

# *Trends in Retirement Resources*

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RAND

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# *Retirement resources*

- Claim on Social Security

- Private saving

← **Focus of this talk**

- Medicare/Medicaid

- Pensions



## *Data: Health and Retirement Study*

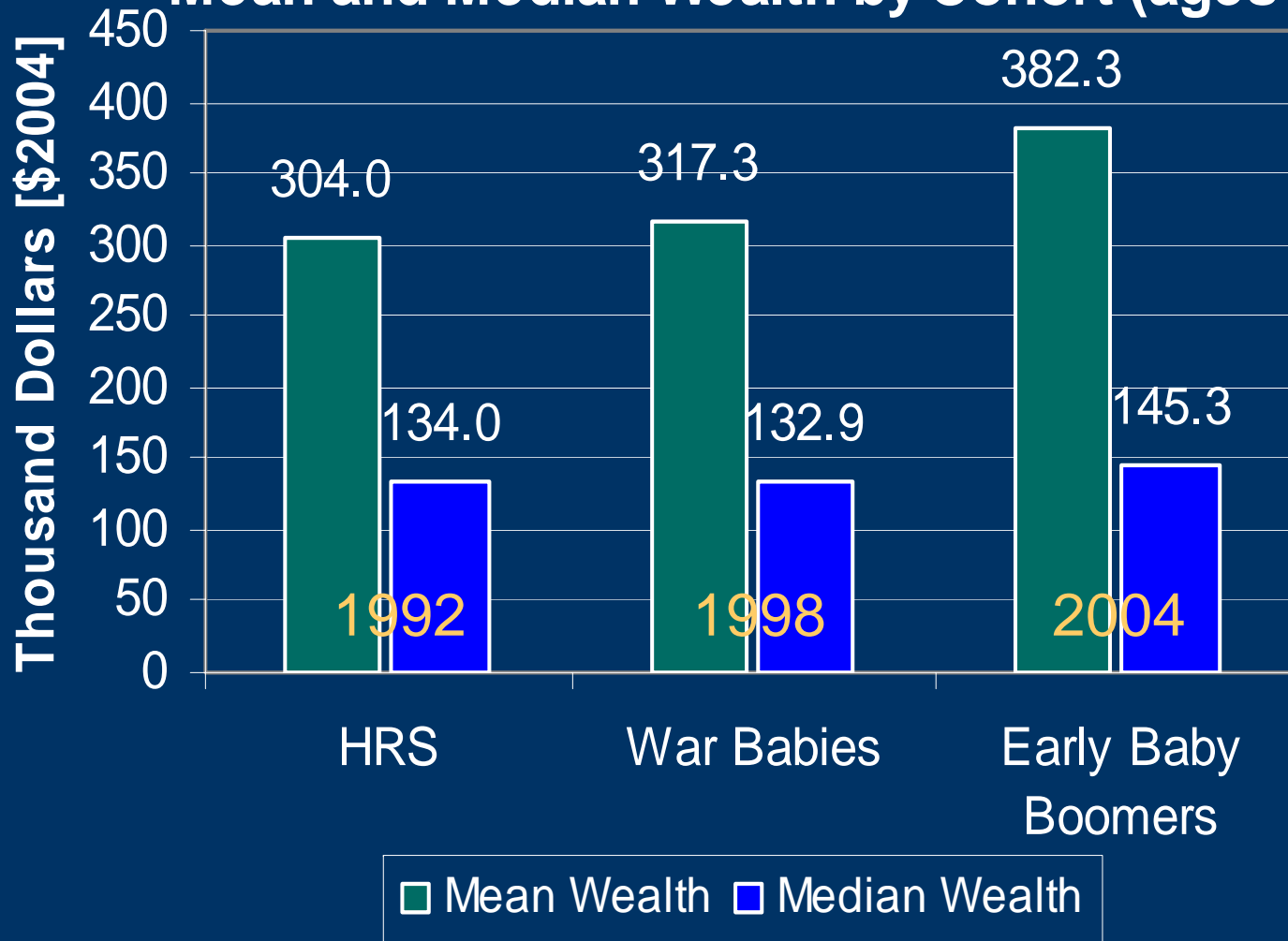
- **Baseline in 1992 (original HRS cohort)**
- **Panel data—resurvey every two years**
- **new cohorts in 1998 and 2004**
- **Rich information on economic status, health, employment, family structure, expectations**

## *Our focus: cohort comparisons*

- *age 51-56 in 1992 (HRS)*
- *age 51-56 in 1998 (WB)*
- *age 51-56 in 2004 (EB)*

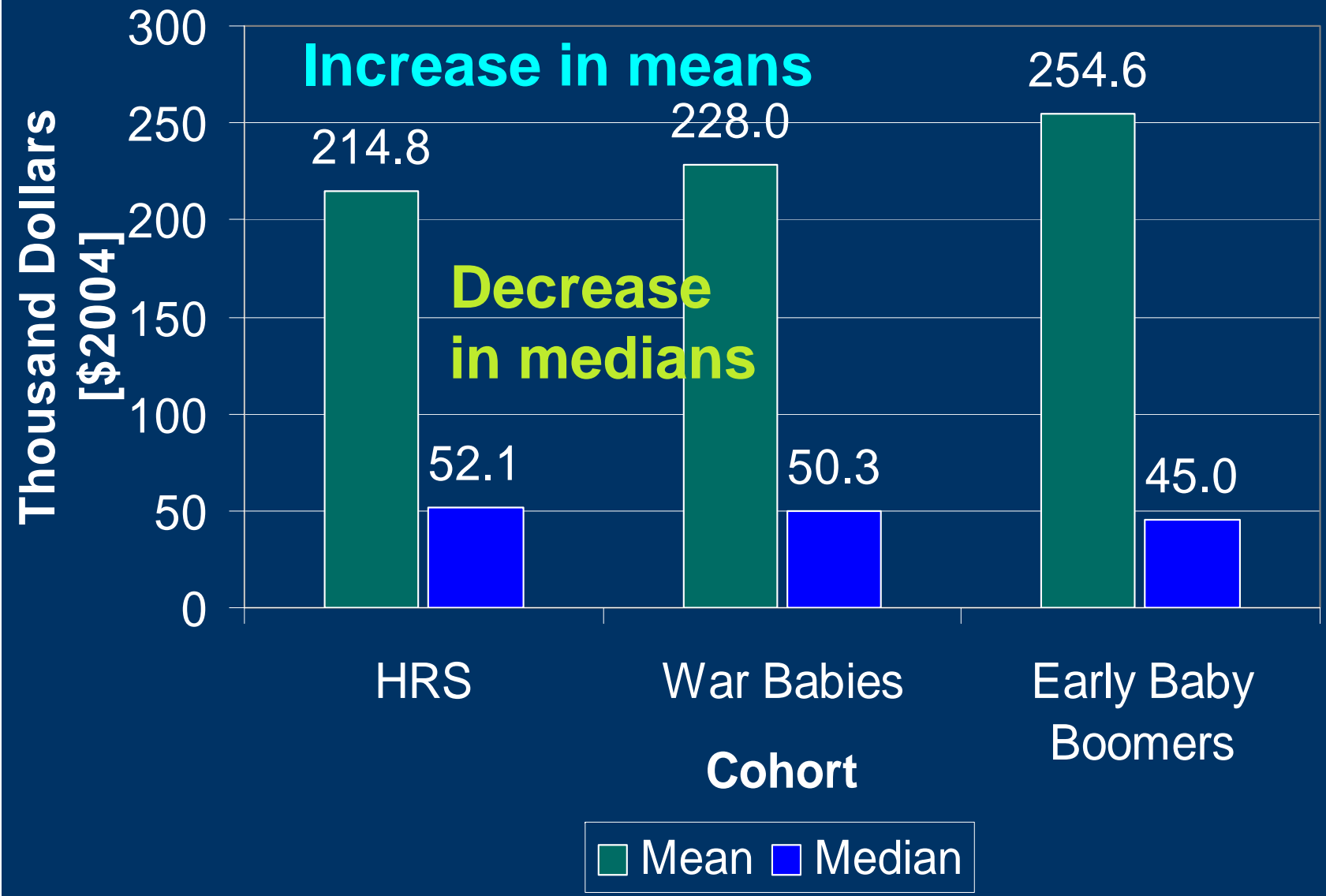
# *Trends in bequeathable wealth (inflation adjusted)*

## Mean and Median Wealth by Cohort (ages 51-56)



**Small growth at median, larger at mean**

# Mean and Median Non-Housing Wealth by Cohort



# Big changes in the pension landscape over the last two decades

## Percent with pensions on current job

1992, 1998, 2004. Self-reports

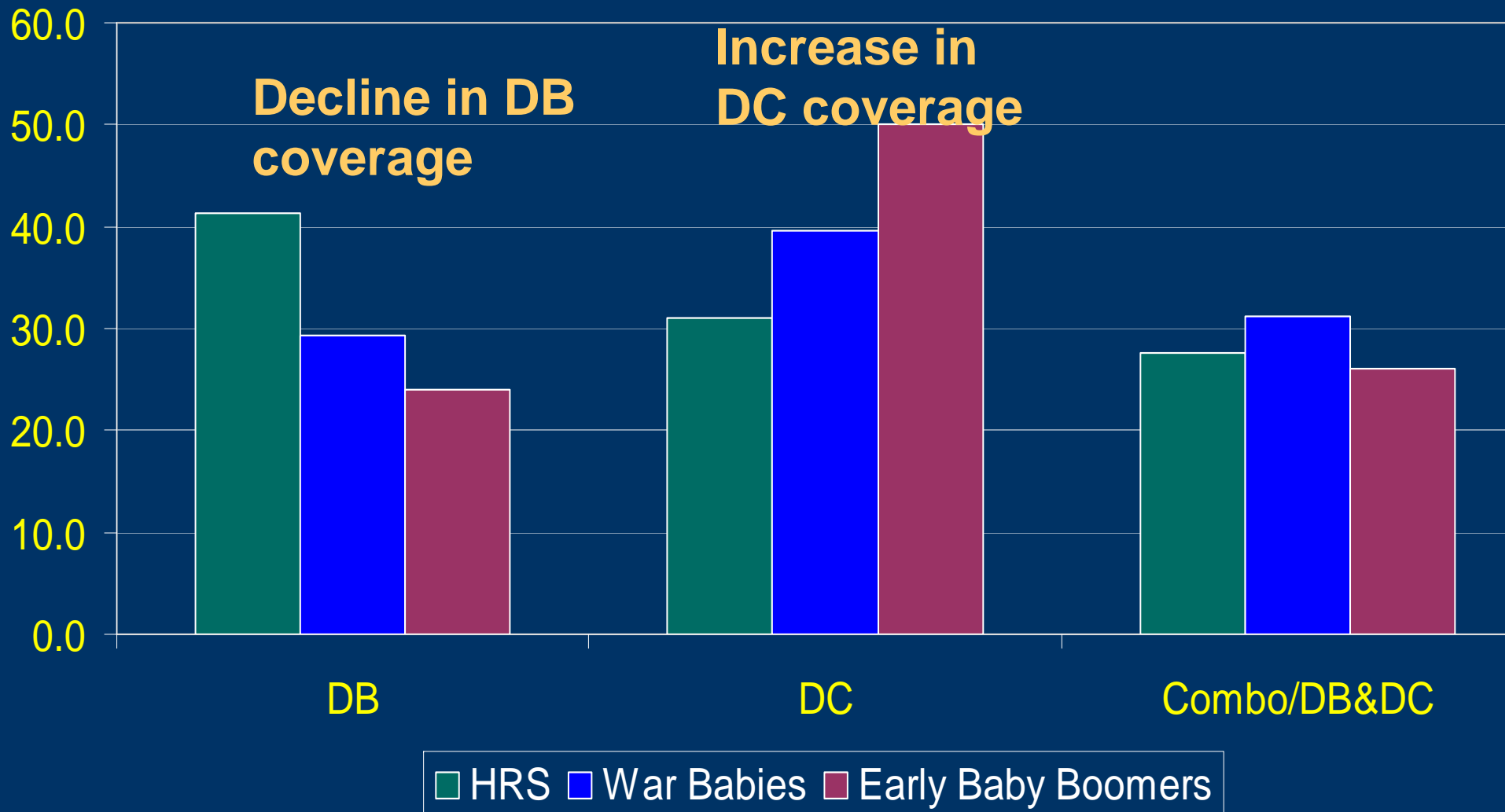
	HRS cohort 51-56 in 1992	War Babies 51-56 in 1998	Early Boomers 51-56 in 2004
All	58.5	60.2	60.4
Men	61.5	62.3	61.4
Women	55.1	58.0	59.5

- not much change overall
- in 1992, women have lower coverage
- convergence by 2004

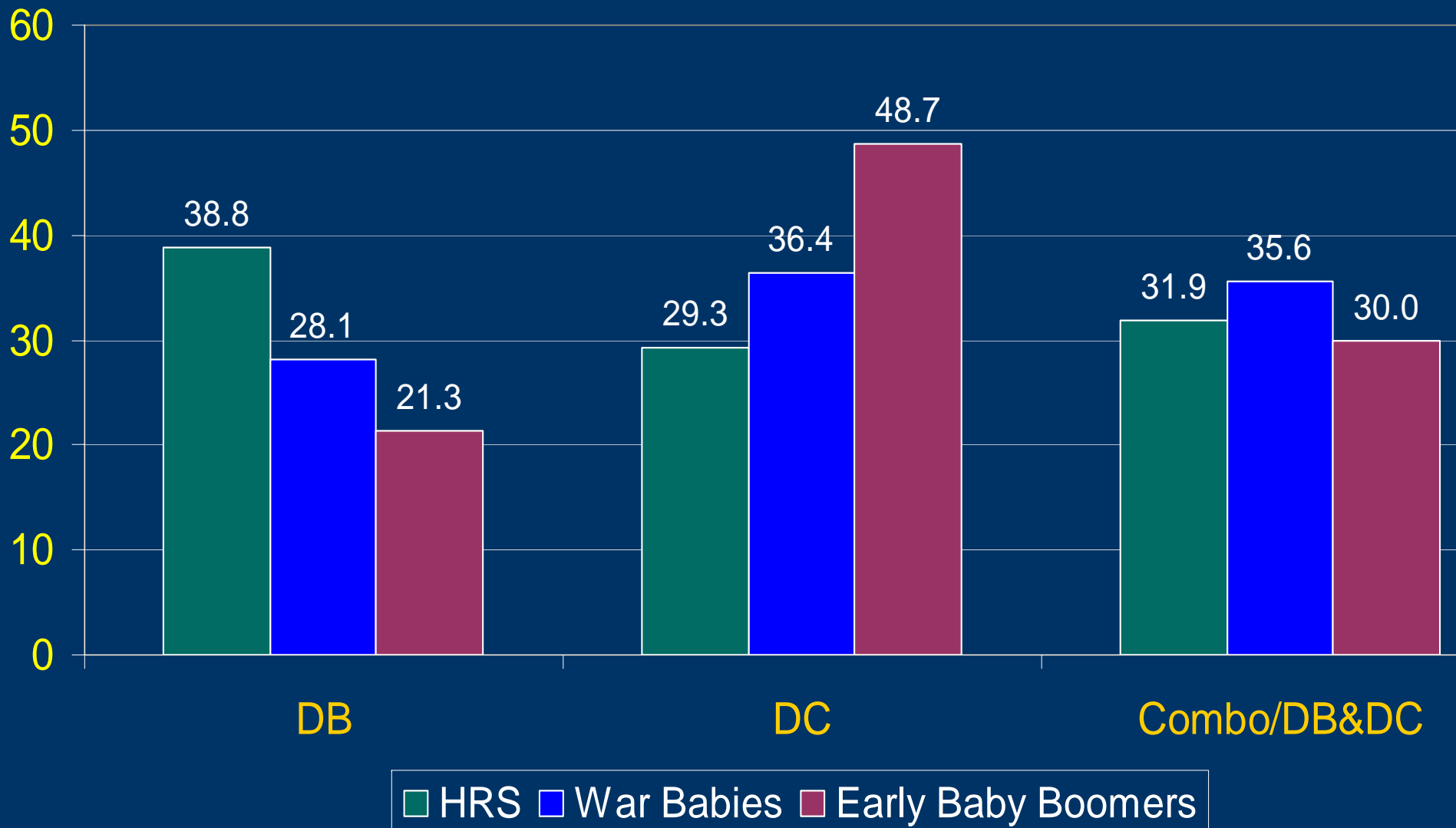


# *Trends in plan type*

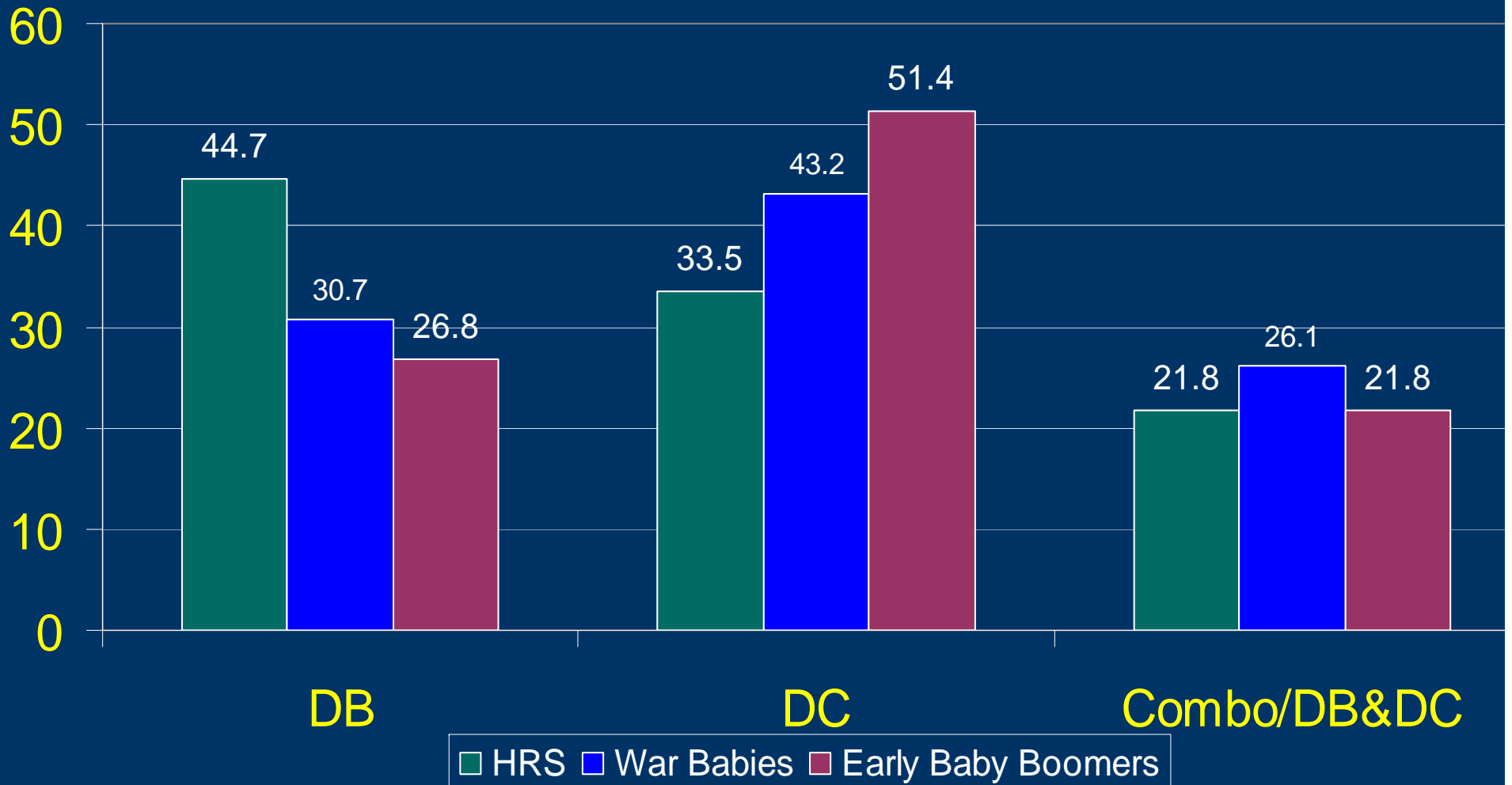
# Distribution of Plan Type



# Distribution of Plan Type - Men



## Distribution of Plan Type - Women



**Trends the same for men and women,  
but men higher level of Combo/DB&DC.**

## *What are these pensions worth?*

**Estimating individuals' pension entitlements has proven to be a big challenge**

**Mainly due to data limitations:  
obtaining the required detail of information in a survey is hard.**

## *Measurement of pensions in HRS*

- Among workers HRS asks:
  - Whether has a pension on this job
  - What is the type of pension?
- Conditional on type
  - DB: expectations about benefits
  - DC: how much in account at present

## *So, what is the problem?*

- Many people don't know type or don't recognize type given our questions.

Most provide information on plan type, but oftentimes incorrect

- A lot of “don't know” and probably mis-reports about amounts

***If plan type wrong,  
the wrong questions are asked:***

- **DB: ask about expectations about benefits**
  - **Doesn't make sense if actually a DC plan**
- **DC: ask how much in account at present**
  - **Doesn't make sense if actually a DB plan**



## *Our approach*

**Respondent's best knowledge of pension is at job separation.**

**Asked about pension value and other characteristics of pension and how disposed of it.**

## *Our approach (cont.)*

- Follow workers in 1992 HRS until retirement or separation
- 56 year-old in 1992 is 68 in 2004...almost all extractions complete
- Know what they ended up getting

## *Inventory of pensions at job separation*

**DC:**

**Amount in account when left**

**Disposition (rolled into IRA, cash out, annuity ...)**

**DB:**

**Receive benefit now (yes, then how much)**

**expect benefits in future (how much)**

**lump sum (amount)**

## *We use all reports in panel to 2004*

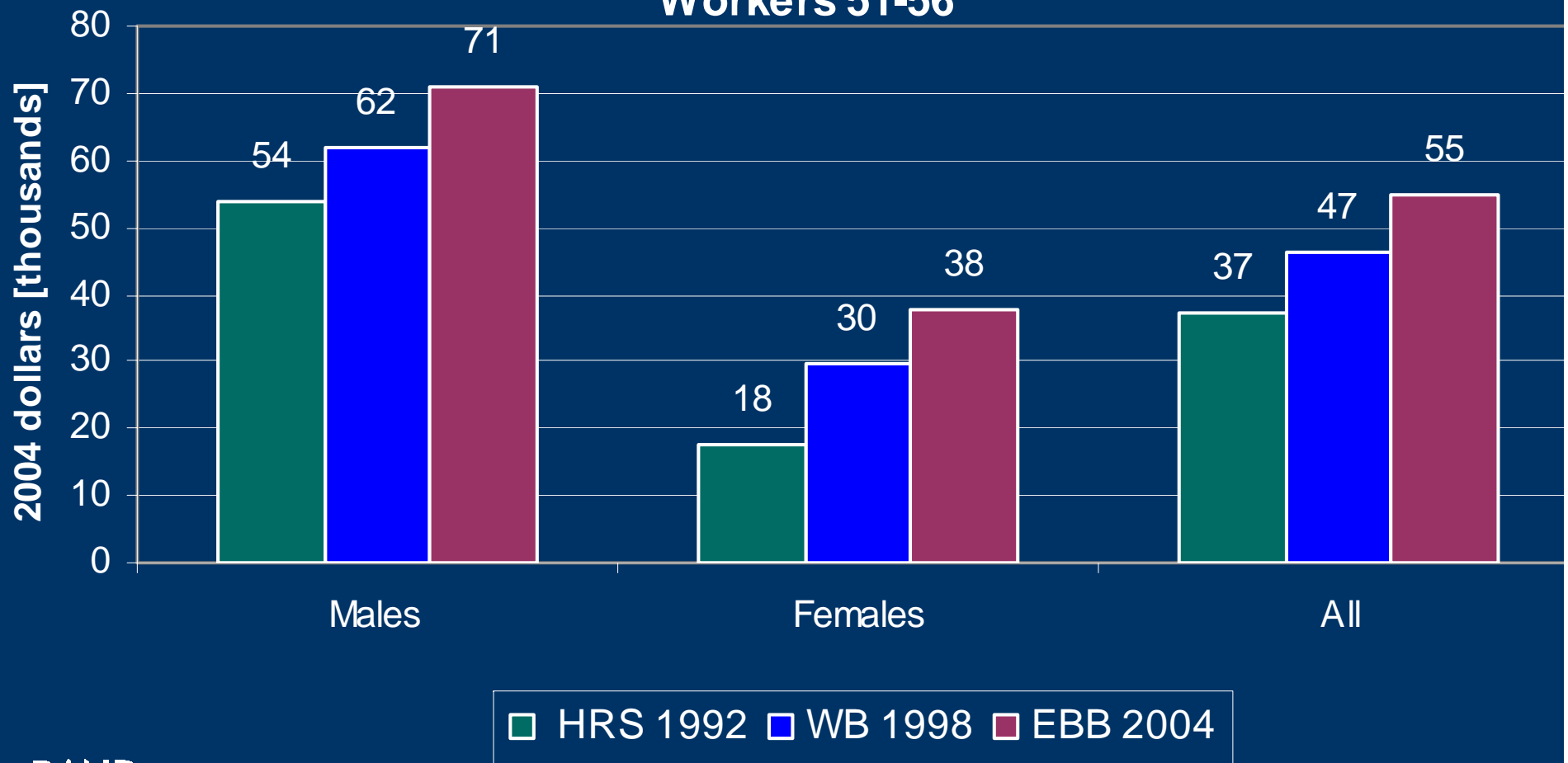
- Calculate total pension extractions
  - DC balances
  - Lump sum amounts
  - DB flows (converted into present values)
- Sum gives what workers in 1992 end up getting
- Relate type and amount of extractions to 1992 baseline report about pensions
- Apply estimated relationship to self-reported pension information in 1998 and 2004

## *Results*

- Cohort comparisons of workers age 51-56 in 1992, 1998 and 2004
- DC pension wealth
- DB pension wealth
- Add bequeathable wealth to study total resources

# Marked increase in entitlements from DC & lump sums

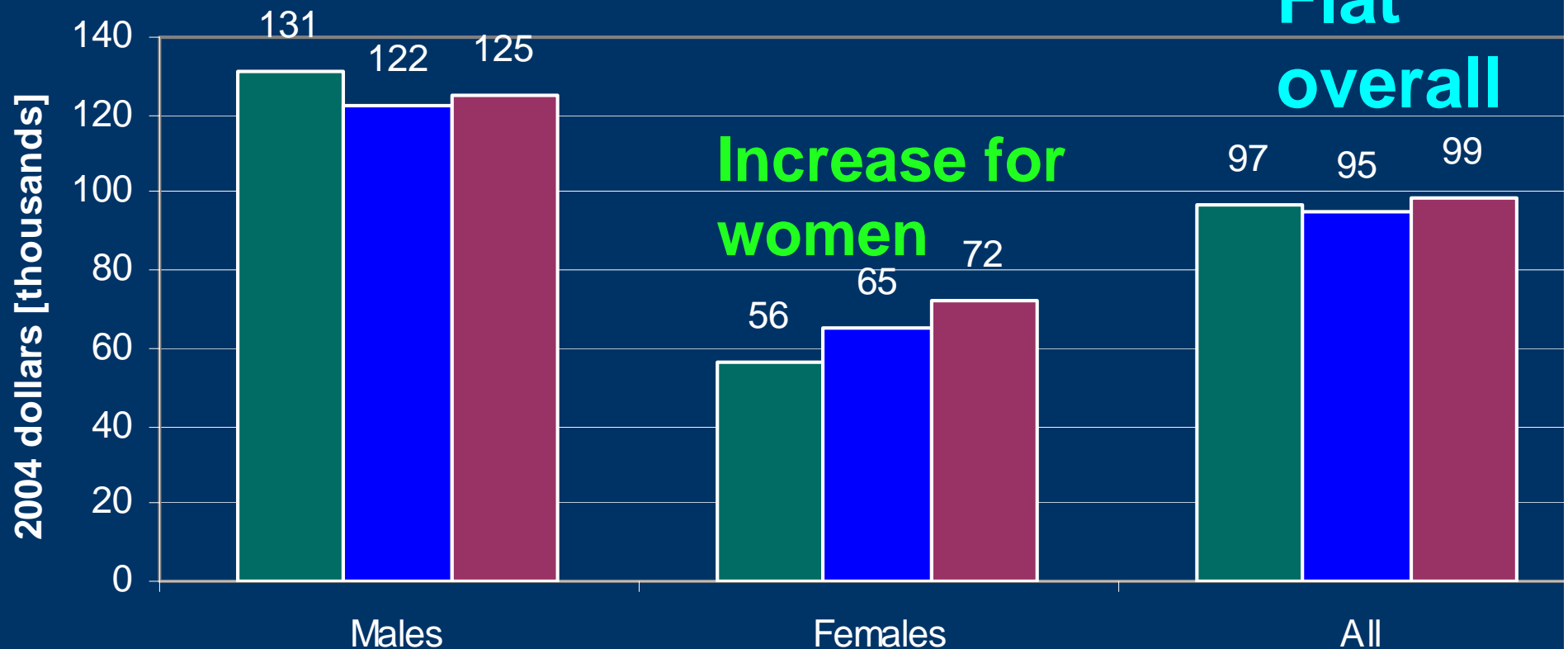
## Pension Wealth from DC plans and lump sums Workers 51-56



# Decline in DB coverage, but still substantial entitlements

## Decrease for men

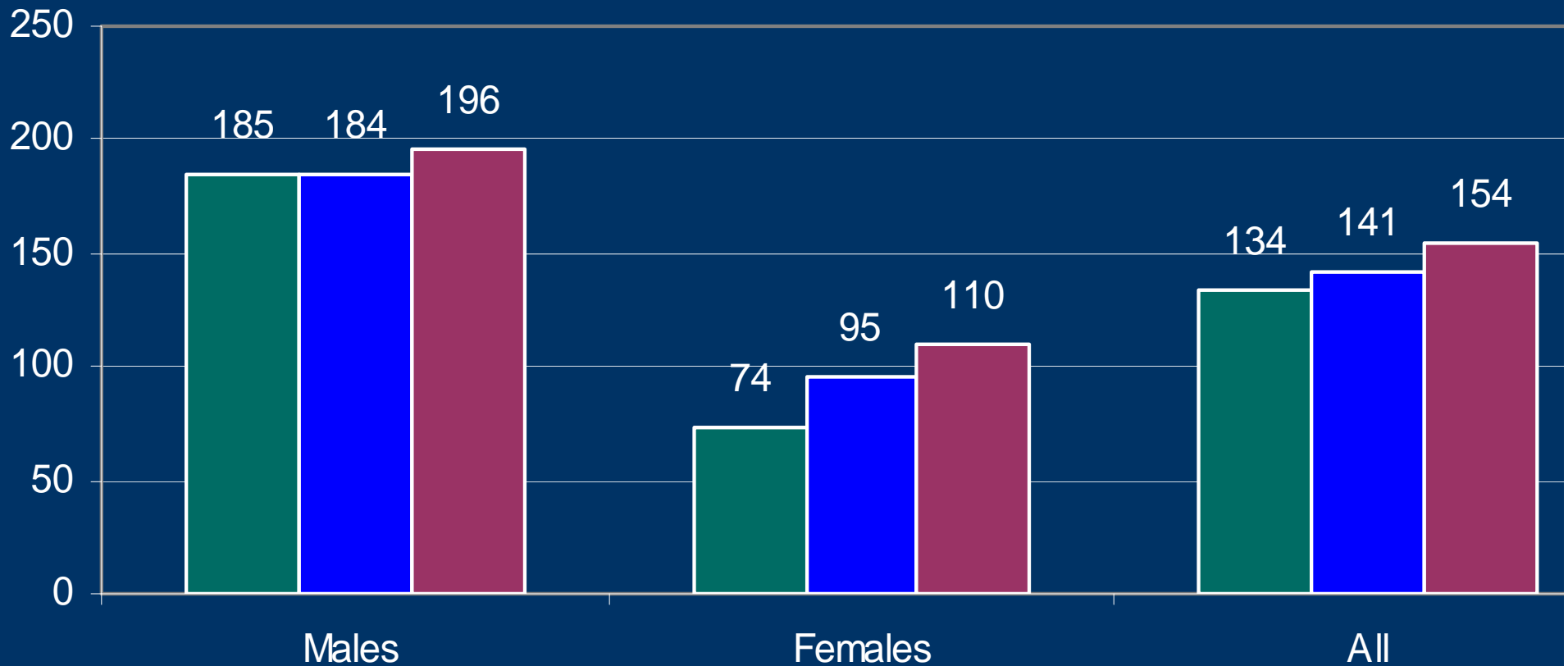
Pension Wealth from DB plans: Workers 51-56



■ HRS 1992 ■ WB 1998 ■ EBB 2004

## *Almost 50% increase for women*

### PW from DB and DC: Workers 51-56



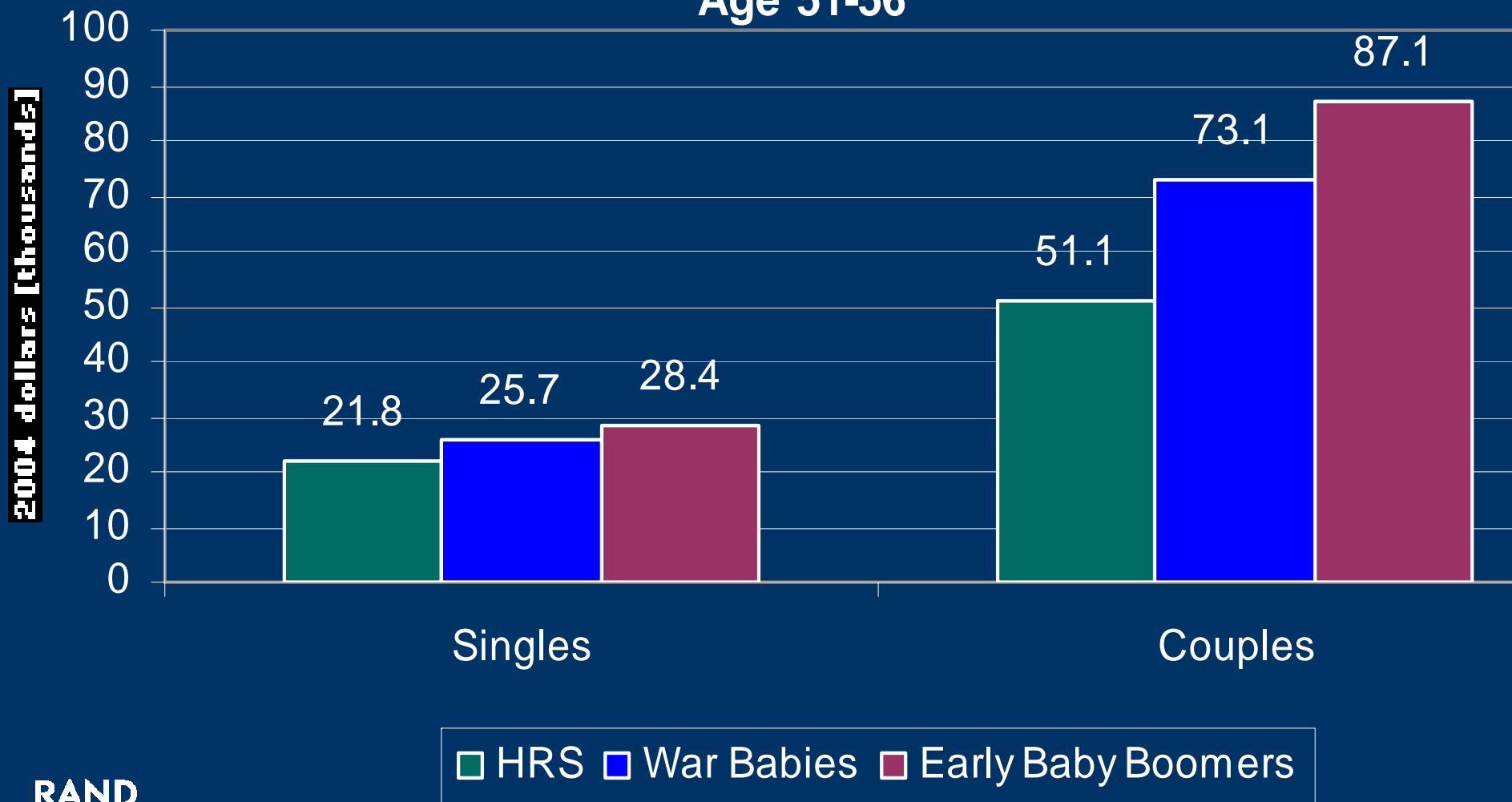
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■ HRS 1992 ■ WB 1998 ■ EBB 2004



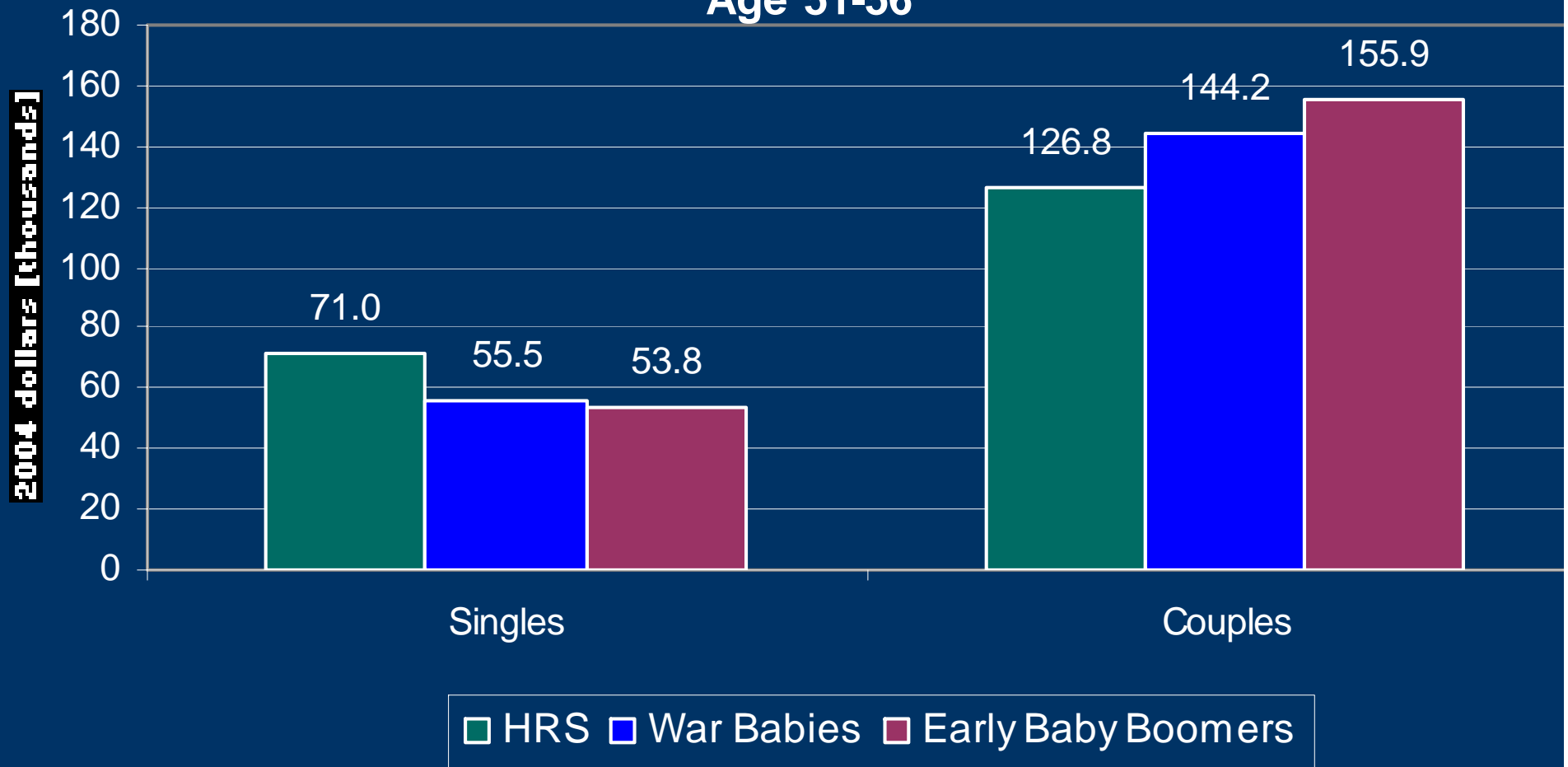
*Now linking respondents in the same household*

## DC Pension Wealth of the Household Age 51-56



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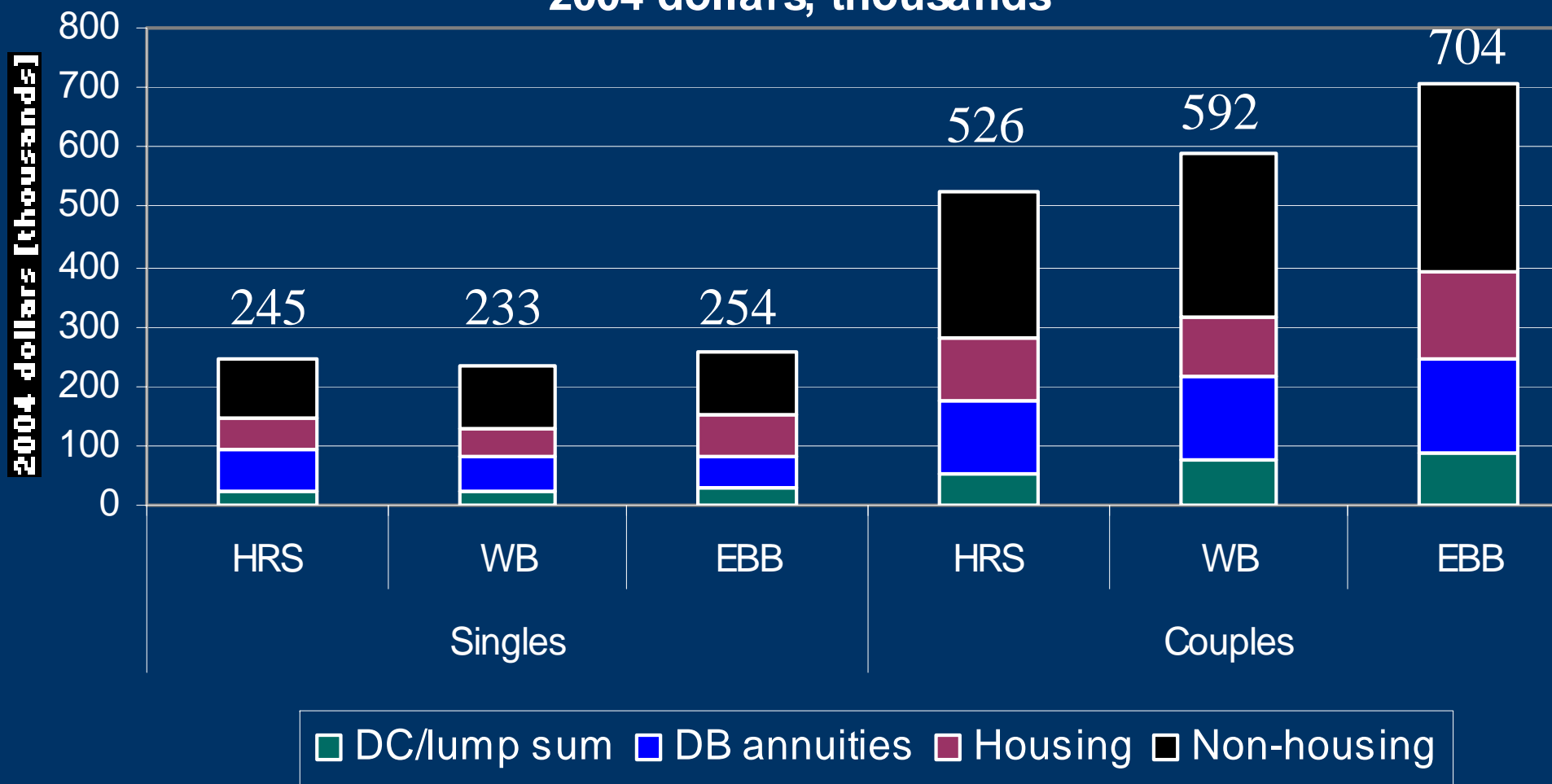
## DB Pension Wealth of the Household Age 51-56



**Add pension resources from DB and DC and  
bequeathable wealth to find**

**Total Resources**  
(without Social Security)

## Total Household Resources for respondents age 51-56 2004 dollars, thousands



## *Conclusions*

### **Trends in bequeathable wealth**

- Modest increases for later cohort
- Difference between mean and median

**Mean: both housing and non-housing wealth increased**

**Median: no increase in non-housing wealth**

## *Conclusions (cont.)*

### Trends in Pension Entitlements **of workers:**

- Substantial increases across cohorts in DC wealth
- DB pension wealth is flat, even though DB coverage dropped;

## *Conclusions (cont.)*

### Trends in Pension Entitlements of **households**:

- Substantial increases in DC wealth
- Increases DB wealth due to increases in labor force participation of women;  
trend not expected to continue.



## ***Conclusions (cont.)***

**Overall: “No crisis!”**

- **increases in retirement resources on average**
- **Pensions continue to be major component of retirement portfolio**
- **DC has become more important;  
advantage: portable across jobs  
challenge: managing investment risk**

## *Caveats (last)*

**Need to add Social Security**

**Adequacy of resources not addressed.**

**Some sub-groups with little bequeathable  
wealth and little, if any, pensions.  
(see tomorrow's talk)**