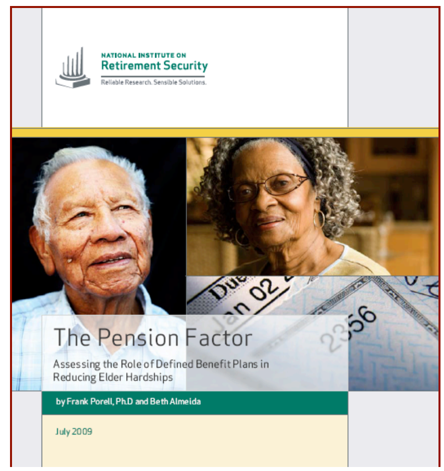
Frequently Asked Questions

The Pension Factor: Assessing the Role of Defined Benefit Plans in Reducing Elder Hardships

NATIONAL INSTITUTE ON
Retirement Security
Reliable Research. Sensible Solutions.

What are the report's key findings?



The Pension Factor indicates that defined benefit pensions have a unique, independent and positive role in reducing the risk of poverty and hardship among older Americans.

The analysis finds that rates of poverty among older households lacking pension income were about six times greater than those without such income. It also finds that pensions reduce – and in some cases eliminate – the greater risk of poverty and public assistance dependence that women and minority populations otherwise would face.

For 2006, pension income among older American households was associated with:

- 1.72 million fewer poor households, 2.97 million fewer near-poor households
- 560,000 fewer households experiencing a food hardship
- 380,000 fewer households experiencing a shelter hardship
- 320,000 fewer households experiencing a health care hardship
- 1.35 million fewer households receiving means-tested public assistance
- $7.3 billion in public assistance expenditures savings, representing about 8.5 percent of aggregate public assistance dollars

Why was the report commissioned?

We know that defined benefit pensions have long been an important source of income for elder households seeking to maintain a middle-class standard of living after a lifetime of work. However, this proposition had not been tested empirically.

The Pension Factor was undertaken to conduct an original empirical analysis of the contribution of pensions in enhancing the economic welfare of older American households. That is, how much do pensions protect older Americans from poverty, material hardships, and reliance on public assistance?

How many Americans received pension income in 2006?

In 2006, some 23 million older Americans received pension income – quite a significant number.

Is there a race and gender pension gap?

Yes. A clear gender gap exists when looking at Americans receiving pensions just from their own former job(s). For 2006, 42% of men age 60 or older received pension income from former job(s), as compared to 23.3% of women.

Further, there is a gender disparity in the amount of pension income received, with men receiving an average of about $18,000, and women about $12,500.

With regard to race/ethnicity, the percentage of whites and blacks receiving pension income is about equal at about 32%, while only 22.6% of persons of other races/ethnicities receive pension income. Whites have a higher mean pension amount at about $16,000 annually as compared to about $14,000 for blacks and other races.

DB Pension Receipt and Income by Gender and Race

DB Pension Income Received by Persons Age 60 or Older
(from Own Former Employer Only)

	# of Persons (millions)	% of Persons	Mean Pension Amount	Median Pension Amount
All Persons	48.6	31.5%	$15,784	$11,467
Gender				
Male	21.4	42.0%	$18,040	$13,509
Female	27.2	23.3%	$12,589	$8,400
Race/ethnicity				
Non-Hispanic White	39.1	32.7%	$16,136	$11,730
Non-Hispanic Black	4.2	32.0%	$13,857	$9,592
Other Race/Ethnicity	5.3	22.6%	$14,225	$10,629

Retirement Security

Source: The Pension Factor, Table 2.

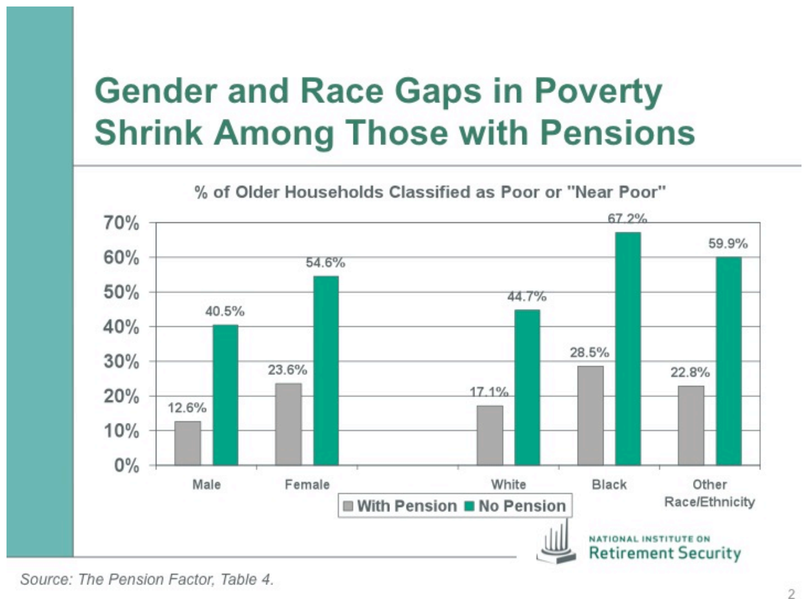
What is the impact of spousal pension benefits?

Spousal pension benefits show significant effects in terms of reducing the gender gap. In fact, the gender gap is virtually eliminated when these benefits are counted. The percentage of women receiving pensions more than doubles – from 23.3% to 46.9%.

NATIONAL INSTITUTE ON
Retirement Security
Reliable Research. Sensible Solutions.

What is the impact of pensions on the gender & race poverty gap?

The percentage of households classified as poor and near poor drops substantially for both women and racial minorities when they have income from pensions.



What is considered poor?

In 2006, for a household with two people over the age of 65, the Federal Poverty Level (FPL) was $12,201 while two times the FPL was $24,402. The report examines both poor and near poor because research indicates that the FPL may not be an accurate measure of economic hardship, especially for older Americans.

Are older Americans with pensions less likely to face poverty?

Households with Pension Income Less Likely to be Poor, "Near Poor"

% of Older Households with Incomes Exceeding Poverty Thresholds

	# of Households (millions)	% of Households Classified as…		
		Poor*	Near Poor**	Not Poor
All Households	31.6	9.0%	25.5%	65.5%
Households with DB Pension Income	15.0	2.4%	16.2%	81.5%
Households with No DB Pension Income	16.6	15.1%	33.9%	51.0%

*"Poor" is defined as income at or below the federal poverty line
**"Near poor" is defined as 2x the federal poverty line

NATIONAL INSTITUTE ON
Retirement Security

Source: The Pension Factor, Table 4.

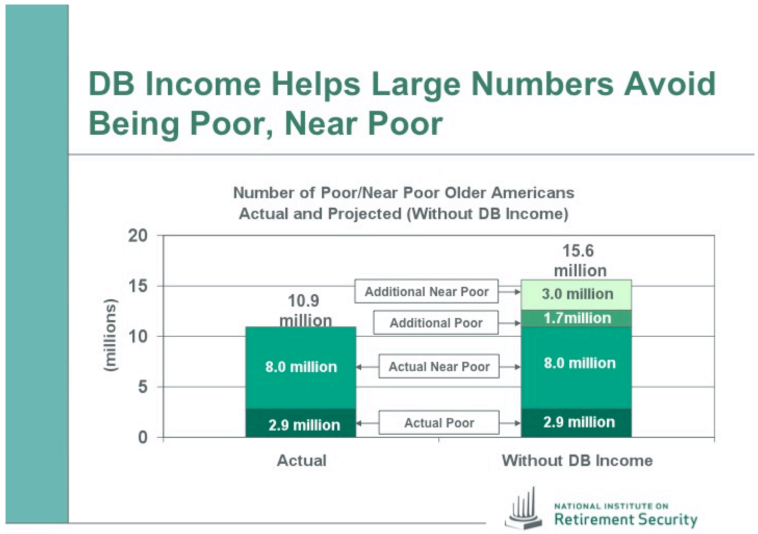
Yes. The report finds that American households with pension income are less likely to be poor and near poor.

For all households, 34.5% are classified as poor or near poor. That number drops significantly for households with pension income, to just 18.6%. About half of older households without pension income are classified as poor or near poor.

How many Americans were kept out of poverty because of pension income?

The report estimates that some 4.6 million Americans avoided poverty and near poverty because of pension income. Absent such income, there would be a 43% increase in the number of older Americans classified as poor and near poor.

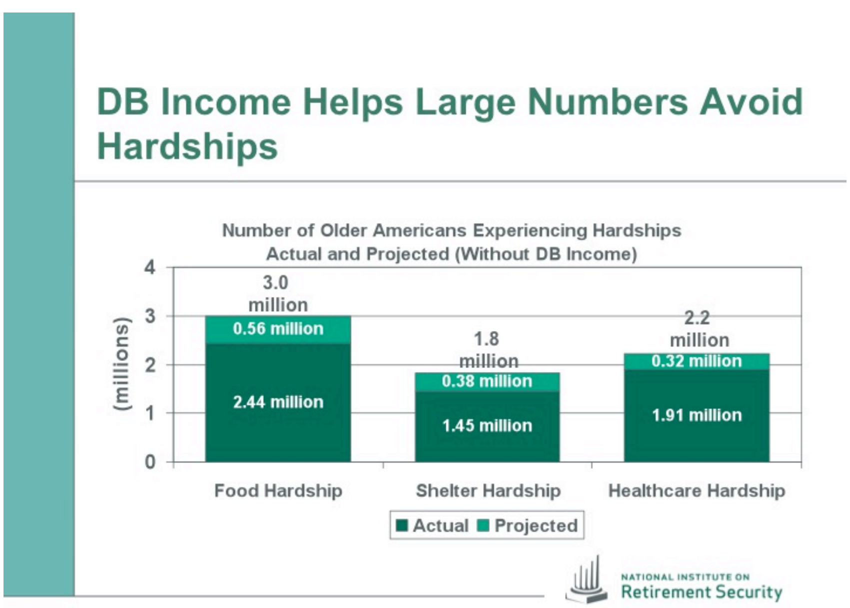
More specifically, 1.7 million Americans would be classified as poor, while another 3.0 million would be categorized as near poor, absent the pension income they received.



Source: The Pension Factor, Table 7.

Would more older Americans face hardships without pension income?

Yes. The report finds that absent pension income in 2006, more than a half million retirees would face various material hardships. Hardship means that these Americans, for example, would struggle financially in different ways, such as being unable to buy sufficient food, pay for their home, or see a doctor when needed.



Source: The Pension Factor, Table 8.

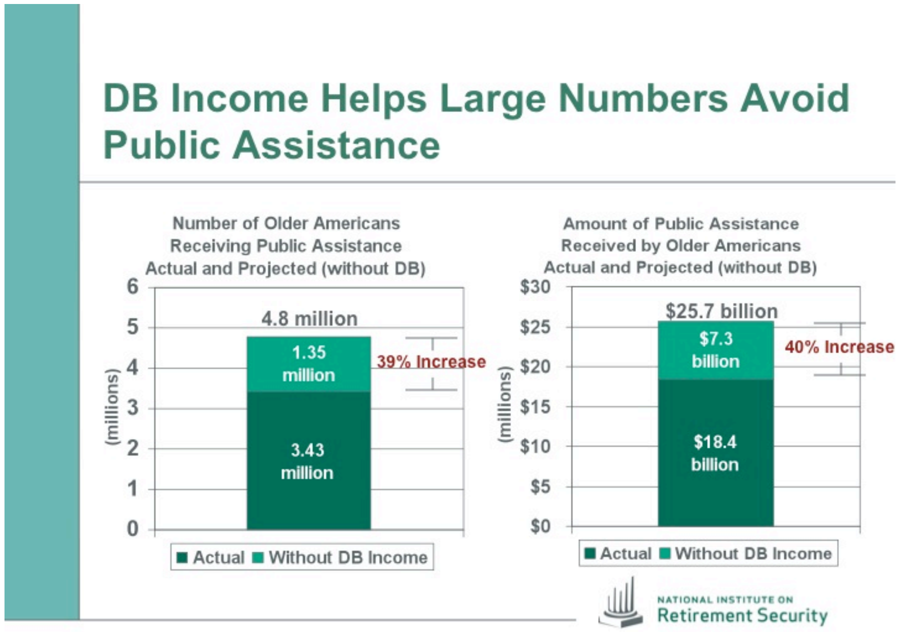
NATIONAL INSTITUTE ON Retirement Security
Reliable Research. Sensible Solutions.

What are the impacts in terms of reducing public assistance recipients and expenditures?

In 2006, 3.43 million Americans received public assistance. This number would jump to 4.8 million without pension income, a 39% increase.

In dollar terms, older Americans received some $18.4 billion in public assistance in 2006. This would increase by $7.3 billion, or a 40% increase, absent pension income.

These are sizable dollars in today's economic climate.



Source: *The Pension Factor, Table 8.*

How significant are these impacts?

Our estimates of savings represent about 8.5 percent of aggregate public assistance dollars received by all American households in 2006 for the same benefit programs. This amount is significant, particularly given pressures on safety net programs during the current fiscal crisis. Thus, ensuring older Americans have pensions in retirement can help relieve some of the enormous pressures on future Federal, state and local budgets.

How was the report conducted?

The analysis in *The Pension Factor* was developed using the U.S. Census Bureau's Survey of Income Program Participation (SIPP) panels from 1996, 2001, and 2004. The study sample included SIPP respondents age 60 years or older and all households with a head age 60 and older, who had records in both the Pension and Adult Well-Being topical modules of the survey. This totaled 10,259 households.

The study was co-authored by Dr. Frank Porell, Professor of Gerontology at the John W. McCormack Graduate School of Policy Studies at the University of Massachusetts-Boston, and Beth Almeida, Executive Director of the National Institute on Retirement Security in Washington, D.C. Additional data and analysis is available in the full research brief available at www.nirsonline.org.