EBRI

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UNITED STATES SENATE
COMMITTEE ON FINANCE

HEARING ON

PENSION RIGHTS FOR WOMEN
(S.19, S.888)

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Statement of*

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* The views expressed in this statement are those of the authors and do not necessarily reflect the views of the Employee Benefit Research Institute, its Trustees, members, or other staff.

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SUMMARY

Mr. Chairman, it is a pleasure for the Employee Benefit Research Institute to appear today. EBRI is a nonprofit, nonpartisan, public policy research organization which sponsors research and educational programs to provide a sound information basis for policy decisions. EBRI does not take positions on public policy issues or proposals.

We are pleased to address the Committee concerning S.19 and S.888. Our comments and analysis focus primarily on the pension provisions in these bills.

The ultimate goal of pension plans is to produce benefits that help supplement the economic security provided by Social Security, individual savings, and other sources.

Historically, pension plan expansion has followed a consistent pattern. With the exception of the 1975-1977 period, when the Employee Retirement Income Security Act was being implemented the number of tax qualified plans has regularly grown at an annual rate of 10 percent or better (Table 1). This pattern of expanded plan availability has brought with it broader exposure to pensions. According to Census data 68.3 percent of civilian workers meeting participation standards were participating in a plan in 1979. The aging of the baby boom alone could account for another 10 percent increase in the pension participation rate over the remainder of this decade.

Benefit entitlement (vesting) is also growing dramatically: from 6.3 percent of all private sector workers in 1965, to 19.5 percent in 1974, and 27.1 percent in 1979. As many as 60 percent of regular nonagricultural workers who retire in the next five years will receive a pension based upon their vesting status in 1979. As the pension system matures it is becoming

increasingly effective in providing retirement income for the elderly.

WOMEN AND PENSIONS

The law explicitly prohibits discrimination against women in pension plans. Yet women have traditionally been less likely to receive pensions than men, creating concern about the equitable treatment of pensions on the basis of sex. As our full statement and the detailed analysis contained in it indicates, the changing work patterns of women are changing this situation markedly.

Female labor force partiticpation (see Table 3) grew to 51 percent in 1979 from 30.1 percent in 1950. For women age twenty-five to thirty-four, participation grew to over 63 percent in 1979 from 34 percent in 1950. Over 60 percent of all women eighteen to forty-four were working by 1979; over 69 percent of those twenty to twenty-four.

Pensions are similar to Social Security in that meaningful benefits can only be earned with consistent and sustained periods of employment and participation. Among older women, especially those now retired, the prevalence of full-time employment outside the home for extended periods was relatively rare. For example, of women aged sixty-one or over in 1977 fewer than half had at least ten years of Social Security earnings credits during the prior forty years (see Table 4).

Labor force participation data indicates that women's work patterns are shifting significantly; the younger cohorts of women are more likely to work than their counterparts in older cohorts and within each age cohort women are more likely to have earnings on a regular basis as they age. As these consistent trends continue to evolve the changing role of women in the workforce is exposing them to the pension system to a much greater degree than earlier cohorts of women. The expansion of the pension system itself is going to accentuate the effects of women's increased labor force attachment.

A number of proposals are included in S.19 and S.888 which are intended to enhance the potential of benefit receipt. The data exists in the public domain to test some of these proposals against that goal. Other data exists, but is not publicly available for analysis.

Reducing Pension Participation Ages to 21

In May 1979 there were 11.1 million workers between twenty-one and twenty-four; 5.2 million worked for an employer who did not have a pension plan (see Table 8). Another 2.6 million, or 23.4 percent, were already participating in a plan but had not yet vested. Slightly more than 1.1 million, or 10.3 percent, had already vested in their current employer's plan. Only about 1.2 million workers twenty-one to twenty-four years old were working for an employer with a pension in which they were not yet participating and would become particpants if the age of participation were reduced to twenty-one. Reducing the ERISA participation standard to age twenty-one in 1979 would have increased the pension participation rate among women by only 1.4 percent and among men by .8 percent. Those who would vest under an age twenty-one standard would likely vest under current law. And, due to the aging of the baby boom, the number who would benefit from age twenty-one participation is getting even smaller. By comparision, newly qualified pension plans have given participation to more than twice as many people, both men and women, in each of the last four years. The basic question that policy makers should consider is whether it is worth substantially increasing pension administration burdens in order to increase pension participation by .7 percent.

Changing Break-In Service Provisions

S.19 would eliminate the ERISA break in service rules for a worker on maternity and paternity leave for up to one year; S.888 would continue to provide service credits and pension accruals during the one year leave period. These provisions raise a question that can be looked at empirically: does maternity or paternity leave result in significant loss of service credits in private pensions under ERISA at the present time?

Our simulations indicated that as few as 5 percent of thirty-five to forty-five year old women in 1979 with more than five years of service may have lost service credits under the current break in service rules. Our simulations indicated that approximately 14 percent would have realized additional accruals under the S.888 provision as compared to current law.

Again, policy makers must weigh these benefits against additional administrative and funding costs.

Other Potential Policy Options

Reducing the participation standards or adjusting break-in service rules will not result in significantly greater pension benefits to most women. Further, virtually nothing can be done to affect the pensions of women on the threshold of retirement or already retired. What options, then, can be pursued to improve women's pension benefits in the near term and in the future?

- Better communication and utilization of joint and survivor options might help. Note, however, that the prevalence of life insurance coverage among pension participants may make this a smaller problem than it seems. This benefit also affects the relevance of pre-retirement death benefits: if employers are required to pay death benefits they may reduce the life insurance they provide.

- o Faster vesting is frequently proposed, but would produce little additional retirement income. First, because in defined benefit plans the most meaningful accruals are at later ages when earnings are highest (see Table 12). Second, because most workers gaining entitlement would receive a very small cash payment that is normally spent, not "re-saved" for retirment. Our studies indicate that over 90 percent would receive less than a $2,000 lump sum distribution as a result of faster vesting.
- o Encouraging the creation of additional pension plans would result in the greatest amount of added pension receipt for all workers, including women. Careful assessment of policy changes on likely plan sponsorship decisions would help, along with attention to the relative level of ultimate retirement income security provided by different types of programs: defined benefit and defined contribution.

Filling Information Voids

Efficient and effective delivery of retirement benefits and appropriate policies would be enhanced by better analysis and agreement on the facts. This requires information.

As evidenced by the recent Social Security reform process, agreement on the "facts" is an essential first step. In the area of pension reform such agreement would be more likely if data that exists were made available for public analysis. We provide two examples:

- o ERISA requires extensive data to be filed with the government at a private sector cost of approximately $100 million per year. Since this is a tax deductible business expense it also reduces federal tax revenues by millions of dollars. Yet, this gold mine of data has not been edited, sampled, or released since 1977.

- The Department of Labor paid Arthur Young and Co. public funds to collect data on retirement income from over 600,000 retirees. It is the richest known source of information showing combined Social Security and pension income streams on the basis of actual program data, yet is it not available for analysis of the issues before you today. These data could provide a more comprehensive and accurate picture of pension recipients' income levels than any of the clearly flawed survey data on which we now must depend. While the DOL research staff and various analysts under contact have analyzed this information over the last two years these data are not available for public use. The DOL staff is concerned that since the data have been matched to the Social Security data that they cannot be made available to private analysts. The Congress could improve this situation by clarifying the restrictions in the Tax Act of 1976 limiting the use of these data for research purposes.

Great care must also be taken in assessing the accuracy of the information provided by special interests in advocating that particular policies be adopted. The debate over Social Security and federal employees represents a recent example of the creative use of statistics. The debate over pension policy sometimes suffers in the same way. For example, one Senator noted on March 24, 1983, regarding the issues before you today: "In fact, only 21 percent of women are covered by pension plans compared to 49 percent of men." Yet the May 1979 Current Population Survey conducted by the Bureau of the Census found that 52 percent of all working women were covered. And, among women between the ages of twenty-five and sixty-four in wage and salary positions who had been with their employer for one year or more, 61.8 percent were participationg in a pension plan in 1979 and more were covered. In other words, the "facts" provided to the Senator for his speech were off by 148 percent if he was talking about coverage and 81 percent if he was talking about participation.

This concern about availability and interpretation of data is central to EBRI's charter and goes beyond the deliberations on any bills now before the Congress. The problem that we are concerned about is that policy is frequently being deliberated without the benefit of the facts. We are convinced that without the facts policy deliberations can be misleading with the potential that ill-advised or ineffectual but expensive policies will be the result. The ultimate result will be that fewer people will receive meaningful benefits; when the objective being sought was greater benefit receipt.

Such an ultimate result ends up hurting the intended beneficiaries and the entire nation by increasing the cost of our products and decreasing our competitiveness. This costs Americans jobs, reducing tax revenues, and increasing social program expenditures.

We thank you for the opportunity to appear today. We offer our further analytic services to you on this or related issues. We join you in your effort to bring the facts to bear and we share the common objective of meeting the economic needs of the nation's workers, retirees, and less fortunate in the most efficient, effective and equitable manner possible.

INTRODUCTION

Mr. Chairman, it is a pleasure to appear before you today. We appear in our capacities as Executive Director (Mr. Salisbury) and Research Director (Dr. Schieber) of the Employee Benefit Research Institute. EBRI is a nonprofit, nonpartisan, public policy research organization founded in 1978. EBRI sponsors research and educational programs in an effort to provide a sound information basis for policy decisions. EBRI as an institution does not take positions on public policy issues.

We are pleased to address the Committee concerning S. 19 and S. 888. Our comments and analysis focus primarily on the pension provisions in these bills. Before turning explicitly to the bills, however, we provide some general background on pensions that help set the context for our later remarks.

THE PROCESS OF ACQUIRING A PENSION

The ultimate goal of plans is to produce benefits that help supplement the income security provided by Social Security, individual savings, and other sources of economic security. The process for acquiring a pension benefit can usually be spelled out in relatively straightforward language in a plan description. The rules and regulations of the plan, which must meet federal standards, provide a road map for acquiring the sought after benefits. The process of acquiring a pension becomes complicated, however, when these standardized plan rules are applied across a diverse work force, a common characteristic shared by most employers.

In order to clarify this process we begin our analysis with the definition of four terms that are crucial to understanding the pension issues we take up here.

Coverage refers to workers whose employers sponsor a pension plan.

Participation refers to workers who have satisfied age and service requirements in at least one retirement plan. Although total participation sometimes refers to the sum of active members (participants currently employed with plan sponsors) and inactive members (beneficiaries and separated vested workers), in this discussion "participation" refers to active members only.

Vested Participation refers to active participants with nonforfeitable rights to employer financed pension benefits. Both partially vested and fully vested participants are included in this definition.

Recipient refers to individuals receiving a pension benefit.

Each of these four terms is important in understanding the process of pension accrual and why some individuals are more or less successful than others in acquiring a pension.

The Availability of Pension Coverage

Employers' compensation costs include wages and expenses for employee retirement, health, life, disability benefits and various other benefits and perquisites. While most compensation devices provide immediate income or benefits, pensions offer potential deferred income. Pension entitlement results from a long-lasting employee-employer relationship. Workforce stability in specific employer groups is an important determinant of whether pensions are appropriate compensation vehicles and, thus, whether employers offer pension coverage. Three employer characteristics affecting this consideration are firm age, firm size, and industry classification. Further the unionization status of the employee's workforce also affects the employer's decision to offer a pension program.

Little empirical evidence is available on the relationship between firm age and pension plan establishment. However, in the present legal and economic environment, the new business failure rate suggests it is impractical for many young firms to offer pensions before they have become established. New firm pension provisions may also be impractical from an employee's perspective. Even young companies that eventually succeed, initially have limited administrative and financial resources. Pension coverage would probably require a trade-off in wages or other employee benefits, and it is not certain that young firms will stay in business long enough to satisfy pension commitments. Where future benefits are secure, workers and employers still may prefer immediate compensation. Many choose higher wages or health, life and disability insurance over pensions. Furthermore, if new employers provide pensions, each employee potentially represents a lifetime financial liability. Therefore sound business judgment may dictate restrictions on job development and hiring practices that could inhibit new job growth if a pension were offered before the firm was well established.

Firm size is also closely related to pension plan availability. During 1979 average private sector coverage was lowest, 26.1 percent, in firms with fewer than 25 workers. As the firm size increased, coverage rates rose steadily. In establishments with more than 1,000 employees, 91.9 percent of workers were covered. Overall public sector coverage rates are higher but the same pattern is reflected -- larger employers provide higher coverage. Pension protection is a desirable goal but it is not the primary employer goal. Young firms and small firms produce jobs and wages. Considering their financial constraints, it may not be realistic or wise to expect them to also provide pension coverage without added tax incentives and some relaxation of existing regulations. 1/

Industry category also is important in explaining patterns of pension coverage. In part this results from the different industry turnover rates. Excessive labor mobility interferes with the more enduring employee-employer relationship necessary for pension entitlement. For example, the construction industry is sensitive to seasonal and economic change and is subject to extensive employment level fluctuations. Retail trade and services' turnover rates are also high because these industries are characterized by small firms and easy-entry, low skill jobs. High turnover industries generally offer low levels of pension protection. In construction, trade and services less than 58 percent of employees were covered during 1979. Turnover rates were significantly lower in the other industries and pension coverage was much higher, 72 percent or more.2/

Unionization of the workforce alters the process through which the compensation package develops. As employee bargaining agents, unions negotiate wage and employee benefit trade-offs. They generally advocate liberal pension policy. In May 1979, employer pension programs covered 88.2 percent of private sector, unionized nonagricultural wage and salary employees. Only 60.0 percent of their nonunion counterparts were covered. In the public sector, 96.8 percent of union members and 89.9 percent of nonunion members were covered. 3/

While it is employers who organize and sponsor pension plans they do

1/ Sylvester J. Schieber and Patricia M. George, Retirement Income Opportunities in an Aging America: Coverage and Benefit Entitlement (Washington, D.C.: The Employee Benefit Research Institute, 1981), p. 36.
2/ Ibid., p. 39.
3/ Ibid.

not operate in a vacuum. In fact, there is a long history of tax and regulatory legislation that define the pension environment. Historically, this environment has resulted in a fairly consistent pattern of pension plan expansion as shown in Table 1. With the exception of the 1975-1977 period, when the Employee Retirement Income Security Act (ERISA) was being implemented the number of tax qualified plans has regularly grown at an annual rate of 10 percent or better. This pattern of expanding coverage has brought with it broader exposure to pensions. An environment in which pension plans continue to be created will broaden that exposure even more.

Participation in Pension Plans

Under ERISA private employer pension plans must meet minimum participation standards. These standards generally require that pension credits must be granted on a nondiscriminatory basis to all employees age 25 or older with one or more years of service who work at least 1,000 hours per year. According to ERISA's legislative history, these standards were selected because: (1) newly hired workers have high job turnover rates; (2) young workers also change jobs frequently and many have little interest in pension plans; (3) part-time employment is motivated by factors other than pension considerations; (4) inclusion of highly mobile, young and part-time workers in employer pension plans could create substantial added administrative expenses, while providing employees with insignificant benefit accruals. The Congress also decided that employers could exclude from participation those workers who are within five years of normal retirement age when first employed.

As a result of the growing availability of pension plans an increasing share of the work force is participating in at least one pension program other than Social Security. The May 1979 Current Population Survey (CPS) provides

TABLE 1

SUMMARY OF QUALIFICATIONS AND TERMINATIONS

Period Ending	Number of Qualification Rulings to Date	Number of Terminations to Date	Net Number of Plans in effect	Increase in Net Number of Plans Over Previous Period	% Annual Growth
Dec. 31, 1982	884,936	144,963	765,881	70,200	10.1
Dec. 31, 1981	816,924	133,644	695,681	68,095	10.9
Dec. 31, 1980	741,387	120,202	627,586	56,063	9.8
Dec. 31, 1979	672,045	106,923	571,523	46,036	8.8
Dec. 31, 1978	615,168	96,084	525,487	50,398	10.6
Dec. 31, 1977	549,484	80,796	475,089	19,601	4.3
Dec. 31, 1976	514,068	64,981	455,488	10,075	2.3
Dec. 31, 1975	485,944	40,351	445,413	21,931	5.2
Dec. 31, 1974	455,905	32,243	423,482	54,601	14.8
Dec. 31, 1973	396,520	27,639	368,881	55,475	17.7
Dec. 31, 1972	336,915	23,509	313,406	45,815	17.1
Dec. 31, 1971	287,580	19,989	267,591	37,329	16.2
Dec. 31, 1970	246,916	16,654	230,262	30,268	15.1
Dec. 31, 1969	214,342	14,348	199,994	26,346	15.2
Dec. 31, 1968	186,267	12,619	173,648	22,339	14.8
Dec. 31, 1967	162,485	11,176	151,309	19,214	14.5
Dec. 31, 1966	141,964	9,869	132,095	16,973	14.7
Dec. 31, 1965	123,781	8,659	115,122	12,496	12.2
Dec. 31, 1964	110,249	7,623	102,626	10,667	11.6
Dec. 31, 1963	98,541	6,582	91,959	10,250	12.5
Dec. 31, 1962	87,397	5,688	81,709	9,359	12.0
Dec. 31, 1961	77,179	4,829	72,350	8,652	13.5
Dec. 31, 1960	67,792	4,094	63,698	9,399	17.3
Dec. 31, 1959	57,835	3,536	54,299	6,792	14.2
Dec. 31, 1958	50,569	3,062	47,507	6,551	15.9
Dec. 31, 1957	43,615	2,659	40,956	6,074	17.4
Dec. 31, 1956	37,190	2,308	34,882	4,944	16.5
Dec. 31, 1955	31,943	2,005	29,938	1,769(1)	6.3
June 30, 1955	30,046	1,877(2)	28,169(2)	3,290(2)	13.2
June 30, 1954	26,464	1,585	24,879	4,204	20.3
June 30, 1953	22,069	1,394	20,675	3,657	21.5
June 30, 1952	18,289	1,271	17,018	2,347	16.0
June 30, 1951	15,899	1,125	14,671	2,517(3)	20.7
June 30, 1950	13,899	--	--	--	--
June 30, 1949	12,865	711	12,154	896	8.0
June 30, 1948	11,742	484	11,258(4)	1,888	20.1
Aug. 31, 1946	9,370	--	9,370(4)	1,584	20.3
Dec. 31, 1944	7,786	--	7,786(4)	5,839	300.0
Sept. 1, 1942	1,947	--	1,947(4)	1,288	195.0
Dec. 31, 1939	659	--	659(4)	549	--

(1) Six month total
(2) See RR 101.-4
(3) Increase from June 30, 1949 (see RR 101.4)
(4) 28 month period, average 2,507 plans per year

*Does not include plans covering self-employed individuals (Keogh Act plans).

SOURCE: Charles D. Spencer Associates for 1930 to 1975, EBRI tabulations of IRS data for 1976 to 1982.

the most recent available statistics on recent pension participation levels. This survey, based on a sample of households representing the U.S. civilian work force, estimated that outside agriculture, 68.3 percent of all civilian wage or salary workers between the ages of twenty-five and sixty-four, working at least half time, who had been with their employer for a year or more, were participating in a pension plan. 4/

The growing prevalence of private pension plans has led to a marked increase in the number of pension participants from fewer than 10 million participants in 1950 to more than 35 million by 1979. In addition, and perhaps more important, over the years participation has grown more rapidly than private-sector employment. Private-sector employment grew 15.4 percent from 1950 to 1959, 27.0 percent from 1960 to 1969, and 26.8 percent from 1970 to 1979. Over the same three periods, pension participation increased by 85.7, 39.0, and 36.8 percent. Some analysts have suggested that the stabilization of the participation rate during the 1970s indicates that the private pension system has stagnated. According to previous research by the Employee Benefit Research Institute (EBRI) more reasonable explanations of stable pension participation rates during the 1970s are the rapid growth in employment as the post-World War II baby-boom generation entered the work force, the rapid rise in female labor force participation rates during the 1970s, and the implementation of ERISA. 5/

4/ Sylvester J. Schieber, Social Security: Perspectives on Preserving the System (Washington, D.C.: The Employee Benefit Research Institute, 1982) pp. 48-49.

5/ See Schieber and George, Retirement Income Opportunities in an Aging America, Chapter 3.

Private-sector employment grew as much between 1975 and 1979 as it had in the previous eleven years. Most of the new workers were young people who were just embarking on a career. Nearly 58 percent of the spurt in private-sector employment during the late 1970s occurred in firms with fewer than 100 employees, and almost 55 percent of the growth occurred in trade and service firms. Pension coverage is known to be lowest in smaller firms and in the trade and service industries. 6/

The stabilizing pension participation rate was the result of the simple mathematical calculation of participation rates by which the numerator (pension participation) did not keep up with the denominator (workers) during a period in which the latter was growing at unprecedented rates. During the 1980s, private-sector employment is expected to grow at only one-half to one-third the rate during the latter half of the 1970s. The slowdown in the expansion of the work force means that continued pension expansion should result in higher pension participation rates during this decade. Also, because of the decline in birthrates toward the end of the 1950s, a smaller proportion of the work force will be under age twenty-five and excluded from pension participation on the basis of ERISA's standards.

The demographic characteristics of the workforce are now shifting into an alignment that should result in significant increases in pension participation rates. For example in 1980, one quarter of the total labor force was below the ERISA age 25 pension participation standard. By 1990 only about 19 percent will be below age 25. The aging of the baby boom alone could easily account for a 10 percent increase in the pension participation rate over

6/ *Ibid.*, p. 49.

the remainder of this decade. Although participation in a pension program is necessary to ultimately acquire a pension, participation alone is not sufficient to assure the receipt of benefits.

Vesting in a Pension Plan

ERISA not only established a set of minimum pension participation standards but also specified that employers must adopt a vesting schedule that satisfies one of three vesting standards. The first standard required full vesting of accrued benefits of covered, participating employees with ten years of service. The second standard requires 25 percent vesting after five years of service, an additional 5 percent for each of the next five years, and 10 percent for each of the ensuing five years. The final vesting standard requires 50 percent vesting when the employee's age plus years of service are equal to forty-five and an additional 10 percent for each additional year of service. Under this latter standard the benefits must always be 50 percent vested after ten years of service, regardless of the particpant's age, and must vest an additional 10 percent for each subsequent year of service.

The latter of the three standards requires this special provison because service years can be credited differently for participation and vesting purposes. While ERISA does not require that workers under age twenty-five be included as participants under a plan it does require that years of service beyond age twenty-two are to be counted for vesting purposes, regardless of a pension plan's actual particpation standard.

Vesting levels do not change quickly in response to plan creation or shifts in work force patterns because of the time involved in vesting. During 1960, for example, only 3.3 percent of private sector workers were vested; this rose only 3 percentage points through 1965. During the late 1960s private plans began liberalizing retirement and vesting provisions. By 1970 more than three-fourths of pension plan participants were in plans with regular vesting schedules. Ninety percent were in plans with vesting, early retirement or both. Between 1965 and 1974 private sector, paid worker vesting rates more than tripled, rising from only 6.3 percent of all private sector workers to 19.5 percent. As the mandated vesting standards in ERISA began to take effect vesting rose to 27.1 percent by 1979. 7/

While slightly more than one-quarter of the workforce being vested may seem low it is important to understand that this incorporates all private sector workers; those as young as age fourteen, those working on a sporadic and part-time basis as well as itinerant workers. If nonagricultural wage and salary workers between the ages of 55 and 59 who have been with their employer a year or more and work at least half time are considered then fully one half reported they had already vested in 1979. Another 10 percent knew they were participating in a pension but did not know whether they had vested yet. As many as 60 percent of regular, nonagricultural workers who will retire in the next five years then, can be expected to receive a pension based simply by their vesting status in 1979. 8/ In all likelihood, the further maturing of ERISA and pension expansion will improve this situation even further.

Receiving a Pension Benefit

One thing that we often overlook when considering the effectiveness of retirement programs is their relative state of maturity. A retirement program becomes mature when the relationship between the percentage of workers participating stabalizes over time relative to the percentage of the

7/ *Ibid.*, pp. 59-61.
8/ *Ibid.*, p. 44.

elderly receiving benefits.

For example, consider Social Security and the relative rates of worker participation and recipiency among the elderly. Table 2 shows that worker participation rate in 1940 was about twenty-five times the percentage of elderly receiving benefits in that year. As the program matured, this

TABLE 2

PERCENT OF WORKERS PARTICIPATING IN SOCIAL SECURITY AND PERCENT OF POPULATION OVER AGE 65 RECEIVING BENEFITS BY SELECTED YEARS

Year	Workers Participation	Population over 65 Receiving Benefits
1940	57.8%	2.3%
1950	64.5	17.0
1960	88.9	62.3
1970	89.5	85.5
1975	89.8	90.4
1980	91.0	89.8

SOURCE: Coverage data for 1940-1970, from U.S. Bureau of the Census, Historical Statistics of the United States (Washington, D.C., 1975), p. 348.; for 1975 from U.S. Bureau of the Census, Statistical Abstract of the United States 1981 (Washington, D.C., 1982), p. 326. Beneficiary data for 1940-1960, from U.S. Bureau of the Census, Historical Statistics of the United States (Washington, D.C., 1975), p. 357; for 1970, from Social Security Bulletin (March 1981), p. 73; for 1975-80 from Social Security Bulletin (March 1983), p. 105.

difference declined to less than four times in 1950 and then gradually moved toward and reached equality in the mid-1970s. It took Social Security about thirty-five years until beneficiaries made up a segment of the retired population that was comparable to the segment of the workforce that was contributing to the program.

There is not comparable time series data on pensions but there is pension plan data that indicates a similar maturation phenomenon. Among all defined benefit plans with more than 100 particpants in 1977 that had been set up within the prior five years, 69 percent had more than ten active workers for each beneficiary and 56 percent had more than twenty active participants for each beneficiary. For plans that were five to ten years old in 1977, 59 percent had ten or more active participants for each beneficiary. 9/

Among older plans the situation was significantly different. Two out of three of those plans that were twenty-one to twenty-five years old in 1977 had fewer than 10 active workers for each beneficiary. For plans over twenty-five years old in 1977 nearly half, 49 percent, had fewer than five active participants for each beneficiary. The evidence clearly indicates that as the universe of pension plans ages, the relative number of recipients will increase.10/

The future potential of the pension system, then hinges on its current level of maturity. Among defined benefit plans, which cover two out of three private pension participants, 38 percent of the tax qualified plans in operation at the end of 1982 were less than five years old and 73 percent were less than ten years old. Among the universe of tax qualified defined contribution plans at the end of 1982, 39 perent had been qualified in the last five years and 56 percent had been qualified since 1972. The pension system in this country today is quite young but it is poised to make a major contribution to the retirement income security of the elderly in coming years.

9/ Schieber, Social Security Perspectives on Preserving the System, p. 55.
10/ Ibid., p. 52, 56.

If the maturing of the pension system is leading to higher recipiency rates then more of the young elderly, those recently reaching retirement age, should be receiving pensions than the old elderly. In fact during 1979, according to the March 1980 Current Population Survey, 37 percent of elderly families were receiving at least one pension where the family head was between the ages of sixty-five and sixty-nine. Among the elderly families where the head was over seventy years of age 30 percent were receiving a pension.

It should also be noted that most of this difference is attributable to higher private pension receipt among the young elderly. The older public plans have already reached maturity as reflected by the fact that 12.5 percent of the young elderly families received a public pension in 1979 compared with 11.2 percent of the old elderly. By comparison, 26.0 percent of the young elderly families received a private pension while 19.6 percent of the old elderly were receiving a private pension benefit.

Finally, defined-contribution plans which are most prevalent in the private sector may be contributing more to the elderly's retirement income security than the statistics suggest. Most defined-contribution plans are not themselves annuity programs; at withdrawal or retirement, vested participants are generally given a lump-sum distribution. In many instances the employer will arrange for conversion of the distribution into an annuity program, but the plan itself seldom pays pension benefits in the traditional sense. There is strong evidence that these plans do not report themselves as paying retirement benefits in many instances because they provide lump sum distributions. 11/

11/ Schieber, Social Security: Perspectives on Preserving the System, p. 56.

This lump-sum distribution phenomenon also results in undercounting the number of pension beneficiaries on population surveys. For example, the Census Bureau's annual March Income Supplement to their Current Population Survey gathers information on the prevalence of the receipt of pensions and the annual levels of benefits. Interviewers' instructions and training specifically direct that only regular income is to be recorded in the interview; one-time income is to be ignored. Unless defined-contribution plan lump-sum distributions are converted to an annuity, they never show up on the survey as retirement program benefits.

While the evidence on the level of benefit receipt may be incomplete it conclusively shows that the pension system is becoming increasingly effective in providing for the elderly's retirement income security. The pension coverage and participation data suggest that this situation should continue to improve in the future. In the next section of our testimony we look at the potential implication of these improvements for women.

WOMEN AND THE U.S. PENSION SYSTEM

The antidiscrimination provisions in the U.S. tax code and the participation, vesting and other provisions in ERISA explicitly prohibit discrimination against women in the design and administration of pension plans. Yet it is clear that elderly men are much more likely to receive a pension than their female counterparts, and that they receive larger benefits, on average, then women. These differences in the pension experiences of men and women have created some concern about the equitable treatment of pensions on the basis of sex. Before turning to explicit proposals aimed at dealing with this concern we first provide an analytical explanation for the phenomenon itself.

The earlier analysis suggested that it was a combination of employer characteristics that determined the supply or availability of pensions. Because of the participation and vesting provisions in most plans the actual accrual of any pension right takes some period of time. Even if all such standards were shortened to provide for immediate participation and vesting the accrual of significant retirement benefits would only occur in cases where there was a substantial period of participation in one or more plans. In defined benefit plans the largest accruals come toward the end of the career and in most instances it is the terminal plan that provides the most significant benefit level. Under defined contribution plans the individually assigned assets can be liquidated and reinvested in an individual retirement account making them more portable. This combined perception of a definable asset, along with relative portability may combine to account for typically shorter vesting in defined contribution plans.

For the highly mobile worker, the defined contribution plan may be preferred because of its portability characteristics. For the long-term stable employee, on the other hand, the primary concern is likely to be an adequate level of benefits to maintain preretirement earnings standards. This will more likely be assured through a defined benefit plan. Most defined contribution plans do not have automatic provisions to convert the accumulated assets to an annuity at retirement. The more typical cash-out provisions in these plans are often criticized because it is feared the accumulated funds are often not used for retirement income security purposes. There is virtually no extent data that allows analysts to evaluate the actual utilization of asset accumulation in defined contribution plans. The May 1983 Current Population Survey being conducted by the Census Bureau and jointly sponsored by EBRI and the Department of Health and Human Services will gather such information for the first time. The survey will elicit information on the prevalence and level of lump sum distributions from retirement plans and the disposal of these assets. It is not clear *a priori* which type of plan would be more effective for women. Certainly one cannot look at the current population of retired women and draw any conclusions about the optimal pension strategies for women in their prime working ages today.

Pensions and the Changing Roles of Women

During 1940 when Social Security started paying benefits, 27.9 percent of women over the age of fifteen were in the labor force. By 1945 female labor force particpation had surged to 35.8 percent, at least in part, because of the contribution of women to the World War II production effort. 12/ Table 3 shows that between 1950 and 1979 female labor force participation increased by 17.1 percentage points. However, more than two-thirds of this increase occurred after 1965. Table 3 also indicates that female workers ages twenty-five to thirty-four experienced the largest labor force participation rates increase of all cohorts shown. Between 1970 and 1979 their participation rate increased from 45.0 to 63.8 percent. In 1979 this age class included the majority of baby boom women, the largest ten year age cohort of women in the population. The baby boomers' mothers would have been twenty-five to thirty-four some twenty to thirty years earlier and their labor force participation rate was around 35 percent. In other words, within one generation the labor force participation of women in the prime child bearing ages nearly doubled.

12/ U.S. Bureau of the Census, *Historical Statistics of the United States* (Washington, D.C.: U.S. Government Printing Office, 1975) p. 132.

TABLE 3

CIVILIAN FEMALE LABOR FORCE PARTICIPATION RATES
BY AGE FOR SELECTED YEARS
1950-1979

Age	1950	1955	1960	1965	1970	1975	1979
16-17	30.1	28.9	29.1	27.7	34.9	40.2	45.8
18-19	51.3	50.0	50.9	49.3	53.6	58.1	62.9
20-24	46.0	45.9	46.1	49.9	57.7	64.1	69.1
25-34	34.0	34.9	36.0	38.5	45.0	54.6	63.8
35-44	39.1	41.6	43.4	46.1	51.1	55.8	63.6
45-54	37.9	43.8	49.8	50.9	54.4	54.6	58.4
55-64	27.0	32.5	37.2	41.1	43.0	41.0	41.9
65+	9.7	10.6	10.8	10.0	9.7	8.3	8.3
TOTAL	33.9	35.7	37.7	39.3	43.3	46.3	51.0

SOURCE: U.S. Department of Labor, Bureau of Labor Statistics, Handbook of Labor Statistics (Washington, D.C., 1980) Table 4.

Labor force participation measures are point in time estimates of the number of people working or looking for work. An alternative way to look at differences in career patterns of older versus younger women is to compare actual work patterns of women of different ages across common periods in their life cycle. There is not a perfect data set available to develop such a comparison but there is a good one. This data set includes survey data from the Census Bureau's March 1978 and May 1979 Current Population Surveys that have been matched to Social Security administrative records. 13/ The Social Security record data provides covered earnings and quarters of coverage credited for each of the years 1937 through 1977. Each person's age in 1977 can be determined from the file. The file contains records on roughly 15,000 women between the ages of 15 and 99 in 1979. From the age in May of 1979 it is

13/ For a more detailed description of these data see Sylvester J. Schieber, Social Security: Perspectives on Preserving the System, pp. 289-291.

possible to determine when those over twenty-one reached that age, or any other age for that matter. From the Social Security record the covered earnings pattern in any specific attained year of age is thus determinable.

The accrual of any meaningful work related benefit requires a consistent and sustained attachment to the workforce. Even under Social Security any worker less than fifty years of age today will be required to have at least forty quarters or ten years of earnings credits to be entitled to a retirement benefit. Under Social Security, earning one quarter of credit each year between ages twenty-two and sixty-two would qualify a person for a retirement benefit. Alternatively, ten years of steady covered employment would qualify a person for a retirement benefit. It should be kept in mind, however, that either of these career patterns would result in a small Social Security benefit, certainly less than half the benefit and maybe as little as one quarter of the benefit that could be earned in a full career.

Pensions are similar to Social Security in that meaningful benefits can only be earned with consistent and sustained periods of employment and participation in plans. Even with very short vesting schedules the benefits that can be accrued with an erratic or short tenure in a job would be quite small. To understand the pension status of currently retired workers and why younger women can expect to fare quite differently, it is important to look at women's lifetime work patterns and how they are changing.

Among older women, those now retired, the prevalence of full-time employment outside the home for extended periods was relatively rare. For example, if one considers women aged sixty-one or over in 1977, fewer than half had at least ten years of Social Security earnings credits between 1937 and

1977. Table 4 shows that one-third of those over eighty had no covered earnings at all beyond 1937. The table also shows that the younger elderly women were considerably more likely to have worked than the older elderly women. Putting aside for the moment consideration of survivor benefits, it should be clear that many older women do not qualify in their own behalf because they never worked, or worked only a short period during their life.

If some of the more arcane arithmetic of defined benefit pension plans is worked through, it becomes clear that the value of benefit accruals is heavily weighted towards the end of the career. This characteristic should be to the advantage of women who take some time out of their work career to have and raise children and then return to full time work outside the home after their children are in school or have left home. Still for the pension to be meaningful, employment late in the career has to be regular and of some sustained duration for benefits to be meaningful. In this regard it is instructive to look at older women and to consider the intensity of their

TABLE 4

OLDER WOMEN IN 1977 AND YEARS OF SOCIAL SECURITY CREDITS EARNED BETWEEN 1937 and 1977

Age in 1937	Age in 1977	Credits Earned: None	1-5 Years	5-10 Years	More than 10 Years
21-25	61-65	19.9	18.2	14.4	47.5
26-30	66-70	27.7	16.8	11.8	43.7
31-35	71-75	28.0	21.3	10.9	39.9
36-40	76-80	29.6	18.9	13.7	37.8
41 or over	81 or over	33.0	15.9	13.9	37.2

SOURCE: EBRI Tabulations of Social Security administsrative data matched to March 1978 and May 1979 Current Population Surveys.

employment experience toward the end of their normal working ages. Table 5 shows the number of years older women in 1977 had worked when they were between the ages of fifty-one and sixty. Among those over eighty only about one in ten had worked all ten years and more than half had not worked at all. Even among the youngest group of women represented in the table, those between the ages of sixty-one and sixty-five more than one in three had not worked in the last full decade before age sixty and only slightly more than one quarter had worked in covered employment in every year.

TABLE 5

YEARS WORKED BETWEEN THE AGES OF 51 and 60 by
WOMEN AGE 61 AND OVER IN 1977

Age in 1977	Years Worked Between Ages 51 and 60: None	1 to 3	4 to 6	7 to 9	10
61 - 65	35.5%	11.8%	11.2	14.7%	26.8%
66 - 70	42.9	11.3	8.2	11.2	26.6
71 - 75	38.5	14.8	9.3	15.1	22.3
76 - 80	41.9	12.6	12.1	13.3	20.2
81 or over	51.2	11.4	14.5	12.7	9.4

SOURCE: EBRI tabulations of Social Security administrative data matched to March 1978 and May 1979 Current Population Surveys.

For the women over age seventy-six in 1977 half had not worked after the beginning of 1960 when the prevalence of pensions and beginning trends toward vesting and early retirement began to make them effective retirement vehicles. Even among those women between age sixty-one and seventy in 1977 only about one in four had worked after the passage of ERISA. In short, until very recently older women have not worked outside the home for sufficient periods during their normal working ages, nor consistently enough toward the end of their working life to earn a pension. Even where today's elderly women had worked the majority had not done so since the passage of ERISA and many had last worked back in the 1950s or 60s when there were fewer pension plans.

It is impossible to exactly predict that younger women today will have radically different working patterns toward the end of their normal working lives than today's elderly women. However, the labor force participation data cited earlier suggests that women's work patterns are shifting significantly. This shift is also apparent in Table 6 where a lack of covered earnings for women of different ages are compared early in their normal career period. The

TABLE 6

PERCENT OF WOMEN BY AGE IN 1977 WITH NO SOCIAL SECURITY COVERED EARNINGS DURING YEAR IN WHICH THEY WERE SPECIFIED AGES

Age in 1977	Percent Without Covered Earnings at Age 21	24	27	30
31 to 35	46.1%	47.5%	53.3%	50.6%
36 to 40	48.3	53.0	53.5	52.8
41 to 45	55.0	61.0	63.3	61.0
46 to 50	63.1	61.9	65.1	63.2
51 to 55	79.4	71.8	68.9	65.9
56 to 60	93.7	87.8	79.7	75.1

SOURCE: EBRI Tabulations of Social Security Administrative data matched to March 1978 and May 1979 Current Population Surveys.

magnitudes of the differences across the oldest to youngest age group shows the extent of women's changing work patterns in only one generation. Among the women aged fifty-six to sixty in 1977, 93.7 percent had no covered earnings when they were twenty-one. By comparision, the cohort of women twenty-five years younger, had only 46.1 perent with no covered earnings. While the differences at age thirty in their respective work careers is not so large it is still highly significant.

Where Table 6 reflects changing exposure of women by the world of work outside the home Table 7 reflects the changing intensity of that exposure. The latter table shows the percentage of women who had Social Security covered earnings in each year in specific ten year intervals during their lives. There are two clearly distinctive trends that are reflected in the data. First, at each age, the younger cohorts of women are more likely to work than their counterparts than the older cohorts had been. Second, within each age cohort, as women aged they were more likely to have earnings on a regular basis than when they were younger.

TABLE 7

PERCENT OF WOMEN WITH SOCIAL SECURITY COVERED EARNINGS DURING SELECTED PERIODS OF THEIR NORMAL WORKING LIVES

Age in	Percent of Women Who Worked in Each Year Betweeen Ages			
1977	21 - 30	31 - 40	41 - 50	50 - 60
31 - 35	12.1%	NA	NA	NA
36 - 40	10.1	NA	NA	NA
41 - 45	8.7	17.8%	NA	NA
46 - 50	7.5	18.0	NA	NA
51 - 55	3.5	13.7	29.1%	NA
56 - 60	0.9	9.2	26.3	NA
61 - 65	NA	8.4	23.7	26.8%
66 - 70	NA	3.3	18.0	26.6
71 - 75	NA	NA	9.6	22.3
76 - 80	NA	NA	7.1	20.2

SOURCE: EBRI tabulation of Social Security administrative data matched to March 1978 and May 1979 Current Population Surveys.

NA - Not available

As these consistent trends continue to evolve, the changing role of women in the work force is going to expose them to the pension system to a much greater degree than earlier cohorts of women. The expansion of the pension system itself is going to accentuate the effects of women's increased labor force attachment.

PROPOSALS TO MODIFY PRIVATE PENSION PROVISIONS

One issue that remains to be resolved is whether the pension system as it is currently configured can adequately meet the challenge of providing meaningful income security for women or if there are particular adjustments that need to be made to assure the equitable treatment of women. While it is clear that the pension situation is improving bills, such as S.19 and S. 888 suggest that at least some policymakers feel more needs to be done. This raises a set of questions about the potential effectiveness of these and similar proposals in actually enhancing the pension protections of women.

Reducing Pension Participation Ages to 21

The proposals to reduce the ERISA participation standard of age twenty-five to twenty-one, in theory, will affect a significant segment of the workforce. In May 1979 there were 11.1 million workers between the ages of twenty-one and twenty-four in the United States. Of these 5.1 million, or 46.4 percent were working for an employer who did not have a pension plan as shown in Table 8. Another 2.6 million or 23.4 percent were already participating in a plan but had not yet vested. Slightly more than 1.1 million or 10.3 percent had already vested in their current employer's plan. That leaves about 2.2 million workers or 19.9 percent of the twenty-one to twenty-four year olds working for an employer with a pension in which they were not yet participating who could potentially benefit from the reduced participation provisions. Of these 2.2 million slightly more than half, 54.5 percent were women. At the time these data were collected there were slightly more than 39 million women working in the United States according to the same survey. So we are talking about potentially increasing the participation rate among women by about 3 percent.

TABLE 8

PENSION STATUS OF WORKERS AGED 21 to 24 IN 1979 BY SEX

	TOTAL		MEN		WOMEN	
	Number (millions)	Percent	Number (millions	Percent	Number (millions)	Percent
Total 1/	11.1	100.0	6.0	100.0	5.0	100.0
Not Covered	5.1	46.4	2.9	48.0	2.2	44.5
Participants						
Not Vested	2.6	23.4	1.5	25.2	1.1	21.3
Vested	1.1	10.3	0.6	10.4	0.5	10.1
Nonparticipants	2.2	19.9	1.0	16.4	1.2	24.2

SOURCE: EBRI Tabulations of the May 1979 Current Population Survey.

1/ Totals may not sum exactly because of rounding error.

Note that the word "potentially" should be stressesd in this context. Of the 2.2 million covered nonparticipants identified in Table 8, 48.5 had been on their current job less than one year, and 13.6 percent worked less than 1,000 hours per year. Among the women between the ages of twenty-one and twenty-four, as seen in Table 9, a slightly smaller portion, 46.7 percent, had been in their job less than one year. A slightly larger portion of the women 14.6 percent worked less than 1,000 hours per year.

TABLE 9

WORKERS AGED 21 TO 24 IN 1979 NOT PARTICIPATING IN THEIR EMPLOYERS' PENSION PLANS BY TENURE, HOURS WORKED AND SEX

	TOTAL		MEN		WOMEN	
	Number	Percent	Number	Percent	Number	Percent
Total Non-participants	2.2	100.0	1.0	100.0	1.2	100.0
Less than one year on current job	1.1	48.5	0.5	50.6	0.6	46.7
Working less than 1000 hours per year	0.3	12.6	0.1	12.4	0.2	14.6

SOURCE: EBRI Tabulations of the May 1979 Current Population Survey.

Table 10 shows that in 1979 there were slightly more than 1.1 million workers in the twenty-one to twenty-four age group who had been with their employer for a year or more. Of these about one-half million were men and 600,000 were women. Between 86 or 87 percent of both sexes were working more than 1,000 hours per year. Reducing the ERISA participation standard to age twenty-one would have increased the pension participation rate among women by 1.4 percent in 1979. It would have increased the rate among men by 0.8 percent.

The total number of new pension participants that would have resulted if the participation age had been reduced to age twenty-one in 1979 would have been less than 1 million. By comparision, there were 1.1 million participants in defined contribution plans newly qualified during 1979. There were another

TABLE 10

WORKERS AGED 21 TO 24 IN 1979 WITH THEIR EMPLOYERS LESS THAN ONE YEAR AND IN THEIR EMPLOYERS' PENSIONS PLANS BY HOURS WORKED AND SEX

	TOTAL Number (thousands)	TOTAL Percent	MEN Number (thousands)	MEN Percent	WOMEN Number (thousands)	WOMEN Percent
Total	1,136	100.0	491	100.0	645	100.0
Hours Worked per Year Less Than 1000	158	13.9	65	13.3	92	14.3
1,000 or more	978	86.1	425	86.7	553	85.7

SOURCE: EBRI Tabulations of the May 1979 Current Population Survey.

1.0 million participants in newly qualified defined benefit plans. Newly qualified plans during 1980 and 1981 had 3.6 times as many participants as those established in 1979. Newly qualified defined contribution plans in 1982 had 1.4 million participants, and their defined benefit counterparts qualified last year had 1.3 million participants. The newly qualified plans have affected more than twice as many people, both men and women in <u>each</u> of the last four years, as would be affected by reducing the pension participation standard to age twenty-one.

The mere fact that reducing pension participation standards to age twenty-one would raise overall pension participation rates by 1 percent does not mean that there will be a commensurate increase in the ultimate receipt of pension benefits or benefit levels, however. ERISA already provides that years of service beyond age twenty-two are to be counted for vesting purposes, regardless of a pension plans's actual participation standard. Among some defined benefit plan sponsors, once a worker reaches age twenty-five, retroactive service credits are granted under the plan. They often are not granted prior to that time partly because funding of the credit can be delayed, but mostly because of the high turnover rates among younger workers.

Again turning to the analysis of the 1979 survey data the numbers are instructive. We had reached the point that 978,000 of the young workers would have become participants under the age twenty-one participation provision. If one-half of these workers ultimately vest under their current plan then about 489,000 would get benefits. If only one-quarter vest then about 245,000 would receive benefits. If one looks at the vesting rates among the thirty-one to thirty-five year old pension participants in 1979 between 30 and 40 percent were vested under their pension plan. This is probably an outside estimate of the percentage of the twenty-one to twenty-four year old nonparticipants that could be expected to vest in their 1979 employer's plan by 1989. But the ones who will vest under an age twenty-one participation standard will likely vest under current ERISA standards anyway. In other words, somewhere between one-quarter and one-half million, or 2 to 4 percent of the twenty-one to twenty-four year olds might get slightly higher benefits under the lower participation standards. This represents about 0.7 percent of all pension participants. The basic question that policymakers should consider is whether it is worth substantially increasing pension administration burdens for such a small benefit gain. Increasing the cost of doing business, as we all appreciate, makes U.S. employers less competitive with foreign competition in U.S. interests as well as the world markets.

Changing Break-In-Service Provisions

As a supplement to reducing the ERISA pension participation age standard it has also been proposed that the break-in service rules be modified. Under ERISA a break in service occurs when a plan participant has no more than 500 hours of service during a plan year as defined for accruing a unit of benefit under the plan. This can be a calendar year, a plan year or twelve consecutive months. No benefit accrues during the period of the break in service.

Not only is the current accrual foregone during a break in service but in certain instances former accruals are lost as well. If the person has vested prior to the break then previously earned benefits are protected. If a person is in a plan with a graded vesting schedule benefits already vested are protected. On return to the employer after a break in service and after one year back under the plan, pre- and post-break service are combined to determine the position on the vesting schedule. This includes the year of service during the waiting period after return to the employer. For a worker who has not vested a break in service means complete forfeiture of accrued benefits unless the person returns to the employer before the duration of the break in service equals the duration of the pre-break service. If a worker returns to an employer prior to the break equalling pre-break service then after a minimum of one year, pre-plus post-break service will be considered under the plan. This includes the one year waiting period.

The Retirement Equity Act (S.19) would change the treatment of maternity and paternity leave for purposes of determining a break in service. Up to 501 hours of service that would be creditable to the individual if such leave were not taken would be counted as hours of service for purposes of determining if a break in service has occurred. In other words, S.19 would permit up to one year of childbirth related leave with no break in service occurring if the employee returns to work. The Economic Equity Act (S.888) goes somewhat further than S.19 in that it would deem the employee on approved maternity or paternity leave to have performed twenty hours of service for the employer per week, for up to fifty-two weeks. Where S.19 would eliminate the break in service for a worker on maternity and paternity leave for up to one year, S.888 would continue to provide service credits and pension accruals during the one year leave period.

A fundamental question raised by the break-in service provisions in S.19 and S.888 is whether these measures will significantly increase the retirement income security of women in the work force. Put somewhat differently, does maternity leave result in significant loss of service credits in private pensions under ERISA at the present time? This latter question is one that can be addressed empirically using the Social Security data matched with the Current Population Survey data utilized in the earlier analysis of women's working patterns.

The survey data gathered in early 1979 provides information on work behavior during 1978 and tenure with the current employer. The historical Social Security data allow one to trace the earnings patterns of workers over the periods of specified tenures. Comparing tenures with previous work patterns gives an indication of the extent to which breaks in service may be occurring under current law. For this analysis we focused on women aged thirty-five to forty-five in 1979 who were working in May 1979 and indicated that they had been with their employers for five or more years. For women who had been with their employer prior to age twenty-two, only years after their twenty-second birthdays were considered. Furthermore, only women who had been with their employer for five or more years were included in the analysis.

This particular age group of women was chosen because they were toward the end of their childbearing years and their recorded tenure would have fallen totally within their fertile years. There were approximately 7.6 million working women between these ages in 1979. Women who had been with their employer for five years or more were selected because each women had been with their employers long enough that any breaks in service could have had a direct effect on their vesting status. There were roughly 2.4 million women in this tenure class in 1979, representing nearly one-third of all working women in the age class chosen for this analysis.

Table 11 shows the distribution of these women by tenure and work pattern. Over 80 percent of the women had worked in every year over their tenure in their current job, ranging from slightly more than ninety percent of those in jobs five to nine years to three-fourths of those in their jobs 15 years or more. Another 6 to 15 percent had worked in every year but one. For most of these women, their work pattern in their current job is remarkably stable. Women with stable work patterns will gain little, if anything, from the provisions in either S.19 or S.888.

In order to assess the magnitude of the potential gains under either of these bills we simulated the current ERISA breaks-in-service provisions over the current job of thirty-five to forty-four year-old women with five or

TABLE 11

TENURE AND WORK PATTERNS OF WOMEN AGED 35 to 44 DURING 1979

	Tenure With Current Employer		
Work Patterns	5-9 Years	10-14 Years	15 or More Years
Worked Every Year	90.3%	82.8%	74.3%
Missed 1 Year	6.1	9.0	15.3
Missed 2 Years	1.8	4.4	0.0
Missed 3 Years	0.6	2.7	2.0
Missed 4 Years	1.2	--	6.6
Missed 5 Years	0.0	1.1	1.9

SOURCE: EBRI tabulations of Social Security administrative data matched to March 1978 and May 1979 Current Population Surveys.

more years of tenure reported on the 1979 Current Poplation Survey and matched with Social Security historical earnings data. We checked the frequency with which consecutive years with no earnings (i.e., a break in service) exceeded prior years on the current job in accordance with the tenure estimate provided by the woman in the 1979 Survey. Surprisingly, in the approximately 4,300 records representing 2.4 million workers, we did not find a single instance where the consecutive years with no earnings in the record exceeded the prior years of service within the stated tenure time frame. One reason is that relatively low levels of earnings result in quarters of Social Security credit. For example, in 1977, $1,000 of covered earnings could result in four quarters of credit being earned.

In order to make our simulation somewhat more realistic we treated any year in which less than four full quarters of Social Security credits were earned as a break-in-service year. In this simulation we only came up with 5 percent of the thirty-five to forty-five year old women with more than five years tenure who would have lost service credits under the current break-in-service rules. We are convinced that a somewhat larger portion of these women would have suffered credit losses due to breaks in service than our simulation results would suggest. However, the very consistent year-to-year work patterns of women in these age ranges who have sufficient tenure to make vesting a high probability suggests this group of women will benefit little from the break-in-service provisions in S.19.

A subsequent simulation that we ran computed periods of nonwork over the specified tenure for the sample of women we were analyzing. Here we found that 14 percent had years in which they had no earnings during their tenure on their current job. This means that the service credits that S.888 would provide during maternity breaks would affect significant numbers of workers, although less than one in five. There is an equity question that may be raised by requiring service and accrual credits for periods not worked during maternity and paternity leave. While the process of birthing and parenting children is certainly meritorious, there are other meritorious activities that people undertake that also result in breaks-in-work tenure. It is one thing to say an employer should not disregard already earned credits because of a service break, it is another to say that in certain instances those breaks in service should be credited as though a service has been rendered to the employer.

Other Potential Policy Options

If reducing the participation standards or adjusting the break-in-service provisions will not result in significantly greater pension benefits to most women then what options can be pursued? In the process of seeking out potential measures, policy makers should understand that various groups of women will be affected differently. The early part of this analysis showed that the work patterns of older women were significantly different than today's younger working age women. Because older women have already reached or are nearing retirement, virtually nothing can be done to affect early career accruals for these women.

Certainly better communication and utilization of joint and survivor options can improve the retirement income security of older women. While the information on current utilization rates of joint and survivor options is scanty the general impression is that many widows are being left in old age without benefits. The prevalence of life insurance coverage among pension participants as part of a diversified benefits package may make the low rates of joint and survivor selection a smaller problem than it seems on its surface. Increasing the tax deductibility limits on employer provided life insurance might go further in providing retirement income security for surviving widows than any of the joint and survivor provisions in either S.19 and S.888.

For younger women who are increasingly working outside the home the situation is significantly different than for their mother's generation. The extent to which women take on stable, enduring work patterns the current system will work for women similarly to men. For women with an extended pattern of erratic and part-time employment the likelihood of accruing a meaningful pension will be slight in any event. This same work pattern will also result in low Social Security primary entitlement. However, the Social Security actuaries predict that by 2010 when the baby boom generation begins to retire that only 10 percent of retired worker beneficiaries will have spouses receiving a spouse benefit rather than their own entitlement. The increases in women working outside the home will comparably increase their pension claims.

Some analysts looking at current pension recipiency levels among older women are looking for adjustment to pension policy that will make pensions more effective retirement income security for women in general. One option that is often proposed is to reduce the vesting standards under ERISA. One reason this option often seems attractive is that many people confuse the stability of the benefit formula in the common defined benefit plan with the actual pattern of benefit accrual or value of benefits under these plans.

To show the difference we simulated a hypothetical plan that provided 1.5 percent of final-three-year-average salary for each year of credited source payable at age sixty-two for a set of hypothetical workers with different earnings and career patterns. We assumed 5 percent inflation and tested a range of real wage growth patterns. We assumed that retirement benefits were not indexed, an assumption that had no practical effect on the accrual patterns. Finally, we assumed a 7 percent discount rate for purposes of calculating the present value of benefits at various ages.

The results of our simulations are shown in Table 12. Two things are apparent from the table. First, the largest accruals of retirement income security occurs in the last five to ten years of the career regardless of the entry age. Second, accruals are larger during the early years under the plan the older the worker is at employment. Moving to three or five year vesting for young workers covered by defined benefit plans will provide minimal accruals. In fact, if the participation standards were reduced to age twenty-two, the vesting standards were reduced to five years and the cash out option adjusted to include all benefits valued at less than $3,500, the

TABLE 12

PATTERNS OF BENEFIT ACCRUALS UNDER A HYPOTHETICAL DEFINED BENEFIT PENSION FOR VARIOUS WORKERS WITH SPECIFIED AGES AT EMPLOYMENT AND RETIREMENT AT AGE 62

Age at	Percent of Ultimate Benefit Value Accrued at the End of						
Employment	5 Years	10 Years	15 Years	20 Years	25 Years	30 Years	35 Years
22 1/	0.1-0.2%	0.4-0.6%	1.4-1.6%	4.0%	9.5%	21.3%	46.6%
32	0.4-0.7	2.0-2.7	6.6-7.6	18.6-18.9	44.4	100.0	-
42	2.3-3.8	10.6-14.2	35.8-40.0	100.0	-	-	-
53	22.1-26.6	100.0	-	-	-	-	-

SOURCE: Computed by the author; see text for assumptions.

1/ Assumes service credits from age twenty-two.

overwhelming majority of workers who would become eligible for added benefits under these policy changes would end up receiving a cash distribution. If these cash distributions are rolled into IRAs then some small but marginal enhancement of retirement income security would result from such a combination of policy changes. There is not yet evidence to suggest that such rollovers occur regularly, however. Our own experience with the EBRI plan is that most workers who leave and receive cash distributions do not roll them into alternative retirement security vehicles. The May 1983 Current Population Survey data gathered by Census through the support of EBRI and the Department of Health and Human Services will ascertain the extent that such cash distributions occur and the use to which such monies are put when received.

Some analysts argue that defined contribution plans offer a much smoother path of benefit accruals over the career than those shown in Table 12, and thus are preferable. They argue that a combined policy of converting defined benefit plans to defined contribution plans and shorter vesting will result in more equitable distribution of pension contributions and more efficient operation of the pension system in providing retirement income security. These arguments are based on certain preconceived notions and assumptions about personal behavior that are not founded on fact.

For a specific individual embarking on a career, if the lifetime work and earnings pattern is known or assumed, and inflation and market rates of return are known or assumed then a defined contribution plan can be designed that would provide an identical accumulation by the date of retirement as any specific defined benefit plan. Few of us know all of the twists and turns our careers will take, however, as we embark upon them. For the sake of discussion, however, let us assume that we design our two plans to provide equal benefits at the end of a full career of forty years. Then we can trace how workers with alternative career patterns fare under the two plans.

The worker who enters these plans at an early age and leaves after ten years will be far better off under the defined contribution plan in most instances. The value of accumulated contributions could easily be five times the value of accumulated benefits. Upon withdrawal from the plan the contributions can usually be cashed out whereas the benefit will not be payable until retirement in most instances. If the contribution accumulation is rolled into an IRA then the young workers have made significant progress toward their retirement income security. If they buy a car, take a vacation or pay off their bills then the story is somewhat different.

Another worker who enters our plans in mid-age will fare somewhat differently. If they only stay ten years then their experience will be similar to the young worker but the difference in the value of the two accumulations will be much smaller at withdrawal. The defined contribution accumulation will only be about 1.5 to 2.0 times the value of the defined benefit accumulation at withdrawal. For the mid-age entrant staying to retirment the value of the defined benefit accumulation can be as much as 26 percent greater than under the defined contribution plan.

Even the worker who enters at an early age and stays through the whole career may fare somewhat differently under the two plans although the plans are designed to provide identical benefits. Under the defined benefit plan,which will link benefits to final salary in most instances, the benefit is not tied to the lifetime investment experience of the retirement portfolios. Under the defined contribution plan the positive aspects of unexpectedly high rates of return accrue to the individual -- but so do the adverse effects of market losses. It is conceivable that two workers with almost identical work careers and contributions to a retirement stock portfolio could end up with extremely different retirement accruals merely because they reached retirement age a couple of years apart. The worker retiring and annuitizing his or her accumulation at a market peak could easily have an annuity 50 percent greater than a fellow worker retiring two years later at the bottom of a market trough. Under the defined benefit plan the worker is insulated from market variations in the value of asssets in the pension trust fund.

For many workers one plan may be preferred to the other because they anticipate their career will dovetail most neatly with a particular type of plan. Certainly all women will not prefer one type of plan over the other. The prevailing characteristics of their work patterns, however, suggest that many women should be particularly interested in pension programs that target accruals toward the latter part of the working career. Defined benefit plans do this to a greater extent than their defined contribution counterparts.

FORMULATING PENSION POLICY WITH INFORMATION VOIDS

One of the most important elements in the deliberations of the National Commission on Social Security Reform was the availability and use of good information. Because of information the Commissioners could all agree on the nature of the current situation. Chairman Greenspan repeatedly came back to the point in the early deliberations that until the Commissioners could agree on the facts of the present dilemma that it would be impossible to discuss reasonable policy options. And before the Commission began their serious and difficult deliberations on the policy options they did agree on the facts.

One of the single most frustrating elements of the pension policy process is dealing with the insufficient information on which to analyze current policies or alternative options. To a certain extent a great deal more information exists than is brought to bear on analysis of the relevant policy issues. We can cite two specific examples where information is being or has been collected but has not been available or is not available in a meaningful form for policy analysis.

First, ERISA requires extensive disclosure of information by private pensions. It also requires detailed statements on the levels of liabilities and the funding status of these plans. Finally, the reports require detailed disclosures of the types of assets held in pension portfolios. Our estimates are that it may cost private sector employers as much as $100 million per year to file these reports. If these reports were sampled on a statistical basis, edited and made available to the public the evolution of the U.S. pension system could be traced over time. Long-term trends as well as the effects of cylical variations and structural changes in the economy on plan participation and funding levels could be monitored. The implications of financial market variations, inflation and other economic variations on the financial health of plans could be understood.

Yet these data are not made available in a readily usable fashion. A couple of years ago IRS developed a sampling and editing system to provide annual files of these data on a timely basis. They developed a public use file of the 1977 plan year reports which we have used extensively for analytic purposes. No subsequent annual files are yet available to the public nor does IRS have any funding to implement the ongoing statistical program they developed.

Second, Arthur Young and Company, under contract to the Department of Labor, collected program data from a sample of roughly 400 private pension plans during 1978 with approximately 600,000 beneficiaries. The data from the pension beneficiaries was matched to Social Security administration record data. While no research reports have been released by DOL utilizing these data they would show average pension benefits in 1978 based on actual program data in comparison to actual Social Secureity benefits on the record. Similar data are available on survey data sets but it is well known that underreporting is a serious problem in these data.

These matched data are the richest known source of program information showing combined Social Security and pension income streams. These data could provide a more comprehensive and accurate picture of pension recipients' income levels than any of the clearly flawed survey data on which we now must depend. While the DOL research staff and various analysts under contact have analyzed this information over the last two years these data are not available for public use. The DOL staff is concerned that since the data have been matched to the Social Security data that they cannot be made available to private analysts. It makes no difference that the Social Security data is basically of identical nature to that matched to the 1978 Current Population Survey which is publicly available and was the basis for much of our analysis in this testimony. In effect, although information that could effectively improve our understanding of private pension policy has been collected at public expense it is not and will not be generally available to the pension policy analysis community. The Congress could improve this situation by clarifying the restrictions in the Tax Act of 1976 limiting the use of these data for research purposes.

As a result of the informational gliches in the pension area on policy deliberations often are colored by misstated or misleading information. For example, Senator Mark O. Hatifeld in his remarks introducing S.918 on March 24, 1983 stated: "In fact, only 21 percent of women workers are covered by pension plans compared to 49 percent of men." 14/ The May 1979 Current Population Survey conducted by the Census Bureau found that 15.0 million women were participating in a pension plan at that time out of 39.2 million working women. Stated alternatively, 38 percent of working women were participating in a plan in 1979. Another 5.6 million or 14 percent of working women were covered by a plan but not yet participants. Among women between the ages of twenty-five and sixty-four in wage or salary positions who had been with their employer for one year or more, 61.8 percent were participating in a pension plan in 1979. In other words, Senator Hatfield's estimate of the portion of working women covered by a pension was off by 81 percent if he was talking about participation or 148 percent if he was talking about coverage. Looking at that segment of the female workforce for whom pension accruals might actually be meaningful the picture is even better yet. As the Senate concerns itself with pension policy issues it may want to address the extremely serious problem of informational voids that now exist in this critical area.

CONCLUSION

This concern about the availability and interpretation of pension data is central to EBRI's charter and goes beyond the deliberations on any bills now before the Senate. The problem that we are concerned about is that policy is

14/ Bureau of National Affairs, BNA Pension Reporter, Vo. 607 (April 4, 1983) p. 607.

being deliberated without the benefit of the facts. We are convinced that without the facts, policy deliberations will be misleading with the potential that ill-advised or ineffectual but expensive policies will be the ultimate result. This result ends up harming the intended beneficiaries and the entire nation by increasing the cost of our products and decreasing competitiveness of U.S. companies, ultimately costing Americans jobs, reducing tax revenues, and increasing social program expenditures.