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

by Frank Porell, Ph.D and Beth Almeida

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Why We Did This Study

• Examine contribution of defined benefit (DB) pensions to the economic well-being of older Americans

• How much does income from DB pensions protect older Americans from …
  – Poverty
  – Material hardships
  – Reliance on public assistance
What We Found

• In 2006, income from DB pensions is associated with …
  – 1.72 million fewer poor households and 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 healthcare hardship
  – 1.35 million fewer households receiving means-tested public assistance, saving taxpayers $7.3 billion
Methodology: What We Did

• Analyzed 2006 data from the U.S. Census Bureau’s Survey of Income Program Participation on 10,259 “older households” (head of household was age 60+)

• Descriptive statistics
  – Who has pension income and how much? How has this changed over time?
  – Who experiences poverty, hardships, and public assistance?

• Statistically isolate the effect pensions have on avoiding poverty, hardships, public assistance

• Calculate the effect of pensions in reducing poverty, hardships and public assistance, and associated savings
More Than 23 Million Older Americans Received DB Pension Income in 2006

Percent of Older Americans (60+) with DB Pension Income, 1998, 2003 and 2006

- 1998: 34% Own DB Pension, 52% Own or Spouse's DB Pension
- 2003: 34% Own DB Pension, 52% Own or Spouse's DB Pension
- 2006: 32% Own DB Pension, 48% Own or Spouse's DB Pension

Source: The Pension Factor, Table 1.
DB Pensions Still an Important Source of Income to Middle Class Retirees

<table>
<thead>
<tr>
<th>Quintile</th>
<th># of Persons (millions)</th>
<th>% of Persons</th>
<th>Mean Pension Amount</th>
<th>Median Pension Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Households</td>
<td>48.6</td>
<td>48.2%</td>
<td>$18,195</td>
<td>$12,480</td>
</tr>
<tr>
<td>Lowest Quintile</td>
<td>10.9</td>
<td>24.4%</td>
<td>$4,782</td>
<td>$3,283</td>
</tr>
<tr>
<td>2nd Quintile</td>
<td>12.7</td>
<td>49.7%</td>
<td>$9,193</td>
<td>$7,656</td>
</tr>
<tr>
<td>3rd Quintile</td>
<td>11.2</td>
<td>61.7%</td>
<td>$17,493</td>
<td>$15,600</td>
</tr>
<tr>
<td>4th Quintile</td>
<td>8.0</td>
<td>59.1%</td>
<td>$28,769</td>
<td>$27,950</td>
</tr>
<tr>
<td>Highest Quintile</td>
<td>5.8</td>
<td>47.8%</td>
<td>$35,335</td>
<td>$30,574</td>
</tr>
</tbody>
</table>

Source: The Pension Factor, Table 2.
# DB Pension Receipt and Income by Gender and Race

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

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

Source: The Pension Factor, Table 2.
### Spousal Benefits Shrink the Gender Gap in Pension Receipt and Income

The table below presents data on DB pension income received by persons age 60 or older, distinguishing between receipt of a pension only, or both a pension and the spouse’s pension.

<table>
<thead>
<tr>
<th>DB Pension Income Received by Persons Age 60 or Older</th>
<th>Own Pension Only</th>
<th>Own Pension or Spouse’s Pension</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>% Receiving a Pension</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Female</td>
<td>23.3%</td>
<td>46.9%</td>
</tr>
<tr>
<td>Male</td>
<td>42.0%</td>
<td>49.8%</td>
</tr>
<tr>
<td>Gender Gap</td>
<td>-23.3%</td>
<td>-2.9%</td>
</tr>
<tr>
<td><strong>Median Amount of Pension</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Female</td>
<td>$8,400</td>
<td>$11,664</td>
</tr>
<tr>
<td>Male</td>
<td>$13,509</td>
<td>$14,364</td>
</tr>
<tr>
<td>Gender Gap</td>
<td>-$5,109</td>
<td>-$2,700</td>
</tr>
</tbody>
</table>

Source: The Pension Factor, Table 2.
## Households with Pension Income Less Likely to be Poor, “Near Poor”

<table>
<thead>
<tr>
<th>% of Older Households with Incomes Exceeding Poverty Thresholds</th>
<th># of Households (millions)</th>
<th>% of Households Classified as…</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Poor*</td>
</tr>
<tr>
<td>All Households</td>
<td>31.6</td>
<td>9.0%</td>
</tr>
<tr>
<td>Households with DB Pension Income</td>
<td>15.0</td>
<td>2.4%</td>
</tr>
<tr>
<td>Households with No DB Pension Income</td>
<td>16.6</td>
<td>15.1%</td>
</tr>
</tbody>
</table>

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

Source: The Pension Factor, Table 4.
Gender and Race Gaps in Poverty Shrink Among Those with Pensions

% of Older Households Classified as Poor or "Near Poor"

Source: The Pension Factor, Table 4.
## Households with Pension Income Less Likely to Report Hardships

<table>
<thead>
<tr>
<th></th>
<th># of Households (millions)</th>
<th>Food Insecurity Hardship*</th>
<th>One or More Shelter Hardships**</th>
<th>One or More Healthcare Hardships***</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Households</td>
<td>31.6</td>
<td>4.7%</td>
<td>4.6%</td>
<td>6.0%</td>
</tr>
<tr>
<td>Households with DB Pension Income</td>
<td>15.0</td>
<td>2.6%</td>
<td>2.4%</td>
<td>4.2%</td>
</tr>
<tr>
<td>Households with No DB Pension Income</td>
<td>16.6</td>
<td>6.7%</td>
<td>6.6%</td>
<td>7.8%</td>
</tr>
</tbody>
</table>

*These include running out of food, skipping meals, eating less than needed, etc.
**Unable to pay full amount of rent, mortgage or utilities
***In past year, did not see a doctor/dentist when there was a need to see one.

Source: The Pension Factor, Table 5.
Gender and Race Gaps in Hardships Shrink Among Those with Pensions

% Of Older Households Reporting Food Insecurity Hardship

- Male: 2.3% (With Pension), 5.7% (No Pension)
- Female: 2.9% (With Pension), 7.2% (No Pension)
- White: 1.9% (With Pension), 4.8% (No Pension)
- Black: 6.4% (No Pension), 13.4% (No Pension)
- Other Race/Ethnicity: 6.5% (No Pension), 11.9% (No Pension)

Source: The Pension Factor, Table 5.
### Households with Pension Income Less Likely to Receive Assistance

<table>
<thead>
<tr>
<th>% of Older Households Receiving Public Assistance</th>
<th># of Households (millions)</th>
<th>% with Public Assistance*</th>
<th>Mean Amount Received</th>
<th>Median Amount Received</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Households</td>
<td>31.6</td>
<td>10.9%</td>
<td>$5,373</td>
<td>$3,779</td>
</tr>
<tr>
<td>Households with DB Pension Income</td>
<td>15.0</td>
<td>4.6%</td>
<td>$4,558</td>
<td>$2,976</td>
</tr>
<tr>
<td>Households with No DB Pension Income</td>
<td>16.6</td>
<td>16.6%</td>
<td>$5,578</td>
<td>$3,890</td>
</tr>
</tbody>
</table>

*Includes means-tested cash transfers (e.g. SSI, general assistance) and/or noncash assistance (e.g. food stamps, rent subsidies, energy assistance)

Source: The Pension Factor, Table 6.
Gender and Race Gaps in Assistance Shrink Among Those with Pensions

Source: The Pension Factor, Table 6.
Isolating “The Pension Factor”

• How do we know that it is DB income (and not some other factor) that is enabling older households to avoid poverty, hardships, public assistance?

• Other factors like education, work history, pre-retirement income, age, gender, race, marital status, etc. could all play a role in whether an older household experiences poverty or hardship

• Solution: statistical model that controls for these socio-demographic characteristics
Statistical Approach

• Estimate models to derive predicted probabilities of whether a household experiences poverty, hardship, public assistance based on a range of socio-demographic factors, including whether household has DB pension, DC, and Social Security income.

• For each household with pension income, replaced its predicted probabilities with those of a household with the same socio-demographic factors but no DB pension income.

• Project how much poverty, hardships, public assistance increases as a result.
DB Income Helps Large Numbers Avoid Being Poor, Near Poor

Number of Poor/Near Poor Older Americans Actual and Projected (Without DB Income)

- Actual Poor: 2.9 million
- Actual Near Poor: 8.0 million
- 10.9 million

Source: The Pension Factor, Table 7.
DB Income Helps Large Numbers Avoid Being Poor, Near Poor

Number of Poor/Near Poor Older Americans Actual and Projected (Without DB Income)

- **Actual**: 10.9 million
  - Actual Poor: 2.9 million
  - Actual Near Poor: 8.0 million
- **Without DB Income**: 17 million
  - Additional Poor: 1.7 million
  - Actual Near Poor: 8.0 million
  - Actual Poor: 2.9 million

Source: The Pension Factor, Table 7.
DB Income Helps Large Numbers Avoid Being Poor, Near Poor

Number of Poor/Near Poor Older Americans
Actual and Projected (Without DB Income)

- Actual Poor: 2.9 million
- Actual Near Poor: 8.0 million
- Additional Poor: 2.9 million
- Additional Near Poor: 10.9 million
- Without DB Income: 8.0 million

Source: The Pension Factor, Table 7.
DB Income Helps Large Numbers Avoid Being Poor, Near Poor

Number of Poor/Near Poor Older Americans
Actual and Projected (Without DB Income)

Actual

Actual Poor

2.9 million

Actual Near Poor

8.0 million

Additional Poor

3.0 million

Additional Near Poor

10.9 million

Without DB Income

15.6 million

Source: The Pension Factor, Table 7.
DB Income Helps Large Numbers Avoid Being Poor, Near Poor

Number of Poor/Near Poor Older Americans
Actual and Projected (Without DB Income)

10.9 million

43% Increase

15.6 million

Source: The Pension Factor, Table 7.
DB Income Helps Large Numbers Avoid Hardships

Number of Older Americans Experiencing Hardships
Actual and Projected (Without DB Income)

- Food Hardship: 2.44 million (Actual), 0.56 million (Projected)
- Shelter Hardship: 1.45 million (Actual), 0.38 million (Projected)
- Healthcare Hardship: 1.91 million (Actual), 0.32 million (Projected)

Source: The Pension Factor, Table 8.
DB Income Helps Large Numbers Avoid Public Assistance

Source: The Pension Factor, Table 8.
Conclusions

• In 2006, income from DB pensions is associated with …
  – 1.72 million fewer poor households and 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 healthcare hardship
  – 1.35 million fewer households receiving means-tested public assistance, saving taxpayers $7.3 billion
Conclusions

• Income from DB pensions significantly contributes to the well-being of older Americans

• DB plans seem to especially reduce risks for vulnerable populations – women and minorities

• Elder poverty, material hardships and reliance on public assistance would be much greater in the absence of DB pension income
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