Shifting Income Sources of the Aged

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Abstract

This paper reviews the impact on the income measurement of the aged from the shift of retirement income sources from traditional defined benefit pensions to defined contribution (DC) plans and individual retirement accounts (IRAs). As retirement assets shift from traditional pensions to retirement investment accounts, the share of the income of the aged from pensions decreases in the Census Bureau's Current Population Survey (CPS). The paper establishes the importance of defined contribution plans and other tax-qualified retirement savings in 2009 with several data sources including the Census Bureau's Survey of Income and Program Participation (SIPP), the Bureau of Labor Statistics' National Compensation Survey (NCS), and the Federal Reserve's Survey of Consumer Finances (SCF). The analysis finds a rising prevalence of and participation in these accounts, and increasing payments from these accounts. People withdraw the majority of money from these accounts when mandated by tax laws to begin withdrawals in the year after turning age 70½. A major source of retirement income, traditional pensions, is giving way to DC plans and IRAs. This trend is likely to increase among future retirees in the private sector. The paper discusses the implications of these trends for measurement of retirement income to support consumption in retirement. The conclusion is that the primary income data sources such as the CPS greatly underreport distributions from DC plans and IRAs, an increasing problem for the future.

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1. Introduction

In the United States, retirement incomes largely come from three pillars: Social Security, employer pensions and personal saving (non-housing wealth and home equity).[1] Some individuals continue working in retirement to supplement their retirement income, but most older Americans are retired from full-time work. In addition, a relatively small proportion of retirees receive income from welfare programs, such as Supplemental Security Income (SSI).

Social Security was developed as a floor of protection for retired workers' incomes, to be supplemented by other pension income, income from assets, and to some extent continued earnings (Forum on Aging Related Statistics 2012, Indicator 9 based on the U.S. Census Bureau's Current Population Survey (CPS)). Over time, Social Security has taken on greater importance to many older Americans. From the early 1960s, Social Security provided the largest share of aggregate income for older Americans. The share of income from pensions rapidly increased in the 1960's and 1970's to peak at 20 percent in 1992 and again in 2004. Since 2004, the pension share of income gradually decreased to 18 percent in 2009 and 2010 (Forum on Aging Related Statistics forthcoming, Table 9a and Social Security Administration calculations).

The decreasing share of pension income for the aged partly reflects the decreasing share of total retirement assets in traditional defined benefit pension plans. Based on data compiled by the Investment Company Institute (ICI 2011, Table 1), over half of the 17 trillion dollars in total retirement assets at the end of the third quarter of 2011 were in Individual Retirement Accounts (4.6 trillion dollars) and defined contribution (DC) retirement plans (4.3 trillion dollars), rather than in traditional pension plans and annuities. [2] Based on these ICI data, the share of these assets in traditional pension plans and annuities decreased from 59 percent to 48 percent between 1992 and 2010. The decreasing proportion of assets in traditional pensions and increasing share of total retirement assets in IRAs and DC retirement plans should partly account for the decreasing share of pension income in the income of the aged because of the way such income is measured in the CPS.

The decreasing share of pension income in the income of the aged in tabulations of the Census Bureau's CPS data partly reflects underreporting of pension income in the CPS, but another reason is an underestimate of retirement account distributions that is largely a definitional issue (Roemer 2000). Czajka and Denmead (2011) conclude that the CPS does not clearly ask about distributions from retirement accounts such as IRAs and DC retirement plans. The measurement issue also is discussed by Woods (1996) who observed that the Census Bureau did not consider IRAs to be income in the 1990 CPS. The CPS measures IRA distributions as money income if they are "regular" such as occur in annuities. Most IRA distributions are irregular, and thus would not be measured as income in the CPS. The exclusion on the CPS of irregular distributions from retirement savings plans misses much of the money distributed from IRAs and DC retirement plans to support retirement consumption. In addition, very few DC account holders take their retirement distributions as annuities (Brown et. al. 2008). Although much of the money distributed from retirement accounts is not captured on the CPS, the IRS

[1] See Holzmann and Hinz (2005) for a discussion of multi-pillars of old age income.

[2] Traditional pension plans include private sector Defined Benefit (DB) plans, State and Local government pension plans, Federal pension plans, and annuities. Most retirement plans in State and Local governments are traditional DB plans (U.S. Bureau of Labor Statistics 2010). Most Federal workers are also in traditional DB plans.

considers distributions from tax qualified retirement accounts to be taxable deferred income.[3] In the traditional employer-offered DB pension world of the past most pension income was received as annuities and was counted as income by the CPS and other household surveys. Because of the shift from DB pensions to tax qualified retirement savings plans that has occurred over the past 30 years, much retirement income is gradually disappearing from survey-based measures of the income of the aged because distributions from retirement accounts are not accurately measured by surveys that were designed in an era dominated by DB pensions.

Analysts have documented that substantial distributions from IRAs are not measured in the CPS. Tax records indicate that hundreds of billions of dollars are withdrawn from retirement savings plans in a calendar year. Bryant, Holden, and Sabelhaus (2011) estimate from tax records that taxable distributions from retirement accounts (i.e. DC plans and IRAs) for persons above age 60 were $529 billion in 2007. These tax-recorded distributions are substantially more than those recorded in household surveys. Looking at withdrawals from IRAs in 2006, Sabelhaus and Schrass (2009, p. 20) estimated that the U.S. Census Bureau's CPS recorded IRA withdrawals of only $6.4 billion, while the Federal Reserve Board's Survey of Consumer Finance (SCF) recorded $95.2 billion, and an ICI survey recorded $71.6 billion. They estimated from 2006 tax records that all tax returns recorded $124.7 billion in distributions from IRAs, and tax returns for primary taxpayers aged 55 and older recorded $105.7 billion in distributions. Czajka and Denmead (2011) compared distributions from IRAs and DC accounts reported in the CPS to the Internal Revenue Service administrative data on payouts, the SCF's distributions, and the Census Bureau's Survey of Income and Program Participation's (SIPP) withdrawals. The distributions and payouts from these data sources are substantial except for the CPS. The comparisons of Czajka and Denmead document the substantial underreporting of these distributions and payouts in the CPS.

Because of longstanding trends in employer-sponsored retirement plans, traditional pension income will shrink in the future and the share of income from traditional pensions will continue to diminish. Consequently, estimates of the income of the aged based on the CPS will show an increasing share of income from other income sources, such as Social Security. In addition, the income of the aged is likely to diminish among the upper half of the income distribution, where pension income has been concentrated historically (Forum on Aging Related Statistics 2012 Table 9b).

The purpose of this analysis is to assess the importance of income from tax qualified retirement savings plans in 2009, reflecting the shift from defined benefit (DB) retirement plans to defined contribution (DC) retirement plans and individual retirement accounts (IRAs).[4] We present data showing that in the 2009 labor force the majority of individuals who participated in a retirement plan were enrolled in a DC plan, and that distributions from DC plans and IRAs will have increasing importance to retirement incomes of the future aged population.

The social and economic changes that have occurred since World War II are likely to affect the retirement income security of baby-boomers in many ways. Major changes have occurred in the past few decades in employer-provided retirement plans, most significantly a

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[3] Qualified distributions from Roth IRAs are not taxable income. About 40 percent of households that own an IRA have a Roth IRA (ICI Research Perspectives, Nov. 2011, Figure 2), but Roth IRAs hold only about 5 percent of all IRA assets (Holden and Schrass, 2011).

[4] Defined contribution plans, such as those authorized under section 401(k) of the Internal Revenue Code, are employer-sponsored retirement savings plans. Often, either at job change or retirement, money in the former employer's plan is "rolled over" into an IRA. Therefore, when examining workers' accumulation of retirement wealth and their conversion of retirement wealth into income later in life, IRAs are an integral part of the analysis.

shift from DB plans to DC plans (Munnell and Sunden 2004; Costo 2006).[5] Because of this shift, employees now bear greater risks in accumulating retirement wealth, managing the assets in their DC and IRA retirement accounts, and managing their withdrawals for retirement income (i.e., the "decumulation phase"). The employer typically funds DB plans and bears the risk of investment losses, which often must be made up through increased contributions.[6] In addition, DB plans provide a guaranteed lifetime retirement income, which is usually based on the worker's final salary, age, and years of service, and thus the employer bears the longevity risk for plan participants.

DC plans are more like savings accounts than traditional pensions. In many DC plans, both the employee and employer contribute to the account, and the employee's retirement income will depend on their individual account balance. Investment losses are borne by the employee. At retirement, the employee decides how to convert the account balance into income, either through gradual withdrawals or by reducing (his or her) longevity risk such as by purchasing an annuity, or a combination of both.

II. Current pension status

To assess the importance of DC pensions and IRAs in the current labor force and hence to future retirees, we use three different surveys: The National Compensation Survey (NCS), the SIPP and the SCF . Even though three different organizations conduct the surveys with different sample frames, different respondents, and different questions, they all indicate the rising importance of tax-qualified retirement savings accounts.

The NCS of the U.S. Bureau of Labor Statistics (2009, 2010) and the SIPP (SIPP) of the U.S. Census Bureau (www.Census.gov/SIPP) both collect data indicating the type of retirement plan for current workers, either DB or DC plan. The NCS is a nationally representative survey of employers in the private sector and State and Local governments, which asks employers to report on the retirement plan characteristics for their employees. The SIPP is a household survey that is nationally representative of workers in the labor force. The SIPP includes questions that ask respondents to report their retirement plan characteristics. We adjust the reported SIPP data on DC plans with matched W-2 tax records following Dushi and Iams (2010). Although they are conducted by different organizations with different respondents and questions, both surveys provide national estimates of the type of pension available to employees and of employee participation. The most recent SIPP data are from summer 2009 and we compare it to the NCS data from 2009.[7]

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[5] A DC plan is like a savings account into which the employee contributes tax-deferred earnings. The employer may or may not contribute to the plan. DC plans typically are named after the authorizing section of the Tax Code, such as 401(k), 403(b) or 457(b). Using data from the Form 5500 that employers file annually with the IRS and the Department of Labor, Buessing and Soto (2006) provide evidence of a dramatic shift since 1981 in participation of private sector wage and salary workers from DB to DC pensions. In 1981, 27 percent of private sector workers participated only in a DB plan, 9 percent participated only in a DC plan, and 11 percent had both a DB and a DC plan. Almost two decades later in 1999, about 7 percent participated only in a DB plan, 29 percent participated only in a DC plan, and 14 percent participated in both types of plans.

[6] Some promoters of individual accounts disagree on the risk shift, emphasizing that the employee is at risk that the employer will stay in business and fulfill the DB obligations. Unlike DC plans, however, DB plans are insured, up to limits set in law, by the Pension Benefit Guaranty Corporation (PBGC), which was established by Congress in 1974.

[7] The SIPP data on type of pension are from the Retirement and Pension Plan topical module (the third wave) in the 2008 panel. We adjust the SIPP survey data with data on deferred contributions in the SSA Administrative earnings

The third survey is the SCF conducted by the National Opinion Research Center for the Federal Reserve Board. The SCF is considered the best survey for estimates of wealth, in part because it is conducted from a sample frame of a nationally representative sample of primary economic units, supplemented by additional high- income families selected from income tax records (Cagetti and De Nardi 2008; Meijer, Karoly, and Michaud 2010). The SCF data provide further evidence of the rising prevalence and value of tax qualified retirement savings accounts over the past two decades.

Offer, Participation, and Take-up Rates

The majority of full-time workers in the U.S. are offered a retirement plan by their employers (Table 1). About three-quarters of private sector workers and more than 90 percent of state and local government workers are offered a plan. The percentage of all employees who participate in a retirement plan is the participation rate. The denominator of the participation rate includes all workers, whether offered a plan or not. The percentage of employees with employer plan offers who are actually enrolled in the plan is called the "take-up rate" (Dushi and Iams 2010). Participation and take-up rates vary by private/public sector and work-hours (Table 1). They are higher among full-time workers than part-time workers and are higher among state and local government workers than among private-sector workers. The highest participation and take-up rates are found among full-time workers in the public sector.

The DC plan was the most widely held plan among private-sector workers with about half to three-fifths participating (51 percent in NCS, 66 percent in SIPP, Table 2). Only about a quarter (24 percent) of private-sector workers participated in a DB plan. In contrast, the DB plan was the most widely held plan among full-time state and local government workers with the majority participating (73 percent in NCS, 87 percent in SIPP) in a DB plan, and one-fifth to two-fifths participating in a DC plan (20 percent in NCS, 41 percent in SIPP).

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records linked to SIPP respondents(Dushi and Iams 2010). SSA and Census linked about 90 percent of the respondents to their own earnings records derived from the W-2 payroll tax record. Prior research with SIPP survey data indicated that SIPP respondents under-report DC plan participation as indicated by positive deferred contributions in their earnings records (Dushi and Iams 2010).

Table 1: Pension Plan Offer, Participation, and Take-up rates by Sector of Employment and Hours of work in 2009

	Offer[c]	Participation	Take-up rate
Private sector workers			
Full-time workers			
NCS[a]	76	61	80
SIPP[b]	75	66	88
Part-time workers			
NCS[a]	39	22	55
SIPP[b]	50	32	65
State and Local government			
Full-time workers			
NCS[a]	99	95	96
SIPP[b]	93	88	95
Part-time workers			
NCS[a]	41	37	89
SIPP[b]	74	52	70

[a] U.S. Bureau of Labor Statistics 2009.

[b] Authors' calculations of the wave 3 topical module of the 2008 panel of the SIPP and W-2 tax records.
[c] On the SIPP, respondents are asked whether a plan is offered to anyone at the firm at which they are employed. This offer may or may not apply to the respondent.

Table 2: Pension Plan Participation rates by type of pension, Sector of Employment and Hours of work in 2009

	DB	DC
Private sector workers		
Full-time workers		
NCS[a]	24	51
SIPP[b]	24	61
Part-time workers		
NCS[a]	9	16
SIPP[b]	17	20
State and Local government		
Full-time workers		
NCS[a]	87	20
SIPP[b]	73	41
Part-time workers		
NCS[a]	34	5
SIPP[b]	44	45

[a] U.S. Bureau of Labor Statistics 2009.

[b] Authors' calculations of the wave 3 topical module of the 2008 panel of the SIPP and W-2 tax records.

Participation in DC Plans

In 2009, about 68 percent of all wage and salary workers under age 65 in the public and private sectors worked for employers that offered defined contribution plans, and 57 percent participated in DC plans (See Table 3.) This represents a take-up rate of about 83 percent.[8] For some groups of employees, however, participation rates are lower than 57 percent. The participation rate varies by age, marital status, education, gender, race-ethnicity, and earnings level. Younger workers, unmarried workers, those with less education, black non-Hispanic and Hispanic minorities, and those with incomes in the lowest quarter of the income distribution all had below-average participation rates. Perhaps most strikingly, workers whose 2008 earnings were in the lowest quartile of the earnings distribution had a participation rate in 2009 of just 25 percent, while those whose earnings were in the top earnings quartile had a participation rate of 81 percent.[9] Take-up rates for workers in the lowest quartile also were lower than average.

[8] Authors' tabulations of data from the wave 3 topical module of the 2008 panel of the SIPP, matched to employees' W-2 records.

[9] Workers whose 2008 earnings as recorded on Form W-2 were above $56,376 were in the top earnings quartile. Workers with earnings less than or equal to $20,946 were in the lowest earnings quartile. Median earned income in 2008 was $35,705.

Table 3. Participation in Tax Qualified Retirement Savings Defined Contribution Plans in 2009

All Wage and Salary Workers Under Age 65

	Percent Offered a DC Plan at Work	Percent Who Participated	Take-up Rate
Age			
55 to 64	70.3	60.2	85.6
45 to 54	72.2	62.8	87.0
35 to 44	70.5	59.9	85.0
Under 35	61.3	47.4	77.3
Marital Status			
Married	71.2	61.0	85.7
Never married, widowed, or divorced	62.3	50.0	80.3
Education			
College graduate	78.6	69.4	88.3
Some college	68.5	55.8	81.5
High school or less	58.4	46.2	79.1
Gender			
Men	68.6	58.2	84.8
Women	67.2	55.0	81.8
Race and Ethnicity			
White, non-Hispanic	70.7	59.6	84.3
Black, non-Hispanic	63.5	50.0	78.7
Hispanic	55.1	43.9	79.7
Other non-Hispanic	67.5	57.9	85.8
Individual Earnings in 2008			
Highest quartile	86.9	81.3	93.6
Second quartile	77.3	67.3	87.1
Third quartile	66.0	52.7	79.8
Lowest quartile	41.5	25.3	61.0
Total	**67.9**	**56.6**	**83.4**

Source: Authors' analysis of the wave 3 of the 2008 panel of the SIPP, matched to employees' W-2 records.

Contributions to DC Plans

Both the DC plan participation and contribution rates are much higher among higher earners. Table 3 shows the relationship to earnings reported by SIPP respondents at a point in time, a cross section. Earnings are reported as of 2008 and divided into quartiles. We also show in Table 4 the relationship to earnings from employer-provided W-2 records ranked by ten-year average real annual earnings (indexed by the CPI-W) from 1997 through 2006 and divided into deciles. We believe the matched data to be more accurate than self-reports. The higher participation rates and contribution rates among workers with higher earnings is particularly noticeable using W-2 tax records by earnings level in the 2004 SIPP panel (Dushi, Iams, and Tamborini 2011, Table 4). The participation rate rises sharply from 5.5 percent in the first

(lowest) earnings decile to 50.6 percent in the sixth decile, and continues to rise to 77.7 percent in the 10th (highest) decile. The contribution rate (i.e., percentage of salary contributed to a DC account) increases from 3.4 percent in the lowest decile to about 7 percent in the highest two deciles.

Table 4: Participation and Contribution Rates in DC plans, by decile level of current earnings trend in 10 years ending in 2006

	Participation rate	Contribution rate
10 year average annual earnings deciles		
1st (lowest)	5.5	3.4
2nd	15.8	4.0
3rd	26.6	4.0
4th	35.6	4.3
5th	42.7	4.6
6th	50.6	5.1
7th	53.2	5.3
8th	62.0	6.1
9th	69.6	7.4
10th (highest)	77.7	7.1
Number of observations	21,235	9,350

Source: Dushi, Iams, and Tamborini 2011.
Estimates are for workers aged 35-61 with W-2 tax record earnings in 2006, weighted using 2004 SIPP weights.
Ten-year average reflects W-2 tax record real inflation indexed (CPI-W) earnings from 1997 to 2006.
All earnings are inflation- adjusted to 2006 dollars. The rates in each cell are calculated for that cell subsample.

Account Balances

The growing prevalence and value of tax-qualified retirement accounts provide additional evidence of the pension shift from DB pensions to DC accounts. As previously noted, most money in DC accounts at job termination at older ages is shifted to IRAs (termed rollovers), and most IRA money reflects rollovers rather than direct investments (Sabelhaus and Schrass 2009; Holden and Schrass 2010; Bryant, Holden and Sabelhaus 2011). Some DB plans also offer lump sum distributions (U.S. Bureau of Labor Statistics 2009, 2010b). Data on holdings of all tax-qualified retirement savings plans (such as IRAs and 401(k)-type DC plans) for older persons show the increasing prevalence and value of these investment-style retirement accounts over time. Based on SIPP data from 1998, 2006, and 2009, the proportion of individuals holding either an IRA or a DC account increased from less than a quarter to over a third between 1998

and 2009 (see Chart 1). The prevalence was much higher at ages 65-69 than ages 70 or older in each year, although the difference between age groups has decreased in recent years.

The SCF collects detailed financial data every three years, including different forms of tax-qualified retirement accounts, such as employer-sponsored DC accounts, and IRAs. The SCF also indicates that tax-qualified retirement savings plans increased over time in both prevalence and in value.[10]

Table 5. Percentage of primary economic units with holdings in all tax-qualified retirement savings accounts, by selected characteristics of unit head, 1992-2007

Selected characteristics of Primary Economic Units (PEUs)	1992	1995	1998	2001	2004	2007
Age of PEU head						
65 and over	22.8%	27.3%	32.1%	36.5%	36.1%	40.8%
45-54	51.9%	57.4%	59.3%	63.7%	58.2%	65.4%
55-64	53.1%	51.0%	58.3%	59.8%	63.5%	61.2%
65-74	35.1%	36.6%	46.1%	45.1%	43.2%	51.7%
75 and over	6.3%	15.9%	16.7%	27.7%	29.2%	30.0%
Marital status, PEU head [a]						
Married	36.9%	40.3%	45.1%	46.9%	48.5%	54.4%
Unmarried	11.9%	15.9%	21.0%	25.4%	25.1%	28.9%
Education, PEU head [b]						
High school diploma or less	16.4%	19.9%	22.0%	23.0%	26.3%	29.1%
Some college or more	37.0%	40.4%	49.0%	57.5%	50.2%	59.1%

Note: Assets held in all tax qualified retirement savings plans include IRAs, Keoghs, and 401(k)-type accounts. All observations are weighted for analysis.
[a] Married includes legally married couples only. Data for marital status are for primary economic units headed by a person aged 65 and older.
[b] Data for education are for primary economic units headed by a person aged 65 and older.
Source: SCF.

[10] We index the values with the CPI-U-RS series from BLS, available in Appendix Table 1 on pg. 53 of Bucks, Kennickell, Mach, and Moore (2009).The SCF is a triennial, cross-sectional, national survey of non-institutionalized Americans conducted by the Federal Reserve Board with the cooperation of the Statistics of Income Division of the Internal Revenue Service. It includes data on household assets and debts, use of financial services, income, demographics, and labor force participation. The survey is considered one of the best sources for wealth measurement because of its detailed treatment of assets and debts and because it oversamples wealthy households (Cagetti and De Nardi 2008; Meijer, Karoly, and Michaud 2010). The data for the panels of SCF used in this study were collected by the National Opinion Research Center at the University of Chicago. The SCF uses a dual-frame sample consisting of both a standard random sample and a special over-sample of wealthier households in order to correct for the under-representation of high-income families in the survey.

Based on the SCF, the prevalence and value of retirement accounts increased dramatically in the last two decades among both younger and older households. The prevalence among primary economic units (PEUs) headed by a person aged 65 or older increased from about a fifth in 1992 to about two-fifths in 2007 (see Chart 2). The prevalence appears higher among younger age groups within each period except 1992 (Table 5). The prevalence and value of tax-qualified retirement accounts among PEUs with heads aged 65 and older was greater among the married and college educated than their counterparts (Tables 5 and 6).

Among PEUs headed by persons aged 65+, the median real value of retirement accounts more than doubled from $28,941 to $60,667 over the period from 1992 to 2007 (see Chart 3). Median account balances are highest in the 55 to 64 age group and lowest among PEUs headed by persons 75 or older, except in 1992. Most forms of tax-qualified retirement plans have become widely held only in the last three decades. Federal tax law requires a complete phased withdrawal from most tax qualified retirement accounts starting in the year after the account holder reaches age 70½. Both of these factors may partly account for the limited value of accounts for households with heads aged 75 and older.

Table 6. Median assets of head of primary economic units held in all Tax Qualified retirement savings accounts, by selected characteristics, in 2007 dollars, 1992-2007

Selected characteristics of Primary Economic Units (PEUs) with positive values only	1992	1995	1998	2001	2004	2007
Age of PEU head						
65 and over	$28,940	$36,500	$44,600	$66,700	$60,400	$60,800
45-54	$40,500	$37,900	$44,600	$56,100	$61,000	$63,000
55-64	$43,400	$43,300	$59,800	$64,300	$91,200	$100,000
65-74	$28,900	$39,200	$48,400	$70,200	$87,900	$77,000
75 and over	$40,500	$31,800	$38,200	$56,100	$32,900	$35,000
Marital status[a]						
Married	$37,600	$51,400	$47,100	$93,600	$85,700	$74,000
Unmarried	$14,500	$21,600	$38,200	$33,900	$32,900	$35,000
Education, PEU head[b]						
High school diploma or less	$23,200	$24,500	$31,800	$32,700	$32,900	$35,000
Some college or more	$36,200	$54,100	$59,800	$114,600	$93,400	$116,000

Note: Assets held in all retirement savings plans include IRAs, Keoghs, and 401(k)-type accounts. All observations are weighted for analysis. Data indexed to 2007 dollars with the CPI-U-RS.

[a] Married includes legally married couples only. Data for marital status are for primary economic units headed by a person aged 65 and older.

[b] Data for education are for primary economic units headed by a person aged 65 and older.

Source: SCF.

Table 7 shows the changes between 1992 and 2007 in the ratio of elderly (65 and older) PEUs' funds in retirement savings plans to their overall level of financial assets. It reveals that in 2007 a larger proportion of elderly PEUs' financial assets were held in tax-qualified retirement accounts than in 1992. Compared to PEUs headed by persons aged 45-64, the largest increases were among PEUs headed by persons aged 65 and older, especially those headed by persons aged 65-74. The increases also were strong among PEUs headed by persons with some college or a college degree. Given that tax-qualified retirement accounts have become widespread only since the 1980s, it is not surprising that persons aged 75 and older had the smallest increase over time compared to those aged 45-54, 55-64, and 65-74.

Table 7. Median ratio of assets held in all retirement Tax Qualified savings accounts to overall financial assets of primary economic unit, by selected characteristics, 1992-2007

Selected characteristics of Primary Economic Units (PEUs) with positive values only	1992	1995	1998	2001	2004	2007
Age of PEU head						
65 and over	27.2%	33.3%	31.0%	35.2%	34.1%	40.5%
45-54	57.8%	55.1%	55.2%	58.7%	67.2%	72.4%
55-64	46.4%	44.4%	52.7%	45.8%	64.0%	66.3%
65-74	27.4%	34.3%	35.1%	40.5%	43.8%	49.2%
75 and over	25.6%	23.6%	20.1%	20.0%	22.2%	27.5%
Marital status[a]						
Married	27.5%	33.3%	29.9%	34.8%	38.8%	42.1%
Unmarried	25.0%	33.3%	33.9%	38.9%	21.5%	38.5%
Education [b]						
High school diploma or less	29.6%	32.3%	33.1%	39.2%	35.3%	41.6%
Some college or more	21.6%	33.8%	29.4%	30.0%	33.7%	40.1%

Note: Assets held in all tax-qualified retirement savings accounts include IRAs, Keoghs, and 401(k)-type accounts. Financial assets include funds held in bank transaction accounts, certificates of deposits, directly held mutual funds, stocks, bonds, retirement plan investment accounts, savings bonds, cash value of whole life insurance, other managed assets, other financial assets. All observations are weighted for analysis.

[a] Married includes legally married couples only. Data for marital status are for primary economic units headed by a person aged 65 and older.

[b] Data for education are for primary economic units headed by a person aged 65 and older.

Source: SCF.

In addition to asking respondents about their income from traditional DB pension plans, the SIPP asks them whether they took distributions from IRAs or 401(k)-type retirement plans.[11] Looking at individual plan holders aged 65 and older, almost half reported taking a distribution in 1998 and over half did so in 2006. About 10 percentage points fewer people reported taking a distribution in 2009 than in 2006 (see Chart 4). People 70 and older are much more likely to have reported distributions from retirement plans than those aged 65 to 69. This is due in part to the federal law that requires withdrawals to be taken starting in the year after the account owner reaches age 70½. This law was suspended for one year in 2009 to allow retirement accounts to recover from the 2008 stock market crash.

Based on the SIPP data, about half of persons aged 65 and older reported DB pension income in 2009 (Chart 5). Younger retirees (aged 65 to 69) have higher DB pension income than older retirees as measured by means or medians (Chart 7). The lower pension income of older retirees reflects both lower lifetime average earnings and the fact that most DB pensions do not provide cost-of-living adjustments (COLAs).

Despite the shift from traditional DB pensions to DC plans over the past thirty years, income among the aged from traditional DB pensions is still much more prevalent and much higher than income from DC plans and IRAs. The proportion of people aged 65 and older with distributions from DC plans and IRAs increased from about a tenth in 1998 to almost a fifth in 2006 and 2009 (Chart 5). Distributions were more prevalent among those aged 70 and older, and were slightly lower in 2009 than in 2006. At both the mean and median levels, income from defined benefit plans exceeds distributions from retirement savings plans (see Charts 6 and 7). Future retirees could have higher income from these plans than current retirees because they will have participated in them for more years than current retirees.

The data suggest that retirement savings plans such as 401(k)-type plans and IRAs have increased in importance among the aged over the past two decades as an asset holding and as an income source. The pattern among current full-time workers in 2009 indicates that retirement accounts will have increasing importance among future retirees, and likely will be the predominant retirement income source within a couple of decades.

Conclusion

The data presented in this paper show that the tax-qualified retirement savings plan is the predominant retirement plan among workers in the early 21st Century. Both the prevalence and value of these accounts are generally rising over time . This form of retirement wealth has dramatically risen in the past 20 years, and the trend will probably continue. The shift toward distributions from DC plans and IRAs raises important questions about the accuracy of the CPS measures for the number of households that take such distributions and for the proportion of household income derived from retirement accounts. As Sabelhaus and Schrass (2009,p.19) wrote of IRAs and the Census Bureau's CPS: "while IRA withdrawals have risen in importance as a source of retirement income, the most widely cited income measure has failed to capture that growth. Looking ahead, that trend is likely to continue". This applies to money withdrawn from all tax-qualified retirement savings plans, not just IRAs. The major nationally representative

[11] The SIPP core asks about all sources of income in the previous four-month reference period. Merging the core files for three consecutive waves of the survey provides a picture of income sources and amounts over a full year.

surveys of household income must accurately measure annual distributions from retirement accounts in order to provide a complete picture of the economic well-being of the aged and the U.S. population. This may require the survey questions to be revised to inquire more directly about distributions from retirement accounts, whether taken as lump sums, regular distributions, or irregular, periodic withdrawals.

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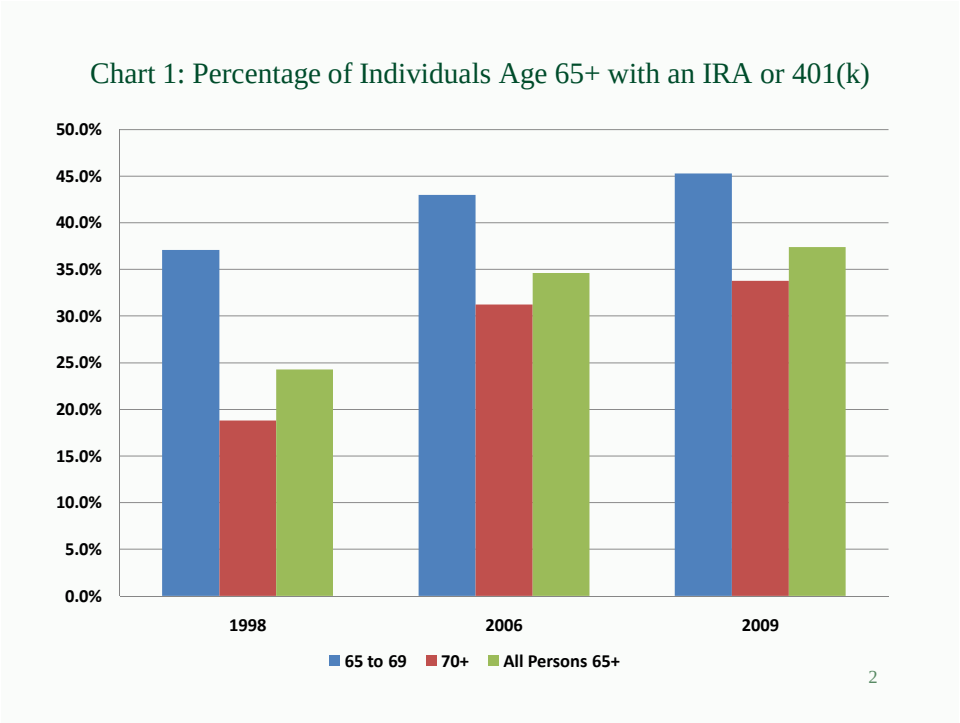

Source: 1996, 2004, and 2008 SIPP panels

Chart 2: Prevalence of financial assets in retirement savings accounts held by households with head aged 65 and over, selected years 1992-2007 (Source: Survey of Consumer Finances)

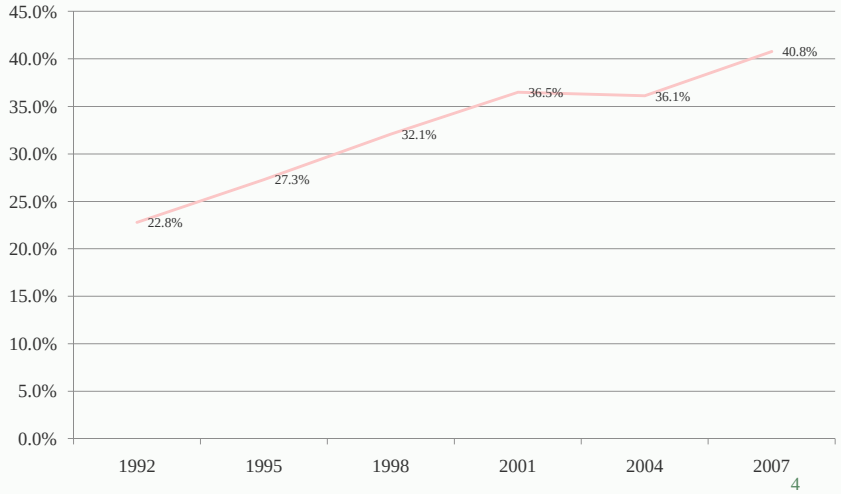

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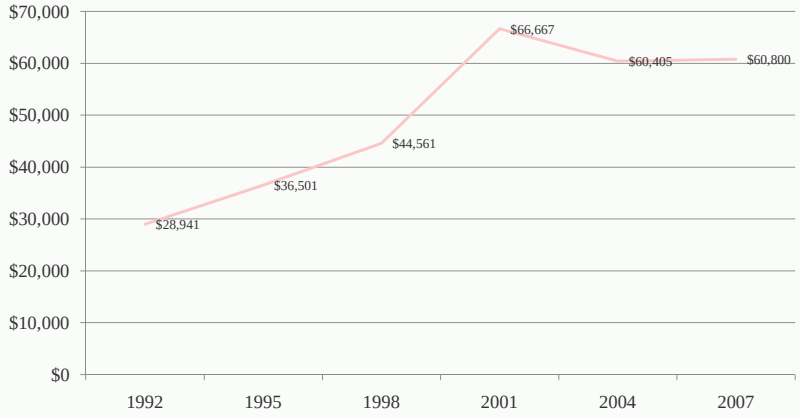
Chart 3: Median assets of households with head aged 65 and over held in retirement savings accounts, in 2007 dollars, selected years 1992-2007 (Source: Survey of Consumer Finances)



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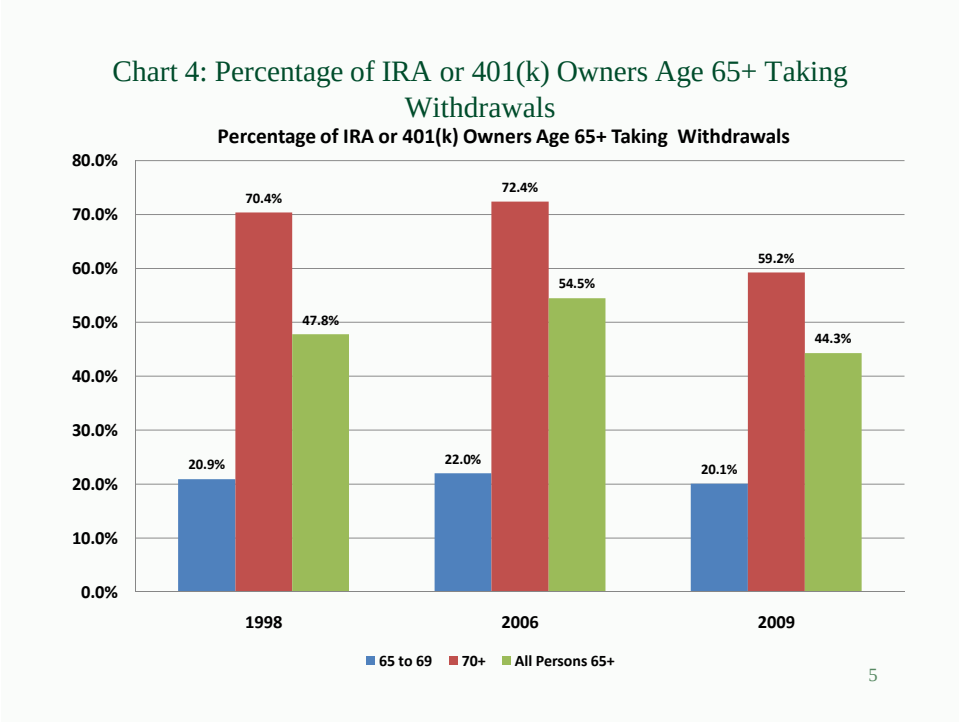
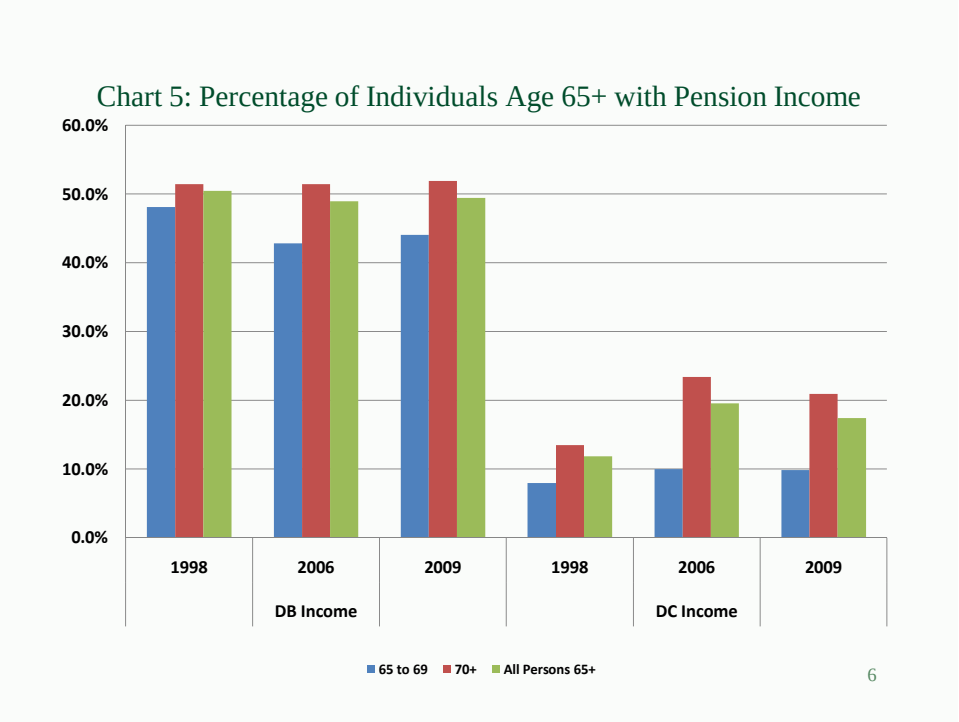


Source: 1996, 2004, and 2008 SIPP panels



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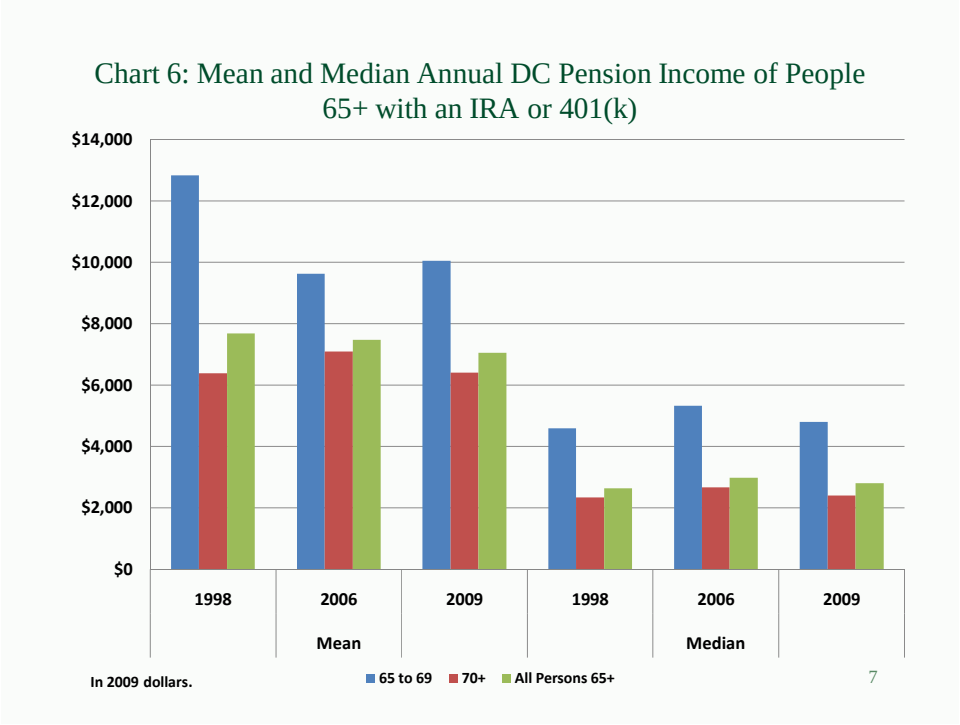

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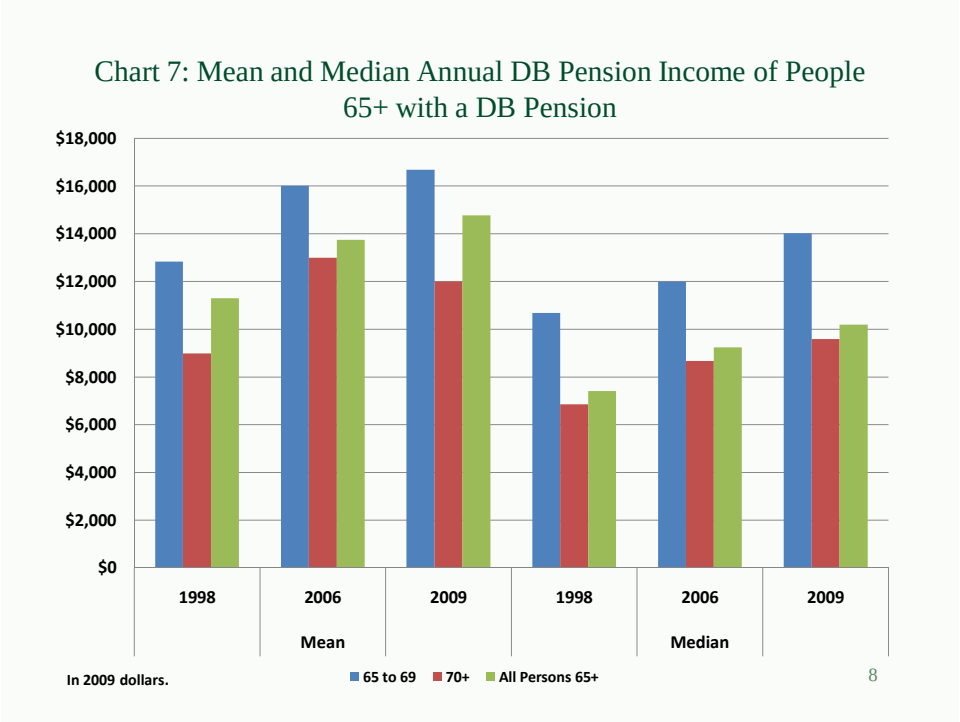

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