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Notes

Social Security: Unemployment and Immigration

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Introduction

The strong economy during the late 1990s and into 2000 was an important factor in the improvement in the Social Security program's 75-year actuarial balance.[1] According to the Board of Trustees of the Old-Age and Survivors Insurance and Disability Insurance (OASDI) Trust Funds, in 1997 the program's actuarial balance was –2.23 percent of taxable payroll.[2, 3] By 2001, it had improved to –1.86 percent of taxable payroll.[4] However, the decline in the economy and increase in the unemployment rate both before and after Sept. 11 are likely to halt this improvement in the actuarial balance. Furthermore, the events of that day also affected attitudes about immigration.

A paper by Kjetil Storesletten examines the impact of immigration on the funding status of the Social Security program.[5] He found that a significant increase in the number of immigrants with medium to high job skills who are in their early- to prime-working years could have a considerable positive impact on the Social Security program's funding status, reducing the need to increase taxes or cut benefits. Therefore, a reduction in immigration of skilled workers would be expected to have a corresponding negative impact.

This article investigates the impact of increases and decreases in the level of net immigration in the United States, since the political climate toward immigration now appears to be unfavorable. It also examines the effect of changes in the unemployment rate on the financial status of the Social Security program, in light of the recent increase in the unemployment rate relative to the near-record lows in recent years. After presenting the historical values of these important factors, the article describes the SSASIM policy simulation model results concerning the actuarial balance of the Social Security program, assuming different values for the unemployment rate and the level of net immigration.

Historical Values of the Unemployment Rate and Net Immigration

In five-year periods from 1960 to 2000, the unemployment rate ranged from a low of 3.9 percent from 1965 to 1970 to a high of 8.3 percent from 1980 to 1985 (Figure 1). With the exception of the period from 1965 to 1970 and the recent period of rapid economic expansion from 1995 to 2000, the unemployment rate averaged 5.5 percent or more. Even in the first half of the 1990s, the unemployment rate averaged 6.6 percent.

The level of legal net immigration during the 1990s ranged from 492,083 in

1990 to 683,449 in 1996 (Figure 1). Other-than-legal net immigration is estimated to have ranged from 225,000 to 300,000 during this same period. Thus, total net immigration averaged between 800,000 and 1,000,000 during the 1990s.

In the Board of Trustees' 2001 report, the intermediate long-run assumption value for the unemployment rate was 5.5 percent, while the intermediate long-run assumption for the level of net immigration was 900,000 annually.[6] The intermediate assumptions are considered the Board of Trustees' "best estimate" for the values of the factors affecting the Social Security program's solvency.

Figure 1
HISTORICAL VALUES FOR THE UNEMPLOYMENT RATE AND NET IMMIGRATION

Year	Average Annual Unemployment Rate	Net Immigration: Legal	Net Immigration: Other-than-legal[a]
1960 to 1965	5.5%		
1965 to 1970	3.9		
1970 to 1975	6.1		
1975 to 1980	6.8		
1980		397,979	
1980 to 1985	8.3		
1985		427,507	
1985 to 1990	5.9		
1990 to 1995	6.6		
1995 to 2000	4.6		
1990	5.6	492,083	
1991	6.9	528,004	
1992	7.5	607,976	
1993	6.9	660,011	
1994	6.1	598,796	
1995	5.6	537,146	
1996	5.4	683,449	
1997	4.9	596,873	
1998	4.5	494,642	
1999	4.2	495,000	300,000
2000	4.0	540,000	300,000

Source: Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds, *The 2001 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* (Washington, DC: Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds, 2001).
[a]Other-than-legal net immigration is estimated to average between 225,000 and 300,000 persons per year over the period 1980–1998.

Effects on Actuarial Balance

Using various values for the unemployment rate and the level of net immigration, the SSASIM simulation model is able to estimate the changes in the actuarial balance of the OASDI program from the level using the Board of Trustees' intermediate assumptions. SSASIM can closely replicate the results of the actuarial model used by the Social Security Administration's Office of the Actuary to produce the Board of Trustees' estimates. SSASIM is based on 13 economic and demographic assumptions—including the unemployment rate and level of net immigration—that allow for the estimation of the OASDI program's actuarial balance, beneficiaries' benefits, and various indicators of the macro economy.[7]

Unemployment Rate

When holding all of the other assumption values constant at the levels matching the Board of Trustees intermediate levels, a change of 0.5 percentage points in the unemployment rates leads to an approximate 0.06–0.07 percentage point change in the actuarial balance (Figure 2, panel A).[8] For example, if the unemployment rate changed from 5.5 percent to 5.0 percent, the actuarial balance would improve from –1.86 percent of taxable payroll to –1.79 percent, while an increase to 6.0 percent of the unemployment rate would cause the actuarial balance to worsen to –1.92 percent.

Net Immigration

Holding all other assumptions constant, decreasing the net immigration assumption value from 900,000 to 450,000 causes the actuarial balance to fall from –1.86 percent to –2.14 percent (Figure 2, panel B). When immigration increases, a significant improvement in the actuarial balance occurs. If the assumed value doubles to 1,800,000, the actuarial balance would improve to –1.36 percent. The actuarial balance would improve –0.61 percent if the immigration assumption increases to 3,600,000.

The actuarial balance can also be affected by a change in immigrants' age distribution, that is, the number of immigrants in each age group. When the age distribution of the immigrants is skewed to the young (more than 95 percent are age 30 or younger compared with the present assumption of approximately two-thirds of the immigrants being age 30 or younger), the actuarial balance of the Board of Trustees' intermediate assumptions improves to –1.30 percent over the standard future 75 years from the –1.86 percent before the skewing of the immigration distribution (Figure 2, panel B). With young-skewed distribution and a doubling of the immigrants to 1,800,000 annually, the resulting actuarial balance estimate is –0.42 percent.

In contrast, if the age distribution of immigrants is older-skewed (only approximately 30 percent of the immigrants are age 30 or younger), the actuarial balance for the Board of Trustees' intermediate assumptions would decline to –2.45 percent. The actuarial balance would fall to –2.39 percent under the older-skewed age distribution with 1,800,000 of immigrants.

Figure 2
Actuarial Balance of the Social Security Program Under Various Unemployment Rate and Net Immigration Assumptions

PANEL A:
Changing Only Unemployment Rate Assumption

Long-Run Unemployment Rate Assumption	Actuarial Balance
4.0%	–1.66%
4.5	–1.73
5.0	–1.79
5.5	–1.86
6.0	–1.92
6.5	–1.99
7.0	–2.05

PANEL B:
Changing Only Net Immigration Assumptions

Long-Run Net Immigration Assumption (millions)	Actuarial Balance by Distribution		
	Unchanged distribution	Young-skewed distribution	Older-skewed distribution
0.00	–2.47%	–2.42%	–2.52%
0.45	–2.14	–1.82	–2.48
0.90	–1.86	–1.30	–2.45
1.35	–1.60	–0.83	–2.42
1.80	–1.36	–0.42	–2.39
2.70	–0.96	0.28	–2.34
3.60	–0.61	0.86	–2.29

PANEL C:
Changing Both Net Immigration and Unemployment Rate Assumptions

Long-Run Net Immigration Assumption	Long-Run Unemployment Rate Assumption	Actuarial Balance
(millions)		
0.00	7.0%	–2.67%
0.00	4.0	–2.27
0.45	4.5	–2.01
0.90	5.5	–1.86
1.35	6.0	–1.66
3.60	7.0	–0.80
3.60	4.0	–0.43

Source: Employee Benefit Research Institute estimates using SSASIM.

Unemployment Rate and Net Immigration

A change in immigration could possibly result in a change in the unemployment rate as more or fewer individuals compete for a similar number of jobs. If net immigration increases to 3,600,000 individuals annually and the unemployment rate increases to 7.0 percent, the actuarial balance of the program would improve by 1.06 percentage points relative to the Board of Trustees' intermediate assumptions, but is 0.19 percentage points worse than if the unemployment rate had remained at the inter- mediate assumption of 5.5 percent (Figure 2 panel C). For comparison, if the unemployment rate decreases to 4.0 percent and there is a decline in the net immigration to zero individuals annually, the actuarial balance would fall to –2.27 percent, which is 0.61 percentage points lower than if the net immigration number was unchanged from the intermediate assumption with a 4.0 percent unemployment rate.

Conclusion

A change in the level of net immigration can have a large impact on the actuarial balance of the Social Security program. Furthermore, the age distribution of the net immigration is also important. Having the net immigrants skewed toward the young—age 30 or under—would have a positive impact on the actuarial balance, because the individuals would have most, if not all, of their working years under the Social Security system before being eligible to collect benefits. In contrast, having the net immigrants skewed toward older individuals would have a negative impact on the actuarial balance. These results correspond with the work described earlier by Storesletten.[9]

Moreover, an increase in the unemployment rate has a negative impact on the actuarial balance, while a decrease in the unemployment rate has a positive impact. A half a percentage point change in the unemployment leads to a 0.06 percentage point to a 0.07 percentage point change in the Social Security program's actuarial balance.[10] Thus, a 9 percent change in the unemployment rate leads to approximately a 3.5 percent change in the actuarial balance.

While significantly increasing net immigration could be an effective way to greatly improve the funding status of the Social Security program, the current climate of concern regarding immigrants would make it difficult to implement this strategy at the present time. The short-range response to the events of Sept. 11 will most likely be a reduction in net immigration due to tougher restrictions on immigration resulting from the "war" on terrorism and a weaker economy. Should net immigration fall by one-half from the Board of Trustees' intermediate assumption value, the actuarial balance would decrease by –0.28 percentage points, or about 15 percent of the Board of Trustees' 2001 report's value. Consequently, a change in the number of immigrants will have an impact on the financial status of the Social Security program—possibly quite large if the change is large.[11]

Endnotes

[1] A present value comparison of the projected future revenues (payroll taxes and taxes on benefits) coming into the program versus the projected future costs (benefits and administrative costs) outgoing from the program. The standard time frame for assessing this calculation for the Social Security program is 75 years.

[2] See Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds, *The 1997 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* (Washington, DC: Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds, 1997).

[3] Taxable payroll is the amount of wages and salary that is subject to the Old-Age and Survivors Insurance and Disability Insurance (OASDI) payroll tax, which in 2002 is 6.20 percent on both the employee and employer on the first $84,900 of an employee's wages and salary. Thus, an actuarial balance of –2.23 percent would mean that the combined payroll tax would need to be increased by 2.23 percentage points to have projected revenues match projected costs. The percentage of taxable payroll is the standard metric for reporting the actuarial balance of the Social Security program.

[4] See Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds, *The 2001 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* (Washington, DC: Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds, 2001).

[5] See Kjetil Storesletten, "Sustaining Fiscal Policy Through Immigration," *Journal of Political Economy,* Vol. 108, no. 21 (April 2000). Storesletton uses a dynamic equilibrium model of population transition similar to that of Alan J. Auerbach and Laurence J. Kotlikoff in *Dynamic Fiscal Policy* (New York: Cambridge University Press, 1987).

[6] See Board of Trustees, 2001 p. 86 and p. 72.

[7] For more information on SSASIM, see Martin Holmer, *Introductory Guide to SSASIM* (Washington, DC: Policy Simulation Group, January 2002) available at www.radix.net/~holmer/guide.pdf.

[8] Generally, one would not just change one variable when setting assumptions for an estimation of the actuarial balance, as changes in certain variables would be expected to correlate with changes in other variables. For example, when the inflation rate increases, the nominal interest rate would also be expected to increase. Furthermore, changes in the assumptions could have offsetting effects. However, this study is only an illustration of the effect of a single factor on the actuarial balance of the OASDI program. For a similar study of the productivity growth assumption, see Craig Copeland, "Productivity Growth and the Actuarial Balance of the Social Security Program," *EBRI Notes*, no. 11 (Employee Benefit Research Institute, November 2001): 7–10.

[9] See Storesletten, 2000. Another finding from Storesletton of higher-skilled immigrants having even a more positive impact on the actuarial balance than just being in their early to prime working years was not examined in this article.

[10] An important note for this result on the actuarial balance: The unemployment rate would have to be persistently higher (lower) than the present Board of Trustees' assumption. Consequently, a short-term recession that temporarily increases the unemployment rate, with the rate returning to its original path, would have an insignificant impact on the actuarial balance. However, if the recession does lead to a persistently higher unemployment rate, the described result would hold.

[11] Again, the change in the level of net immigration would have to be persistent, not transitory.

Retirement Annuity and Employment-Based Pension Income

by Ken McDonnell, EBRI

Introduction

Recent data from the March 2001 Current Population Survey 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 payment in retirement.[1,2] There may also be a strong correlation between these same variables and the amount of pension income received from employment-based retirement plans.

For example, in 2000, 27.4 percent of men age 50 and older with a graduate-level education received an annuity and/or pension income, compared with 24.2 percent of men without a high school diploma—a differential of 3.2 percentage points (Figure 3). 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 2000, men with graduate-level degrees, on average, received nearly four times the median annuity and/or pension income of men without a high school diploma (calculated from Figure 3). Figure 3 also shows how age, education, marital status, and income are related to annuity and/or pension recipiency and to the amounts males received in 2000; Figure 4 shows the same data for females.

Gender

Gender is a particularly strong factor in retirement annuity and/or employment-based pension income recipiency. Figure 3 shows that in 2000, 43.2 percent of men over age 65 received annuity and/or pension income, with a mean amount of $14,232 per year. Figure 4 shows

Figure 3

Pension and Annuity Income Recipiency, Males Over Age 50: Percentage Receiving Pension and Annuity Income, With Mean and Median Pension and Annuity Income by Age, Educational Attainment, Marital Status, and Income Quintile, 2000

		For Those Receiving Pensions and Annuities	
Characteristics	Percentage Receiving Pensions and/or Annuities	Mean annual income from pensions and annuities	Median annual income from pensions and annuities
Age			
Ages 50–55	5.4%	$20,709	$18,600
Ages 56–60	17.2	21,674	18,000
Ages 61–64	29.4	20,489	16,200
Ages 65–67	41.4	15,802	11,580
Ages 68–70	42.0	16,272	12,000
Ages 71–75	44.8	14,673	10,800
Ages 76–80	46.7	13,117	9,000
Over age 80	41.4	11,407	8.292
Over age 65	43.2	14,232	10,200
Educational Level			
No high school diploma	24.2	9,095	6,540
High school diploma to associate's degree	27.3	14,424	11,400
Bachelor's degree	23.6	23,564	19,200
Graduate degree	27.4	27,151	24,000
Marital Status			
Married	27.0	16,909	12,000
Widowed	35.7	12,194	8,400
Divorced or separated	18.5	15,993	12,000
Never married	17.6	14,605	9,600
Income Quintile			
Lowest	4.6	2,695	2,376
Second	10.9	4,034	2,376
Middle	34.7	6,986	5,952
Fourth	39.8	14,338	13,296
Highest	21.9	29,592	26,207

Source: Employee Benefit Research Institute tabulations of the March 2001 Current Population Survey.

Figure 4

PENSION AND ANNUITY INCOME RECIPIENCY, FEMALES OVER AGE 50: PERCENTAGE RECEIVING PENSION AND/OR ANNUITY INCOME, WITH MEAN AND MEDIAN PENSION AND ANNUITY INCOME BY AGE, EDUCATIONAL ATTAINMENT, MARITAL STATUS, AND INCOME QUINTILE, 2000

		For Those Receiving Pensions and Annuities	
Characteristics	Percentage Receiving Pensions and/or Annuities	Mean annual income from pensions and annuities	Median annual income from pensions and annuities
Age			
Ages 50–55	3.6%	$12,759	$7,773
Ages 56–60	9.9	12,965	9,720
Ages 61–64	19.9	9,924	7,464
Ages 65–67	24.4	10,470	6,444
Ages 68–70	30.0	9,256	6,588
Ages 71–75	30.3	8,707	5,820
Ages 76–80	28.7	7,408	5,112
Over age 80	28.3	8,465	5,784
Over age 65	28.5	8,734	6,000
Educational Level			
No high school diploma	14.0	5,005	3,060
High school diploma to associate's degree	18.9	8,417	6,000
Bachelor's degree	20.0	13,594	10,000
Graduate degree	23.4	18,741	16,200
Marital Status			
Married	12.0	10,003	6,600
Widowed	32.6	8,374	5,712
Divorced or separated	14.9	10,348	6,864
Never married	20.9	12,678	8,850
Income Quintile			
Lowest	3.5	2,675	2,412
Second	13.5	3,132	2,064
Middle	31.7	6,206	5,350
Fourth	26.9	12,439	11,500
Highest	18.3	22,215	18,000

Source: Employee Benefit Research Institute tabulations of the March 2001 Current Population Survey.

that only 28.5 percent of women over age 65 received annuity and/or pension income that year, with mean pension income of $8,734. Hence, a woman age 65 or older in 2000 was only 66 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 61 percent of that received by a man in the same age group (calculated from Figures 3 and 4).

Women ages 50 or older in 2000 were born in 1950 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 constitute the largest proportion of women over age 50 receiving annuities and/or pensions in 2000 (32.6 percent).

Widows receive the lowest mean and median retirement annuity and/or pension income amounts among women of any marital status (Figure 4). In 2000, the mean annuity and/or pension income for widows was $8,374, compared with $12,678 for women who were never married (Figure 4).

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 2000. Hence, the aggregate pension and annuity recipiency 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 recipiency from 1988 through 2000 (Figures 5, 6, and 7).

Age

While it is not surprising that the likelihood of receiving an annuity and/or pension income increases with age, it is interesting to note that the direct relationship between retirement annuity and/or employment-based pension income and age peaks at ages 71–75 (Figures 5, 6, and 7). After age 75, annuity and/or pension income recipiency tends to have an inverse relationship to age, which may be explained by the fact that persons over age 75 in 2000 worked in an era before the proliferation of employment-based pension plans.

It is also worth noting that, although only 18.0 percent of persons ages 50–60 in 2000 were receiving annuity and/or pension income, recipients had mean and median incomes that were, on average, comparable to or greater than those received by persons over age 60 (Figures 5, 6, and 7). 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 5

Percentage of Population Over Age 50 Receiving Pension and/or Annuity Income, Selected Years, 1988–2000

Characteristics	1988	1991	1995	1998	1999	2000
Age						
Ages 50–55	6.5%	6.0%	5.5%	6.1%	5.9%	4.5%
Ages 56–60	15.2	15.2	13.4	13.7	13.5	13.5
Ages 61–64	25.7	26.9	24.7	26.0	25.0	24.4
Ages 65–67	35.0	34.8	33.5	33.8	33.2	32.7
Ages 68–70	35.6	38.0	36.6	36.9	36.8	35.5
Ages 71–75	34.3	37.5	37.4	37.3	36.5	36.7
Ages 76–80	30.4	32.0	35.5	38.1	38.4	35.9
Over age 80	26.5	28.3	30.8	33.5	35.2	33.3
Over age 65	32.6	34.4	34.8	35.9	36.0	34.9
Gender						
Male	31.4	31.5	30.0	29.0	27.9	26.1
Female	16.1	17.7	17.4	18.4	18.8	18.3
Educational Level						
No high school diploma	17.8	19.4	18.8	19.2	19.6	18.7
High school diploma to associate's degree	23.2	23.9	23.3	23.4	23.7	22.5
Bachelor's degree	30.3	29.2	27.6	25.3	22.9	21.9
Graduate degree	31.8	32.9	30.3	30.4	27.0	25.8
Marital Status						
Married	21.8	22.4	21.9	22.1	21.3	20.2
Widowed	28.7	30.9	31.0	32.5	34.3	33.2
Divorced or separated	16.7	17.2	17.2	17.3	16.7	16.4
Never married	25.0	24.6	20.1	21.1	21.2	19.2
Income Quintile						
Lowest	4.4	4.6	3.0	4.7	4.0	3.7
Second	23.4	21.6	13.1	14.5	13.9	12.7
Middle	40.3	40.6	33.4	34.8	34.5	33.0
Fourth	33.4	34.6	39.4	34.9	34.8	33.8
Highest	24.2	25.4	25.4	23.5	22.3	20.8

Source: Employee Benefit Research Institute tabulations of the March 1989, 1992, 1996, 1999, 2000, and 2001 Current Population Survey.

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 2000 National Income and Product Accounts (NIPA) survey reports over $214 billion more income from private 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 the retiree himself or herself (e.g., in the form of an IRA), pension income may be misreported by respondents as coming from other sources (e.g., assets, personal savings). Nevertheless, just because March CPS data may understate pension income, it does not necessarily follow that it

Figure 6

Median Annual Income from Pensions and/or Annuities in Constant 2000 Dollars for the Population Over Age 50, by Age, Gender, Educational Attainment, Marital Status, and Income Quintile, Selected Years, 1988–2000

Characteristics	1988	1990	1995	2000
Age				
Ages 50–55	$13,048	$12,899	$12,766	$14,000
Ages 56–60	11,645	11,066	13,993	13,200
Ages 61–64	9,869	9,222	12,221	12,000
Ages 65–67	8,270	7,509	7,693	10,000
Ages 68–70	7,278	7,115	8,135	9,084
Ages 71–75	5,822	5,660	7,042	8,400
Ages 76–80	5,010	5,270	5,837	6,672
Over age 80	4,526	4,742	5,424	6,708
Over age 65	6,308	6,068	6,780	7,812
Gender				
Male	9,555	9,222	10,847	12,000
Female	4,833	5,004	5,424	6,012
Educational Level				
No high school diploma	4,000	4,162	4,841	5,160
High school diploma to associate's degree	7,278	6,863	7,905	8,400
Bachelor's degree	12,620	12,648	13,057	14,400
Graduate degree	17,148	15,605	20,872	20,000
Marital Status				
Married	8,734	7,905	9,491	10,800
Widowed	4,645	5,189	5,424	6,000
Divorced or separated	7,231	7,363	8,135	9,600
Never married	8,734	7,905	8,368	9,600
Income Quintile				
Lowest	1,625	1,517	1,980	2,400
Second	3,202	2,720	1,993	2,132
Middle	7,505	6,456	4,922	5,600
Fourth	13,660	12,648	11,227	12,312
Highest	21,835	19,762	22,812	24,000

Source: Employee Benefit Research Institute tabulations of the March 1989, 1991, 1996, and 2001 Current Population Survey.

Figure 7

Mean Annual Income from Pensions and/or Annuities in Constant 2000 Dollars for Population Over Age 50, by Age, Gender, Educational Attainment, Marital Status, and Income Quintile, Selected Years, 1988–2000

Characteristics	1988	1990	1995	2000
Age				
Ages 50–55	$15,875	$15,234	$16,738	$17,519
Ages 56–60	15,373	14,555	17,109	18,435
Ages 61–64	13,286	13,001	17,064	15,983
Ages 65–67	12,096	11,301	11,569	13,780
Ages 68–70	10,431	10,991	12,055	13,085
Ages 71–75	9,576	8,834	10,835	11,926
Ages 76–80	8,105	8,095	9,854	10,361
Over age 80	7,297	7,212	8,352	9,864
Over age 65	9,621	9,457	10,567	11,678
Gender				
Male	13,601	13,129	15,086	16,2850402
Female	7,572	7,603	8,492	9,438
Educational Level				
No high school diploma	5,801	5,843	6,636	7,435
High school diploma to associate's degree	10,315	9,929	10,181	11,532
Bachelor's degree	17,482	16,977	18,231	19,400
Graduate degree	23,133	20,476	24,223	24,072
Marital Status				
Married	12,791	12,115	13,994	15,061
Widowed	7,750	7,957	8,376	9,165
Divorced or separated	10,242	10,906	11,474	12,940
Never married	11,417	11,133	14,679	13,519
Income Quintile				
Lowest	2,173	2,198	2,316	2,681
Second	3,995	3,558	2,975	3,370
Middle	8,065	6,939	5,598	6,571
Fourth	14,115	13,042	11,757	13,634
Highest	26,753	23,387	24,955	27,571

Source: Employee Benefit Research Institute tabulations of the March 1989, 1991, 1996, and 2001 Current Population Survey.

underestimates total income of the elderly, especially if pension income is simply misreported as originating from other sources in the March CPS. However, given that NIPA reports $120.8 billion more income from OASDI than the March CPS, this 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 income is unknown because of the limitations in directly comparing the income of individuals using CPS with that of other datasets.

[2] The term "employment-based pensions" refers to income coming from an employment-based pension plan (defined benefit and defined contribution plans, including 401(k) plans, sponsored by both private- and public-sector employers), whether in the individual's own name or as a survivor, and individual retirement accounts (IRAs). The term "annuities" is added because of the prevalence of lump-sum distributions from defined contribution plans. 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 plans throughout an individual's working career.

Washington Update

By Stephen Blakely, EBRI

The Politics of 401(k) Reform

Congress took initial steps toward new 401(k) "protection" legislation last month, but headed off in very different directions due to the different ways the Republican-controlled House and Democratic-controlled Senate are defining that term.

The full House is likely to vote on a major 401(k)-related bill this month (April). The Senate timetable is less certain, since the Senate Finance Committee does not yet have a package, and Finance will indicate whether a bipartisan package is possible. The issue has become highly politicized in the Senate, making it less than a 50 percent likelihood that anything will be enacted into law before the fall 2002 election. Speaking at a bankers' group in Washington on March 12, Rep. John Boehner (R-OH), chairman of the House Education and Workforce Committee, said that "political reality" limits the likelihood of any significant legislative action on pension reform this year.

Underlying the debate between Republicans and Democrats is a basic dilemma: How to "reform" protections for 401(k) participants without also increasing the regulatory burdens and administrative costs to the point where employers either stop sponsoring retirement plans or cut back their matching contributions. While Democrats tend to argue that the GOP proposals don't go far enough in protecting workers, Republicans counter that the Democratic proposals would go too far and force employers to cut retirement benefits. So far, plan sponsors have expressed their strongest opposition to the Democrats' bill, but also are unhappy with several of the GOP-supported provisions.

Based on committee action last month, here's what is likely to happen in April on Capitol Hill:

- ***The House of Representatives*** is poised to vote on a measure crafted by the Ways and Means Committee and the Education and Workforce Committee that stresses investment advice, greater employee diversification rights, and greater notification to participants (both regarding the source of investment advice and the imposition of so-called "blackout periods" when 401(k) participants are prohibited from reallocating their assets). This package would allow workers to sell company stock contributions from their employers after three years, instead of waiting until they reach age 50, as many plans require.

- ***The Senate Finance Committee*** is likely to work on a bill. Should they embrace the Senate Health, Education, Labor, and Pensions Committee (HELP) bill, then enactment this year is very unlikely. That measure contains some provisions similar to the House measure, but which would go further by allowing employees or a representative to sit on panels that make retirement-plan decisions, and which could indirectly force employees to diversify their retirement accounts even though the legislation doesn't directly impose a limit on company stock that can be held in a 401(k) account. Sponsored by committee chairman Sen. Edward Kennedy (D-MA), the bill would allow companies either to offer stock in the form of matching contributions or to offer the stock as an investment option in retirement plans, but not both (as many companies currently do) unless the plan sponsor also offers a traditional defined benefit plan. The bill also calls for employer exemption for independent investment advice; and mandatory insurance against fiduciary breach of duty for 401(k) plans. Many of these provisions were also in a House bill introduced by Rep. George Miller (D-CA).

Retirement Provisions in Economic Stimulus Law

President Bush March 9 signed into law a bill that provides short-term relief to defined benefit plan sponsors facing sharply higher 2002 and 2003 pension funding and PBGC premium obligations. The package also extends the tax code's sunset date for the 1996 Mental Health Parity Act to Dec. 31, 2003, and makes medical savings accounts (MSAs) available through 2003.

The provisions are contained

in the economic stimulus package enacted by Congress in H.R. 3090 (P.L. 107-147), the Job Creation and Worker Assistance Act of 2002 (JCWAA), following more than a year of bitter debate over how best to help revive the economy. The new law includes a number of so-called "technical corrections" to the 2001 tax-cut law (known as EGTRRA), including (among other things) numerous changes relating to Sec. 415 limits, plan valuations, catch-up contributions, deduction limits, and rollover rules. A useful summary of the key retirement-related provisions of the law is available online at cybERISA.com (www.cyberisa.com/erisa_new_current.htm), the Web site of TRI Pension Services

ERISA Advisory Committee Members Named

U.S. Labor Secretary Elaine L. Chao named five new members to the Advisory Council on Employee Welfare and Pension Plans (ERISA Advisory Council) on March 15. The ERISA Advisory Council makes recommendations to the Labor Department on current employee benefit issues.

The new members are:

- David L. Wray, president of the Profit Sharing and 401(k) Council of America.
- John J. Szczur, director of investments for the Central Pension Fund of the International Union of Operating Engineers and Participating Employers, the fifth largest Taft-Hartley fund in the United States.
- Michele M. Weldon, director of the Financial Services Industry Practice group of PricewaterhouseCoopers, LLP's Audit and Business Advisory Services.
- Judy E. Weiss, vice president in charge of retirement and savings business matters for Metropolitan Life Insurance Company.
- Dana M. Muir, an associate professor of business law at the University of Michigan Business School, specializing in employee benefits law.

EBRI Trustee Tom McMahon of the Pacific Maritime Association is a member of the Council.

GAO: PWBA Repairs Still Needed

The General Accounting Office (GAO), the investigating arm of Congress, released a report March 15 concluding that further improvements are needed in the Department of Labor's Pension and Welfare Benefits Administration, even though PWBA has taken actions to strengthen its enforcement activities.

The report, *Pension and Welfare Benefits Administration: Opportunities for Improving Management of the Enforcement Program* (GAO-02-232), said the GAO "identified weaknesses in PWBA's management of its enforcement strategy and investigative process, in its overall human capital management, and in its measures for addressing program performance."

The operational weaknesses and broader management issues that were identified in PWBA's enforcement program could affect its ability to effectively and efficiently carry out its responsibilities for enforcing the ERISA benefit plan provisions, GAO said. The report made recommendations intended to strengthen oversight and to enhance PWBA's ability to deploy its resources and better monitor the effectiveness of its operations. The GAO's report is available on the World Wide Web at www.gao.gov/daybook/020315.htm

IRS Releases Latest Employee Plan News

The Internal Revenue Service has just published the Winter 2002 edition of *Employee Plan News,* which includes articles on SEP contributions; revised forms and publications; published employee plan guidance; a calendar of upcoming benefits conferences; and creation of a new technical clearinghouse. The newsletter is available online at www.irs.gov/retirementplans/display/0,,i1=57&genericId=6925,00.html

EBRI in Focus

EBRI Has New Director of External Affairs

On April 1, Jim Jaffe joined EBRI as director of external relations for EBRI. He replaces Danny Devine, formerly director of public relations, who accepted a senior-level position in the Department of Veterans Affairs, and Teresa Turyn, formerly EBRI's government liaison, who has accepted a position with the U.S. Department of Labor. Jaffe comes to EBRI with extensive experience as a congressional staffer (he served as press secretary to the House Ways and Means Committee for 10 years), and has worked in the Washington private sector (both profit and nonprofit) for Powell Tate and the Center for Budget and Policy Priorities). He can be reached at 202/775-6353 or jaffe@ebri.org

Choose to Save® Has New Director

In a related reorganization of duties, EBRI's Cheri Meyer has taken over responsibility for the Choose to Save® savings education campaign, and is overseeing the development of several new public service announcements, a number of new education brochures for print and Web distribution, and an update of the CTS Web site at www.choosetosave.org The first new PSA was completed in time for the second National Summit on Retirement Savings Feb. 27–Mar. 1, and focuses on youth and the importance of compound interest (a major topic of the Summit). Meyer can be reached at 202/775-6351 or meyer@ebri.org

CTS public service announcements can be heard on the CTS Web site at www.choosetosave.org/tvradio/avpsas.htm

Choose to Save®, developed by ASEC and EBRI, is an ongoing educational program that promotes retirement saving through media campaigns, printed materials, and strategic partnerships with a wide variety of public- and private-sector institutions. Fidelity Investments has underwritten the Washington, DC, Choose to Save® program since its inception in January 1998.

EBRI Takes Research Results On the Road

EBRI President and CEO Dallas Salisbury continued his series of spring road trips in March, presenting the results of EBRI research before a wide range of organizations:

- On March 6, he was in Boston filming a set of education videos (that can be viewed on www.yahoofinance.com) which update individuals and employers on new savings opportunities created by the 2001 tax law (EGTRRA). Fidelity Investments produced the video, which also included Harold Evensky, principal, Evensky, Brown & Katz; Martin Nissenbaum, national director, Personal Income Tax Planning, Ernst & Young; Tracey Esherick, executive vice president, Fidelity Personal Investments; and Terry Savage, financial authority and author.
- On March 12, he was in Miami, FL, for the first meeting of the new CIGNA Participant Communications Board to develop new approaches for increasing participation in 401(k) plans and contribution rates. Others working with the panel include Don Phillips, managing director of Morningstar, Inc.; Dr. Barry Sheckley, professor and section head of the University of Connecticut's Adult Learning Program; Rochelle Lamm, chief executive officer of the Academy of Financial Services Studies, LLC, creators of adult learning programs for the retirement industry; Charlie Ruffel, chief executive officer of *Plan Sponsor* magazine; and Lynne Ellis, director of personnel and benefits, Spang & Company.
- Later in the month he was with the Denver Chapter of the Western Pension Benefits Council at their annual conference making a keynote presentation on "Working Longer: Bridge Jobs and Phased Retirement in an Aging Nation."
- On March 20, he opened the 2002 Conference Board Employee Benefits Conference in New York with a keynote address on "Trends in Benefits,"

highlighting both drivers of change and the key role of workplace benefits design in future national economic growth and corporate profitability.

- On March 21, he joined a distinguished judging panel in New York to select "The Principal 10 Best Companies for Employee Financial Security" award winners. Other judges on the panel included George Herrera, president and CEO, United States Hispanic Chamber of Commerce; Sandra Hernandez, president, National Association of Women Business Owners; Howard Wolosky, associate publisher/executive editor, *The Practical Accountant;* William Carlino, editor-in-chief, *Accounting Today*; Deborah J. Lucas, PhD., Household International Professor of Finance, Kellogg School of Management, Northwestern University; John G. Borman, vice president of finance and chief financial officer, Eichleay Group; and Michelle Schmitt, past-president, Society of Human Resource Management. More than a thousand companies from across the nation competed for the prize, which is sponsored by The Principal Financial Group of Des Moines, IA.
- On March 23, he was in Williamsburg, VA, for the 23rd "State of the Union" talk on emerging developments in the employee benefits environment at the Palmer & Cay Annual Professional Development Seminar. He keynoted with an address on the "2002 Economic Security Update: The Case for Workplace Benefits."
- On March 26, he met with staff of the House Small Business Committee to discuss small-business pension issues (EBRI's 2002 Small Employer Retirement Survey is scheduled for release in May).
- On March 28, he was in New York to give the keynote address on "Defined Contribution Health Care: Fact or Fancy," for the Center for Corporate Innovation senior health care executives' seminar.

CHEC's Research Project in Second Phase

The EBRI-ERF Consumer Health Education Council (CHEC) is in the second phase of its Robert Wood Johnson Foundation-supported research project to learn more about the attitudes and practices of employers affecting health care coverage made available through the workplace. Meetings with employers have been conducted in Chicago and New York to probe the findings of an earlier Web-based survey more deeply. A third is planned for April 10 in Atlanta and a fourth will be conducted in Phoenix.

On March 20, CHEC also met with the Delaware Health Care Commission to discuss an educational strategy for helping small employers provide health benefits to employees and their families. The commission was created by the Delaware General Assembly to develop a pathway to basic, affordable health care for all residents.

Media Coverage on Savings Issues Continues to Expand

The aftermath of the Enron bankruptcy and enactment of pension and retirement changes in the economic stimulus package have combined to bring more and more media attention to these issues.

EBRI, its team and programs, have been assisting hundreds of reporters, and have been featured in articles in the *Wall Street Journal*, the *Washington Post,* the *New York Times, USA Today, Los Angeles Times, Boston Globe, Financial Times, Newsday, San Francisco Chronicle,* jsonline.com, *Milwaukee Journal Sentinel, Houston Chronicle, USA Weekend, Consumers' Reports* and *Consumers' Research* magazines, *Press Democrat, U.S. Newswire, Buffalo News, Connect, Harrisburg Patriot,* and *The Denver Post.* Additionally, EBRI data were cited in Associated Press and other newswire stories that have been syndicated nationally, and in appearances on a number of television and radio shows, and especially in trade publications such as *Pensions and Investments, Defined Contribution News,* BNA's *Pension & Benefits Reporter, Plan Sponsor,* IOMA's *DC Plan Investing, HR News, Human Capital I.Q.* [Deloitte & Touche], *HR Magazine,* BenefitNews.com. Related issues have also been getting the media's attention, for example, with an appearance by ASEC President Don Blandin on the NBC *Today Show* in a segment on youth financial literacy.

Various ASEC Activities in March

- ASEC participated and made presentations at the following conferences: National Defined Contribution Council 2002 Spring Conference; "Financial Security in Later Life," National Initiative Roll Out Conference sponsored by one of ASEC's government partners, the Cooperative Extension System (CES); and *The Boston Globe* Personal Finance Conference & Expo.
- Planning and preparation continued for the RetireMint™ conference and expo, to be held in New York City May 17–18 (more information is available at www.retiremint.com).

New Publications & Internet Resources

[*Note: To order publications from the U.S. Government Printing Office (GPO), call (202) 512-1800; to order congressional publications published by GPO, call (202) 512-1808. To order U.S. General Accounting Office (GAO) publications, call (202) 512-6000; to order from the Congressional Budget Office (CBO), call (202) 226-2809.*]

Demographics

England, Robert Stowe. The Fiscal Challenge of an Aging Industrial World. $21.95. Center for Strategic & International Studies, 1800 K St., NW, Washington, DC 20006, (202) 775-3119, e-mail: books@csis.org.

Entitlement Programs

U.S. Congress. Senate Special Committee on Aging. Modernization of Social Security and Medicare. Order from GPO.

White, Joseph. False Alarm: Why the Greatest Threat to Social Security and Medicare Is the Campaign to "Save" Them. $42.50. The Johns Hopkins University Press, 2715 N. Charles St., Baltimore, MD 21218-4319, (410) 516-6956.

Health Care

American Accreditation HealthCare Commission/URAC. URAC Directory of Accredited Organizations and Resource Guide. Accredited organizations, $35; non-accredited organizations, $40. American Accreditation HealthCare Commission/URAC, 1275 K Street, NW, Suite 1100, Washington, DC 20005, (202) 216-9010, fax: (202) 216-9006, www.urac.org.

Health Insurance Association of America. The Health Insurance Industry Resource Guide 2001. For order information, contact Rick Sauers, Naylor Publications, Inc., 5931 N.W. 1st Place, Gainesville, FL 32607, (800) 369-6220 ext. 3026 or (352) 332-1252.

Hewitt Associates. Health Care Expectations: Future Strategy and Direction 2002. Free. Hewitt Associates LLC, Attn: Publications Desk, 100 Half Day Rd., Lincolnshire, IL 60069, (847) 295-5000.

Pauly, Mark V., and John S. Hoff. Responsible Tax Credits for Health Insurance. $10. AEI Press, c/o Publisher Resources Inc., 1224 Heil Quaker Blvd., P.O. Box 7001, La Vergne, TN 37086-7001, (800) 937-5557.

U.S. Congress. House Committee on Energy and Commerce. (1) Medicare Reform: Providing Prescription Drug Coverage for Seniors. (2) The Potential for Discrimination in Health Insurance Based on Predictive Genetic Tests. Order from GPO.

Human Resource Management

Society for Human Resource Management and Fisher College of Business, The Ohio State University. Human Resource Strategies, Stages of Development and Organization Size Survey. $99.95; SHRM members, $79.95. Society for Human Resource Management, 1800 Duke St., Alexandria, VA 22314-3499, (800) 444-5006.

Pension Plans/Retirement

Disney, Richard, and Edward Whitehouse. Cross-Country Comparisons of Pensioners' Incomes. $47. Corporate Document Services, Helpline, 7 Eastgate, Leeds, LS2 7LY, United Kingdom, +44 0113 399 4040, www.corpdocs.co.uk.

Fidelity Investments. Building Futures: How Workplace Savings Are Shaping the Future of Retirement. http://buildingfutures.fidelity.com/ or e-mail: buildingfutures@fmr.com with your name, company's name, mailing address, and phone number.

Fung, Archon, Tessa Hebb, and Joel Rogers. Working Capital: The Power of Labor's Pensions. $35. Cornell University Press, Sage House, 512 East State St., Ithaca, NY 14850, (607) 277-2211.

Hewitt Associates. (1) How Well Are Employees Saving and Investing in 401(k) Plans: 2000 Hewitt Universe Benchmarks. $350. (2) Trends & Experience in 401(k) Plans. $250. Hewitt Associates LLC, Attn: Publications Desk, 100 Half Day Rd., Lincolnshire, IL 60069, (847) 295-5000.

U.S. Congress. Joint Committee on Taxation. Background Information Relating to the Investment of Retirement Plan Assets in Employer Stock. Order from GPO.

Waring, M. Barton, Lee D. Harbert, and Laurence B. Siegel. It's 11 P.M. – Do You Know Where Your Employees' Assets Are? *Investment Insights*, Vol. 4, no. 2 (October 2001). Free. Barton Waring, Barclays Global Investors, 45 Fremont St., 34th Fl., San Francisco, CA 94105, (415) 597-2064.

Relocation

Runzheimer International. Survey & Analysis of Employee Relocation Policies & Costs. $360. Runzheimer International, Runzheimer Park, Rochester, WI 53167-0009, (800) 558-1702.

Social Security

Aaron, Henry J., and Robert D. Reischauer. Countdown to Reform: The Great Social Security Debate – Revised and Updated for 2001. $12.95. The Century Foundation, 41 East 70th St., New York, NY 10021, (800) 552-5450.

Friedman, Sheldon, and David C. Jacobs. The Future of the Safety Net: Social Insurance and Employee Benefits. $29.95. ILR Press, Cornell University Press, P.O. Box 6525, 750 Cascadilla St., Ithaca, NY 14851-6525, (607) 277-2211, www.cornellpress.cornell.edu.

Tax Expenditures

U.S. Congress. House Committee on Ways and Means, Joint Committee on Taxation and Senate Committee on Finance. Estimates of Federal Tax Expenditures for Fiscal Years 2002-2006. Order from GPO.

Work

Appelbaum, Eileen, et al. Shared Work - Valued Care: New Norms for Organizing Market Work and Unpaid Care Work. $9.95. Economic Policy Institute, Attn: Zanetta Green, 1660 L St., NW, Suite 1200, Washington, DC 20036, (202) 775-8810.

Carre, Francoise, et al. Nonstandard Work: The Nature and Challenges of Changing Employment Arrangements. $29.95. Cornell University Press, Sage House, 512 East State St., Ithaca, NY 14850, (607) 277-2211.

Mishel, Lawrence, Jared Bernstein, and John Schmitt. The State of Working America 2000-2001. $24.95. Cornell University Press, Sage House, 512 East State St., Ithaca, NY 14850, (607) 277-2211.

Society for Human Resource Management. Layoffs and Job Security Survey. $19.95; SHRM members, $9.95. Society for Human Resource Management, 1800 Duke St., Alexandria, VA 22314-3499, (800) 444-5006.

Documents Available on the Internet

100 Best Companies to Work For: America's Top Employers
www.fortune.com/lists/bestcompanies/

Background Information Relating to the Investment of Retirement Plan Assets in Employer Stock
www.house.gov/jct/x-1-02.pdf

Budget of the United States Government, Fiscal Year 2003
www.whitehouse.gov/omb/budget/fy2003/index.html

The Challenge of Managed Care Regulation: Making Markets Work?
www.hcfo.net/pdf/managedcare.pdf

Employer's Tax Guide to Fringe Benefits: For Benefits Provided in 2002
www.irs.gov/pub/irs-pdf/p15b.pdf

Financial Services Fact Book 2002
www.iii.org/financial/

Legislation [in 2002] Affecting Company Stock
www.psca.org/wash/pdf/compstockleg.pdf

The MetLife Survey of American Attitudes Towards Retirement
www.metlife.com/Business/Images/met_survey_aatr.pdf

Retirement Risk Survey: Report of Findings
www.soa.org/sections/rrs_report.pdf

Consumer Medical Information Sites

AIM DocFinder
www.docboard.org/

Agency for Healthcare Research and Quality
www.ahcpr.gov/

Alternative Health News Online
www.altmedicine.com/

CMHS Knowledge Exchange Network
mentalhealth.org/

Consumer and Patient Health Information Section
caphis.mlanet.org/

Directory of Health Organizations
dirline.nlm.nih.gov

eMedicine World Medical Library
www.emedicine.com/

FDA/Center for Drug Evaluation and Research
www.fda.gov/cder/drug/

HealthWeb
www.healthweb.org/

Intelihealth
www.intelihealth.com/

IVillageHealth
www.allhealth.com/

MayoClinic.com
www.mayoclinic.com/

MEDLINEplus Health Information
medlineplus.gov/

Quackwatch
www.quackwatch.com/

WebMD*Health*
my.webmd.com/

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Notes

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The Employee Benefit Research Institute (EBRI) was founded in 1978. Its mission is to contribute to, to encourage, and to enhance the development of sound employee benefit programs and sound public policy through objective research and education. EBRI is the only private, nonprofit, nonpartisan, Washington, DC-based organization committed exclusively to public policy research and education on economic security and employee benefit issues. EBRI's membership includes a cross-section of pension funds; businesses; trade associations; labor unions; health care providers and insurers; government organizations; and service firms.

What we do

EBRI's work advances knowledge and understanding of employee benefits and their importance to the nation's economy among policymakers, the news media, and the public. It does this by conducting and publishing policy research, analysis, and special reports on employee benefits issues; holding educational briefings for EBRI members, congressional and federal agency staff, and the news media; and sponsoring public opinion surveys on employee benefit issues. **EBRI's Education and Research Fund** (EBRI-ERF) performs the charitable, educational, and scientific functions of the Institute. EBRI-ERF is a tax-exempt organization supported by contributions and grants. **The American Savings Education Council** (ASEC) and the **Consumer Health Education Council** (CHEC) are programs of EBRI-ERF. They are coalitions of private- and public-sector institutions with the goals of public education on saving, retirement planning, health insurance, and health quality.

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