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## Pension Reform: How Have Workers Fared?

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4. While test scores are improving within KPS, the same is true in other districts, and it is difficult to establish a causal relationship with the Kalamazoo Promise. For more information see Bartik, Eberts, and Huang (2010). For more on how the Kalamazoo Promise has positively affected school climate, see Miron, Jones, and Young (2011).

5. New Haven Promise Web site: <http://promise.nhps.net/new-haven-promise.php>.

6. It is important to note that Kalamazoo Promise recipients are still held accountable for their academic achievement in that admission to the state's four-year institutions is in most cases highly competitive.

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## Pension Reform How Have Workers Fared?

The American pension system has undergone radical changes over the last 30 years. In my forthcoming book, *The Transformation of the American Pension System: Was It Beneficial for Workers?* I examine some of the consequences. (To order the book, please go to <http://www.upjohn.org/publications/titles/taps.html>.) Here I highlight six major themes in the book:

- 1) With the transformation of the pension system, did pension coverage expand or contract over time?
- 2) Did the value of pension wealth increase or decline?
- 3) Did overall wealth inequality rise or fall?
- 4) Did the retirement prospects of middle-aged Americans improve or worsen?
- 5) How did the transformation affect different demographic groups?
- 6) How did these effects vary between the 1980s, 1990s, and particularly the 2000s?

The data sources used for this study are the 1983, 1989, 2001, and 2007 Survey of Consumer Finances (SCF) conducted by the Federal Reserve Board. Each survey consists of a core representative sample combined with a high-income supplement. The main focus of the SCF is the assets and liabilities held by households. The SCF also provides considerable detail on both pension plans and Social Security contributions, and gives detailed information on expected pension and Social Security benefits for both spouses. I make some projections of household wealth to 2009 on the basis of movements in housing and stock prices between 2007 and 2009.

I find that the results are very sensitive to period and particularly to movements in the stock market. During the 1980s and especially the 1990s, the stock

market boomed, while during the 2000s it softened. In the 1980s the elimination of traditional defined benefit (DB) plans hurt workers in terms of pension coverage, particularly among the elderly, but during the 1990s, because of the rapid growth of defined contribution (DC) plans, overall pension coverage expanded. In contrast, during the 2000s, pension coverage suffered a mild contraction. However, at least among current workers, women did better than men, and the pension coverage rate among females increased from 1989 to 2007 while that among men declined.

### Pension Coverage

In particular, the share of households in age group 47–64 with a DC pension plan soared from 12 percent in 1983 to 62 percent in 2001, while the share with a DB plan plummeted from 69 to 45 percent (see Figure 1). Over these years, the proportion of households in this age group with some pension coverage (either DC or DB) expanded from 70 to 76 percent. From 2001 to 2007, the share of middle-aged households with a DB plan continued to fall, from 45 to 39 percent, while the fraction with a DC plan expanded only slightly, from 62 to 64 percent, and overall pension coverage fell off from 76 to 74 percent.

### Value of Pension Wealth

The value of DC pension plans is especially sensitive to stock market developments, and the DC pension system works very well when the stock market booms. DC pension wealth gained in the 1980s and then grew enormously in the 1990s both as coverage expanded and as the stock market roared. However, as coverage slackened off in the 2000s and the stock market weakened, gains in DC pension wealth slowed. When the stock market tanked from 2007 to 2009, DC pension wealth actually plummeted.

The years 2001–2009 were indeed a “lost decade” in terms of DC pension wealth, with absolutely no net gains over the decade.

**Overall Wealth Inequality**

Despite the elimination of many DB plans, overall pension wealth (the sum of DB and DC pension wealth) continued to grow in the 1980s, 1990s, and even over the years 2001–2007, though gains during the early and mid-2000s were much smaller than those in the preceding decades. However, from 2007 to 2009, overall pension wealth also dropped, and over the whole decade, 2001–2009, overall pension wealth showed a sizeable decline. One group that did well over the decade of the 2000s was the elderly, mainly because many of them remained “legacies” of the traditional DB pension system, in which by law their pension benefits could not be reduced.

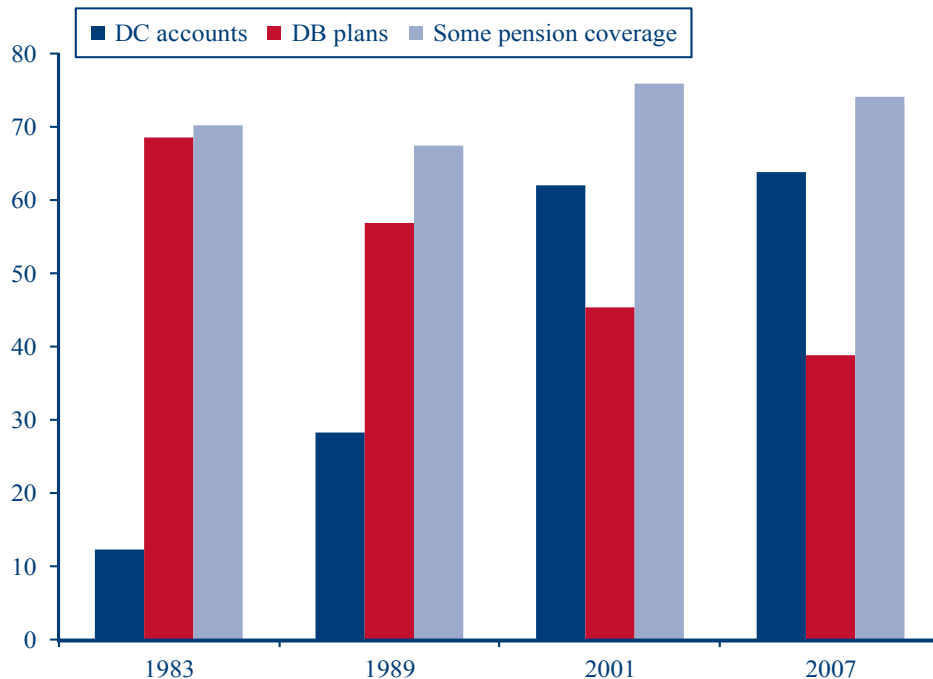
**Prospects of Middle-Aged Americans**

Among middle-aged households in particular, average DC pension wealth increased almost twelvefold from 1983 to 2001 (see Figure 2). Mean DB wealth, on the other hand, eked out only a 10 percent gain, while overall pension wealth grew by a factor of 2.3. In contrast, from 2001 to 2007, average DC pension wealth gained 18 percent, mean DB wealth fell by 8 percent, and overall mean pension wealth was up by only 6 percent. The results also illuminate the fact that DC pension wealth does well only when the stock market performs spectacularly.

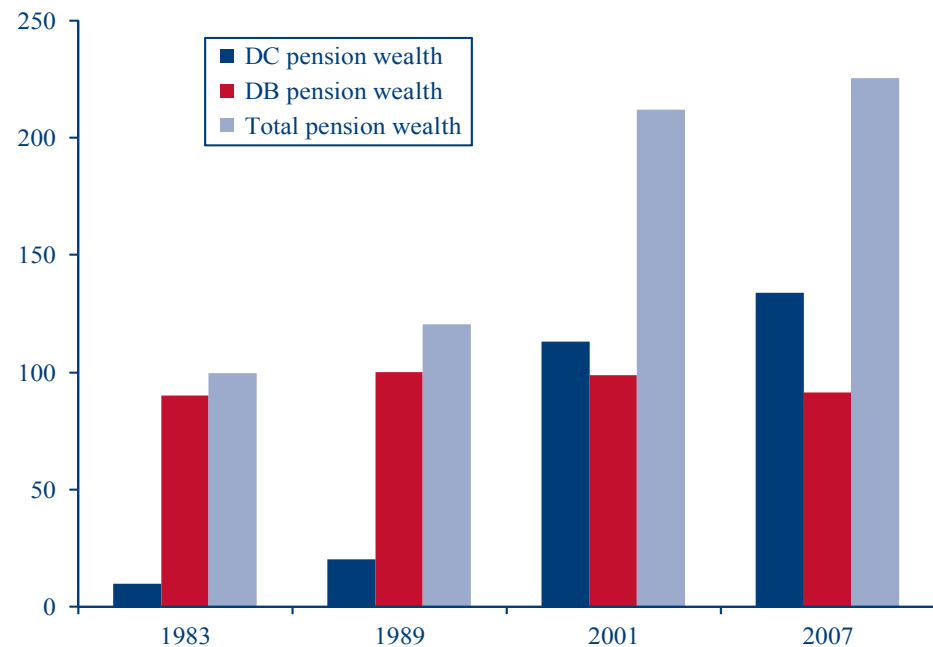
The story is not complete without considering the ancillary role of Social Security, which fills many holes in the rather porous private pension system. Social Security wealth, like (private) pension wealth, grew strongly in the 1990s. However, during the 2000s, its gain slowed markedly. Retirement wealth, the sum of pension and Social Security wealth, showed marked improvement in the 1990s but, again, much slower advances in the 2000s.

Among middle-aged households, mean Social Security wealth grew by 36 percent from 1983 to 2001 but no change

**Figure 1 Percent of Households, Aged 47–64, with Pension Wealth, 1983–2007**



**Figure 2 Mean Household Pension Wealth, Aged 47–64, 1983–2007 (2007\$)**



from 2001 to 2007. As result, mean and median retirement wealth among this age group surged from 1983 to 2001 (by 66 and 45 percent, respectively), but mean retirement wealth grew very slowly from 2001 to 2007 (by 3 percent), and median retirement wealth registered only a 1 percent gain.

When standard net worth is added to retirement wealth to produce augmented wealth, this addition creates the most comprehensive measure of retirement resources. The results show that mean augmented wealth grew very strongly in the 1990s, but gains were much weaker in the 2000s (see Figure 3). Indeed,

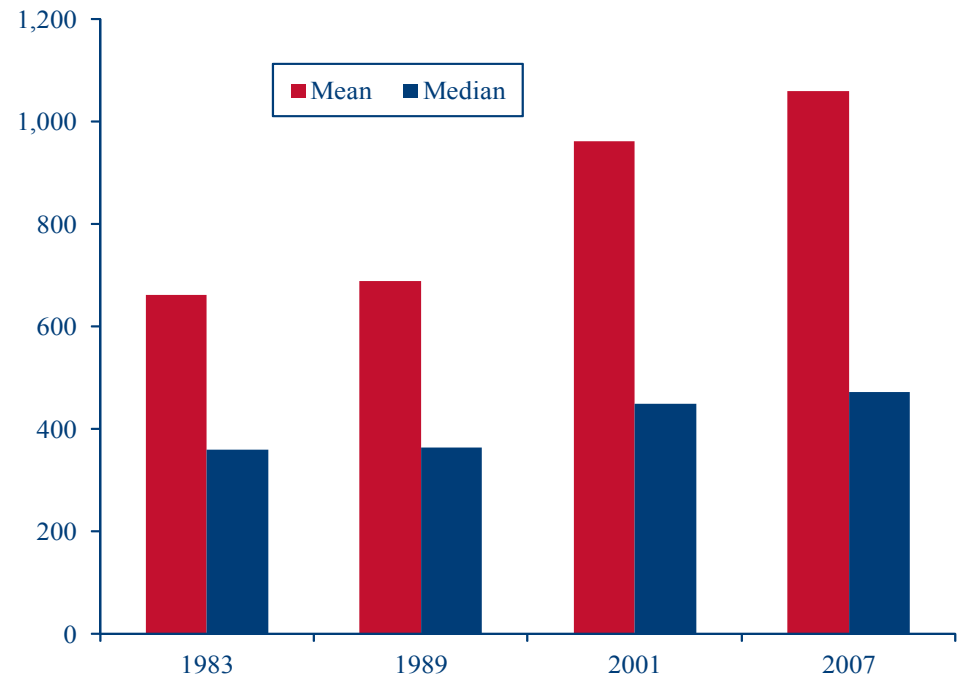
median augmented wealth showed almost no change among middle-aged and elderly households and actually declined in absolute terms among younger households. Younger households were found to be particularly vulnerable as a group, and their retirement prospects appear to have faded over time.

In the case of inequality trends, there is not much differentiation between the 1980s, 1990s, and 2000s. One notable finding is that DC pension wealth is distributed much more unequally than traditional DB pension wealth. As a result, the transition from the DB system to the DC system resulted in higher levels of inequality of pension wealth, retirement wealth, and augmented wealth. In particular, the results show an increase in the overall inequality of augmented wealth between 1989 and 2007. This result contrasts with almost no change in the inequality of net worth over these years.

### Effects on Different Demographic Groups

How did different demographic groups fare with regard to relative gains in pensions, retirement wealth, and augmented wealth? For purposes of analysis, three divisions of the population are made: 1) race/ethnicity, 2) marital status, and 3) educational attainment. In 2007, there were large gaps in pension wealth, retirement wealth, and augmented wealth between minority households and the white majority, between single females and married couples, and between college graduates and other educational groups. However, minority households generally showed strong progress in terms of pension wealth, retirement wealth, and augmented wealth relative to white households. Likewise, single female households generally showed gains relative to married couples in these three dimensions. In contrast, less-educated households generally lost out relative to college graduates in terms of pension wealth, retirement wealth, and augmented wealth as well. In particular, differences in retirement and augmented wealth by educational groups splayed out over the years, with college graduates in particular increasing their lead over the other educational groups.

**Figure 3 Mean and Median Augmented Wealth (Net Worth plus Retirement Wealth), Aged 47–64, 1983–2007 (2007\$)**



### Retirement Adequacy over the Past Three Decades

What was the level of retirement adequacy among households close to retirement in 2007, and how did this change over time from 1989 to 2007? Retirement adequacy is measured in three different ways: 1) by calculating the stream of retirement income that today's older workers can expect at retirement from their accumulated wealth at the time of retirement, 2) by comparing their expected retirement income to the poverty line in order to measure the expected poverty rate at retirement, and 3) by using the so-called replacement rate to calculate the ratio of expected retirement income to preretirement income. All three measures of retirement adequacy are computed for individual age groups and by race/ethnicity, marital status, and educational attainment.

The results show strong gains in expected retirement income for age group 47–64 during the 1990s but a marked slowdown in its growth from 2001 to 2007, even before the financial meltdown of 2007–2009. These findings are consistent with the pronounced decline in the rate of advance of augmented wealth between the 1990s and the 2000s. Households in this age group also saw a

large reduction in their expected poverty rate at retirement from 1989 to 2001. However, there was no further reduction in the expected poverty rate from 2001 to 2007. In contrast, the percent of households with at least a 75 percent replacement rate rose somewhat more in the 2000s than in the 1990s, though the gains were quite modest in both periods.

What can be done to reinvigorate pension growth and reverse the decline in pension wealth experienced at the end of the last decade? I favor universal pension coverage. For current workers, employer pension coverage should be guaranteed for all workers in the company. Moreover, employer contributions into employee pension accounts should be made mandatory and *not* contingent on employee contributions. For those not at work and below the age of retirement, I favor a mixture of Individual Retirement Accounts and Individual Development Accounts supported by the federal government. These plans should be federally subsidized in the case of low-income and young households. The current Social Security system, on the other hand, is generally “doing its job” and should be left largely intact.

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