EBRI ISSUE BRIEF

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RETIREMENT INCOME OPPORTUNITIES IN AN AGING AMERICA: PROGRAM COVERAGE AND BENEFIT ENTITLEMENT

...provides a comprehensive overview of American retirement income programs. It describes their relationships and future prospects for program growth and benefit provision.

The report identifies the segments of the workforce for whom provisions can be meaningful in providing retirement income security. The effectiveness of employer pension coverage is assessed in the context of this *relevant workforce*.

In assessing 1979 pension coverage for those in the relevant workforce, this report concludes:

* 68.3 percent were employer pension program participants.
* Among participants, more than 80 percent of those who had been in current employment ten or more years were vested in present employer plans.
* Firm age, firm size, and industry of employment are important indicators of economic stability; they directly relate to an employer's ability to establish a pension program.
* Similarly, industry of employment affects pension availability.
* Furthermore, employee characteristics such as age, salary level and stability in employment affect a worker's ultimate potential to receive pension benefits.

Some have concluded that the private pension system has stopped growing. This is incorrect. Although the participation rate grew by 23 percentage points between 1950 and 1979, in absolute numbers, participation increased by 263 percent.

The slowing of participation rate increases in the 1970s occurred for several reasons. During this time:

* Female labor force participation rates increased by 18.8 percentage points. Simultaneously, the baby boom generation entered the workforce. These two factors led to rapid private sector employment increases.

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* Initially, ERISA contributed to reduced rates in new pension plan formation and increased rates in plan terminations. In 1975, the year before ERISA's implementation, 55,000 net new pension plans were tax qualified by IRS. However, in 1976 only 3,500 net new plans were qualified.

* Concurrently, Social Security employer and employee payroll taxes rose dramatically. Social Security and employer pension plans are complementary. Thus, increases in Social Security taxes and benefits may have resulted in reducing pension growth.

* The private pension system appears to have recovered from the shock of ERISA. In 1980, more than 56,000 new pension plans were issued IRS tax qualification letters.

Declining labor force growth, the maturing of baby boom workers, and increasing rates of new plan formation, all suggest that pension participation rates will continue increasing.

The report reviews and analyzes recent, notable forecasts of future private pension growth. The models and the modeling assumptions utilized in developing these forecasts are evaluated. Weaknesses inherent in the assumptions indicate that the forecasts are inaccurate.

* The President's Commission on Pension Policy assumed there will be *no increase in plan availability under current policy*.

* This assumption is contrary to IRS plan creation data as shown in the report.

* The Pension Commission established arbitrary pension growth limitations that were used in their industry-by-industry forecasts. The model's rapid growth projections, with arbitrary constraints, predicted 75 percent less pension participation growth between 1979 and 1990 than the same model's projections without the arbitrary constraints.

* A different Pension Commission model developed pension participation forecasts on an individual-worker basis. The model stipulated that: *Trends in plan availability are thus controlled primarily through the assumed rate of change in indexed wages*. In the model's actual simulation of future pension growth, *the wage rate for estimating coverage was deflated by the rate of increase in average wages*. Thus, the Commission's forecasts postulated that pension growth was dependent on real wage growth; but they arbitrarily eliminated real wage growth in developing their final forecast and then concluded that in the future, pensions would also not grow.

* Other forecasts <u>were</u> developed for the Commission which did assume real wage growth. Under current policies, this *produces an overall increase in coverage in the future*.

This forecast's results, however, are not publicly available. The Commission's assumption of no wage growth in their pension forecasts is unusual. It is especially peculiar since the Commission, itself, assumed there would be wage growth when they assessed the future impact of their own proposals for policy change.

* To evaluate present coverage rate implications, EBRI developed a series of simulations estimating the likelihood of future pension benefit receipt. At current coverage rates, more than 70 percent of today's young workers (aged 22) can expect to receive employer pension benefits when they retire. The EBRI estimates are consistent with forecasts that were prepared for the Pension Commission, which showed 73 percent of current workers aged 25 to 29 can expect to receive pensions.

* Based on questionable assumptions and forecasts, the Pension Commission concluded:

  > *Commission forecasting models indicate that the proportion of the labor force covered and vested in employee pension plans is not expected to increase significantly under current policies.*

  The Commission then went on to develop their major policy recommendations calling for the creation of a mandatory pension program. The Commission's conclusions and recommendations may have been considerably different if they had used alternative assumptions in their forecasting.

Over the last thirty years voluntary employer pension programs have grown dramatically. In reviewing historical demographic and retirement income program development, the interactions among various retirement system components and differing employer/employee needs and resources, it is apparent that pension coverage patterns have evolved rationally. There is need for further growth, however, especially among some targeted worker groups. The report addreses major policy issues that are relevant to the overall goal of expanding retirement income protection.

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