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Notes

The History of 401(k) Plans

During its 25 years of existence, EBRI has published extensively on the background, history, and operation of the 401(k) retirement savings plan (*Fundamentals of Employee Benefits*, 5th ed.; *Facts from EBRI,* November 2002 (www.ebri.org/facts/1102fact.htm) and earlier; September 2003 *EBRI Issue Brief,* "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2002," among numerous other publications). This personal recollection about the creation of the very first 401(k) plans was submitted by Herbert A. Whitehouse, a fiduciary consultant and principal, Whitehouse Law Firm, Woodbridge, NJ, who played a key leadership role in designing and implementing Johnson & Johnson's 401(k) plan from 1979–1982.

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Toward a More Complete History: Johnson & Johnson's 401(k) Nursery

by Herbert A. Whitehouse[1]

Introduction

The origin of the 401(k) may not be the most important story in American history. But more than 20 years after this popular retirement vehicle was created, the true story has yet to be told.

The most common 401(k) tale told by the media today is that one man, Ted Benna,[2] received the idea as a divine inspiration; and then something of a miracle happened, namely, the Internal Revenue Service (IRS) approved his idea. The story goes that American business then followed this prophet into the 401(k) promised land.

The reality is that at least one—and perhaps several—large, public companies began working toward IRS approval as early as 1979. I know, because I led the 401(k) project for a well-known company—Johnson

& Johnson (J&J)—that was among the first, if not the first, major company to decide to establish a 401(k) plan for its workers.

Ted Benna's small consulting firm reports that it was the first to use Sec. 401(k) of the Internal Revenue Code (IRC) to change its after-tax employee contributions to before-tax employee contributions. But Ted certainly was neither the only one aware of the possibilities of 401(k) nor the only one working toward making it a reality. Additionally, it's my belief that others played a more significant role in securing IRS support, and in helping to bring American business behind this new idea.

It did not all happen so easily, or miraculously. In those days, it must have been easy to overlook the contributions that others were making. I have to admit: I once believed that we at J&J were alone as we worked with the IRS. We moved forward, without publicity or fanfare, believing that we alone among American businesses were working to create this exciting and innovative investment tool.

This feeling that we were leading the way seemed to be confirmed when I stood before the J&J board of directors, months before the proposed 401(k) regulations were issued by the IRS in 1981, to explain the new J&J 401(k). In response to some skeptical questions, I told the board of directors that we didn't need to worry about IRS approval. I vividly recall the meeting with this powerful set of executives, when I arrogantly stated (although I didn't think it at the time) that we did not need to worry about whether our plan would follow IRS regulations. Why? Because, I told them, "The proposed regulations will follow Johnson & Johnson's new plan."

This essay is a call to those involved to fill in the details of these wonderful days when we were creating history. Only when all the stories are told will the proposed regulations promulgated by the IRS on Nov. 10, 1981, be shown to be something other than a miracle, or a prayer answered.

Johnson & Johnson's Initiatives

As a matter of history, IRC Sec. 401(k) came into existence much earlier than 1981; it was introduced by the Revenue Act of 1978. In late 1979, I was transitioning from a benefits manager position to my future position as manager of executive compensation. It was during that transition that I read this new deferred compensation provision of the tax code, 401(k), for the first time.

At that time, the 401(k) concept that we all take for granted today was unheard of. Traditionally, deferred compensation is an important focus for executive compensation, but not for the rank-and-file. But this 401(k) provision, it seemed, could help *all* employees. The employee would reduce his or her taxable pay by contributing to an account; and even though the reduced pay would be contributed into the 401(k) account, neither the deferred compensation nor any company match would be taxed. I saw the implications of this immediately and went to my superiors.

It was the courage of my bosses at Johnson & Johnson, primarily George McDonald, that gave me the green light to pursue what I saw. Soon after, all the resources of J&J were behind the effort. We had no other choice, as the J&J project entailed more than converting existing after-tax contributions to pre-tax contributions. J&J did not then have a defined contribution retirement plan. The entire plan design, investment, administration, and employee education structure had to be established for many thousands of employees working in a decentralized family of companies in many states.

Soon after my presentation to the J&J board, Mel Benjamin, my direct boss in charge of the J&J Compensation Department, began to apply his marketing background to develop an employee communications campaign. One early piece of the creative strategy he used to excite J&J employees about this new program was to have a chocolate in the shape of a gold coin on all employees' desks when they came into work on Valentine's Day, Feb. 14, 1982. Along with the coin, he provided a short message about the tax and financial advantages of the upcoming 401(k) program.

Another central player in our effort was J&J's ERISA attorney, Frank Bolden. Frank and I drafted the plan that was officially signed by J&J on Jan. 12, 1982. I recall staying up all night with Frank at the printer in New York City getting an IRS Form S-8 ready so that our 401(k) could use company stock. Mike Axt and Rob Keefer in the J&J Tax Department not only managed the tax analysis for this project, but they coordinated perhaps the most critical aspect of our effort—namely, government relations. Here, we also used Lee Toomey & Kent, a boutique law firm in Washington, DC, with strong IRS and Treasury connections.

By the time I was explaining our 401(k) to the J&J board in 1981, a competent team of professionals had been working together for nearly two years. We still believed that we might be the only company pursuing this idea. But as it turned out, other companies—including FMC, PepsiCo, JC Penney, Honeywell, Savannah Foods & Industries, and the San Francisco consulting firm of Coates, Herfurth & England—were also able and/or ready to implement a 401(k) plan on Jan. 1, 1982, or soon thereafter. Ted Benna reports having received provisional 401(k) approval from the IRS for his own company's plan in 1981. Of course, the IRS was dealing with at least one other 401(k) plan at that time. As previously described, Johnson & Johnson was aggressively developing its own 401(k) plan, and working with the IRS, long before 1981.

One thing I never understood was why Benna's firm, The Johnson Companies, was reported to have helped Johnson & Johnson with its pioneering 401(k) development. In the spring of 1982, the head of compensation and benefits at Johnson & Johnson came into my office to tell me about this. I was shocked! I confirmed to George that we had never used this firm, and that I had never spoken to Ted Benna.

"Success Has Many Fathers"

Today, much of the history of 401(k) is reported as if through a mist, as if trying to convey a mystical sense that it was inspired by the effort of one man. Mr. Benna says: "I don't take credit personally for developing the plan. I feel that I was divinely led to the 401(k)."[3]

It is hard for those of us who were involved in these early 401(k) pioneering efforts to accept that *anyone* was divinely inspired to lead America to the 401(k) promised land, or even that any one person set the direction that others followed. IRC Sec. 401(k), and the 1981 IRS proposed regulations that followed, came into being not because of a miracle, but rather, because of years of research, tax planning, and careful study and investigation by *many* people.

Ted has been quoted as saying that corporate America held off implementing 401(k) while it waited for Treasury to respond to his proposal. My own sense of those times—and I was meeting regularly with many large corporation benefits professionals—tells me that it is not true that most large employers were waiting to see what Treasury would do. Certainly, corporate America was not waiting, as Ted Benna recalls, for Treasury to give a "definitive response" to what Ted had proposed.

Whether or not he was divinely inspired, Ted Benna was flying under the radar-screen of corporate America. We did not follow him; we did not follow his direction and we did not follow any tax-law analysis that he may have had. And this is where the contributions of others can help all of us—to better understand our own role in this history. In those early years, perhaps like me, Ted may not have realized that many others were playing their own role in the development of 401(k).

We can pay homage to the struggles that Mr. Benna reports he went through to get media attention for the idea he saw as his baby. But we should also remember that many others were instrumental in the conception, birth, care, and feeding of this new baby. In the case of the 401(k), the cliché is true: Success had *many* fathers, and certainly not just one.

Of course, the real "fathers" of America's new 401(k) baby were the members of Congress who passed the Tax Reform Act of 1978. I recall one meeting of the ERISA Industry Committee (a large-corporation employee benefits lobby group) meeting some two decades ago, at which Dallas Salisbury, president of the Employee Benefit Research Institute, introduced me as the "father" of 401(k). In doing so, he jokingly reminded his audience that 401(k) really had 535 fathers—none of whom had even realized that a baby had been conceived!

As Mr. Salisbury reminded us 20 years ago, none of us can really claim to be the "father" of 401(k). But the history record should now include all the "nursemaids" who had a part in raising this nascent benefit in those important years between 1978 and 1982.

In real life, I am the father of five children. But there is little in that title that reflects either where the real credit belongs, or the important work that went into the care and feeding of my children. The same is true for 401(k). It took years of careful care and feeding by many professionals in the J&J nursery before this baby could be presented to the public. The 1981 proposed regulations promulgated by the IRS were the result of hard work.

I am proud that our team at Johnson & Johnson was ahead of the curve. As I looked at the tax code in 1979, I was fortunate to have had the benefits background to look broadly at wording many assumed to simply govern executive compensation. The rest was a long and professional team effort. Johnson & Johnson's management team at the time—Mel Benjamin, Mike Boyle, Hank Lager, George McDonald, John Brown, Mike Axt, Rob Keefer, Frank Bolden, John Heldrich—and the many other J&J people involved in this effort, were all important "nursemaids" (if not "fathers") in the early nursery where 401(k) was born.

The true circumstances and history of the development of 401(k) should become part of the public record. My own story is just a part of this history. I urge others to contribute their own chapter to the record.

Endnotes

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[2] R. Ted Benna is president and founder of the 401(k) Association in Jersey Shore, PA, on the Internet at www.401k association.com/ His recollection about "The Day I Designed The First 401(K) Savings Plan" is posted on the Internet at www.401kassociation.com/history.html

[3] See Brenda Watson Newmann, ed., mPower*cafe*. "Ted Benna: Creator of the First 401 (k) Plan." (Aug. 17, 2003), *mpowercafe.* On the Internet at www.mpowercafe.com/images/teds_bio.html (last reviewed Oct. 7, 2003).

Retirement Annuity and Employment-Based Pension Income

by Ken McDonnell, EBRI

Introduction

Recent data from the March 2003 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 payment 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 2002, 28.6 percent of men age 50 and older with a graduate-level education received an annuity and/or pension income, compared with 22.9 percent of men without a high school diploma—a differential of 5.7 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 2002, men with graduate-level degrees received nearly four times the median[3] annuity and/or pension income that was received by men without a high school diploma (calculated from

Figure 1

PENSION AND ANNUITY INCOME RECIPIENCY, MALES OVER AGE 50: PERCENTAGE RECEIVING PENSION AND ANNUITY INCOME, WITH MEAN AND MEDIAN PENSION AND ANNUITY INCOME, BY AGE, INDUSTRY SECTOR, EDUCATIONAL ATTAINMENT, MARITAL STATUS, AND INCOME QUINTILE, 2002

		For Those Receiving Pensions and Annuities	
	Percentage Receiving Pensions and Annuities	Mean annual income from pensions pensions and annuities	Median annual income from pensions and annuities
Age			
Ages 50—55	6.2%	$21,205	$16,752
Ages 56–60	16.2	24,075	21,000
Ages 61–64	29.2	21,239	18,000
Ages 65–67	40.6	16,985	13,200
Ages 68–70	43.1	17,088	12,000
Ages 71–75	46.7	15,381	10,680
Ages 76–80	45.7	14,066	9,600
Over age 80	46.2	13,355	8,640
Over age 65	44.7	15,249	10,488
Industry Sector			
Private sector	16.7	13,745	9,216
Public sector	8.4	23,807	19,920
Educational Level			
No high school diploma	22.9	9,073	6,780
High school diploma to associate's degree	27.3	14,850	12,000
Bachelor's degree	24.2	24,576	20,178
Graduate degree	28.6	30,072	25,000
Marital Status			
Married	26.7	18,212	13,200
Widowed	42.6	12,843	9,120
Divorced or separated	18.8	16,610	12,000
Never married	16.1	18,394	13,800
Income Quintile			
Lowest	7.3	3,286	3,000
Second	13.0	4,558	3,300
Middle	39.2	8,305	7,188
Fourth	34.4	17,195	16,236
Highest	22.3	33,417	29,830

Source: Employee Benefit Research Institute tabulations of the March 2003 Current Population Survey.

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 2002; 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 2002, 44.7 percent of men over age 65 received annuity and/or pension income, with a mean amount of $15,249 per year. Figure 2 shows that only 27.5 percent of women over age 65 received annuity and/or pension income that year, with mean pension income of $9,262. Hence, a woman age 65 or older in 2002 was 62 percent as likely to receive an annuity and/or pension payment as her male counterpart. If she did receive one, her mean benefit was likely to be 61 percent of that received by a man in the same age group (calculated from Figures 1 and 2).

Women age 50 or older in 2002 were born in 1952 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 constituted the largest proportion of women over age 50 receiving annuities and/or pensions in 2002, 31.5 percent (Figure 2).

Widows received the lowest mean and median retirement annuity and/or pension income amounts among women of any marital status (Figure 2). In 2002, the mean annuity and/or pension income for widows was $8,913, compared with $14,071 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 older in 2002. 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. Hence, the aggregate pension and annuity recipiency for women and the amounts they receive are likely to increase over time as these younger generations retire. However, women older than age 50 who are in the lowest income quintiles may continue to be least likely to receive annuity and/or pension income.

Demographic characteristics such as education, marital status, and income remained steady indicators of the likelihood and amount of annuity and/or pension recipiency from 1988 through 2002 (Figures 3, 4, and 5).

Figure 2

Pension and Annuity Income Recipiency, Females Over Age 50: Percentage Receiving Pension and Annuity Income, With Mean and Median Pension and Annuity Income, by Age, Industry Sector, Educational Attainment, Marital Status, and Income Quintile, 2002

		For Those Receiving Pensions and Annuities	
	Percentage Receiving Pensions and Annuities	Mean annual income from pensions pensions and annuities	Median annual income from pensions and annuities
Age			
Ages 50–55	4.4%	$15,929	$10,200
Ages 56–60	10.0	15,692	12,672
Ages 61–64	18.4	12,132	8,244
Ages 65–67	22.3	11,822	7,068
Ages 68–70	25.6	9,760	6,072
Ages 71–75	28.6	9,224	6,000
Ages 76–80	29.5	8,943	5,520
Over age 80	29.1	8,137	4,884
Over age 65	27.5	9,262	5,928
Industry Sector			
Private sector	10.3	7,247	4,380
Public sector	6.6	15,062	11,916
Educational Level			
No high school diploma	14.6	4,943	3,600
High school diploma to associate's degree	17.6	9,091	6,000
Bachelor's degree	18.8	15,827	12,480
Graduate degree	23.4	21,587	18,000
Marital Status			
Married	11.9	11,816	7,668
Widowed	31.5	8,913	5,400
Divorced or separated	14.0	11,576	7,740
Never married	20.7	14,071	9,609
Income Quintile			
Lowest	3.3	2,800	1,680
Second	15.8	3,671	2,448
Middle	31.9	7,426	6,000
Fourth	21.9	15,755	14,556
Highest	18.0	26,391	22,000

Source: Employee Benefit Research Institute tabulations of the March 2003 Current Population Survey.

Age

While it is not surprising that the likelihood of receiving an annuity and/or pension income increases with age, it is interesting to note that the direct relationship between retirement annuity and/or employment-based pension income and age peaks at ages 71–75, in 2002 (Figure 3). After age 76, annuity and/or pension income recipiency tends to have an inverse relationship to age, which may be explained by the fact that persons over age 76 in 2002 worked in an era before the proliferation of employment-based pension plans.

It is also worth noting that, although only 18.4 percent of persons ages 50–60 in 2002 were receiving annuity and/or pension income, recipients had mean and median incomes that were, on average, greater than those received by persons over age 60 (Figures 3, 4, and 5). These data suggest that many persons who retired early in the 1990s may have done so because they were eligible for early retirement benefits and/or were able to purchase a sizable annuity, and therefore no longer needed to work for financial reasons. However, it is also likely that some persons ages 50–60 receiving retirement annuity and/or employment-based pension income were forced out of the labor force involuntarily—by disability or layoffs—and consequently had to settle for below-average pension incomes.

Industry Sector

While fewer individuals ages 50 and over received pension income from a public-sector plan (7.4 percent) than from a private-sector plan (13.4 percent) in 2002, the average amount an individual received from a public-sector plan ($19,686) was considerably larger than that received by a private-sector plan recipient ($11,076) (Figures 3 and 5).

Figure 3

Percentage of Population Over Age 50 Receiving Pension and Annuity Income, by Age, Gender, Industry Sector, Educational Attainment, Marital Status, and Income Quintile, Selected Years, 1988–2002

Characteristics	1988	1991	1995	1998	2001	2002
Age						
Ages 50–55	6.5%	6.0%	5.5%	6.1%	5.1%	5.3%
Ages 56–60	15.2	15.2	13.4	13.7	13.0	13.1
Ages 61–64	25.7	26.9	24.7	26.0	24.9	23.7
Ages 65–67	35.0	34.8	33.5	33.8	31.0	31.0
Ages 68–70	35.6	38.0	36.6	36.9	35.0	33.4
Ages 71–75	34.3	37.5	37.4	37.3	36.5	36.9
Ages 76–80	30.4	32.0	35.5	38.1	37.0	36.0
Over age 80	26.5	28.3	30.8	33.5	34.4	35.5
Over age 65	32.6	34.4	34.8	35.9	34.9	34.8
Gender						
Male	31.4	31.5	30.0	29.0	26.5	26.1
Female	16.1	17.7	17.4	18.4	17.6	17.6
Industry Sector						
Private sector	13.9	14.9	14.8	14.7	13.5	13.4
Public sector	9.0	8.8	8.3	7.9	7.4	7.4
Educational level						
No high school diploma	17.8	19.4	18.8	19.2	18.4	18.4
High school diploma to associate's degree	23.2	23.9	23.3	23.4	22.0	21.7
Bachelor's degree	30.3	29.2	27.6	25.3	22.8	21.7
Graduate degree	31.8	32.9	30.3	30.4	25.8	26.5
Marital status						
Married	21.8	22.4	21.9	22.1	20.4	20.0
Widowed	28.7	30.9	31.0	32.5	33.5	33.6
Divorced or separated	16.7	17.2	17.2	17.3	15.7	16.0
Never married	25.0	24.6	20.1	21.1	15.8	18.5
Income Quintile						
Lowest	4.4	4.6	3.0	4.7	3.9	4.2
Second	23.4	21.6	13.1	14.5	15.1	14.8
Middle	40.3	40.6	33.4	34.8	34.8	35.3
Fourth	33.4	34.6	39.4	34.9	29.7	28.7
Highest	24.2	25.4	25.4	23.5	21.2	21.0

Source: Employee Benefit Research Institute tabulations of the March 1989, 1992, 1996, 1999, 2002, and 2003 Current Population Surveys.

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) plan, which, in the past, 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. Increasing numbers of employees are participating in a defined contribution (DC) plan. This is an overall positive trend because some workers who previously had no plan now at least have access to a plan. However, DC plans are far less likely to offer an annuity option to retirees.

According to data from Hewitt Associates,[4] in 2003 only 17 percent of surveyed employers who offer a 401(k) plan offer an annuity option to retirees, while 100 percent offer a lump-sum distribution option. Furthermore, according to the same Hewitt data, only 2 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).

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

Figure 4

MEDIAN ANNUAL INCOME FROM PENSIONS AND ANNUITIES IN CONSTANT 2002 DOLLARS FOR THE POPULATION OVER AGE 50, BY AGE, GENDER, INDUSTRY SECTOR, EDUCATIONAL ATTAINMENT, MARITAL STATUS, AND INCOME QUINTILE, SELECTED YEARS, 1988–2002

Characteristics	1988	1990	1995	2002
Age				
Ages 50–55	$13,632	$13,476	$13,337	$13,848
Ages 56–60	12,166	11,561	14,619	17,400
Ages 61–64	10,310	9,635	12,768	13,200
Ages 65–67	8,640	7,845	8,036	9,648
Ages 68–70	7,603	7,433	8,499	9,600
Ages 71–75	6,083	5,913	7,357	8,400
Ages 76–80	5,234	5,506	6,098	7,272
Over age 80	4,729	4,954	5,666	6,828
Over age 65	6,590	6,339	7,083	8,232
Gender				
Male	9,982	9,635	11,332	12,168
Female	5,049	5,228	5,666	6,660
Industry Sector				
Private sector	5,627	5,781	6,134	7,000
Public sector	13,102	13,040	14,230	15,600
Educational Level				
No high school diploma	4,179	4,348	5,057	5,268
High school diploma to associate's degree	7,603	7,170	8,258	8,868
Bachelor's degree	13,184	13,214	13,641	16,800
Graduate degree	17,914	16,303	21,805	22,800
Marital Status				
Married	9,125	8,258	9,916	11,932
Widowed	4,853	5,421	5,666	6,000
Divorced or separated	7,555	7,692	8,499	10,000
Never married	9,125	8,258	8,742	10,512
Income Quintile				
Lowest	1,697	1,585	2,068	2,400
Second	3,345	2,841	2,082	2,520
Middle	7,841	6,745	5,142	6,672
Fourth	14,270	13,214	11,729	15,600
Highest	22,811	20,646	23,832	27,933

Source: Employee Benefit Research Institute tabulations of the March 1989, 1991, 1996, and 2003 Current Population Surveys.

Figure 5

MEAN ANNUAL INCOME FROM PENSIONS AND ANNUITIES IN CONSTANT 2001 DOLLARS FOR POPULATION OVER AGE 50, BY AGE, GENDER, INDUSTRY SECTOR, EDUCATIONAL ATTAINMENT, MARITAL STATUS, AND INCOME QUINTILE, SELECTED YEARS, 1988–2002

Characteristics	1988	1990	1995	2002
Age				
Ages 50–55	$16,585	$15,915	$17,486	$19,007
Ages 56–60	16,060	15,205	17,874	20,871
Ages 61–64	13,880	13,582	17,827	17,622
Ages 65–67	12,637	11,807	12,087	15,030
Ages 68–70	10,898	11,482	12,594	13,971
Ages 71–75	10,004	9,229	11,319	12,796
Ages 76–80	8,467	8,457	10,295	11,536
Over age 80	7,623	7,535	8,726	10,688
Over age 65	10,051	9,880	11,040	12,550
Gender				
Male	14,209	13,716	15,760	17,490
Female	7,910	7,943	8,872	10,629
Industry Sector				
Private sector	8,742	8,961	9,562	11,076
Public sector	16,625	15,732	17,716	19,686
Educational Level				
No high school diploma	6,060	6,104	6,933	7,318
High school diploma to associate's degree	10,776	10,373	11,681	12,201
Bachelor's degree	18,264	17,736	19,046	21,011
Graduate degree	24,167	21,392	25,306	27,003
Marital Status				
Married	13,363	12,657	14,620	16,491
Widowed	8,097	8,313	8,751	9,859
Divorced or separated	10,700	11,394	11,987	14,018
Never married	11,927	11,631	15,335	15,906
Income Quintile				
Lowest	2,270	2,297	2,420	2,992
Second	4,174	3,717	3,108	3,942
Middle	8,426	7,250	5,849	7,880
Fourth	14,746	13,625	12,283	16,693
Highest	27,949	24,433	26,070	31,557

Source: Employee Benefit Research Institute tabulations of the March 1989, 1991, 1996, and 2003 Current Population Surveys.

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 2001 National Income and Product Accounts (NIPA) survey reports more than $236.2 billion more income from private pensions than the March CPS. Part of this disparity arises from NIPA's accounting of lump-sum distributions paid to younger workers as pension income. In addition, because some pension plans are administered by third parties or are paid 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 $127.5 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 CPS with that of other datasets.

[2] The term *employment-based pensions* refers to income coming from employment-based pension plans (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, and individual retirement accounts (IRAs). The term *annuities* is added because of the prevalence of lump-sum distributions from defined contribution plans. A retiree may take some or all of the lump-sum distribution and purchase an annuity. Data on annuities and IRAs are included in an attempt to give a complete picture of income generated from employment-based retirement plans throughout an individual's working career. According to data published in the May 1999 *EBRI Notes*, rollovers from 401(k) and other types of DC plans account for the largest share of contributions to IRAs.

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

[4] Hewitt Associates, LLC, *Survey Findings: Trends and Experience in 401(k) Plans: 2001* (Lincolnshire, IL: Hewitt Associates, 2001).

Washington Update

by Jim Jaffe, EBRI

Congress Returns Next Month—Budget, Deficit Focus Likely

Congress quit for the year in December, having authorized more generous spending levels than would have been anticipated at the start of the year and enacted a major expansion of Medicare that will help many beneficiaries pay their prescription drug costs. Other than the compromise energy bill, which the Senate balked at passing, few major pending issues were left on the table for the session that begins next month. Major direction will be provided by the president's State of the Union address.

While enactment of the Medicare bill was a political victory for the GOP, it also provoked a growing concern about spending increases that will inevitably result in growing deficits. Increasingly, legislators are questioning whether such deficit spending is necessary or justifiable in an economy that seems to be growing more robust. Restraining spending won't be easy though, especially in an environment where the congressional leadership has become increasingly dependent on winning member votes on big issues by agreeing to provide funding for smaller ones.

Medicare Drug Discount Card Debuts Next Year

Just prior to Thanksgiving, Congress enacted a Medicare drug subsidy program. The bill (H.R. 1) cleared the House by a narrow partisan vote. The subsequent Senate vote, 54-44, was less dramatic and more bipartisan.

The new drug program will start next year, when seniors will be able to buy a discount prescription card. The program will begin subsidizing their drug purchases in 2006. The program, which will cost an estimated $400 billion over the next decade, includes a number of provisions beyond those to help pay the drug bills of Medicare beneficiaries who elect to pay a premium to join the new program. Basic benefits are broadened for all participants and reimbursement rates for many providers are increased, thus hastening the day of reckoning for a program that already was facing serious fiscal stress within the next decade. A 28 percent subsidy for employers that continue to offer retiree drug benefits also boosts costs.

On the other hand, the bill contains several components that conservatives believe will moderate projected future spending, in both Medicare and the health system generally, by introducing greater competition. Not only is the drug coverage to be offered by commercial firms (with the government providing a backup in areas where there's no interest in the business), but private insurers would also be invited to compete against the existing Medicare program in a small number of markets beginning in 2010. This last provision was especially offensive to liberals, who see the possibility of a situation where the existing government-run program becomes an expensive program of last resort for the sick, thereby forcing Medicare to raise premiums sharply to combat adverse-selection problems. This faction was also bothered by a mandated increase in the Part B premium for upper-income seniors whether they elect to participate in the drug program or not.

The bill also permits the creation of greatly expanded health savings accounts that would allow individuals in high-deductible plans to put aside $2,250 annually in an account that would accrue interest and be tapped, on a tax-free basis, to pay medical expenses. Proponents see this as a way to boost consumer-driven health options. Opponents characterize it as another tool that allows high-income taxpayers to save more on a tax-deferred or tax-exempt basis.

While enactment of the bill is generally scored as a big win for the GOP, it remains unclear how enthusiastic the target population will be—or may not be—for a few more years when the benefits become tangible.

Temporary Pension Benchmark Among Final Congressional Acts

One of the last challenges confronting Congress before it quit for the year was coming up with a new pension interest rate benchmark to replace a temporary rule scheduled to expire at year's end. While there was broad agreement on the general direction, some peripheral issues generated major controversy.

There's a consensus that a broad-based corporate bond rate should be used to project pension fund earnings and thus help set required asset levels. This would be policy for two or three years, until a more comprehensive approach is adopted. The Bush administration favors the yield-curve approach, which links the duration of assets and liabilities.

But the administration—and the Pension Benefit Guaranty Corporation—opposed broad congressional support for special relief from minimum funding requirements for ailing industries, particularly airlines. On Capitol Hill, however, the airline industry appeared likely to get the pension funding forbearance it sought.

When Congress returned in December, it confronted a House-passed bill that combined the use of the corporate bond rate for two years with airline relief.

Some U.S.-Canadian Cooperation Seen on Drug Import Issue

The U.S. Food and Drug Administration (FDA) and Health Canada, its Canadian counterpart, recently announced an agreement to regulate Internet pharmacies north of the border. However, the impact is unclear and the two nations' governments continue to argue over drug importation from Canada. Health Canada rejected a suggestion from FDA Commissioner Mark McClellan to raise Canadian drug prices as a way of discouraging imports. And Canadian bureaucrats rejected the FDA argument that Canadian drugs could be unsafe for American consumers. The new Medicare drug benefit legislation has rhetoric supporting imports, but failed to include language many legislators favored to encourage imports.

This is an issue that won't go away soon. Congress may be provoked to deal with it as a growing number of state and local governments embrace the idea of imports to provide drug benefits at an affordable cost to workers and retirees.

Supreme Court Takes Pension Rights Case

The Supreme Court will consider a pension rights case that could affect workers who retire early from one job and then go to work doing something else, a situation fairly common in multi-employer or governmental jobs. The court agreed to hear an appeal in the case of two former construction laborers who retired with full pension benefits at age 39 and drew their pensions for two years until their pension fund changed the rules governing who was eligible for the payments.

At issue is whether the Central Laborers' Pension Fund (and multi-employer plans like it) can cut back on promised benefits. While federal law (ERISA) generally prohibits that, the fund claims there is an exception in cases like this one. Two federal appeals courts have reached opposite conclusions on the issue. The Bush administration is supporting the pension fund and urged the high court to hear the case. The case is Central Laborers' Pension Fund v. Heinz, 02-891.

Xerox Offers Added Payment to Settle Cash Balance Dispute

In an effort to end a contentious legal battle, the Xerox Corporation offered to pay $239 million more to retirees who say they were given inadequate lump-sum payments as part of their cash-balance plans. A federal court ruling sided with the employees. At issue in the Xerox case is whether it correctly determined the amount due to employees who retired prior to age 65 when converting its traditional defined benefit plan to a cash-balance plan. The offer is subject to court approval.

New Publications & Internet Resources

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

Health Care

Buck Consultants. National Health Care Trend Survey. $100. Mellon's Human Resources & Investor Solutions Benefits Survey Dept., Attn: Theresa Rizzo, 500 Plaza Dr., Secaucus, NJ 07096-1533, (201) 902-2569, rizzo.t@mellon.com.

Draper, Debra A., Anna Cook, and Marsha Gold. How Do M+C Plans Manage Pharmacy Benefits? Implications for Medicare Reform. Free. Henry J. Kaiser Family Foundation, 2400 Sand Hill Rd., Menlo Park, CA 94025, (800) 656-4533, www.kff.org.

Horgan, Constance M., et al. The Provision of Mental Health Services in Managed Care Organizations. Free. SAMHSA, Mental Health Services Clearinghouse, (800) 789-2647.

J.D. Power and Associates. J.D. Power and Associates 2002

National Managed Care Satisfaction Study: Managed Care Members' Perspectives of their Health Plan Experience. $1,495. Dennis Goodman, Research Associate, J.D. Power and Associates, Healthcare Division, 1640 South Stapley Dr., Suite 251, Mesa, AZ 85204, (480) 344-4816, fax: (480) 344-4899, dennis.goodman@jdpa.com.

Merlis, Mark. The Federal Employees Health Benefits Program: Program Design, Recent Performance, and Implications for Medicare Reform. Free. Henry J. Kaiser Family Foundation, 2400 Sand Hill Rd., Menlo Park, CA 94025, (800) 656-4533, www.kff.org.

Rosenbaum, Sara, et al. Medical Necessity in Private Health Plans: Implications for Behavioral Health Care. Free. SAMHSA, Mental Health Services Clearinghouse, (800) 789-2647.

U.S. General Accounting Office. (1) Health Care: Approaches to Address Racial and Ethnic Disparities. (2) Medical Malpractice: Implications of Rising Premiums on Access to Health Care. (3) Medical Malpractice Insurance: Multiple Factors Have Contributed to Increased Premium Rates. (4) Prescription Drug Discount Cards: Savings Depend on Pharmacy and Type of Card Used. (5) Retiree Health Benefits at Selected Government Contractors. Order from GAO.

Pension Plans/Retirement

Boston College. Center for Retirement Research and University of Michigan. Retirement Research Center. Securing Retirement Income for Tomorrow's Retirees. Conference Papers are available free in PDF format at www.bc.edu/centers/crr/public_con.shtml.

Clark, Robert L., Lee A. Craig, and Jack W. Wilson. A History of Public Sector Pensions in the United States. $49.95. University of Pennsylvania Press, Hopkins Fulfillment Services, P.O. Box 50370, Baltimore, MD 21211, (800) 537-5487, fax: (410) 516-6998.

ING U.S. Financial Services. Survey of Retirement Issues. For further information, contact Philip Margolis at (860) 723-4783.

Sterett, Susan M. Public Pensions: Gender and Civic Service in the States, 1850–1937. $39.95. Cornell University Press, Sage House, 512 East State St., Ithaca, NY 14850, (607) 277-2211.

U.S. Congress. House Committee on Education and the Workforce. Strengthening Pension Security: Examining the Health and Future of Defined Benefit Pension Plans. Order from GPO.

U.S. Congressional Budget Office. Utilization of Tax Incentives for Retirement Saving. Order from CBO.

U.S. General Accounting Office. (1) Private Pensions: Participants Need Information on Risks They Face in Managing Pension Assets at and during Retirement. (2) Private Pensions: Process Needed to Monitor the Mandated Interest Rate for Pension Calculations. Order from GAO.

Social Policy

Gilbert, Neil, and Rebecca A. Van Voorhis. Changing Patterns of Social Protection. $29.95. Transaction Publishers Distribution, 390 Campus Dr., Somerset, NJ 08873, (888) 999-6778 or (732) 445-1245, fax: (732) 748-9801.

Kapstein, Ethan B., and Branko Milanovic. Income and Influence: Social Policy in Emerging Market Economies. $14. W.E. Upjohn Institute for Employment Research, 300 S. Westnedge Ave., Kalamazoo, MI 49007-4686, (616) 343-5541.

Social Security

U.S. General Accounting Office. Social Security Reform: Analysis of a Trust Fund Exhaustion Scenario. Order from GAO.

Work

Ahlstrand, Amanda L., Laurie J. Bassi, and Daniel P. McMurrer. Workplace Education for Low-Wage Workers. $18. W.E. Upjohn Institute for Employment Research, 300 S. Westnedge Ave., Kalamazoo, MI 49007-4686, (616) 343-5541.

International Social Security Association. Who Returns to Work and Why?: Evidence and Policy Implications from a New Disability and Work Reintegration Study: A Summary. www.issa.int/pdf/publ/2wirbooklet.pdf

Kahn, Jeffrey P., and Alan M. Langlieb. Mental Health and Productivity in the Workplace: A Handbook for Organizations and Clinicians. $75. Jossey-Bass Publishers, 350 Sansome St., Fifth Floor, San Francisco, CA 94104, (800) 956-7739.

Internet Documents

2003 Annual Employer Health Benefits Survey www.kff.org/content/2003/20030909a/

2003 NAHU ~ ChapterHouse Annual Benefit Trends Study www.nahu.org/survey/buying_trends_report_text.doc

Can There Be Too Much Choice in a Retirement Savings Plan? institutional4.vanguard.com/iip/pdf/CRR_Choice.pdf

Comparison of SEPS, SARSEPs and SIMPLE IRA Plans www.irs.gov/pub/irs-tege/cd_comp_chart.pdf

Consumers Want Health Care Costs Information www.chcf.org/healthcurrents/view.cfm?itemID=21493

Do We Have a Retirement Crisis in America? www.tiaa-crefinstitute.org/Publications/resdiags/77_9-2003.htm

Employee Benefits in Private Industry, 2003 www.bls.gov/news.release/ebs2.toc.htm

Health Care Reform Returns to the National Agenda: The 2004 Presidential Candidates' Proposals www.cmwf.org/programs/insurance/collins_reformagenda_671.pdf

Health Insurance Coverage in the United States: 2002 www.census.gov/prod/2003pubs/p60-223.pdf

How Has the Shift to 401(k)s Affected the Retirement Age? www.bc.edu/centers/crr/issues/ib_13.pdf

Making Wellness the Focus: One Employer's Story www.aon.com/about/publications/issues/2003_wellness.jsp

Reforming the U.S. Retirement Income System: The Growing Role of Work www.bc.edu/centers/crr/issues/gib_1.pdf

The State of Health Care Quality: 2003 www.ncqa.org/Communications/News/sohc2003.htm

Staying Ahead of the Curve 2003: The AARP Working in Retirement Study research.aarp.org/econ/multiwork_2003.html

The Aged at Work

AgeSource Worldwide: Information Resources about Aging from Around the World research.aarp.org/general/agesource_home.html

BoomerCareer.com www.3rdagecareer.com/

Employment of Seniors: Older Workers Issues www.go60.com/go60work.htm

Experience Works www.experienceworks.org/

FirstGov for Seniors: Work & Volunteer
www.seniors.gov/work.html

The National Council on the Aging: Workforce Development
www.maturityworks.org/content.cfm?sectionID=17

Senior Service America
www.seniorserviceamerica.org/

Seniors4Hire
www.seniors4hire.org/

U.S. Administration on Aging
www.aoa.dhhs.gov/

Work & Volunteering
www.helpguide.org/aging/work_volunteering.htm

Working after State Pension Age: Quantitative Analysis
www.dwp.gov.uk/asd/asd5/rrep182.asp

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