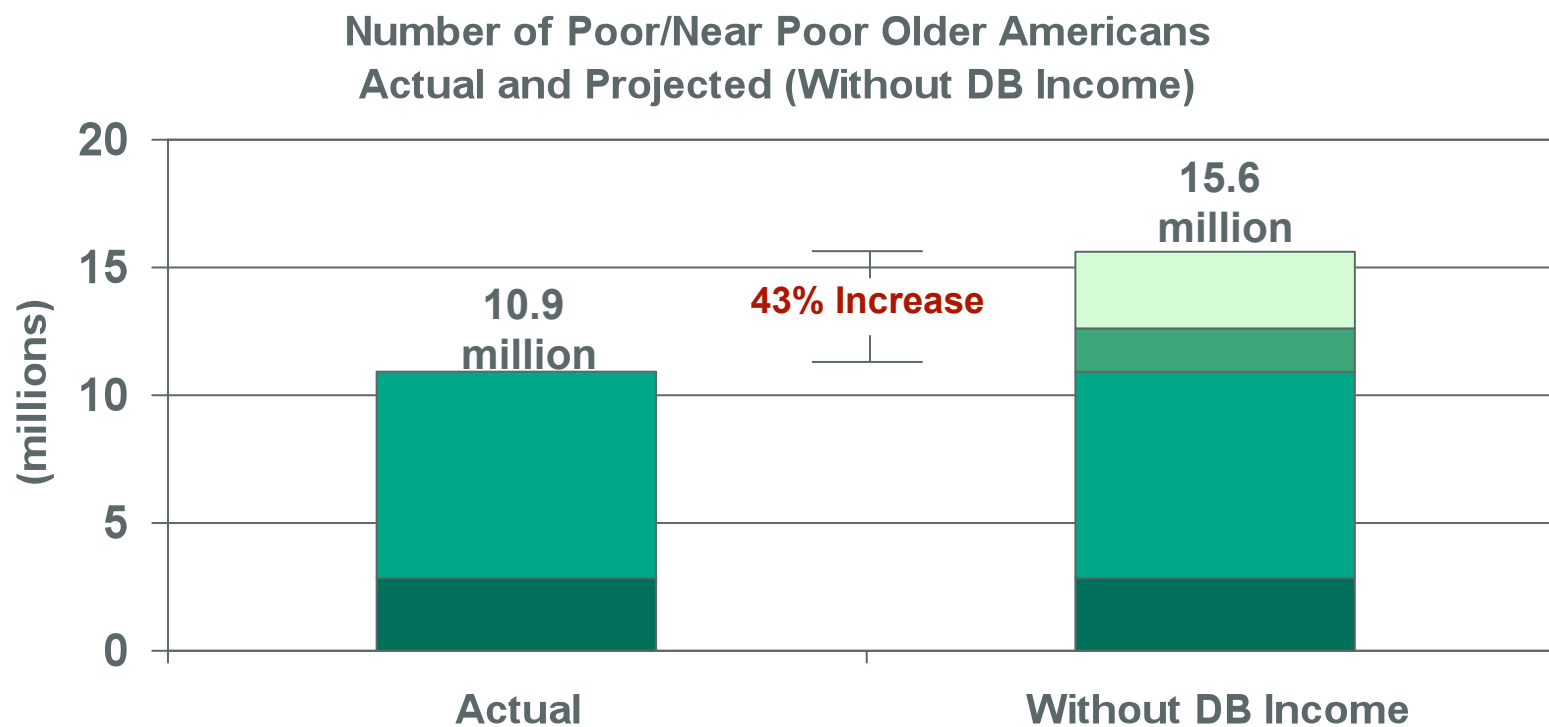
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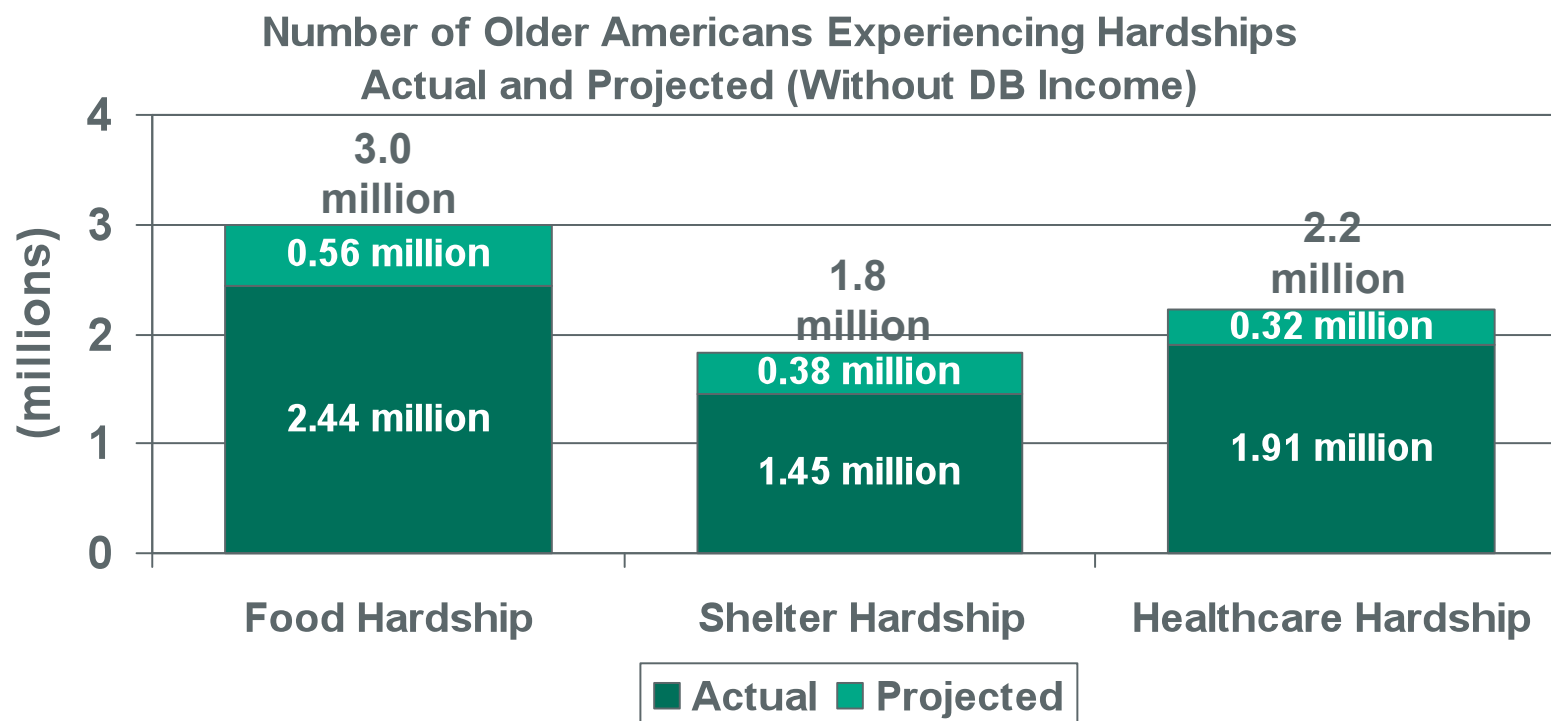
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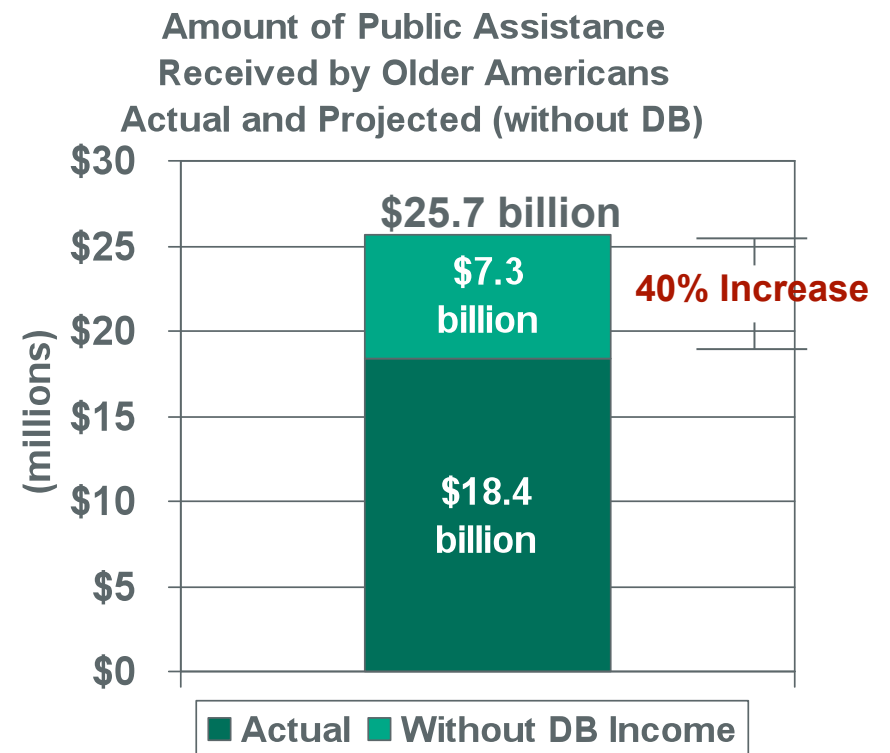
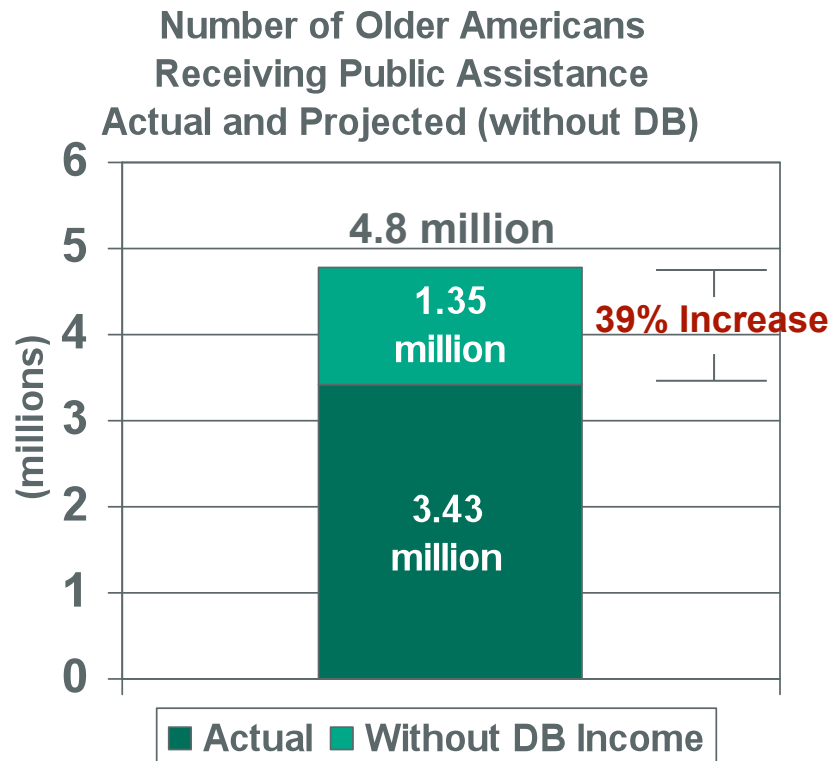
DB Income Helps Large Numbers Avoid Hardships



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Source: *The Pension Factor*, Table 8.

DB Income Helps Large Numbers Avoid Public Assistance



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Source: *The Pension Factor*, Table 8.

Conclusions

- In 2006, income from DB pensions is associated with ...
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Conclusions

- Income from DB pensions significantly contributes to the well-being of older Americans
- DB plans seem to especially reduce risks for vulnerable populations – women and minorities
- Elder poverty, material hardships and reliance on public assistance would be much greater in the absence of DB pension income





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