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Statement

Before the

Senate Finance Subcommittee on Deficits, Debt  
Management, and Long-Term Economic Growth

Hearing on

The United States' Savings Crisis--Implications  
for Security and Long-Term Growth

by

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## Summary

- Advance funded pension and retirement savings programs have accumulated over five trillion dollars in savings. Pension savings are a primary form of personal savings in the economy. Pensions represented 50% of personal savings between 1976 and 1980; 59% between 1981 and 1985; and, 51% between 1986 and 1990.
- Some estimates indicate that to maintain living standards in retirement—without selling one's home—would require pension savings to be closer to twelve trillion dollars today. Studies find that boomers are saving one-third of what would be needed if we do not count housing wealth, but over 80% if we do. The issues of what we count, what we assume about future economic growth, and what we assume about inflation in such areas as health care, are at the center of apparent contradictions in the results of different studies of the retirement income prospects of baby boomers.
- CBO concludes that most baby boomers are likely to enjoy higher real incomes in retirement than their parents, assuming that real wages continue to grow, Social Security and private pensions remain intact, and health care expenditures do not outweigh other gains. CBO notes the prospects are not as sanguine for some demographic groups as others, in particular for the single, the less educated, and non-homeowners. Most other recent studies confirm the CBO conclusions.
- Policymakers must determine their goals. Should we focus on absolute income levels, on replacement of final income, or some combination? The differences in conclusions reached by analysts are frequently attributable to different goals.
- Among all private sector wage and salary workers pension participation has been steady since 1972 at between 48% (1972,1983,1988) and 50%. (1979,1993). This climbs to 56% of all full-time workers. Participation in 401(k) plans has also grown from 3% in 1983 to 14% in 1988 and 23% in 1993. Among those offered the opportunity to participate in such a plan, 67% did so in 1993 compared with 39% in 1983. Changes in the law (five year vesting), work force patterns, and 401(k) growth combined to move the number of vested pension participants, that is, those with a nonforfeitable benefit, to 86% of all participants, from 77% in 1988 and 52% in 1979.
- There is no evidence, however, of a universal employer "shift" from defined benefit to defined contribution plans. Of the net decrease in the number of defined benefit plans, 75 percent involved plans consisting of two to nine active participants. Large employers generally continue to sponsor both types of plans, while redesigning defined benefit plans. There is reason to believe, however, that a shift is in the offing.
- Pension plans now provide income to 30% of those aged 55 and older; 37% of those aged 65 and older; and, 50% of new retirees. During 1990, pension plans provided \$234.3 billion to retirees in annuity payments, and in 1990 \$125.8 billion in the form of lump-sum distributions was paid from all tax qualified programs.
- The most recent data available indicate that more individuals are saving lump sums for retirement—27% in 1987–1993 versus 7% prior to 1980—and fewer are spending them—23% in 1987-1993 versus 50% prior to 1980—but there is still a great deal of money not being preserved for retirement: nearly \$50 billion in 1990. Preservation of funds originally saved for retirement with the help of tax incentives is a significant issue.
- A great deal has been written and said in recent years about tremendous changes in the nature of employment. One reads constantly about a more job-mobile society. The higher mobility hypothesis is used to argue for defined contribution plans, portability, lump-sum distributions, and preservation. Census data from 1963 to 1979 more readily support a hypothesis that our society has been job-mobile for decades. The factors and trends reviewed here are present among both public sector and private sector employers and workers.

## Introduction

I am pleased to appear before you this morning to review issues related to savings, economic security, and the long-term growth of the elderly population; the various Federal programs and policies that impact the elderly; and the degree to which income security is affected by private pensions. I ask that the full text of my submission be included in the record of the hearing.

My name is Dallas Salisbury. I am president of the Employee Benefit Research Institute (EBRI), a nonprofit, nonpartisan, public policy research organization located here in Washington, DC.

EBRI is committed to accurate analysis of employee benefit and economic security issues. Through our research, we strive to contribute to the formulation of effective and responsible health, welfare, and retirement policies. Consistent with our mission, we do not lobby or advocate particular policy solutions.

The issues the committee raises today are of extraordinary importance. America is not a nation of savers. In times past one had to save for each purchase, but not today. The primary emphasis we see today is on consumption and credit; on consumer confidence and what it will mean for consumption and economic growth. As more recent years have spawned advertising aimed at older Americans, the emphasis has still been on consumption. As individuals and governments have saved less and spent more, an increasing proportion of national savings has come from pension and retirement savings programs.

As a result of the growth of advance-funded pension and retirement savings programs we have seen the accumulation of over five trillion dollars in savings. Recent studies have found that pension savings have been a primary form of personal savings in the economy over the past twenty years.<sup>1</sup> Bosworth, et al., found pensions to represent 50% of personal savings between 1976 and 1980; 59% between 1981 and 1985; and 51% between 1986 and 1990. Some estimates, however, indicate that to maintain work life living standards in retirement—without selling one's home—would require pension savings to be closer to 12 trillion dollars today.<sup>2</sup> The difference is crucial, as studies of this issue find that boomers are saving one-third of what would be needed if we do not count housing wealth, but over 80 percent if we do.<sup>3</sup> The issues of what we count, what we assume about future economic growth, and what we assume about inflation in such areas as health care, are at the center of apparent contradictions in the results of different studies of the baby boomers' retirement income prospects.

There is also a necessity to look carefully at differences within the population. The baby boomers will be as diverse in economic and social character in retirement as they are today. There cannot be enough emphasis on the difference that future economic growth—including real wage growth—will make in the ultimate accuracy of projections, on the importance of future rates of inflation in general, and on health care costs in particular.

Concern over saving adequacy, combined with an aging population, has begun to produce a new focus on saving and financial planning. More financial planning columnists have appeared in newspapers. More magazines have developed with a financial planning focus. More television financial networks and shows have appeared. More attention to encouragement of retirement savings and financial planning by financial services organizations, unions, and employers have begun to appear, including both print and television advertisements. More regular information on employee benefits is being provided to workers along with more software for the personal computer that allows regular reality checks: assessing what your savings to date will or will not provide in retirement at alternative ages. This information has given new meaning to the concept of lifelong learning, as boomers face the prospect of later retirement ages if they have not saved enough. A related issue is whether there will be jobs for those who need to remain employed.

## What Do We Count As Savings?

The concept of savings, although widely discussed, has not been consistently and clearly defined.<sup>4</sup> When considering the issue of whether individuals are saving enough to support themselves in years when they do not work or have emergencies, the traditional measure is the full value of all resources they will have available to them: the value of liquid assets, any real estate they own, the full value of retirement accounts or lump-sum distributions for which they may be eligible, and the value of any other private or government benefits. This method is not consistently used in assessments of the prospects of future retirees.

When considering the issue of whether the nation is saving enough to provide for future economic growth, the measure must also take into consideration negative savings by individuals, private entities, and governments as well as assets noted above. The first step toward increasing the national savings numbers, were that deemed desirable, would be balancing of the federal budget. Until that step is taken, all Americans may be getting a regular message that going in debt to live better today is deemed appropriate as a matter of public policy.

America is not a nation of individual savers. This fact led to creation of the Social Security program, the employment-based pension system, and programs such as individual retirement accounts. These programs seek to create a level of deferred consumption. Since 1986 we have seen a decline in the traditional measure of personal savings (chart 1). During this same period, however, net housing wealth increased (chart 2), as did pension wealth (table 1). The Social Security program and federal pension plans have built assets in the form of Treasury securities, but the "surplus" has been spent on other programs, leading to a net deficit for the federal government. The Social Security program, when considered with Disability and Medicare, will move to a point where benefits exceed new tax revenue within 15 years.<sup>5</sup> The trends and data noted above do suggest, however, that savings available to individuals will continue to grow through the pension system.

The first issue for policymakers is to determine their respective goals. First, should we focus on absolute income levels such as two times the poverty rate, on replacement of final income, or some combination. The Disney Chairman, for example, does not "need" 70% replacement to meet "The American Dream." Second, should our focus be different for what the government views as a must for programs such as SSI and Social Security, versus where they wish to provide incentives. Should incentives seek 70% replacement in general, or only 70% for incomes of up to \$150,000? The differences in conclusions reached by analysts are frequently attributable to different goals.

## How Much Savings Is Enough?

A second area of definition that leads to apparent disagreements is the concept of adequate savings. How much income does one need in retirement for it to be adequate? A public policy definition of keeping the retired out of poverty represents a very different standard than a goal of assuring that those above poverty have 70% or 80% of final income. Further, is liquid savings what one should consider, or the income potential of all assets, including the income benefits that could come from selling a home? The answer makes a very big difference. The answer for the individual may also be very different from the concern of public policy.

Mandated public action—Social Security, food stamps, SSI—has provided an income base. The Federal government has then acted as an employer to augment savings with both defined benefit and defined contribution plans for its employees, and has encouraged other employers to do the same. Public policy has been to provide a floor of income with high replacement at low income levels (over 100% for the lowest income), and low replacement for those with middle and higher income (27% from Social Security for an individual earning \$60,600 in 1994), leaving the rest to employers and individuals. All are therefore saving enough to survive; many are not saving enough to maintain their final years income into retirement. Most will want to do more than survive and will have to save more to do so.

A study by the Congressional Budget Office (CBO)<sup>6</sup> compares the income and wealth of the baby boomers with that of their parents' generations at similar points in their lives to assess how well today's workers are preparing for retirement. Essentially, the CBO is answering the question: How well will baby boomers do in retirement compared to their parents based on their financial circumstances at similar points in their working careers?

Using data from the 1960 Census, the 1990 Current Population Survey (CPS), and the Survey of Consumer Finances (SCF) in 1962 and 1989, CBO finds that both real household income—that in excess of inflation—and the ratio of household wealth to income are higher on average for baby boomers aged 25 to 44 in 1989 than was true for young adults of the same age in 1959 and 1962, respectively. CBO notes that the parents of the boomers, in general, seem to have adequate financial resources in retirement, which is in part due to government transfer programs and above normal capital gains on housing assets (rather than systematic financial planning).

CBO concludes that most baby boomers are likely to enjoy higher real incomes in retirement than their parents, assuming that real wages continue to grow, Social Security and private pensions remain intact, and health care expenditures do not outweigh other gains. CBO notes the prospects are not as sanguine for some demographic groups as others, in particular for the single, the less educated, and nonhomeowners.

One criticism of this work regards the assumed standard of comparison, i.e., the adequacy of future retirees' finances was judged by comparison in real terms to previous generations. This may be especially important in a society that is accustomed to and expects increased standards of living over time. In this sense, critics argue that adequacy of retirement income should be judged by a comparison of living standards in retirement with living standards enjoyed while still working, or maybe even a comparison of the retired to those currently working. A retiree may have higher real income in retirement than his parents but still have a lower standard of living than when he was working. Would his retirement income be considered in some sense inadequate? The answer to this question may very well have different answers, depending on whether it is answered from a personal financial planning perspective or from a public policy perspective.

It is also important to note, as the CBO report discusses, that the relatively optimistic scenario for boomers relative to their parents' generation is dependent on future economic growth, more specifically on the assumption that wages will grow faster than prices over the next 20 to 40 years. Long-term economic growth may be retarded by low savings and investment and by government fiscal policy.

A study by Lewin-VHI for the American Association of Retired Persons reaches essentially the same conclusions as the CBO and Easterlin, et al., noting that most baby boomers should have higher income in retirement than today's elderly, while stressing that not all will benefit uniformly: "Large numbers will face a retirement of economic risk and deprivation because of a history of low earnings, intermittent employment, poor education, discrimination, and an inability to adjust to changing employer requirements, among other variables." <sup>7</sup>

The study begins with a note that should be applied to the assessment of all such studies: "At the outset, it should be noted that these projections at best reflect certain assumptions about the course of future events, which are incorporated in a mathematical model. Needless to say, these data should not be construed as a prediction of events to come but rather as a probability, based on our knowledge at present."<sup>8</sup>

Another study<sup>9</sup> projects the average resource and consumption levels in retirement of early, middle, and late baby boomers to determine how well prepared these groups are for retirement relative to current retirees. The study projects that all three groups of boomers will be able to sustain a level of total consumption in retirement greater than that of current retirees. The authors argue, however, that Medicare and Medicaid transfers should be excluded from consumption. With such an adjustment, the consumption of early and middle boomers remains greater than that of current retirees, though by a smaller margin, and the consumption of late boomers in retirement is projected to be just under that of current retirees. The authors note that when medical transfers are excluded, only the oldest boomers will have a level of consumption in retirement exceeding that of previous retirees to the extent expected with economic growth. However, it is not clear, given the importance of medical expenditures to the well-being of the elderly, that such transfers should be excluded from consumption when making such projections. Once adjustments are made in prospective government fiscal policy, i.e., tax increases and transfer payment reductions, to counter what the authors see as the long-term unsustainability of current fiscal policy, the prospects for the financial security of the baby boom generation's retirement dim, i.e., their level of consumption in retirement is reduced through increased taxes and decreased transfers. Such fiscal adjustments would have a relatively greater negative impact on younger baby boomers.

Another study focused on the effects of personal targeted retirement accounts (IRAs, 401(k)s, and Keoghs) on the financial status of recent retirees and on persons approaching retirement.<sup>10</sup> Based on a comparison of age cohorts across time, it concluded that the real personal financial assets of younger cohorts were substantially larger than the assets of their predecessors due to increasing contributions to personal retirement accounts and due to the finding that such contributions have not displaced other forms of saving. While families that are aged 76 currently have an average of \$43,000 in personal financial assets (including assets in addition to personal retirement accounts), the study projected that families with head of household aged 76 or older 18 years from now will have approximately \$25,000 more in assets (this includes both contributors and noncontributors to personal retirement accounts). The difference among families was projected to be even greater, \$93,000 versus \$160,000. The study concluded that "If these trends continue, the baby boom generation will accumulate substantially larger levels of personal financial assets than their older counterparts and thus after retirement will have much larger pools of accessible assets upon which to draw to meet unexpected contingencies." Whether such outcomes actually materialize will depend to a large degree on the preservation of lump-sum distributions received by workers as they change jobs, as I will discuss later.

In conclusion, the evidence indicates that boomers, in general, will enjoy a standard of living, i.e., real level of consumption, in retirement that exceeds that of their parents. Whether they will be able to maintain the standard of living they enjoyed while working once they move into retirement is a different question with a

less clear answer. A key role will be played by wealth accumulation through homeownership. To the extent that boomers are willing to tap into this resource to fund their retirement, they would appear at this early stage to be in pretty good shape. In addition, a key role will be played by individual savings, particularly through employment-based savings plans such as 401(k)s. Also, fiscal policy decisions made by the federal government will impact boomers by affecting their disposable income today and thus their ability to save, as well as benefits they will receive in retirement through Social Security and Medicare. It is important to realize that many of the things that will impact the boomers' retirement, such as economic growth, economic developments involving housing market trends, and government fiscal, savings and retirement policy, will unfold over a period of decades yet to come and are difficult to predict.

Given the heterogeneity of the baby boom generation, more research is needed to identify specifically which subgroups within the generation are currently at risk and what the size of the problem is likely to be for them. This involves moving beyond broad sweeping generalizations regarding the boomers. Groups that would now appear to be at risk to some degree include nonhomeowners, the less educated, the single, and the youngest boomers.

## What Should One Save?

At what age one begins to save makes a great deal of difference. An individual saving 3% of salary on a pre-tax basis, obtaining a tax deferred investment return exceeding inflation by 2%, would be able to purchase an annuity at age 65 worth 5% of final salary if they began saving at age 50; 9% of salary if they began at age 40; and 13% of salary if they began at age 30. This assumes that salary increases at a constant 1% above inflation. Looked at from the opposite direction, to have 60% replacement of final salary would require annual contributions of 13% of salary from age 30; 20% of salary from age 40; and, 35% of salary from age 50. Since the law limits contributions to 25% of salary, waiting to age 50 would not allow the goal to be achieved without saving even more outside the qualified plan.<sup>11</sup>

The worker contributing the maximum of 25% allowed from age 30 would replace about 110% of final salary; beginning at age 40 about 75% of salary; and, beginning at age 50 about 43% of salary.

These examples highlight some relevant issues. First, the individual who has not saved, and does not settle into a final job until 50, should hope for both a defined benefit and a defined contribution pension plan. Second, the individual who has a defined contribution plan available should contribute as much as possible beginning at an early age and preserve distributions at each job change. Third, the individual should seek employment at an organization that offers some type of retirement plan, with the ideal being both defined benefit and defined contribution. Fourth, the older the individual is when he makes what he hopes will be the last job change the more advantageous it will be to participate in a defined benefit plan.

## Pension Coverage and the Changing Work Force

The American economy and work force have continued to change along trend lines in evidence since the 1960s. These changes are beginning to show in pension coverage, participation and benefit entitlement as well (table 2).<sup>12</sup> Among all private-sector wage and salary workers, for example, pension participation has been steady since 1972 at between 48% (1972, 1983, 1988) and 50% (1979, 1993). This climbs to 56% of all full-time workers. Men have experienced a slight decline from 54% to 51%, while women have gained from 38% to 48%. Participation is highest for men aged 45-49 at 63%. Participation in 401(k) plans has also grown from 3% in 1983, to 14% in 1988 and 23% in 1993. Among those offered the opportunity to participate in such a plan, 67% did so in 1993 compared with 39% in 1983.

Those who work for employers without any plan work predominantly for small employers, where 13% coverage is found compared with 97% among the largest employers.

Among full-time workers not participating in a plan (that their employer sponsors), the most often cited reasons are: 24% cite not working enough to qualify; 31% cite not having worked for the employer long enough; 25% choose not to contribute; 8% are in a type of job not covered; 2% are too old; 1% are too young. Across the work force, 1993 saw gains for the pension system, both in absolute numbers and in percentage terms. Looking at private-sector workers over the age of 21, with one year on the job, and working more than 1,000 hours per year (the ERISA work force), 67% worked for an employer with a plan, 56% participated in a plan, 48% were entitled to a vested benefit, with 86% of participants being vested (table 2).<sup>13</sup>

The Census documents that female labor force participation has risen dramatically. Women in the

work force in 1993 were nearly as likely to have pension savings as men, compared with a 16 percentage point shortfall in 1972.<sup>14</sup> Women were not as likely to be participants but were as likely to be vested when they participated.

The Census documents that more workers are in professional services and retail jobs, fewer are in manufacturing. Professional service and retail workers both experienced pension growth since 1988. Twenty-four percent of private-sector pension participants are now in service jobs, up from 19% in 1988. Manufacturing now employs 33% of all private pension participants.

The baby boom is now aging, with the effect of moving more workers into ages where available research indicates higher job stability, higher pension participation, and higher general savings. For example, when offered a 401(k) plan in 1993, 48% of private-sector workers under age 30 elected participation compared with 72% of workers over age 30. The overall 401(k) participation rate among those offered a plan grew from 60% in 1988 to 67% in 1993.<sup>15</sup>

Changes in the law (five-year vesting) and work force patterns combined to move the number of vested pension participants, that is, those with a nonforfeitable benefit, to 86% of all participants, from 77% in 1988 and 52% in 1979.

## Pension Participation Over a Lifetime

Workers in the 41–50 age group reported the highest rate of pension coverage for 1993 (72.9 %). This compares with 58.8 % of workers aged 21–30 who reported coverage (coverage rates are lower for workers younger than age 21).<sup>16</sup> Plan participation was also greatest among workers aged 41–50 (63.5%). Thirty-six percent of workers aged 21–30 reported participating in their employer's plan. While the low coverage and participation rates among the young hold down the rates for the total work force, it can be assumed, based on past experience, that many of the young will become covered by and participate in employment-based retirement plans as they become older.

For this reason, analysts argue that when evaluating the potential delivery of benefits by the private pension system, workers well established in their careers should be focused on. In addition, marital status and the pension status of a spouse are important considerations because married individuals are likely to have access to their spouses' pension benefits.

Policymakers should not be too fixated by relatively low pension participation rates among very young workers when focusing on future retirement income prospects. Many nonparticipating younger workers will move into covered employment and participate in an employment-based retirement plan as they progress through their working years.

## Pension Plan Design Is Changing

It seems that America has a tendency to make public policy based upon the practices of the largest employers, and to attribute, or desire, the characteristics of those who work for the largest organizations for the rest of the work force. For purposes of savings and retirement planning the history of small organizations is quite different from that of large organizations.

- Small organizations have not been able to afford—and frequently do not want—to be paternalistic. That is, they have not promised the prospect of life long employment and a full plate of benefits.
- They have emphasized defined contribution and individual account retirement programs with lump-sum distributions on job termination. Since 1980, we have seen large organizations, public and private, begin to move in these same directions: redesign of defined benefit plans, expansion of defined contribution plans, and payment of lump-sum distributions from both.
- Many large organizations are seeking to be less paternalistic. They are no longer saying: "Focus on work and productivity and you will have a job and we will take care of economic security for you," providing benefits as part of a social contract. They are saying: "Focus on work and productivity and you might have a job, and we will provide benefit opportunities for you so that you can become self-reliant." A defined benefit pension plan (the sponsor contributes whatever it takes to keep the promise) is being provided when it serves a work force management purpose, but these defined benefit plans are increasingly taking on new forms, with a focus on individual accounts and/or lump-sum distributions.
- Large organizations are seeking to be more flexible. Flexibility and reinvention, as now being implemented by the federal government and many others, means more reliance on defined contribution retirement plans,

on a smaller work force, and on the use of lump-sum buyouts and pension incentives to achieve that smaller work force. With flexibility comes an end to a psychology of lifetime employment—even though few in this nation have had lifetime employment with one firm, and a significant number move to other employment after leaving their "career" job.<sup>17</sup>

- Large organizations are seeking to change employee benefit programs into a form where expense is more predictable. The federal government may become the only entity that promises benefits with the presumption that it will always be there. Between 1950 and 1980 this presumption was part of the benefit programs of most large organizations. Large organizations' recognition that they had to innovate and reinvent to survive has contributed to new pension forms with more built-in cost control, expansion of lump-sum payments instead of annuities, reduced retiree medical promises, expanded worker contribution benefit options, enhanced communications programs, and a common emphasis on individual responsibility.

Large organizations are beginning a move from paternalism to testing concepts of partnership, shared responsibility, and increased individual responsibility. Small organizations have historically been at this end of the spectrum. The Federal government took the first step in this direction as an employer in 1984 with the introduction of the Federal Thrift Savings Plan and a significantly reduced value defined benefit pension plan.

Congress has been moving social programs in this direction since 1983 as it has taken actions that will result in full Social Security benefits being paid at later ages, a decrease in early retirement benefits, more of the benefits being subjected to income taxes, and the availability of Social Security Administration individual statements with projections of what recipients will get, and when.

These movements, and the societal attention they will command, are likely to motivate more Americans to save more for themselves. These savings are likely to be found increasingly in pension and retirement savings plans due to work force aging, the structure of payroll deductions, employer matching contributions, the convenient packaging of investment options, and public policy, employer, service sector and media attention to the need for savings to achieve a dignified retirement. These trends will also increase the emphasis on the value of saving and beginning financial planning at an early age, as the ability to depend on someone else doing it for you continues to decline.

## A Closer Look at Plan Types

While the number of private employment-based pension plans and plan participants has been increasing, proportionately fewer are defined benefit plans and defined benefit plan participants. It is often argued that such trends jeopardize retirement income security because defined contribution plans, which typically involve explicit worker decision making, are replacing defined benefit plans. There is concern as to whether workers are typically in a position to make wise decisions with regard to their participation in such plans.

The total number of private tax-qualified employment-based plans (both primary and supplemental) more than doubled from 311,000 in 1975, when the Employee Retirement Income Security Act (ERISA) became effective, to 712,000 in 1990 (table 3). The total number of private defined benefit plans increased from 103,000 in 1975 to 175,000 in 1983, then decreased to 113,000 in 1990. The total number of private defined contribution plans increased from 208,000 to 599,000 between 1975 and 1990. The number of active participants in primary defined benefit plans decreased slightly, from 27 million to 26 million between 1975 and 1990, while the proportion of all active participants in these plans decreased from 87 percent to 62 percent.

There is no evidence, however, of a universal employer "shift" from defined benefit to defined contribution plans. Of the net decrease in the number of defined benefit plans, 75 percent consisted of two to nine active participants. Between 1985 and 1990, there was a net decrease in the number of primary defined benefit plans of 33 percent, or 56,651 plans, and the net decrease in plans with two to nine active participants was 42,328. Between 1985 and 1990, the net increase in the number of defined contribution plans with two to nine active participants was 66,425 plans; this accounted for 45 percent of the net increase of 149,078 in the number of primary defined contribution plans (table 4). Therefore, the rapid growth in defined contribution plans cannot simply be explained by a replacement of defined benefit plans with defined contribution plans, because the net increase in defined contribution plans is far greater than the net decrease in defined benefit plans.<sup>18</sup>

The implication is that many workers, particularly those in small firms, now have a defined contribution plan, very likely a 401(k) plan, when in the past they likely would have had no employment-based retirement plan. It is implicitly assumed in arguments that defined contribution plan trends jeopardize

retirement income security in that if 401(k) plans were not allowed, workers covered by them would instead have a defined benefit plan. This assumption is incorrect; many likely would have no employment-based plan at all. Therefore, they cannot be worse off because of these developments. Whether they are utilizing these plans in such a manner as to maximize their potential is a separate question.

Such plans do involve explicit decision making on the part of individuals. They must decide whether to participate in the plan, how much to contribute, how the funds should be invested within choices offered by the sponsor, and whether to roll over lump-sum distributions received from such plans on job change. Poor decisions will weaken retirement income security. However, it is important to realize that employees can often receive a higher benefit from defined contribution plans than they would from comparable defined benefit plans, assuming the same investment income, particularly if they are young and mobile. It has been documented that workers with accrued pension benefits (i.e., those in final average defined benefit plans) can experience pension losses if they change jobs prior to retirement.<sup>19</sup> Participants in defined contribution plans do not experience the same losses just by changing jobs. Defined contribution plan participants may have the opportunity to save more for retirement than they would in a comparable defined benefit plan; however, they need to recognize their opportunity for retirement planning and make decisions to maximize their retirement income, such as preserving lump-sum distributions received on job change.

Among workers covered by both defined benefit and defined contribution plans, 60% indicated that the defined contribution plan was the most important in 1993. This may well prove to be true for most of them, as the historical turnover rates discussed elsewhere in this testimony cause the defined contribution plan to have a larger lump-sum distribution value for many years. When an analysis was conducted for EBRI, looking at both types of plans with an identical cost, I was better off under the defined contribution plan until age 55 (28 years of service).

## **Will Pensions Be a Savings and Income Source Tomorrow?**

Pension plans now provide income to 30% of those aged 55 and older, 37% of those aged 65 and older, and 50% of new retirees.<sup>20</sup>

During 1990 pension plans provided \$234.3 billion to retirees in annuity payments (table 5) and in 1990 \$125.8 billion in the form of lump-sum distributions was paid from all tax qualified programs (table 6).<sup>21</sup>

The present approach to counting savings does not fully account for the contribution of these programs. Capital gains and investment earnings are not counted, and public defined benefit plan pension contributions are also excluded (table 7). Private pension capital gains and investment earnings accounted for net additions to plan assets of \$1.062 trillion over the past ten years. Public plan contributions totaled \$524 billion during the period 1987 to 1991, most of which was defined benefit plans and thus not included in savings.<sup>22</sup>

A combination of factors raise questions about the future role of pensions in savings and retirement income.

- What will government policy be toward pensions and what actions will that policy bring? Action taken in the 1993 budget act to reduce allowable contributions to pension plans will reduce projected pension benefits for some by over 30%, resulting in lower contributions to plans and smaller asset accumulations.<sup>23</sup> Senate Finance Committee staff have suggested in recent speeches that further cuts in what can be saved through pensions are in the offing. Will individuals offset lower pension savings by saving more outside pension plans?
- What types of plans will employers sponsor in the future? Prior to 1984, Federal employees had a generous defined benefit pension plan that paid most benefits in annuity form at retirement. Now more than 50% of Federal employees have a smaller defined benefit plan and a generous defined contribution plan that pays lump-sum distributions. The private sector has followed this Federal lead, as previously noted, and has placed more emphasis on defined contribution plans and lump-sum distributions. Changing attitudes of both employees and employers may cause this movement to continue.
- What will individuals and employers be able and willing to save through pension arrangements if health costs continue to absorb increasing levels of compensation? Survey data make it clear that individuals worry about health insurance first, pensions second, and other savings last.<sup>24</sup> Small employers have

always moved to establish health benefits ahead of any pension arrangement. Large employers deal increasingly in terms of total compensation and employee flexibility, which may result in lower pension savings by individual choice, but with implications for savings.

- What will individuals do with lump-sum distributions? Over \$400 billion was paid in distributions between 1987 and 1990. A total of \$219.6 billion was rolled over into a rollover IRA, leaving \$180.4 billion taken into income or directly transferred to a new employer's plan. The most recent data available indicate that more individuals are saving lump sums for retirement—27% in 1987–1993 versus 7% prior to 1980—and fewer are spending them—23% in 1987–1993 versus 50% prior to 1980 but there is still a great deal of money not being preserved for retirement.<sup>25</sup> This is not a judgmental statement, but the numbers make clear that how much is preserved will make a significant difference for both present savings and retirement savings. This is the case for those leaving private plans as well as those leaving Federal and other public employment. Pension savings would be much larger today had individuals never received lump-sum distributions but only rollovers while they were still working and annuity payments once they retired.
- A recent study for AARP projects that between 81% and 84% of baby boomers will have pension income **during retirement**. The projection is based on two crucial assumptions: first, that nearly all lump-sum distributions are rolled over each time one changes jobs; second, that all income is paid out as an annuity.<sup>26</sup> Neither of these assumptions can be relied on due to turnover, lump-sum distributions, and the decreasing rate of annuitization. The projection does, however, provide a realistic estimate of the proportion of the baby boomers who will earn pension wealth and benefit from it economically. Direct pension income reciprocity during retirement is likely to be little higher than the 50% of new retirees we see today, while far more retirees will have asset income that is attributable to pension lump-sum distributions taken in the past. Others have recently written of this as "The Pension Anomaly."<sup>27</sup> Some comment on the way this anomaly leads to bad data and to misunderstanding of who benefits from the pension system as it functions today.<sup>28</sup>
- There is a significant gap between individual expectations for employer-provided retiree medical benefits and what will actually be provided.<sup>29</sup> Were individuals to become more aware of what they will need to provide for themselves, it could serve to increase the saving incentive. Most of the studies reviewed above assume limited change in the area of health cost for the individual in assessing the future, an assumption that appears unrealistic.

## Social Security as an Income Source

Social Security is also an important component of what individuals view as part of their savings for periods of disability and retirement. The program paid \$34 billion to the disabled and \$264 billion to the retired in fiscal year 1993.<sup>30</sup>

There has been a debate among researchers in the past about the impact of Social Security on individual savings, but a seeming agreement that the knowledge that it will provide a base of income eliminates the feeling of a necessity to save for some. Those working today have watched many parents retire with near total reliance on Social Security and do well at maintaining a standard of living. Among lower income Americans there is a belief that the same can be true for them. Public confidence in the program is weak, however, particularly among the young.<sup>31</sup> As the public begins to understand the benefit implications of increases in the retirement age it could well encourage added savings. As shown by table 8, the decline in benefits—10% at age 62 when normal retirement moves to 67, 25% were normal retirement age to increase to 70—will clearly increase the need for supplemental savings for those who choose to retire early, and for added years of work for those who do not wish to take a lower benefit than that which is now available at age 65.<sup>32</sup>

Were Social Security benefits reduced by this further increase in retirement age, through greater benefits taxation or through a direct reduction in the benefit formula, individual and pension savings would need to be greater to achieve the same standard of living. Were benefits maintained by finding more revenue—

through increases in payroll tax rates and/or expansion of the taxable wage base—the portion of the total compensation package available for pension contributions and savings would be reduced with a likely negative effect on both individual and pension savings.

What the federal government does with both Social Security and Medicare benefit levels and financing will have a direct impact on both the ability of employers and individuals to engage in retirement savings and on the amount of savings they will need to maintain a targeted lifestyle in retirement.

## Work Force Patterns And Pensions

A great deal has been written and said in recent years about tremendous changes in the nature of employment. One reads constantly about a more job-mobile society. The higher mobility hypothesis is used to argue for defined contribution plans, portability, lump-sum distributions, and preservation. Based on Census data from 1963 to 1979, an article written in 1982 noted job patterns that more readily support a hypothesis that our society has been job-mobile for decades:

The typical worker is currently on a job which will last about eight years in all, counting the years it has already lasted. An important minority—about 28%—are currently employed in near lifetime jobs lasting 20 years or more, and 17% in jobs which will last 30 years or more. An equally important minority are at work in what will turn out to be very brief jobs—about 23% will have eventual tenure of less than two years. *A clear majority of workers—58 percent—are currently holding reasonably long jobs, those which will last five years or more (emphasis added).*<sup>33</sup>

This is significant for a discussion of individual and pension savings in a number of ways.

- In what we talk refer to as the "good old days" from a job perspective, only 58% of workers were expected to be in jobs long enough to meet the current general pension vesting standard of five years (e.g., the federal employee pension plan). This tells us that job turnover has interfered with pension accumulation for a long time. As a result, a requirement for mandatory participation would not significantly increase pension receipt of *meaningful* benefits, that is, benefits of significant cash value. And, portability would only be a clear contributor to retirement savings if preservation were part of the system.
- Given the high turnover for 42% of workers, one might have anticipated a higher savings rate to accommodate transitions. This did not and has not developed. The 28% in jobs of 20 years or more are most likely to be affected by the retirement incentives, buyouts, and downsizing about which we read so much. Will workers assume such patterns are permanent and save more? Available data indicate that continuing to work after one's longest career job ends was the rule prior to 1979, and it likely still is.<sup>34</sup>
- The notion that, until recently, workers could assume early attachment to a lifetime job is not supportable by the numbers. As Hall stated: "At no age is the probability very high of a given job becoming a lifetime job."<sup>35</sup> More and more workers have historically found good job matches by their late thirties. After age 40, about 40% in any given age group could expect to remain in that job for 20 years or more.<sup>36</sup> This does raise the question of whether this number is now on the decline, but there is not yet data to show it. Since 1979, however, female job tenure has been on the increase as labor force participation has risen (nearly 75% today compared with about 40% in 1960 and 62% in 1980). Table 9 and charts 3 and 4 present both the data and a graphic picture of tenure trends.<sup>37</sup> This has brought with it much higher rates of pension vesting and pension savings, and the promise of far more dual pension households in retirement.
- The number of jobs held in a lifetime does appear to be increasing for the young, but there is no data to show any change in older worker patterns. Hall reported that "job shopping is most intense in the early twenties—by age 24, the average worker has held four jobs out of the ten they will hold in an entire career. The next 15 years, from age 25 through 39, will contribute another four jobs. Then, less than three more jobs will be held on average."<sup>38</sup> A 1992 Bureau of Labor Statistics report found that, between 1978 and 1990 those between age 18 and age 29 held 7.6 jobs, compared with the five reported by Hall for the earlier period.<sup>39</sup>

In 1980, 51% of baby boomers were counted as being in the labor force at ages 16 to 24. All boomers were under the age of 35. All, in short, were at a very high turnover stage of life and represented such a large proportion of the total labor force that they created the impression of a more mobile work force in general. As

of 1990, 22.7% of boomers were over age of 40, the age at which job change begins to slow. History says that on average this older group will still hold three more jobs. The legitimate question arises of whether this average will increase as the boomers age, i.e., whether—due to changes in the economy—they will continue the mobility of early years. If it does, it could increase the motivation to save on the one hand, and, on the other, make it more difficult. On their 30th birthday, over 40% of the young had held their jobs for two years or less, with about one-quarter holding jobs more than six years.<sup>40</sup> The low savings and voluntary pension participation rates of the young may well be explained by decisions to change jobs frequently. At the older end of the age spectrum it is worth considering that in 1979, 26.3% had left their career job by 50; 38.9% by 55; 58.2% by 60; and 70.6% by age 62.<sup>41</sup> New data to assess whether this has changed significantly will allow new savings assessments.

## Conclusion

A consensus exists in America that we do not save enough as a nation. A review of the income of the elderly today indicates a population that is doing well relative to prior generations. A review also suggests that the retired would be doing better had they saved more, and, that most would have had to save more to maintain the income levels they had prior to retirement.

A review of available evidence indicates that on a total wealth basis, and a pension savings basis, those in the work force today are doing better than previous generations. A minority, however, are building the individual and pension savings that will allow them to meet the goal of maintaining final employment income throughout retirement, without using real estate to produce income.

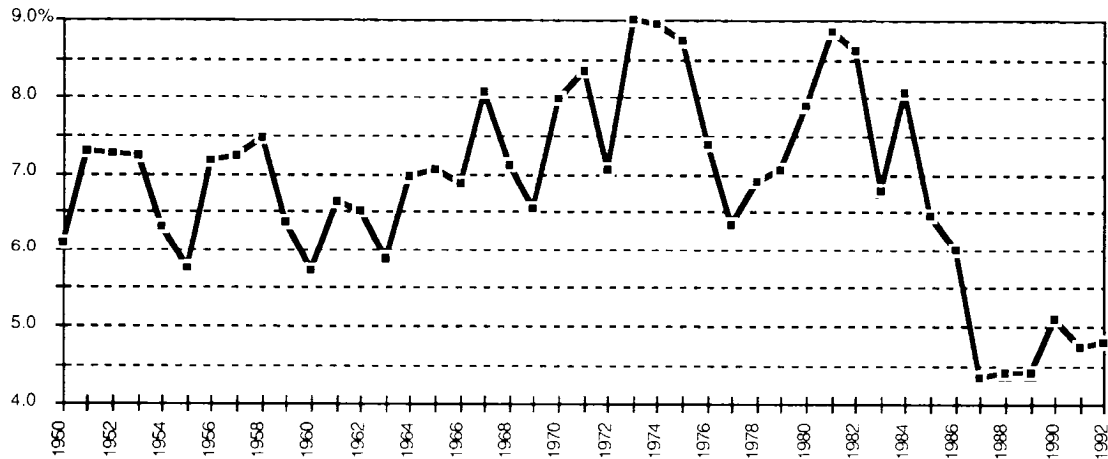
Should the timing and value of Social Security benefits, Medicare, and employer-based defined benefit pension and retiree medical benefits continue to be reduced, the level of necessary savings will increase, not decline. Should the movement toward voluntary pension participation and lump-sum distributions continue, increases in participation rates and rates of rollover will be necessary to achieve the income levels projected by the studies reviewed above.

It should be stressed that the factors and trends reviewed here are present among both public-sector and private-sector employers and workers. Public opinion surveys indicate that individuals realize that they should be saving but do not believe they have the capacity or self-discipline to save enough. They favor savings through Social Security, employer pensions, and possibly, mandatory salary reduction.

The demographic, economic, work force and workplace changes now taking place combine to require savings now, more than ever.

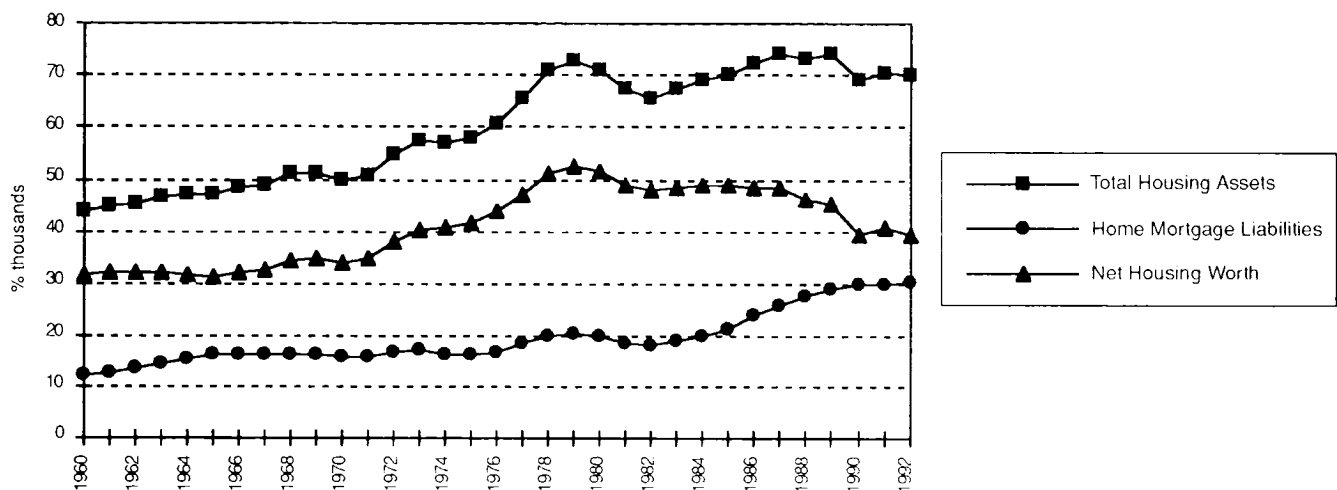
- <sup>1</sup> See *EBRI Issue Brief* no.129; Bosworth and Burtless, "Effect of Tax Reform on Labor Supply, Investments, and Savings," *Journal of Economic Perspectives* (Winter 1992); Congressional Budget Office, "Assessing the Decline in the National Savings Rate," April 1993; and Bosworth, Burtless and Sabelhaus, "The Decline in Saving: Evidence from Household Surveys," Brookings Papers on Economic Activity, 1991.
- <sup>2</sup> Kantor and Madden, "Funding U.S. Retirement Benefits: A 100 Year Perspective," May 1994.
- <sup>3</sup> Bernheim, "The Adequacy of Saving for Retirement: Are the Baby Boomers on Track?," presented at EBRI policy forum, Retirement in the 21st Century: Ready or Not?, Washington, DC, May 4, 1994; and commentary by Joyce Manchester.
- <sup>4</sup> See *EBRI Issue Brief* no. 129.
- <sup>5</sup> Board of Trustees, 1994 *Annual Report of the Board of Trustees of the Federal Old-Age, Survivors Insurance and Disability Insurance Trust Fund* (Washington, DC: U.S. Government Printing Office, 1994); and *EBRI Notes*, June 1994.
- <sup>6</sup> See Congressional Budget Office, *Baby Boomers in Retirement: An Early Perspective* (Washington, DC: CBOe, 1993); and CBO Testimony. Statement of Robert D. Reischauer, Director, CBO, before the Subcommittee on Social Security, Committee on Ways and Means, U.S. House of Representatives, September 21, 1993.
- <sup>7</sup> Lewin-VHI, Inc., *Aging Baby Boomers: How Secure Is Their Economic Future?* (Washington, DC: American Association of Retired Persons, 1994).
- <sup>8</sup> Ibid.
- <sup>9</sup> See Auerbach and Kotlikoff, *The United States' Fiscal and Saving Crises and Their Implications for the Baby Boom Generation*, Report to Merrill Lynch & Co., Inc., February 1994; and Merrill Lynch, *Saving the American Dream: An Economic and Public Opinion Study* (Princeton, NJ: Merrill Lynch, Pierce, Fenner & Smith, Inc., 1994).
- <sup>10</sup> See Venti and Wise, "The Wealth of Cohorts: Retirement Saving and the Changing Assets of Older Americans," NBER Working Paper No. 4600 (Cambridge, MA: National Bureau of Economic Research, 1993).
- <sup>11</sup> EBRI calculations.
- <sup>12</sup> EBRI tabulations of the Employee Benefits Supplement to the April 1993 Current Population Survey.
- <sup>13</sup> The Employee Retirement Income Security Act of 1974, ERISA, as amended, requires that a worker meeting these requirements who is covered by a pension plan be allowed to participate.
- <sup>14</sup> EBRI tabulations of the Employee Benefits Supplement to the April 1993 Current Population Survey, and U.S. Department of Labor, Social Security Administration, U.S. Small Business Administration, Pension Benefit Guaranty Corporation, *Pension and Health Benefits of American Workers - New Findings from the April 1993 Current Population Survey*, May 1994.
- <sup>15</sup> Ibid.
- <sup>16</sup> See forthcoming *EBRI Issue Brief*, "Baby Boomers in Retirement: What Are Their Prospects?"
- <sup>17</sup> Hall, "The Importance of Lifetime Jobs in the U.S. Economy," *American Economic Review* (September 1982); and *EBRI Issue Brief* no. 121.
- <sup>18</sup> See *EBRI Notes*, March 1994) and *EBRI Special Report* SR-17/*Issue Brief* no. 141.
- <sup>19</sup> See *EBRI Issue Brief* no. 65; and "Pension Portability and Preservation: Assuring Adequate Retirement Income into the 21st Century," EBRI Policy Forum, Washington, DC, May, 1991.
- <sup>20</sup> See Yakoboski and Silverman, forthcoming in endnote #16.
- <sup>21</sup> See *EBRI Issue Brief* no. 146.
- <sup>22</sup> See *EBRI Quarterly Pension Investment Report*, Fourth Quarter 1993.
- <sup>23</sup> *EBRI Issue Brief* forthcoming, "Analysis of the 1993 Amendments to Section 401(a)(17)."
- <sup>24</sup> See *EBRI Issue Brief* no. 132 and EBRI/Gallup Reports #G-40 and #G-42.
- <sup>25</sup> See endnote #14.
- <sup>26</sup> Lewin-VHI, Inc., *Aging Baby Boomers: How Secure Is Their Economic Future?* (Washington, DC: American Association of Retired Persons, 1994).
- <sup>27</sup> Goodfellow and Schieber, "The Role of Tax Expenditures in the Provision of Retirement Income Security," in EBRI, *Pensions in a Changing Economy*, 1994.
- <sup>28</sup> See EBRI, *Pension Funding & Taxation: Implications for Tomorrow*, 1994.
- <sup>29</sup> See EBRI/ Gallup Report #G-51, and *EBRI Issue Brief* no. 150.
- <sup>30</sup> Board of Trustees, 1994 *Annual Report of the Board of Trustees of the Old-Age, Survivors and Disability Insurance Trust Fund* (Washington, DC: U.S. Government Printing Office, 1994).
- <sup>31</sup> See EBRI/Gallup Reports #G-56 and #G-57; and Friedland, "When Support and Confidence Are at Odds: The Public's Understanding of the Social Security Program" (Washington, DC: National Academy of Social Insurance, 1994).
- <sup>32</sup> See *EBRI Notes*, June 1994.
- <sup>33</sup> Robert E. Hall, "The Importance of Lifetime Jobs in the US Economy," *American Economic Review* (September 1982).
- <sup>34</sup> See *EBRI Issue Brief* no. 121.
- <sup>35</sup> See endnote #33.
- <sup>36</sup> See endnote #33.
- <sup>37</sup> See endnote #16.
- <sup>38</sup> See endnote #33.
- <sup>39</sup> U.S. Department of Labor, Bureau of Labor Statistics, *Work and Family: Jobs Held and Weeks Worked by Young Adults*, Report 827 (Washington, DC: U.S. Government Printing Office, 1992).
- <sup>40</sup> U.S. Department of Labor, Bureau of Labor Statistics, *Work and Family: Turning Thirty - Job Mobility and Labor Market Attachment*, Report 862 (Washington, DC: U.S. Government Printing Office, 1993).
- <sup>41</sup> See *EBRI Issue Brief* no. 121.

Chart 1  
Personal Savings as a Percentage of Disposable Income, 1950–1992



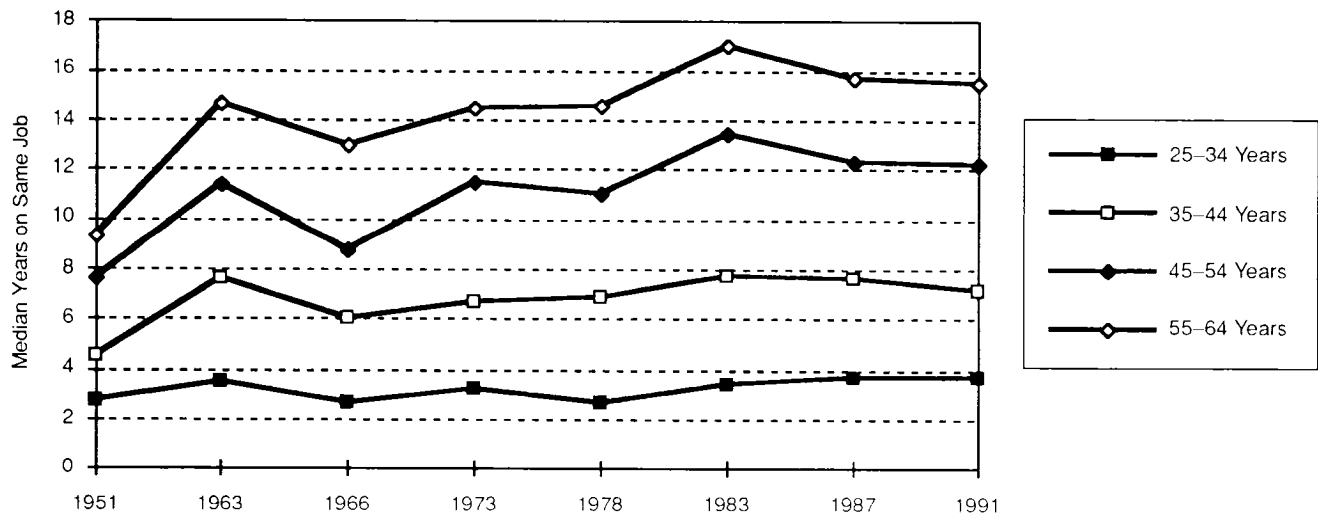
Source: Employee Benefit Research Institute tabulations based on U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, July 1993 (Washington, DC: U.S. Government Printing Office, 1993); *The National Income and Product Accounts of the United States: Statistical Supplement, 1959–1988*, Vol. 2 (Washington, DC: U.S. Government Printing Office, 1992); and *National Income and Product Accounts of the United States*, Vol. 1, 1929–58 (Washington, DC: U.S. Government Printing Office, 1993).

Chart 2  
Per Household Value of Owner-Occupied Housing, 1960–1992 (in 1992 Constant Dollars)



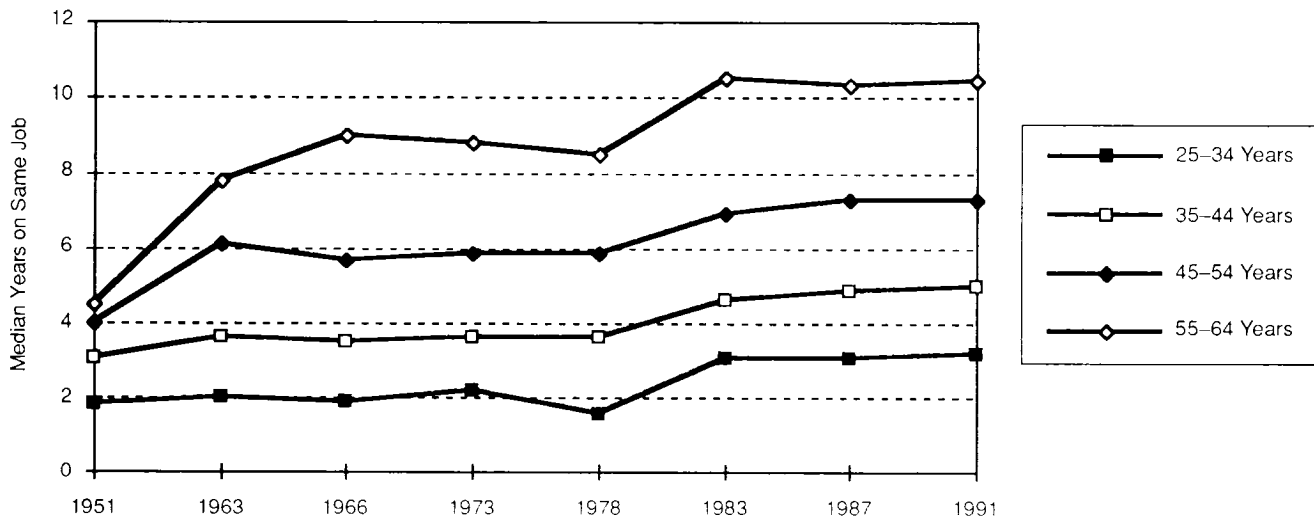
Source: Board of Governors of the Federal Reserve System, *Balance Sheets for the U.S. Economy 1945–92* (Washington, DC: Board of Governors of the Federal Reserve System).

Chart 3  
Prime Age Male Job Tenure Trends, by Worker A



Source: Employee Benefit Research Institute tabulations of U.S. Government data.

Chart 4  
Prime Age Female Job Tenure Trends, by Worker A



Source: Employee Benefit Research Institute tabulations of U.S. Government data.

Table 1  
Pension Assets over Time, Selected Years 1946 to Present

End of	Single Employer				Single Employer		
	Defined Benefit	Defined Contribution	Multi-employer	Total	Defined Benefit	Defined Contribution	Multi-employer
	(\$ billions)				(percentage)		
1985	\$ 648	\$ 385	\$123	\$1,157	56.1%	33.3%	10.6%
1990	848	651	225	1,723	49.2	37.8	13.0
1991	1,032	834	267	2,133	48.4	39.1	12.5
1992	1,065	948	288	2,300	46.3	41.2	12.5
1993	1,135	1,062	308	2,505	45.3	42.4	12.3
93Q2	1,111	1,007	297	2,415	46.0	41.7	12.3
93Q3	1,134	1,052	307	2,493	45.5	42.2	12.3
93Q4	1,135	1,062	308	2,505	45.3	42.4	12.3
94Q1	1,086	1,022	298	2,406	45.1	42.5	12.4

Financial Assets at End of Period  
(Flow of Funds Definitions)

Period	Private Trusteed	Private Life Insurance	State and Local
	(\$ billions)		
1946-1950	\$ 7.1	\$ 5.6	\$ 4.9
1951-1955	18.3	11.3	10.8
1956-1960	38.1	18.9	19.7
1961-1965	74.4	27.4	34.1
1966-1970	112.0	40.8	60.3
1971-1975	225.0	70.1	104.8
1976-1980	469.6	158.2	196.6
1981-1985	1,087.6	346.7	398.1
1986-1990	1,629.2	636.1	736.6
1991	2,055.5	678.1	859.7
1992	2,144.7	694.7	969.2
1993	2,336.5	n/a	1,065.2

Percentage Distribution of Financial Assets  
as a Percentage of Total Financial Assets  
of Asset Type in the Economy

Year	Equity	Taxable Bonds	Cash Items
1950	0.8%	3.2%	0.2%
1955	2.0	6.2	0.2
1960	4.0	9.4	0.2
1965	6.1	12.8	0.2
1970	9.4	13.7	0.3
1975	16.6	15.0	1.8
1980	18.2	14.5	2.5
1985	25.6	16.1	4.1
1990	28.6	14.6	6.0
1991	27.9	14.9	7.2
1992	27.3	14.7	6.6
1993	27.5	14.3	7.0

Source: Employee Benefit Research Institute, *Quarterly Pension Investment Report*, 1st Quarter 1994 (Washington, DC: Employee Benefit Research Institute, June 1994); tables 3, 20, and 26.

Table 2  
Trends in Pension Coverage, Participation, and Vesting Among Civilian Workers  
Aged 16 and Over, 1979, 1983, 1988, 1993

	Workers (millions)	Covered Workers (millions)	Partici- pants (millions)	Entitled (millions)	Percentage of Workers Covered	Percentage of Workers Participating	Percentage of Covered Workers Participating	Percentage of Workers Entitled	Percentage of Partici- pants Entitled
<b>All Civilian Workers</b>									
1979	95	53	44	23	56%	46%	81%	24%	52%
1983	99	52	43	24	52	43	83	24	57
1988 <sup>a</sup>	114	62	47	32	55	42	76	28	68
1988 <sup>b</sup>	114	65	49	38	57	43	75	34	77
1993	118	67	51	44	57	44	76	38	86
<b>ERISA Work Force</b>									
1988 <sup>b</sup>	53	36	30	22	68	56	83	42	75
1993	58	39	32	27	67	56	83	48	86
<b>Private Wage and Salary</b>									
1979	71	38	30	14	54	43	79	20	47
1983	74	37	29	15	49	40	80	20	50
1988 <sup>a</sup>	86	44	32	21	51	37	72	24	65
1988 <sup>b</sup>	86	47	34	25	55	39	72	29	73
1993	89	49	36	30	56	41	73	34	84
<b>Public Wage and Salary</b>									
1979	16	14	12	7	87	77	88	45	59
1983	16	13	12	8	83	73	88	48	65
1988 <sup>a</sup>	17	16	13	9	92	77	83	54	71
1988 <sup>b</sup>	17	16	13	11	92	77	83	66	86
1993	19	17	14	12	89	75	84	67	89
<b>Unincorporated Self-Employed</b>									
1979	9	1	1	1	13	13	100 <sup>d</sup>	13	100 <sup>d</sup>
1983	9	2	2	2	20	20	100 <sup>d</sup>	20	100 <sup>d</sup>
1988 <sup>a</sup>	10	2	2	2	21	21	100 <sup>d</sup>	21	100 <sup>d</sup>
1988 <sup>b</sup>	10	2	2	2	21	21	100 <sup>d</sup>	21	100 <sup>d</sup>
1993	10	1	1	1	14	14	100 <sup>d</sup>	14	100 <sup>d</sup>
<b>Nonagricultural Wage and Salary</b>									
1979	85	52	42	21	61	50	81	25	51
1983	88	50	41	22	56	46	82	25	55
1988 <sup>a</sup>	102	60	45	30	59	44	75	29	67
1988 <sup>b</sup>	102	63	47	36	62	46	75	35	76
1993	106	66	50	43	62	47	76	40	86
<b>All Males</b>									
1979	56	33	29	16	59	51	87	28	55
1983	56	30	26	16	54	47	88	28	60
1988 <sup>a</sup>	63	35	28	20	55	45	81	31	70
1988 <sup>b</sup>	63	36	29	23	58	46	80	36	78
1993	64	36	30	25	56	45	81	39	86
<b>All Females</b>									
1979	39	21	15	7	52	38	73	18	46
1983	43	21	16	8	50	38	76	20	52
1988 <sup>a</sup>	51	27	19	13	54	38	70	25	66
1988 <sup>b</sup>	51	29	20	15	57	40	70	30	76
1993	54	32	23	19	58	42	72	36	86

Source: EBRI tabulations of the May 1979, May 1983, May 1988, and April 1993 Current Population Survey employee benefit supplements.

<sup>a</sup>Workers who reported that their employer or union did not have a pension plan or retirement plan for any of its employees were not counted as covered, even if they did report that their employer offered a profit-sharing plan or a stock plan in a followup question.

Participants who reported not being able to receive some benefits at retirement age if they were to leave the plan now were not counted as vested, even if they later responded that they could receive a lump-sum distribution if they left their plan now. This allows comparability with the tabulations from earlier years.

<sup>c</sup>Workers who reported that their employer or union did not have a pension plan or retirement plan for any of its employees were counted as covered if they did report that their employer offered a profit-sharing plan or a stock plan in a followup question. Participants who reported not being able to receive some benefits at retirement age if they were to leave the plan now were counted as vested if they later responded that they could receive a lump-sum distribution if they left their plan now. This allows comparability with the tabulations from 1993.

<sup>d</sup>Self-employed workers who contribute to individual retirement accounts are considered to be covered, participating, and entitled to benefits.

Table 3  
**Private Pension Plans and Participants**

	1975	1983	1986	1987	1988	1989	1990
(thousands)							
Total Plans	311	603	718	733	730	731	712
Defined benefit <sup>a</sup>	103	175	173	163	146	132	113
Defined contribution	208	428	545	570	584	599	599
Defined contribution as percentage of total	67%	71%	76%	78%	80%	82%	84%
(millions)							
Total Participants	45	69	77	78	78	76	77
Defined benefit <sup>b</sup>	33	40	40	40	41	40	39
Defined contribution	12	29	37	38	37	36	38
Defined contribution as percentage of total	26%	42%	48%	49%	48%	48%	50%
Active Participants	31	39	41	42	42	43	42
Primary plan is defined benefit	27	30	29	28	28	27	26
Primary plan is defined contribution	4	9	13	13	14	15	16

Source: Employee Benefit Research Institute.

Table 4  
Primary Defined Benefit and Defined Contribution Plan and Active Participant Trends

Active Participants	Primary Plans					Active Participants (thousands)				
	1985	1989	1990	Net change 1985-1990	Net change 1989-1990	1985	1989	1990	Net change 1985-1990	Net change 1989-1990
Defined Benefit Plans										
2-9	88,124	59,966	45,796	-42,328	-14,170	353	246	189	-164	-57
10-24	24,267	17,791	15,624	-8,643	-2,167	369	271	244	-125	-27
25-49	14,178	9,736	8,605	-5,573	-1,131	491	340	304	-187	-36
50-99	11,303	9,013	8,346	-2,957	-667	808	645	599	-209	-46
100-249	9,534	7,109	6,563	-2,971	-546	1,498	1,135	1,040	-458	-95
250-499	4,670	4,022	3,647	-1,023	-375	1,651	1,430	1,293	-358	-137
500-999	3,149	2,701	2,463	-686	-238	2,222	1,910	1,751	-471	-159
1,000-2,499	2,360	2,220	2,090	-270	-130	3,636	3,434	3,221	-415	-213
2,500-4,999	847	833	798	-49	-35	2,930	2,940	2,802	-128	-138
5,000-9,999	455	450	434	-21	-16	3,141	3,153	3,015	-126	-138
10,000-19,999	198	213	223	25	10	2,749	2,956	3,134	385	178
20,000+	175	178	161	-14	-17	8,985	8,792	8,711	-274	-81
None or none reported	10,280	18,485	18,139	7,859	-346	-	-	-	-	-
Total	169,540	132,717	112,889	-56,651	-19,828	28,834	27,252	26,303	-2,531	-949
Defined Contribution Plans										
2-9	199,704	334,762	266,129	66,425	-68,633	852	1,410	1,127	275	-283
10-24	70,424	107,113	94,054	23,630	-13,059	1,056	1,637	1,476	420	-161
25-49	31,406	48,351	45,748	14,342	-2,603	1,091	1,680	1,585	494	-95
50-99	17,620	29,997	27,434	9,814	-2,563	1,224	2,081	1,909	685	-172
100-249	8,878	13,334	13,658	4,780	324	1,331	1,991	2,070	739	79
250-499	2,552	3,599	4,144	1,592	545	868	1,239	1,428	560	189
500-999	1,185	1,675	1,838	653	163	808	1,151	1,266	458	115
1,000-2,499	784	1,148	1,103	319	-45	1,194	1,709	1,671	477	-38
2,500-4,999	219	265	310	91	45	752	907	1,072	320	165
5,000-9,999	97	107	130	33	23	683	726	869	186	143
10,000-19,999	34	59	44	10	-15	460	788	626	166	-162
20,000+	29	36	27	-2	-9	1,100	1,329	1,151	51	-178
None or none reported	13,082	38,839	40,473	27,391	1,634	-	-	-	-	-
Total	346,014	579,285	495,092	149,078	-84,193	11,420	16,647	16,250	4,830	-397

Source: Employee Benefit Research Institute tabulations of 1985, 1989, and 1990 Form 5500 annual reports filed with the Internal Revenue Service.

Table 5  
Retirement Benefit Payments from Private and Public Sources,  
Selected Years 1987-1990

Source of Benefit <sup>a</sup>	1987	1988	1989	1990	Total 1987-1990
(\$ billions)					
Private Pensions	\$120.8	\$124.1	\$133.6	\$141.2	519.7
Federal Employee Retirement <sup>b</sup>	44.9	48.1	50.6	53.9	197.5
State and Local Employee Retirement	31.2	34.1	36.6	39.2	141.1
Subtotal	196.9	206.3	220.8	234.3	858.3
Social Security Old-Age and Survivors Insurance Benefit Payments <sup>c</sup>	\$183.6	\$195.5	\$208.0	\$223.0	810.1
Total	\$380.5	\$401.8	\$428.8	\$457.3	1,668.4
Total	100.0%	100.0%	100.0%	100.0%	100.0%
(percentage of total)					
Private Pensions	31.8%	30.9%	31.2%	30.9%	31.1%
Federal Employee Retirement <sup>b</sup>	11.8	12.0	11.8	11.8	11.8
State and Local Employee Retirement	8.2	8.5	8.5	8.6	8.5
Subtotal	51.8	51.3	51.5	51.2	51.4
Social Security Old-Age and Survivors Insurance Benefit Payments <sup>c</sup>	48.3	48.7	48.5	48.8	48.6

Source: Employee Benefit Research Institute tabulations based on U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, January 1992 (Washington, DC: U.S. Government Printing Office, 1992); *The National Income and Product Accounts of the United States: Statistical Supplement, 1959-1988*, Vol. 2 (Washington, DC: U.S. Government Printing Office, 1992); and U.S. Department of Health and Human Services, Social Security Administration, *1991 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* (Washington, DC: U.S. Government Printing Office, 1991).

<sup>a</sup>Includes only employment-based retirement benefits.

<sup>b</sup>Includes civilian and military employees.

<sup>c</sup>Includes payments to retired workers and their wives, husbands, and children.

Table 6  
Lump-Sum Total Distributions from Tax Qualified Plans, 1987-1990

	1987	1988	1989	1990	Total 1987-1990
(millions)					
Number of Distributions					
Aggregate	11.4	12.2	11.6	10.8	46.0
Non-IRA <sup>a</sup> /SEP <sup>b</sup>	8.8	c	c	8.2	c
IRA/SEP	2.6	c	c	2.6	c
(\$ billions)					
Total Amounts Distributed					
Aggregate	\$80.3	\$85.2	\$115.3	\$125.8	\$406.6
Non-IRA/SEP	65.9	c	c	107.2	c
IRA/SEP	14.4	c	c	18.6	c
(\$ thousands)					
Average Amounts Distributed					
Aggregate	\$7.0	\$7.0	\$10.0	\$11.7	\$8.8
Non-IRA/SEP	7.5	c	c	13.2	c
IRA/SEP	5.7	c	c	7.0	c

Source: Employee Benefit Research Institute/Internal Revenue Service (IRS) tabulations of IRS Forms 1099-R, Statement for Recipients of Total Distributions From Profit-Sharing, Retirement Plans, Individual Retirement Accounts, Insurance Contracts, Etc., 1987-90.

<sup>a</sup>Individual retirement account.

<sup>b</sup>Simplified employee pension.

<sup>c</sup>Not available.

Table 7  
**Inclusion of Pension Plans in Personal Savings**

Included in Personal Savings?	
<b>Private Pension Plans</b>	
Defined benefit plans	
employer contributions	Yes
investment income	Partially
interest, dividends, rent, and royalties (imputed)	Yes
capital gains	No
benefit payments	No <sup>ba</sup>
Defined contribution plans	
individual contributions	Yes <sup>b</sup>
employer contributions	Yes
investment income	Partially
interest, dividends, rent, and royalties (imputed)	Yes
capital gains	No
benefit payments	No <sup>b</sup>
<b>Public Pension Plans</b>	
Defined benefit plans	
employer contributions	No
individual contributions	No
investment income	No
benefit payments	Yes
Defined contribution plans	
individual contributions	Yes <sup>b</sup>
employer contributions	Yes
investment income	Partially
interest, dividends, rent, and royalties (imputed)	Yes
capital gains	No
benefit payments	No <sup>a</sup>

<sup>a</sup>Benefit payments are not included in private plans and public defined contribution plans because that would create double counting in the National Income and Product Accounts of the contributions and investment income that are reported during the period that they occur

<sup>b</sup>Individual contributions to private defined contribution plans are included in personal savings to the extent that they are included in wage and salary disbursements in employers' reports for unemployment insurance. Virtually all states require employers to report employee contributions

Table 8  
**Monthly Social Security Retirement Benefits<sup>a</sup> Under  
Different Normal Retirement Ages**

Assumed Normal Retirement Age (NRA)			
Age Retired	Age 65 (Current NRA)	Age 67 (Eventual NRA)	Age 70 <sup>b</sup> (Alternative NRA)
62	\$ 707	\$636	\$530
65	884	766	636
67	955	884	707
70	1,039	977	884

Source: Employee Benefit Research Institute simulation based on monthly benefits calculated in William M. Mercer, *Guide to Social Security and Medicare* (Louisville, KY: William M. Mercer, December 1993)

<sup>a</sup>Assumes individuals in each scenario will reach normal retirement age on January 1, 1995 and begin receiving benefit payments on their 62nd, 65th, 67th, or 70th birthday. Normal retirement benefits are based on average indexed monthly earnings of \$2,000.

<sup>b</sup>The reduction in benefits for early retirement and the increase in benefits for late retirement are calculated according to current law.

Table 9  
Median Years with Current Employer

Age and Sex	1951	1963	1966	1973	1978	1983	1987	1991
Both Sexes	3.4	4.6	4.2	3.9	3.6	4.4	4.2	4.5
14-17	0.7	0.7	0.6	0.7 <sup>b</sup>	a	a	0.5 <sup>b</sup>	a
18-19	0.6	0.5	0.5	0.6	a	a	0.5	a
20-24	1.3	1.1	1.0	1.3	a	a	1.6	a
16-24	a	a	a	a	0.7	1.1	a	1.2
25-34	2.6	3.0	2.7	2.8	2.6	3.3	3.4	3.5
35-44	3.2	6.0	6.0	5.2	5.0	5.8	6.1	6.0
45-54	6.3	9.0	8.8	8.6	8.3	10.3	9.6	10.0
55-64	8.0	11.8	13.0	11.9	11.0	13.6	12.7	12.4
65 and over	10.0+	13.8	13.7	12.6	11.0	13.2	12.4	11.1
Males	3.9	5.7	4.2	4.6	4.5	5.1	5.0	5.1
14-17	0.8	0.7	0.6	0.6 <sup>b</sup>	a	a	0.5 <sup>b</sup>	a
18-19	0.6	0.5	0.5	0.6	a	a	0.5	a
20-24	1.2	1.1	1.0	1.2	a	a	1.7	a
16-24	a	a	a	a	0.7	1.1	a	1.4
25-34	2.8	3.5	2.7	3.2	2.7	3.4	3.7	3.7
35-44	4.5	7.6	6.0	6.7	6.9	7.7	7.6	7.2
45-54	7.6	11.4	8.8	11.5	11.0	13.4	12.3	12.2
55-64	9.3	14.7	13.0	14.5	14.6	17.0	15.7	15.5
65 and over	10.0+	16.6	13.7	13.9	13.5	14.6	15.0	13.1
Females	2.2	3.0	2.8	2.8	2.6	3.3	3.6	3.8
14-17	0.5	0.6	0.6	0.6 <sup>b</sup>	a	a	0.5 <sup>b</sup>	a
18-19	0.6	0.5	0.5	0.6	a	a	0.5	a
20-24	1.4	1.1	1.1	1.2	a	a	1.5	a
16-24	a	a	a	a	0.7	1.1	a	1.1
25-34	1.8	2.0	1.9	2.2	1.6	3.1	3.1	3.2
35-44	3.1	3.6	3.5	3.6	3.6	4.6	4.9	5.0
45-54	4.0	6.1	5.7	5.9	5.9	6.9	7.3	7.3
55-64	4.5	7.8	9.0	8.8	8.5	10.5	10.3	10.4
65 and over	4.9	8.8	11.2	10.9	8.4	11.9	10.8	10.4

Source: (For years 1951, 1963, 1966, 1973, and 1978) Employee Benefit Research Institute compilation; U.S. Department of Labor, Bureau of Labor Statistics, *Monthly Labor Review: September 1952, October 1963, January 1967, December 1974, and December 1979* (Washington, DC: U.S. Government Printing Office, 1952, 1963, 1967, 1974, and 1979); (for 1987, unpublished data from U.S. Department of Labor, Bureau of Labor Statistics, Division of Labor Force Statistics; (for years 1983 and 1991) Bureau of Labor Statistics News Release, *Employee Tenure and Occupational Mobility in the Early 1990's* USDL 92-386 (Washington, DC: U.S. Department of Labor, June 26, 1992).

<sup>a</sup>Data not available.

<sup>b</sup>The data represent individuals aged 16 to 17.