EBRI ISSUE BRIEF

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WOMEN AND PENSIONS
PART I: IMPLICATIONS OF A MATURING PENSION SYSTEM AND CHANGING FEMALE WORK PATTERNS

The Congress is currently considering legislation intended to increase pension receipt among women. To assist in evaluating these proposals, this issue brief provides information on the maturing pension system and the ongoing changes in women's work force participation. It considers the effects of such changes on pension receipt among women. A second, related issue brief will be distributed in July. It will discuss the prospects for greater pension receipt among women as a result of the proposals presently under consideration.

Considerations in Evaluating Overall Pension Benefit Receipt

One thing that we often overlook when considering the effectiveness of retirement programs is their relative state of maturity. A retirement program reaches maturity when the relationship between the percentage of participating workers and the percentage of elderly receiving benefits stabilizes.

For example, consider Social Security and the relative rates of worker participation and elderly benefit recipiency. Table 1 shows that the worker participation rate in 1940 was about twenty-five times the elderly benefit recipiency rate in that year. As the program matured, this difference declined; it evened out in the mid-1970s. After about thirty-five years, Social Security beneficiaries made up a segment of the retired population that was comparable to the segment of the working population that was paying Social Security taxes.

Comparable time-series data on pensions does not exist, but there is pension plan data indicating a similar maturation phenomenon. Among defined benefit plans that were less than five years old and had more than 100 participants in 1977, 69 percent had more than 10 active participants for each beneficiary and 56 percent had more than 20 active participants for each beneficiary. For plans that were five to ten years old in 1977, 59 percent had more than 10 active participants for each beneficiary and 40 percent had more than 20 active participants for each beneficiary.1/

The situation was significantly different for older plans. In 1977, two out of three plans that were twenty-one to twenty-five years old had fewer than ten active workers for each beneficiary; and 49 percent of the plans that were over twenty-five years old had fewer than five active participants for each beneficiary. The evidence shows that as pension plans mature, the relative number of recipients increases.2/

TABLE 1

Percent of Workers Participating in Social Security and Percent of Population over Age 65 Receiving Benefits

Year	Workers Participation	Population over 65 Receiving Benefits
1940	57.8%	2.3%
1950	64.5	17.0
1960	88.9	62.3
1970	89.5	85.5
1975	89.8	90.4
1980	91.0	89.8

Sources: Coverage data for 1940-1970, from U.S. Bureau of the Census, Historical Statistics of the United States (Washington, D.C., 1975), p. 348; for 1975, from U.S. Bureau of the Census, Statistical Abstract of the United States 1981 (Washington, D.C., 1982), p. 326. Beneficiary data for 1940-1960, from U.S. Bureau of the Census, Historical Statistics of the United States (Washington, D.C., 1975), p. 357; for 1970, from Social Security Bulletin (March 1981), p. 73; for 1975-1980, from Social Security Bulletin (March 1983), p. 105.

The pension system's future potential hinges on its current level of maturity. Among tax-qualified defined benefit plans, which cover two out of three private pension participants, 38 percent of those in operation at the end of 1982 were less than five years old; 73 percent were less than ten years old. Among tax-qualified defined contribution plans, 39 percent of those in operation at the end of 1982 were less than five years old; 56 percent were less than ten years old. The United States pension system is young, but it is in a position to make a major contribution to the future elderly's retirement income security.

If a maturing pension system is resulting in higher benefit recipiency rates, this should be identifiable through data showing that more "young" elderly (those recently reaching retirement age) are receiving pensions than "old" elderly. The March 1980 Current Population Survey reveals that in 1979, 37 percent of elderly families, where the family head was age sixty-five to sixty-nine, received at least one public or private pension. Among elderly families where the head was over seventy, 30 percent received a pension. The difference is attributable primarily to higher private pension receipt among the young elderly. Older public plans have already reached maturity; this is reflected in the fact that in 1979, 12.5 percent of young elderly families received a public pension while 11.2 percent of old elderly families received a public pension. By comparison, 26.0 percent of young elderly families received a private pension and 19.6 percent of old elderly families received a private pension.

Another important consideration frequently is not recognized--defined contribution plans may contribute more to retirement income security than statistics suggest. Most defined contribution plans are not annuity programs. At withdrawal or retirement, vested participants generally receive a lump-sum distribution. Many employers arrange for converting the distribution into an annuity, but the plan, itself, seldom pays pension benefits in the traditional sense. There is strong evidence suggesting that as a result of the lump-sum distributions, these plans frequently are not reported as having paid retirement benefits.3/

Lump-sum distributions result in an undercounting of the number of pension beneficiaries in population surveys. For example, the Census Bureau's annual March Income Supplement in the Current Population Survey gathers information on the prevalence of pension receipt and on annual benefit levels. Interviewers' instructions and training direct that only "regular" income is to be recorded--one-time income should be ignored. Unless defined contribution, lump-sum distributions are converted into annuities, they are not shown as retirement benefits.

Although evidence of benefit receipt is incomplete, it does show that the pension system is becoming increasingly effective in providing overall retirement income security. Data suggest that pension coverage and participation will continue to improve.

Defined Benefit and Defined Contribution Plans

In defined benefit plans, the largest accruals occur at the end of a career. For long-term, stable employees, the primary concern is acquiring a benefit level that is adequate enough to maintain preretirement living standards. Defined benefit plans are more likely to accomplish this goal than defined contribution plans.

In defined contribution plans, vested benefits can be liquidated and reinvested in an individual retirement account. These portability features may account for the typically shorter vesting provisions in defined contribution plans. Highly mobile workers may prefer defined contribution plans because of these features. Most defined contribution plans, however, do not automatically convert accumulated assets into annuities at retirement. The more typical cash-out provisions in these plans are often criticized on the ground that the accumulated funds are not used for retirement income security purposes. Virtually no data have existed which analysts could use to evaluate actual utilization of defined contribution plan asset accumulation. The May 1983 Current Population Survey, conducted by the Census Bureau (jointly sponsored by EBRI and the Department of Health and Human Services), has gathered such information for the first time. The results (which will be published by EBRI in 1984) will provide information on the prevalence, level and use of lump-sum distributions.

It is not clear *a priori* whether defined benefit plans or defined contribution plans are more effective for women. One cannot look at the current population of retired women and draw definite conclusions about optimal pension strategies for the current population of working women.

Sex Discrimination and the United States Pension System

The United States Tax Code and the Employee Retirement Income Security Act (ERISA) explicitly prohibit sex discrimination in pension plan design and administration. It is clear, however, that: (1) today's elderly men are more likely to receive pensions than today's elderly women; and (2) today's men receive larger benefits, on average, than today's women. This has generated concern about equitable pension treatment among men and women.

Recent analysis suggests that a combination of employer and employee characteristics influence pension availability.4/ Because of participation and vesting provisions, actual pension accrual takes time. Even if standards were liberalized to provide for immediate participation and vesting, accrual of meaningful benefit levels would occur only where a man or woman has a substantial participation period in one or more plans.

Pensions and the Changing Work Patterns of Women

When Social Security began paying benefits in 1940, 27.9 percent of women over age fifteen were in the labor force. By 1945, female labor force participation had grown to 35.8 percent.5/ Table 2 shows that between 1950 and 1979, female labor force participation increased by 17.1 percentage points. However, more than two-thirds of this increase occurred after 1965. Table 2 also indicates that female workers ages twenty-five to thirty-four, experienced the largest labor force participation rate increase of all age-groups shown. Between 1970 and 1979, their participation rate rose from 45.0 to 63.8 percent. This age-group included the majority of baby-boom women, the largest ten-year-age cohort of the 1979 female population. Within one generation, the labor force participation of women in their prime, child-bearing ages nearly doubled.

Labor force participation measures are point-in-time estimates of the number of people working or looking for work. An alternative way to look at differences in the career patterns of older and younger women is to compare the actual work patterns of different age-groups across common, life-cycle periods. A perfect data set is not available to develop such a comparison, but a good one does exist. This data set matches survey data from the Census Bureau's March 1978 and May 1979 Current Population Surveys to Social Security administrative records.6/ The Social Security data provide covered earnings and "quarters of coverage credited" for each year from 1937 through 1977. Each person's age in 1977 can be determined from the file. The file contains roughly 15,000 records on women who were between the ages of fifteen and ninety-nine in 1979. From their ages in May 1979, it is possible to determine when those over twenty-one reached age twenty-one or any other age. The covered-earnings pattern for women at any specific age is thus determinable.

Accruing meaningful, work-related benefits requires consistent and sustained work force attachment. Even under Social Security, workers who are less than fifty years old today will be required to have at least forty quarters (or ten years) of earnings credits before they are entitled to Social Security retirement benefits. One quarter of credit earned each year between the ages of twenty-two and sixty-two qualifies a person for Social Security retirement benefits. Alternatively, ten full years of constantly covered employment qualifies a person for Social Security retirement benefits. Keep in mind, however, that either of these career patterns results in low Social Security benefits--less than half and possibly as little as one-fourth the benefit that could be earned over a full career.

TABLE 2

Civilian Female Labor Force Participation Rates
by Age for Selected Years--1950-1979

Age	1950	1955	1960	1965	1970	1975	1979
16-17	30.1%	28.9%	29.1%	27.7%	34.9%	40.2%	45.8%
18-19	51.3	50.0	50.9	49.3	53.6	58.1	62.9
20-24	46.0	45.9	46.1	49.9	57.7	64.1	69.1
25-34	34.0	34.9	36.0	38.5	45.0	54.6	63.8
35-44	39.1	41.6	43.4	46.1	51.1	55.8	63.6
45-54	37.9	43.8	49.8	50.9	54.4	54.6	58.4
55-64	27.0	32.5	37.2	41.1	43.0	41.0	41.9
65 or over	9.7	10.6	10.8	10.0	9.7	8.3	8.3
Total	33.9%	35.7%	37.7%	39.3%	43.3%	46.3%	51.0%

Source: U.S. Department of Labor, Bureau of Labor Statistics, Handbook of Labor Statistics (Washington, D.C., 1980), table 4.

Pensions are similar to Social Security in that meaningful benefits can only be earned with consistent and sustained employment and plan participation. Even with very short vesting requirements, benefits that can be accrued during an erratic employment history or a short job tenure are relatively small. To understand the pension status of currently retired women and the reasons younger women can expect to fare quite differently, we must consider women's lifetime work patterns and the ways they are changing.

Among older retired women, extended, full-time employment outside the home has been relatively rare. Fewer than half of the women who were age sixty-one or over in 1977 had earned ten or more years of Social Security credits during their working years. Table 3 shows that one-third of those over eighty had no covered earnings between 1937 and 1977. Table 3 also shows that the younger women in this elderly group (ages 61 and over) were more likely to have worked than the older women. Many older women do not qualify for benefits based on their own employment, because they have never worked outside the home or they have worked only a short period during their lifetimes.

When some of the arithmetic is worked through, it becomes clear that the value of defined benefit plan accruals is heavily weighted towards the end of one's career. This characteristic may be advantageous to women who take time out of their working careers to bear and raise children, and then return to full-time work outside the home. Still, for the pension to be meaningful, late career employment must be regular and of sustained duration. It is instructive to look at older women and to consider the intensity of their employment experience toward the end of their normal working years. Table 4 shows, as of 1977, the work patterns of specific female elderly age-groups in previous years when the women in these groups were ages fifty-one to sixty. Of those over eighty, only 9.4 percent had worked all ten years; more than half had not worked at all. Among those ages sixty-one to sixty-five, more than one-third had not worked in the ten-year period before they reached age sixty-one, and slightly more than one-fourth had worked in covered employment all ten years.

TABLE 3

Older Women and Years of Social Security
Credits Earned between 1937 and 1977

Age in 1937	Age in 1977	Credits Earned None	1-5 Years	6-10 Years	More Than 10 Years
21-25	61-65	19.9%	18.2%	14.4%	47.5%
26-30	66-70	27.7	16.8	11.8	43.7
31-35	71-75	28.0	21.3	10.9	39.9
36-40	76-80	29.6	18.9	13.7	37.8
41 or over	81 or over	33.0	15.9	13.9	37.2

Source: EBRI tabulations of Social Security administrative data matched to March 1978 and May 1979 Current Population Surveys.

TABLE 4

Years Worked between the Ages of 51 and 60 by
Women Age 61 and over in 1977

Age in 1977	Years Worked between Age 51 and 60 None	1-3	4-6	7-9	10
61-65	35.5%	11.8%	11.2%	14.7%	26.8%
66-70	42.9	11.3	8.2	11.2	26.6
71-75	38.5	14.8	9.3	15.1	22.3
76-80	41.9	12.6	12.1	13.3	20.2
81 or over	51.2	11.4	14.5	12.7	9.4

Source: EBRI tabulations of Social Security administrative data matched to March 1978 and May 1979 Current Population Surveys.

Half of all women who were over age seventy-six in 1977 had not worked after early 1960. This is significant, since it was after 1960 that the prevalence of pensions and the trends toward vesting and early retirement began to make employer plans effective retirement vehicles. Among women ages sixty-one to seventy, only about 25 percent had worked after the passage of ERISA in 1974.

In short, until very recently, women did not work in paid employment for periods that were consistent and sufficient enough to earn pensions. Even where today's elderly women did work, most did not work after ERISA's enactment, and many did not work after the 1950s or 1960s when pension plans became more widely available.

It is impossible to predict with certainty that today's younger women will establish radically different working patterns toward the end of their normal working lives than the patterns of today's elderly women. However, labor force participation data suggest that women's work patterns are shifting significantly. This shift is apparent in table 5. Table 5 shows different female age-groups in 1977 and the percentages of these women who lacked covered earnings at earlier points in their career periods. The difference between the oldest and youngest age-groups shows the extent of women's changing work patterns in one generation. Among those fifty-six to sixty, 93.7 percent had no covered earnings when they were twenty-one. By comparison, only 46.1 percent of women thirty-one to thirty-five had no covered earnings when they were twenty-one. The difference in the respective noncovered work patterns for these women at age thirty (50.6 percent versus 75.1 percent) is not as large, but it is still significant.

TABLE 5

Women by Age in 1977 and the Percentages of These Women with No Social Security Covered Earnings During Years in Which They Were Specified Younger Ages

Age in 1977	Percent without Covered Earnings at Ages: 21	24	27	30
31-35	46.1%	47.5%	53.3%	50.6%
36-40	48.3	53.0	53.5	52.8
41-45	55.0	61.0	63.3	61.0
46-50	63.1	61.9	65.1	63.2
51-55	79.4	71.8	68.9	65.9
56-60	93.7	87.8	79.7	75.1

Source: EBRI tabulations of Social Security administrative data matched to March 1978 and May 1979 Current Population Surveys.

Table 6 reflects the changing intensity of women's work experiences. It shows the percentages of women with Social Security covered earnings in each year during specified ten-year intervals. Two distinctive trends are reflected. First, today's young women are more likely to work than young women in previous generations. Second, as women age, they are more likely to have regular earnings than when they are younger.

Changing work patterns will continue to provide women with greater pension opportunities. The maturing, expanding pension system will accentuate these opportunities.

TABLE 6

Percent of Women with Social Security Covered Earnings During
Selected Periods of Their Normal Working Lives

Age in 1977	Percent of Women Who Worked in Each Year between Ages: 21-30	31-40	41-50	51-60
31-35	12.1%	NA	NA	NA
36-40	10.1	NA	NA	NA
41-45	8.7	17.8%	NA	NA
46-50	7.5	18.0	NA	NA
51-55	3.5	13.7	29.1%	NA
56-60	0.9	9.2	26.3	NA
61-65	NA	8.4	23.7	26.8%
66-70	NA	3.3	18.0	26.6
71-75	NA	NA	9.6	22.3
76-80	NA	NA	7.1	20.2

Source: EBRI tabulations of Social Security administrative data matched to March 1978 and May 1979 Current Population Surveys.

NA - Not available

Notes

1/ Sylvester J. Schieber, Social Security: Perspectives on Preserving the System (Washington, D.C.: Employee Benefit Research Institute, 1982), p. 55.

2/ Ibid., pp. 54-56.

3/ Ibid., p. 56.

4/ See Sylvester J. Schieber and Patricia M. George, Retirement Income Opportunities in an Aging America: Coverage and Benefit Entitlement (Washington, D.C.: Employee Benefit Research Institute, 1981), chapter 2.

5/ U.S. Bureau of the Census, Historical Statistics of the United States (Washington, D.C.: U.S. Government Printing Office, 1975), p. 132.

6/ For a more detailed description of these data, see Schieber, Social Security, pp. 289-291.

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