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"The Pension Factor 2012: The Role of Defined Benefit Pensions in Reducing Elder Economic Hardships"



Thursday, July 26, 2012 11:00 AM ET

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Agenda

- Welcome and Overview
- Report Review
- Q&A



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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



In 2010 We Found: Income from DB Pensions is Associated with ...

Rates of poverty among older households **nine times lower** than households without DB pension.

4.7 million fewer poor and "near poor" households.

1.22 million fewer households receiving means-tested public assistance, saving taxpayers \$7.9 billion.

- 460,000 fewer households experiencing a food hardship.
- 500,000 fewer households experiencing a shelter hardship.

- 510,000 fewer households experiencing a healthcare hardship.

Methodology: What We Did

- Analyzed 2008 data from the U.S. Census Bureau's Survey of Income Program Participation "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
- Estimate the effect of pensions in reducing poverty, hardships and public assistance, and associated savings



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More Than 23 Million Older Americans Received DB Pension Income in 2010



Source: The Pension Factor, Table 1.

DB Pensions Still an Important Source of Income to Middle Class Retirees

DB Pension Income Received by Persons Age 60 or Older				
(from Own or Spouse's Former Employer)				
	# of Persons (millions)	% of Persons	Mean Pension Amount	Median Pension Amount
All Persons	55.2	42.8%	\$20,943	\$14,403
Lowest Quintile	11.0	16.9%	\$3,349	\$1,920
2 nd Quintile	13.8	40.3%	\$8,680	\$6,996
3 rd Quintile	12.9	55.4%	\$18,446	\$17,296
4 th Quintile	10.4	54.5%	\$31,264	\$30,516
Highest Quintile	7.1	42.0%	\$42,668	\$36,000

Source: The Pension Factor, Table 2.

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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 % of Mean Pension Median (millions) Pension Persons Amount Amount **All Persons** 55.2 28.0% \$19,427 \$14,400 Gender Male 24.7 37.1% \$22,238 \$17,412 Female 30.5 20.6% \$15,307 \$10,944 Race/ethnicity Non-Hispanic White 43.8 29.8% \$19,654 \$14,403 **Non-Hispanic Black** 28.1% 4.9 \$18,986 \$14,400 3.8 14.4% \$16,623 \$11,160 Hispanic Other Race/Ethnicity 2.7 18.4% \$17,744 \$14,232



Spousal Benefits Shrink the Gender Gap in Pension Receipt and Income

DB Pension Income Received by Persons Age 60 or Older				
	Own Pension Only	Own Pension or Spouse' s Pension		
% Receiving a Pension				
Female	20.6%	41.8%		
Male	37.1%	44.0%		
Gender Gap	-15.5%	- 2.2%		
Mean Amount of Pension				
Female	\$15,307	\$18,729		
Male	<u>\$22,238</u>	\$23,535		
Gender Gap	-\$6,931	-\$4,806		



Prevalence of DB Pensions by Region

Geographic Area	Number of Persons (in 1,000s)	Percent of persons with DB pension income from own or spouses' former employer
United States	55,160	42.8%
Northeast	10,690	43.7%
Midwest	12,470	47.2%
South	20,360	41.1%
West	11,640	40.1%



Source: The Pension Factor, Table 3.

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

% of Older Households with Incomes Exceeding Poverty Thresholds				
	# of % of Households Classifie			sified as
	Households (millions)		Near Poor**	Not Poor
All Households	35.4	9.7%	24.2%	66.1%
Households with	14.9	1.7%	14.7%	83.6%
DB Pension Income				
Households with	20.4	15.5%	31.2%	53.2%
No DB Pension Income				

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



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Elderly Poverty Rate Nine Times Greater without DB Income in 2010



Source: The Pension Factor, Figure 3.

Gender and Race Gaps in Poverty Shrink Among Those with Pensions



Gender and Race Gaps in Poverty Shrink Among Those with Pensions



Source: The Pension Factor, Table 5.

Households with Pension Income Less Likely to Report Hardships

% of Older Households Reporting Hardships				
	# of Households (millions)	Food Insecurity Hardship*	One or More Shelter Hardships**	One or More Healthcare Hardships***
All Households	35.4	6.2%	5.9%	7.0%
Households with DB Pension Income	14.9	3.5%	3.0%	4.3%
Households with No DB Pension Income	20.4	8.2%	8.0%	9.1%

*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.



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Gender and Race Gaps in Hardships Shrink Among Those with Pensions



Source: The Pension Factor, Table 6.

Gender and Race Gaps in Hardships Shrink Among Those with Pensions



Source: The Pension Factor, Table 6.

Households with Pension Income Less Likely to Receive Assistance

% of Older Households Receiving Public Assistance					
	# of Households (millions)	% with Public Assistance*	Mean Amount Received	Median Amount Received	
All Households	35.4	11.4%	\$6,494	\$4,224	
Households with DB Pension Income	14.9	4.7%	\$7,211	\$4,269	
Households with No DB Pension Income	20.4	16.4%	\$6,342	\$4,197	

*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 7.

Gender and Race Gaps in Assistance Shrink Among Those with Pensions



Source: The Pension Factor, Table 7.

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 sociodemographic 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 sociodemographic 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



Source: The Pension Factor, Table 10.

DB Income Helps Large Numbers Avoid Being Poor, Near Poor



Source: The Pension Factor, Table 10.

DB Income Helps 4.7 Million Avoid Being Poor, Near Poor



Source: The Pension Factor, Table 10.

DB Income Helps Large Numbers Avoid Being Poor, Near Poor



Source: The Pension Factor, Table 10.

DB Income Helps Large Numbers Avoid Hardships



Source: The Pension Factor, Table 10.

DB Income Helps Large Numbers Avoid Public Assistance



Source: The Pension Factor, Table 11.

Conclusions

- In 2010, income from DB pensions is associated with ...
 - 4.7 million fewer poor and "near poor" households
 - 460,000 fewer households experiencing a food hardship
 - 500,000 fewer households experiencing a shelter hardship
 - 510,000 fewer households experiencing a healthcare hardship
 - 1.22 million fewer households receiving means-tested public assistance, saving taxpayers \$7.9 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









The Pension Factor 2012

The Role of Defined Benefit Pensions in Reducing Elder Economic Hardships

by Frank Porell, Ph.D. and Diane Oakley

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