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New participation and vesting standards affect less than 1 percent of the work force—adding 583,000 new participants and 325,000 new vested workers.

Impact of Retirement Equity Act

The 1984 Retirement Equity Act (REA) aimed to improve pension equity by lowering the age of participation, improving spousal and survivor benefits, and liberalizing break-in-service rules, effective January 1, 1985.

Using a simulation model and new survey data, this *Issue Brief* provides the first nationwide estimates on the number of new pension plan participants and vested workers likely to result from REA. EBRI estimates that REA will add around 583,000 new participants and 325,000 new vested workers in 1985. Slightly more than half of all new vested workers are expected to be men. In all, the number of workers affected by the new participation and vesting standards is less than 1 percent of the nation's civilian work force.

The actuarial costs of lowering the participation and vesting standards are estimated not to exceed $233 million, although increased administrative costs could more than double that cost.

The new law creates the potential for the percentage of widows receiving private pensions to climb to the rates for married men. Depending on trends in divorce settlements, REA's divorce provisions could also result in higher pension income for divorced women and lower benefits for their former spouses. Around 44,000 survivors will become entitled to preretirement survivor benefits in 1985 with first-year benefits from this provision ranging from $29 million to $72 million. The full effects of REA on spouses, surviving spouses, and divorced spouses is still extremely uncertain and hinges on the future behavior of individuals and couples.

Introduction

The 1984 Retirement Equity Act (Public Law 98-612) has been widely hailed by groups concerned with women's rights as a major breakthrough in pension equity. It lowered the age of participation, improved spousal and survivor benefits, and liberalized break-in-service rules. The new provisions became effective January 1, 1985.

This *Issue Brief* estimates numbers of new pension plan participants and vested workers that result from the new legislation, using simulations for employed workers in 1983 and bringing these estimates forward to 1985. It gives illustrative ranges of first-year plan costs for its key provisions.[1] The impact of every provision of the Retirement Equity Act (REA) cannot be quantified. The break-in-service standards, for example, do not lend themselves to nationwide estimation, because no nationwide data are available on employees who return to their jobs after time away. For other provisions affecting spouses, divorced spouses, and surviving spouses of participants, where similar estimation problems exist, relevant facts and figures are provided. Special studies would be required for a fuller treatment.

Changes in Participation Standards Under ERISA

When the Employee Retirement Income Security Act (ERISA) was enacted in 1974, employers did not have to include all of their employees in their pension plans unless specific conditions of employment were met. For instance, employers could wait one year before new employees had to be offered the opportunity to participate in the firm's plan. A year of service was usually defined as 1,000 hours during the initial 12-month period of employment. If the employee were under age 25, the waiting period could be extended until the worker reached age 25. Once the worker began participating in the pension plan, service between ages 22 and 25 had to be counted for purposes of vesting.

On the other end of the age spectrum, defined benefit plans could exclude employees who were within five years of normal retirement at the time of starting their employment. This provision was intended to avoid discouraging employers from hiring older employees because of pension funding costs. Furthermore, employers were not required to provide pension accruals for their employees who reach the plan's normal retirement age, most commonly age 65, and who wish to continue working.

[1] This *Issue Brief* draws heavily from a forthcoming book by Emily S. Andrews, *The Changing Profile of Pensions in America* (Washington, DC: EBRI, 1985).

The original 1974 ERISA participation requirements include employees age 25-64, with at least 1,000 hours of service and one or more years of tenure with their current employer. These were the ERISA standards in effect at the time the May 1983 EBRI/HHS Current Population Survey (CPS) pension supplement data were collected.[2] Since then, REA liberalized a number of the original participation provisions. By using the 1983 EBRI/HHS CPS and applying changes derived from a model developed to simulate the probabilities of coverage, participation, and vesting, one can estimate the initial effects of changes in ERISA participation provisions for employed workers.

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Effect of the Retirement Equity Act on Participation and Vesting

According to the 1983 Bureau of Labor Statistics (BLS) survey of medium and large firms,[3] 39 percent of all workers had a minimum-age requirement of 25 years as permitted under the original provisions of ERISA. Plans with such minimum-age provisions excluded young workers from accruing benefits under their pension plans. Although younger workers average very short tenure on their initial jobs, some maintain employment with their first or second employer.

REA was intended to prevent benefit losses for young workers with stable employment. Many felt that women, in particular, lost benefit entitlement through ERISA's minimum-age standards, because women are more likely to have nontraditional patterns of labor force participation. As a consequence, ERISA was amended through REA to reduce the age of plan participation from 25 to 21 and that of vesting from 22 to

[2] See "New Survey Findings on Pension Coverage and Benefit Entitlement," *EBRI Issue Brief* 33 (August 1984) for a more detailed description of this survey.

[3] See U.S. Department of Labor, Bureau of Labor Statistics, *Employee Benefits in Medium and Large Firms*, 1983 Bulletin 2213 (Washington, DC: U.S. Government Printing Office, August 1984) for a description of that survey.

18. The hope was that women would be able to accrue pension benefits during their years of early employment before career interruptions for child care. The legislation was also expected to have a greater impact on women, because 50 percent of all full-time pension plan participants in technical and clerical occupations (predominantly women) were subject to minimum-age requirements under their plans.

EBRI's preliminary analysis of the effects of REA, conducted prior to the enactment of the legislation, suggested that relatively few employees would be affected.[4] The bill became law in August 1984 before further analysis using the May 1983 EBRI/HHS CPS pension supplement could be provided. Post-enactment evaluation now suggests that the benefits of REA are more modest than originally anticipated.

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REA does not offer pension plan participation to the 10.5 percent of all employees age 21-24 who work fewer than 1,000 hours yearly and the 32.3 percent of them on the job less than a year. Also, ERISA standards only apply to private-sector employees. The effect of ERISA minimum-age standards is evident among private-sector nonagricultural employees working over 1,000 hours: the private pension plan participation rate for covered workers age 21-24, at 66 percent, is considerably lower than the 90-percent participation rate for covered workers age 25-64.

To estimate the numbers of workers likely to benefit from changes in ERISA provisions, EBRI developed a model to simulate the probabilities of coverage, participation, and vesting for particular subgroups of workers under specified changes in legislation. In the case of REA, the model simulates changes in the participation rate and vesting rate of workers age 21-24, taking into account all characteristics that affect these rates and their relative distribution among younger workers.[5]

The simulation model indicates that if REA had been passed and become effective in 1983, it would have added 530,000 young participants, nearly 300,000 of whom would have been entitled to vested benefits (table 1). These 530,000 workers represent only 5.6 percent of the work force of 9.5 million private-sector nonagricultural wage and salary workers age 21-25. Newly vested workers represent only 3.1 percent of all such young workers. In other words, the gains in pension entitlement, while real, provided increased protection for a relatively small proportion of young workers.

New participants under REA are more likely to be women than men, as the participation rate (the ratio of participants to covered workers) for young women is improved relatively more. This finding is consistent with the evidence noted earlier, which suggests that more young women are working in firms with minimum-age requirements. In terms of vesting, however, there is a somewhat greater proportion of men among the nearly 300,000 workers who would have been newly entitled to benefits if REA had been effective in 1983.

Employment expanded by 5.6 percent between May 1983 and May 1984 as the economy recovered strongly from the 1982 recession. Consequently, 1983 estimates of the effect of REA are adjusted upward by 5.6 percent for 1984. A second estimate for 1985 assumes a 10 percent employment growth since the 1983 simulation. The number of young participants affected by REA in 1985 will reach about 583,000 and new vested workers will reach around 325,000 (table 1). In all, the workers affected by REA represent less than 1 percent of a total labor force of more than 100 million.

Cost of REA Participation and Vesting Provisions

It is difficult to make a precise estimate of the actuarial cost of REA to employers because of the diversity of plan provisions, differences in employee age distributions within firms, and differences in the ways plans schedule costs into their contributions. For instance, firms with few young workers would need to make little provision for REA beyond one-time changes in plan documents. Plans with many young workers would need to increase contributions considerably to cover actuarial and administrative costs. Actuarial costs for young workers in defined benefit plans would be lower than those for defined contribution plans with similar overall contribution rates.

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[4] See "Women and Pensions, Part II: Implications of Proposals for Reform," *EBRI Issue Brief* 20 (July 1983) for an earlier upper-bound estimate.

[5] In addition to age, these characteristics include such factors as firm size, unionization, industry, hours, tenure, and wages. See Andrews, *Changing Profile*, Statistical Appendix (forthcoming), for a fuller description of the model.

Table 1
Estimated Effect of REA
Changes in Participation, Vesting, and Costs[a]

	1983[b]	1984[c]	1985[d]
Changes in Participation/ Vesting	(in thousands of workers age 21-24)		
Increased numbers of			
Participants			
Male	242	256	267
Female	288	304	316
Total	530	560	583
Vested workers			
Male	152	161	167
Female	143	151	158
Total	296	312	325
Illustrative Nationwide Actuarial Cost Estimates[e]	(in millions of 1983 dollars)		
At average annual cost of $200 per participant[f]	$106	$112	$117
At average annual cost of $400 per participant[f]	$212	$224	$233

Source: Preliminary EBRI estimates based on May 1983 EBRI/HHS CPS pension supplement and estimates of actuarial costs by age by Anna M. Rappaport and Malcolm M. Morrison.

[a] Estimates use imputed data on pension status.

[b] Estimates of Retirement Equity Act provisions based on a simulated increase in the ratio of participants to covered workers from 54.5 to 66.5 percent for women and from 68.0 to 78.6 percent for men. The simulated ratio of vested workers to participants declines from 50.9 to 50.7 percent for women and increases from 53.0 to 54.3 for men.

[c] Estimate is 5.6 percent higher than 1983 simulation.

[d] Estimate is 10.0 percent higher than 1983 simulation.

[e] Does not include administrative costs.

[f] Derived from Appendix Exhibits A-1, A-6, and A-11, Anna M. Rappaport and Malcolm M. Morrison, *The Costs of Employing Older Workers*, An Information Paper Prepared for Use by the U.S. Senate Special Committee on Aging (Washington, DC: U.S. Government Printing Office, 1984). Based on approximate pension costs for participants less than 30 years of age in defined benefit plans earning an average of $17,500. Employer assumed to contribute 5 percent and 10 percent of total salary costs. Dollar values equal the number of participants affected times the per-participant cost.

Illustrative actuarial cost estimates can be developed based on the numbers of participants affected to provide a reasonable range of costs that may be incurred because of REA's adjustment to participation and vesting ages. These estimates are based on approximate dollar contributions required to fund a defined benefit plan for specific age groups at specific salary levels under alternative total employer contribution rates.[6] The most likely range of actuarial costs is probably represented by employer contributions of 5-10 percent of salary. For 1985, this produces a range of actuarial costs from $117 million to $233 million. Even the higher estimate represents less than 0.5 percent of total annual employer contributions to private pension plans.

Administrative costs could more than double this actuarial estimate, however. These costs may be extensive. Young workers with high turnover rates contribute to high recordkeeping expenses.

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Dislocations caused by REA may depend primarily on the impact of administrative costs, as the actuarial costs of benefit accrual are limited and the number of the workers affected is small.

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Labor market adjustments are likely to take place as some employers realign their cost structures for REA provisions. Firms hiring relatively few young workers will probably make little or no adjustment. Others may hire fewer workers under age 25 or provide smaller wage increases to make up for the increased compensation costs. Some firms might switch from defined contribution plans to defined benefit plans, which have lower relative costs for younger workers. In the most extreme case, employers might terminate their plans if they hire many young employees; some employers suggest this may be happening.

These adjustments are all likely to occur to some degree, lowering the direct costs of REA and reducing future retirement benefits as well. Dislocations caused by REA may depend primarily on the impact of administrative costs, as the actuarial costs of benefit accrual are limited and the number of the workers affected is small.

[6] Derived from Appendix Exhibits A-1, A-6, and A-11, in Anna M. Rappaport and Malcolm M. Morrison, *The Costs of Employing Older Workers*, An Information Paper Prepared for Use by the U.S. Senate Special Committee on Aging (Washington, DC: U.S. Government Printing Office, 1984).

A policy issue gaining greater prominence as a result of REA is the debate about the treatment of lump-sum distributions. REA increases the amount from $1,750 to $3,500 that a defined benefit plan may opt to distribute to a departing participant in a lump sum. The majority of benefit accruals for workers age 21-24 will be less than this new limit.[7] The use of lump-sum payments for current consumption, instead of retirement saving, will erode the efficacy of REA as a means of providing future retirement income to women with career interruptions.[8]

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Overall Effects of Changing Participation and Accrual Standards

Young workers would be mistaken if they expected that early benefit accruals alone would provide a meaningful pension at retirement without continued participation under a pension plan. The new participation and vesting standards of REA are likely to provide young workers relatively limited retirement income. Workers who leave defined benefit plans at age 25 are entitled to benefits at retirement based on their present wages. Furthermore, a large proportion of these workers will consume the lump sums they receive upon termination of employment. Additional benefit entitlement for employees working 500 to 1,000 hours is also likely to be limited because of short tenure and low earnings.

[7]See *Analysis of Alternative Vesting Requirements for Private Pensions* (Washington DC: EBRI, 1980), table 2.

[8]See G. Lawrence Atkins, "Distributions from Employer-Sponsored Pension Plans at Termination: Implications for Retirement Income and Tax Policy" (Ph.D. dissertation, Brandeis University, 1984).

◆ New Benefits for Widows and Spouses

One frequently cited failing of our retirement income system is the persistently high poverty rate found among older women living alone. Although the reasons for low income among aged widows are only partially understood, some policymakers felt that a restructuring of ERISA would improve retirement income adequacy in the future. As a consequence, REA amended ERISA to help provide greater pension benefits for widows and divorced wives. Its provisions focus on three areas: joint and survivor benefits, preretirement survivor benefits, and benefit payments to divorced spouses.

Quantitative information about the potential impact of these new provisions remains scanty. First, direct information about the use of many of the provisions is not available. For example, there are no figures on the prevalence of preretirement survivor elections. Second, little is known about the extent to which employees elect to provide survivor benefits for their spouses before or after ERISA. In addition, there are no economic studies on the way in which financial divorce settlements are reached. More information is available on whether divorce settlements will be adhered to than on the way couples decide to split their income and assets. In part, no cost-benefit analysis has been undertaken in these areas because many of these issues involve behavior outside the realm of traditional economics. Similarly, some REA provisions are of little actuarial interest since plans may not be faced with additional actuarial costs. Nonetheless, information on income and benefit receipt from the March 1983 Current Population Survey[9] indicates the potential impor-

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[9]These data have been added to the May 1983 EBRI/HHS CPS pension supplement.

tance of these provisions to widows and spouses in the near future.

More Secure Joint and Survivor Benefits

In our society, women tend to outlive men. Average life expectancy for men born in 1984 is 71.2 years compared to 78.6 years for women. Along with the general tendency for women to marry somewhat older men, most married women can expect to be widows for a number of years. Given these facts, couples ought to plan for this contingency.

Before ERISA, most plans granted a monthly pension benefit for the life of the retired worker, alone, as the normal option. If retirees wanted their pensions to be paid to their spouses after their death, they had to take the initiative to notify the plan to that effect.

ERISA provided that the joint and survivor annuity, which pays pension benefits to the retired worker's surviving spouse, would be the normal retirement payment for married couples. The surviving spouse's annuity had to be at least one-half of the annuity payable to the participant during the couple's remaining lifetime together. Such benefits are generally subject to an actuarial reduction lowering the monthly income of the couple relative to that which the participant would have received had the single-life option been selected. Under ERISA, the participating employee could still decide against the joint and survivor annuity in favor of a single-life pension benefit, which would cease upon the participant's death.

A plan participant could want to select a single-life benefit for many reasons that would not detract from the financial security of either spouse. For instance, a woman might prefer such an arrangement on the supposition that she is likely to outlive her husband, and, even if she did not do so, her husband would have sufficient income on his own after her death. Alternatively, a husband might select a single-life option having provided sufficient life insurance to pay for an annuity for his wife upon his death. Other examples can easily be imagined depending upon the financial circumstances of the couple.

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Many felt that despite ERISA, male pension plan participants, to the detriment of their wives, tended to choose the higher-paying single-life annuity, which would cease at their death. Some hypothesized that because the higher benefit looked more desirable, husbands were willing to gamble on their own mortality. With the growing recognition that marriage is a partnership, REA sought to bring both spouses into the decisionmaking process by requiring that both of them consent to the waiver of the joint and survivor annuity. Since this provision affects both retirement and preretirement survivor's annuities, the potential effect on spouses old enough for Social Security retirement benefits will be the first focus of discussion here.

Table 2
Some Facts and Figures on Pension Receipt for Men and Women Age 62 and Older, 1982

	Married Men	Never Married Women	Divorced Women	Widowed Women	Married Women
Population (000's)	10,435	949	848	8,420	8,112
Number Receiving Own Pension Income (000's) (as worker or survivor)	2,816	220	135	948	495
Percent Receiving Own Pension Income (as worker or survivor)	27.0	23.2	16.0	11.3	6.1
Average Pension Benefit	$4,811	$3,668	$2,473	$2,949	$2,763

Source: EBRI tabulations of March 1983 Current Population Survey.

Although we have no nationwide data directly measuring the extent to which married participants have selected the joint and survivor pension option, March 1983 Current Population Survey data provide an indirect means to evaluate its use and to provide estimates of the potential of REA to increase pension protection for women. Twenty-seven percent of married men age 62 and over received income from private pensions in 1982 (table 2).[10] This represents a rough estimate of the percentage of widows who could receive survivor's benefits if every couple were to select that option.

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In 1982, twenty-seven percent of married men age 62 and over received income from private pensions, but only 11.3 percent of widows age 62 and older received pension benefits from private plans.

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In 1982, only 11.3 percent of widows age 62 and older received pension benefits from private plans. Of course, some of these women were widowed before their husband's retirement and would not have been eligible for benefits under ERISA or pre-ERISA standards. Furthermore, over 48 percent of elderly widows are 75 years of age or older. The prevalence of pension receipt among their husbands was likely to be lower than for younger groups of retirees.

If REA had been in effect for these elderly widows when their husbands first began receiving pensions, the rate of pension receipt might have increased by 16 percent—the difference between the 27-percent receipt rate for elderly married men and the 11-percent receipt rate for elderly widows. An upper-bound estimate can be constructed under the assumption that no widows receive pensions as both retired workers and survivors. About 6 percent of all married women age 62 and over receive their own pensions (table 2). If widows receive their own pensions in similar proportions, over half of all widows receive benefits on their own and less than half receive pensions as survivors. Consequently, complete selection of the joint and survivor option would increase the rate of pension receipt among elderly widows by 22 percent—the difference between the 27-percent receipt rate for elderly married men and the 5-percent survivor-only estimate for widows.

On the one hand, these rough estimates suggest that if REA had been in effect earlier, an additional 1.3 million to 2.0 million widows might be receiving pensions through joint and survivor benefits. On the other hand, if husbands acted with full knowledge of their pension options and in full cooperation with their wives, both before and after ERISA, REA would not have added a single pension dollar to widows' benefits. Most likely, actual experience will lie between these extremes. More pensions will probably be paid on a joint and survivor basis than before.

The effect of the joint and survivor option on average pension benefit receipt is suggested by comparing pensions received by married men to those received by widows. Widows received pensions of just under $3,000 in 1982, about 60 percent of those earned by married men. Men with relatively high pensions appear most likely to have selected the joint and survivor option.[11] If joint and survivor benefits had been more widespread, widows without benefits would have received additional retirement income, but their benefits would not have been as high. Although REA is intended to provide benefits to more older widows in the future, it cannot improve the situation of those widows who lost pension benefits because of earlier decisions about joint and survivor use.

Preretirement Survivor Annuities

Another goal of REA was to ensure benefits to spouses of plan participants who were widowed before normal retirement age. Death rates of men and women differ substantially in middle age, resulting in many widows.[12] In particular, homemakers widowed in their late 50s may face a significant drop in income, since they do not qualify for Social Security young survivor's benefits if their children are over age 16 (previously age 18) or for Social Security retirement benefits if they are under age 62. Furthermore, widows of vested workers could lose all rights to substantial vested benefits that they had counted on for income in retirement.

[10] This figure probably underestimates potential pension receipt, as some older men have not yet retired. Also, surveys of individuals tend to undercount pension recipients. A measure of the undercount is found in Daniel Radner, "Distribution of Family Income: Improved Estimates," *Social Security Bulletin*, July 1982.

[11] This finding is reinforced because the benefits of married men are likely to be relatively high compared to the benefits of widowed women. Married men are relatively younger and have higher pension benefits than older retired men. Widows are relatively older and are likely to have had the value of their pensions eroded by inflation.

[12] The death rate for men age 45-54 is 761 per 100,000 compared to a rate for women of 408 per 100,000. Similarly, the death rate for men age 55-64 climbs to 1,784 per 100,000, whereas that for women only rises to 942 per 100,000.

As a response to these concerns, REA also amended ERISA to automatically provide preretirement survivor benefits, payable at the plan's earliest retirement date, to the spouse of a vested participant who died before retirement. Unless both spouses waive the preretirement survivor option, benefits will be provided to the surviving spouse whether or not the participant retired or had achieved eligibility under early or normal retirement.

Previously, plan participants had to elect a preretirement survivor's benefit, if and when early retirement benefits were available. Furthermore, preretirement survivor benefits were only available after the participant was eligible for early retirement. Under REA, all spouses of vested participants are eligible for preretirement survivor's benefits in one of two forms: (1) as an annuity payable at the earliest qualifying retirement age under the plan or (2) as a mandatory lump-sum distribution if total accrued benefits are less than $3,500.

The proportion of widows receiving pension benefits prior to REA on the basis of a preretirement survivor annuity is not known. The closest proxy for this figure is the 12.7 percent of widows age 55-61 who are receiving private pension income (table 3). Of course, some widows will have remarried, while others who received preretirement survivor benefits will be over age 61. Some women may be receiving early retirement pensions on their own behalf.

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Estimates of the proportion of married men whose wives are eligible for preretirement survivor benefits upon their early death also provide only a partial picture of the potential impact of the change in ERISA. Although the 1983 BLS survey of medium and large firms indicates that 97 percent of all participants are in plans with early retirement provisions, age and service conditions vary widely. By far the greatest number of participants (61 percent) are covered by plans specifying an early retirement age of 55. Nearly four out of five of these participants can retire with ten years of service or less. Although preretirement survivor benefits under REA will be paid to the widows of all vested workers (unless they opt out of this benefit), some widows will be eligible for benefits much earlier than others.

Table 3
Facts and Figures on Preretirement Benefits and Entitlement, 1982

	Widows Age[a] 55-61 (000's)	Married Men[a] Age 45-61 (000's)
Total	1,215	15,351
Entitled to Pensions	154[b]	4,808[c]
As percent of total	12.7	31.3

Source: EBRI tabulations of March 1983 Current Population Survey.
[a] Widows age 55–61 are most likely to actually receive preretirement spousal benefits. Deaths among married men age 45–61 are most likely to lead to preretirement spousal benefits for future widows age 55–61.
[b] Widows actually receiving pensions.
[c] Men currently working and entitled to pensions.

The proportion of married men entitled to pension benefits (31.3 percent) provides a rough estimate of the proportion of future widows who will be eligible for this benefit. This figure is 18.6 percentage points higher than the percentage of widows of approximately early retirement age who currently receive pensions. Although this evidence is sketchy, REA seems to provide the potential for improved benefit receipt for future generations of widows.[13]

Applying death rates to the number of vested married workers by age in 1983 provides an estimate of the number of widows and widowers who would have been available for preretirement survivor annuities in that year. Assuming that the number of vested workers grew in proportion to nonagricultural employment, about 104,000 workers would be eligible for benefits in 1985 if the provision were in effect the entire year (table 4). About 89,000 eligible survivors for the full year are widows and an additional 15,000 are widowers. This difference in the number of men and women who will receive preretirement death benefits (unless they opt out of the option) is due to relatively lower coverage and vesting rates among female workers and relatively higher male death rates. The value of this benefit for young widowers will increase as more and more families depend on two incomes. Since the preretirement survivor annuity provision will be phased in this August, only around 42 percent of the 104,000 eligible workers (44,000 new widows and widowers) will actually be affected by the legislation in 1985.

[13] The differences in the rate of pension receipt for widows and the rate of benefit entitlement for married men (table 3) is roughly equivalent to the difference between pension receipt rates for elderly married men and widows (table 2). These similarities tend to support the hypothesis that the maximum impact of the preretirement survivor provisions may be substantial.

These estimates assume that no new widows and widowers would have been eligible for preretirement survivor benefits before REA. However, nearly half of vested worker deaths before age 65 occur in the 55-64 age group. Some of these workers would have already provided preretirement survivor benefits for their spouses. Under REA, a worker can opt out of the preretirement survivor option at age 35. This decision can be changed at early retirement, however. Although couples may have reasons to opt out of joint and survivor benefits when the worker retires, it is hard to discern a reason for opting out before retirement, particularly because two signatures are required.

Table 4
Estimated Effect of REA Changes in Preretirement Survivor Benefits[a]

	1983[b]	1984[c]	1985[d]
Survivors of Vested Workers Who Die Before Normal Retirement Age	(in thousands of workers)		
Male	14	14	15
Female	81	86	89
Total	95	100	104
Illustrative Preretirement Survivor Benefits[e]	(in millions of 1983 dollars)		
Annual benefit payments at $10,000 salary[f]			
First-year benefits[g]	$ 63	$ 66	$ 69
Mature system benefits[h]	$ 97	$102	$107
Annual benefit payments at $25,000 salary[f]			
First-year benefits[g]	$156	$165	$172
Mature system benefits[h]	$243	$256	$267

Source: Preliminary EBRI estimates based on May 1983 EBRI/HHS CPS pension supplement, U.S. National Center for Health Statistics death rates, and estimates of annual spouses benefits under various assumptions provided by William M. Mercer, Incorporated.

[a] Estimates use imputed data on pension status.

[b] Number of widows and widowers based on numbers of married workers times age-specific death rates.

[c] Estimate is 5.6 percent higher than 1983 simulation.

[d] Estimate is 10.0 percent higher than 1983 simulation.

[e] Does not include administrative costs.

[f] Per-beneficiary payments estimated using figures on annual spouse's benefits from Appendix I, table III (by William M. Mercer, Incorporated) in statement of Dallas L. Salisbury submitted to the U.S. House of Representatives, Committee on Education and Labor, Subcommittee on Labor-Management Relations, for its September 29, 1983 hearing on "Women's Pension Equity."

[g] First-year benefits represent payments for early retirement benefits to spouses immediately eligible.

[h] Mature system benefits represent payments for first-year benefits and payments to all persons widowed at younger ages who have now reached age 55-65 and have become eligible for early retirement benefits in that year.

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REA seems to provide the potential for improved benefit receipt for future generations of widows.

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A range of illustrative annual estimates of benefit costs has been developed based on the number of surviving spouses of vested workers who died before retirement age. One estimate assumes low average salaries of $10,000 and the other assumes high average salaries of $25,000.[14] Two types of benefit estimates are provided: (1) first-year benefits payable immediately to widows and widowers whose spouses would have been eligible for early retirement; and (2) mature system benefits, if REA provisions had been in effect over a longer period of time. These benefits include survivors widowed at preretirement ages reaching benefit eligibility according to early retirement standards.[15]

If REA provisions had been in place in 1983, mature system benefits would have cost between $97 million and $243 million. This represents less than 0.5 percent of contributions

[14] Estimates are based on analysis by William M. Mercer, Incorporated, included in a statement by Dallas L. Salisbury (Appendix I, table III, column 2) submitted to the U.S. House of Representatives, Committee on Education and Labor, Subcommittee on Labor-Management Relations, for its hearing on "Women's Pension Equity," September 29, 1983 (Washington, DC: EBRI, testimony T-22).

[15] Both figures are upper-bound estimates. No reductions are assumed for benefits paid at early retirement. Furthermore, the current age distribution of eligible survivors is used to estimate mature system costs. The relative number of widows and widowers is inflated by the large baby boom cohort. All survivors are assumed to live until the age at which their spouse would be eligible for early retirement.

for that year. By 1985, these benefits would have grown to between $107 million and $267 million (in 1983 dollars) in accordance with actual and expected employment growth. First-year benefit costs for 1985 would be in the magnitude of $69 million to $172 million, however. Actual first-year costs can be expected to be between $29 million to $72 million, since the provision is effective midyear. Benefit costs will increase gradually over the years as younger survivors reach early retirement age.

Although REA preretirement survivor benefit provisions are not costly on a national level, this provision could have a substantial impact on plans using early retirement to adjust their work forces and for companies subsidizing early retirement. Firms with a higher proportion of older vested workers would also have higher preretirement survivor benefit costs. Some have argued that granting preretirement survivor benefits to workers before early retirement age is a poor way to provide benefits compared to life insurance. Furthermore, employers affected by these costs might reduce other death benefits, such as life insurance, to keep total compensation costs steady. Such reductions could be detrimental to the survivors affected if life insurance pays more than the early retirement annuity. Furthermore, life insurance payments are immediate. Immediate payments particularly help young mothers and fathers who must adjust to the loss of a wage earner.

Table 5
Facts and Figures About Divorce in America

	1960	1970	1979
Divorce Rate (per 1,000 married women age 15 and over)	9.2	14.9	22.8
Divorced Person Rate (per 1,000 married persons)	42	60	120[a]
Duration of Marriage (median number of years)	7.1	6.7	6.8
For Women			
Median age at divorce	—	27.9	28.7
Median age at remarriage	—	33.3	31.9
Rate of Remarriage (per 1,000 widowed and divorced women)			
Age 14 and over	32.7	36.6	40.8
Age 14–24	407.7	317.6	312.6
Age 25–44	—	142.3	127.5
Age 45–64	22.0	24.8	21.0

Source: U.S. Department of Commerce, Bureau of the Census, *Statistical Abstract of the United States, 1982-83*, table no. 124, p. 82; U.S. Department of Commerce, Bureau of the Census, *Marital Status and Living Arrangements*, March 1983, table C, p. 3.

[a] 1980 figure.

Pensions and Divorce

REA also sought to address the retirement income problems of divorced women who may have been depending upon sharing the pension benefits accrued by their husbands during their marriage as support in their old age. Policy interest in the problems of divorced women has been increasing with the spreading incidence of divorce. In fact, the divorce rate more than doubled between 1960 and 1979, from 9.2 divorces per 1,000 married women to 22.8 per 1,000 married women (table 5).[16] From a retirement income perspective, those divorced women of particular concern are older women who may have spent many years out of the labor force raising a family and who would not be entitled to pension benefits on their own.[17]

Since ERISA, a number of court cases have dealt with the allocation of pension benefits upon divorce. In 1980, the Internal Revenue Service (IRS) ruled that pension plan trustees could legally comply with court orders requiring payments to divorced spouses or children as part of alimony or child support awards. No ruling was made on future vested benefits. REA specified that in the case of certain domestic relations orders, including divorce settlements and legal separations, pensions could be divided upon divorce. Such payments would begin the first day that the plan participant attained the earliest retirement age under the plan, whether or not he or she actually retired.

The future use of these new provisions is hard to gauge. Pension benefits are probably regarded as either alimony or prop-

[16]The divorce rate has been rising for a number of years. An earlier bulge in the divorce rate was observed around World War II among women age 14-44. The rate then declined and remained relatively steady until the 1960s.

[17]The 1977 Social Security Amendments reduced the length of marriage needed to qualify for retirement benefits as a divorced spouse of a retired worker from 20 to 10 years. But the issue of benefit receipt on the part of divorced wives is still an important factor in the development of earnings sharing proposals, currently under study by the Social Security Administration, as a means of better allocating Social Security entitlement among husbands and wives.

erty. These awards follow very different patterns. In 1981, only about 16 percent of the 14.2 million ever-divorced women were awarded alimony.[18] An even smaller proportion, only 4.5 percent or 635,000 women, were supposed to receive payments in 1981.[19] A far higher proportion of divorcees, about 42 percent, were awarded a property settlement. Consequently, the potential for the future use of the divorce provisions of REA is broad. If pensions are treated as alimony, they will be of minor importance for most divorces. If they are regarded as property, the impact of this legislation could be far-reaching, since only 15 percent of property settlements are settled in terms of cash alone.

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The divorced population is very diverse. The median duration of marriage before divorce has been declining steadily over the years that the divorce rate has been rising. A median marriage in 1979 of 6.8 years suggests that many divorced women will not have been married to husbands with vested private pension benefits. This supposition is further supported by statistics showing that women get divorced at a median age of under 30.

Many divorced women also remarry. Although the age at divorce has risen slightly, the age of remarriage has declined by about a year and a half. This trend probably explains the increasing total remarriage rate among women age 14 and over in the face of decreasing marriage rates for every age group. Remarriage rates are extremely high for younger divorced women and very low for older divorced women. In sum, these statistics suggest that, within the divorced population, many young women will quickly remarry, while some older women will remain divorced throughout their lives.

Among the 848,000 currently divorced women old enough to receive Social Security, 16 percent receive pension income as a worker or survivor (table 2). Since this rate is higher than that experienced by widows, most of these benefits are probably earned on their own. (The only women with a higher private pension benefit receipt rate are never-married women.) Divorced women also tend to have relatively high rates of labor force participation and high rates of pension coverage. Nonetheless, average pension benefits received by divorced women are lower than those received by other marital status groups. Whether REA will serve to increase these benefits remains to be seen.

◆ Conclusion

Provisions in REA to increase participation affect relatively few workers. The new ERISA participation standards that include young workers will provide vested benefits for at most 325,000 young men and women. Slightly over half are expected to be young men. While the actuarial costs of lowering participation standards to age 21 are estimated to be $233 million, increased administrative costs could double or triple that figure. The most costly provision of the REA may stem from the break-in-service provisions, because of the extensive additional recordkeeping involved, but a dollar estimate is not possible.

The effects of REA on spouses, surviving spouses, and divorced spouses is extremely uncertain without more information about how married couples make these decisions. The percentage of widowed women receiving private pensions could climb to the rates for married men. Similarly, young widows reaching early retirement age could receive pension benefits at rates approaching those for middle-aged married men. Benefit receipt may be limited, however, and may come at the expense of company-financed life insurance payments. Finally, depending on trends in divorce settlements for women who divorce at older ages, their pension income could approach that of older widows. Postlegislative information will be the final arbiter of the impact of these amendments on older women.

[18] U.S. Department of Commerce, Bureau of the Census, Current Population Reports, Series P-23, no. 124, *Child Support and Alimony: 1981 (Advance Report)* (Washington, DC: U.S. Government Printing Office, 1983).

[19] Although this in no way provides the full answer for this difference, 55 percent of ever-divorced women remarried.

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