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NOTES

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Executive Summary:

Pension Income of the Elderly and Characteristics of Their Former Employers

- ***SIPP data:*** This analysis uses the latest data from the Survey of Income and Program Participation (SIPP) to focus on who among the elderly (age 65 and over) receive income from defined benefit pensions.
- ***Elderly receiving pension income up slightly***: About 38 percent of Americans 65 or older are receiving pension income from their own former employers (both public and private sectors) and about 46 percent had pension income from either their own or their spouse's former employer in 2003 (the latest data), a slight increase from five years earlier.
- ***Factors affecting receipt of pension income:*** As has been the case for some time, males, whites, those with high educational levels, and retirees from unionized jobs are far more likely than their comparison groups to receive income from a pension. Also, the oldest of the elderly (age 80 and over) are more likely to have pension income than the "younger" elderly.
- ***Replacement rates:*** For those receiving a pension, the median replacement rate was 27 percent in the first year of retirement (meaning the percentage of income earned just prior to retirement that is replaced by the pension income. While these rates vary, the replacement rate can be expected to fall for private-sector retirees, since most private-sector pensions are not indexed to inflation. The older the retiree, the lower the replacement rate was.

Retirement Annuity and Employment-Based Pension Income Among Individuals Age 50 and Over: 2005

- ***CPS data:*** This analysis uses data from the Current Population Survey (CPS) March 2006 Supplement to examine pension and annuity income for a younger group (the population age 50 and over) to take into account the prevalence of early retirement options.
- ***Annuity/pension income increases with age:*** Only 19 percent of those age 50–60 had annuity and/or pension income in 2005, yet they had far higher income than those over 60. This suggests that many people who retired early may have done so because they were eligible for early retirement benefits and/or were able to buy a large annuity, and therefore no longer needed to work for financial reasons.

Pension Income of the Elderly and Characteristics of Their Former Employers

By Craig Copeland, EBRI

Introduction

Retirees' receipt of pension income significantly affects their ability to maintain a standard of living similar to that of their preretirement years.[1] Whether a retiree receives this type of income depends on characteristics of both the individuals and their former employers. This article examines the characteristics of retirees and their former employers in relation to pension income recipiency. The Retirement and Pension Plan Coverage Topical Module of the 2001 Survey of Income and Program Participation (SIPP) is the dataset used for this analysis.[2] Although the data are from 2003, they provide the most recent extensive information available on the characteristics of retirees' former employers and pension income.[3]

Percentage of Retirees Receiving Pension Income

According to SIPP, 37.6 percent of Americans age 65 or older had pension income from one of their own former employers in 2003, and 45.6 percent had pension income either from a former employer or from a spouse's former employer. This is up slightly from 36.0 percent and 44.3 percent, respectively, in 1998 (Figure 1).[4] By way of comparison, data from the Census Bureau's Current Population Survey (CPS) found that 35.7 percent of Americans age 65 or older received pension income regardless of the source (oneself or spouse), with 24 percent receiving income from a former private-sector employer and 12 percent receiving it from a public-sector employer.[5] There are other differences in results from these data that cannot be easily explained, including the percentage of workers participating in employment-based retirement plans and the percentage of Americans with health insurance. However, some of the differences can be attributed to survey timing, design, and collection.[6]

Despite the differences between the overall levels from SIPP and CPS, both show that 65- to 69-year-olds have the lowest overall likelihood of having pension and annuity income. According to SIPP, 42.7 percent of those ages 65–69 had pension income from either their own former employer or their spouse's in 2003. This number increased with age, reaching 48.2 percent for those ages 80 or older. CPS data for 2003 show that 33.7 percent of those ages 65–69 had pension and annuity income, compared with the next-lowest group, those ages 75–79, at 36.0 percent. Furthermore, males, whites, and those with the highest level of educational attainment were found in both datasets to be more likely to receive pension income than those in their comparison groups.

The unique component of SIPP relative to CPS is that SIPP asks a series of questions about the retirees' last former employer (not necessarily the source of the pension)—information not asked in the March CPS. In 2003, according to SIPP, 23.2 million Americans age 65 or older were found to have worked for pay sometime during their lifetime. Of those 23.2 million, 55.2 percent had pension income from one of their former employers (Figure 2). The median annual pension income for this group was $8,340.

Individuals who retired from a firm with 100 or more employees were almost twice as likely to have had pension income as those who retired from a firm with fewer than 100 employees (67.0 percent, compared with the next-highest group at 38.3 percent). Those who last worked in the manufacturing sector; transportation, communications, and public utilities sector; and the public sector were significantly more likely to have pension income than those who worked in the remaining sectors. Former public-sector workers had both the highest percentage of pension income recipiency (79.0 percent) and the highest median pension amount ($12,000).[7]

Former employees who were union members, had tenure of 20 or more years in their last job, or had earnings just prior to retirement of $30,000 or more (in 2003 dollars) were significantly more likely to have pension income in retirement. The longest-tenured and the highest-earning individuals also had the highest median pension incomes, with those having 20 or more years of tenure receiving a median annual pension income of $9,804 and those who had earnings of $50,000 or more receiving a median annual

Figure 1

Percentage of Americans Age 65 or Older Who Have Pension Income, by Various Demographic Characteristics, 1998 and 2003

	SIPP[a]								CPS[b]		
	1998				2003				2003		
		Pension Income From				Pension Income From					
	Number (in millions)	Own former employer	Own or spouse's former employer	Median Pension Income Amount[c]	Number (in millions)	Own former employer	Own or spouse's former employer	Median Pension Income Amount[a]	Number (in millions)	Pension Income	Median Pension Income Amount[a]
All	32.2	36.0%	44.3%	$6,588	34.1	37.6%	45.6%	$8,340	34.7	35.7%	$9,000
Age											
65–69	9.4	35.3	41.7	7,464	9.6	37.7	42.7	10,152	9.8	33.7	10,800
70–74	8.6	38.3	45.5	7,200	8.5	39.0	45.5	8,400	8.4	37.1	9,600
75–79	6.9	36.8	47.6	6,432	7.4	36.2	46.3	7,512	7.6	36.0	8,400
80 or older	7.3	33.6	42.9	4,644	8.7	37.2	48.2	6,600	8.8	36.4	7,000
Gender											
Male	13.6	53.2	56.0	8,400	14.4	54.0	57.0	10,476	14.8	45.4	11,976
Female	18.6	23.5	35.7	4,152	19.6	25.5	37.3	5,460	19.9	28.5	5,760
Race/Ethnicity											
White	27.0	37.8	46.6	6,720	28.2	39.3	47.9	8,400	28.3	38.1	9,264
Black	2.6	33.5	39.5	6,084	2.7	34.4	41.2	6,960	2.8	30.8	9,211
Hispanic	1.6	22.0	25.5	4,500	2.0	24.4	28.6	6,576	2.1	17.3	6,624
Other	0.9	17.5	22.0	4,992	1.1	25.9	28.9	8,400	1.4	23.7	9,950
Education Level											
Less than high school diploma	11.0	27.9	35.3	4,788	9.3	26.5	34.5	4,860	9.3	24.0	4,680
High school diploma	10.7	35.2	44.3	5,640	11.4	35.5	45.2	6,792	12.5	35.7	7,200
Some college	6.1	39.8	48.9	7,740	7.5	40.4	48.7	8,676	6.4	39.6	9,000
College degree	2.6	47.4	54.9	10,200	3.6	51.2	55.1	12,000	3.8	44.3	15,888
Postgraduate degree	1.8	62.2	67.8	14,400	2.3	62.3	67.6	16,848	2.7	55.0	20,000
Marital Status											
Married	17.2	40.7	44.0	7,200	19.4	42.3	45.5	9,360	19.5	35.6	10,800
Widowed	10.9	28.4	46.2	4,800	10.8	28.5	46.7	6,528	10.7	37.0	6,120
Divorced/separated	2.6	35.3	39.0	7,356	2.9	37.2	41.7	7,500	3.2	33.4	8,400
Never married	1.5	39.3	41.9	7,200	1.1	43.8	47.4	7,200	1.3	32.4	9,300

Source: Employee Benefit Research Institute estimates of the 1998 and 2001 Survey of Income and Program Participation (SIPP) Topical Module 7 and the 2004 March Current Population Survery (CPS).

[a] Survey of Income and Program Participation.

[b] Current Population Survey.

[c] All dollar values are in 2003 dollars.

pension income of $12,000. While union-covered workers were more likely to have pension income, the median pension income received was essentially no different from that of non union-covered workers who received pension income.

Replacement Rates

Since SIPP collects data on earnings just prior to retirement, the replacement rate (or percentage of income earned just prior to retirement that is replaced by the pension income) can be determined. For all those receiving a pension, the median replacement rate was 27 percent in the first year of retirement (Figure 3). However, since most pension payments, particularly those in the private sector, are not indexed to inflation, the median replacement rate had fallen to 21 percent by 2003, the current year of the survey. These replacement rates vary across different characteristics of the retirees.

The older the retiree, the lower the replacement rate was. For those ages 65–69, the median initial year replacement rate was 31 percent, compared with 24 percent for those 80 or older (Figure 3). Union-covered pension recipients and nonunion recipients had virtually identical median replacement rates. Furthermore, those who retired from a public-sector job had a higher median replacement rate than those who retired from a private-sector job—36 percent, compared with 23 percent.

Not surprisingly, those with 20 or more years of tenure on their last job had the highest median income replacement, at 31 percent, compared with 21 percent for the next-highest replacement rate (five or less years of tenure), as tenure weighs heavily in most traditional defined benefit pension plan benefit formulas (Figure 4).[8] However, earnings did not appear to have a consistent impact, as those with mid-level earnings just prior to retirement ($30,000–$49,999) had the highest median replacement rate, while those with the highest earnings had the lowest median replacement rate. The current year (2003) median replacement rate decreased across all groups, ranging from 4 percentage points to 7 percentage points.

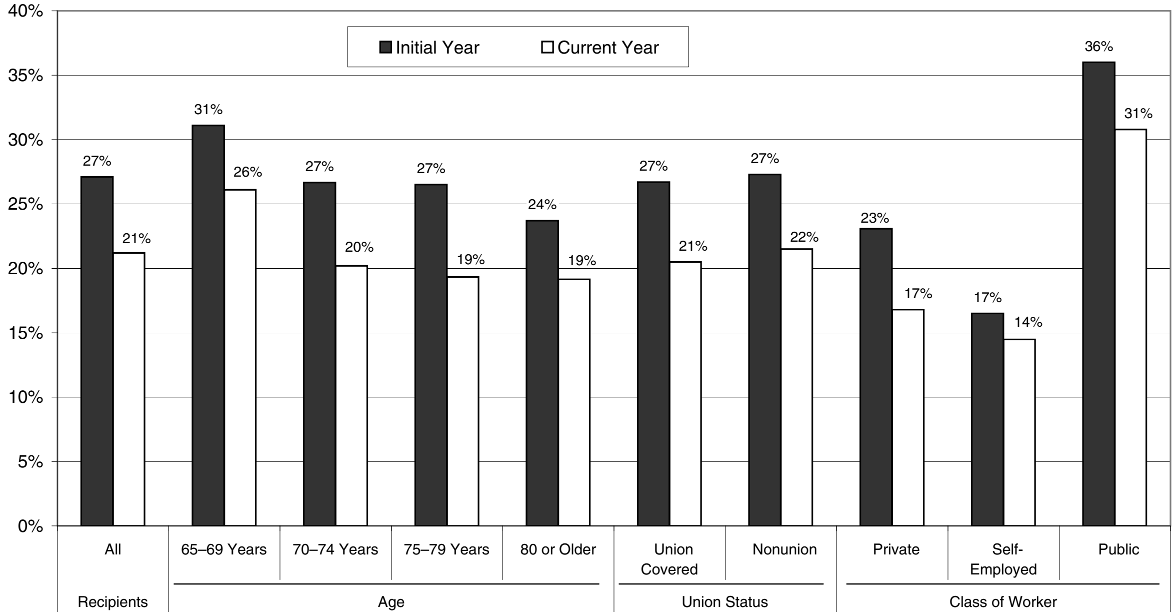
Figure 2

Percentage of Americans Age 65 or Older Who Have Worked for Pay, With Pension Income and Median Pension Income Amounts, by the Individual's Former Employer Characteristics, 2003

	Number (in millions)	Pension Income From Own Former Employer	Median Pension Income Amount
Total	23.2	55.2%	$8,340
Employer Size			
Fewer than 10 employees	3.4	20.1	5,808
10–24	1.4	31.5	6,288
25–49	1.3	38.2	5,976
50–99	1.0	38.3	5,808
100 or more	16.1	67.0	8,544
Union Status			
Union covered	6.2	77.1	8,040
Nonunion	17.0	52.8	8,400
Class of Worker			
Private sector	15.7	50.4	6,420
Self-employed	1.6	21.8	6,600
Public sector	5.9	79.0	12,000
Tenure of Last Job			
Less than 5 years	1.0	22.4	4,692
5–9	2.8	28.5	4,572
10–19	5.7	46.5	4,788
20 or more	13.7	66.9	9,804
Industry			
Agriculture	0.4	15.8	12,000
Mining	0.1	45.9	7,080
Construction	0.9	45.9	7,416
Manufacturing	5.6	62.8	6,600
Transportation, communications, and public utilities	1.5	59.7	9,180
Wholesale trade	0.7	44.6	6,000
Retail trade	2.6	27.9	3,036
Finance, insurance, and real estate	1.0	47.2	7,200
Professional services	3.0	45.3	5,208
Personal services	1.6	24.8	4,800
Public sector	5.9	79.0	12,000
Earnings Prior to Retirement (2003 $)			
Less than $10,000	3.0	28.6	4,176
$10,000–$19,999	3.7	44.2	4,872
$20,000–$29,999	3.5	51.0	5,208
$30,000–$49,999	5.8	64.1	8,400
$50,000 or more	7.1	67.7	12,000

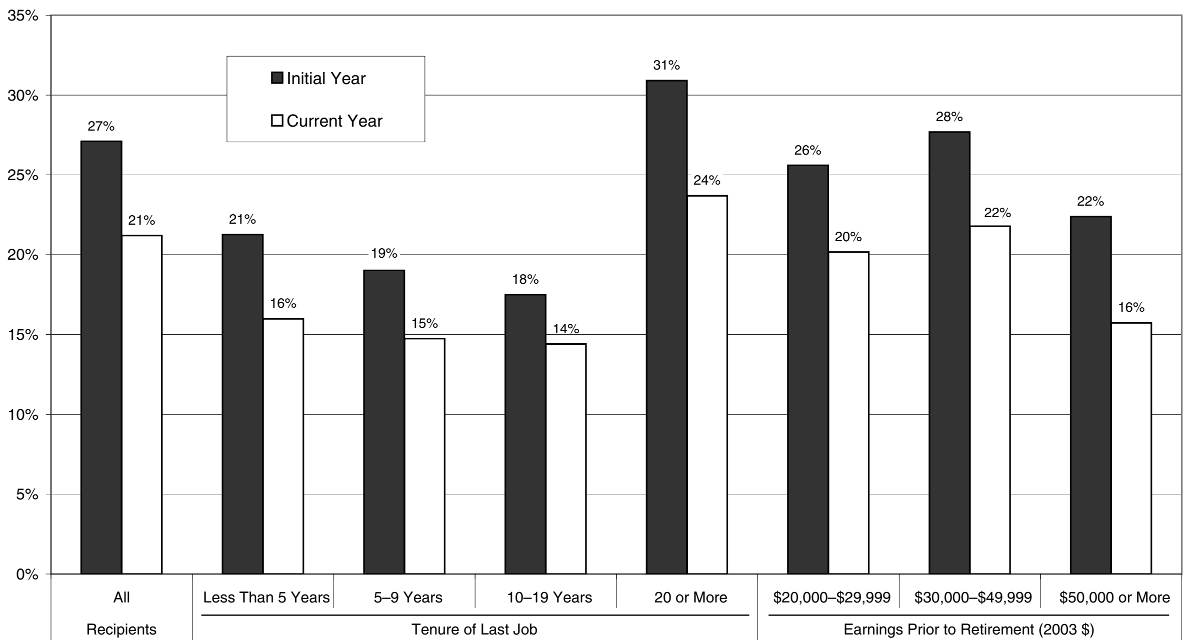
Source: Employee Benefit Research Institute estimates of the 2001 Survey of Income and Program Participation Topical Module 7.

Figure 3
Median Percentage of Preretirement Earnings Replaced by Pension Income in the Initial Year of Recipiency and the Current Year, by Age and Worker Status, 2003



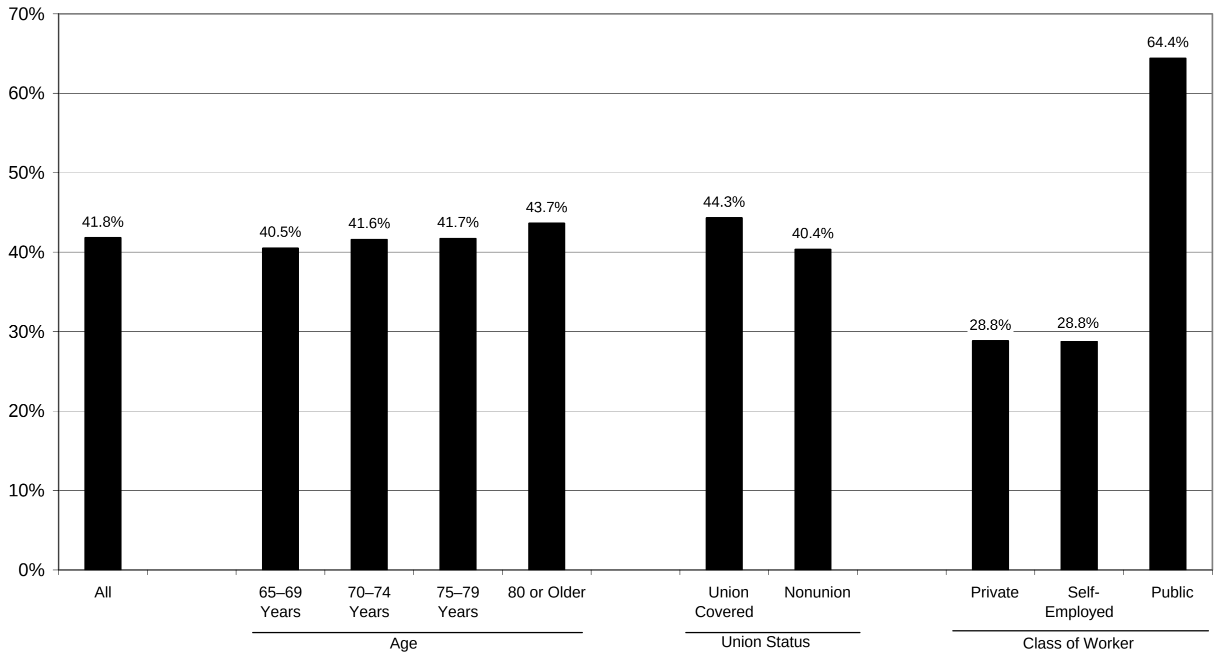
Source: Employee Benefit Research Institute estimates of the 2001 Survey of Income and Program Participation Topical Module 7.

Figure 4
Median Percentage of Preretirement Earnings Replaced by Pension Income in Initial Year of Recipiency and the Current Year, by Tenure and Earnings at Last Job, 2003



Source: Employee Benefit Research Institute estimates of the 2001 Survey of Income and Program Participation Topical Module 7.

Figure 5
Percentage of Americans Age 65 or Older Who Receive a Pension From Their Own Former Employer and Who Have Ever Had an Increase in Their Pension Payment, 2003



Source: Employee Benefit Research Institute estimates of the 2001 Survey of Income and Program Participation Topical Module 7.

Payment Increases

While the median replacement rate decreased from the initial year of recipiency to the current year, slightly more than 40 percent of pension recipients reported that their benefit had ever been increased at some point since their retirement (Figure 5). Former public-sector workers were far more likely to report they had an increase than did former private-sector workers (64.4 percent versus 28.8 percent).[9] Age did not appear to have a significant impact, but the trend seems to be that newer retirees are less likely to ever have had an increase in their benefit amount. Furthermore, union workers were slightly more likely to have had a benefit increase than those who were not union-covered.

Conclusion

SIPP reports a significantly higher percentage of those age 65 or older receiving pension income, at 46 percent, than CPS's much more widely quoted 36 percent. Despite the difference, both show that a majority of those age 65 or older are not receiving pension income, and the percentage is decreasing for younger retirees. Furthermore, the median pension amounts across the various demographic groups examined were very similar between the two datasets. The median annual amount of $8,300 or $9,000 would be considered modest by some and is less than the approximately $12,000 annually received by newly retired workers under Social Security. However, for those receiving the benefit, it can bring a piece of mind as the monthly check for lifetime can alleviate concerns about money management as the retiree ages.

Factors that are positively correlated with higher likelihood of pension recipiency are larger employer size, union coverage, longer tenure, higher earnings just prior to retirement, and public-sector employment. Also, those with longer tenure, higher earnings, and careers in the public sector or at a larger employer had higher median pension income.

While pension income is very important for those receiving it (it replaces about 27 percent of final-year earnings), its existence appears to be waning due to the private-sector shift away from defined benefit (pension) to defined contribution (401(k)-type) plans. Therefore, retirees who are fortunate enough to have some assets from an employment-based arrangement in retirement will most likely need to manage these assets instead of merely cashing monthly checks from the pension sponsor. Retirees with 401(k)-type account balances could purchase annuities individually to provide themselves with the same type of assured monthly payments for life, but so far annuities have not been a product of choice. Consequently, new retirees with dollars from an employment-based arrangement are now in a situation similar to most current retirees—getting by on Social Security for guaranteed payments and depending on money management skills to cover the rest of their expenses.

The evidence so far is limited on how successful the next generation of retirees will be financially in retirement. One study finds that most new retirees have been able to maintain their wealth. However, those who have not maintained their wealth have lost it quickly.[10]

Endnotes

[1] See Craig Copeland, "Retirement Plan Participation and Retirees' Perception of Their Standard of Living," *EBRI Issue Brief*, no. 289 (Employee Benefit Research Institute, January 2006), showing that retirees age 55 or older who reported they had the same or better standard of living relative to when they were ages 50–54 had a significantly higher probability of having pension income than those who reported a standard of living that was somewhat or much worse.

[2] The 2001 SIPP was conducted by the U.S. Census Bureau and followed the same households for a three-year period, asking various questions on economic and demographic status. Survey participants are interviewed at four-month intervals about a core set of demographic and economic issues. In addition, topical modules ask more specific questions about important economic issues. The Retirement and Pension Plan Coverage Topical Module is the seventh topical module and was fielded from January–April of 2003. For further information about this survey, see www.bls.census.gov/sipp (last accessed January 2007).

[3] The March Current Population Survey (CPS) provides more up-to-date information on the characteristics of those receiving pension income but not on the characteristics of former employers. Therefore, this *Notes* article provides that extra detail that is not available in CPS data. See Ken McDonnell, "Retirement Annuity and Employment-Based Pension Income, Among Individuals 50 and Older: 2005" *EBRI Notes*, vol. 28, no. 3 (Employee Benefit Research Institute, March 2007): 8–13, for the latest results from CPS on retirees with pension income. In CPS, pension income is combined with annuity income from other sources than pensions, but more than 90 percent of this income comes from pensions.

[4] Pension income from SIPP includes all retirement, disability, and survivor payments that last for the reminder of the person's life, excluding payments from Social Security. It is not clear if this incorporates some other pension type income that is included elsewhere in CPS, given way the questions are asked. This could explain some percentage of the difference between SIPP and CPS but certainly not all of the difference.

[5] A study of the Health and Retirement Study (HRS) shows that among those born between 1931 and 1941, 39.2 percent received pension and annuity income. See Craig Copeland, "How Are New Retirees Doing Financially in Retirement?" *EBRI Issue Brief,* no. 302 (Employee Benefit Research Institute, February 2007).

[6] See Copeland (2006), op. cit., for an example of differences in the retirement plan participation numbers and Paul Fronstin, "Counting the Uninsured: A Comparison of National Surveys," *EBRI Issue Brief,* no. 225 (Employee Benefit Research Institute, September 2000) for a comparison on the percentage of Americans without health insurance. See also Patrick Purcell, "Participation in Retirement Plans: Findings from the Survey of Income and Program Participation," *CRS Reports for Congress* (Congressional Research Service, October 5, 2005) for discussion of the differences between SIPP and CPS.

[7] In some cases, this may be the only income that these former public employees receive, as certain state and federal employees were not covered by Social Security, whereas the vast majority of former private-sector workers were covered.

[8] One explanation for this finding is that the tenure reported refers to the last job worked before retirement, which is not necessarily the source of the pension. Therefore, some the individuals with short tenure may have their pension from another job and have taken a lower-paying job until they stopped working, which gave them a higher replacement rate. In contrast, those with longer tenures were more likely to have the source of their pension be their last employer. Unfortunately, this cannot be determined from the data.

[9] This number appears to be higher than what would be expected from private-sector employers. However, some former public-sector employees may have ended their working careers at a private-sector employer having already earned a pension from the public-sector employer, thereby biasing the private-sector percentage.

[10] See Copeland (2007), op. cit.

Retirement Annuity and Employment-Based Pension Income Among Individuals Age 50 and Over: 2005

By Ken McDonnell, EBRI

Introduction

This article looks at one slice of the income pie of the older population: retirement annuities and employment-based pensions. It analyzes the population age 50 and over in order to take into account the prevalence of early retirement options available to individuals beginning at age 50. Recent data from the March 2006 Current Population Survey, conducted by the U.S. Census Bureau, confirm earlier findings that gender, marital status, age, education, and other demographic variables have a significant impact on the likelihood of a worker receiving a retirement annuity and/or employment-based pension income in retirement.[1] There may also be a strong correlation between these same variables and the amount of pension income received from employment-based retirement plans.[2]

For example, in 2005, 30.3 percent of men age 50 and older with a graduate-level education received an annuity and/or pension income, compared with 22.6 percent of men without a high school diploma—a differential of 7.7 percentage points (Figure 1). While notable, this differential in *receipt* of an annuity and/or pension income pales in comparison with the differential in the *amounts* these men received: In

Figure 1

Pension and Annuity Income Recipiency, Males Age 50 and Over: Percentage Receiving Pension and Annuity Income, With Mean and Median Pension and Annuity Income, by Various Characteristics, 2005

Characteristics	Percentage Receiving Pensions and Annuities	For Those Receiving Pensions and Annuities: Mean annual income from pensions and annuities	For Those Receiving Pensions and Annuities: Median annual income from pensions and annuities
Total			
Age 50 and over	25.5%	$18,942	$14,400
Age			
50–55	6.1	20,803	17,000
56–60	16.3	25,163	22,800
61–64	28.9	21,718	17,520
65–67	36.8	18,830	12,768
68–70	42.5	17,735	13,200
71–75	44.6	16,710	12,048
76–79	48.7	16,454	11,448
80 and over	46.6	15,615	10,440
65 and over	43.8	16,933	12,000
Industry Sector			
Private-sector	15.7	13,920	10,548
Public-sector	8.6	26,682	22,800
Educational Level			
No high school diploma	22.6	10,269	8,400
High school diploma to associate's degree	25.1	16,580	12,900
Bachelor's degree	25.6	24,025	20,400
Graduate degree	30.3	29,212	24,012
Marital Status			
Married	26.4	19,421	14,400
Widowed	42.4	16,167	11,364
Divorced or separated	18.4	17,774	13,200
Never married	12.9	19,815	14,400
Income Quintile			
Lowest	8.4	5,243	4,620
Second	29.3	7,138	6,000
Middle	38.8	15,916	14,400
Fourth	26.0	25,726	24,600
Highest	21.7	36,450	33,000

Source: Employee Benefit Research Institute tabulations of the March 2006 Current Population Survey.
For other years of data, see the *EBRI Databook on Employee Benefits,* Chapter 8, www.ebri.org/publications/books/index.cfm?fa=databook

2005, men with graduate-level degrees received 2.9 times the median[3] annuity and/or pension income that was received by men without a high school diploma (calculated from Figure 1). Figure 1 also shows how age, education, marital status, and income are related to annuity and/or pension recipiency and to the amounts males received in 2005; Figure 2 shows the same data for females.

Gender

Gender is a particularly strong factor in retirement annuity and/or employment-based pension income recipiency. Figure 1 shows that in 2005, 43.8 percent of men age 65 and over received annuity and/or pension income, with a mean amount of $16,933 per year. Figure 2 shows that only 29.2 percent of women age 65 and over received annuity and/or pension income that year, with mean pension income of $10,086. Hence, a woman age 65 and over in 2005 was almost two-thirds (66.7 percent) as likely to receive an annuity and/or pension payment as her male counterpart. If she did receive one, her mean benefit was likely to be about 60 percent of that received by a man in the same age group (calculated from Figures 1 and 2).

Women age 50 and over in 2005 were born in 1955 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 accounted for the largest proportion of women age 50 and over receiving annuities and/or pensions in 2005, at 33.2 percent (Figure 2).

Figure 2

Pension and Annuity Income Recipiency, Females Age 50 and Over: Percentage Receiving Pension and Annuity Income, With Mean and Median Pension and Annuity Income, by Various Characteristics, 2005

Characteristics	Percentage Receiving Pensions and Annuities	For Those Receiving Pensions and Annuities: Mean annual income from pensions and annuities	Median annual income from pensions and annuities
Total			
Age 50 and over	18.4%	$12,190	$7,584
Age			
50–55	3.7	15,341	12,000
56–60	11.3	19,505	14,400
61–64	19.5	16,509	12,000
65–67	25.3	12,259	7,176
68–70	26.0	11,676	7,704
71–75	29.4	10,534	6,432
76–79	30.9	8,844	6,000
80 and over	32.0	8,837	6,000
65 and over	29.2	10,086	6,420
Industry Sector			
Private-sector	10.3	8,209	4,800
Public-sector	7.1	16,611	12,300
Educational Level			
No high school diploma	14.3	5,622	3,792
High school diploma to associate's degree	18.4	9,995	6,600
Bachelor's degree	18.9	18,045	14,000
Graduate degree	25.1	23,897	21,600
Marital Status			
Married	13.1	13,153	7,998
Widowed	33.2	10,123	6,600
Divorced or separated	14.9	13,655	9,600
Never married	17.7	17,623	12,000
Income Quintile			
Lowest	3.4	2,364	2,400
Second	9.7	3,149	2,100
Middle	25.3	5,421	4,236
Fourth	29.0	12,303	10,908
Highest	19.4	26,470	24,000

Source: Employee Benefit Research Institute tabulations of the March 2006 Current Population Survey.
For other years of data, see the *EBRI Databook on Employee Benefits*, Chapter 8, www.ebri.org/publications/books/index.cfm?fa=databook

Widows received the lowest mean and median retirement annuity and/or pension income amounts among women of any marital status (Figure 2). In 2005, the mean annuity and/or pension income for widows was $10,123, compared with $17,623 for women who were never married (Figure 2).

On average, younger women today spend less time in the work force than men of similar ages and tend to have lower-paying jobs, a situation due in large part to leave taken from work to provide family caregiving. However, on average, today's younger women tend to spend more time in the work force than did women who were age 50 and over in 2005. As other EBRI research has shown, women's participation in retirement plans has risen significantly in recently years, closing the gap in retirement plan participation with men (see *EBRI Issue Brief* no. 299, "Employment-based Retirement and Pension Plan Participation: Geographic Differences and Trends, 2005," November 2006). 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 1975 through 2005 (Figures 3, 4, and 5).

Figure 3
Percentage of Population Over Age 50 Receiving Pension and Annuity Income, by Various Characteristics, Selected Years, 1975–2005

Characteristics	1975	1980	1985	1990	1995	2000	2005
Total							
Age 50 and over	15.3%	18.0%	21.4%	24.2%	24.0%	21.8%	21.7%
Age							
50–55	4.6	5.6	6.1	6.6	5.9	4.8	4.9
56–60	9.4	10.8	13.3	15.8	14.3	13.7	13.8
61–64	16.1	20.6	23.8	28.0	25.9	23.4	24.1
65–67	25.8	29.1	31.8	37.1	34.2	32.3	30.8
68–70	26.5	29.0	34.1	38.4	37.2	36.2	33.7
71–75	25.4	29.2	32.5	39.2	38.0	36.4	36.2
76–80	21.7	24.1	28.8	34.6	36.2	36.1	38.5
80 and over	17.7	21.1	25.0	30.2	31.5	33.1	37.4
65 and over	23.8	26.9	30.7	36.1	35.4	34.8	35.5
Gender							
Male	19.2	24.6	28.9	32.5	30.6	26.1	25.5
Female	11.4	12.4	15.1	19.2	18.4	18.1	18.4
Industry Sector							
Private-sector	9.4	10.9	13.6	15.0	14.8	13.5	12.8
Public-sector	6.2	7.4	8.3	9.7	8.3	7.5	7.8
Educational Level							
No high school diploma	13.1	15.2	18.7	22.0	20.0	18.3	18.1
High school diploma to associate's degree	15.7	18.4	21.3	25.6	24.1	22.3	21.3
Bachelor's degree	24.6	25.5	27.8	31.0	28.2	22.0	22.4
Graduate degree	24.7	29.5	31.0	31.5	30.6	25.9	28.1
Marital Status							
Married	14.9	17.4	20.3	24.1	22.9	20.1	20.4
Widowed	17.1	21.3	26.4	31.8	31.9	33.2	34.9
Divorced or separated	10.7	12.0	15.1	19.0	17.9	16.1	16.3
Never married	19.6	20.4	24.7	26.4	21.3	19.3	15.3
Income Quintile							
Lowest	1.9	1.9	2.9	4.0	4.0	4.0	4.5
Second	4.3	6.9	9.9	15.1	13.5	13.6	15.5
Middle	20.9	28.0	32.2	35.3	33.9	35.0	34.4
Fourth	25.7	30.4	35.8	40.0	39.3	30.9	27.5
Highest	15.8	19.4	22.5	27.5	25.4	21.3	22.0

Source: Employee Benefit Research Institute tabulations of the March 1976, 1981, 1986, 1991, 1996, 2001, and 2006 Current Population Survey.
For other years of data, see the *EBRI Databook on Employee Benefits*, Chapter 8, www.ebri.org/publications/books/index.cfm?fa=databook

Age

The likelihood of receiving an annuity and/or pension income increases with age, until the oldest age group (those age 80 and over), where data show a lower percentage receiving annuity and/or pension income (Figures 3). However, starting in 1975, the percentage of individuals age 80 and over receiving annuity and/or pension income increased, from 17.7 percent in 1975 to 37.4 percent in 2005.

It is also worth noting that, although only 18.7 percent of persons ages 50–60 in 2005 were receiving annuity and/or pension income, those recipients had mean and median incomes that were greater than those received by persons over age 60 (Figures 3, 4, and 5). These data suggest that many persons who retired early 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.

Industry Sector

While fewer individuals age 50 and over received pension income from a public-sector plan (7.8 percent) than from a private-sector plan (12.8 percent) in 2005, the average amount an individual received from a public-sector plan ($21,826) was considerably larger than that received by a private-sector plan recipient ($11,483) (Figures 3 and 5).

Figure 4

Median Annual Income From Pensions and Annuities in Constant 2005 Dollars for the Population Over Age 50, by Various Characteristics, Selected Years, 1975–2005

Characteristics	1975	1980	1985	1990	1995	2000	2005
Total							
Age 50 and over	$8,712	$8,296	$8,190	$8,966	$9,227	$10,207	$11,004
Age							
50–55	14,520	13,273	15,050	14,195	14,478	14,971	15,600
56–60	14,157	12,841	13,613	13,717	15,870	15,878	19,200
61–64	10,829	11,377	10,890	11,332	13,861	14,630	14,400
65–67	8,712	8,134	8,712	9,264	8,724	11,341	11,000
68–70	8,102	6,968	7,260	8,347	9,227	10,275	11,000
71–75	6,752	6,712	6,295	7,471	7,986	9,432	9,600
76–80	6,534	5,925	6,325	6,635	6,620	8,166	8,400
80 and over	6,505	5,963	5,492	5,977	6,151	6,805	8,016
65 and over	7,362	6,864	6,636	7,597	7,689	8,806	9,600
Gender							
Male	10,019	10,381	10,729	11,881	12,302	13,610	14,400
Female	6,897	5,432	5,445	5,881	6,151	6,818	7,584
Industry Sector							
Private-sector	6,534	5,925	6,120	6,276	6,659	6,805	7,572
Public-sector	14,157	14,221	14,157	14,157	15,516	16,332	18,000
Educational Level							
No high school diploma	6,447	5,688	5,445	5,379	5,490	5,594	5,820
High school diploma to associate's degree	10,012	9,073	8,712	8,966	8,965	9,527	9,600
Bachelor's degree	15,246	13,389	14,176	16,030	14,809	16,277	18,000
Graduate degree	19,240	15,406	19,405	20,800	23,672	23,545	24,000
Marital Status							
Married	9,678	9,481	9,914	10,445	10,765	12,249	12,312
Widowed	6,483	5,688	5,445	5,852	6,151	6,805	7,380
Divorced or separated	8,331	7,110	8,487	8,966	9,227	10,343	11,940
Never married	10,738	8,533	9,366	10,041	9,491	11,341	13,200
Income Quintile							
Lowest	2,178	2,806	1,779	1,954	2,245	2,722	2,508
Second	3,096	2,560	2,327	2,474	2,261	2,722	2,976
Middle	4,585	4,792	5,075	5,379	5,582	6,805	7,800
Fourth	10,890	11,178	11,348	12,552	12,733	15,365	18,000
Highest	20,191	20,985	21,127	22,713	25,872	28,580	30,000

Source: Employee Benefit Research Institute tabulations of the March 1976, 1981, 1986, 1991, 1996, 2001, and 2006 Current Population Survey. For other years of data, see the *EBRI Databook on Employee Benefits*, Chapter 8, www.ebri.org/publications/books/index.cfm?fa=databook

Future Trends

Will today's workers have a steady income stream when they retire? This is an important policy question for government, employers, and employees alike. Current trends show future retirees may not have a steady income stream in retirement. Fewer employees are participating in a defined benefit (DB) pension plan, which, in the past, almost always paid benefits in the form of an annuity upon retirement. In today's work place, an increasing number of DB plans are offering a lump-sum distribution option at retirement. Also, increasing numbers of employees are participating in a defined contribution (DC) plan, primarily a 401(k) plan. This trend has had a positive impact, in that many workers who previously had no retirement plan at all now at least have access to a tax-favored plan. However, DC plans are far less likely to offer an annuity option to retirees than are DB plans.

According to data from Hewitt Associates,[4] in 2005 only 20 percent of surveyed employers that offered a 401(k) plan offered an annuity option to retirees, while 100 percent offered a lump-sum distribution option. Furthermore, according to the same Hewitt data, only 6 percent of retirees who were offered an annuity option in their 401(k) plan chose to take that option. Consequently, future retirees will likely be more reliant on assets they must manage themselves instead of receiving a stream of income for life (i.e., an annuity). For further research on future retirees' income, see *EBRI Issue Brief* no. 263, "Can America Afford Tomorrow's Retirees: Results From the EBRI-ERF Retirement Security Projection Model," November 2003 (www.ebri.org/publications/ib/index.cfm?fa=ibDisp&content_id=182).

Figure 5

Mean Annual Income From Pensions and Annuities in Constant 2005 Dollars for Population Over Age 50, by Age, Gender, Industry Sector, Educational Attainment, Marital Status, and Income Quintile, Selected Years, 1975–2005

Characteristics	1975	1980	1985	1990	1995	2000	2005
Total							
Age 50 and over	$12,754	$12,097	$12,427	$13,051	$14,012	$15,228	$15,909
Age							
50–55	18,962	15,916	17,204	16,396	18,983	19,566	18,758
56–60	18,410	16,463	17,043	17,036	19,404	21,033	22,834
61–64	14,800	15,018	15,150	15,981	19,353	19,316	19,549
65–67	11,829	11,870	12,999	13,963	13,121	16,392	16,028
68–70	11,259	10,340	11,076	12,126	13,672	14,512	15,224
71–75	10,151	9,669	10,114	11,575	12,288	13,483	13,914
76–79	9,697	9,623	9,545	10,044	11,176	12,413	12,945
80 and over	9,699	8,888	8,074	8,989	9,473	10,803	11,942
65 and over	10,710	10,217	10,572	11,549	11,985	13,326	13,722
Gender							
Male	14,504	14,444	14,920	16,059	17,109	18,470	18,942
Female	9,737	8,138	8,424	8,779	9,632	10,704	12,190
Industry Sector							
Private-sector	9,155	8,702	9,501	9,728	10,381	11,363	11,483
Public-sector	18,531	17,492	17,863	17,078	19,233	20,149	21,826
Educational Level							
No high school diploma	8,599	7,860	7,675	7,365	7,526	8,108	8,298
High school diploma to associate's degree	13,486	12,399	12,367	12,603	12,680	13,234	13,377
Bachelor's degree	19,942	19,444	19,630	20,509	20,677	22,151	21,601
Graduate degree	24,505	21,654	24,011	24,689	27,473	28,252	27,223
Marital Status							
Married	14,089	13,602	14,248	14,654	15,871	17,377	17,588
Widowed	9,543	8,456	8,112	9,132	9,500	10,584	11,496
Divorced or separated	11,737	10,700	12,061	12,668	13,014	14,539	15,613
Never married	13,281	12,208	12,725	13,917	16,648	15,792	18,530
Income Quintile							
Lowest	3,118	2,983	2,602	2,638	2,767	3,100	3,037
Second	4,088	3,265	3,449	3,583	3,554	4,130	4,702
Middle	5,885	5,899	6,332	6,765	6,687	8,082	8,976
Fourth	12,540	12,245	12,711	13,500	14,043	16,510	18,656
Highest	24,906	24,649	25,652	26,837	29,806	33,193	33,111

Source: Employee Benefit Research Institute tabulations of the March 1976, 1981, 1986, 1991, 1996, 2001, and 2006 Current Population Survey. For other years of data, see the *EBRI Databook on Employee Benefits*, Chapter 8, www.ebri.org/publications/books/index.cfm?fa=databook

Endnotes

[1] The data in this article were tabulated from the March Current Population Surveys, published annually by the U.S. Census Bureau. Of all datasets reporting income of the older population, the March CPS allows the most detailed breakouts of individual incomes, allowing differences correlated with individual demographic characteristics such as age, gender, marital status, and education to be identified. However, there is some controversy surrounding the validity of the March CPS data in relation to its information about pension income and total income of the older population. For example, the 2005 National Income and Product Accounts (NIPA) survey reports more than $219.8 billion more income from private pensions and $128.4 billion more income from public pensions than the March CPS. Part of this disparity arises from NIPA's accounting of lump-sum distributions paid to younger workers as pension income. In addition, because some pension plans are administered by third parties or are paid out in lump-sum distributions and managed by another party or by the retiree (e.g., in the form of an individual retirement account (IRA), pension income may be misreported by respondents as coming from other sources (e.g., assets, personal savings). Nevertheless, although March CPS data may understate pension income, it does not necessarily follow that it underestimates total income of the elderly, especially if pension income is simply misreported as originating from other sources in the March CPS. However, the fact that NIPA reports $72.3 billion more income from Old-Age, Survivors, and Disability Insurance (OASDI) than the March CPS suggests that the March CPS does not only underestimate pension income but may also underestimate total income received by the older population. The extent to which the March CPS underestimates total income or certain types of income is unknown because of the limitations in directly comparing the income of individuals using the CPS with that of other datasets.

[2] The term *employment-based pension income* refers to income coming from employment-based retirement plans (both defined benefit and defined contribution plans, including 401(k) plans) sponsored by both private- and public-sector employers, whether received in the individual's own name or as a survivor, as well as any income from individual retirement accounts (IRAs). *Annuities* are added because of the prevalence of lump-sum distributions from employment-based plans that could have been a source of these annuities. A retiree may take some or all of the lump-sum distribution and purchase an annuity. Data on annuities and IRAs are included in an attempt to give a complete picture of income generated from employment-based retirement plans throughout an individual's working career. According to data published in the January 2006 *EBRI Notes*, rollovers from 401(k) and other types of DC plans account for the largest share of IRA asset growth aside from market gains. (www.ebri.org/publications/notes/index.cfm?fa=notesDisp&content_id=3614)

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

[4] Hewitt Associates LLC, *Survey Findings: Trends and Experience in 401(k) Plans: 2005* (Lincolnshire, IL: Hewitt Associates LLC, 2005).

■ *New Publications and Internet Sites*

[Note: To order U.S. Government Accountability Office (GAO) publications, call (202) 512-6000.]

Employee Benefits

Hewitt Associates. *Work/Life Benefits Provided by Major U.S. Employers, 2005-2006*. $500. Hewitt Associates LLC, Attn: Hewitt Information Desk, 100 Half Day Rd., Lincolnshire, IL 60069, (847) 771-2500, e-mail: benefitspecselect@hewitt.com, www.hewitt.com

Financial Planning

U.S. Government Accountability Office. *Financial Literacy and Education Commission: Further Progress Needed to Ensure an Effective National Strategy*. Order from GAO.

Health Care

Wise, David A., and Naohiro Yashiro. *Health Care Issues in the United States and Japan*. $65. University of Chicago Press, Order Dept., 11030 S. Langley Ave., Chicago, IL, 60628-2215, (800) 621-2736, fax: (800) 621-8476.

Pension Plans/Retirement

Hewitt Associates. *How Do Participants Save and Invest in 401(k) Plans With Automatic Enrollment?* Free. Hewitt Associates LLC, Attn: Hewitt Information Desk, 100 Half Day Rd., Lincolnshire, IL 60069, (847) 771-2500, e-mail: infodesk@hewitt.com, www.hewitt.com

Reference

NAVA. *2006 Annuity Fact Book: A Guide to Information, Trends and Data in the Annuity Industry*. Fifth Edition. NAVA members, $25; nonmembers, $50. National Association for Variable Annuities, 11710 Plaza America Dr., Suite 100, Reston, VA 20190, (703) 707-8830 ext. 15, fax: (703) 707-8831, www.navanet.org

Social Security Reform

Munnell, Alicia H., and Steven A. Sass. *Social Security and the Stock Market: How the Pursuit of Market Magic Shapes the System*. $18. W.E. Upjohn Institute for Employment Research, Attn: Publications Department, 300 S. Westnedge Ave., Kalamazoo, MI 49007-4686, (888) 227-8569 or (269) 343-5541, fax: (269) 343-7310, www.upjohninstitute.org

COBRA Sites

AARP
www.aarp.org/health/insurance/private/a2003-05-02-cobra.html

COBRA Health Plan Advice for Individuals and Small Businesses
www.cobrahealth.com/

Employee Benefit Research Institute
www.ebri.org/pdf/publications/facts/091605fact.pdf

U.S. Department of Labor
www.dol.gov/dol/topic/health-plans/cobra.htm

Web Documents

2007 Reporting & Disclosure Calendar for Benefit Plans
www.segalsibson.com/publications/r&dcalendar/2007.html

2007 Reporting & Disclosure Calendar for Multiemployer Plans
www.segalco.com/publications/r&dcalendar/2007.html

An Alliance for Health Reform Toolkit: President Bush's Health Coverage Plan [Resources]
www.allhealth.org/publications/pub_41.pdf

Changes in Employer-Sponsored Health Insurance - Sponsorship, Eligibility, and Participation: 2001 to 2005
www.kff.org/uninsured/upload/7599.pdf

General Explanation of Tax Legislation Enacted in the 109th Congress
www.house.gov/jct/s-1-07.pdf

Making Health Insurance Affordable for More Americans - Examples under President Bush's Standard Deduction Health Insurance Plan
www.treas.gov/press/releases/reports/examples01.28.06.pdf

Retirement Savings: How Much Will Workers Have When They Retire?
www.opencrs.com/rpts/RL33845_20070129.pdf

Taxable Fringe Benefit Guide [January 2007]
www.irs.gov/pub/irs-tege/fringe_benefit_fslg.pdf

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