



Closing the Gap: The Role of Public Pensions in Reducing Retirement Inequality

Webinar

September 21, 2023



NATIONAL INSTITUTE ON
Retirement Security

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Agenda

- Speaker Introductions
- Research Findings
- Q&A



Speakers



Dan Doonan

Executive Director, NIRS

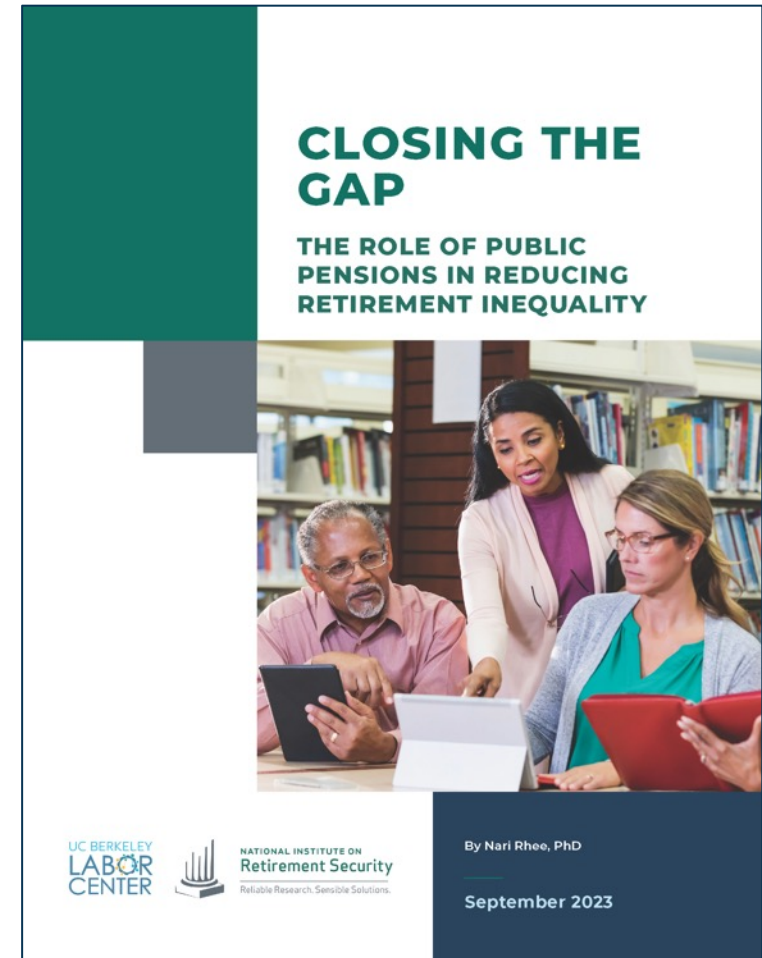


Nari Rhee, PhD

Director, Retirement Security Program at
UC Berkeley Labor Center

Why This Research?

- Several Federal Reserve studies demonstrate that decline of pensions and rise of 401(k)s increased wealth inequality and, conversely, adding pensions and Social Security to the household balance sheet reduces wealth inequality by race, income.
- Given the historical importance of public employment and related benefits to women and Black workers, what is the distributional impact of public pensions by race, gender and education?

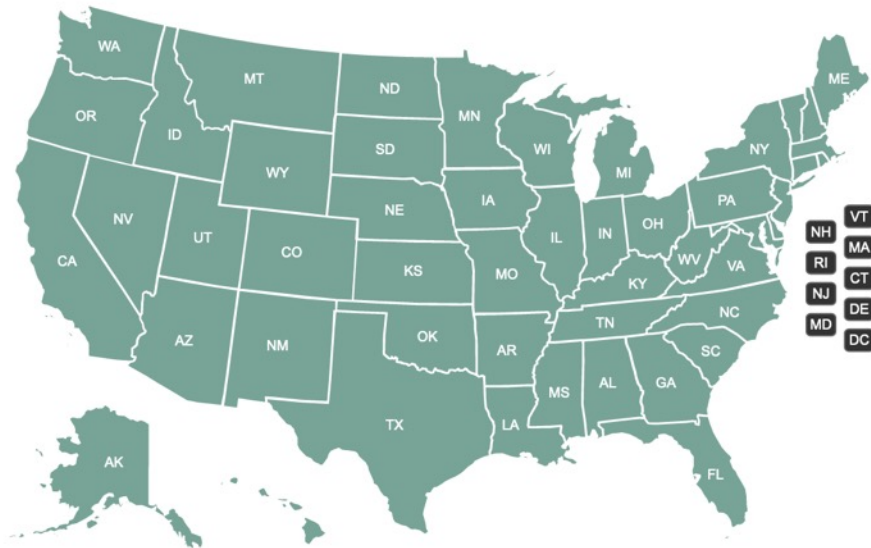


Key Findings

- Pensions reduce retiree poverty and near-poverty across race, sex, and educational attainment. The anti-poverty impact of pensions is largest for Black and Latino retirees, as well as for all retirees without a four-year college degree.
- Pension income is distributed relatively evenly among recipients by race, while public pension income is distributed more equally by gender than private pension and 401(k) income.
- Pension benefits currently in payment to 23.2 million adults aged 55 and older in the U.S. represent \$5.6 trillion in household wealth, boosting middle-class family net worth and narrowing racial and gender wealth gaps.

State Findings Detailed in Clickable Map

How do public pensions help close the retirement gap in your state? Click on a state to download a Fact Sheet with details.



NOTE: Guam, Puerto Rico and the U.S. Virgin Islands are not included in this study.

ALASKA

Closing the Gap: The Role of Public Pensions in Reducing Retirement Inequality

Pensions Improve Economic Security in Retirement Across Race, Gender, and Educational Divides

Retirees with pension income are significantly less likely to fall into poverty or significant economic hardship. **Figure 1.2** and **3** show the percentage of retirees with income above 200% of the Federal Poverty Level (FPL)—\$26,000 for single and \$32,800 for couples in 2021—by race, sex, education, and pension receipt, estimated from the U.S. Census Bureau's Current Population Survey. For this analysis, retirees include adults age 65 and older who received at least \$5,000 in annual Social Security benefits and less than \$5,000 in annual earnings in 2021 dollars. In 2013-2021, a significantly larger share of Alaska retirees with pension income from any source—public or private—lived above 200% FPL, compared to retirees without pension income (98% vs. 52%).

Figure 1: Alaska Retirees above 200% of Federal Poverty Level by Race, 2013-2021

Race	With Pension	Without Pension
All Races	98%	52%
White	95%	57%
Nonwhite	87%	43%
Alaska Native	90%	59%
Other Native/Nonwhite American	82%	52%

White retirees with pension income in Alaska were 66% more likely to be above 200% FPL than those without pension income (98% vs. 57%). Among Alaska Native retirees, those with pension income were 129% more likely to exceed 200% FPL than those without a pension (90% vs. 39%). Among all other retirees of color, those with pension income were 58% more likely to be above 200% FPL (82% vs. 52%) in other words, having a pension makes a big difference for all races, especially seniors of color, when it comes to ensuring a basic level of retirement income (Figure 1).

Figure 2: Alaska Retirees above 200% of Federal Poverty Level by Gender, 2013-2021

Gender	With Pension	Without Pension
Men	98%	57%
Women	89%	50%

Retired women in Alaska were 72% more likely to be above 200% FPL if they had pension income.

The average wealth value of pension benefits for Alaska Native pensioners in Alaska was \$337,000 in 2013-2021, roughly 80% of the average of \$405,000 for white pensioners.

ALASKA

Public Wealth Gap

Households related into later life received a and survivor pensions. Federal, state, and local government pension plans contributed 64%, or \$82.4 billion annually. The value of this income stream was equivalent to \$15.9 billion in pension wealth from all sources, including \$1.1 billion from public pensions.

Furthermore, this wealth was spread relatively evenly between whites and people of color (Figure 6). While the majority of pension

Figure 3: Alaska Public vs. Private Sector Retirement Plan Participation Rates, 2018-2021

Education Level	Public Sector	Private Sector
Bachelor's Degree	89%	61%
No Bachelor's Degree	66%	40%

Public sector employees in Alaska are 53% more likely than private sector employees to have a Bachelor's degree or higher. Nonetheless, public sector retirement benefits offer a big up for those without a significantly higher in the public sector (77% vs. 40% in 2018-2021). Job-based higher in the public sector for all racial and more equitable coverage in the public sector is due to a high rate of retirement plan sponsorship among governmental employees and the fact that they tend to offer defined benefit pensions that automatically cover eligible employees.

ALASKA

Coverage is Higher and More Equitable in the Public Sector

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Figure 5: Alaska Public vs. Private Sector Retirement Plan Participation Rates by Education, 2018-2021

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Education Level	With Pension	Without Pension
No Bachelor's Degree	92%	48%
Bachelor's Degree	98%	52%

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<https://www.nirsonline.org/wp-content/uploads/2023/09/AK-Toolkit-Fact-Sheet-8.29.pdf>

Research Methodology

- **Main data sources**

- U.S. Census Bureau Survey of Income and Program Participation for national report
- U.S. Census Bureau & U.S. Bureau of Labor Statistics Current Population Survey/ASEC for state fact sheets

- **3-Stage Analysis**

- Poverty outcomes among retirees age 65+ by pension income receipt and race/gender/education
- Distribution of pension income by race/gender/education
- Distribution of pension wealth among recipients and among all older adults; impact on median & mean older family net worth

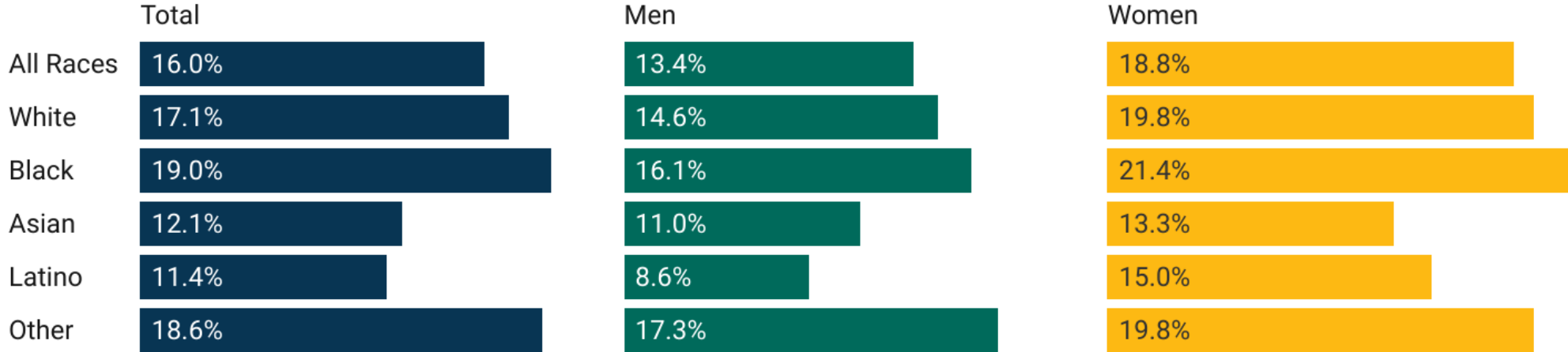
Research Methodology (cont'd)

- **Definitions**

- ***Pension income***: retirement, disability, and survivor pension income from a union, corporate, or federal/state/local government plan
- ***Pension wealth*** (imputed from income data): net present value of pensions in payment based on SOA RP-2014 mortality rates projected forward with MP-2018 generational improvement scale, and liability-weighted discount rate of 5.45%. *Pensions not yet in payment were not included due to data limitations.*
- ***Retiree*** (for poverty analysis): adults age 65+ with less than \$5,000 annual earnings and at least \$5,000 annual Social Security or pension income

Public Employment and Related Benefits Are Especially Important for Women and Black Workers

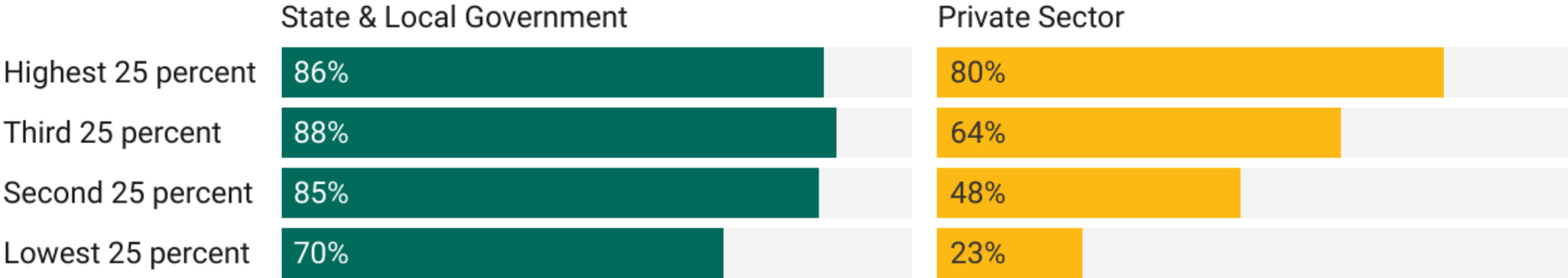
Figure 1: Share of Workers Employed in Public Sector, by Race and Gender, 2018-2020



Data source: Author’s analysis of CPS ASEC.

Retirement Plan Participation Is More Level by Wages in Public Sector than Private Sector

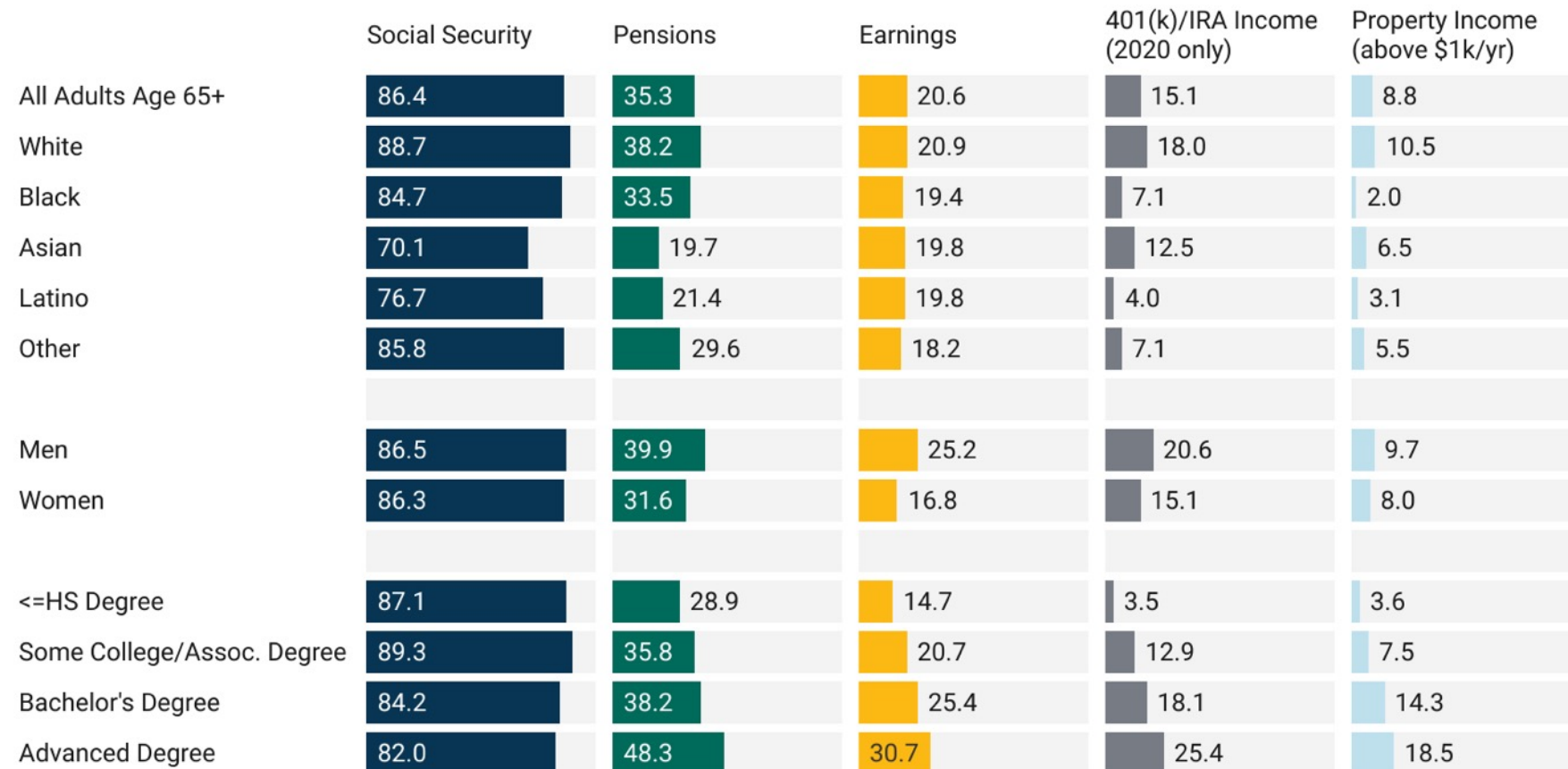
Figure 2: Public vs. Private Sector Employee Retirement Plan Participation Rates by Wage Quartile, 2022



Data source: National Compensation Survey/Employee Benefit Survey.

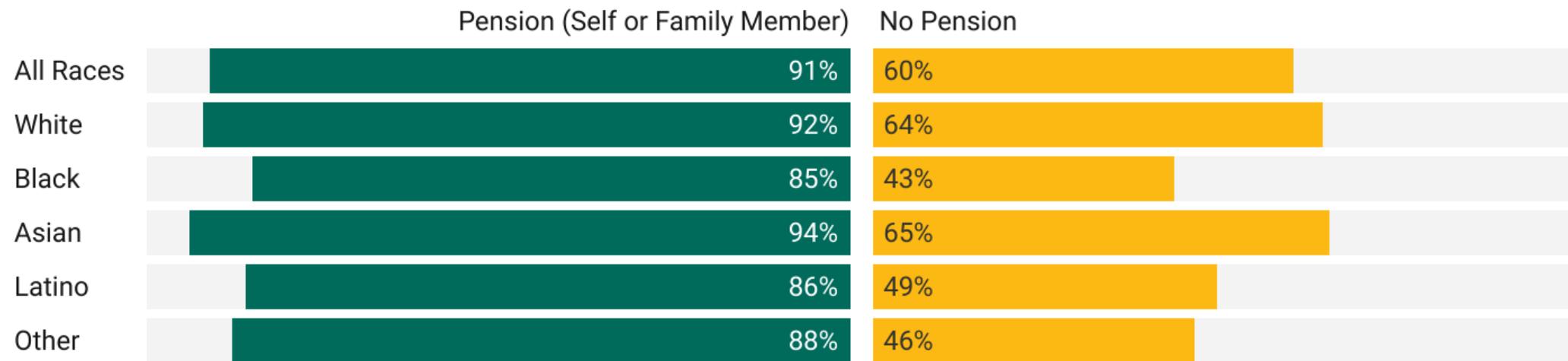
Pension Income Is More Equitably Distributed than 401(k)/IRA and Property Income

Figure 3: Share of Adults Age 65+ with Personal Retirement Income Source, 2018-2020



Pensions Have Significant Anti-Poverty Effect for All Racial Groups

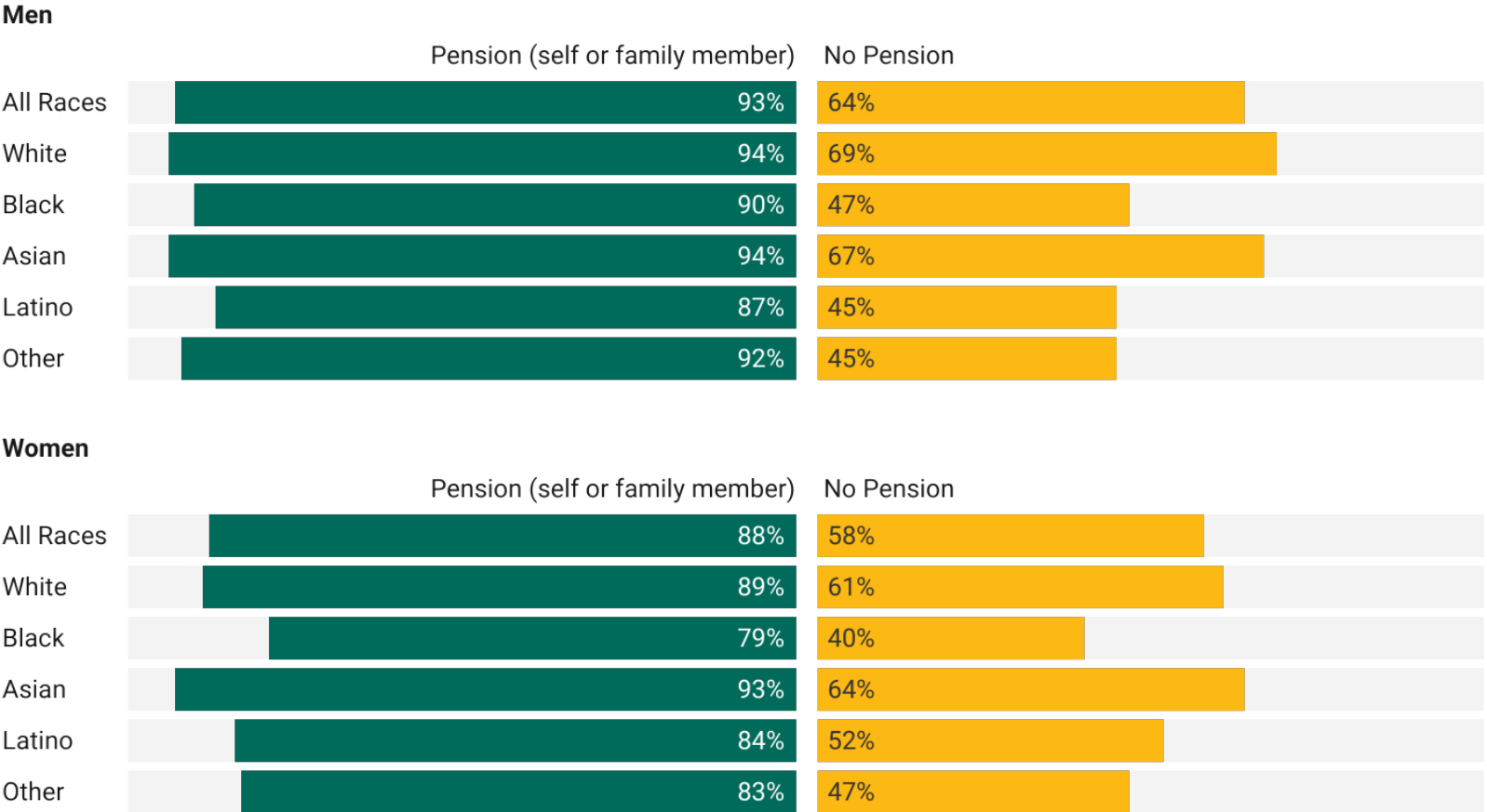
Figure 5: Share of Retirees above 200% FPL by Race, 2018-2020



200% of Federal Poverty Level in 2021 = \$25,992 (singles), \$32,758 (couples)

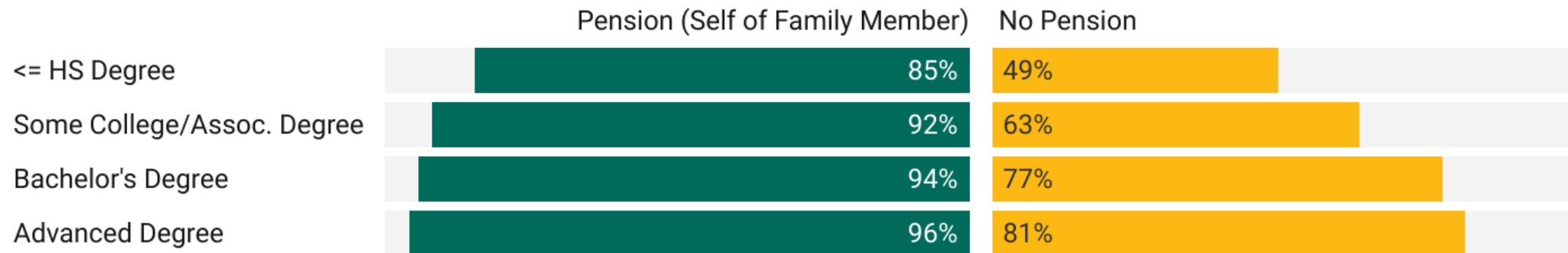
Pension Anti-Poverty Effect Largest for Black and Latino Retirees

Figure 6: Share of Retirees above 200% FPL by Race and Gender, 2018-2020



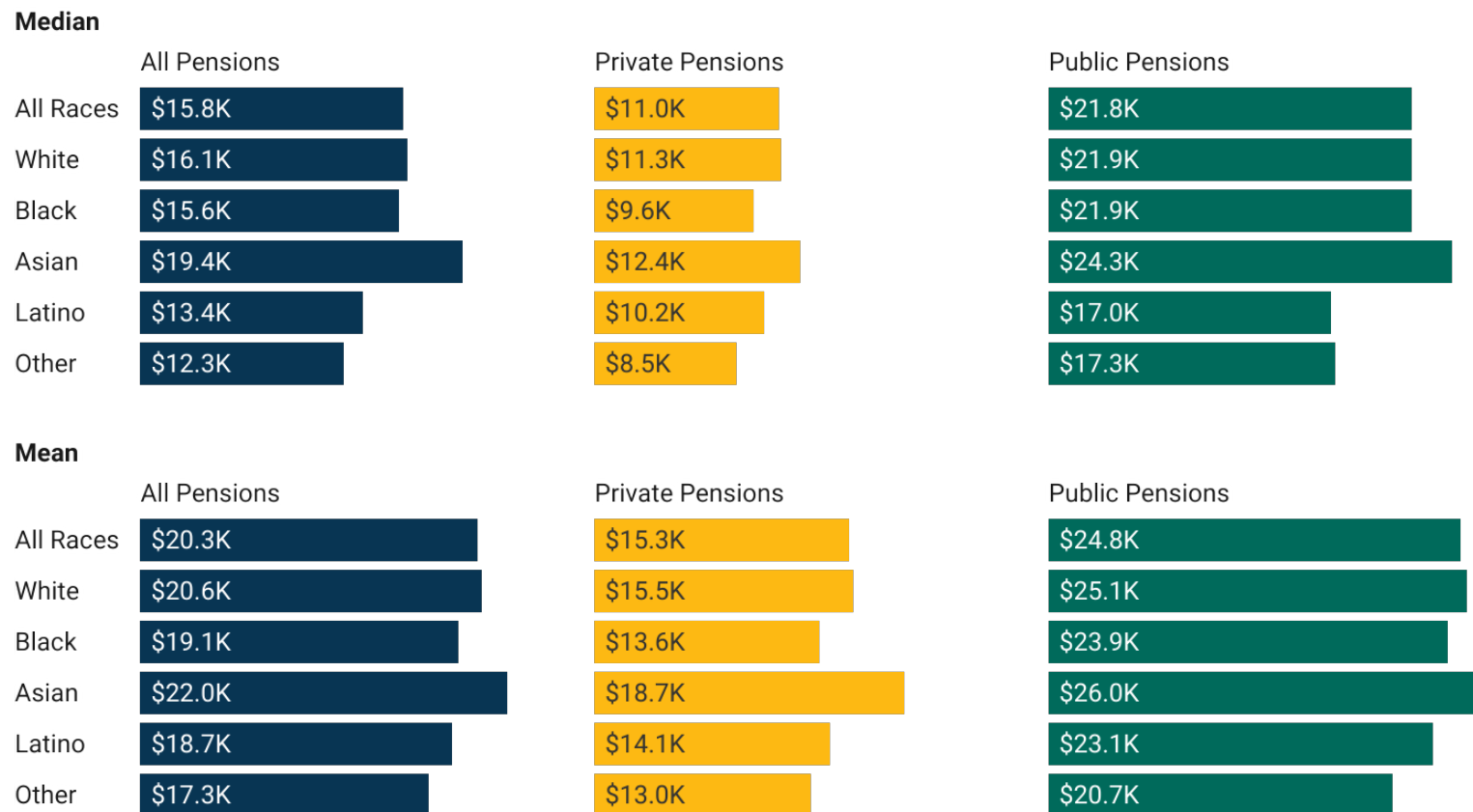
Anti-Poverty Effect Larger for Retirees without a Bachelor's Degree

Figure 7: Share of Retirees above 200% FPL by Educational Attainment, 2018-2020



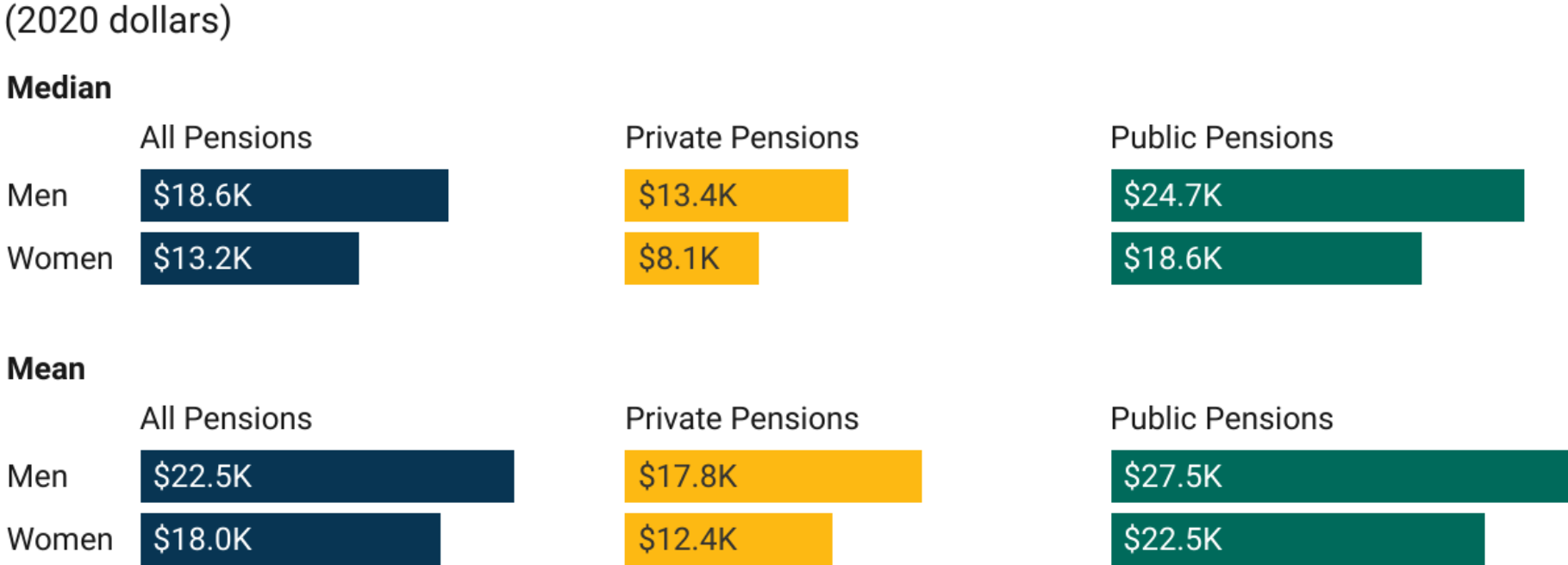
Pension Income Distribution by Race Is Relatively Equitable

Figure 8: Average Pension Income among Recipients Age 55+, 2018-2020



Gender Gap in Is Smaller for Public Pension Wealth than Private Pension Wealth

Figure 9: Average Pension Income among Recipients Age 55+, by Gender, 2018-2020

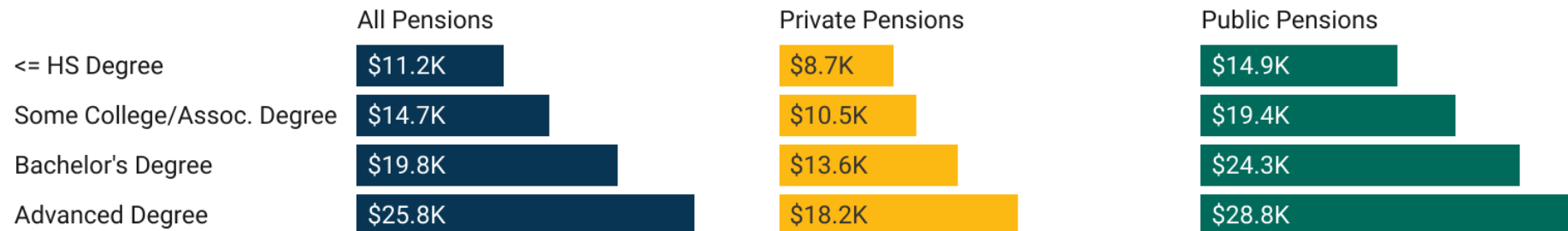


Those with Higher Levels of Education Have More Pension Income

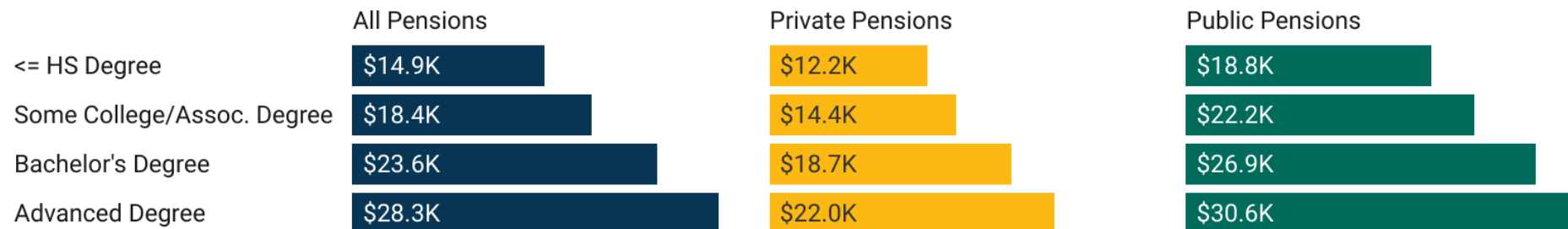
Figure 10: Average Pension Income among Recipients Age 55+, by Educational Attainment, 2018-2020

(2020 dollars)

Median



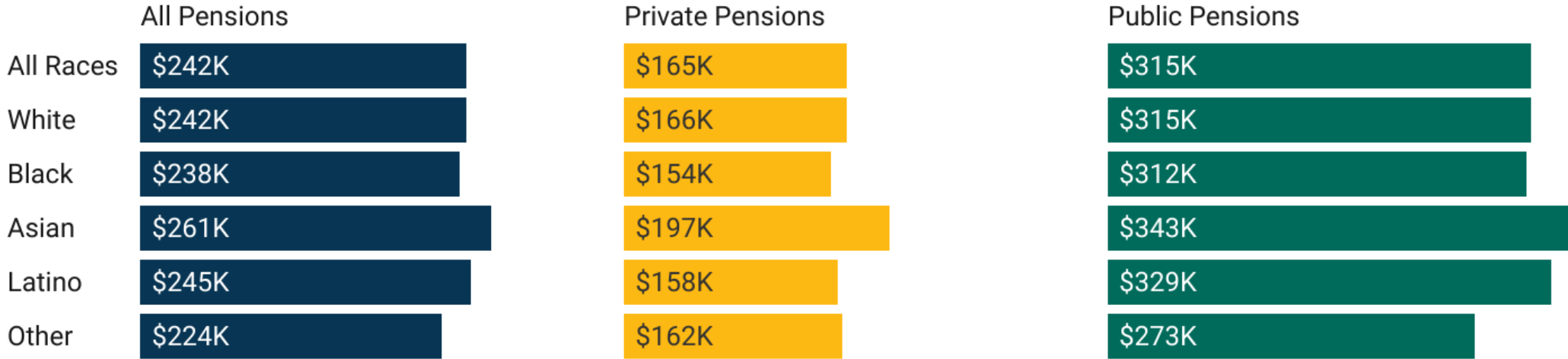
Mean



Pension Wealth Is Equitably Distributed by Race

Figure 11: Average (Mean) Wealth Value of Pensions in Payment to Adults Age 55+, by Race and Pension Type, 2018-2020

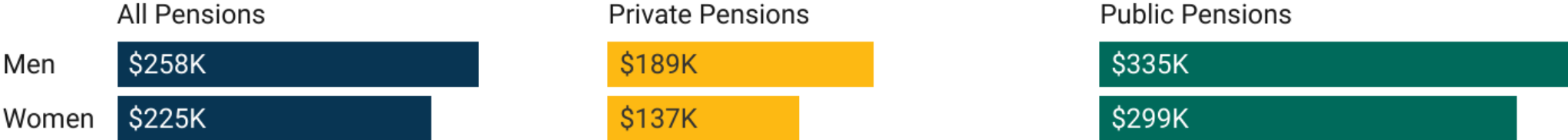
(2020 dollars)



Gender Gap in Pension Wealth is Lower for Public Pensions than Private Pensions

Figure 12: Average (Mean) Wealth Value of Pensions in Payment to Adults Age 55+, by Gender and Pension Type, 2018-2020

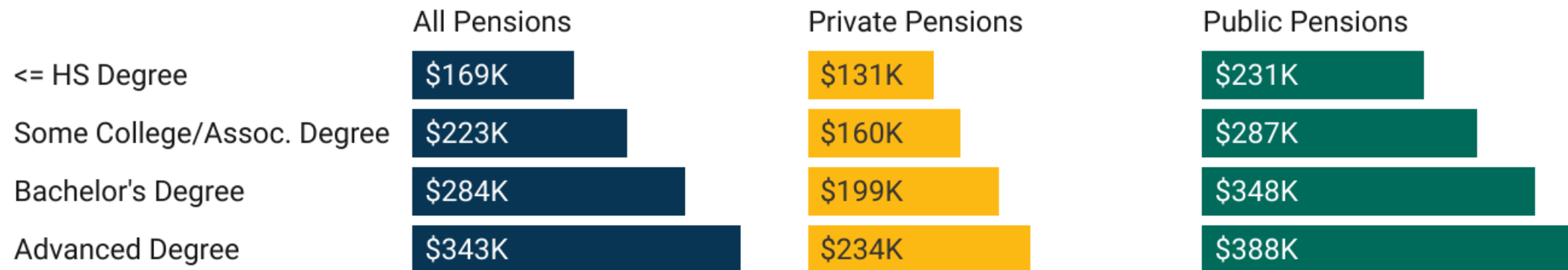
(2020 dollars)



Pension Wealth is Also Higher for Those with Higher Levels of Education

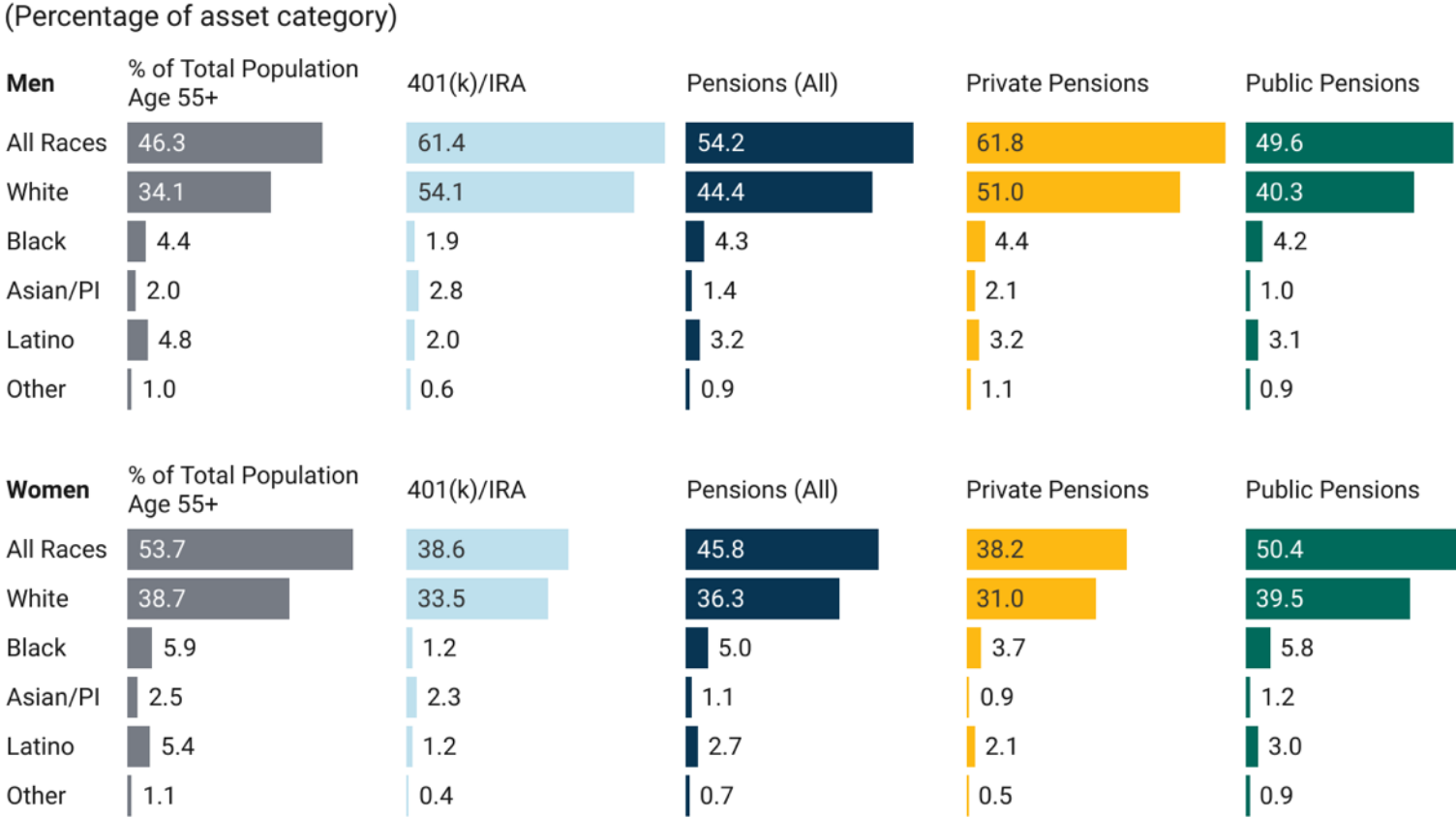
Figure 13: Average (Mean) Wealth Value of Pensions in Payment to Adults Age 55+, by Educational Attainment and Pension Type, 2018-2020

(2020 dollars)



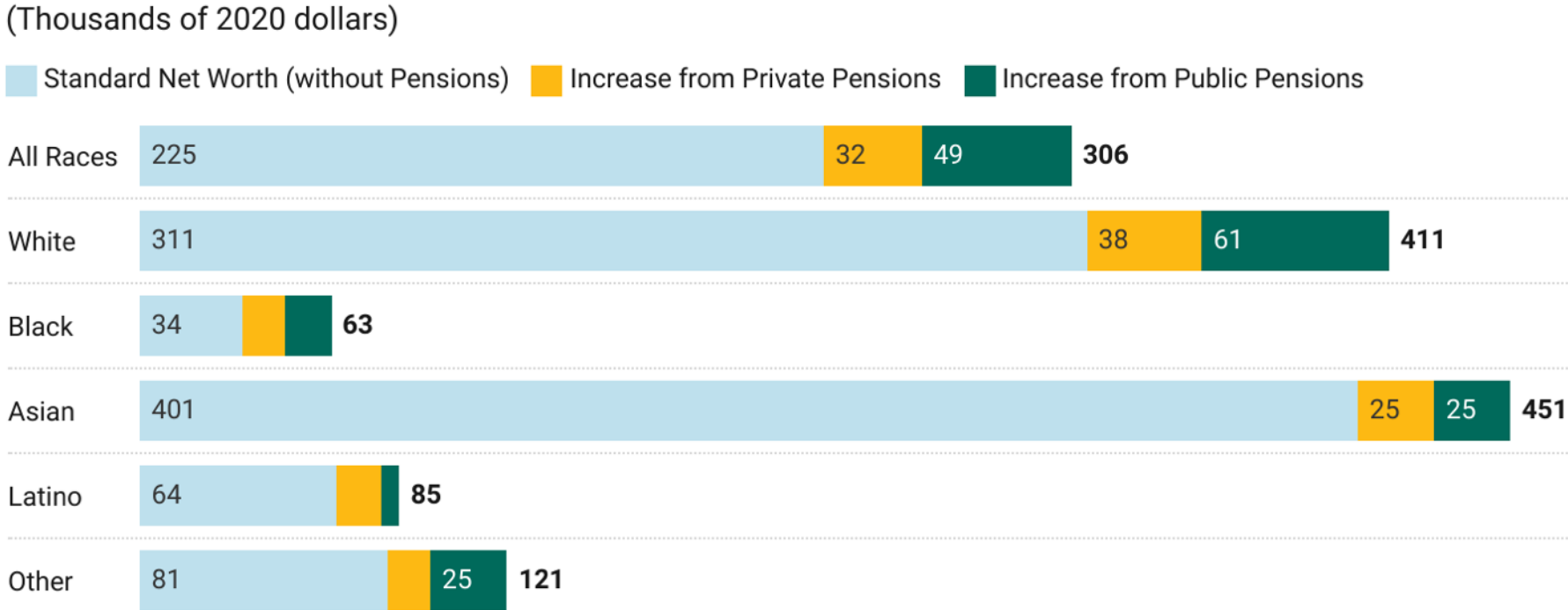
Public Pension Wealth is Distributed More Equitably by Race/Gender than Private Pensions and 401(k)/IRA Assets

Figure 14:
 Distribution of 401(k)/IRA and Pension Wealth among Adults Age 55+, by Gender and Race, 2018-2020



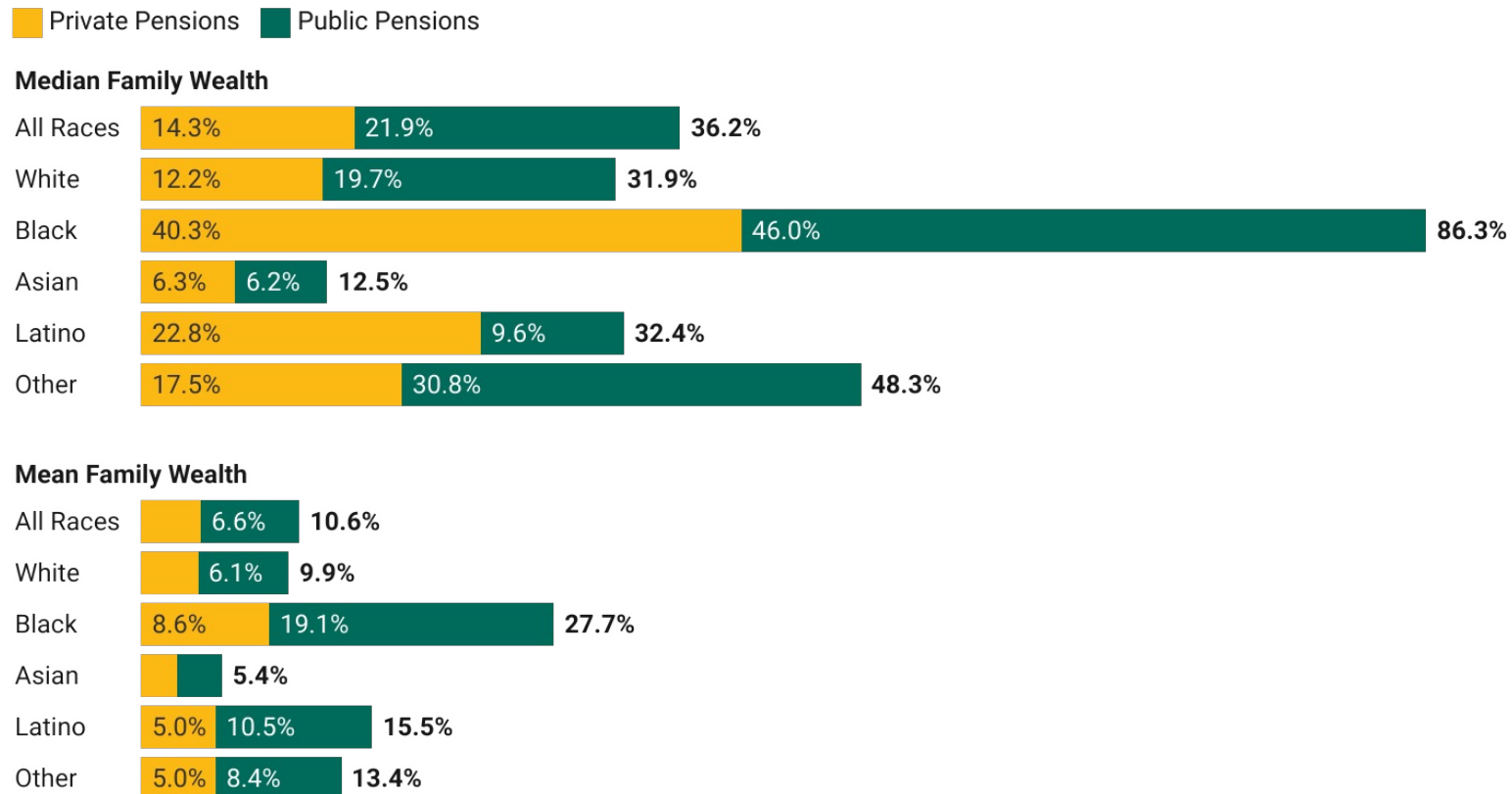
Pensions Boost Older Family Net Worth at the Middle of the Wealth Distribution

Figure 15: Median Net Worth including Wealth Value of Pension Income, Families Age 55+, by Race, 2018-2020



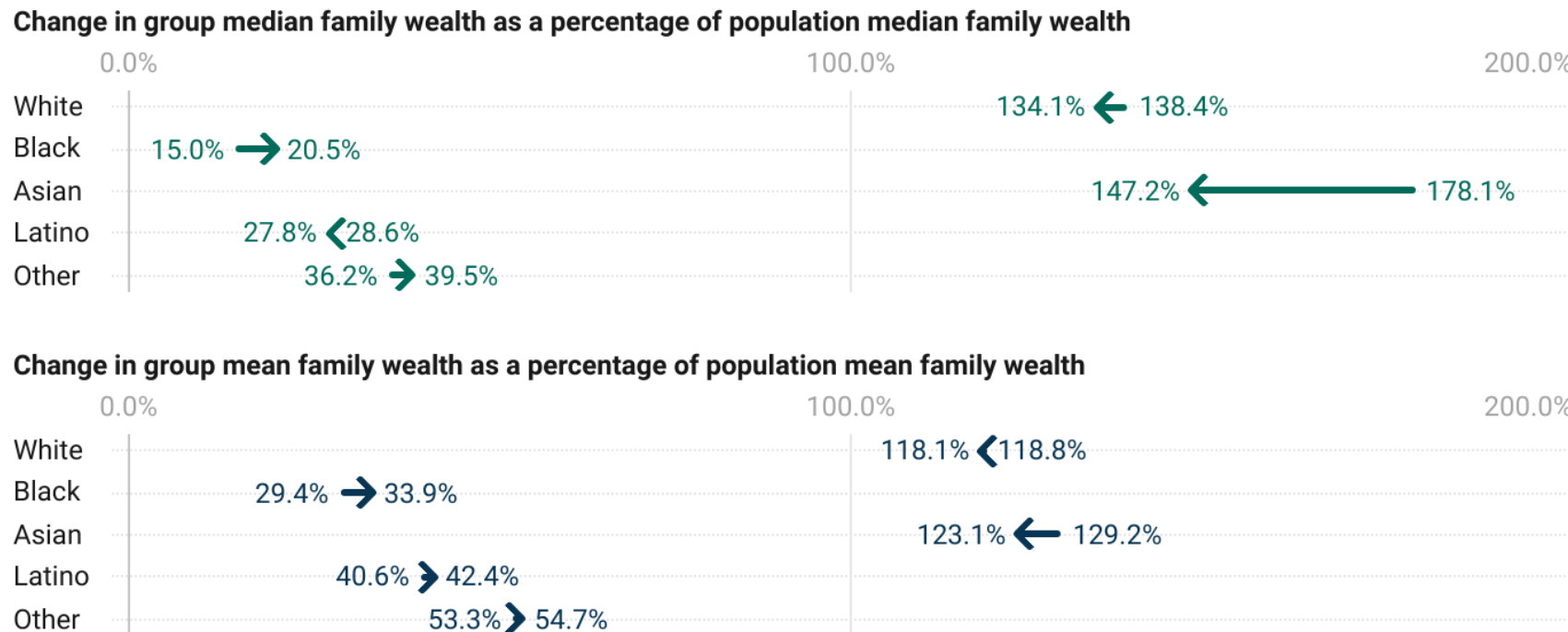
Pensions Increase Wealth for Older Black Families

Figure 17: Percentage Increase in Net Worth of Families Age 55+ from Wealth Value of Pension Income, by Race, 2018-2020



Pensions Narrow the Racial Wealth Gap among Families Age 55+

Figure 18: Change in Distribution of U.S. Older Family Wealth after Adding Wealth Value of Pension Income



Fact Sheets for All States

TEXAS



Closing the Gap: The Role of Public Pensions in Reducing Retirement Inequality

Pensions Improve Economic Security in Retirement Across Race, Gender, and Educational Divides

Retirees with pension income are significantly less likely to fall into poverty or significant economic hardship. **Figures 1, 2, and 3** show the percentage of retirees with income above 200% of the Federal Poverty Level (FPL)—\$26,000 for singles and \$32,800 for couples in 2021—by race, sex, education, and pension receipt, estimated from the U.S. Census Bureau's Current Population Survey. For this analysis, retirees include adults age 65 and older who received at least \$5,000 in annual Social Security benefits and less than \$5,000 in annual earnings in 2021 dollars. In 2013-2021, a significantly larger share of Texas retirees with pension income from any source—public or private—lived above 200% FPL compared to retirees without pension income (91% vs. 52%).

Key Findings

Pension income reduces poverty in old age across racial, gender, and educational divides. Public pensions play an outsized role in the retirement security of every racial group, especially communities of color, and help narrow the racial wealth gap.

In 2018-2021, Black and Latino workers in Texas were respectively 84% and 129% more likely to be in a retirement plan if they worked in the public sector, compared to the private sector.

Public sector plans covered 30% of all Black retirement plan participants in Texas, while 19% of Black workers were employed in government jobs.

In 2013-2021, Black and Latino retirees in Texas were respectively 136% and 121% more likely to be above 200% of the Federal Poverty Level (FPL) (or \$26,000 per year for a single adult) if they had pension income.

Retired women in Texas were 82% more likely to be above 200% FPL if they had pension income.

The average wealth value of pension benefits for Black pensioners in Texas was \$282,000 in 2013-2021, roughly 90% of the average of \$320,000 for white pensioners.



Figure 1: Texas Retirees above 200% of Federal Poverty Level by Race, 2013-2021

Race	Pension (Self/Spouse)	No Pension
All Races	91%	52%
White	92%	60%
Nonwhite	87%	40%
Black	86%	36%
Latino	85%	39%



Figure 2: Texas Retirees above 200% of Federal Poverty Level by Gender, 2013-2021

Gender	Pension (Self/Spouse)	No Pension
Men	93%	55%
Women	90%	50%

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 Closing the Gap: The Role of Public Pension Plans in Reducing Retirement Inequality

TEXAS

Figure 3: Texas Retirees above 200% of Federal Poverty Level by Education, 2013-2021

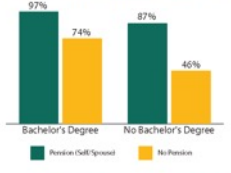


Figure 3: Texas Retirees above 200% of Federal Poverty Level by Education, 2013-2021

Education	Pension (Self/Spouse)	No Pension
Bachelor's Degree	97%	74%
No Bachelor's Degree	87%	46%

Both retired men and retired women benefit from a significant increase in financial security when they have pension income (**Figure 2** on p.1). In Texas, male retirees with pension income were 70% more likely to be above 200% FPL than those without pension income (93% vs. 55%) in 2013-2021. Female retirees with pension income were 82% more likely to have incomes above this threshold than those without pension income (90% vs. 50%).

Pension income improves economic security across educational attainment levels (**Figure 3**). In particular, retirees without a four-year college degree were 91% more likely to live above 200% FPL if they or their spouse had pension income, compared to those without pension income (87% vs. 46%).

Retirement Plan Coverage is Higher and More Equitable in the Public Sector

Public sector retirement benefits form a pillar of middle-class retirement security, especially for economically marginalized groups. **Figure 4** shows that in Texas, overall participation in any type of workplace retirement plan was significantly higher in the public sector than in the private sector (76% vs. 43%) in 2018-2021. Job-based retirement plan coverage was higher in the public sector for all racial groups, with the largest increase among workers of color. Black workers were 84% more likely to participate in a retirement plan in the public sector than the private sector (71% vs. 39%). Latino workers were 129% more likely than their private sector counterparts to be covered by a retirement plan (69% vs. 30%).

Figure 4: Texas Public vs. Private Sector Retirement Plan Participation Rates, 2018-2021

Public Sector

- All Races: 76%
- White: 83%
- Black: 71%
- Asian/Pacific Islander: 79%
- Latino: 69%

Private Sector

- All Races: 43%
- White: 54%
- Black: 39%
- Asian/Pacific Islander: 55%
- Latino: 30%

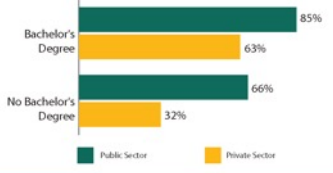


Figure 5: Texas Public vs. Private Sector Retirement Plan Participation Rates by Education, 2018-2021

Education	Public Sector	Private Sector
Bachelor's Degree	85%	63%
No Bachelor's Degree	66%	32%

In Texas, the public sector employs 19% of Black workers and accounts for 30% of Black retirement plan participants.

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Public Pensions Narrow the Racial Wealth Gap

Public pensions represent a significant asset for Texas households. A monthly stream of regular pension income can be calculated into lump-sum wealth (or "present value") based on the recipient's life expectancy.


In 2013-2021, 964,600 Texas residents age 55 and older received a total of \$25.1 billion annually from retirement, disability, and survivor pensions. Federal, state, and local government pension plans contributed 53%, or \$13.2 billion annually. The value of this income stream was equivalent to \$297.8 billion in pension wealth from all sources, including \$176.6 billion from public pensions.

Furthermore, this wealth was spread relatively evenly between whites and people of color (**Figure 6**). While the majority of pension wealth


PUBLIC PENSIONS ARE A SIGNIFICANT SOURCE OF WEALTH FOR OLDER TEXAS HOUSEHOLDS



964,600 Texas older adults age 55+



\$25.1 billion in annual pension income, including \$13.2 billion in public pension income



\$297.8 billion in pension wealth, including \$176.6 billion from public pensions

In Texas is held by white residents, among older adults with any pension income. Black pensioners held an average of \$282,000 in pension wealth, roughly 90% of the average of \$320,000 among white pensioners in 2013-2021. Latino pensioners averaged \$271,000 in pension wealth.

In Texas, women pensioners' average pension wealth was 88% of men's during this period. While historical gender wage gaps and women's truncated careers due to caregiving suppress their retirement wealth, pension income over women's longer lifespans offsets some of this inequality. Pensioners without college degrees had 53% of the average pension wealth of those with a Bachelor's degree or higher due to the latter's higher pay. At the same time, the average pension wealth values of \$288,000 and \$226,000, among women and non-college graduates, respectively, represent a significant nest egg compared to the retirement savings of those without pensions.

Nationally, the share of seniors with private pensions has been shrinking due to the decline of corporate pensions. As the trend continues, public pensions will remain one of the last bulwarks of wealth equity in the U.S., alongside Social Security.

Figure 6: Average Value of Pension Wealth among Texas Pensioners Age 55+, 2013-2021

Category	Average Value
All Pensioners Age 55+	\$309,000
White	\$320,000
Nonwhite	\$278,000
Black	\$282,000
Latino	\$271,000
Men	\$328,000
Women	\$288,000
4-Year College Degree	\$430,000
No 4-Year College Degree	\$226,000

Notes: Retirement plan participation, pension income, and retiree poverty estimates in this brief are from the UC Berkeley Labor Center's analysis of the U.S. Census Bureau's Current Population Survey/Annual Income and Economic Supplement (CPS ASEC) microdata, obtained from IPUMS. The present value of pension income was calculated using a blended discount rate of 5.45%, which reflects a liability-weighted average across federal, union, corporate, and state and local government pension systems in the U.S. in 2020. For detailed methodology see the Appendix of the full report. Rhee, N., 2023. Closing the Gap: The Role of Public Pensions in Reducing Retirement Inequality. National Institute on Retirement Security, Washington, DC. www.nirs.org

Conclusion

- Pensions are a critical bulwark of middle-class retirement security alongside Social Security
- Pensions have the largest anti-poverty and wealth-building effects on historically disadvantaged groups including women and the Black community
- Pensions—especially public pensions—are an important household asset that reduce wealth inequality

Questions

