

## WHAT'S INSIDE

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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](http://www.ici.org/pdf/per16-02.pdf)).

As part of this update, additional tabulations are available in supplemental tables. These provide the data needed to replicate the figures contained in the November 2010 report for the years 1975 to 2015 (available at [www.ici.org/info/per22-08\\_data.xls](http://www.ici.org/info/per22-08_data.xls)).

## A Look at Private-Sector Retirement Plan Income After ERISA, 2015

### 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.** The share of retirees with private-sector pension income has nearly doubled since 1975 and the median amount received by retirees is up by more than 50 percent. Further, despite changes to the survey, evidence suggests that the survey data used to analyze retiree income do not fully capture all pension income, and thus, likely understate the increase in retirement plan income since ERISA.
- » **The decline of private-sector defined benefit (DB) plans has changed the type of pension offered to workers, not the likelihood that workers are offered a pension.** The share of private-sector workers with access to pension plans at their current employers has been substantial and fairly steady since 1979, with the share working for employers that sponsor DB pension plans falling, and the share working for employers that sponsor defined contribution (DC) pension plans rising.
- » **The extent to which retirees relied on DB plans may be overstated by looking only at statistics on DB plan coverage, because coverage does not always result in retirement income.** In 1975, when nearly 90 percent of private-sector workers with retirement plans were covered by DB plans, only about one in five retirees received income from private-sector pensions, and the median amount of annual income they received was roughly \$5,000 (in constant 2015 dollars). Although many retirees worked at private-sector employers that sponsored DB pension plans, the combination of several factors—vesting rules, the timing of benefit accrual, and labor mobility—resulted in many retirees getting little or no retirement income from those plans.

- » **Social Security benefits consistently have been the largest component of retiree income and the predominant income source for lower-income retirees.** In 2015, Social Security benefits made up 52 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 28 percent of income in 2015. Over the past 41 years, the share of retiree income from Social Security has averaged 51 percent.
- » **By supplementing Social Security, retirement plans play a complementary role in the US 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.

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## 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.\* Since the enactment of ERISA, two trends have changed the nature of retirement savings. First, among private-sector employees, a decreasing share 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 (both DB and DC) historically have played in providing retirement income.

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\* See ERISA (Public Law 93-406) § 2.

## Despite Decline in DB Plans, Overall Pension Coverage Has Been Steady

The share of workers with access to pension plans, either DB or DC, at their current employers 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 from 1979 to 2013, the portion of private-sector workers whose employers 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 US 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.

FIGURE 1

### Workers' Access to Pensions Has Been Fairly Steady over Time

Workers aged 21 to 64 at employers sponsoring<sup>1</sup> pension plans<sup>2</sup> as a percentage of wage and salary workers,<sup>3</sup> 1979–2013



<sup>1</sup> 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.

<sup>2</sup> Pension plans include both DB and DC pension plans.

<sup>3</sup> Wage and salary workers do not include workers who were self-employed.

<sup>4</sup> The series plots all wage and salary workers covered by a pension plan as a percentage of all wage and salary workers.

<sup>5</sup> 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

\* Based on the March 2015 and March 2016 Current Population Survey (CPS), the estimated share of private-sector workers whose employers sponsor retirement plans dropped precipitously between 2013 and 2014, and then dropped again in 2015. The estimated decline in coverage is inconsistent with other evidence, such as the share of workers with access to an employer-sponsored retirement plan reported in the National Compensation Survey (NCS), which is the Bureau of Labor Statistics survey of business establishments (for current and historical data from the NCS, see [www.bls.gov/ncs/](http://www.bls.gov/ncs/)). As there is no corroborating evidence that retirement plan coverage actually declined substantially between 2013 and 2015, the 2014 and 2015 estimates of pension coverage derived from the March 2015 and March 2016 CPS are not plotted in Figure 1.

### *The Terms Pension Plan and Retirement Plan Are Used Interchangeably 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 paper, the two terms are used interchangeably, with both referring to 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 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.<sup>†</sup> 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.

The Current Population Survey (CPS), the primary source of data on pension coverage and pension income 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 (see discussion of changes to the survey questionnaire in the appendix to this paper [pages 17–31]).

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\* See [www.dol.gov/dol/topic/retirement/typesofplans.htm](http://www.dol.gov/dol/topic/retirement/typesofplans.htm).

<sup>†</sup> See 26 C.F.R. § 1.401-1 “Qualified pension, profit-sharing, and stock bonus plans.”

## **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. DB plan coverage does not ensure that a worker will receive pension income in retirement, nor does it ensure that a worker who does will receive a substantial amount of pension income. 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 would result in pension income and the amount of pension income that it would generate.

## **Only Workers Who Are Vested Receive Benefits**

One reason DB plan coverage would not result in pension income is that a worker has to work for a minimum period of time before pension benefits are vested. Once a worker's benefits are vested, they cannot be revoked for any reason, including termination of employment. Although technically covered by a DB plan, workers who leave a job prior to vesting receive no benefits—neither a lump-sum payment upon separation from employment nor regular pension payments in retirement.

Rules governing vesting have evolved over time.

- » Before 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.
  - » Before 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 by five years of service or fewer.
  - » TRA '86 vesting requirements generally went into effect starting in 1989.
  - » Before the passage of TRA '86, only 5 percent of active private-sector DB plan participants were in plans that already met the TRA '86 minimum vesting requirements.

These changes to the vesting rules were associated with a substantial increase in the share of private-sector DB plan participants who were vested. In 1975, among active participants in private-sector 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 were fully vested.

### Even If Vested, Benefit Accrual Is Back Loaded

Even workers who stayed with an employer long enough for DB plan benefits to vest may have received little or no pension income in retirement. Because of the way in which traditional DB plan benefits accrue, employees who separate from an employer before normal retirement age may not have accrued substantial benefits. Further, many DB plans offer employees the option of taking accrued benefits in the form of a lump-sum payment when they leave a job.

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. Traditional DB plan pension payments are typically calculated as a percentage of a worker’s salary, with the percentage based on number of years of service and the salary being an average from the workers highest earning years. DB plan accruals increase in value the longer a worker stays at an employer because, in addition to increasing the percentage of salary replaced, any increase in salary will make all previous years of service more valuable. DB plan accruals increase in value with a worker’s 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, for example, a 30-year-old worker.

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\* Cliff vesting and graduated vesting are the two primary vesting methods. Under cliff vesting, benefits are not vested until a certain number of years of employment or “service,” after which, benefits are 100 percent vested. Under graduated vesting, a portion of benefits vests each year until benefits are fully vested.

† For the source of this statistic and others used in this paper, see Peter Brady and Michael Bogdan, “A Look at Private-Sector Retirement Plan Income After ERISA,” *ICI Research Perspective* 16, no. 2 (available at [www.ici.org/pdf/per16-02.pdf](http://www.ici.org/pdf/per16-02.pdf)).

The back-loaded accrual of DB plan benefits places a premium on having a long tenure with a single employer and on separating from employment close to retirement age. For example, consider two workers who earn exactly the same salary from age 25 to age 64 and who are both covered for 30 of those 40 years by DB plans that use the same benefit formula. The only difference between the two is the number of employers for whom they work and the ages at which they have pension coverage. The first worker initially is not covered by any pension plan and then is covered by a DB plan with the same employer for the 30 years prior to retirement (from age 35 to age 64). The second worker has four 10-year stints at four different employers and is covered by a DB plan at the first three (with those stints ending at age 34, age 44, and age 54, respectively) and is not covered by any pension plan in

the final 10 years of work. Assuming 3.0 percent inflation and real salary increases of 1.0 percent per year over this period, the second worker's annual pension payments in retirement would be less than half that of the first worker.\*

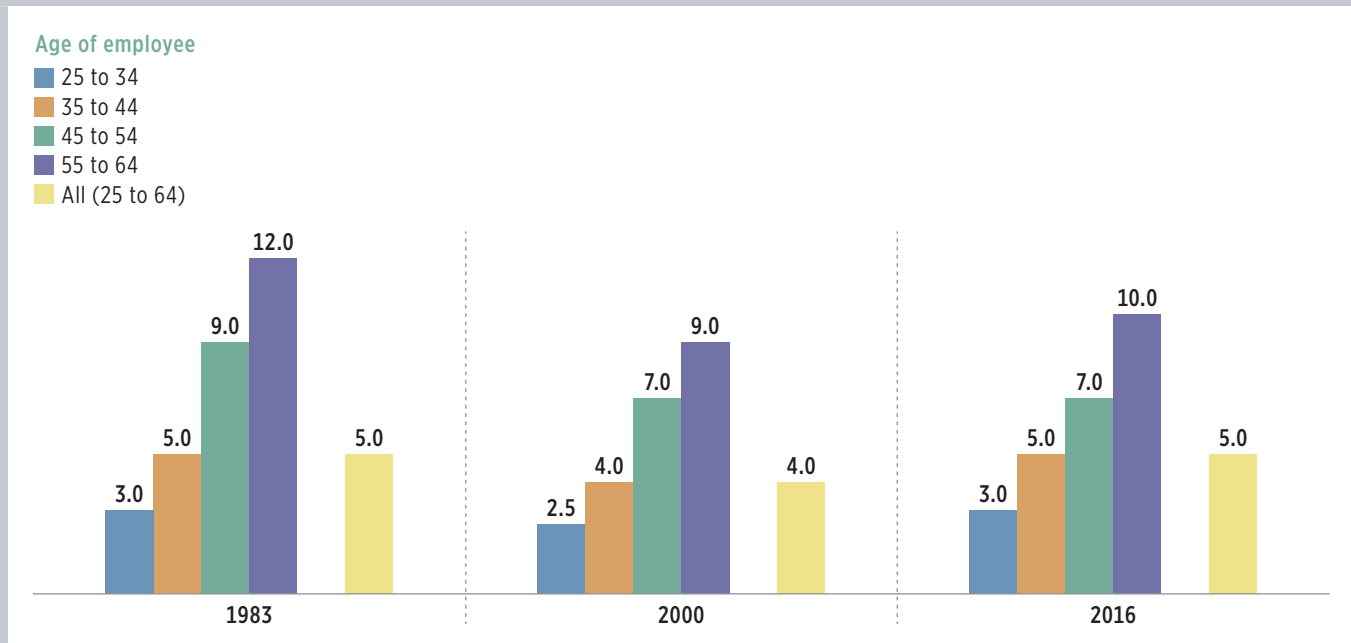
### Private-Sector Workers Have Always Been Mobile

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 US workforce is mobile; that is, private-sector workers tend to change jobs and employers on a regular basis. In 2016, 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 the same group was also five years.

FIGURE 2

### The American Workforce Has Always Been Mobile

Median length of employment at current employer among private-sector wage and salary workers, in years, by age group, selected years\*



\*See the supplemental tables (available at [www.ici.org/info/per22-08\\_data.xls](http://www.ici.org/info/per22-08_data.xls)) for data for additional years.

Source: ICI tabulations of Current Population Surveys

\* See discussion on page 18 of Peter Brady and Michael Bogdan, "A Look at Private-Sector Retirement Plan Income After ERISA," *ICI Research Perspective* 16, no. 2 (available at [www.ici.org/pdf/per16-02.pdf](http://www.ici.org/pdf/per16-02.pdf)).

## 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.

The extent to which previous generations received income from private-sector DB plans, however, cannot be gleaned simply by looking at data on pension coverage. Not all

workers covered by DB pension plans would have received benefits from the plans, and the amounts received likely would 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 a long tenure at a single employer and separating from service close to the retirement age designated by the plan.

### *The Current Population Survey Measure of Income*

The Current Population Survey (CPS) is a monthly household survey conducted by the Census Bureau 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, referred to as the Annual Social and Economic Supplement (ASEC), is the only regular source of detailed income data from the CPS.

The ASEC 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 Bureau of the Census 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](http://www.census.gov/cps).



The fact that private-sector DB pension coverage has declined does not necessarily mean that private-sector DB pension income has become less prevalent. Prior to ERISA, when DB plans were the most common type of pension, a large percentage of workers covered by a plan would have left their jobs before their accrued benefits had vested. Although the share of workers covered by DB plans declined after ERISA, shorter vesting periods made it much more likely that workers covered by a plan would actually receive benefits from the plan. Which trend—the declining share of workers participating in a DB plan or the increasing share of DB plan participants with vested benefits—had the larger impact can only be determined by examining data on retirement income.

### Importance of Pension Income Has Grown over Time

This section examines the composition of retiree income across time and across the income distribution. For the analysis that follows, a *retiree* is defined as an individual 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. For purposes of looking at differences by income, retirees are ranked by per capita income. That is, 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.

### Share of Retiree Income from Private-Sector Pensions Has More Than Doubled

Although Social Security benefits have always been the most important source of retiree income reported in the CPS, the share of retiree income from pensions has grown over time. In 2015, Social Security benefits were 52 percent of retiree income, about unchanged from 1975 (Figure 3). In contrast, the share from the combination of government and private-sector pensions has increased sharply, representing roughly one-third of retiree income in 2015, compared with less than one-fifth of retiree income in 1975. Most of that increase is attributable to private-sector pensions, which accounted for 19 percent of retiree income in 2015 compared with only 8 percent of retiree income in 1975.

#### *Redesigned Survey Questionnaire Associated with Increased Reporting of Pension Income*

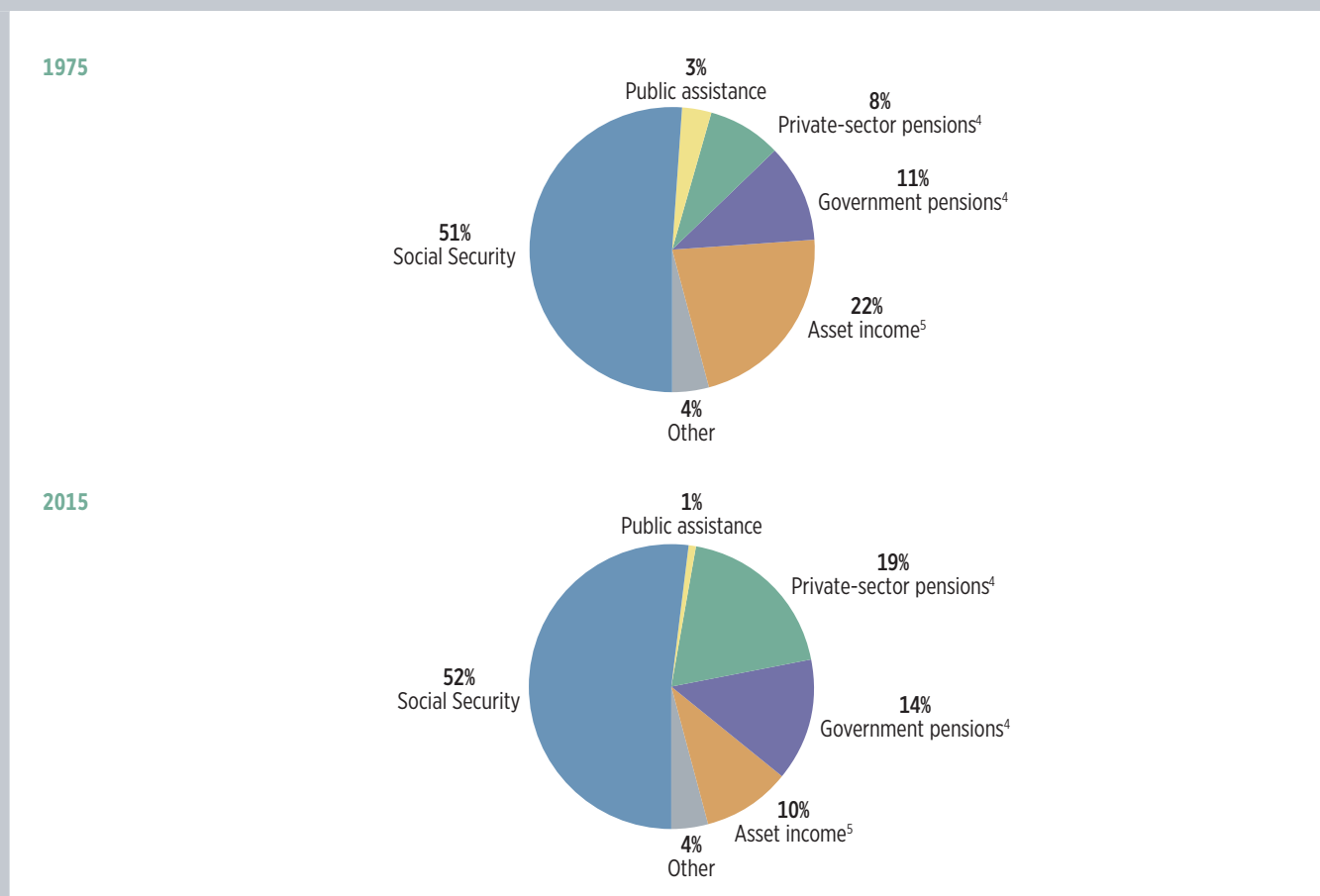
The estimated percentage of retirees that received pension income increased between 2013 and 2014, but this change can largely be attributed to changes in the household survey used to collect the data. The appendix to this paper (pages 17–31) explains the changes made to the questionnaire and illustrates the changes to reported pension income. The changes were made in response to growing evidence that income, including pension income, was underreported in the survey. For the purposes of this study, the change in the survey means that the data for 2014 and 2015 are not necessarily comparable to data for prior years. For this reason, the figures highlight the break in the data series between 2013 and 2014.



FIGURE 3

### Share of Retiree Income from Pensions Has Increased over Time

Percentage of total retiree<sup>1</sup> income by source, on a per capita basis,<sup>2</sup> 1975 and 2015<sup>3</sup>



<sup>1</sup>Retirees are (1) single individuals aged 65 or older who have nonzero income and who are not working or (2) married individuals aged 65 or older who have nonzero income, who are not working, and who have a nonworking spouse.

<sup>2</sup>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.

<sup>3</sup>See the supplemental tables (available at [www.ici.org/info/per22-08\\_data.xls](http://www.ici.org/info/per22-08_data.xls)) for data for additional years.

<sup>4</sup>Both private-sector pensions and government pensions may include income from DB plans, DC plans, annuities, and IRAs. These include income from federal pensions, military pensions, state and local pensions, US railroad retirement pensions, company or union pensions, IRAs, Keoghs, 401(k) plans, 403(b) accounts, annuities, and other types of retirement accounts.

<sup>5</sup>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

## Composition of Retirement Income Reflects the Design of Social Security

The composition of retirement income varies across retirees, with the share of income from Social Security benefits declining and the share of income from pensions increasing as per capita income increases (Figure 4). For example, in 2015 the share of income from the combination of Social Security benefits and public assistance ranged from 93 percent for retirees in the lowest income quintile to 28 percent for retirees in the highest income quintile. In contrast, the share of income from the combination of government and private-sector pensions ranged from 3 percent for the lowest income quintile to 49 percent for the highest income quintile.

This variation in income composition is consistent with the design of the Social Security 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. To maintain living standards in retirement, workers with higher lifetime earnings have had to rely more heavily on employer-sponsored pensions to supplement Social Security. In this way, Social Security and employer-provided pension plans are complementary.

## Private-Sector Pension Income Is Up for All Income Groups

Across the income distribution, there has been little change since 1975 in the share of income provided by the combination of Social Security benefits and public assistance (Figure 4). 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 contrast to Social Security benefits, the importance of pension income has increased since 1975 for all retiree income groups (Figure 4). Focusing on private-sector pensions, retirees in the lowest income quintile received 2.4 percent of income from private-sector pensions in 2015, compared with 0.6 percent in 1975. For retirees in the middle income quintile, 11 percent of income was derived from private-sector pensions in 2015, up from 4 percent in 1975. For retirees in the highest income quintile, the share of income from private-sector pensions increased to 26 percent in 2015 from 12 percent in 1975.

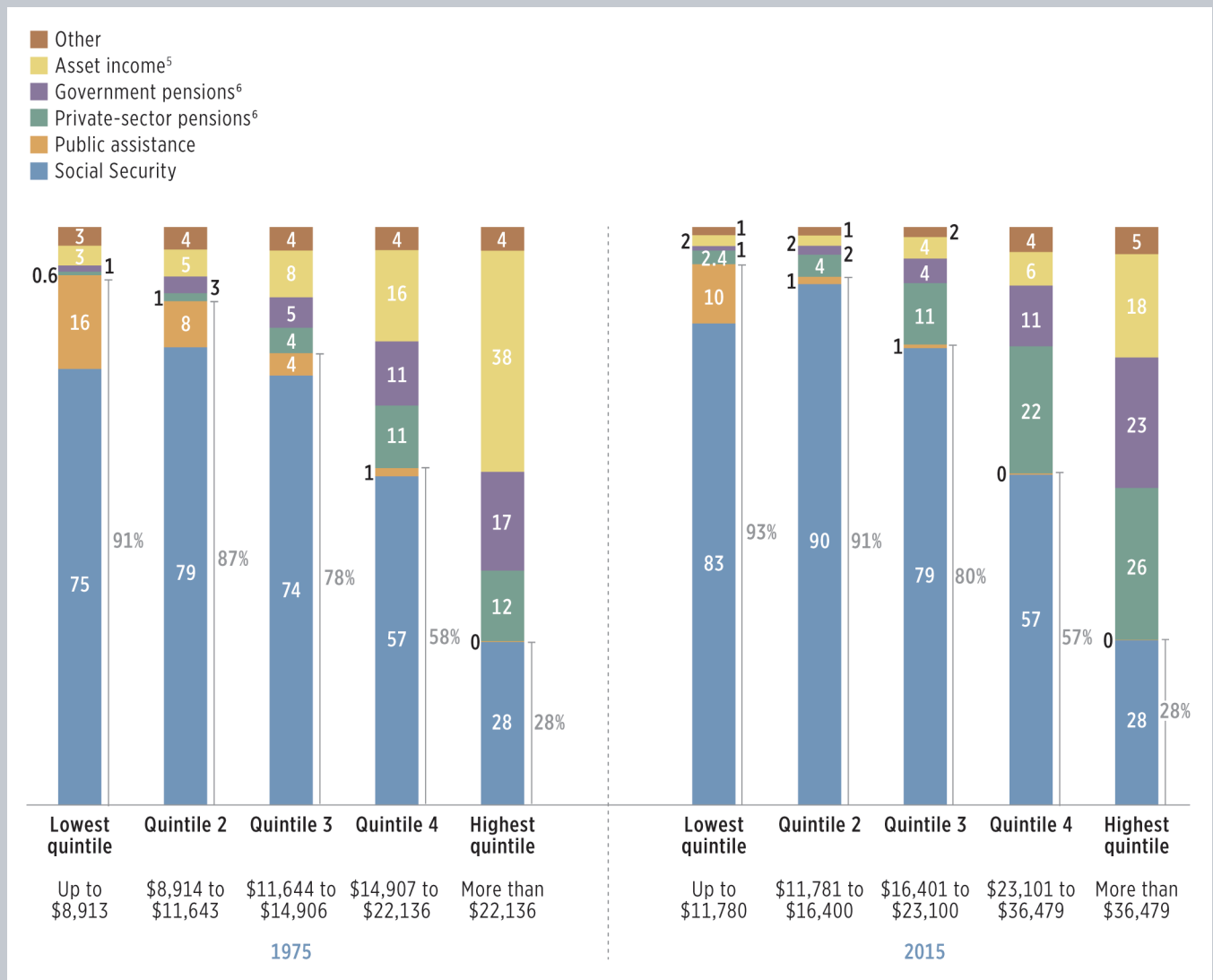
## The Decline of DB Plans Is Not Associated with a Reduction in Pension Income

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. To the contrary, the share of retiree income from private-sector pensions has increased over time and across the income distribution. Some of this increase may be attributable to the growth of DC pension plans. Indeed, because the evidence suggests that pension income continues to be underreported in the CPS data (see discussion in the appendix), the growth in the importance of income from private-sector pensions may be 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 DB plans as vesting rules were first implemented by ERISA and then tightened by TRA '86.

FIGURE 4

### Pension Income Share Has Increased Across the Income Distribution

Percentage of total retiree<sup>1</sup> income by source and income quintile,<sup>2</sup> per capita basis,<sup>3</sup> 1975 and 2015<sup>4</sup>



<sup>1</sup> Retirees are (1) single individuals aged 65 or older who have nonzero income and who are not working or (2) married individuals aged 65 or older who have nonzero income, who are not working, and who have a nonworking spouse.

<sup>2</sup> Income ranges for quintiles are expressed in constant 2015 dollars.

<sup>3</sup> 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.

<sup>4</sup> See the supplemental tables (available at [www.ici.org/info/per22-08\\_data.xls](http://www.ici.org/info/per22-08_data.xls)) for data for additional years.

<sup>5</sup> Asset income includes interest, dividends, and rents earned on assets held outside retirement accounts.

<sup>6</sup> Both private-sector pensions and government pensions may include income from DB plans, DC plans, annuities, and IRAs. These include income from federal pensions, military pensions, state and local pensions, US railroad retirement pensions, company or union pensions, IRAs, Keoghs, 401(k) plans, 403(b) accounts, annuities, and other types of retirement accounts.

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

Source: ICI tabulations of March Current Population Surveys

## More Retirees Receive More Pension Income Today

This section focuses more narrowly on trends in retiree pension income—both the likelihood that retirees receive pension income (DB or DC or both) and the median amount that they receive—and illustrates that pension income has increased, not decreased, over time. Both the incidence and the amount of pension income are reported on a per capita basis. That is, 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.

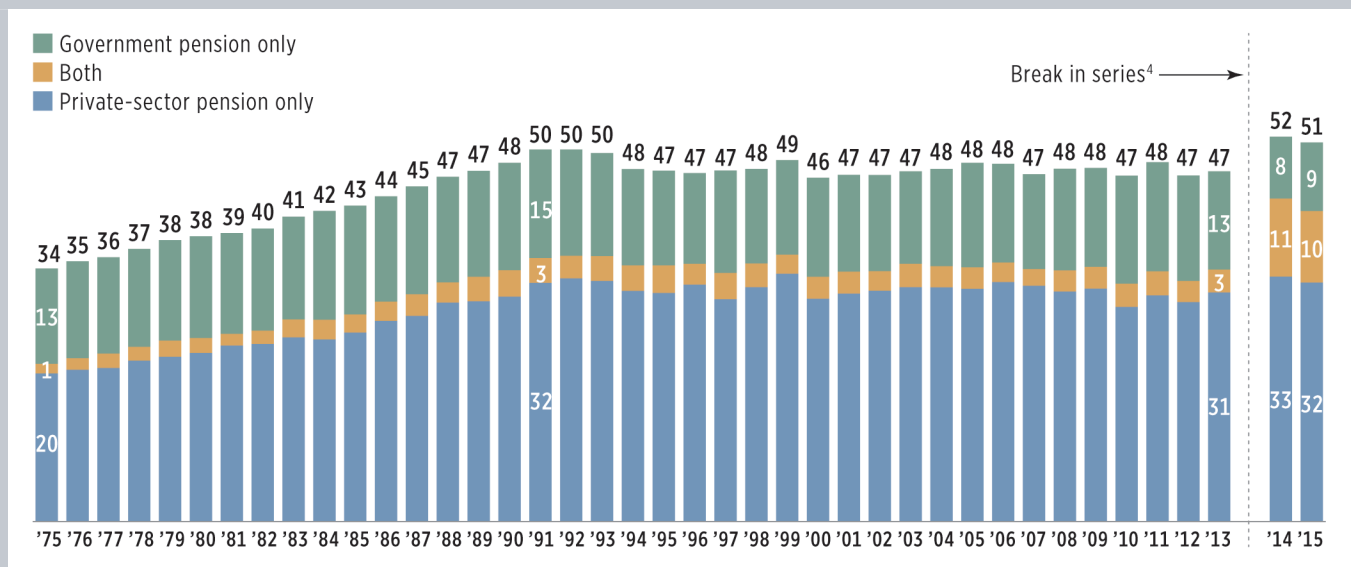
## Share of Retirees with Private-Sector Pension Income Has Nearly Doubled

Since 1975, the share of retirees receiving pension income has increased by half (Figure 5). In 2015, 51 percent of retirees received pension income (inclusive of income from DB plans, DC plans, and IRAs) from government pensions or private-sector pensions or both. In 1975, only 34 percent of retirees received pension income. From 1975 through 1991—following the passage of ERISA and continuing after the passage of TRA '86—the share of retirees with pension income rose rapidly. Since 1991, the share has remained relatively flat, moving modestly with the business cycle.

FIGURE 5

### Receipt of Pension Income Has Increased over Time

Percentage of retirees<sup>1</sup> with type of pension income,<sup>2</sup> per capita basis,<sup>3</sup> 1975–2015



<sup>1</sup> Retirees are (1) single individuals aged 65 or older who have nonzero income and who are not working or (2) married individuals aged 65 or older who have nonzero income, who are not working, and who have a nonworking spouse.

<sup>2</sup> Pension income includes income from DB plans, DC plans, annuities and IRAs. These include income from federal pensions, military pensions, state and local pensions, US railroad retirement pensions, company or union pensions, IRAs, Keoghs, 401(k) plans, 403(b) accounts, annuities, and other types of retirement accounts.

<sup>3</sup> 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.

<sup>4</sup> The break in series occurs because of a survey questionnaire change. See the appendix in this paper (pages 17–31) for details and the supplemental tables (available at [www.ici.org/info/per22-08\\_data.xls](http://www.ici.org/info/per22-08_data.xls)) for data on additional years.

Source: ICI tabulations of March Current Population Surveys

The share of retirees with private-sector pension income has grown even more rapidly, nearly doubling since 1975. In 2015, 42 percent of retirees received income from private-sector pensions (including DB plans, DC plans, and IRAs), including 32 percent of retirees who received income only from private-sector pensions, and 10 percent who received income from both private-sector pensions and government pensions. In 1975, only 21 percent of retirees received income from private-sector pensions.

### Government and Private-Sector Pension Income Are Not Directly Comparable

It is important to separate private-sector pensions from government pensions when analyzing the amount of pension income retirees receive (Figure 6). Government workers receive higher pension benefits in retirement, on average, than private-sector workers, but some of that difference is attributable to the fact that, at least

FIGURE 6

#### Government Employment Affects Both Pension Income and Social Security Benefits

*Incidence and amount of pension income<sup>1</sup> among retirees,<sup>2</sup> by employer type, per capita basis,<sup>3</sup> constant 2015 dollars, selected years<sup>4</sup>*

Year	With private-sector pension only			With government pension only			With both private-sector and government pension		
	Percentage of retirees	Per capita income		Percentage of retirees	Per capita income		Percentage of retirees	Per capita income	
		Median pension	Median pension plus Social Security		Median pension	Median pension plus Social Security		Median pension	Median pension plus Social Security
1975	20.0%	\$5,076	\$15,845	12.9%	\$11,006	\$17,226	1.3%	\$15,409	\$21,640
1980	22.7	4,496	15,761	13.7	9,869	17,314	2.0	13,370	23,474
1985	25.5	4,325	16,773	14.7	10,690	18,595	2.5	11,738	22,200
1990	30.3	5,081	17,329	14.5	12,309	20,722	3.6	11,083	22,738
1995	30.8	5,371	18,585	12.8	12,067	21,576	3.7	13,332	24,764
2000	30.1	6,445	19,858	13.4	13,288	23,532	3.0	16,292	27,706
2005	31.4	6,463	20,362	14.1	14,723	25,459	2.9	15,621	27,725
2010	28.9	6,714	22,236	14.6	16,265	27,123	3.1	15,985	28,857
2013	30.9	7,052	22,831	13.3	17,518	28,267	3.1	18,304	32,866
<b>Break in series<sup>5</sup></b>									
2014	33.0	7,209	23,379	8.3	18,022	29,737	10.5	20,125	34,902
2015	32.2	7,356	24,012	9.2	19,000	31,138	9.7	21,450	36,162

<sup>1</sup> Pension income includes income from DB plans, DC plans, annuities and IRAs. These include income from federal pensions, military pensions, state and local pensions, US railroad retirement pensions, company or union pensions, IRAs, Keoghs, 401(k) plans, 403(b) accounts, annuities, and other types of retirement accounts.

<sup>2</sup> Retirees are (1) single individuals aged 65 or older who have nonzero income and who are not working or (2) married individuals aged 65 or older who have nonzero income, who are not working, and who have a nonworking spouse.

<sup>3</sup> 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.

<sup>4</sup> See the supplemental tables (available at [www.ici.org/info/per22-08\\_data.xls](http://www.ici.org/info/per22-08_data.xls)) for data for additional years.

<sup>5</sup> The break in series occurs because of a survey questionnaire change. See the appendix in this paper (pages 17–31) for details.

Source: ICI tabulations of March Current Population Surveys

historically, many government workers were not covered by Social Security. In 2015, for example, median pension income for retirees receiving only government pensions was nearly \$12,000 more than for retirees receiving only private-sector pensions (\$19,000 per capita compared with \$7,356 per capita). But the higher pension benefits for government workers were partially offset by lower Social Security benefits. This can be seen by comparing the median amount of income that the two groups of retirees received from the combination of pension benefits and Social Security benefits, which differs by only about \$7,000 (\$31,138 per capita compared with \$24,012 per capita).

### Median Amount of Private-Sector Pension Income Is Up More Than 50 Percent

Since 1975, the median amount of pension income for retirees with private-sector pensions (including those who have private-sector pensions only and those with both private-sector and government pensions) is up by more than 50 percent (Figure 7, left panel). In 2015, median per capita private-sector pension income was \$7,800, compared with about \$5,000 (in constant 2015 dollars) in 1975. As the share of retirees receiving private-sector pension income began increasing after 1975, the median amount of pension income initially fell. Around the mid-1980s, the median amount of private-sector pension income began to increase even as the share of retirees receiving the income continued to increase.

### Upward Trend in Private-Sector Pension Income Seen Regardless of the Unit of Analysis

Although the preferred measure of pension income used in this study is the per capita measure, the upward trend in both the share of retirees receiving private-sector pension income and the amount of pension income they receive can be seen regardless of the unit of analysis.

Pension income also can be analyzed on an individual basis (Figure 7, middle panel). 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 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, but higher median pension income because the income is spread out over fewer individuals.

Measured on an individual basis, the share of the retirees receiving income from private-sector pensions has more than doubled since 1975 and the median amount of income received is up by more than 30 percent (Figure 7, middle panel). In 2015, 34 percent of retirees received private-sector pension income measured on an individual basis, up from 16 percent in 1975, and the median amount for those individuals receiving the income was \$9,600, up from roughly \$7,300 (in constant 2015 dollars) in 1975.

Finally, pension income is tabulated on a household basis (Figure 7, right panel). 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. It also results in the highest measure of median income because it measures household, rather than individual, income.

Measured on a household basis, the share of the retirees receiving income from private-sector pensions has more than doubled since 1975 and the median amount of income received is up by nearly 40 percent (Figure 7, right panel). In 2015, 39 percent of retiree households received private-sector pension income, up from 19 percent in 1975, and the median amount for those households receiving the income was \$10,800, up from roughly \$7,800 (in constant 2015 dollars) in 1975.

FIGURE 7

### Private-Sector Pension Income Is Higher Than in the Past by Any Measure

Receipt of income from private-sector pensions<sup>1</sup> among retirees,<sup>2</sup> constant 2015 dollars on a per capita basis,<sup>3</sup> an individual basis,<sup>4</sup> and a household basis,<sup>5</sup> selected years<sup>6</sup>

Year	With private-sector pension					
	Per capita basis <sup>3</sup>		Individual basis <sup>4</sup>		Household basis <sup>5</sup>	
	Percentage of retirees	Median pension	Percentage of retirees	Median pension	Percentage of retirees	Median pension
1975	21.3%	\$5,038	15.8%	\$7,328	19.1%	\$7,814
1980	24.8	4,484	17.9	6,637	21.8	6,925
1985	27.9	4,258	20.6	6,141	25.0	6,540
1990	33.9	4,960	25.7	6,790	30.7	7,385
1995	34.6	5,164	26.3	7,042	31.4	7,661
2000	33.0	6,312	25.5	8,305	30.5	9,020
2005	34.3	6,260	26.6	8,098	32.0	8,834
2010	32.1	6,569	24.9	8,921	30.2	9,381
2013	34.0	6,886	26.0	8,707	31.3	9,811
<b>Break in series<sup>7</sup></b>						
2014	43.6	7,509	35.2	9,031	40.4	10,813
2015	41.9	7,800	34.0	9,600	39.4	10,800

<sup>1</sup>Income from private-sector pensions may include income from DB plans, DC plans, annuities, and IRAs. These include income from company or union pensions, IRAs, Keoghs, 401(k) plans, 403(b) accounts, annuities, and other types of retirement accounts.

<sup>2</sup>Retirees are (1) single individuals aged 65 or older who have nonzero income and who are not working or (2) married individuals aged 65 or older who have nonzero income, who are not working, and who have a nonworking spouse.

<sup>3</sup>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.

<sup>4</sup>Income sources for married couples are not pooled. Any income source is directly attributed only to that individual.

<sup>5</sup>Income of married couples is pooled, and each married couple is treated as a single observation.

<sup>6</sup>See the supplemental tables (available at [www.ici.org/info/per22-08\\_data.xls](http://www.ici.org/info/per22-08_data.xls)) for data for additional years.

<sup>7</sup>The break in series occurs because of a survey questionnaire change. See the appendix in this paper (pages 17–31) for details.

Source: ICI tabulations of March Current Population Surveys



## 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.

First, there was no golden age of pensions. Although many worked at employers that sponsored DB pension plans, the combination of several factors—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 pension plan participants 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, among those with private-sector pension income, the median amount received per individual was about \$5,000 (in constant 2015 dollars).

Second, as this paper has shown, private-sector pension income has become more prevalent over time, not less prevalent. In 2015, 42 percent of retirees received private-sector pension income, and the median per capita amount of income of those with private-sector pension income had increased to \$7,800. Further, because evidence suggests that pension income continues to be underreported in the survey data used to analyze retiree income, the increase of pension income since ERISA may be understated.

## Appendix: Impact of CPS Redesign on the Reporting of Private-Sector Retirement Plan Income

The main body of this paper examines the prevalence and amount of pension income received by retirees from 1975 to 2015 using data from the Current Population Survey (CPS) Annual Social and Economic Supplement (ASEC). The data for 2014 and 2015 were collected using a redesigned survey. This appendix provides additional information about the changes to the survey questionnaire and the impact those changes had on the reporting of pension income. Section I provides a detailed examination of how the reporting of pension income changed between the March 2014 survey (retrospective annual data for 2013) and the March 2015 survey (retrospective annual data for 2014) in response to the redesigned questionnaire. Section II provides a detailed description of how the format and wording of the pension income questions changed.

The CPS is a monthly household survey conducted by the Census Bureau for the Bureau of Labor Statistics (BLS). The monthly 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 monthly CPS survey with the ASEC questionnaire—a special set of detailed questions on the components of income, with the income questions pertaining to income received in the prior year. The ASEC is one of the most widely used sources for statistics on annual income and the data are used to calculate the official US poverty estimates. It is also the source of the pension income data analyzed in this paper.

The ASEC was first fielded in March 1976. Over the years, research comparing the ASEC to other sources of data on income, such as administrative tax return data, indicated that the ASEC suffered from misclassification of income, underreporting of income, and underreporting of enrollment in means-tested government programs.\* In response, the Census Bureau conducted field tests and redesigned the questionnaire (Semega and Welniak 2015). One of the income sources on which the redesign focused was pension income.

In March 2015, the CPS began using the substantially revised ASEC questionnaire. Revisions to the ASEC included changing how questions were asked regarding certain income sources; changing the order of the income questions to match those sources most likely received by respondents given certain known characteristics of the household; prompting respondents to report a range of income when they either did not know or refused to provide exact dollar amounts; and using a “dual pass” approach to asking income questions—that is, sources of income are identified first, and then respondents are asked about the amount of income received from those sources (Semega and Welniak 2015). The redesigned survey was field-tested in March 2014 (used with one-third of the households in the March 2014 ASEC sample) and was the only questionnaire used for the 2015 ASEC.

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\* See, for example, Schieber 1995; Meyer, Mok, and Sullivan 2009; and Miller and Schieber 2014.

## I. Reporting of Pension Income Is Up in Response to the Redesigned Questionnaire

The redesigned survey was associated with a higher percentage of retirees reporting pension income and with retirees reporting a higher amount of pension income—both in aggregate and on average. The redesign, however, had a larger effect on the share of retirees reporting multiple sources of pension income than it did on the share of retirees reporting that they had at least one source of pension income. Further, although retirees reported receiving 30 percent more pension income in 2014 than they reported receiving in 2013, the evidence suggests that pension income is still underreported in the CPS.

To focus the discussion on how individuals changed their responses to the survey, all of the statistics in this appendix are reported on an individual—rather than a per capita or household—basis.\*

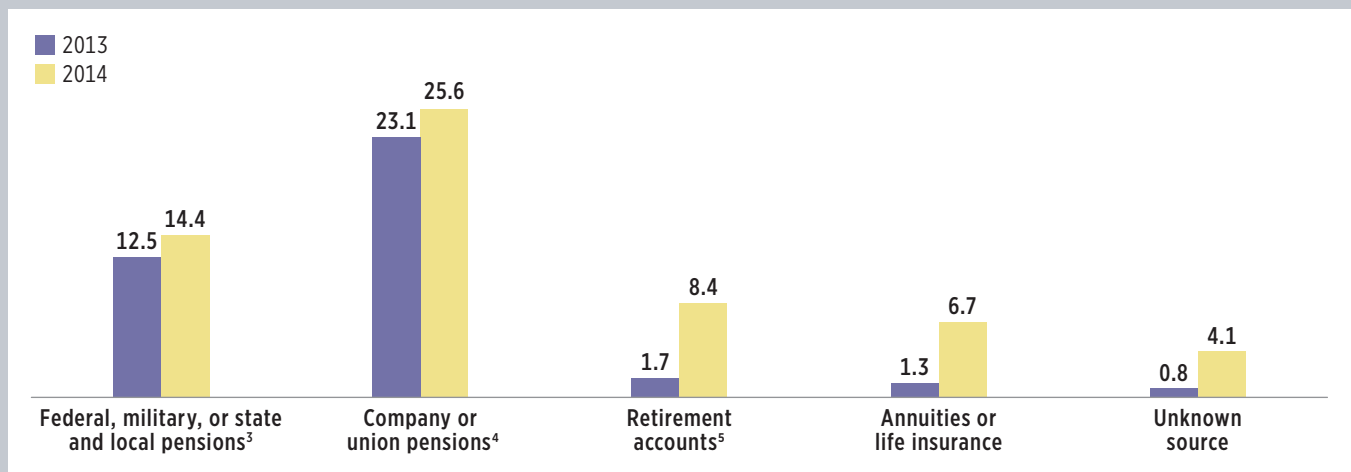
### The Biggest Impact Was on the Share of Retirees Reporting Multiple Sources of Pension Income

The share of retirees reporting pension income increased for all sources of income between 2013 and 2014, with the biggest increases—both in terms of percentage increase and absolute increase—for sources that few reported receiving in 2013 (Figure A1). The sources of pension income are separated into five broad categories: federal,

FIGURE A1

### The Share of Retirees Reporting Pension Income Increased in 2014 for All Sources

Percentage of retirees<sup>1</sup> reporting pension income<sup>2</sup> from source, individual basis, 2013–2014



<sup>1</sup>Retirees are (1) single individuals aged 65 or older who have nonzero income and who are not working or (2) married individuals aged 65 or older who have nonzero income, who are not working, and who have a nonworking spouse.

<sup>2</sup>Pension income includes income from DB plans, DC plans, annuities and IRAs. This includes income from federal pensions, military pensions, state and local pensions, US railroad retirement pensions, company or union pensions, IRAs, Keoghs, 401(k) plans, 403(b) accounts, annuities, and other types of retirement accounts.

<sup>3</sup>Federal, military, or state and local pensions also include US railroad retirement pensions.

<sup>4</sup>Company or union pensions include profit-sharing plans.

<sup>5</sup>Retirement accounts include IRAs, Keoghs, 401(k) plans, 403(b) accounts, and other types of retirement accounts.

Source: ICI tabulations of March Current Population Surveys

\* See discussion of Figure 7 on pages 14–15 of this paper for an explanation of how individual, household, and per capita measures of income differ.

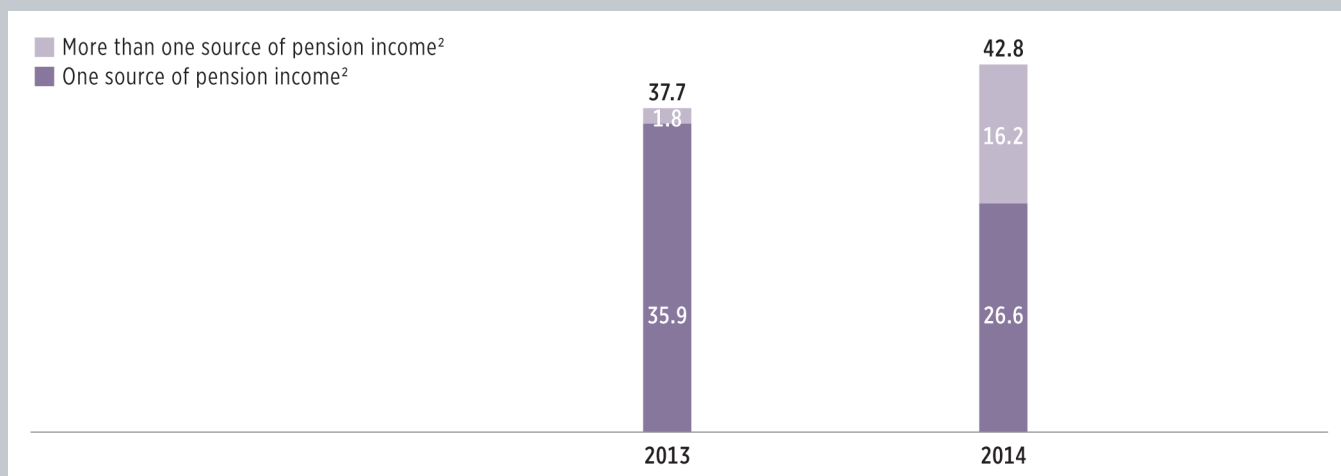
military, or state and local pensions (which also includes US railroad retirement pensions); company or union pensions (in which respondents are instructed to include profit-sharing plans); retirement accounts (which includes individual retirement accounts [IRAs], Keoghs, 401(k) plans, 403(b) accounts, and other accounts); payments from annuities or life insurance; and income from an unknown source. The share of retirees reporting income from retirement accounts increased 6.7 percentage points (8.4 percent in 2014 versus 1.7 percent in 2013); the share reporting income from annuities or life insurance increased 5.4 percentage points (6.7 percent versus 1.3 percent); and the share reporting income from an unknown source increased by 3.3 percentage points (4.1 percent versus 0.8 percent).

Overall, however, the increase in the share of retirees reporting that they received pension income was more modest (Figure A2). In 2014, 42.8 percent of retirees reported pension income, an increase of 5.1 percentage points from 2013. The biggest impact of the change in the questionnaire is that a much higher share of retirees reported that they received pension income from more than one source—16.2 percent of retirees in 2014 compared with 1.8 percent in 2013.

FIGURE A2

### New Survey Increased the Share of Retirees Reporting Multiple Sources More Than It Increased the Overall Share

Percentage of retirees<sup>1</sup> reporting pension income,<sup>2</sup> individual basis, 2013–2014



<sup>1</sup>Retirees are (1) single individuals aged 65 or older who have nonzero income and who are not working or (2) married individuals aged 65 or older who have nonzero income, who are not working, and who have a nonworking spouse.

<sup>2</sup>Pension income includes income from DB plans, DC plans, annuities and IRAs. This includes income from federal pensions, military pensions, state and local pensions, US railroad retirement pensions, company or union pensions, IRAs, Keoghs, 401(k) plans, 403(b) accounts, annuities, and other types of retirement accounts.

Source: ICI tabulations of March Current Population Surveys

The increase in the share of retirees reporting multiple sources of pension income was seen among those receiving government pensions as well as those receiving private-sector pensions (Figure A3). The share of retirees reporting multiple private-sector pension sources was 8.0 percent in 2014, up from 0.7 percent in 2013. The share reporting that they received a federal, military, or state and local

pension and either a company or union pension or a pension from an unknown source was 6.5 percent in 2014, up from 0.8 percent in 2013. And, the share of retirees reporting income from a federal, military, or state and local pension and either a retirement account or an annuity was 1.7 percent in 2014, up from 0.2 percent in 2013.

FIGURE A3

### Both Government and Private-Sector Retirees Are More Likely to Report Multiple Sources of Pension Income

Percentage of retirees<sup>1</sup> reporting pension income<sup>2</sup> by source, individual basis, 2013–2014



<sup>1</sup> Retirees are (1) single individuals aged 65 or older who have nonzero income and who are not working or (2) married individuals aged 65 or older who have nonzero income, who are not working, and who have a nonworking spouse.

<sup>2</sup> Pension income includes income from DB plans, DC plans, annuities and IRAs. This includes income from federal pensions, military pensions, state and local pensions, US railroad retirement pensions, company or union pensions, IRAs, Keoghs, 401(k) plans, 403(b) accounts, annuities, and other types of retirement accounts.

<sup>3</sup> Federal, military, or state and local pensions also include US railroad retirement pensions.

<sup>4</sup> Company or union pensions include profit-sharing plans.

<sup>5</sup> Retirement accounts include IRAs, Keoghs, 401(k) plans, 403(b) accounts, and other types of retirement accounts.

Note: Components may not add to the total because of rounding.

Source: ICI tabulations of March Current Population Surveys

## Redesigned Survey Still Undercounts Pension Income

Research suggests that the CPS has undercounted pension income for much, if not all, of its existence. For example, Schieber (1995) illustrates the discrepancy between pension income reported on the March 1991 ASEC and pension income reported on 1990 tax returns—the amount reported in the ASEC was one-third less than the amount reported on tax returns. Nearly two decades later, Miller and Schieber (2014) shows that the undercounting of pension income had persisted and had likely gotten worse, with the amount reported in the March 2009 ASEC roughly 60 percent less than the amount reported on 2008 tax returns.

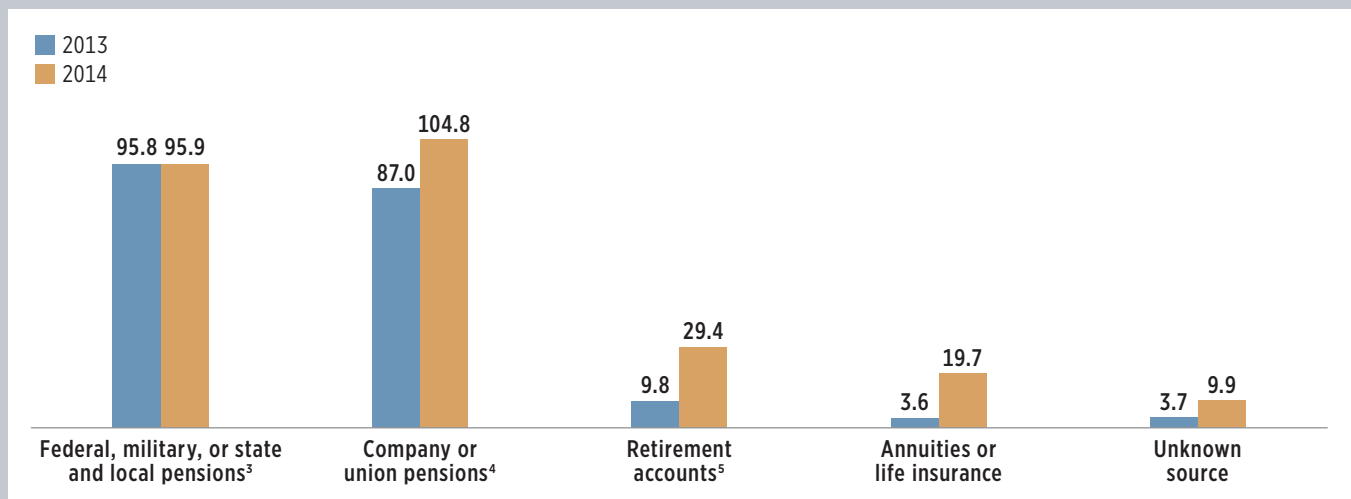
Looking at a pilot test of the revised ASEC questionnaire from March 2014, Biggs (2015) concludes that pension income was still underreported in the CPS, a conclusion supported by ICI's tabulation of the data.

Other than federal, military, or state and local pensions, the aggregate amount of pension income reported by retirees increased substantially for all sources between 2013 and 2014 (Figure A4). The biggest percentage increases were in the three sources with the least aggregate income in 2013: retirement accounts; annuities and life insurance; and unknown source. Combined, income from those sources more than tripled, increasing to \$59 billion (in constant 2015 dollars) in 2014 from \$17 billion in 2013. Reported income from company or union pensions increased by a bit more than 20 percent, to \$105 billion in 2014 from \$87 billion in 2013.

FIGURE A4

### Aggregate Pension Income Increased Substantially from Most Sources in 2014

Aggregate pension income<sup>1</sup> reported by retirees<sup>2</sup> by source, individual basis, billions of constant 2015 dollars, 2013–2014



<sup>1</sup> Pension income includes income from DB plans, DC plans, annuities and IRAs. This includes income from federal pensions, military pensions, state and local pensions, US railroad retirement pensions, company or union pensions, IRAs, Keoghs, 401(k) plans, 403(b) accounts, annuities, and other types of retirement accounts.

<sup>2</sup> Retirees are (1) single individuals aged 65 or older who have nonzero income and who are not working or (2) married individuals aged 65 or older who have nonzero income, who are not working, and who have a nonworking spouse.

<sup>3</sup> Federal, military, or state and local pensions also include US railroad retirement pensions.

<sup>4</sup> Company or union pensions include profit-sharing plans.

<sup>5</sup> Retirement accounts include IRAs, Keoghs, 401(k) plans, 403(b) accounts, and other types of retirement accounts.

Source: ICI tabulations of March Current Population Surveys

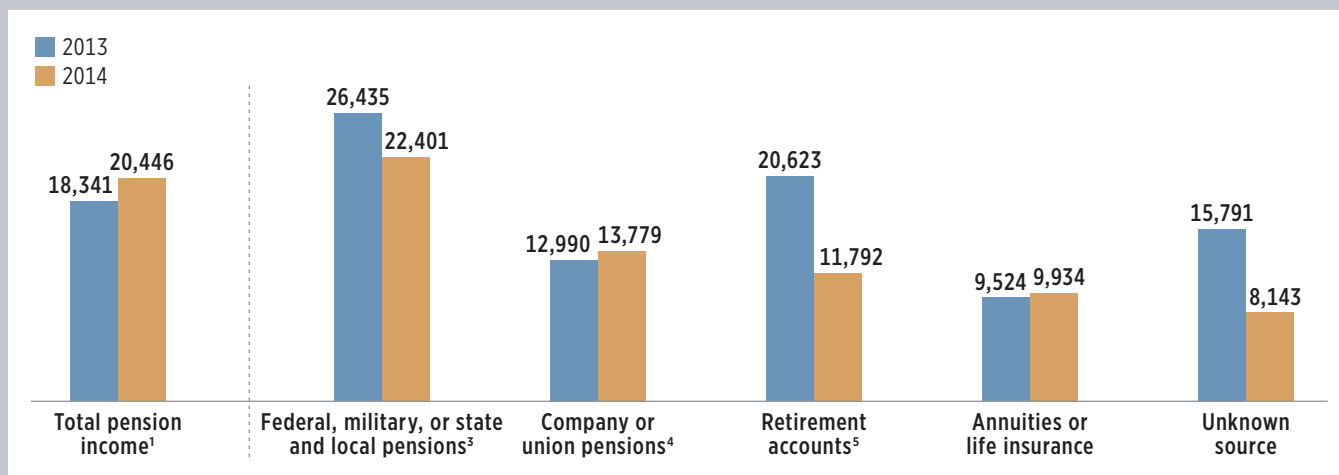
The increase in reported pension income associated with the redesigned ASEC questionnaire would close only about one-fifth of the gap between pension income as reported in the CPS and pension income as reported on tax returns. Before the redesign, Miller and Schieber (2014) estimated that pension, annuity, and IRA income reported in the CPS was roughly 40 percent of that reported on tax returns.\*

Even without accounting for the growth in pension income that would have been expected between 2013 and 2014, an increase in pension income of roughly 150 percent would have been needed to close the gap.† But, income reported by retirees in the CPS increased by only 30 percent to \$260 billion (in constant 2015 dollars) in 2014 from \$200 billion in 2013 (Figure A4).‡

FIGURE A5

### More Retirees Are Reporting More Pension Income on Average

Average pension income<sup>1</sup> reported by retirees<sup>2</sup> by source, individual basis, constant 2015 dollars, 2013–2014



<sup>1</sup> Pension income includes income from DB plans, DC plans, annuities and IRAs. This includes income from federal pensions, military pensions, state and local pensions, US railroad retirement pensions, company or union pensions, IRAs, Keoghs, 401(k) plans, 403(b) accounts, annuities, and other types of retirement accounts.

<sup>2</sup> Retirees are (1) single individuals aged 65 or older who have nonzero income and who are not working or (2) married individuals aged 65 or older who have nonzero income, who are not working, and who have a nonworking spouse.

<sup>3</sup> Federal, military, or state and local pensions also include US railroad retirement pensions.

<sup>4</sup> Company or union pensions include profit-sharing plans.

<sup>5</sup> Retirement accounts include IRAs, Keoghs, 401(k) plans, 403(b) accounts, and other types of retirement accounts.

Source: ICI tabulations of March Current Population Surveys

\* The analysis in Miller and Schieber 2014 compares data from the March 2009 CPS to tax return data for 2008. Comparing data from the March 2014 CPS to tax return data implies 48 percent of 2013 pension income was reported in the CPS. In the March 2014 CPS, aggregate reported pension income received in 2013—including income received by both working and nonworking individuals age 65 or older, and all individuals younger than age 65—was \$412 billion dollars, with \$18 billion from retirement accounts and \$394 billion from other pensions. By comparison, \$852 billion in taxable pension, annuity, and IRA distributions were reported on 2013 tax returns, with \$214 billion in taxable distributions from IRAs alone and \$639 billion in taxable distributions from pensions and annuities (including distributions from DC plans); see Internal Revenue Service, Statistics of Income Division 2016.

† Taxable pension, annuity, and IRA distributions reported on Form 1040 increased 5.4 percent on a nominal basis and increased 3.3 percent on an inflation-adjusted basis between 2013 and 2014; see Internal Revenue Service, Statistics of Income Division 2016.

‡ Comparing data from the March 2015 CPS to tax return data implies 58 percent of 2014 pension income was reported in the CPS. In the March 2015 CPS, aggregate reported pension income received by all households in 2014 was \$518 billion dollars, with \$54 billion from retirement accounts and \$464 billion from other pensions. By comparison, \$898 billion in taxable pension, annuity, and IRA distributions were reported on 2014 tax returns, with \$235 billion in taxable distributions from IRAs alone and \$663 billion in taxable distributions from pensions and annuities; see Internal Revenue Service, Statistics of Income Division 2016.



## Average Pension Income Higher Even as More Retirees Report Receiving It

In addition to a greater share of retirees reporting pension income in 2014, the average amount of income reported increased substantially (Figure A5). On average, individual retirees who reported receiving pension income reported \$20,446 (in constant 2015 dollars) in total pension income in 2014, up 11.5 percent from 2013. The increase was not attributable to higher average income being reported from any particular source, as average reported income from federal, military, or state and local pensions, retirement accounts, and unknown sources declined sharply; and average reported income from annuities or life insurance and company or union pensions were up only modestly. Rather, the increase in the total amount of pension income received by retirees was attributable to more retirees reporting pension income from multiple sources (see Figure A2).

The data highlight that it is important to analyze the pension income received from all sources, because focusing narrowly on pension income from a single source can give a misleading picture of retiree resources. Among individual retirees reporting that they received pension income, 38 percent reported receiving the income from more than one source, including 46 percent of individual retirees who received income from a retirement account.

## Analysis of Retirement Resources Requires a More Holistic Approach

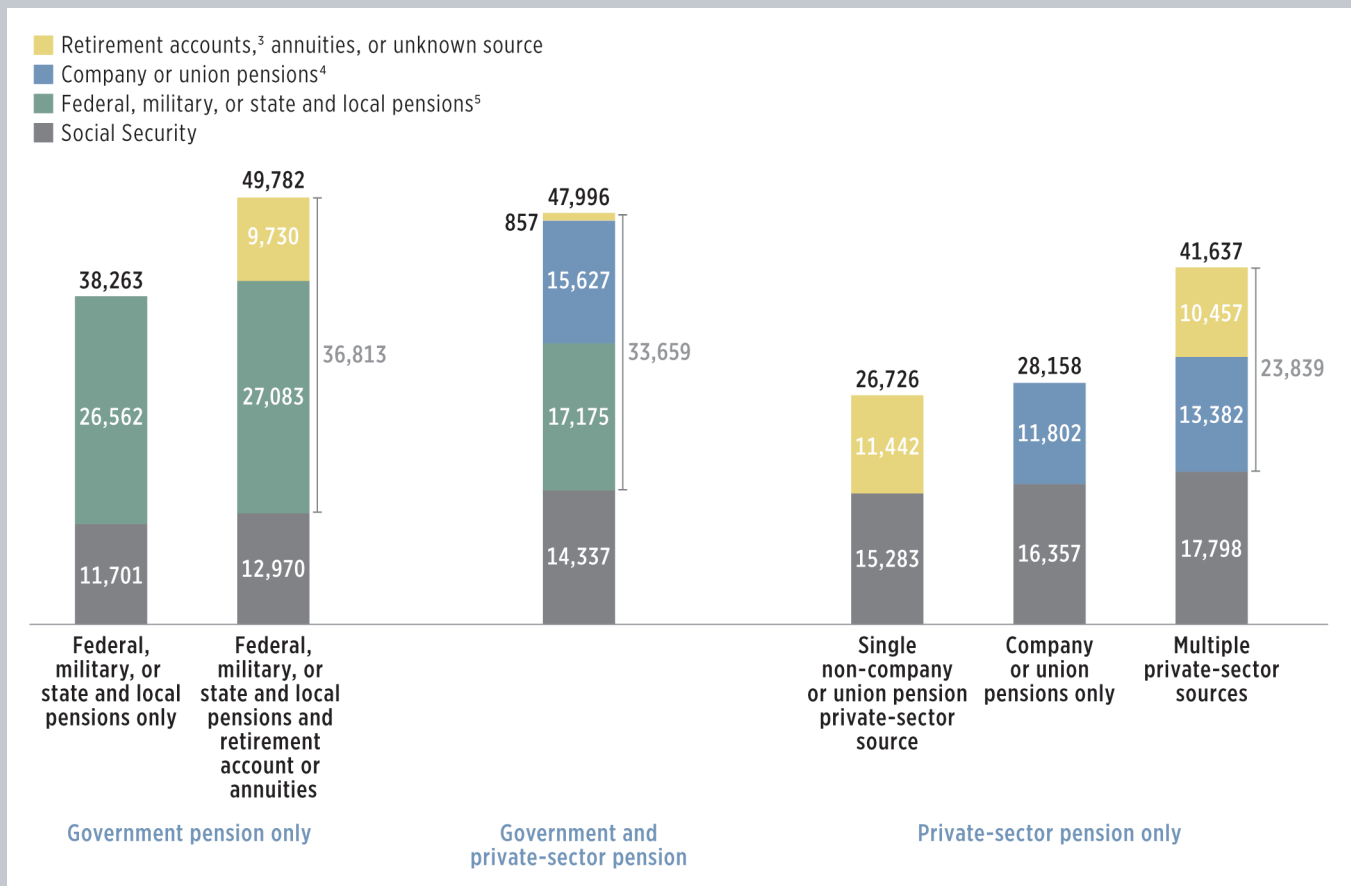
A more complete picture of retirement resources would include not only all sources of pension income, but other sources of income as well. What matters is the total amount of resources that individuals have in retirement, not the amount received from any single source. As illustrated in this paper, Social Security benefits are the most important retiree resource and provide substantial resources throughout the income distribution.

In 2014, individual retirees with multiple sources of pension income had higher income, on average, from the combination of pensions and Social Security (Figure A6). The data indicate that this difference in income is not simply a function of the number of pension income sources, but rather, is related to this group of retirees having higher earnings before retirement. For example, focusing on retirees with pension income from private-sector pensions only, retirees with multiple private-sector sources have substantially more pension income (\$23,839 on average) than those with one source; and, those with one source who get the income from a company or union pension (\$11,802 on average) have slightly more pension income than those with one source of pension income that is not a company or union pension (\$11,442 on average). These three groups not only differ in average pension income, however, but also in average Social Security benefits. At \$17,798, average Social Security benefits for retirees with multiple sources of private-sector pension income are \$1,441 higher than those with income from a company or union pension only, and \$2,515 higher than those who have a single source that is not a company or union pension. Given the progressivity of the Social Security benefit formula, these somewhat modest differences in Social Security benefits were likely generated by substantial differences between these groups in average lifetime earnings.

FIGURE A6

### Retirees with Multiple Pension Income Sources Tend to Have Higher Income

Average pension income<sup>1</sup> for retirees<sup>2</sup> by source, individual basis, constant 2015 dollars, 2014



<sup>1</sup> Pension income includes income from DB plans, DC plans, annuities and IRAs. This includes income from federal pensions, military pensions, state and local pensions, US railroad retirement pensions, company or union pensions, IRAs, Keoghs, 401(k) plans, 403(b) accounts, annuities, and other types of retirement accounts.

<sup>2</sup> Retirees are (1) single individuals aged 65 or older who have nonzero income and who are not working or (2) married individuals aged 65 or older who have nonzero income, who are not working, and who have a nonworking spouse.

<sup>3</sup> Retirement accounts include IRAs, Keoghs, 401(k) plans, 403(b) accounts, and other types of retirement accounts.

<sup>4</sup> Company or union pensions include profit-sharing plans.

<sup>5</sup> Federal, military, or state and local pensions also include US railroad retirement pensions.

Source: ICI tabulations of the March 2015 Current Population Survey

## II. Changes to Pension Income Questions in the March 2015 ASEC

This section provides a detailed description of the changes made to the pension income questions in the ASEC fielded in March 2015. The redesigned ASEC questionnaire was field-tested in March 2014 (used with one-third of the households in the March 2014 ASEC) and was the only questionnaire used for the 2015 ASEC. As illustrated in section I, the revised survey was associated with increased reporting of pension income.

### ASEC Before March 2015

Before 2015, information on pension income was derived from a series of questions on pension income, survivor benefits, and disability benefits. In addition, any income reported in the “other money income” category for which the source was a pension was also included. The questions changed little since the ASEC was first fielded in March 1976. For illustration purposes, the discussion below uses the primary questionnaire for the March 2014 ASEC (used with two-thirds of households).

#### ***Pension Income***

In the March 2014 ASEC, the question on pension or retirement income was:

*During 2013 did (you/anyone in this 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]?*

Respondents were then asked to report the source of the pension or retirement income and the amount for any member of the household who received such income. Respondents could report multiple sources of pension income, with up to two sources of pension or retirement income reported in the data released to the public.

*What was the source of (name's/your) income?*

- 1 Company or union pension (INCLUDE PROFIT SHARING)*
- 2 Federal Government (CIVIL SERVICE) retirement*
- 3 U.S. Military retirement*
- 4 State or Local government pension*
- 5 U.S. Railroad Retirement*
- 6 Regular payments from annuities or paid up insurance policies*
- 7 Regular payments from IRA, KEOGH, 401(k), 403(b), and 457(b) and (f) accounts*
- 8 Other sources or don't know – Specify – Enter last*

Once the sources of pension or retirement income were identified, respondents were asked a series of questions to determine the amount of income received from a source. First, respondents were asked for the amount received per payment and the frequency of payments during 2013. Then, interviewers used the answers to these questions to calculate the total amount of income received in 2013 from the source and respondents were asked if the calculated annual amount sounded about right. Finally, respondents were asked to give their best estimate of the exact amount of income received from the source in 2013.

For the analysis in the main body of this paper and in section I of this appendix, these responses were categorized as follows:

- » Pension income from sources 2 (federal), 3 (military), 4 (state or local), and 5 (railroad retirement) were categorized as income from government pensions.
- » Pension income from sources 1 (company or union) and 8 (other sources or don't know) were categorized as income from private-sector pensions.
- » The categorization of pension income from sources 6 (annuities) and 7 (retirement accounts) depended upon the presence of other types of pension income.
  - » If, in addition to pension income from source 6 or source 7, the individual received income from a government pension and did not receive income from a company or union pension, then pension income from source 6 or source 7 was categorized as income from government pensions.
  - » Otherwise, pension income from source 6 or source 7 was categorized as income from private-sector pensions.

#### *Other money income*

At the end of the income section of the questionnaire, two final questions are asked about any remaining sources of income not already mentioned. In the March 2014 ASEC, these questions were:

*During 2013 did (you/anyone in this household) receive income from: Hobbies, home businesses, farms, or business interests not already covered?*

*During 2013 did (you/anyone in this household) receive income from: Any severance pay, welfare, emergency assistance, other short-term cash assistance, foster child care payments, or any other money income not already covered?*

If the response to either of these questions was yes, respondents were then asked an open-ended question about the source of the other money income. In the data released to the public, the answers were recoded into one of 19 categories, including a private pension category and an annuities or paid up insurance policies category. For individuals who received other money income from one of these two categories, the income was included as pension income for the analysis in the main body of this paper and in section I of this appendix.

Specifically, these responses were categorized as follows:

- » Individuals who reported other money income from a private pension were treated as if they had reported pension income from source 1 (company or union).
- » Individuals who reported other money income from annuities or paid up insurance policies were treated as if they had reported pension income from source 6 (annuities).

#### ***Survivor Benefits***

The question on survivor benefits in the March 2014 ASEC was:

*Did (you/anyone in this household) receive any survivor benefits in 2013 such as widow's pensions, estates, trusts, insurance annuities, or any other survivor benefits (other than Social Security/other than VA benefits/other than Social Security or VA benefits)?*

For any member of the household for whom the answer was yes, the source and amount of survivor benefits were then asked. Again, up to two sources of survivor benefits are reported in the data for each individual in the survey.

*What was the source of this income?*

- 2 *Company or union survivor pension (INCLUDE PROFIT SHARING)*
- 3 *Federal Government survivor (CIVIL SERVICE) pension*
- 4 *U.S. Military retirement survivor pension*
- 5 *State or Local government survivor pension*
- 6 *U.S. Railroad retirement survivor pension*
- 7 *Worker's compensation survivor pension*
- 8 *Black Lung survivor pension*
- 9 *Regular payments from estates or trusts*
- 10 *Regular payments from annuities or paid-up insurance policies*
- 11 *Other or don't know (SPECIFY) - ENTER LAST*

As with pension income, once the sources of survivor benefits income were identified, respondents were asked a series of questions to determine the amount of income received from a source.

For the analysis in the main body of this paper and in section I of this appendix, these responses were categorized as follows:

- » Survivor benefits from sources 3 (federal), 4 (military), 5 (state or local), and 6 (railroad retirement) were categorized as income from government pensions.
- » Survivor benefits from source 2 (company or union) were categorized as income from private-sector pensions.
- » The categorization of survivor benefits income from source 10 (annuities) depended upon the presence of other types of survivor benefits.

- » If, in addition to survivor benefits from source 10, the individual received survivor benefits from a government pension, then survivor benefits from source 10 were categorized as income from government pensions.

- » Otherwise, survivor benefits from source 10 were categorized as income from private-sector pensions.

- » Survivor benefits from sources 7 (worker's compensation), 8 (black lung), 9 (estates and trusts), and 11 (other or don't know) were not categorized as pension income.

### **Disability Income**

The question on disability income in the March 2014 ASEC, was:

*Did (name/you) receive any income in 2013 as a result of (your/his/her) health problem (other than Social Security/other than VA benefits/other than Social Security or VA benefits)?*

For any member of the household for whom the answer was yes, the source and amount of disability income were then asked. Again, up to two sources of disability income are reported in the data for each individual in the survey.

*What was the source of this income?*

- 2 *Worker's compensation*
- 3 *Company or union disability*
- 4 *Federal Government (CIVIL SERVICE) disability*
- 5 *U.S. Military retirement disability*
- 6 *State or Local government employee disability*
- 7 *U.S. Railroad retirement disability*
- 8 *Accident or disability insurance*
- 9 *Black Lung miner's disability*
- 10 *State temporary sickness*
- 11 *Other or don't know - Specify - Enter last*

As with pension income, once the sources of income were identified, respondents were asked a series of questions to determine the amount of income received from a source.

For the analysis in the main body of this paper and in section I of this appendix, these responses were categorized as follows:

- » Disability income from sources 4 (federal), 5 (military), 6 (state or local), and 7 (railroad retirement) were categorized as income from government pensions for individuals aged 55 or older.
- » Disability income from source 3 (company or union) was categorized as income from private-sector pensions for individuals aged 60 or older.
- » Disability income from sources 2 (worker's compensation), 8 (accident or disability insurance), 9 (black lung), 10 (state temporary sickness), and 11 (other or don't know) were not categorized as pension income.

### The March 2015 ASEC

Starting with the 2015 ASEC, the questions about the presence and source of pension income were changed, but no changes were made to the questions about the presence and source of survivor benefits, disability income, or other money income. Additional questions were added on the amount of income received from each source, and the question on the amount of income received were asked in a different order from previous years. Despite the change in the questionnaire, the data released to the public were formatted exactly the same way as the data from previous years, so no changes were required to the method used in

the main body of this paper or section I to categorize the sources of pension income as either government or private-sector pensions.

### *Pension Income Questions in the March 2015 ASEC Were Changed*

In the 2015 ASEC questionnaire, the pension income questions were divided into three separate series of questions: one focused on income from pension plans, one on income from annuities, and one on income from retirement accounts. Only after the presence of income was established for all income sources—including pension income as well as wages, Social Security, and all other income—were questions asked about the amount of income from each source.

#### *Pension plan income*

In the March 2015 ASEC, the question on the presence of pension income remained the same but respondents were now asked to exclude from pension plan income any distributions from IRAs, 401(k)s, or similar accounts.

*During 2014 did (you/anyone in this household) receive any pension income from a previous employer or union [other than Social Security or VA benefits]?*

*\*PLEASE DO NOT INCLUDE DISTRIBUTIONS OR WITHDRAWALS FROM IRAs, 401(k)s, OR SIMILAR ACCOUNTS!*

Then, rather than a single question as to the source of this income with multiple possible responses, four separate questions were asked for any member of the household for whom the answer was yes, typically with an additional follow-up question to better define the source.

Was (name's/your) pension income from a: Company or union pension (include profit sharing)?

If "Yes," probe to identify which source

- 1 Company Pension
- 2 Union Pension
- 3 Neither

Was (name's/your) pension income from a: Federal, State, or Local Government pension?

If "Yes," probe to identify which source

- 1 Federal Government Pension
- 2 State Government Pension
- 3 Local Government Pension
- 4 None of the above

Was (name's/your) pension income from a: U.S. Military pension?

Did (you/name) receive pension income from some other source?

What was the source of (name's/your) pension income?

- 1 U.S. Railroad Retirement
- 2 Other sources or don't know – Specify –
  - » Specify other source of pension income
  - » Enter "Other Pension" if the answer is "Don't Know"

#### *Income from annuities*

A new, separate question was added to identify the presence of income from annuities. In the March 2015 ASEC, the question on the presence of annuity income was:

*During 2014 did (you/anyone in this household) receive any pension income from an annuity?*

#### *Retirement account withdrawals*

Similarly, two new questions were added to identify the presence of income from retirement accounts. In the March 2015 ASEC, respondents were first asked about having a retirement account and then asked if they received any distributions from the accounts.

At any time during 2014 did (you/anyone in this household) have any retirement accounts such as a 401(k), 403(b), IRA, or other account designed specifically for retirement savings?

What type of retirement account (did you/NAME) have? Did (you/he/she) have..

READ EACH CATEGORY!

1. a 401(k)
2. a 403(b)
3. a Roth IRA
4. a Regular IRA
5. a KEOGH plan ("KEE-OH")
6. a SEP plan (Simplified Employee Pension)
7. another type of retirement account

What was the source of (name's/your) retirement income?

Did (you/name) withdraw any money or receive a distributions form (your/his/her) [retirement account] in 2014?

(IF AGE 70+ ADD: including distributions you may have been required to take?)

#### *Pension income amounts*

The ASEC made two changes to the questions on the amount of income received from a source.

- » The questions were asked later in the survey. In previous surveys, questions on the amount of income from a source were asked immediately after a respondent indicated receipt of income from a given source. In the March 2015 ASEC, respondents were asked about the presence of income from all sources before they were asked about the amount of income received from any specific source.
- » After the open-ended questions on the amount and frequency of payments from a given source, and before asking if the interviewer's calculation of annual income from the source sounded about right, respondents were given broad dollar ranges and asked into which of these ranges the annual income received from a source fell.



### **Data Format for the March 2015 ASEC Unchanged**

Although the March 2015 ASEC split the previous questions on pension income into three separate series of questions on distributions from pension plans, annuities, and retirement accounts, no changes were made in how the pension income was reported in the publicly released data. That is, although respondents could report up to two sources of pension plan distributions, up to two sources of retirement plan distributions, and one source of annuity distributions, only two sources of pension income were included in the publicly available data.

Because no changes were made to the way the publicly available data were reported, the method used to classify the sources of pension income as either government pensions or private-sector pensions was the same for the March 2015 ASEC as it had been for the March 2014 ASEC.

### **March 2015 ASEC Still Provides Conflicting Instructions on 401(k) Plan Distributions**

An area of concern about the new questionnaire is that it continues, perhaps unknowingly, to provide respondents with conflicting instructions on which category 401(k) plan distributions should be included. That is, in both the old and new questionnaire, survey respondents are instructed to include pension income and survivor benefits from “profit-sharing plans” in the “company or union” category, while, at the same time, 401(k) plans are listed as an example of another source of pension income—retirement accounts. Yet, based on the Department of Labor’s own tabulations of Form 5500 data, the terms *profit-sharing plan* and *401(k) plan* are effectively synonymous.\*

Other than 403(b) plans, nearly all private-sector defined contribution (DC) plans are profit-sharing plans.† There are several different types of non-403(b) private-sector DC plans, including profit-sharing plans, stock bonus plans, target benefit plans, and money purchase plans. In 2013,

profit-sharing plans accounted for 97 percent of non-403(b) private-sector DC plans, 94 percent of DC plan participants and assets, and 93 percent of the DC plan benefits paid out.

Private-sector DC plans with a 401(k) feature are even more likely to be profit-sharing plans than DC plans overall. (Private-sector employers with non-403(b) DC plans have the option of adopting a “401(k) feature,” named after the section of the Internal Revenue Code that allows employees to make elective tax-deferred contributions to a DC plan.) In 2013, profit-sharing plans with a 401(k) feature accounted for 99.7 percent of 401(k) plans, 99 percent of 401(k) plan participants, and 98 percent of 401(k) plan assets and 401(k) plan benefits paid out.

Further, nearly all profit-sharing plans have adopted a 401(k) feature: in 2013, profit-sharing plans with a 401(k) feature accounted for 87 percent of profit-sharing plans, 95 percent of profit-sharing plan participants, 94 percent of profit-sharing plan assets, and 95 percent of benefits paid out by profit-sharing plans.

At the very least, the survey instructions appear to be unnecessarily confusing. It is certainly possible that respondents will be more familiar with the term *401(k) plan* than they are with the term *profit-sharing plan* and that, as a result, most distributions from 401(k) plans will be reported as being withdrawals from retirement accounts. Of course, if most respondents are not familiar with the term *profit-sharing plan*, then it is not clear why the questionnaire would emphasize that such plans should be included in the “company or union pension” category for both pension income and survivor benefits. To the extent that respondents are familiar with the term and are aware that their 401(k) plan is, in fact, a profit-sharing plan, it would not be surprising if at least some interpreted the survey as instructing them to report their 401(k) plan distributions in the “company or union pension” category.

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\* See Table A1 and Table D3 in US Department Labor 2015.

† Private-sector nonprofit organizations that are 501(c)(3) tax-exempt organizations are eligible to sponsor a 403(b) plan, which is a DC plan subject to rules laid out in Section 403 of the Internal Revenue Code. Profit-sharing plans, stock bonus plans, target benefit plans, and money purchase plans are subject to rules laid out in Section 401 of the Internal Revenue Code.

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