Summary of Statement by Harry Smith
of the Sun Company
Before the Senate Finance Committee
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Since the early years of the income tax system, federal policy has offered encouragement to both defined-benefit pension plans and capital accumulation or defined-contribution plans. The first plan generally offers the retiree a monthly income in retirement, while the second plan can pay benefits either in monthly payments or in a one-time sum at retirement or termination of service. Individual Retirement Accounts (IRAs), first authorized in 1974, are an individual-based capital accumulation plan.

Employer-sponsored retirement and capital accumulation plans now cover more than half the workforce, and nearly three-quarters of those employees who are 25 years old or older, have been on the job a year or more, and work at least half time. Together, these plans have accumulated about $1 trillion in assets, most of which is invested in the nation's productive capacity. Coverage in these plans is broad-based, with three-quarters of those covered earning less than $25,000 per year, and 55 percent of those covered younger than 45.

IRAs are an important recent addition to the retirement system. IRA assets are currently estimated at close to $190 billion, with nearly 17 percent of the workforce reporting an account. These workers are primarily older and more affluent than the general population. IRAs offer some measure of retirement protection to all workers, but IRA holders with employer plans outnumber those without such plans by nearly three to one. IRAs perform a valuable function not only because they increase saving, but also because they encourage participants to transfer existing saving into longer-term form.

Employer-sponsored plans and IRAs perform very different functions in the retirement system. Employer plans provide savings for many who do not save for themselves; IRAs depend on individual savings. Employer plans offer ways to protect against the erosion of the purchasing power of benefits through inflation; IRA inflation protection depends primarily on the employee's willingness to leave the funds in the account for a long time and on the employee's skill in investing the funds. By law, employer plans have to offer spousal protection; only 55 percent of those eligible to establish a spousal IRA choose to do so. Finally, most employer plans offer disability retirement protection; no such protection is available with IRAs.

IRAs and employer plans are complementary. IRAs add a measure of flexibility to an employer plan for employees who change jobs as these employees can roll over accrued pension balances into an IRA, where they continue to accrue investment earnings. They also augment employer pensions and individual savings. For broad-based coverage and benefit entitlement, however, employer pensions offer a much more reliable supplement to the Social Security system.

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Mr. Chairman, I am pleased to testify before the committee on defined-benefit plans and Individual Retirement Accounts (IRAs).

Almost since the establishment of the personal income tax, the Internal Revenue Code has provided for tax-deferred accumulation of funds in two types of plans. The first is the traditional defined-benefit pension plan, which provides income at retirement in the form of monthly payments. The second is the capital accumulation or defined-contribution plan, which can provide retirement or pre-retirement income in the form of either monthly payments or a lump-sum distribution of the accumulated balance. IRAs, which were first authorized in 1974 and expanded in 1981, are a type of capital accumulation plan aimed at encouraging individual savings.

Defined-benefit plans and IRAs are only two parts of a retirement system which also includes the following components:

- Social Security will provide 37 million recipients with $171 billion in benefits in 1985.

- Defined contribution plans had 22.3 million active participants and $300 billion in assets in 1984.

- Individual savings were reported by 66% of all retirees in 1980.

- Transfer payments such as Supplemental Security Income (SSI), food stamps and housing assistance also play a role in retirement policy. SSI had 2 million elderly recipients with $3 billion in benefits received in 1983. Food stamps had 2 million elderly recipients with $1 billion in outlays in 1983. Nearly 3.4 million public or rent subsidized housing units were provided for elderly households in 1983.

- Tax preferences aimed solely at the elderly will provide $19.1 billion in tax benefits to the elderly in 1985.

- Disability retirement plans cover 91 percent of pension participants in medium and large size firms according to Labor department data.

DEFINED BENEFIT PLANS

Trends in Plan Growth

Defined benefit plans have grown rapidly over the last ten years. The Employee Benefit Research Institute (EBRI) reports that by the end of 1984 there were 240,000 defined benefit plans in operation. This represents an increase of 112,000 plans, or almost 90 percent, over the 1974 level. During the past decade the number of defined benefit plans grew by an average of 7.4 percent per year. Although strong overall, the growth pattern has been irregular. The annual growth rate of defined benefit plans reached its lowest point in 1976, just after the implementation of the Employee Retirement Income Security Act of 1974 (ERISA), when the number of plans in operation actually decreased by 1.1 percent. The growth rate then climbed to 13.1 percent in 1979, remained above 10 percent each year through 1982, and finally fell to 1.5 percent in 1984 (see table 1).

Labor department figures show that by 1984 assets held by defined benefit plans had reached $700 billion, or more than triple the 1975 level. The Federal Reserve Board reports that two-thirds of these assets were held in either corporate equities or bonds.

Number of People Participating

To be an active participant in a defined benefit plan, a worker must both work for an employer who offers a plan, and meet that employer's participation requirements (the stringency of which are limited by ERISA). A worker is said to be covered by a plan if he is in a job that is eligible for coverage, regardless of whether or not that worker currently participates, because that worker could potentially become a participant by meeting the employer's age and service requirements. As a result, there will always be some covered non-participants; hence, the number of active participants will be smaller than the number of covered workers.

In 1984, 31 million people, or 35 percent of all private workers, were active participants in a private defined benefit plan, according to the Labor

TABLE 1

TRENDS IN DEFINED BENEFIT AND DEFINED CONTRIBUTION PLAN NET CREATION AND GROWTH
1974 to 1984

	Defined Benefit Plans			Defined Contribution Plans			All Plans	
Year	Total Number (thousands)	Growth Rate	As Percent of All Plans	Total Number (thousands)	Growth Rate	As Percent of All Plans	Total Number (thousands)	Growth Rate
1974	128		32%	272		68%	400	
1975	132	2.6%	31	290	6.9%	69	422	5.5%
1976	130	-1.1	30	302	3.9	70	432	2.4
1977	132	1.2	29	320	6.0	71	451	4.5
1978	139	5.7	28	357	11.5	72	496	9.8
1979	158	13.1	29	381	6.9	71	539	8.7
1980	179	13.8	30	410	7.7	70	590	9.5
1981	199	10.7	30	459	11.9	70	658	11.5
1982	222	11.7	30	506	10.2	70	728	10.7
1983	237	6.7	31	537	6.1	69	774	6.3
1984	240	1.5	30	554	3.2	70	795	2.7

SOURCE: U.S. Department of Labor, Memo tabulating data from IRS 5500 and 5500c forms; U.S. Internal Revenue Service, news releases of determination letter statistics.

NOTE: "Total Number" of plans for 1977-80 are U.S. Department of Labor tabulations of data contained in IRS 5500 and 5500c forms. Since all plans must submit one of these forms annually, these numbers represent a count of all plans in existence. For years 1974-76 and 1981-84, these data are not available. Numbers for those years were estimated by EBRI using IRS determination letter statistics.

Details may not add to totals due to rounding.

Department. If public employees and plans are included, the number of participants grows to 46 million people, or 44 percent of all workers. A Labor Department survey found that in 1983, 82 percent of full-time employees in medium and large private firms were covered by a defined benefit pension plan, with the employer usually paying the entire cost.

Even larger than the number of defined benefit plans is the number of defined contribution plans in operation. EBRI reports that by the end of 1984 there were 554,000 defined-contribution plans, or more than double the number of defined benefit plans. However, it is important to remember that by far most defined contribution plans are secondary plans, each coexisting with a primary defined benefit plan. Labor department figures show that in 1984 primary defined contribution plans accounted for only 19 percent of active participants in private employer sponsored plans; the primary plans for the remaining 81 percent of participants were defined benefit plans. The proportion of public-sector participants with primary coverage from a defined benefit plan is similarly high or higher.

Numbers Covered Under Primary Plans

Because most primary pension coverage is provided by defined benefit plans, coverage patterns under primary pension plans in general are a good measure of coverage under defined-benefit plans. Detailed information on pension coverage patterns is provided by the May 1983 Census Bureau Current Population Survey (CPS) Pension Supplement, which was co-sponsored by EBRI and the Department of Health and Human Services.

While the numbers of covered workers and participating workers tend to be different, discussion of the findings of the EBRI/HHS survey will focus on coverage rather than participation, for two reasons. First, evidence suggests that some survey respondents interpreted questions on coverage to mean actual participation. Second, it is important to remember that by law any private-sector covered employee who meets ERISA age and service requirements must become a plan participant.

A Majority of Employees are Covered. In 1983, 56 percent of all nonagricultural employees, or 50 million workers, were covered under an employer sponsored pension plan, and 45 percent of those covered, having already met vesting requirements, were entitled to benefits at retirement. Among those nonagricultural employees who met ERISA age and service requirements for participation, 70 percent were covered and 53 percent of those covered were already entitled to benefits (see table 2).

Although coverage rates were generally high, small private firms were a distinct exception. In 1983, only 23 percent of workers in private firms with fewer than 100 employees were covered, compared to 76 percent of those in larger firms.

Covered Employees are Found at All Earnings Levels. While employees with high earnings are more likely than others to have pension coverage, those with moderate or low earnings account for the bulk of those with coverage. Only 54 percent of employees with earnings below $25,000 were covered in 1983, compared to 82 percent of employees with earnings of $25,000 or more. However, employees earning less than $25,000 accounted for three quarters of all covered employees (see table 3).

In terms of benefit entitlement at retirement, the vesting rate of covered workers earning $25,000 or more was one and one half times the rate of those earning less than $25,000. However, those earning $25,000 or more accounted for less than one third of those vested (see table 4).

TABLE 2

EMPLOYMENT, COVERAGE AND FUTURE BENEFIT ENTITLEMENT, MAY 1983

	Employment (000s)	Coverage (000s and % of Employed)	Future Benefit Entitlement (000s and % of Covered)
Nonagricultural Wage and Salary Workers	88,214	49,530 56.2%	22,217 44.9%
ERISA Work Force (age 25 to 64, working 1000 hours or more, one year of tenure or more)	54,363	38,058 70.0%	20,027 52.6%

SOURCE: Employee Benefit Research Institute tabulations of the May 1983 EBRI/HHS CPS pension supplement.

Table 3

Employment and Pension Coverage Among
Nonagricultural Wage and Salary Workers, 1983

	Employment (000s)	Covered as % of Employed	Group as % of all Covered
ALL WORKERS	88,214	56	100
<u>Earnings</u>			
Less than $10,000	25,337	32	17
$10,000-$24,999	41,211	68	59
$25,000 and over	13,741	82	24
<u>Age</u>			
Under 25	17,991	35	13
25 to 44	44,991	61	55
45 to 64	23,260	65	30
65 and over	1,971	35	1
<u>Sex</u>			
Women	40,015	53	42
Men	48,199	59	58

SOURCE: EBRI tabulations of the May 1983 EBRI/HHS CPS Pension Supplement.

Table 4

Coverage and Future Benefit Entitlement Among Nonagricultural Wage and Salary Workers, 1983

	Covered (000s)	Entitled to Benefits as % of Covered	Group as % of all Entitled to Benefits
ALL WORKERS	49,530	45	100
Earnings			
Less than $10,000	8,180	20	8
$10,000 - $24,999	27,909	46	60
$25,000 and over	11,283	60	32
Age			
Under 25	6,376	15	4
25 to 44	27,471	42	52
45 to 64	14,992	63	42
65 and over	691	50	2
Sex			
Women	21,015	38	36
Men	28,515	50	64

SOURCE: EBRI tabulations of the May 1983 EBRI/HHS CPS Pension Supplement.

Covered Employees are Found at All Ages. Pension coverage rates are high throughout traditional full-time working years between ages 25 and 64. In 1983, 61 percent of nonagricultural workers aged 25 to 44 were covered; 65 percent of those aged 45 to 64 were covered. The coverage rate for both workers under 25 and over 64, who were generally not required to be covered under ERISA rules at that time, was 35 percent. Although coverage rates were similarly high for the two middle age groups, workers aged 25 to 44, which included most of the large baby boom cohort, accounted for 55 percent of all those covered. In contrast, workers aged 45 to 64 accounted for only 30 percent (see table 3).

As might be expected, older workers, who tend to have been on the job longer than younger workers, have higher rates of benefit entitlement. Only 15 percent of covered workers under age 25 are vested, compared to 42 percent of those aged 25 to 44 and 63 percent of those aged 45 to 64. But while the vesting rate of covered workers aged 45 or more is higher than that for those under age 45, workers aged 45 or more accounted for only 44 percent of all those vested, while workers under age 45 accounted for the remaining 56 percent (see table 4).

Coverage Rates are Close for Men and Women. Fifty-nine percent of all male nonagricultural workers were covered in 1983, compared to 53 percent of all those female. Men accounted for 58 percent of covered workers; women, for the remaining 42 percent (see table 3).

Fifty percent of covered male workers were already entitled to benefits in 1983, as were 38 percent of covered female workers. Sixty-four percent of those vested were men; thirty-six percent were women (see table 4).

Coverage Rates are Higher for Those with Longer Tenure. The coverage rate of workers with long tenure is higher than that of workers with short tenure, possibly indicating that employees will stay long longer at jobs which offer pension coverage. In 1983 only 29 percent of workers with less than one year of job tenure were covered, compared to 56 percent of those with one to nine years of tenure and 80 percent of those with ten years or more. Workers with one to nine years of tenure accounted for more than half of all those covered.

INDIVIDUAL RETIREMENT ACCOUNTS

In 1981, the Economic Recovery Tax Act (ERTA) expanded IRA eligibility to all workers (regardless of pension status) and increased the maximum allowable contribution. At the end of 1981, IRA and Keogh assets totaled just over $38 billion. At the end of April 1985, IRA and Keogh assets totaled $187.2 billion. While the total amount of assets has increased almost five-fold over the last four years, total annual contributions have been leveling off.

According to the latest Internal Revenue Service (IRS) data (see table 5), people with less than $20,000 in income accounted for 14.6 percent of total dollar deductions claimed on 1983 income tax forms. This is down from 17.0 percent of total contributions in 1981. The proportion of IRA deductions claimed by people with incomes of $50,000 or more increased from 23.4 percent in 1981 to 28.4 percent in 1983.

As a share of the total number of returns with deductions, the proportion of IRAs established in the lowest income categories dropped from 22.8 percent in 1981 to 19.4 percent in 1983, while in the highest income categories, IRAs claimed increased from 18.9 percent to 22.7 percent of total IRAs.

Who Uses IRAs

According to CPS, more than 16.7 million IRAs had been established by the end of tax year 1982 (see table 6). This meant that, assuming each

TABLE 5
IRA Usage by Taxable Income for 1981 and 1983

Taxable Income	Returns with IRA Deductions: Number (000's)		Distribution (percent)		Value of IRA Deductions: Amount (billions)		Distribution (percent)	
	1981	1983	1981	1983	1981	1983	1981	1983
Total	3,415	13,722	100.0	100.0	$4.8	$32.3	100.0	100.0
$0 - $19,999	782	2,658	22.8	19.4	0.8	4.7	17.0	14.6
$20,000-49,999	1,987	7,945	58.2	57.9	2.8	18.5	59.6	57.1
$50,000 and over	647	3,119	18.9	22.7	1.1	9.2	23.4	28.4

Source: Employee Benefit Research Institute tabulations based upon U.S. Department of Treasury, Internal Revenue Service, Statistics of Income Bulletin, Vol. 2, No.3; Vol. 4, No.3 (Washington, DC: Government Printing Office, Winter 1982-83; Winter 1984-85),

Note: Numbers and percents may not add to totals due to rounding.

TABLE 6
IRA Usage by Earnings for 1982
(Civilian Employment, May 1983)

Earnings	Civilian Employment Number (000's)	Civilian Employment Distribution (percent)	IRA Usage Number (000's)	IRA Usage Distri- bution (percent)	IRA Usage Within Earnings Levels (percent)
Total	98,964[a]	100.0	16,713[a]	100.0	16.9
$ 1 to $ 4,999	11,940	13.7	842	5.8	7.1
$ 5,000 to $ 9,999	16,738	19.2	1,417	9.8	8.5
$10,000 to $14,999	19,044	21.9	2,109	14.6	11.1
$15,000 to $19,999	13,644	15.7	2,366	16.3	17.3
$20,000 to $24,999	10,685	12.3	2,146	14.8	20.1
$25,000 to $29,999	5,817	6.7	1,654	11.4	28.4
$30,000 to $49,999	7,178	8.2	2,781	19.2	38.7
$50,000 and over	2,020	2.3	1,165	8.0	57.7

Source: Employee Benefit Research Institute tabulations of the May 1983 EBRI/HHS Current Population Survey (CPS) Pension Supplement.

Note: Numbers and percents may not add to totals due to rounding and exclusion of respondents whose earnings were not reported. Those who did not report their earnings were omitted for percentage calculations.

[a]Includes those respondents who did not report their earnings.

belongs to a different individual, IRAs were used by 16.9 percent of the labor force.

Earnings groups. IRA usage increases with income. Of all people making between $15,000 and $20,000, only 17.3 percent had an IRA. In contrast, of those making $50,000 or more, 57.7 percent had an IRA. As a proportion of all those with IRAs, 46.5 percent earned less than $20,000, while 53.4 percent earned $20,000 or more.

Age Groups. IRAs are most popular among older workers. The highest usage rates for IRAs occur between ages 55 and 64, while the greatest proportion of IRAs are held by those between 45 and 54 (see table 7). Of all people between ages 55 and 64, 37.2 percent held an IRA. Of all those between 45 and 54, the proportion is 29.3 percent. Those people age 35 or over accounted for 78.6 percent of all persons holding an IRA, while those under 35 accounted for 21.3 percent.

Men and Women. Women at most earnings levels are more likely to establish IRAs than men. Among those who had earned between $15,000 and $20,000, 21.4 percent of the women established an IRA, whereas 14.8 percent of the men did so (see table 8). Of those earning $25,000 to $30,000, 35.8 percent of the women had an IRA, in contrast to 28.0 percent of the men. Men, however, who made $50,000 or over established an IRA at a rate of 59.2 percent as opposed to 51.8 percent for women in the same earnings category.

IRAs and Pension Coverage

Use of IRAs by those not covered by employer-sponsored pensions has increased substantially, but is still lower than among those with pension coverage in every earnings category. The IRS reported 3.4 million IRAs among those without employer-sponsored pensions at the end of tax year 1981.

TABLE 7
IRA Usage by Age for 1982
(Civilian Employment, May 1983)

Age	Employment: Number (000's)	Employment: Distribution (percent)	IRA Usage: Number (000's)	IRA Usage: Distribution (percent)	IRA Usage: Within Age Group (percent)
Total	98,964	100.0	16,713	100.0	16.9
Less than 25 years	19,127	19.3	445	2.7	2.3
25 to 34 years	28,773	29.1	3,108	18.6	10.8
35 to 44 years	21,484	21.7	3,967	23.7	18.5
45 to 54 years	15,493	15.7	4,532	27.1	29.3
55 to 64 years	11,218	11.3	4,169	24.9	37.2
65 years and over	2,870	2.9	491	2.9	17.1

Source: Employee Benefit Research Institute tabulations of the May 1983 EBRI/HHS Current Population Survey (CPS) Pension Supplement.

Note: Numbers and percents may not add to totals due to rounding and exclusion of respondents whose age was not reported.

TABLE 8
IRA Usage by Sex and Earnings for 1982
(Nonagricultural Wage and Salary Workers, May 1983)
IRA Usage Within Earnings Levels
(percent)

Earnings	MEN (percent)	WOMEN (percent)
Total	18.5	15.2
1 to 4,999	4.4	8.8
$5,000 to 9,999	5.5	9.8
$10,000 to 14,999	7.3	14.2
$15,000 to 19,999	14.8	21.4
$20,000 to 24,999	18.4	25.4
$25,000 to 29,999	28.0	35.8
$30,000 to 49,999	38.9	43.9
$50,000 and over	59.2	51.8

Source: Employee Benefit Research Institute tabulations of the May 1983 EBRI/HHS Current Population Survey (CPS) Pension Supplement.

Note: Numbers and percents may not add to totals due to rounding and exclusion of respondents whose earnings were not reported.

The May 1983 Census reported that among those not covered by employer-sponsored pensions 3.7 million people (12.1 percent) had established an IRA for tax year 1982 (see tables 9 and 10). In contrast, of the total number of IRA participants, 71.1 percent are covered by an employer-sponsored pension plan, and more than 64.9 percent of those have a vested pension right with their current employer.

Spousal IRAs

Of the 16.7 million workers who reported having IRAs in the 1983 survey, 4.0 million (20.9 percent) reported having a nonworking spouse. Of these, 2.0 million (55.7 percent) established spousal IRAs (see tables 11 and 12). The proportion of spousal IRAs among those earning $50,000 or more, at 75.6 percent, is significantly greater than among lower earnings groups. The proportion of spousal IRAs among those age 55 to 64 at 62.5 percent, is also greater than at younger ages. Employer-sponsored pension coverage appears to increase the likelihood of spousal IRA use. Among all spousal IRA holders, 76.1 percent are also covered by an employer-sponsored pension plan. Of these, 74.9 percent have vested pension rights.

Where IRAs are Invested

While the largest share of pension funds is invested in corporate equities and bonds, 63.6 percent of IRA funds were invested in banks and savings and loan institutions in 1982 (see table 13). Another 9.6 percent was invested in mutual funds and 11.4 percent was invested with brokerages. Older individuals with lower earnings were most likely to have their funds in banks and savings and loan institutions. Younger workers with high income were the most likely to invest in mutual funds. Across all age groups the highest earners were most likely to place IRAs with brokers. Younger and low wage earners tended to open IRAs with insurance companies.

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Spousal IRAs

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Where IRAs are Invested

While the largest share of pension funds is invested in corporate equities and bonds, 63.6 percent of IRA funds were invested in banks and savings and loan institutions in 1982 (see table 13). Another 9.6 percent was invested in mutual funds and 11.4 percent was invested with brokerages. Older individuals with lower earnings were most likely to have their funds in banks and savings and loan institutions. Younger workers with high income were the most likely to invest in mutual funds. Across all age groups the highest earners were most likely to place IRAs with brokers. Younger and low wage earners tended to open IRAs with insurance companies.

TABLE 9
IRA Usage Among Workers Not Covered by Pensions
by Earnings for 1982
(Civilian Employment, May 1983)

	Employment		IRA Usage		
Earnings Levels	Number (000's)	Distribution (percent)	Number (000's)	Distribution (percent)	Within Earnings Levels (percent)
Total	30,998[a]	100.0	3,745[a]	100.0	12.1
$1 to 4,999	6,248	22.7	341	10.6	5.5
$5,000 to 9,999	7,770	28.2	520	16.2	6.7
$10,000 to 14,999	6,387	23.2	627	19.5	9.8
$15,000 to 19,999	3,113	11.3	614	19.1	19.7
$20,000 to 24,999	1,831	6.7	352	10.9	19.2
$25,000 to 29,999	1,021	3.7	303	9.4	29.7
$30,000 to 49,999	929	3.4	358	11.1	38.6
$50,000 and over	215	0.8	102	3.2	47.4

Source: Employee Benefit Research Institute tabulations of the May 1983 EBRI/HHS Current Population Survey (CPS) Pension Supplement.

Note: Numbers and percents may not add to totals due to rounding and exclusion of respondents whose earnings were not reported. Those who did not report their earnings were omitted for percentage calculations.

[a]Includes those repondents who did not report their earnings.

TABLE 10
Distribution of IRA and Spousal IRA Participants
by Pension Status for 1982
(Civilian Employment, May 1983)

Pension Status	IRA Usage	Spousal IRA Usage
	Number (000's)	
	16,713	1,954
	Percent	
Covered	71.1	76.1
Vested	64.9	74.9
Not Covered	22.7	16.6
Not Known	6.2	7.4
Total	100.0	100.0

Source: Employee Benefit Research Institute tabulations of the May 1983 EBRI/HHS Current Population Survey (CPS) Pension Supplement.

Note: Numbers and percents may not add to totals due to rounding.

[a] Numbers for eligible workers are too small to infer significance.

TABLE 11

Spousal IRA Usage Among Respondents with an IRA by Earnings for 1982

Earnings	Number Eligible (000's)	Distribution (percent)	Number Contri- buting (000's)	Distribution (percent)	Within Earnings Levels (percent)
Total	3,504[b]	100.0	1,954[b]	100.0	55.8
$ 1 to $ 4,999	114	3.9	a	a	a
$ 5,000 to $ 9,999	172	5.9	a	a	a
$10,000 to $14,999	301	10.4	104	6.4	34.4
$15,000 to $19,999	409	14.1	205	12.6	50.0
$20,000 to $24,999	429	14.8	267	16.4	62.2
$25,000 to $29,999	359	12.4	182	11.2	50.7
$30,000 to $49,999	686	23.6	444	27.2	64.7
$50,000 and over	436	15.0	330	20.2	75.6

Source: Employee Benefit Research Institute tabulations of the May 1983 EBRI/HHS Current Population Survey (CPS) Pension Supplement.

Note: Numbers and percents may not add to totals due to rounding and exclusion of respondents whose earnings were not reported. Those who did not report their earnings were omitted for percentage calculations.

[a] Numbers are too small to infer significance.

[b] Includes those respondents who did not report their earnings.

TABLE 12
Spousal IRA Usage Among Respondents with an IRA by Age for 1982

Age	Number Eligible (000's)	Distribution (percent)	Number Contri-buting (000's)	Distribution (percent)	Within Age Group (percent)
Total	3,504	100.0	1,954	100.0	55.8
Under 25 years	a	a	a	a	a
25 to 34 years	306	8.7	113	5.8	36.8
35 to 44 years	588	16.8	279	14.3	47.3
45 to 54 years	980	28.0	580	29.7	59.2
55 to 64 years	1,366	39.0	854	43.7	62.5
65 years and over	221	6.3	124	6.3	56.2

Source: Employee Benefit Research Institute tabulations of the May 1983 EBRI/HHS Current Population Survey (CPS) Pension Supplement.

Note: Numbers and percents may not add to totals due to rounding and exclusion of respondents whose age was not reported.

[a]Numbers are too small to infer significance.

TABLE 13
Placement of IRA Investments for 1982
(Civilian Employment, May 1983)

Financial Institution	Number of IRAs (000's)	Distribution (percent)
Banks	6,719	40.2
Savings and Loan	3,903	23.4
Mutual Funds	1,607	9.6
Broker	1,906	11.4
Insurance Firm	2,035	12.2
Other	1,298	7.8
Total	16,713[b]	100.0[b]

Source: Employee Benefit Research Institute tabulations of May 1983 EBRI/HHS Current Population Survey (CPS) Pension Supplement.

[a]Numbers are too small to infer significance.
[b]The percent distribution and the number of IRAs add up to more than the total because of the possibility of multiple responses in the survey.

HOW DO DEFINED-BENEFIT PLANS AND IRAS COMPARE?

Some of the major differences between pensions and IRAs concern their effects on saving, the inflation protection they offer, the spousal and disability protection offered, and the different groups that benefit.

Pensions as Savings for Non-savers

Employer-provided pensions are more widely distributed among households than other forms of savings. Since tax policy encourages the growth of pension coverage, therefore, it results in a progressive distribution of wealth. This redistribution can be demonstrated by comparing asset income and pension coverage data as reported by the CPS, the best available source of information on the joint distribution of pension coverage and income from savings. Direct information on savings would be preferable to the data on income from savings, but it is not available on a current basis.

According to the CPS, more than 40 percent of the labor force reported no savings income. This group's average income was $9,651, just under half the average income of those reporting some asset income. Some 55 million workers, including almost half of the group reporting little or no savings income on the CPS, were covered by employer pensions in 1983. Pensions thus constituted a net increase in savings for these workers.

Employer-provided pension coverage is also more widespread than individual retirement account (IRA) participation. Middle- and higher-income individuals were the primary beneficiaries of the broadening of IRA eligibility. An estimated 31 percent of households reporting income of $15,000 or higher hold IRA accounts, compared with 9 percent of households with incomes below $15,000.

By comparison, 43 percent of workers earning less than $15,000 are covered by employer pensions. Assessments of the value of pensions compared with other saving should therefore consider the net increase and redistribution of wealth that results from expanded pension coverage.

Inflation Protection

A major retirement income policy concern is the erosion of pension benefits by inflation. While inflation rates have moderated in recent years, the memory of double-digit inflation is strong.

Employer-sponsored pension plans offer more comprehensive inflation protection than IRAs. During the work career, the defined-benefit plan offers inflation protection for the career employee partly because benefit accruals earned are generally related to salaries. Benefit formulas can also be designed to reflect wage inflation. After retirement, benefits can be adjusted for inflation. According to Labor Department data, about 3 percent of private-sector defined-benefit plan participants are in plans that offer systematic inflation adjustments and 51 percent are in plans that offer post-retirement increases on an ad hoc basis.

IRA contributions, in contrast, are not related to salaries because the allowable contribution is capped. IRA investment earnings can provide some inflation protection both before and after retirement. However, since most IRA deposits are invested in relatively low-earning thrift and commercial bank deposits, most IRA holders do not take advantage of the potential inflation protection that may be available in other investment instruments.

Spousal and Disability Protection

Another important policy concern in recent years, as evidenced in the passage of the Retirement Equity Act last year, is the retirement protection offered spouses of workers.

The Administration has proposed that IRAs for non-working spouses be increased from the current limit of $250 to $2000, or the same level as that available to employed persons. This effort to generate retirement income protection for non-working spouses could help elderly women, who constitute the largest segment of the elderly in poverty. This increase, however, even if enacted, cannot provide spouses as much retirement protection as the employer-sponsored plan offers. Only a little more than half of those eligible to establish spousal IRAs do so. The majority of these workers are more affluent and older, with ten years or less until retirement. Ten years of IRA contributions and investment earnings will not provide an adequate income base for retirement, and current patterns of IRA utilization will not reach those most likely to be poor when they get old.

By contrast, the defined-benefit pension plan covers more workers over a longer period of time, generates more total retirement income, and offers universal protection for spouses of workers. Under current law, not only must all plans offer the joint and survivor benefit option, but the spouse's consent is required if the option is waived.

Disability retirement plans, which cover 91 percent of defined-benefit plan participants in medium and large firms, also offer protection for workers and their spouses that is not available through IRAs.

IRAs and Pensions Complement Each Other

IRAs and pensions fill different roles in the retirement system. IRAs provide both a supplement to employer-sponsored pensions and the added flexibility needed in an economy where employees change jobs frequently. In addition to serving as a supplement to employer plans, IRAs can be used to roll over accrued vested benefits in an employer plan on termination of service. These accruals then earn investment earnings until retirement.

Different Groups Benefit

IRAs and employer-sponsored plans are not substitutes, however. Nearly three out of four IRA holders are also covered under an employer plan; IRAs are thus not likely to fill the retirement needs of those without employer plans. IRAs offer mostly older employees a chance to supplement their retirement incomes; employer plans benefit employees of all ages.

CAN WE, AS A SOCIETY, AFFORD TO MAKE THIS AN EITHER/OR CHOICE?

The role of employer-sponsored pensions in the retirement system is long-standing and clear. These plans allow an employer, and in some plans, the employee as well, to set aside a portion of compensation on a tax-deferred basis until retirement. These plans are by law non-discriminatory, they do not compete with the employee's other expenditure needs and desires, and they provide a measure of retirement security for a workforce that by and large saves little out of current income. Employer plans cover a large and diverse segment of the workforce.

IRAs, on the other hand, are used for limited purposes by a small segment of the workforce that tends to be older and more affluent than the general population. They depend on the individual's saving plans, and thus compete for funds with other current expenditures. They offer no protection for those younger or less affluent workers that do not choose to take advantage of them, and they do not offer spousal protection for close to half of the married workers who choose to establish IRAs for themselves.

IRAs are a useful link in the retirement system, however, because they provide retirement protection for short-term or occasional workers, and because they provide pension portability between jobs.

Mr. Chairman, the Sun Company feels the country needs both.

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