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WHAT'S INSIDE

Peter Brady, ICI Senior Economist, and Michael Bogdan, ICI Associate Economist, prepared this report.

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This paper is a summarized update to an *ICI Research Perspective* first published in November 2010. For more analysis, sources, and references, see "A Look at Private-Sector Retirement Plan Income After ERISA" (available at www.ici.org/pdf/per16-02.pdf).

As part of this update, additional tabulations are available in the supplemental tables, which provide the data needed to replicate the figures contained in the November 2010 report for the years 1975 to 2011 (available at www.ici.org/info/per18-05_data.xls).

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A Look at Private-Sector Retirement Plan Income After ERISA, 2011

KEY FINDINGS

» **Retirement income generated by private-sector retirement plans has become more prevalent—not less prevalent—since the passage of ERISA in 1974, and this is true across all income groups.** In 2011, 33 percent of retirees received private-sector retirement plan income—either directly or through a spouse—compared with 21 percent in 1975. Among retirees with private-sector retirement plan income, the median amount of income received per person in 2011 was $6,300, compared with $4,700 in 2011 dollars in 1975. Further, the survey data used to analyze retiree income do not fully capture distributions from DC pension plans and IRAs, and thus likely underestimate the increase in retirement plan income since ERISA.

» **The share of workers with access to pension plans at their current employer has been substantial and fairly steady since 1979.** While coverage has been consistent, an increasing share of private-sector workers has worked for employers that sponsor DC pension plans, and a decreasing share has worked for employers that sponsor DB pension plans.

» **The extent to which retirees have depended on private-sector retirement plans may be overstated by looking only at statistics on retirement plan coverage because coverage does not always result in retirement income.** Although many retirees worked at employers that sponsored DB pension plans, the combination of vesting rules, the timing of benefit accrual, and labor mobility resulted in many retirees getting little or no retirement income from private-sector retirement plans.

» **In 1975, when nearly 90 percent of private-sector workers with retirement plans were covered by DB pension plans, only about one in five retirees received any income from private-sector retirement plans.** Among retirees with private-sector retirement plan income in 1975, the median amount of annual income received per person was $4,700 in 2011 dollars.

Key findings continued on the next page

- **Social Security benefits consistently have been the largest component of retiree income and the predominant income source for lower-income retirees.** In 2011, Social Security benefits were 57 percent of total retiree income and more than 85 percent of income for retirees in the lowest 40 percent of the income distribution. Even for retirees in the highest income quintile, Social Security benefits represented one-third of income in 2011. Over the past 37 years, the share of retiree income from Social Security has averaged 53 percent.

- **By supplementing Social Security, retirement plans play a complementary role in the U.S. retirement system.** The formula used to calculate Social Security benefits ensures that Social Security replaces a much higher portion of earnings for workers with lower lifetime earnings. Not surprisingly, higher-income retirees have typically gotten a lower portion of their income from Social Security benefits and have relied more on retirement plan income.

Introduction

The Employee Retirement Income Security Act of 1974 (ERISA) established sweeping changes in the regulation of pension plans, including new rules on plan funding and participant vesting. ERISA was primarily aimed at "assuring the equitable character" and "financial soundness" of defined benefit (DB) pension plans (see ERISA [Public Law 93-406] § 2). Since the enactment of ERISA, two trends have changed the nature of retirement savings. First, a decreasing share of private-sector employees has worked for employers that sponsor traditional DB plans and an increasing share has worked for employers that sponsor defined contribution (DC) pension plans, particularly 401(k) plans. Second, individual retirement accounts (IRAs), created by ERISA, have become increasingly important as a repository for pension benefits of all types—private-sector and public-sector plans, as well as DB and DC plans—accrued by employees who have separated from their employers, either due to retirement or job change.

The movement away from employer-managed DB plans toward employee-directed DC plans—or, in the case of assets transferred to an IRA, toward accounts outside of the employer plan system—has raised concerns among some in the public policy community. These concerns typically focus on whether Americans will have adequate retirement resources and whether they have the ability to manage assets prior to and in retirement. To help provide context for retirement policy discussions, this paper examines the role that private-sector pensions historically have played in providing retirement income.

Decline in the Share of Workers Covered by Private-Sector DB Pensions

The share of workers with access to pension plans at their current employer has been fairly steady since 1979, the first year for which these data are available (Figure 1). Focusing on private-sector wage and salary workers over the period from 1979 to 2011, the portion of private-sector workers who worked for employers that sponsored plans averaged 54 percent and ranged from 50 percent to 60 percent. Although the overall share of workers with access to workplace retirement plans did not change markedly over this period, there was a shift in the type of pension plan offered. For example, the U.S. Department of Labor (DOL) estimates that 87 percent of active participants in private-sector retirement plans had primary coverage through DB plans in 1975, compared with 44 percent in 1998.

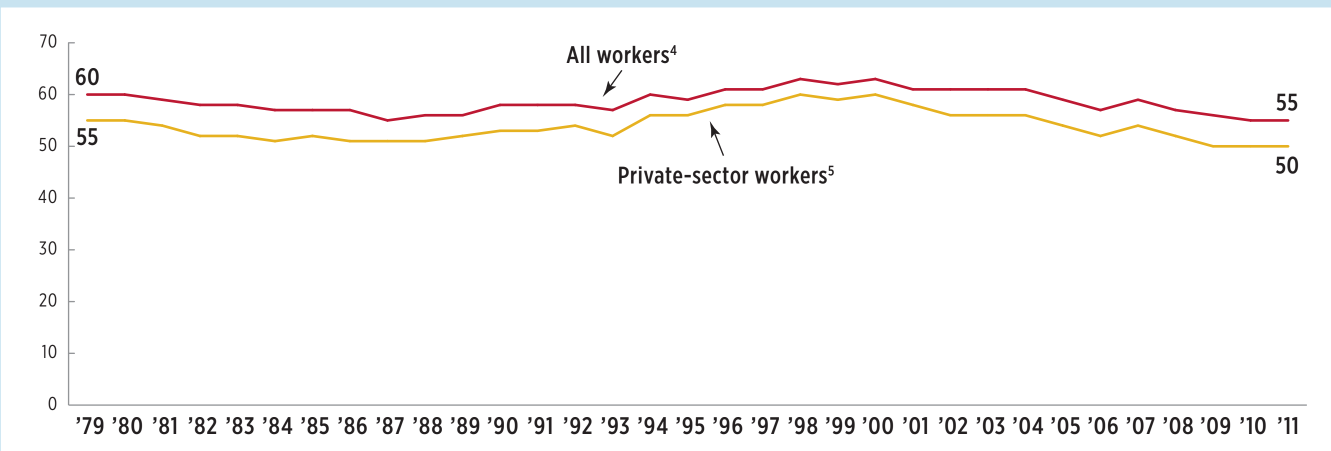
DB Pension Coverage Does Not Always Generate DB Pension Income in Retirement

The extent to which retirees have depended on private-sector pensions may be overstated by looking only at statistics on pension coverage, as coverage does not always result in retirement income. In particular, not all employees covered by DB pension plans would have received income from the plans in retirement. Vesting rules, the timing of benefit accrual in traditional DB plans, and the frequency of job change all affect the likelihood that DB plan coverage will generate pension income in retirement.

FIGURE 1

Pension Coverage Has Been Stable over Time

Workers aged 21 to 64 at employers sponsoring[1] pension plans[2] as a percentage of wage and salary workers,[3] 1979–2011



[1] The survey question asks workers if the employers or unions that they worked for in the previous year offered pension plans or other types of retirement plans to any of their employees.

[2] Pension plans include both DB and DC pension plans.

[3] Excludes self-employed workers.

[4] The series plots all wage and salary workers covered by a pension plan as a percentage of all wage and salary workers.

[5] The series plots all private-sector wage and salary workers covered by a pension plan as a percentage of all private-sector wage and salary workers.

Source: ICI tabulations of March Current Population Surveys

Vesting Rules

Pension benefits are vested when a worker's accrued benefits cannot be revoked for any reason, including termination of employment. Prior to the enactment of ERISA, there was no federal statutory requirement for vesting of pension plan benefits.

ERISA placed minimum vesting requirements on private-sector pension plans. For example, ERISA required plans with "cliff vesting"* to vest 100 percent of accrued benefits by 10 years of service or fewer. ERISA vesting requirements generally went into effect starting in 1976. Prior to the passage of ERISA, only 27 percent of active private-sector DB plan participants were in plans that already met the ERISA minimum vesting requirements.†

The Tax Reform Act of 1986 (TRA '86) tightened the minimum vesting requirements established by ERISA. For example, TRA '86 required plans with cliff vesting to vest accrued benefits in five years or fewer. These vesting requirements generally went into effect starting in 1989. Prior to the passage of TRA '86, only 5 percent of active DB plan participants were in plans that already met the TRA '86 minimum vesting requirements.

Both the implementation of vesting rules by ERISA and the tightening of vesting rules by TRA '86 preceded increases in the percentage of private-sector DB plan participants who were vested. In 1975, among active participants in DB plans with 100 or more participants, only 36 percent were fully vested. By 1989, the first year that TRA '86 vesting rules were in effect, 58 percent of active DB plan participants were fully vested.

Timing of Benefit Accrual

Even if fully vested, employees who were covered by a traditional DB plan but were separated from an employer before normal retirement age may not have accrued substantial benefits and may have received the benefits as a lump-sum payment at the time of separation from employment.

During a worker's tenure at a firm, the current value of DB plan benefit accruals generally increases as the worker gets older for two reasons. First, because the measure of salary used in the benefit formula typically includes the worker's highest salary, each additional year of service tends to add more than the last to the annual pension benefits that will be paid in retirement. Second, the present value of any given amount of annual pension benefits increases with age because of the time value of money. That is, a dollar of annual income starting at age 65 is worth more (in present value) to a 60-year-old worker than it is to, say, a 30-year-old worker.

More generally, DB pension accruals depend on both the participant's age and the participant's length of employment at the firm. Benefit accrual in a traditional DB plan typically is "back loaded"; that is, all else being equal, the value of accruals in any given year will tend to be much higher for workers with more years of service and for workers who are closer to retirement age. For those workers covered by a DB pension, the back-loaded accrual of benefits places a premium on having long tenure with a single employer and on separating from employment close to retirement age.

* There are two primary vesting methods: cliff vesting and graduated vesting. Under cliff vesting, benefits are not vested until a certain number of years of employment or "service," after which time benefits are 100 percent vested. Under graduated vesting, a portion of benefits vest each year until benefits are fully vested.

† For the source of this statistic and the sources of other statistics used in this paper, see "A Look at Private-Sector Retirement Plan Income After ERISA" (available at www.ici.org/pdf/per16-02.pdf).

How the Terms *Pension Plan* and *Retirement Plan* Are Used in This Report

Often the term *pension plan* is used to refer to a traditional defined benefit (DB) plan, and *retirement plan* is used to refer to a defined contribution (DC) plan. In this *ICI Research Perspective*, the two terms are used interchangeably. Specifically, the term *pension plan* or *retirement plan* refers to both DB plans and DC plans, including 401(k) plans.*

The Department of Labor has stated:

> *"The Employee Retirement Income Security Act (ERISA) covers two types of pension plans: defined benefit plans and defined contribution plans…Examples of defined contribution plans include 401(k) plans, 403(b) plans, employee stock ownership plans, and profit-sharing plans."**

The Current Population Survey (CPS), the primary source of data on pension coverage and pension income that are used in this *ICI Research Perspective*, also does not distinguish between DB plans and DC plans when asking whether a worker's employer offers a plan or when asking whether an individual received income from a plan.

The question for pension coverage in the March CPS is:

> *Other than Social Security, did [any] employer or union that (name/you) worked for in [the past year] have a pension or other type of retirement plan for any of its employees?*

The question for pension income in the March CPS is:

> *During [the past year] did (you/anyone in the household) receive any pension or retirement income from a previous employer or union, or any other type of retirement income [other than Social Security or VA benefits]?*

When subsequently asking for the source of the retirement income, the CPS specifically mentions profit-sharing plans as an example of a "company or union pension."†

* See www.dol.gov/dol/topic/retirement/typesofplans.htm.

† The Internal Revenue Code makes distinctions among pension, profit-sharing, and stock bonus plans. And, because most 401(k) plans are profit-sharing plans, they would be distinguished from pension plans under tax law. However, the distinction between the plans is not because one type is a DB plan and one is a DC plan. Rather, under tax law, the primary difference between pension plans and profit-sharing plans is that employer contributions to DC pension plans cannot be based on company profits, whereas employer contributions to profit-sharing plans may be based on company profits—although they are not required to be. (See 26 C.F.R. § 1.401-1 "Qualified pension, profit-sharing, and stock bonus plans.") For example, money purchase plans are a type of DC plan and they are classified as pension plans under tax law. In general, pension, profit-sharing, and stock bonus plans are governed by many of the same sections of the Internal Revenue Code.

Frequency of Job Change Among Private-Sector Workers

One reason vesting rules and back-loaded benefit accrual can limit the amount of pension income actually paid out by private-sector DB plans is that the workforce is mobile; that is, private-sector workers tend to change jobs and employers on a regular basis. In 2012, among private-sector workers aged 25 to 64, the median current job tenure was five years (Figure 2). This amount of labor mobility is not new: in 1983, the median current job tenure for this same age-group of workers was also five years.

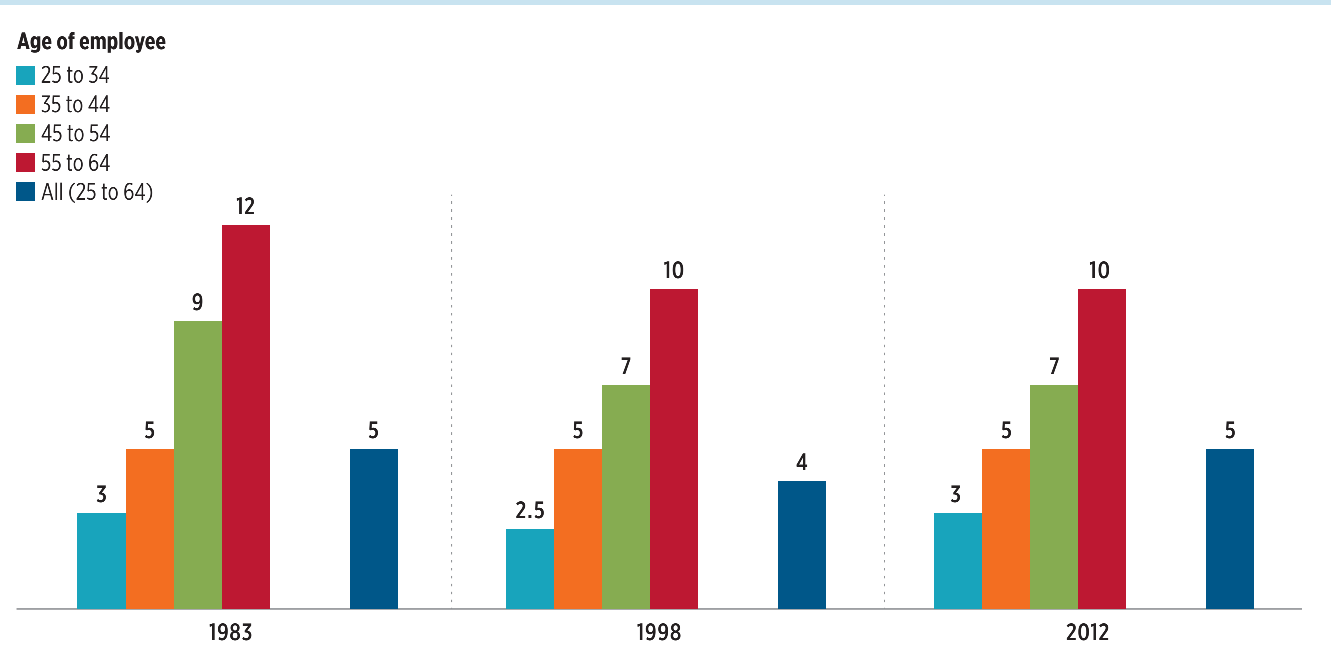
Translating DB Pension Coverage into Retirement Income

It is widely believed that the decline in the share of private-sector workers covered by DB pensions since the passage of ERISA has led—or will lead in the near future—to a substantial drop in retiree income from DB pensions. In addition, there is skepticism as to the ability of DC pensions to fill the void. However, the extent to which previous generations received income from private-sector DB plans cannot be gleaned simply by looking at data on pension coverage.

FIGURE 2

Median Tenure for Private-Sector Wage and Salary Workers

Length of employment at current employer in years by age group, selected years



Source: ICI tabulations of Current Population Surveys

Not all workers covered by DB pension plans would have received benefits from the plans, and the amounts received would likely be less than that implied by simple calculations assuming workers retire after a lengthy tenure with one employer. Private-sector workers change jobs frequently. In order to receive any benefits, workers must participate in a plan long enough to vest. But vesting alone does not ensure benefits will be of great value: the accrual of benefits in a traditional DB plan is typically back loaded, which puts a premium on both having long tenure at a single employer ***and*** separating from service close to the retirement age designated by the plan.

The decline in private-sector DB pensions does not necessarily mean that private-sector DB pension income has become less prevalent among retirees. By itself, the decline in the share of private-sector workers covered by DB plans would have led to a decline in the share of retirees with DB pension income. However, over this same period, shorter vesting periods led to an increase in the share of DB plan participants who had vested benefits. Whether decreased DB pension coverage or increased vesting among DB plan participants had the larger impact on the amount of benefits paid out by pension plans can only be determined by looking at data on retirement income.

The Current Population Survey Measure of Income

The Current Population Survey (CPS) is a monthly household survey conducted by the Bureau of Census for the Bureau of Labor Statistics (BLS). The survey is one of the most widely used sources for data on unemployment, employment, hourly and weekly earnings, and worker demographic information such as industry, occupation, race, and ethnicity. Every March, the BLS supplements the typical monthly survey questions with a special set of detailed questions on the components of income, and those data are used to produce commonly used measures such as the official poverty rate. The "March Supplement" is the only regular source of detailed income data from the CPS.

The CPS March Supplement collects income information for each person aged 15 years or older in the sample. Data are collected on the amount of income received in the preceding calendar year from each of the following sources: earnings, unemployment compensation, workers' compensation, Social Security, supplemental security income, public assistance, veterans' payments, survivor benefits, disability benefits, pension or retirement income (including income from IRAs, Keoghs, and DC plans), interest, dividends, rents, royalties, estates, trusts, educational assistance, alimony, child support, and financial assistance from outside of the household.

The CPS attempts to measure income that is consistent with the concept of income in the National Income and Product Accounts (NIPA) and does not necessarily aim to measure income that is consistent with other definitions of income, such as the definition of income under the federal income tax. In particular, capital gains, whether or not they are realized, are not included in the NIPA definition of income, and are thus not included in the CPS measure.

The income of the household does not include amounts received by people who were members during all or part of the previous year if these people no longer resided in the household at the time of the interview. The survey collects income data for people who are current residents even if they did not reside in the household during the previous year.

In addition, the income data collected by the U.S. Census Bureau include money income received before payments for personal income taxes, Social Security, union dues, and Medicare deductions. Receipts of noncash benefits such as food stamps, health benefits, and subsidized housing are not included.

For additional information, see www.census.gov/cps/.

Historical Data on Sources of Income in Retirement

For the analysis that follows, retirees are defined as individuals aged 65 years or older with income and who, if single, was not working, or, if married, neither the individual nor the spouse was working. To limit the effect on the statistics of those reporting very high or very low income, the highest and lowest 1 percent of the per capita income distribution are excluded from the tabulations. For married individuals, the income of couples is pooled and each spouse is allocated half of total household income, as well as half of household income from each source.

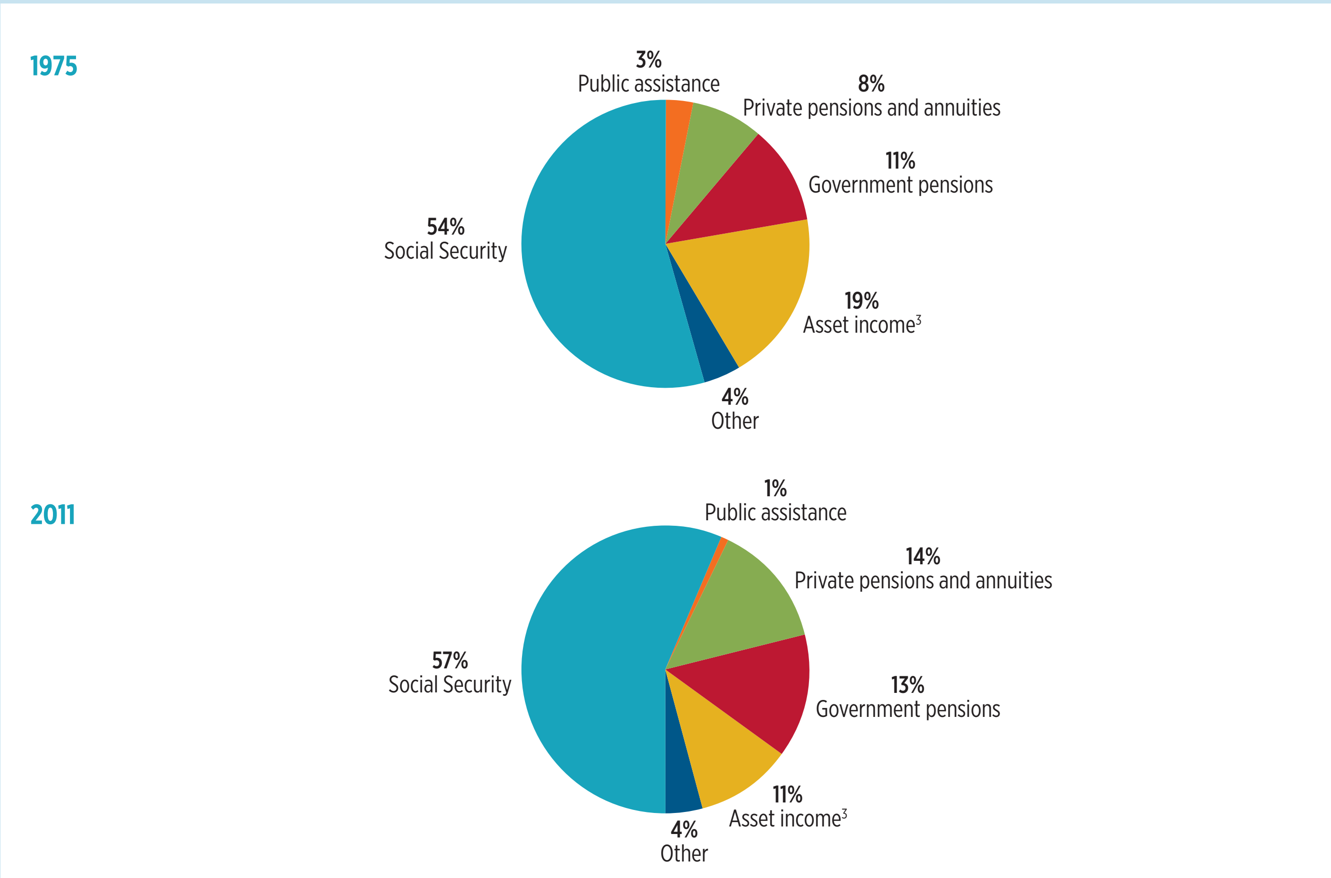
Composition of Retiree Income over Time

Overall, between 1975 and 2011, Social Security remained the primary source of retiree income, and the share of income from pensions increased (Figure 3). As far back as the CPS has data, Social Security benefits have been the most important source of retiree income, having typically accounted for more than half of annual income for retirees as a group. In 2011, 57 percent of retiree income was Social Security benefits—not much changed from the 54 percent of retiree income for which Social Security benefits accounted in 1975. The second most important source of retiree income in 2011 was pension income, with 27 percent

FIGURE 3

Retirement Income by Source over Time

Percentage of total retiree[1] income by source, on a per capita basis,[2] 1975 and 2011



[1] Individuals aged 65 and older with nonzero income and not working; for married couples, neither the individual nor the spouse was working. Sample excludes highest 1 percent and lowest 1 percent of the income distribution.

[2] Income of married couples is pooled and each spouse is allocated half of total household income, as well as half of household income from each source.

[3] Asset income includes interest, dividends, and rents earned on assets held outside retirement accounts.

Note: Components may not add to 100 percent because of rounding.

Source: ICI tabulations of March Current Population Surveys

of income coming from pensions (both DB and DC), about equally split between private-sector and government pensions. This compares with 20 percent of total retiree income from pensions in 1975, with just over 11 percent from government pensions and just over 8 percent from private-sector pensions.*

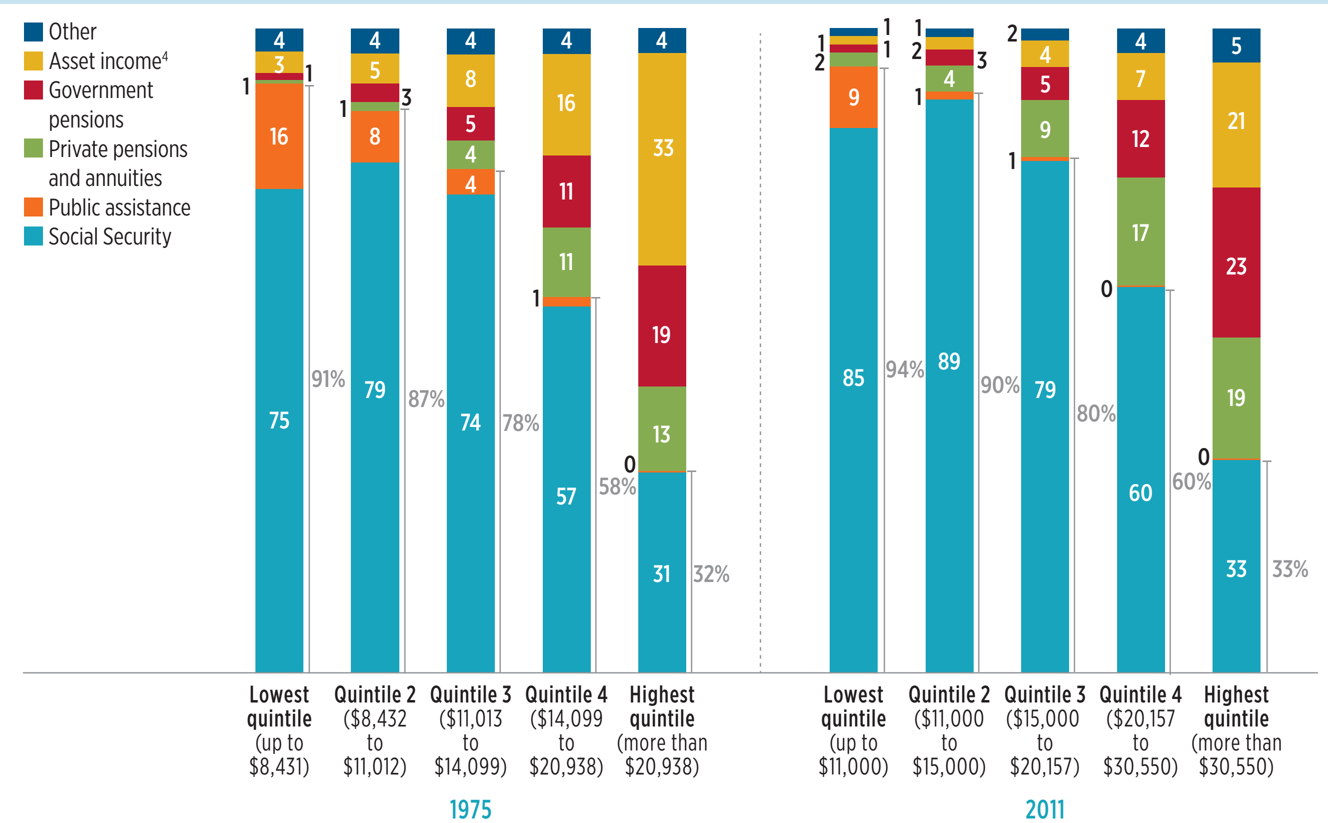
Composition of Retiree Income over Time by Income Quintile

For all but the highest income quintile of retirees, Social Security benefits were the predominant source of income in 2011 (Figure 4). The sum of Social Security benefits and public assistance represented 90 percent or more of income for the lowest two income quintiles. The share of retiree income from Social Security benefits and public assistance declines with income. For the third and fourth income quintiles of retirees, Social Security plus public assistance represented 80 percent and 60 percent of income,

FIGURE 4

Source of Retirement Income by Amount of Per Capita[1] Income

Percentage of total retiree[2] income by source and income quintile,[3] 2011 dollars, 1975 and 2011



[1] Income of married couples is pooled and each spouse is allocated half of total household income, as well as half of household income from each source.

[2] Individuals aged 65 and older with nonzero income and not working; for married couples, neither the individual nor the spouse was working.

[3] The top 1 percent and bottom 1 percent of the income distribution were excluded from the calculations. For more detailed information on the earnings rank calculations, see the notes page in the supplemental tables (available at www.ici.org/info/per18-05.data.xls).

[4] Asset income includes interest, dividends, and rents earned on assets held outside retirement accounts.

Note: Components may not add to 100 percent because of rounding.

Source: ICI tabulations of March Current Population Surveys

* For more detail on these statistics, see the supplemental tables (available at www.ici.org/info/per18-05_data.xls).

respectively, in 2011. Although retirees in the highest income quintile have more varied sources of income, Social Security benefits represented about one-third of this group's total income.

Over time, the role of public assistance in providing retiree income has diminished as Social Security benefits have become more generous, particularly at the lower-end of the lifetime-earnings distribution. Other than this shift, there has been little change in the importance of Social Security benefits in providing retiree income since 1975: Social Security has remained the most important source of retiree income, particularly for lower-income retirees. Throughout the income distribution, the share of income from the sum of Social Security benefits and public assistance was about the same in 2011 as it was in 1975, although more of the income was from public assistance in 1975 (Figure 4).

In contrast to Social Security benefits, the share of income from pensions tends to increase with income (Figure 4). For example, in 2011, the share of retiree income from pensions ranged from 3 percent for the retirees in the lowest income quintile up to 42 percent for retirees in the highest income quintile. The importance of pension income, from both private-sector and government pensions, has increased over time for all retiree income groups. Focusing on private-sector pensions, retirees in the lowest income quintile received 2 percent of income from private-sector pensions in 2011, compared with 1 percent in 1975. For retirees in the middle income quintile, 9 percent of income was derived from private-sector pensions in 2011, up from 4 percent in 1975. For retirees in the highest income quintile, the share increased to 19 percent in 2011 from 13 percent in 1975.

That pension income was a more important source of income for retirees with higher income is not surprising given how policymakers have structured both Social Security and employer-provided pensions. The formula used to calculate Social Security benefits ensures that Social Security replaces a much higher portion of earnings for workers with lower lifetime earnings. To maintain living standards in retirement, workers with higher lifetime earnings have had to rely more heavily on private savings and employer-sponsored pensions to supplement Social Security. In this way, Social Security and employer-provided pension plans are complementary.

The Impact Pension Changes Have Had on Retiree Income

To date, the decline in the portion of private-sector workers who are covered by DB pensions has not led to a reduced share of retiree income from private-sector pensions. The share of retiree income from private-sector pensions has increased over time and throughout the income distribution. Some of this increase may be attributable to the growth of DC pension plans. Indeed, because the CPS data do not fully capture distributions from DC plans and IRAs, the growth in the importance of income from private-sector pensions is likely understated. Some of this increase may be, counter to conventional wisdom, attributable to growth in income from private-sector DB pensions. That is, the effect on retiree income of the decline in the share of private-sector workers covered by DB pensions may have been outweighed by covered workers becoming more likely to receive retirement benefits from the plans as vesting rules were first implemented by ERISA and then tightened by TRA '86.

Trends in the Receipt and Amount of Pension Income

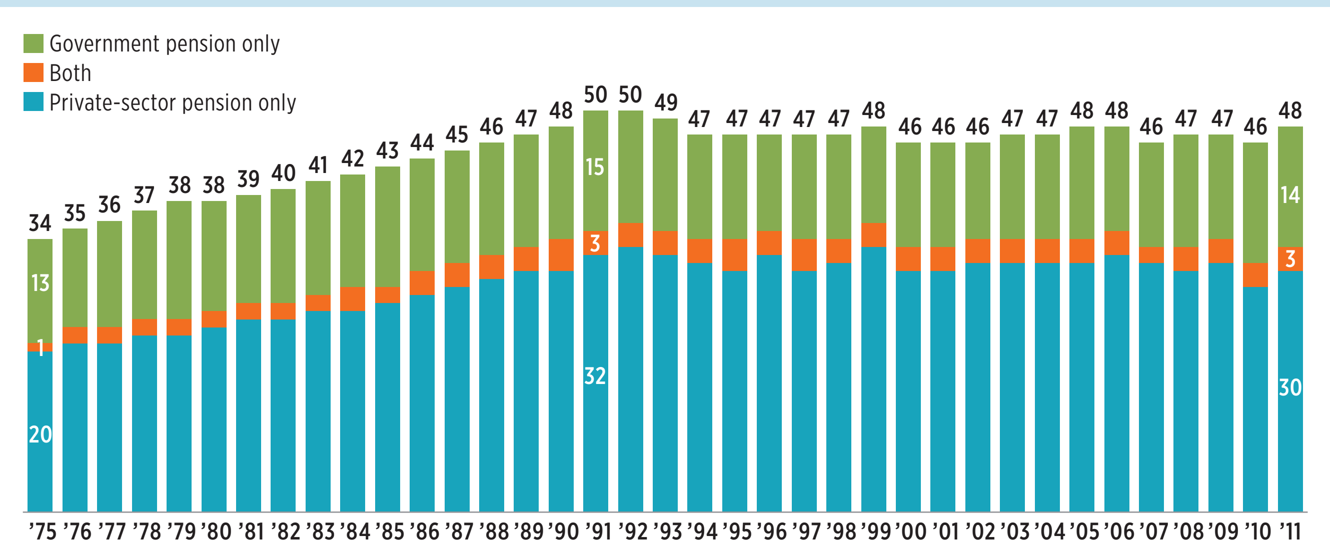
To quantify the potential effects on future retirees of the decline in the share of private-sector workers covered by DB pensions, this section focuses more narrowly on trends in retiree pension income—both the likelihood that retirees receive pension (DB and/or DC) income and the amount of pension income that they receive—measured on a per capita basis. That is, as with the analysis above, each married individual is assumed to have received pension income if either spouse received pension income. If a married couple had pension income, half of total household pension income was allocated to each spouse.

The importance of pension income has increased, not decreased, over time. In 1975, 34 percent of retirees received pension income from either a government or private-sector (DB and/or DC) pension (Figure 5). That percentage increased to 50 percent in 1991. Although the percentage has varied slightly with the business cycle, it has remained above 45 percent since 1991. Focusing on private-sector pensions, 20 percent of retirees received pension income only from private-sector pensions and 1 percent received income from both private-sector and government pensions in 1975. By 1991, these percentages were 32 percent and 3 percent, respectively. Since 1991, the share of retirees with income from private-sector pensions only and from both private-sector and government pensions has remained fairly stable.

FIGURE 5

Receipt of Income from Pensions by Type of Pension

Percentage of retirees with pension income by type of pension, 1975–2011*



*Individuals aged 65 and older with nonzero income and not working; for married couples, neither the individual nor the spouse was working. Sample excludes highest 1 percent and lowest 1 percent of the income distribution.
Note: Components may not add to the total because of rounding.
Source: ICI tabulations of March Current Population Surveys

In 1975, the median per capita pension benefit for the 20 percent of retirees with pension income only from private-sector pensions was about $4,800 per year in constant 2011 dollars (Figure 6). In 2011, the median annual benefit for the 30 percent of retirees who received pension income only from private-sector pensions was about $6,600 per person. Over the entire period from 1975 to 2011, the median per capita private-sector pension benefit averaged about $5,100 per year and ranged from approximately $4,000 to $6,600 in constant 2011 dollars.*

When tabulating the amount of pension income received, it is important to separate private-sector and government pensions. Workers with government pensions tend to have higher pension benefits. However, some of the difference in the amount of pension benefits between private-sector and government pensions is due to the fact that, at least historically, many of these workers were not covered under the Social Security system during the time they worked for the government. On average, lower Social Security benefits of government workers accounted for more than 40 percent of the difference between the median per capita income from government pensions and the median per capita income from private-sector pensions in 2011.

FIGURE 6

Receipt of Income from Government and Private-Sector Pensions[1] Among Retirees[2]

On a per capita basis,[3] 2011 dollars, selected years

	With private-sector pension only			With government pension only			With both private-sector and government pension		
		Per capita income			Per capita income			Per capita income	
Year	Percentage of sample	Median pension	Median pension plus Social Security	Percentage of sample	Median pension	Median pension plus Social Security	Percentage of sample	Median pension	Median pension plus Social Security
1975	20.0%	$4,765	$14,933	12.9%	$10,376	$16,272	1.3%	$14,575	$20,003
1980	22.7	4,192	14,828	13.7	9,105	16,250	2.0	12,299	22,206
1985	25.6	4,091	15,873	14.7	10,069	17,454	2.5	10,862	20,999
1990	30.1	4,754	16,306	14.2	11,343	19,503	3.8	10,926	21,507
1995	30.5	4,887	17,515	12.7	11,172	20,291	3.8	12,637	23,475
2000	29.7	5,970	18,752	13.4	12,098	21,747	3.0	14,402	26,176
2005	31.2	6,114	19,276	13.8	13,926	23,422	3.1	14,785	26,430
2010	28.3	6,214	20,926	14.6	14,912	25,319	3.2	15,099	27,141
2011	29.8	6,576	20,837	14.5	14,400	25,391	3.4	15,716	28,613

[1] This measure includes income from both DB and DC pensions.

[2] Individuals aged 65 and older with nonzero income and not working; for married couples, neither the individual nor the spouse was working. Sample excludes highest 1 percent and lowest 1 percent of the income distribution.

[3] Income of married couples is pooled and each spouse is allocated half of total household income, as well as half of household income from each source.

Source: ICI tabulations of March Current Population Surveys

* For all years, see the supplemental tables (available at www.ici.org/info/per18-05_data.xls).

Private-Sector Pension Income for Alternative Units of Analysis

This section reports the incidence and the median amount of pension income for retirees with private-sector pension income—regardless of whether or not the retirees also had government pension income—using three different methods to tabulate the data.

The left panel of Figure 7 reports the data on the same per capita basis used in the earlier analysis, but includes all individuals with private-sector pension income, including those who also receive government-sector pension income. On a per capita basis, the percentage of retirees receiving income from private-sector pensions increased from 21 percent in 1975 to 33 percent in 2011. In addition to more retirees receiving benefits, among those receiving income from private pensions, the median amount, on a per capita basis, increased from $4,700 in 1975 to $6,300 in 2011, in constant 2011 dollars.

The middle panel of Figure 7 tabulates the data on an individual basis. That is, each spouse in a married couple is considered to have received pension income only if it was paid directly to the individual. Similarly, each spouse is allocated only the amount of pension income paid directly to the individual, rather than being allocated half of the

FIGURE 7

Receipt of Income from Private-Sector Pensions Among Retirees[1]

2011 dollars on a per capita basis,[2] an individual basis,[3] and a household basis;[4] selected years

	With private-sector pension income					
	Per capita basis[2]		Individual basis[3]		Household basis[4]	
Year	Percentage of sample	Median pension	Percentage of sample	Median pension	Percentage of sample	Median pension
1975	21.3%	$4,700	16.8%	$6,869	19.1%	$7,159
1980	24.7	4,176	17.7	6,234	21.7	6,551
1985	28.1	4,053	20.7	5,840	25.1	6,144
1990	34.0	4,542	25.5	6,256	30.6	6,829
1995	34.2	4,751	25.9	6,536	31.0	7,105
2000	32.7	5,837	25.0	7,856	30.1	8,107
2005	34.3	5,919	26.3	7,659	31.8	8,356
2010	31.4	6,214	24.2	8,239	29.5	8,699
2011	33.3	6,300	24.9	8,400	30.6	9,036

[1] Individuals aged 65 and older with nonzero income and not working; for married couples, neither the individual nor the spouse worked.

[2] Income of married couples is pooled and each spouse is allocated half of total household income, as well as half of household income from each source.

[3] Income sources for married couples are not pooled. Any income source is directly attributed only to that individual.

[4] A married couple is treated as a single observation.

Note: Samples exclude highest 1 percent and lowest 1 percent of the income distribution.

Source: ICI tabulations of March Current Population Surveys

couple's total pension income. For single individuals, the two methods yield identical results. For married individuals, the methods produce different results. For married couples where only one spouse receives pension income, calculating pension income on an individual basis results in fewer people counted as receiving pension income compared to the per capita method. On an individual basis, the percentage of retirees receiving income from private-sector pensions increased from 17 percent in 1975 to 25 percent in 2011. However, because the same amount of pension income is spread out over fewer individuals, the individual basis results in a higher amount of income per person receiving pension income than the per capita method. On an individual basis, the median amount of private-sector pension income received increased, from about $6,900 in 1975 to $8,400 in 2011, in constant 2011 dollars.

The right panel of Figure 7 tabulates the data on a household basis. The treatment of single individuals is no different than in the other two tabulation methods. However, a married couple is treated as a single observation and household income is calculated as the sum of the two spouses' incomes. This method of tabulation produces a higher percentage of the sample with pension income than the individual method and a lower percentage than the per capita method. On a household basis, the incidence of private-sector pension income increases from 19 percent in 1975 to 31 percent in 2011. Because it results in a higher median amount of income in the case of married couples where both spouses receive pension income, tabulation on a household basis results in higher median pension income than either the individual or per capita method. On a household basis, the median amount of income increased from approximately $7,200 in 1975 to about $9,000 in 2011, in constant 2011 dollars.

Conclusion

The importance of private-sector DB pensions in providing retirement income is often exaggerated. The time before the emergence of 401(k) plans in 1981 has been characterized by many as the golden age of the golden watch: a time when most private-sector workers retired with a monthly pension check that replaced a significant portion of their pre-retirement income. Against this standard, 401(k) plans are judged to be falling short.

The facts support a different narrative: there was no golden age of pensions. Although many worked at employers that sponsored DB pension plans, the combination of vesting rules, back-loaded benefit accrual, and labor mobility resulted in many retirees receiving little or no retirement income from private-sector pensions. For example, in 1975, when nearly 90 percent of private-sector workers with a pension were covered by a DB plan, only 21 percent of retirees received any income—either directly or through a spouse—from a private-sector pension, and the median amount of income received per individual with private-sector pension income was about $4,700 in 2011 dollars.

As this paper has shown, private-sector pension income has become more prevalent over time, not less prevalent. In 2011, 33 percent of retirees received private-sector pension income, and the median per capita amount of income of those with private pension income had increased to $6,300. Further, because the survey data used to analyze retiree income are not fully capturing payments from DC plans and IRAs, the increase in pension income since ERISA likely is understated.

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