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Executive Summary:

Retirement Plans and Retirement Confidence in Higher Education

- ***Faculty savings behavior and perceptions:*** The *Retirement Confidence Survey of College and University Faculty* was conducted by the Employee Benefit Research Institute (EBRI), Mathew Greenwald & Associates, Inc. (MGA), and the TIAA-CREF Institute, and underwritten by TIAA-CREF, to better understand the retirement planning and saving behavior of college and university faculty, as well as to gauge perceptions regarding various aspects of their retirement preparations.
- ***Differences with the private sector:*** Higher-education faculty members tend to be older, more educated, and have higher incomes than the working population as a whole, and the structural pension plan design differences in the higher-education sector also make a significant contribution to the better retirement outcomes expected by faculty.
- ***Most faculty confident in retirement prospects:*** Thirty-five percent of higher-education faculty members are *very confident* that they will have enough money to live comfortably throughout their retirement years, and an additional 51 percent are *somewhat confident*. By comparison, 40 percent of all working Americans are *somewhat confident* and only 25 percent say they are *very confident*.
- ***Reasons for relative confidence:*** Among college and university faculty, 95 percent have begun to save for retirement and 66 percent have tried to determine how much they will need for a comfortable retirement, compared with 69 percent and 42 percent, respectively, of all working Americans.

Retirement Annuity and Pension Income Among Individuals 50 and Over

- ***Demographic factors remain key indicators:*** Gender, marital status, age, education, and other demographic variables have a significant impact on the likelihood of a worker receiving a retirement annuity and/or employment-based pension income in retirement.
- ***Gender gap closing:*** Women's participation in retirement plans has risen significantly in recent years, closing the gap in retirement plan participation with men, so the aggregate pension and annuity reciprocity for women are likely to increase over time for younger generations. But low-income women over 50 will continue to be least likely to receive annuity and/or pension income.
- ***Annuity income streams disappearing:*** Future retirees may not have a steady income stream in retirement, as defined benefit pensions decline, which means they will likely be more reliant on assets they must manage themselves instead of receiving a stream of income for life (i.e., an annuity).

■ Retirement Plans and Retirement Confidence in Higher Education

by Paul Yakoboski, TIAA-CREF Institute¹

Introduction

Notable differences exist in retirement plan availability and design in higher education relative to the private sector.² Plan coverage is greater in the higher education sector: 59 percent of the working population report that their employer sponsors some type of retirement plan,³ while 85 percent of faculty members report that their college or university sponsors a retirement plan. Both defined benefit and defined contribution plans are common in higher education, and many faculty members (at least at public institutions) can choose whether a defined benefit or a defined contribution plan best suits their situation and will be their primary retirement plan.

Defined contribution plans as primary plans in higher education are fundamentally different from 401(k) plans: Worker participation is mandatory and both worker and institution contribution levels are set at predetermined levels. In addition, most higher education faculty, whether their primary plan is defined benefit or defined contribution, are offered the opportunity to save additional funds for retirement through a supplemental plan that is either a 403(b) plan or a 401(k) plan.

At the same time, the motivations of higher education institutions and their faculty mirror those of other employers and their workers. Like all workers, faculty members want to retire when they want with the lifestyle they want. Like all employers, colleges and universities are interested in strategically managing their work force. Employment-based pension plans are one element in attracting and retaining quality faculty. Well-designed pension plans are also essential to managing the orderly flow of faculty out of the institution.

Against this backdrop, the *Retirement Confidence Survey of College and University Faculty* was conducted by the Employee Benefit Research Institute (EBRI), Mathew Greenwald & Associates, Inc., and the TIAA-CREF Institute and underwritten by TIAA-CREF,⁴ to better understand the retirement planning and saving behavior of college and university faculty, as well as to gauge faculty perceptions regarding various aspects related to their retirement preparations. The survey and An additional objective was to compare higher-education faculty findings with those of all working Americans, based on results from the 2005 *Retirement Confidence Survey*.⁵

Higher-education retirement systems stand out as participant success stories, although not without challenges. According to the survey results, faculty members in higher education are more confident regarding their retirement savings preparations than are individuals in the general working population. This confidence seems to be well-founded to the extent that they appear to be doing a better job of planning and saving for retirement.

As EBRI has reported earlier (McDonnell, 2005), higher-education faculty members generally have different employment characteristics from the average private-sector worker: They tend to be older, have higher education levels, and have higher incomes than the working population as a whole. These factors contribute to better retirement outcomes. At the same time, the structural pension plan design differences in the higher-education sector discussed above also make a significant contribution to the better outcomes expected by faculty.

Findings

Thirty-five percent of higher-education faculty members are very confident that they will have enough money to live comfortably throughout their retirement years, and an additional 51 percent are somewhat confident. The remaining 14 percent categorize themselves as not too confident or not at all confident in their overall retirement income prospects. By comparison, 34 percent of all working Americans say that they are either not too confident or not at all confident that they will have enough money in retirement, 40 percent are somewhat confident, and only 25 percent say they are very confident (Figure 1).

Figure 1
**Higher Education Faculty Are More Confident Than
 All Working Americans in Their Retirement Income Prospects**

	Faculty	All Workers
Very Confident	35%	25%
Somewhat Confident	51	40
Not Too Confident	11	17
Not at all Confident	3	17
Don't Know/Refused	*	1

Source: *Retirement Confidence Survey of College and University Faculty*, and the *2005 Retirement Confidence Survey*.

* Less than 0.5%.

The relative confidence among higher-education faculty members appears well-grounded. Ninety-five percent of college and university faculty have begun to save for retirement; among these, 91 percent are currently saving for retirement. By comparison, only 69 percent of all working Americans have begun to save for retirement (Figure 2).

In addition, higher-education faculty members are more likely to have an idea regarding how much is required to fund retirement: 66 percent report that they have tried to determine how much money they will need to have saved so that they can live comfortably in retirement. This means, however, that one-third of them have no idea how much they need to accumulate for an adequate retirement. But again, by comparison, only 42 percent of all working Americans have even tried to do such a calculation (Figure 2).

Figure 2
Higher Education Faculty Preparing Better for Retirement

	Faculty	All Workers
Have Saved for Retirement	95%	69%
Currently Saving for Retirement (among those who have saved)	91	91
Tried to Determine How Much Savings Is Needed	66	42

Source: *Retirement Confidence Survey of College and University Faculty*, and the *2005 Retirement Confidence Survey*.

Higher-education faculty members also appear to have a more realistic feel for how much of their preretirement income they will need to replace to live comfortably in retirement (Figure 3). Thirty-seven percent say they will need 70 percent to less than 85 percent of their previous income; by comparison, only 23 percent of all workers respond in this range. Forty-one percent of all workers say they will need 50 percent to less than 70 percent, and 18 percent say less than 50 percent; among faculty, by comparison, 31 percent and 9 percent, respectively, report in these ranges. While more realistic in the aggregate than workers in the general population, many college and university faculty members nonetheless appear to underestimate the amount of income they will need to replace in retirement, as the general rule-of-thumb calls for 70–80 percent income replacement rates in order to maintain preretirement standards of living.

Figure 3
**Higher Education Faculty Appear to Have a More
 Realistic Idea of Income Replacement Needed in Retirement**

	Faculty	All Workers
Less Than 50 Percent	9%	18%
50– <70 Percent	31	41
70– <85 Percent	37	23
85– <95 Percent	8	3
95 Percent or More	8	10
Don't Know/Refused	7	5

Source: *Retirement Confidence Survey of College and University Faculty*, and the *2005 Retirement Confidence Survey*.

Eleven percent of faculty members expect to retire before reaching age 62, 13 percent expect to retire between 62 and 64, and 27 percent expect to retire at age 65. Eighteen percent expect to retire in their later 60s, and 24 percent expect to retire at age 70 or later. In addition, 4 percent of faculty members expect never to retire. By comparison, among all workers, 26 percent expect to retire at age 65, and 24 percent expect to retire at age 66 or later (Figure 4).

Figure 4
Expected Retirement Age
(Few Faculty Expect to Retire Early)

	Faculty	All Workers
Under 62 Years Old	11%	24%
62–64	13	10
65	27	26
66–69	18	7
70 Years or Older	24	17
Never Retire	4	6
Don't Know/Refused	4	10

Source: Retirement Confidence Survey of College and University Faculty, and the 2005 Retirement Confidence Survey.

Faculty expecting to work past age 65 were asked to identify the most important reason(s). By far, the most common reason cited was enjoying work (62 percent). The next most common reasons reflected a financial need to continue working: 29 percent said they will need income from employment, 16 percent said they will need employment-based health insurance coverage, and 9 percent reported their spouse will need the health insurance coverage. Another commonly cited reason was not being eligible for full Social Security benefits until age 66 or 67 (13 percent).

Faculty were asked a hypothetical question regarding their likelihood of using a phased retirement option if it were available when they are ready to retire. Phased retirement was defined in the survey as a formal or informal arrangement allowing one to reduce the number of hours of work over time rather than stopping work all at once. Higher-education faculty members appear very interested in phased retirement programs: 48 percent consider themselves very likely to take advantage of a phased retirement program if available, with an additional 30 percent somewhat likely.

Seventy-four percent of faculty members think they will work for pay after retiring, more than the corresponding rate among all working Americans (66 percent). Those expecting to work in retirement are evenly split among what they expect to do: 32 percent think they will work as a teacher, 34 percent think they will work in some other role within the education field, and 34 percent think they will do something completely different.

From what source do faculty members expect to receive their retirement income and what is likely to be their largest source of income? Employment-based retirement plans are the most common answers (Figure 5). Forty-nine percent of faculty members expect a defined benefit pension plan to be a major source of income, and 35 percent expect it to be their largest; 49 percent expect a defined contribution plan to be a major income source, with 30 percent expecting it to be their largest source. These percentages are much higher than the corresponding figures for all working Americans, among whom only 27 percent expect a defined benefit plan to be a major source of income (16 percent the largest) and 34 percent expect a defined contribution plan to be a major source (21 percent the largest).

Faculty are less likely than all workers to expect Social Security and employment to be significant sources of retirement income. While 18 percent of all workers expect Social Security to be their largest source of retirement income, only 3 percent of faculty members expect it to be. Fourteen percent of all workers expect employment to be their largest source of retirement income, but only 9 percent of faculty feel that way.

Figure 5
**Faculty More Likely to Expect Significant Retirement
Income From Employment-Based Retirement Plans**

	Expect to be a <i>Major Source</i>		Expect to be <i>Largest Source</i>	
	Faculty	All workers	Faculty	All workers
Defined Benefit Pension	49%	27%	35%	16%
Defined Contribution	49	34	30	21
Other Personal Savings	32	27	16	18
Social Security	17	27	3	18
Employment	16	28	9	14
Home Equity	5	10	1	3
An Inheritance	7	6	2	3
Support of Family	2	5	*	1

Source: *Retirement Confidence Survey of College and University Faculty* and the *2005 Retirement Confidence Survey*.

* Less than 0.5%.

Conclusion

Results of the inaugural *Retirement Confidence Survey of College and University Faculty* indicate that America's higher education faculty are confident in their prospects for a comfortable retirement and, relative to all working Americans, they are doing a good job of preparing for retirement. While higher education faculty tend to be older, have higher incomes, and have higher education levels relative to the general working population—all of which would account for some of their better preparation and greater confidence—they also benefit from the distinctive retirement systems available to the higher education community. Defined benefit and/or defined contribution plans are available to most faculty, and higher education defined contribution plans are fundamentally different than private-sector 401(k) plans in some important ways. In higher education, defined contribution plans that are primary plans involve mandatory worker participation and involve specified employee and employer contribution levels set to result in meaningful account accumulations.

At the same time, however, caution flags do exist for faculty in higher education. At least one-third do not have a good idea how much they need to accumulate for retirement; many of the 42 percent of faculty expecting to work past age 65 say that it is because they will need to continue working. Adequate financial planning and preparations are necessary so that a faculty member, or any worker, can achieve a financially secure retirement.

Endnotes

¹ The mission of the TIAA-CREF Institute, part of TIAA-CREF, is to foster and conduct objective research, to build knowledge, to demonstrate thought leadership, and to enhance understanding of strategic issues related to higher education and lifelong financial security. On the Internet at www.tiaa-crefinstitute.org. TIAA-CREF is a national financial services organization and the leading provider of retirement services in the academic, research, medical, and cultural fields. On the Internet at www.tiaa-cref.org. The author can be contacted at PYakoboski@tiaa-cref.org

² Ken McDonnell, "Benefit Cost Comparisons Between State and Local Governments and Private-Sector Employers," *EBRI Notes*, vol. 26, no. 4 (Employee Benefit Research Institute, April 2005); (<http://ebri.org/pdf/notespdf/0405notes.pdf>).

³ Employee Benefit Research Institute (EBRI) tabulations of the 2005 Current Population Survey.

⁴ A representative sample of all college and university faculty was surveyed by telephone between March and May 2005; 1,307 individuals were surveyed. These individuals are faculty members at both private and public institutions and both two-year and four-year institutions. Part-time as well as full-time faculty were surveyed, and both tenure-track and non-tenure-track faculty were included. The survey has a margin of error of plus or minus 3 percentage points.

⁵ Complete findings for the 2005 RCS can be found in "Ruth Helman, Dallas Salisbury, Variny Paladino, and Craig Copeland, "Encouraging Workers to Save: The 2005 Retirement Confidence Survey," *EBRI Issue Brief*, no. 280 (Employee Benefit Research Institute, April 2005); (www.ebri.org/surveys/rcs/2005).

Retirement Annuity and Employment-Based Pension Income, Among Individuals Ages 50 and Over: 2004

by Ken McDonnell, EBRI

Introduction

This article looks at one slice of the income pie of the older population: retirement annuities and employment-based pensions. It analyzes the population ages 50 and over in order to take into account the prevalence of early retirement options available to individuals beginning at age 50.

Recent data from the March 2005 Current Population Survey, conducted by the U.S. Census Bureau, confirm earlier findings that gender, marital status, age, education, and other demographic variables have a significant impact on the likelihood of a worker receiving a retirement annuity and/or employment-based pension income in retirement.¹ There may also be a strong correlation between these same variables and the amount of pension income received from employment-based retirement plans.²

For example, in 2004, 27.9 percent of men age 50 and older with a graduate-level education received an annuity and/or pension income, compared with 22.8 percent of men without a high school diploma—a differential of 5.1 percentage points (Figure 1). While notable, this differential in *receipt* of an annuity and/or pension income pales in comparison with the differential in the *amounts* these men received: In

Figure 1
**Pension and Annuity Income Reciprocity, Males Over Age 50:
 Percentage Receiving Pension and Annuity Income, With Mean and
 Median Pension and Annuity Income, by Various Characteristics, 2004**

	Percentage Receiving Pensions and Annuities	For Those Receiving Pensions and Annuities	
		Mean annual income from pensions and annuities	Median annual income from pensions and annuities
Age			
Age 50–55	6.0%	\$20,931	\$16,380
Age 56–60	16.3	24,360	20,000
Age 61–64	27.9	20,413	16,800
Age 65–67	39.7	18,707	14,400
Age 68–70	45.4	19,161	15,000
Age 71–75	45.6	18,474	13,572
Age 76–80	47.9	14,301	10,200
Over age 80	47.0	14,969	10,128
Over age 65	45.1	17,041	12,000
Industry Sector			
Private sector	16.4	14,134	10,080
Public sector	8.7	25,612	21,600
Educational level			
No high school diploma	22.8	8,851	6,636
High school diploma to associate's degree	26.4	16,037	12,100
Bachelor's degree	27.2	25,046	21,600
Graduate degree	27.9	30,878	25,200
Marital status			
Married	26.8	19,270	14,400
Widowed	40.7	15,546	10,800
Divorced or separated	19.3	17,871	13,032
Never married	16.3	15,979	11,352
Income Quintile			
Lowest	7.8	4,716	3,564
Second	30.9	6,579	5,094
Middle	39.0	15,284	14,400
Fourth	28.4	25,658	24,000
Highest	21.5	36,980	34,854

Source: Employee Benefit Research Institute tabulations of the March 2005 Current Population Survey. For other years of data, click on the following link to the *EBRI Databook on Employee Benefits*, Chpt. 8: www.ebri.org/publications/books/index.cfm?fa=databook

2004, men with graduate-level degrees received 3.9 times the median³ annuity and/or pension income that was received by men without a high school diploma (calculated from Figure 1). Figure 1 also shows how age, education, marital status, and income are related to annuity and/or pension recipiency and to the amounts males received in 2004; Figure 2 shows the same data for females.

Gender

Gender is a particularly strong factor in retirement annuity and/or employment-based pension income recipiency. Figure 1 shows that in 2004, 45.1 percent of men over age 65 received annuity and/or pension income, with a mean amount of \$17,041 per year. Figure 2 shows that only 27.9 percent of women over age 65 received annuity and/or pension income that year, with mean pension income of \$9,785. Hence, a woman age 65 or older in 2004 was less than two-thirds (62 percent) as likely to receive an annuity and/or pension payment as her male counterpart. If she did receive one, her mean benefit was likely to be about half (57 percent) of that received by a man in the same age group (calculated from Figures 1 and 2).

Women age 50 or older in 2004 were born in 1954 at the latest. They are therefore part of a cohort of women who, on average, spent fewer years in the labor force than younger cohorts. Because of relatively lower labor force participation rates, women in the older age group are more likely to receive pension income through their husbands, as spouses or survivors, than through their own savings or employment. Widows constituted the largest proportion of women over age 50 receiving annuities and/or pensions in 2004, at 31.7 percent (Figure 2).

Figure 2
**Pension and Annuity Income Recipiency, Females Over Age 50:
Percentage Receiving Pension and Annuity Income, With Mean and
Median Pension and Annuity Income by Various Characteristics, 2004**

	Percentage Receiving Pensions and Annuities	For Those Receiving Pensions and Annuities	
		Mean annual income from pensions and annuities	Median annual income from pensions and annuities
Age			
Age 50–55	3.8%	\$15,401	\$11,000
Age 56–60	10.9	17,416	13,980
Age 61–64	19.2	14,877	9,600
Age 65–67	24.6	12,189	8,160
Age 68–70	24.7	12,205	8,280
Age 71–75	29.1	9,817	6,888
Age 76–80	27.5	8,993	6,072
Over age 80	30.8	8,111	5,760
Over age 65	27.9	9,785	6,432
Industry Sector			
Private sector	10.3	8,227	4,800
Public sector	6.6	15,801	13,128
Educational level			
No high school diploma	14.4	5,751	3,960
High school diploma to associate's degree	17.7	9,545	6,156
Bachelor's degree	19.3	16,934	13,800
Graduate degree	22.8	23,343	20,000
Marital status			
Married	12.3	12,490	8,750
Widowed	31.7	9,683	6,132
Divorced or separated	15.1	12,664	8,832
Never married	19.3	16,140	10,800
Income Quintile			
Lowest	3.0	2,237	2,000
Second	8.0	3,308	2,340
Middle	26.0	5,128	3,948
Fourth	28.1	12,158	10,800
Highest	18.8	23,907	21,600

Source: Employee Benefit Research Institute tabulations of the March 2005 Current Population Survey. For other years of data, click on the following link to the *EBRI Databook on Employee Benefits*, Chpt. 8: www.ebri.org/publications/books/index.cfm?fa-databook

Widows received the lowest mean and median retirement annuity and/or pension income amounts among women of any marital status (Figure 2). In 2004, the mean annuity and/or pension income for widows was \$9,683, compared with \$16,140 for women who were never married (Figure 2).

On average, younger women today spend less time in the work force than men of similar ages and tend to have lower-paying jobs, a situation due in large part to leave taken from work to provide family caregiving. However, on average, today's younger women tend to spend more time in the work force than did women who were age 50 and older in 2004. As other EBRI research has shown, women's participation in retirement plans has risen significantly in recently years, closing the gap in retirement plan participation with men (see *EBRI Issue Brief* no. 286, "Employment-based Retirement and Pension Plan Participation: Geographic Differences and Trends, 2004," October 2005). Hence, the aggregate pension and annuity reciprocity for women and the amounts they receive are likely to increase over time as these younger generations retire. However, women older than age 50 who are in the lowest income quintiles may continue to be least likely to receive annuity and/or pension income.

Demographic characteristics such as education, marital status, and income remained steady indicators of the likelihood and amount of annuity and/or pension reciprocity from 1988–2004 (Figures 3, 4, and 5).

Figure 3
**Percentage of Population Over Age 50 Receiving Pension and
Annuity Income, by Various Characteristics, Selected Years, 1988–2004**

	1988	1991	1995	1998	2001	2004
Age						
Age 50–55	7.0%	6.0%	5.9%	6.1%	5.1%	4.9%
Age 56–60	16.2	15.3	14.3	13.7	13.0	13.6
Age 61–64	27.3	28.0	25.9	26.0	24.9	23.5
Age 65–67	36.9	36.3	34.2	33.8	31.0	32.0
Age 68–70	36.7	38.5	37.2	36.9	35.0	34.1
Age 71–75	36.8	40.2	38.0	37.3	36.5	36.5
Age 76–80	32.3	36.8	36.2	38.1	37.0	36.3
Over age 80	28.9	32.8	31.5	33.5	34.4	36.9
Over age 65	34.6	37.0	35.4	35.9	34.9	35.4
Gender						
Male	32.2	32.7	30.6	29.0	26.5	26.1
Female	18.2	19.3	18.4	18.4	17.6	17.8
Industry Sector						
Private sector	14.6	15.6	14.8	14.7	13.5	13.1
Public sector	9.5	9.3	8.3	7.9	7.4	7.6
Educational level						
No high school diploma	22.0	22.4	20.4	19.2	18.4	18.2
High school diploma to associate's degree	24.9	25.7	24.1	23.4	22.0	21.5
Bachelor's degree	29.8	29.4	28.2	25.3	22.8	23.5
Graduate degree	31.1	31.9	30.6	30.4	25.8	25.7
Marital status						
Married	23.3	24.2	22.9	22.1	20.4	20.2
Widowed	31.1	33.1	31.9	32.5	33.5	33.5
Divorced or separated	17.2	17.6	17.9	17.3	15.7	16.8
Never married	27.0	25.7	21.3	21.1	15.8	17.8
Income Quintile						
Lowest	3.9	4.5	4.0	4.7	3.9	4.0
Second	13.5	13.9	13.5	14.5	15.1	15.4
Middle	35.1	36.4	33.9	34.8	34.8	33.4
Fourth	38.5	41.0	39.3	34.9	29.7	30.0
Highest	27.1	26.6	25.4	23.5	21.2	20.9

Source: Employee Benefit Research Institute tabulations of the March 1989, 1992, 1996, 1999, 2002, and 2005 Current Population Survey. For other years of data, click on the following link to the *EBRI Databook on Employee Benefits*, Chpt. 8: www.ebri.org/publications/books/index.cfm?fa=databook

Age

The likelihood of receiving an annuity and/or pension income increases with age. Yet among individuals in the oldest age group (those age 80 and over) data show a lower percentage receiving annuity and/or pension income (Figures 3). However, the percentage of individuals age 80 and over receiving annuity and/or pension income has been increasing, from 28.9 percent in 1988 to 36.9 percent in 2004.

It is also worth noting that, although only 18.5 percent of persons ages 50–60 in 2004 were receiving annuity and/or pension income, those recipients had mean and median incomes that were greater than those received by persons over age 60 (Figures 3, 4, and 5). These data suggest that many persons who retired early in the 1990s may have done so because they were eligible for early retirement benefits and/or were able to purchase a sizable annuity, and therefore no longer needed to work for financial reasons. However, it is also likely that some persons ages 50–60 receiving retirement annuity and/or employment-based pension income were forced out of the labor force involuntarily—by disability or layoffs—and consequently had to settle for below-average pension incomes.

Figure 4
**Median Annual Income From Pensions and Annuities in Constant 2004 Dollars
for the Population Over Age 50, by Various Characteristics, Selected Years, 1988–2004**

	1988	1991	1995	1998	2001	2004
Age						
Age 50–55	\$14,045	\$12,865	\$14,004	\$16,225	\$15,359	\$14,400
Age 56–60	13,732	14,230	15,350	16,225	15,359	18,000
Age 61–64	10,500	11,095	13,406	12,748	12,800	13,764
Age 65–67	8,522	9,125	8,439	9,735	10,240	12,000
Age 68–70	7,792	8,322	8,924	9,271	10,240	12,000
Age 71–75	6,898	7,473	7,725	9,735	9,561	9,792
Age 76–80	5,748	5,548	6,403	7,238	7,680	8,400
Over age 80	5,480	5,376	5,950	5,869	7,040	7,200
Over age 65	6,994	7,157	7,437	8,344	8,678	9,600
Gender						
Male	11,104	11,151	11,899	12,808	12,800	14,000
Female	5,748	5,376	5,950	6,258	6,400	7,500
Industry Sector						
Private sector	5,908	6,208	6,440	6,919	7,155	7,428
Public sector	13,758	13,315	15,008	16,146	15,359	16,872
Educational level						
No high school diploma	5,269	4,993	5,310	4,937	5,568	5,400
High school diploma to associate's degree	8,800	8,671	8,672	9,304	8,998	9,600
Bachelor's degree	15,184	14,125	14,324	16,688	15,466	18,000
Graduate degree	18,326	18,804	22,896	23,085	23,039	24,000
Marital status						
Married	9,700	9,986	10,412	11,421	11,520	12,204
Widowed	5,748	5,548	5,950	6,258	6,400	7,200
Divorced or separated	7,984	8,322	8,924	9,401	11,093	10,020
Never married	9,581	9,570	9,180	9,735	11,520	10,800
Income Quintile						
Lowest	1,916	1,437	2,172	2,503	2,667	2,232
Second	2,012	2,154	2,186	2,503	2,650	2,736
Middle	5,713	5,241	5,399	5,981	6,835	7,380
Fourth	11,976	11,650	12,316	15,297	15,359	18,000
Highest	20,758	21,636	25,024	26,655	27,732	30,000

Source: Employee Benefit Research Institute tabulations of the March 1989, 1992, 1996, 1999, 2002, and 2005 Current Population. For other years of data, click on the following link to the EBRI Databook on Employee Benefits, Chpt. 8: www.ebri.org/publications/books/index.cfm?fa=databook

Industry Sector

While fewer individuals ages 50 and over received pension income from a public-sector plan (7.6 percent) than from a private-sector plan (13.1 percent) in 2004, the average amount an individual received from a public-sector plan (\$21,095) was considerably larger than that received by a private-sector plan recipient (\$11,672) (Figures 3 and 5).

Future Trends

Will today's workers have a steady income stream when they retire? This is an important policy question for government, employers, and employees alike. Current trends show future retirees may not have a steady income stream in retirement. Fewer employees are participating in a defined benefit (DB) plan, which, in the past, almost always paid benefits in the form of an annuity upon retirement. In today's

work place, an increasing number of DB plans are offering a lump-sum distribution option at retirement. Also, increasing numbers of employees are participating in a defined contribution (DC) plan, primarily a 401(k) plan. This trend has had a positive impact, in that many workers who previously had no retirement plan at all now at least have access to a tax-favored plan. However, DC plans are far less likely to offer an annuity option to retirees than are DB plans.

According to data from Hewitt Associates,⁴ in 2003 only 17 percent of surveyed employers that offered a 401(k) plan offered an annuity option to retirees, while 100 percent offered a lump-sum distribution option. Furthermore, according to the same Hewitt data, only 2 percent of retirees who were offered an annuity option in their 401(k) plan chose to take that option. Consequently, future retirees will likely be more reliant on assets they must manage themselves instead of receiving a stream of income for life (i.e., an annuity). For further research on future retirees' income, see *EBRI Issue Brief* no. 263, "Can America Afford Tomorrow's Retirees: Results From the EBRI-ERF Retirement Security Projection Model," November 2003.

Figure 5
**Mean Annual Income from Pensions and Annuities in Constant 2004 Dollars
 for Population Over Age 50 by Age, Gender, Industry Sector, Educational
 Attainment, Marital Status, and Income Quintile, Selected Years, 1988–2004**

	1988	1991	1995	1998	2001	2004
Age						
Age 50–55	\$16,796	\$15,496	\$18,361	\$19,262	\$18,596	\$18,754
Age 56–60	17,758	17,409	18,769	20,913	20,454	21,527
Age 61–64	15,209	15,133	18,719	17,603	17,570	18,100
Age 65–67	11,895	12,640	12,691	14,854	15,141	16,163
Age 68–70	12,235	11,654	13,224	14,571	14,720	16,393
Age 71–75	10,641	11,419	11,886	13,736	13,591	14,631
Age 76–80	9,856	9,451	10,810	12,392	11,524	12,008
Over age 80	8,427	8,643	9,162	10,454	10,953	11,408
Over age 65	10,799	10,912	11,592	13,105	12,999	13,797
Gender						
Male	15,216	15,171	16,549	18,056	18,221	18,633
Female	8,751	8,393	9,316	10,468	10,140	11,548
Industry Sector						
Private sector	9,180	9,344	10,041	11,124	10,837	11,672
Public sector	17,079	16,701	18,602	19,938	20,082	21,095
Educational level						
No high school diploma	7,253	6,928	7,280	7,362	7,897	7,526
High school diploma to associate's degree	12,479	12,005	12,265	13,132	12,650	13,014
Bachelor's degree	20,590	19,118	19,999	21,937	20,758	21,908
Graduate degree	24,170	24,211	26,572	27,130	27,161	28,072
Marital status						
Married	14,271	14,133	15,351	16,666	16,723	17,403
Widowed	8,926	8,698	9,188	10,748	9,944	11,061
Divorced or separated	11,374	11,318	12,587	13,817	15,173	15,083
Never married	13,543	12,157	16,102	14,552	14,564	16,065
Income Quintile						
Lowest	2,515	1,981	2,676	3,032	2,978	2,721
Second	3,264	3,283	3,437	3,849	4,004	4,153
Middle	6,674	6,343	6,468	7,278	7,993	8,634
Fourth	12,828	12,807	13,582	16,377	16,993	18,237
Highest	25,907	26,062	28,830	31,615	31,841	33,005

Source: Employee Benefit Research Institute tabulations of the March 1989, 1992, 1996, 1999, 2002, and 2005 Current Population. For other years of data, click on the following link to the *EBRI Databook on Employee Benefits*, Chpt. 8: www.ebri.org/publications/books/index.cfm?fa=databook

Endnotes

¹ The data in this article were tabulated from the March Current Population Surveys, published annually by the U.S. Census Bureau. Of all datasets reporting income of the older population, the March CPS allows the most detailed breakouts of individual incomes, allowing differences correlated with individual demographic characteristics such as age, gender, marital status, and education to be identified. However, there is some controversy surrounding the validity of the March CPS data in relation to its information about pension income and total income of the older population. For example, the 2004 National Income and Product Accounts (NIPA) survey reports more than \$253.3 billion more income from private pensions and \$166.4 billion more income from public pensions than the March CPS. Part of this disparity arises from NIPA's accounting of lump-sum distributions paid to younger workers as pension income. In addition, because some pension plans are administered by third parties or are paid out in lump-sum distributions and managed by another party or by the retiree (e.g., in the form of an individual retirement account (IRA), pension income may be misreported by respondents as coming from other sources (e.g., assets, personal savings). Nevertheless, although March CPS data may understate pension income, it does not necessarily follow that it underestimates total income of the elderly, especially if pension income is simply misreported as originating from other sources in the March CPS. However, the fact that NIPA reports \$154.2 billion more income from Old-Age, Survivors, and Disability Insurance (OASDI) than the March CPS suggests that the March CPS does not only underestimate pension income but may also underestimate total income received by the older population. The extent to which the March CPS underestimates total income or certain types of income is unknown because of the limitations in directly comparing the income of individuals using the CPS with that of other datasets.

² The term *employment-based pension income* refers to income coming from employment-based retirement plans (both defined benefit and defined contribution plans, including 401(k) plans) sponsored by both private- and public-sector employers, whether received in the individual's own name or as a survivor, as well as any income from individual retirement accounts (IRAs). *Annuities* are added because of the prevalence of lump-sum distributions from employment-based plans that could have been a source of these annuities. A retiree may take some or all of the lump-sum distribution and purchase an annuity. Data on annuities and IRAs are included in an attempt to give a complete picture of income generated from employment-based retirement plans throughout an individual's working career. According to data published in the May 1999 *EBRI Notes*, rollovers from 401(k) and other types of DC plans account for the largest share of IRA asset growth aside from market gains.

³ The midpoint: 50 percent above and 50 percent below.

⁴ Hewitt Associates LLC, *Survey Findings: Trends and Experience in 401(k) Plans: 2001* (Lincolnshire, IL: Hewitt Associates LLC, 2001).

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