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New Research from EBRI:

Measuring Retiree Income: Current Population Survey Income Redesign

WASHINGTON—As the retirement plan type has changed in the private sector from defined benefit plans to defined contribution plans, the questions that the U.S. Census Bureau has used in its Current Population Survey (CPS) have not kept up, resulting in researchers finding that income from individual retirement accounts (IRAs) and 401(k)-type plans was being missed.

Now, a new analysis by the nonpartisan Employee Benefit Research Institute (EBRI) shows that the new questions being used to measure income in the CPS found a significant amount of income from IRAs and 401(k)-type plans was being missed across all levels of income for Americans age 65 or older.

However, EBRI also finds that, even under the new questions, Social Security remains by far the predominant source of income for Americans of retirement age (65 or older), especially for those with incomes in the bottom half: Over 60 percent of individuals in the lowest two income quartiles receive more than 90 percent of their total income from Social Security, even when accounting for the additional IRA and 401(k)-type plan income.

At issue is the Census Bureau's Current Population Survey (CPS), specifically, the Annual Social and Economic Supplement to the CPS (fielded in March of each year), which is a widely cited source of data on income for those old enough to be considered retired (age 65 or older).

However, research has shown that this survey has misclassified certain types of income and generally under-reported income— in particular, retirement income—because the questions did not properly ask about income from sources that did not provide an annuity payment like that has been traditionally paid from defined benefit (DB) retirement plans. These so-called "traditional" pensions are rarely offered in the private sector today, having been supplanted over the years by defined contribution (DC) plans, typified by 401(k)-type plans.

In addition, as workers switch jobs or retire, savings that were created in employment-based pension and 401(k)-type plans are often rolled over into individual retirement accounts (IRAs); as a result, IRAs now hold the largest single share (27 percent in 2013) of the $26.2 trillion (2013) in total U.S. retirement savings.

Last year the Census Bureau revised the income questions to in the hope of reducing the discrepancies from the prior design. The 2014 CPS conducted a test of the new set of income questions by doing a spilt-panel design, where 3/8 of the sample received the redesigned questions while the remaining 5/8 received the traditional questions. The new EBRI research compares results from the old and new methods.

"The new measure of income in the CPS finds significantly more income that is from IRAs and 401(k)-type retirement plans than what has been reported under the old measure of income in CPS," said Craig Copeland, senior research associate at EBRI. "But for those in the lower-income brackets—and even for those with higher incomes—Social Security income remains extremely important for older Americans."

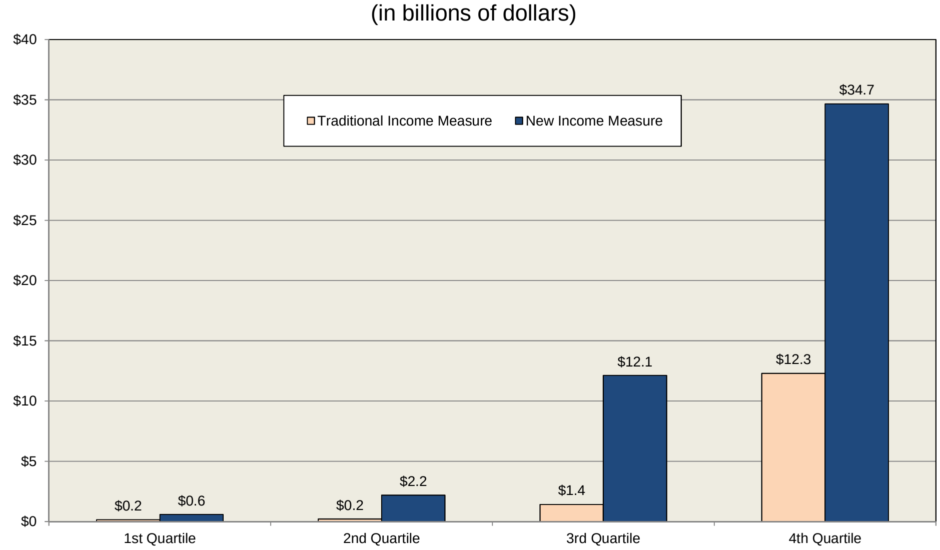
Specifically, the new EBRI analysis finds:

- The new measure of income in the CPS identifies significantly more income (and a much larger percentage of income coming from IRAs and 401(k)-type plans). Compared with the estimated amount under the traditional income questions for 2013, the redesigned questions resulted in an estimated total income 9.1 percent larger for those ages 65 or older, an aggregate amount of almost $133 billion more. Retirement income was 27.9 percent larger, or almost $71 billion in aggregate.
- Income from IRAs and 401(k)-type plans was an important component of this higher amount of retirement income found in the new questions, which overall was more than 250 percent higher than that found by the traditional measure. Phrased another way, the traditional CPS measure under-reported IRA and 401(k)-type income by more than 250 percent.
- However, even with the higher amounts of income identified under the new income measure, Social Security remains by far the predominant source of income for those ages 65 or older. Over 60 percent of individuals in the lowest two income quartiles received more than 90 percent of their total income from Social Security.
- Those with IRAs, 401(k)-type plan and DB pension income from private- and public-sector employers are more likely to be in the upper-income quartiles because they are far more likely to have these sources. Consequently, those who both had access and took advantage of these plans are the ones with higher amounts of this income in retirement—and not necessarily those who had the highest overall incomes prior to retirement.

The full report, "Individual Retirement Account Balances, Contributions, and Rollovers, 2013; With Longitudinal Results 2010–2013: The EBRI IRA Database," is published in the May 2015 *EBRI Issue Brief*, online at www.ebri.org

The Employee Benefit Research Institute is a private, nonpartisan, nonprofit research institute based in Washington, DC, that focuses on health, savings, retirement, and economic security issues. EBRI does not lobby and does not take policy positions. The work of EBRI is made possible by funding from its members and sponsors, which include a broad range of public, private, for-profit and nonprofit organizations. For more information go to www.ebri.org or www.asec.org

Comparison of IRA, 401(k) Aggregate Income, by Income Quartile, Traditional and New Measures of Income in the Current Population Survey, Individuals Ages 65 or Older, 2013
(in billions of dollars)



Source: Employee Benefit Research Institute estimates of the March 2014 Current Population Survey (Traditional and New Income Measures).
Note: The income quartiles are only for those individuals ages 65 or older. 401(k) income includes income from any similar defined contribution plan.