Testimony Submission for the Record

House Ways and Means Committee

Hearing on:
"Economic Challenges Facing Middle Class Families"

Jan. 31, 2007, 2 p.m.
1100 Longworth HOB

Submitted by:

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The Employee Benefit Research Institute (EBRI)
T-148

"Research on Economic Security Issues: Retirement, Health Coverage, Employment-Based Benefits, and the Growing Debt of the Elderly"

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The Employee Benefit Research Institute (EBRI) is a nonprofit, nonpartisan research institute that focuses on health, retirement, and economic security issues. EBRI does not take policy positions and does not lobby. www.ebri.org

"Research on Economic Security Issues: Retirement, Health Coverage, Employment-Based Benefits, and the Growing Debt of the Elderly"

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EBRI has conducted very extensive and in-depth research on many of the issues related to the Ways and Means Committee's Jan. 31 hearing on Economic Challenges Facing Middle Class Families. For this submission for the record, EBRI is included short, summary material, with links to the more detailed analysis. Specifically, this includes:

RETIREMENT/PENSIONS:
- "EBRI Benefit FAQ: Pension Trends, *EBRI Benefit FAQs,* http://ebri.org/publications/benfaq/index.cfm?fa=retfaq14
- "Traditional Pension Assets Lost Dominance a Decade Ago, IRAs and 401(k)s Have Long Been Dominant," *Fast Facts from EBRI, Feb. 3,* 2006.

HEALTH CARE:
- Key Determinants of Health Care Coverage and the Uninsured, *EBRI press release,* October 3, 2006 #749.

EMPLOYMENT-BASED BENEFITS:
- "The $7 Trillion Question: How Do Employers Spend That Amount on Worker Wages, Salaries, and Benefits?" *Fast Facts from EBRI*, Jan. 3, 2007.

GROWING DEBT OF THE AMERICAN ELDERLY:
- "How Debt Has Increased for Older American Families," *Fast Facts from EBRI*, Oct. 17, 2006.
- "A Breakdown of Debt for Older Families," *Fast Facts from EBRI,* Nov. 14, 2006.

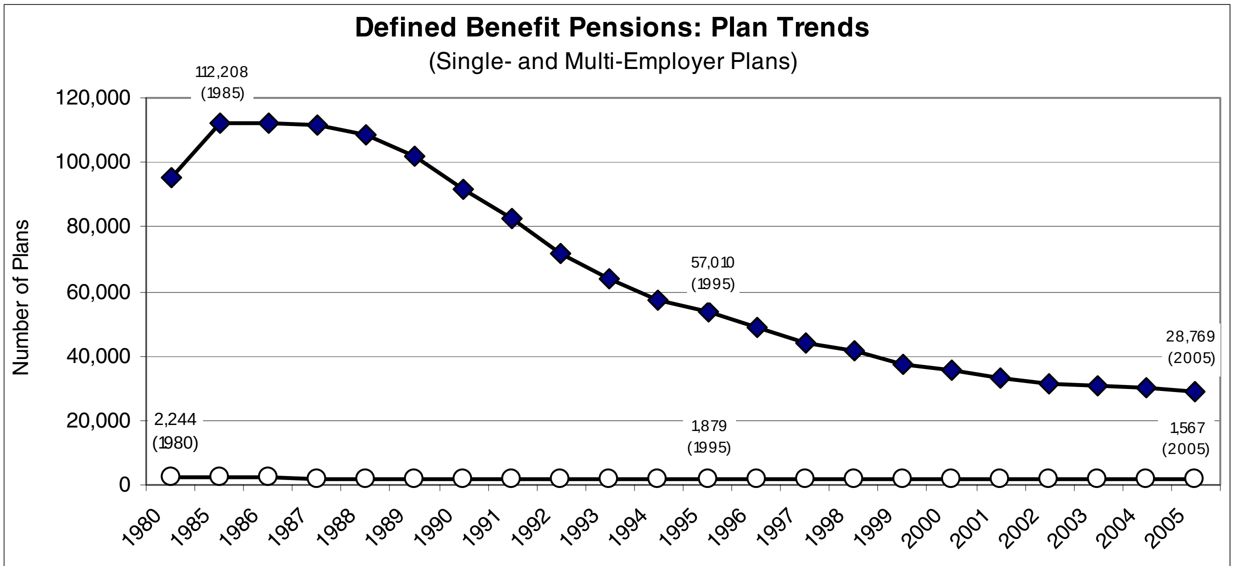
ADDITIONAL LINKS TO EBRI ECONOMIC SECURITY RESEARCH:
- "Measuring Retirement Income Adequacy: Calculating Realistic Income Replacement Rates," *EBRI Issue Brief*, September 2006, http://ebri.org/publications/ib/index.cfm?fa=ibDisp&content_id=3745
- "Defined Benefit Plan Freezes: Who's Affected, How Much, and Replacing Lost Accruals," *EBRI Issue Brief,* March 2006, http://ebri.org/publications/ib/index.cfm?fa=ibDisp&content_id=3628
- "The Influence of Automatic Enrollment, Catch-Up, and IRA Contributions on 401(k) Accumulations at Retirement," *EBRI Issue Brief,* July 2005, http://ebri.org/publications/ib/index.cfm?fa=ibDisp&content_id=3565
- "ERISA at 30: The Decline of Private-Sector Defined Benefit Promises and Annuity Payments? What Will It Mean?" *EBRI Issue Brief*, May 2004, http://ebri.org/publications/ib/index.cfm?fa=ibDisp&content_id=3500
- "Can America Afford Tomorrow's Retirees: Results From the EBRI-ERF Retirement Security Projection Model," *EBRI Issue Brief,* November 2003, http://ebri.org/publications/ib/index.cfm?fa=ibDisp&content_id=182

Contact: Stephen Blakely, editor, EBRI, blakely@ebri.org, www.ebri.org

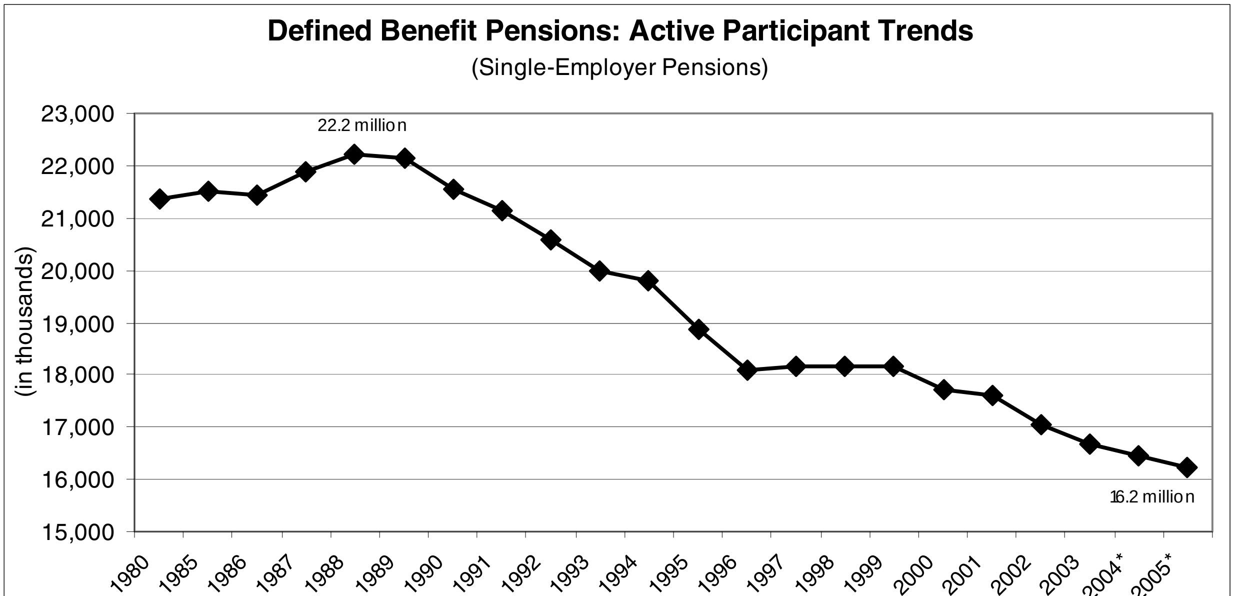
EBRI FREQUENTLY ASKED QUESTIONS: PENSION TRENDS

See http://ebri.org/publications/benfaq/index.cfm?fa=retfaq14

The number of defined benefit plans in the private sector has been shrinking, as small- and mid-sized employers have either dropped their pension plans or shifted to defined contribution retirement plans (such as the 401(k) plan). In addition, the number of active participants in pension plans has been declining since the late 1980s (historically, the number of *total*—including inactive—participants has increased slightly, since pension plans typically pay benefits for the life of the retiree). In the public sector, defined benefit plans have remained the predominant type of retirement plan.



Source: Pension Insurance Data Book, 2005, PBGC.
*Estimates.



Source: Pension Insurance Data Book, 2005, PBGC.
*Estimates.

Fast Facts from EBRI

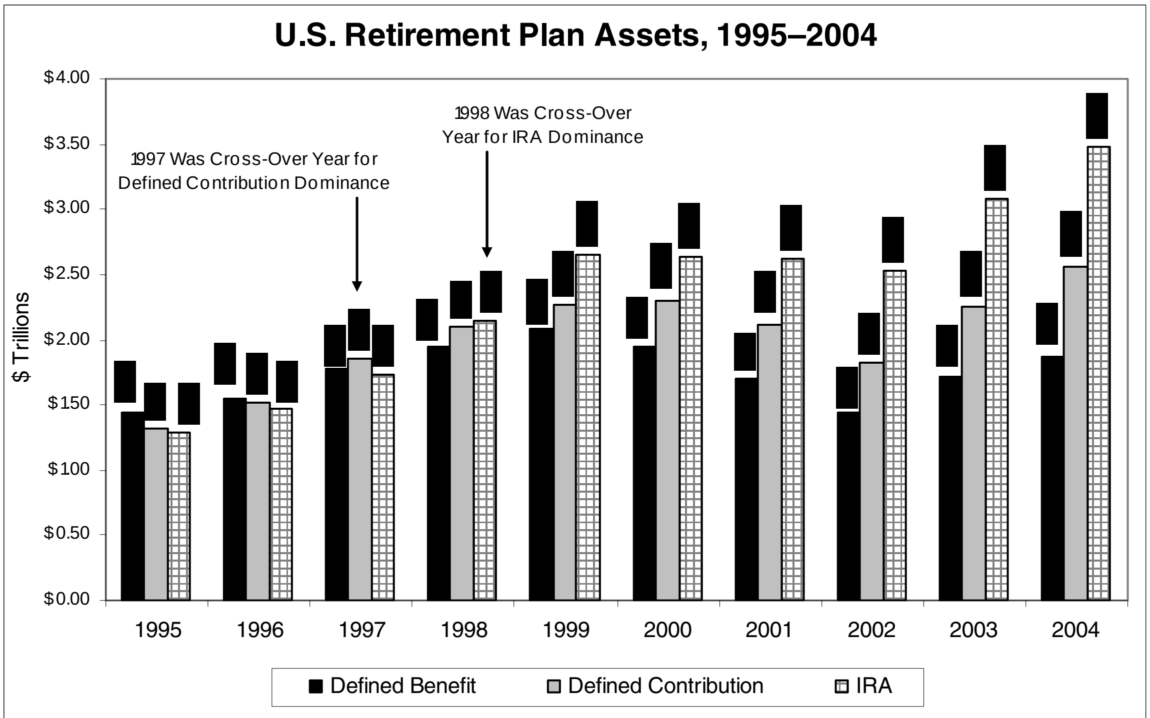
Contact: John MacDonald, EBRI, (202) 775-6349, macdonald@ebri.org
FF #16, Feb. 3, 2006

"Traditional" Pension Assets Lost Dominance a Decade Ago, IRAs and 401(k)s Have Long Been Dominant

WASHINGTON—Where are bulk of private-sector retirement assets held in the United States? By a substantial margin—and for many years—individual retirement accounts (IRAs) have held more funds than any other financial vehicle, followed by defined contribution plans (primarily 401(k) plans).

So-called "traditional" defined benefit pension plans were displaced a decade ago by defined contribution plans in terms of assets held. The most recent data from the nonpartisan Employee Benefit Research Institute (EBRI) show that about 58% of private-sector retirement assets currently are held in defined contribution (DC) plans, compared with 42% in "traditional" defined benefit (DB) pensions. In fact, as data from EBRI show, assets held in DC plans first surpassed DB pension assets in 1997—almost 10 years ago. Data from the Federal Reserve and EBRI show that IRAs became dominant in 1998.

As research by EBRI and others has documented, the forces behind these trends involve a move away from defined benefit pensions by employers and a corresponding shift to defined contribution plans (principally the 401(k) plan). The sharp growth in IRAs has been driven by the rollover of assets by workers and retirees from other tax-qualified plans (such as pensions and 401(k)s) to IRAs upon job change or retirement.



Source: Federal Reserve *Flow of Funds,* 1995–2004, Table L.118.b, c, and I, and EBRI *Pension Investment Report.*

EBRI first reported in 2001 that private-sector pensions had lost their asset dominance to DC plans (*EBRI Notes,* January 2001, "IRA Assets Continue to Grow," http://ebri.org/publications/notes/index.cfm?fa=notesDisp&content_id=3226) and most recently updated this trend in its January 2006 *EBRI Notes* ("IRA and Keogh Assets and Contributions," http://ebri.org/publications/notes/index.cfm?fa=notesDisp&content_id=3614)

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FOR IMMEDIATE RELEASE: **Oct. 3, 2006**

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New Research from EBRI:

Study Details Key Determinants of Health Care Coverage: Work Status, Income, Age, Gender, Firm Size, and Others

WASHINGTON—Do you have a job? What is your income? How old are you? What is your occupation? How large is the firm where you work?

The answers to these questions—and a few others—go a long way to determining whether U.S. residents are likely to have health insurance, according to a study published today by the nonpartisan Employee Benefit Research Institute (EBRI). The study appears in the October *EBRI Issue Brief*, "Sources of Health Insurance and Characteristics of the Uninsured: Analysis of the March 2006 Current Population Survey," available at www.ebri.org

"Work status and income play a dominant role in determining an individual's likelihood of having health insurance," writes Paul Fronstin, director of the EBRI health research and education program and author of the study. In addition, age, gender, firm size, hours of work, industry, and location are all important determinants of an individual's likelihood of having coverage—as are race and ethnicity, Fronstin says.

As the study notes, the impact of these indicators varies widely. Here is some of what the study says about each of the indicators for U.S. residents under age 65 in 2005:

- ***Work status:*** Workers are more likely to have insurance than nonworkers. Nearly 71 percent of workers had employment-based health benefits, compared with nearly 37.7 percent of nonworkers.
- ***Income:*** Workers with low earnings are much less likely to be insured than those with high earnings. One-third of workers with earnings of less than $20,000 were uninsured, compared with 5.4 percent of workers with earnings of $75,000 or more.
- ***Age and gender:*** Younger adults are more likely than older adults to be uninsured. Nearly 40 percent of men ages 21–24 and 30.6 percent of women ages 21–24 were uninsured. This compares with 15.8 percent of men ages 45–54 and 14.8 percent of women ages 45–54 who were uninsured.

- ***Hours worked:*** Part-time and seasonal workers are less likely to have employment-based health benefits than full-time, full-year workers. Part-time or part-year workers accounted for 30.2 percent of the employed population, but accounted for 41.4 percent of uninsured workers.
- ***Industry:*** Workers employed in agriculture, forestry, fishing, mining, and construction are disproportionately more likely to be uninsured, with 36.9 percent uninsured. This compares with 14.6 percent uninsured among workers in the manufacturing sector, 18.5 percent in wholesale and retail trade, and 22.1 percent in the service sector.
- ***Firm size:*** Nearly 63 percent of all uninsured workers are either self-employed or working in private-sector firms with fewer than 100 employees. Nearly 27 percent of self-employed workers are uninsured, compared with 18.8 percent of all workers. More than 35 percent of workers in private-sector firms with fewer than 10 employees are uninsured, compared with 13.4 percent of workers in private-sector firms with 1,000 or more employees.
- ***Location:*** The proportion of the population with and without health insurance varies by location. In 12 states—generally in the south-central United States—the uninsured averaged close to 20 percent of the population during 2003–2005. States with a relatively low percentage of uninsured individuals include Minnesota, Hawaii, Wisconsin, Iowa, and New Hampshire.
- ***Race and ethnic origin:*** While 64.7 percent of the population under age 65 is white, whites comprise 47.6 percent of the uninsured. Individuals of Hispanic origin are more likely to be uninsured than other groups (34.3 percent).

The study discuses each or these factors in detail and provides more than 25 charts that provide a full statistical picture of those who have health insurance (along with the sources of coverage) and those who do not.

As the study notes, the proportion of uninsured working-age Americans rose slightly to 17.9 percent in 2005, and the overall percentage of the population under age 65 with health insurance declined in 2005 to a post-1994 low of 82.1 percent. Declines in health insurance coverage have been recorded in all but three years since 1994.

The study also reports that the segment of the U.S. population under age 65 with employment-based health insurance dropped from 64.4 percent in 1994 to 62 percent in 2005, the latest year for which statistics are available. The change was small from 2004 to 2005 (0.4 percentage points), but share of the population under age 65 with employment-based health insurance has declined significantly since 2000, when the number was 66.8 percent. Even after the drop in coverage, employment-based health benefits remain by far the most common source of coverage in the United States.

EBRI is a private, 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. www.ebri.org

PR #749

Fast Facts from EBRI

Contact: John MacDonald, EBRI, (202) 775-6349, macdonald@ebri.org
FF #38, Jan. 3, 2007

The $7 Trillion Question: How Do Employers Spend That Amount on Worker Wages, Salaries, and Benefits?

WASHINGTON—Employers in the United States are spending at least $7 trillion a year on total worker compensation, including wages, salaries, and benefits. Where does the money go?

An article in the December 2006 *EBRI Notes*, published by the nonpartisan Employee Benefit Research Institute (EBRI), provides this breakdown for all employers, based on 2005 Commerce Department data:

- Wages and salaries: 80.6 percent
- All benefits: 19.4 percent

The article, available at www.ebri.org, shows these additional details:

- ***Wages and salaries:*** This sector accounted for about $5.7 trillion of total employer spending for worker compensation in 2005, up from $4.8 trillion in 2000. In 1960, wages and salaries accounted for about 92 percent of employer spending for total compensation, but that share has slipped over time.
- ***Retirement benefits:*** Employer spending was $628.4 billion for retirement benefits in 2005, up from $458.8 billion in 2000. Retirement benefits have long been the largest single sector for benefits expenditures, but have been declining as a share of the whole. In 1960, retirement benefits accounted for nearly 60 percent of total benefits spending, but by 2005 that number had declined to 46 percent of the total.
- ***Health benefits:*** In 2005, employers spent $596.5 billion on health benefits, up from $399.6 billion in 2000. Health benefits, which are taking an ever-increasing share of employers' benefits spending, accounted for 44 percent of employer spending on benefits in 2005, up from 42 percent in 2000 and just 14 percent in 1960.
- ***Other benefits:*** Employer spending on other benefits, such as unemployment insurance, life insurance, and workers' compensation, was $138.3 billion in 2005, up from $94.2 billion in 2000. Other benefits accounted for just over 10 percent of employers' spending for benefits in 2005, compared with just under 10 percent in 2000. Over the long term, other benefits have been a shrinking share of employer spending on benefits, down from nearly 26 percent in 1960.

The *EBRI Notes* article provides a detailed breakdown of employer spending for total compensation and benefits for selected years from 1960 to 2005. The article also contains a breakdown of spending for total benefits by the federal, state, and local governments.

Fast Facts from **EBRI**

Contact: John MacDonald, EBRI, (202) 775-6349, macdonald@ebri.org

FFE #34, Oct. 17, 2006

How Debt Has Increased for Older American Families

WASHINGTON—How much debt do older American families have? How has it changed over time? What does it mean?

A study by the nonpartisan Employee Benefit Research Institute (EBRI) shows that nearly 61 percent of American families with family heads age 55 and older had debt in 2004, almost 5 percentage points higher than in 2001 and about 7 percentage points higher than in 1992.

Further, the debt of families with family heads over age 75 has increased over time as well. An article in the September 2006 *EBRI Notes*, which contains these numbers, says that the increasing debt levels could have serious implications for the future retirement security of older Americans, as their debt levels are rising at a time when their earning ability is declining. The *EBRI Notes* article is available at www.ebri.org

Here is a look at the recent rise of debt among families with a family head age 55 or older and age 75 or older:

	1992	**2001**	**2004**
Families With Debt			
Family head age 55 or older	54%	56%	61%
Family head age 75 or older	32%	29%	40%
Average Family Debt			
Family head age 55 or older	$29,309	$41,294	$51,791
Family head age 75 or older	$ 7,769	$ 9,549	$20,234
Median Family Debt			
(midpoint, half above, half below)	$14,498*	$24,497*	$32,000*
Family head age 55 or older	$4,218*	$ 5,326*	$14,800*
Family dead age 75 or older			

Source: *EBRI Notes*, September 2006.

* For families with debt.

Fast Facts from EBRI is issued occasionally by the nonpartisan Employee Benefit Research Institute to highlight benefits information that may be of current interest. EBRI is a private, 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. www.ebri.org

Fast Facts from EBRI

Contact: John MacDonald, EBRI, (202) 775-6349, macdonald@ebri.org
FFE #35, Nov 14, 2006

A Breakdown of Debt for Older Families

WASHINGTON—What percentage of older American families' total income goes for debt payments? What percentage of older families had debt payments of more than 40 percent of family income? How do housing and credit card debt fit into the picture?

A study in the September 2006 *EBRI Notes* has the answers to these questions. Overall, the study found that total debt payments increased for families with a family head age 55 or older from 2001 to 2004 and that housing debt and credit card debt were both factors in the increase. The study is available at www.ebri.org.

Here are some details of the study for families with a family head age 55 or older, showing the recent increase in their debt levels:

Families With a Family Head Age 55 or Older	1992	1995	2001	2004
Total debt payments as a percentage of family income	9.2%	8.5%	8.8%	10.3%
Percentage of families with debt payments more than 40 percent of income	5.8%	5.6%	7.2%	7.3%
Percentage of families with housing debt	24%	27%	32%	36%
(median amount: half above, half below)	($36,904)	($34,471)	($53,255)	($60,000)
Percentage of families with credit care debt	31%	31%	31%	34%
(median amount)	($1,147)	($1,231)	(1,353)	($2,000)
Source: *EBRI Notes,* September 2006 (All debt values are in 2004 dollars.)				