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Old-Age Provisions in the United States

Changes in the Retirement System since the 1980s*

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Abstract

When policy discussions turn to income provisions for the old-aged, the focus is often on Social Security programs and the long-term solvency of national public pension systems. While Social Security remains the most important income source for the non-working elderly in the United States, Americans have a much longer tradition of relying on occupational and individual pensions as a crucial part of their retirement income. The paper gives an account of relevant social and legal provisions with implications for voluntary and involuntary retirement, and documents how statutory changes during the past three decades have affected the financial well-being of current and future retirees. It concludes that growing risks in old age are less due to declining Social Security benefits than to several trends in the private industry and financial markets that have seriously weakened employment-based, old-age protection. In terms of institutional changes, however, the United States has not seen any fundamental restructuring of its public pension system since the 1980s.

Contents

1 Introduction

For most of the last century, retirement-income policy in the United States has had two major components: the federal Social Security system, created in 1935, and tax subsidies for voluntary personal-retirement savings and employer-based pension schemes. Even though Social Security is a quasi-universal program, private pension benefits have come to play a much more significant role in the field of old-age security in the United States than in Germany. This has to do with two core features of the American retirement system: First, Social Security in the United States provides lower benefits than similar programs in other rich OECD countries. And second, Americans have a much longer tradition of relying on occupational and individual pensions as a crucial part of their retirement income. As early as the 1920s, federal legislation initiated tax advantages for employment-based retirement plans, allowing employers and employees to deduct contributions to private pension schemes from their taxable income. Currently, about one-third of all Americans depend on occupational or private pensions in addition to Social Security.

This paper documents the most important social and legal provisions in the United States with implications for voluntary and involuntary retirement. It begins with a description, in Section 2, of the key dimensions of Social Security and Supplemental Security Income (SSI), the main public assistance program for the elderly, and how both have changed over time. Section 3 then treats the different provisions of the American welfare state that allow employees to retire before or after the formal retirement age or to semi-retire by reducing working hours. Section 4 offers a brief account of the occupational pension system, focussing on the shift from traditional employer-funded pensions to defined contribution plans that started already in the 1980s. Section 5 presents data on income composition and distribution among the retirement age population, followed by an account of the major statutory changes affecting retirement-income policies during the past three decades. The paper concludes with a summary and hypotheses.

2 Social Security: The Public Pension System

The "Old Age, Survivors, and Disability Insurance" (OASDI), commonly referred to as Social Security, is the largest single, non-defence, government program in the United States.[1] The first component, the "Old-Age and Survivors Insurance" (OASI) program, was established in 1935 as one of the key elements of the Social Security Act. It pays monthly benefits to retired workers and their families, and to survivors of deceased workers. In 1956, the "Disability Insurance" (DI) component was added to the OASI program, providing income to disabled workers below the normal retirement age and to their dependents (US Social Security Administration 2010a). Unlike unemployment insurance, Social Security is a truly national program. States have no role in determining eligibility or setting benefit levels. While OASI is centrally administered by the Social Security Administration (which became an independent agency in 1995), the insurance program for disabled workers is executed both by federal and state authorities.

Under current law, Social Security for the elderly is almost universal, with 94 percent of the total workforce being covered (US House of Representatives 2008: 1-8). The most recent extension of the program was enacted in 1990, when most state and local government workers were finally brought into the Social Security system. Today, workers excluded from coverage fall into the following categories: civilian federal employees hired before 1984; railroad workers (who have their own retirement system); certain employees of state and local governments (covered under their employers' retirement system); and finally, domestic and farm workers, as well as self-employed persons with very low earnings (Annual Statistics Supplement 2009: 11).

As in Germany, public old-age pensions in the United States are financed by a pay-as-you-go system. Social Security funds are derived from contributions that are administered like payroll taxes, levied equally on employers and employees.[2] Compared to Germany (19.2%) and the OECD average (20.0%), the public pension contribution rate in the United States of 12.4 percent is relatively low (OECD 2010: 137). It has remained unchanged since the beginning of the 1990s (see Table 1). While salaried workers contribute 6.2 percent of their gross earnings below the taxable, maximum earnings threshold ($106,800 in 2009) to the Social Security system, self-employed workers are subject to the full tax rate of 12.4 percent. 10.6 percent are dedicated to the "Old-Age and Survivors Insurance", and 1.8 percent are used to fund the "Disability Insurance". In addition, employees must pay 1.45 percent of their

1 OASDI constitutes 37 percent of all government expenditures and 7 percent of the gross domestic product (Congressional Budget Office 2009: 38).

2 Since they are collected under the authority of the Federal Insurance Contributions Act (FICA), they are sometimes referred to as FICA taxes.

gross earnings to the "Medicare Hospital Insurance Program" (Annual Statistics Supplement 2009: 12). The current earning ceiling for contributions (and benefits) corresponds to 239 percent of average earnings (OECD 2010: 276). Due to rising earnings inequality, the percentage of taxable covered earnings has decreased from 90 percent, in the early 1980s, to 85 percent, in 2005, and is projected to decline even further during the coming years (Mulvey 2010: 5).

Beginning in 1975, Social Security benefits for retired workers have been inflation-protected by the application of an automatic, annual cost-of-living adjustment (COLA), using the "Consumer Price Index for Urban Wage Earners and Clerical Workers".[3] Depending on the beneficiary's income, marital and tax filing status, up to 85 percent of the benefits may be subject to federal income taxes (see Section 6). While individuals are allowed to combine work and pension receipt, benefits are also subject to an earnings test for those below the full retirement age,[4] which is 65 years for those born before 1938, and scheduled to rise gradually to 67 by 2022. Reduced retirement benefits are available as early as age 62, while the full pension may be deferred up to the age of 70 (Annual Statistics Supplement 2009: 17).

2.1 Benefit Amounts

The amount of monthly benefits to which a retired worker is entitled depends on his individual earnings and employment record. To qualify for retirement benefits, one must have earned at least 40 credits during one's working years,[5] amounting to a minimum requirement of ten years' contributions. In contrast to Germany, time spent for childcare or spells of unemployment are not factored into the calculation of retirement benefits.

While the pension benefit formula has been changed several times, Social Security has always been explicitly redistributive. To determine monthly benefits, a worker's "average indexed monthly earnings" (AIME) are calculated, usually based on the highest 35 years' earnings on which they paid Social Security contributions. In the next step, the worker's "primary insurance amount" (PIA) is computed, using a progressive formula. The formula applies declining percentage conversion rates to three AIME brackets (so-called "bend-points"). If a worker's indexed earnings fall

3 Prior to 1975, COLAs were applied only sporadically to increase benefit levels to keep pace with inflation.

4 In the years preceding the year in which workers will reach the full retirement age, benefits are reduced by \$1 for every \$2 of earnings over a fixed exemption amount (\$14,160 in 2009). After reaching the full retirement age, beneficiaries are no longer subject to benefit reductions due to earnings (Annual Statistics Supplement 2009: 19).

5 In 2009, one could earn one credit for each \$1,090 in earnings, up to a maximum of four credits per year (US Social Security Administration 2009d: 1).

below the first or second bend point, the wage replacement rate of the pension benefits will be higher than for those workers with earnings above the second bend point. In 2009, the formula replaced 90 percent of the first $744 of AIME, plus 32 percent of the next $3,739 of AIME, plus 15 percent of AIME over $4,483 (Ibid. 2009: 15). There is also a minimum pension for workers with very low earnings. In 2009, workers who had made contributions to the Social Security trust funds for more than 30 years were entitled to a minimum monthly benefit of $763,20 (US Social Security Administration 2010a).

Accordingly, the Social Security system in the United States tries to combine benefit adequacy – promoted through a progressive benefit formula – with benefit equity, the goal that benefits increase with contributions (cf. Biggs et al. 2009). In recent years, benefits for workers with low pre-retirement earnings (who retired at the full retirement age) averaged just over 55 percent of their former net income, while the replacement rates for those with medium pre-retirement earnings were just over 40 percent and, for former top earners, only 30 percent (US House of Representatives 2008: 1-108; see Table 1 for a time comparison of replacement rates). These replacement rates rank near the bottom among rich OECD member countries (OECD 2009b). The maximum monthly Social Security retirement benefit, in 2009, amounted to $2,346; the average benefit paid was $1,164 (US Social Security Administration 2010b).

2.2 Supplementary Pension Payments to Spouses and Children

A special feature of the American public pension system, distinguishing it from the German system, is that it not only provides benefits to dependents of deceased workers, but also to family members of pension beneficiaries while retirees are still alive. The following groups are entitled to a supplementary pension:

- spouses of beneficiaries who are age 62 or older;
- spouses of beneficiaries who are younger than 62, if they are taking care of a child who is under age 16 or disabled;
- divorced spouses, if they are age 62 and unmarried, and if the marriage lasted at least 10 years;
- children up to age 18; or up to 19, if full-time students and not yet graduated from high school; and
- disabled children, even if they are age 18 or older.

Once spouses reach full retirement age, their benefit is equal to 50 percent of the worker's pension, which means that couples can receive a total Social Security income of 150 percent of the working spouse's benefit while both partners are still alive. Workers do not have to pay any additional payroll taxes for this added protection. A "dual entitlement rule" prevents spouses who qualify for their own Social Security retirement benefits from receiving both their own benefits and a spousal benefit.[6] Minor or disabled children of retirees can also claim monthly payments up to 50 percent of the worker's benefits. Monthly benefits payable to the spouse and children of retired workers, however, are limited to a maximum amount per family, ranging from 150 to 180 percent of the worker's PIA (Annual Statistical Supplement 2009: 16). Survivors of a deceased worker are entitled to 100 percent of the worker's PIA.

Whereas today the majority of both women and men have employment records that make them eligible for their own pension benefits (85 percent of women and 99.8 percent of men), the proportion of women with access to benefits only as a spouse (as a wife or a widow) is still much larger than the that of men (15 percent of women and 0.2 percent of men). However, the share of women receiving benefits as dependents has declined substantially – from 57 percent, in 1960, to 28 percent in 2008 (Institute for Women's Policy Research 2010).

A comparison of the key dimensions of the Social Security system (Old-Age and Survivors Insurance/OASI) over time (see Table 1) shows two notable trends for our observation period: First, with regard to general coverage and the percentage of all individuals aged 65 and older collecting benefits, not much has changed in the past three decades. Second, however, there was an enormous increase in the proportion of female beneficiaries receiving pensions based on their own employment record. The growth of pension benefits' generosity, as indicated by the replacement rate, already came to a halt in the 1970s. Between 1970 and 1980, the expansion of benefits was quite significant for all income groups (around 20 percent), but the replacement rates have declined considerably since then (for low income groups more than 10 percent; for high earners almost 12 percent).[7]

[6] An exception is made if the lower-earning spouse's benefits are less than 50 percent of the higher-earning spouse's benefits. In that case, the lower-earning spouse would also qualify for a spousal benefit equal to the difference between his or her retirement benefits and 50 percent of the higher-earning spouse's benefits.

[7] This reduction can be explained, at least partially, by an erroneous "over-indexing" of benefits in the 1970s, later corrected by the 1977 Social Security Amendments (see Section 6).

Table 1: Key Dimensions of the Social Security Retirement System, Selected Years: 1970, 1980, 1990, 2000 and 2007

	1970	1980	1990	2000	2007
Full Retirement Age	65	65	65	65	65 and 10 months
Insured Workers (as a percentage of the civilian workforce)	89.9%	89.3%	94.8%	96.0%	93.7%
Beneficiaries (as a percentage of all individuals 65 or older)	85.5%	91.4%	92.4%	91.1%	90.4%
Women Beneficiaries (as a percentage of all retired workers)	28.0%	32.0%	34.0%	47.0%	47.0%
Contribution Rates (OASI) (as a share of gross earnings; paid half by employers and half by employees)	7.3%	9.04%	11.2%	11.2%	11.2%
Annual Maximum Taxable Earnings (as a percentage of median earnings)	136%	248%	253%	244%	241%
Average Monthly Benefits (OASI) (in constant 2007 dollars)	$655	$797	$945	$1,008	$1,079
Net Replacement Rates (for retirement at age 65)					
Low earnings	46.0%	66.0%	58.4%	52.2%	55.3%
Average earnings	31.7%	48.6%	43.5%	38.7%	41.0%
High earnings	28.0%	47.7%	39.9%	33.3%	34.2%
Maximum earnings	20.3%	40.6%	35.7%	28.6%	28.2%

Sources: US House of Representatives (Green Book) 2004 u. 2008; US Social Security Administration 2009d and 2010a; US Census Bureau 2010a

2.3 Social Assistance for the Elderly

While Social Security is the most important income source for retirees and their families, individuals aged 65 or older might also be eligible for "Supplemental Security Income" (SSI), a means-tested cash benefit for the disabled, blind and/or elderly (cf. US Social Security Administration 2009). The SSI program began in 1974 by federalizing a number of uncoordinated state welfare programs for those deemed unemployable due to old age and/or physical and mental impairments and with no - or but limited - access to benefits from employment-based insurance programs. SSI is administered by the Social Security Administration, but payments are made from the US Treasury general funds, not Social Security trust funds. Claimants aged 65 or older are not required to undergo any medical examinations, but must prove financial hardship. In 2009, an individual's total income - earned and unearned (including Social Security benefits) - could not exceed \$674, after some disregards. The asset limits are set at \$2,000 for individuals and \$3,000 for couples. Not all individual resources, however, are counted against these thresholds (such as a beneficiary's home(s), reasonably valued household goods and personal items).

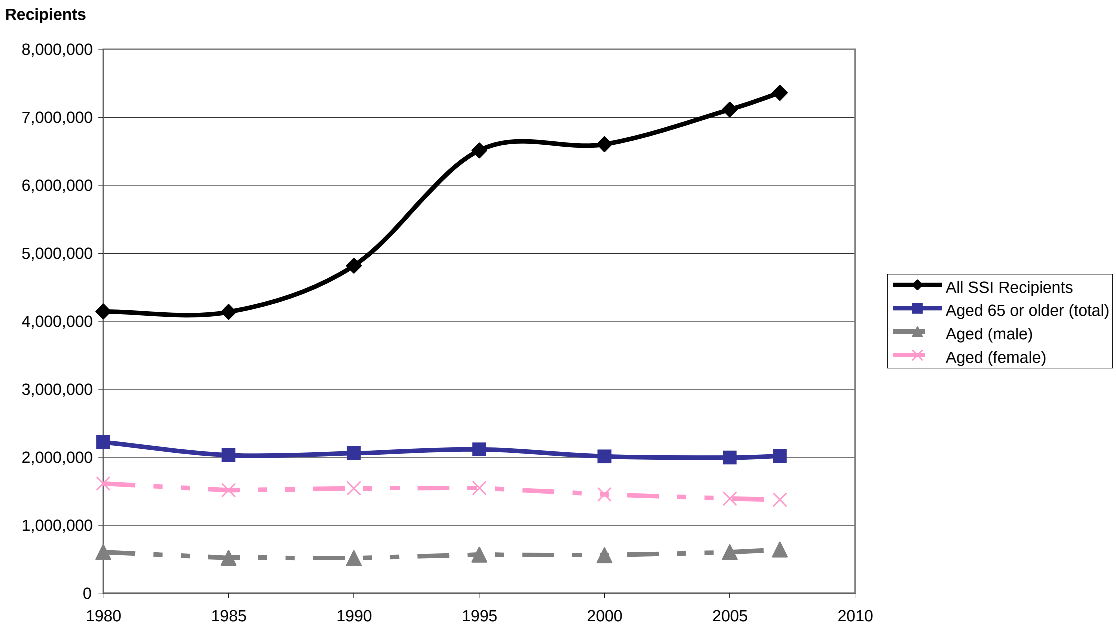
The current, maximum, monthly benefit is \$674 per person and \$1,011 for a married couple; in 2008, the average monthly payment was \$478 (US Social Security Administration 2010c). More than one third of all recipients over 65 combine SSI with Social Security benefits (Ibid.). SSI benefits alone are not enough to lift individuals above the poverty line. In most states, however, SSI recipients are automatically entitled to Medicaid, Food Stamps, and sometimes Section 8 housing benefits. Most states also provide supplemental benefits, increasing the cash assistance available through SSI.[8] When the SSI program started in 1975, the share of elderly people (65 or older) of all recipients was 60 percent (accounting for 8 percent of the retirement age population). Since then, the role of SSI as a last safety net for the elderly has declined. Currently, only 26 percent of all SSI beneficiaries are elderly (accounting for 2.9 percent of the retirement age population) (US Social Security Administration 2010; see Figure 1). The majority of SSI recipients have always been women (between 60 and 70 percent), with a rising share of divorced or separated and never-married women (cf. Martin and Davies 2004).

The literature provides several explanations for the decreasing take-up rates such as the decline in the elderly poverty rate, the expansion of Social Security programs, or the fact that, today, more elderly have savings or assets that might render them ineligible for SSI benefits (cf. Nicholas and Wiseman 2009). The amount of income and assets that an SSI beneficiary is allowed is still at the level established when the program began in 1975. Furthermore, the Welfare Reform Act of 1996 re-

[8] 44 states provide additional SSI benefits. The most generous state with regard to SSI is California, where cash assistance can be increased by up to \$233 per month for singles, and up to \$569 for married couples (http://www.workworld.org/wwwebhelp/ssi_state_supplements_overview.htm.).

stricted the access of non-citizens to SSI benefits (see Section 6) with the result that immigrant use of SSI declined substantially (-32%) between 1994 and 2000 (Fix and Passel 2002: 2).

Figure 1: Supplemental Security Income Recipiency, 1980 – 2007



Source: US Social Security Administration 2009c; US Department of Health & Human Services 2008

3 Pathways to (Early) Retirement

Public policies in most OECD countries offer incentives to retire at different ages depending on the worker's circumstances. In recent years, however, governments have tried to balance the goals of adequate retirement incomes and the long-term, financial sustainability of pension systems in the face of population ageing, extending official retirement ages and bolstering policies aimed at increasing both the supply and demand of older workers (cf. OECD 2009). The literature concerned with early retirement distinguishes between "early statutory pensions" (for specific occupational groups), "flexible/partial pensions", "long-term unemployment benefits for older workers", "disability pathways", "special early retirement schemes", and "employer-sponsored policies" that favor early retirement (cf. Duval 2003; Ebbinghaus 2006: 85ff.). In the United States, both employer-based pension plans (see Section 5) as well as Social Security programs contain some incentives for early retirement, but government policies encouraging the withdrawal of older workers from the labor force have been less pronounced here than in Germany (cf. Gruber and Wise 2007). In general, the US Social Security system provides stricter financial penalties for voluntary early retirement. It is "more expensive" for American workers to exit early from the labor force than for their German counterparts. Income support for older workers who receive disability benefits, however, is rather generous in the United States. In contrast to Germany, there have never been any special provisions in federal and state unemployment insurance programs for older employees, allowing them to collect unemployment benefits longer than younger workers and use them as a bridge to retirement without having to accept reductions due to early pension receipt.

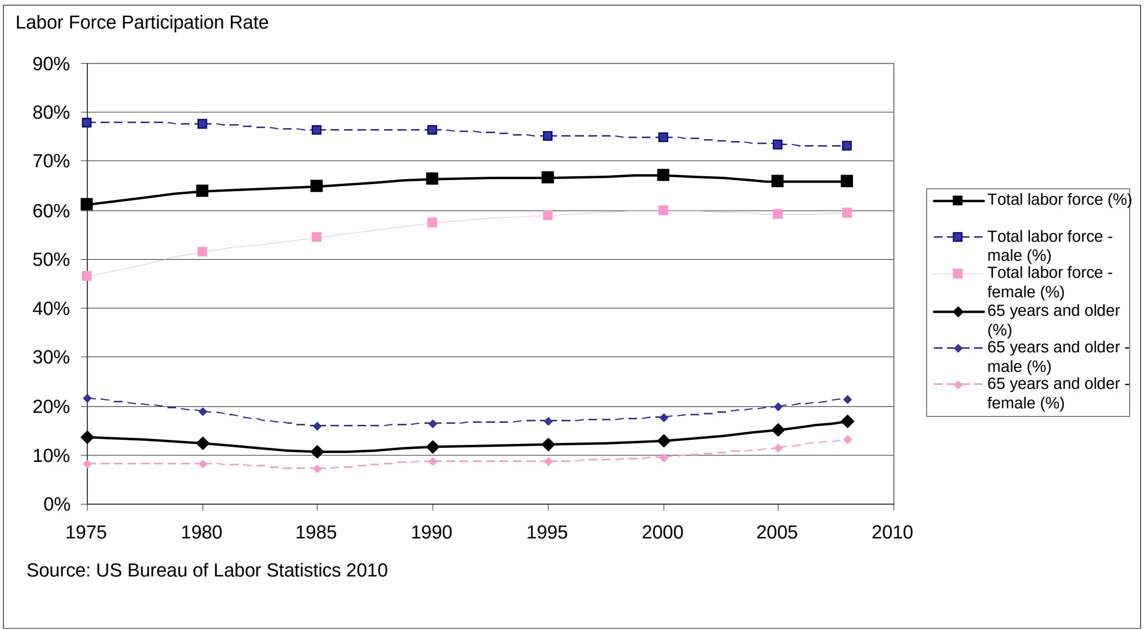
3.1 Flexible/Partial Pensions

While the original Social Security Act of 1935 set the minimum age for receiving full retirement benefits at 65, amendments passed in 1956 and 1961 introduced early eligibility at age 62, first for women and then for men. In 1978, the mandatory retirement age was increased from 65 to 70, so that Social Security benefits can be now claimed anytime from age 62 to 70. Until recently, more than half of all elderly workers in the United States made use of the early retirement option (US House of Representatives, 2008: 1-61). Research suggests that persons who claim Social Security benefits before the standard retirement age are less educated, less healthy, and more likely to have worked in physically demanding jobs (Li et al. 2008: 24).

Individuals who elect to receive Social Security benefits early, however, face numerous disadvantages. First, their benefits are reduced permanently (one half of one percent for each month the worker collects benefits before reaching the full retirement age). Currently, the maximum overall reduction for early retirement is 20 percent, but it will rise to 30 percent for those workers who reach age 62 in 2022, when 67 becomes the full retirement age (US Social Security Administration 2010c). The second financial penalty is benefit reduction due to earnings. While the receipt of retirement benefits is not conditioned on leaving the workforce, beneficiaries who are younger than full retirement age (FRA) and have earnings in excess of certain amounts (in 2009, \$14,160 for those younger than FRA throughout the year; and \$37,680 for those who attained FRA in 2009) may have all or parts of their retirement benefits withheld (Annual Statistics Supplement 2009: 19). A third reason why workers might not choose to claim Social Security benefits before 65 is that they will be not covered by Medicare. Research has shown that a significant number of workers delay retirement until public health insurance coverage is available (cf. Cahill et al. 2006; Johnson et al. 2010). Another incentive to stay in the workforce longer is the “delayed retirement credit”, which was first instituted in 1972, and has been constantly expanded over time. It provides a bonus to a person’s Social Security pension to compensate for every month past age 65 a worker delayed receiving benefits, until she or he turns 70. The credit varies, depending on the year of birth. Americans born from 1943 to 1954, for example, can earn a 32 percent higher than normal benefit if they wait to collect benefits until 70. Their “delayed retirement credit” equals the maximum of 8 percent per year. No additional credit is given for waiting beyond age 70.

It is difficult to assess how these financial incentives, built into the Social Security program, impact individual retirement and employment decisions (cf. Purcell 2008). While labor force participation rates of older workers in the United States have clearly declined during most of the 20th century, more recently, this trend has not just levelled-off but apparently reversed (Friedberg 2007; Toossi 2009). The number of older Americans in the workforce began to rise modestly during the 1990s. A jump in employment among those aged 75 and older also has been seen. In 2008, the labor force participation of persons aged 65 and older was already higher than in the late 1980s, for men (1988: 16.5%; 2008: 21.5%) and women (1988: 7.9%; 2008: 13.3%) (see Figure 2). According to estimates of the US Department of Labor (2009), these rates will rise even further by 2018, to 26.7 percent for men and to 18.9 percent for women. A study of the “Center for Retirement Research” (Munnell 2006a) concluded that in 2030 people might have to work on average 3.5 years longer in order to reach a similar income level as retirees today.

Figure 2: Labor Force Participation Rates of the Elderly (65 and older), 1975 - 2007



3.2 Social Security Disability Insurance

Benefits from disability insurance programs can provide another pathway to early retirement for older workers with poor health conditions. In 1956, amendments to the Social Security Act established additional protection to cover "involuntary retirement" due to disability. At the beginning of the program, benefits were limited to the near-elderly, ages 50 to 64, who were unable to "engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or to be of long-continued and indefinite duration" (cited in Autor and Duggan 2006: 74). In 1960, "Disability Insurance" (DI) benefits were extended to workers under the age of 50, while a few years later the definition of disability was expanded to include impairments expected to last at least a year, thus relaxing the requirement that disabilities must be of "long-continued and indefinite duration". In the late 1960s, Congress also enacted reforms that substantially liberalized the disability screening process, thus making DI benefits more accessible to workers with non-life-threatening disorders, such as mental illness and back pain. These programmatic changes expanded the original, narrow mandate of the DI program to encompass a broader population with less precisely defined entitlements to benefits.

Workers earn DI coverage for themselves, their dependents, and their survivors just as they do for Social Security retirement benefits, by paying contributions during their working years. To be insured for disability, a person must have worked at least five of the last ten years. Currently, more than 80 percent of non-elderly adults in the United States meet this criterion (AARP Public Policy Institute 2009).[9] To be awarded DI benefits, individuals must be under the age of 65, and have a medically determinable physical or mental impairment that prevents them from being gainfully employed. Applicants must go through a medical screening process and may appeal if their initial claim is denied.[10] Both federal and state offices are involved in the eligibility determination process. There is a five-month waiting period before permanent benefit payments begin. A handful of states (California, Hawaii, New Jersey, New York, Rhode Island) provide additional short-term disability coverage (usually up to 6 months).

Benefit levels are based on an individual's past earnings. The formula applied is identical with the one used to calculate old-age retirement benefits (see Section 2.1). Accordingly, replacement rates vary between 28 and 55 percent of the former net income. In 2009, the average benefit received by all beneficiaries was $1,014 and $1,123, respectively, for recipients age 60 to 64 (Social Security Administration 2009d: 22). Monthly benefits can be supplemented by SSI payments if they fall below a certain threshold. Most DI beneficiaries must wait two years before they are entitled to Medicare. During this waiting period, roughly one third of all claimants are enrolled in Medicaid; one third is covered by private or employer-sponsored health plans, while one third remains uninsured (AARP Public Policy Institute 2009). In general, benefits continue as long as a person remains disabled. Once disabled workers attain the full retirement age, their benefits are automatically converted to Social Security old-age benefits.

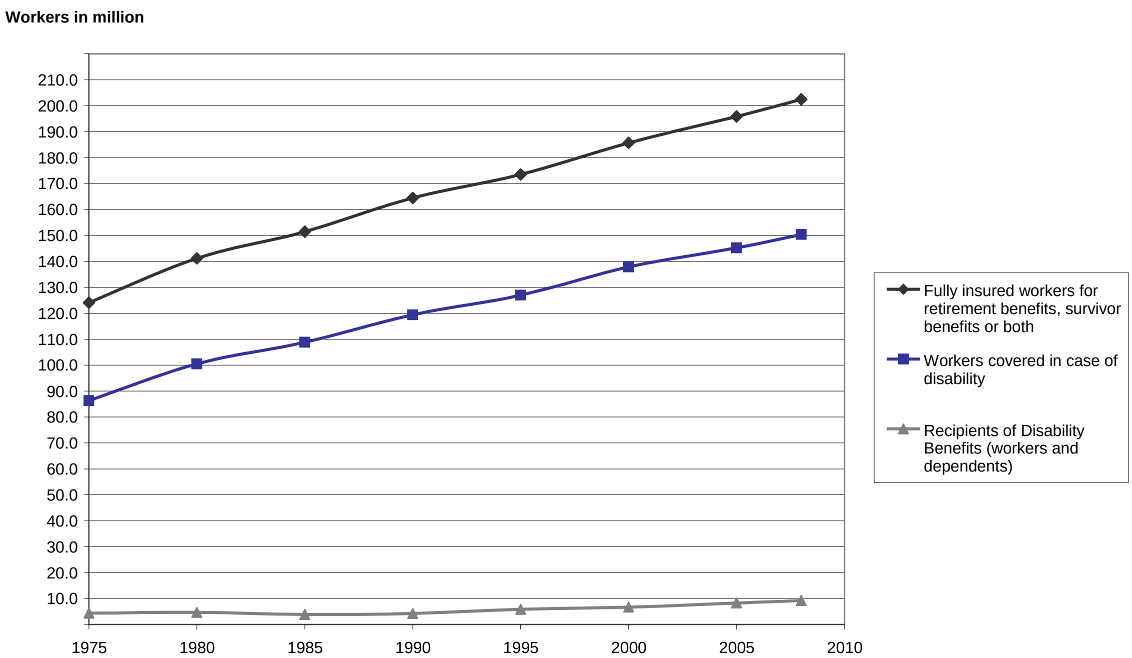
During the past three decades, the DI program has grown steadily, due to increases in the number of beneficiaries served by the program, and, to a much smaller degree, due to increases in the average benefits paid. Following a period of retrenchment in the early 1980s, enrolment grew rapidly in the early to mid-1990s, then more slowly over the next decade despite significant policy changes focused on improving employment outcomes for persons with disabilities, including the 1990 Americans with Disabilities Act and the 1999 Ticket to Work and Work Incentive Act

9 28 percent of all private sector workers are also covered by employer-sponsored disability insurance programs, and 88 percent are covered by Workers' Compensation, which provides cash benefits and medical care to people who suffer workplace injuries or illness. Private disability insurance typically fills in short-term gaps in work and wages, and can supplement Social Security DI benefits, when workers have long-term disabilities (AARP Public Policy Institute 2009).

10 Disability determination at the Social Security Administration has created the largest system of administrative courts in the United States. In recent years, 58 percent of applicants denied filed at least one appeal, with half of them eventually awarded benefits (AARP Public Policy Institute 2009). Statistics provided by the Social Security Administration in 2005 stated, that 34 percent of all DI applications were ultimately approved.

(see Section 6). Between 1970 and 2009, the number of workers receiving DI benefits more than tripled from 2.7 to 9.7 million (Congressional Budget Office 2010: 1). While much of this growth may be attributed to changes in the age composition of the population, some authors are concerned that the program is too generous, thus providing work disincentives, especially during periods of economic recessions (cf. Burkhauser and Daly 2002; Danziger et al. 2009).

Figure 3: Disability Benefits Recipiency, 1975- 2007



Source: US Social Security Administration 2009b

4 Occupational and Private Pension Schemes

Although Germany has recently experienced a steep increase in private pension schemes and respective coverage – triggered by a reform bill in 2001 that introduced the so-called „Riester-Rente" (see Wörz 2010c) – the United States are still far ahead in terms of the size and importance of its "pension market". It is the largest and most developed in the world (cf. Craig 2009). Since Social Security benefits are relatively low, especially for middle- and high-income workers, there is a much longer tradition of relying on supplemental and tax-advantaged investments specifically earmarked as retirement savings.[11] Approximately 65 percent of these investments are allocated to employer-sponsored pension plans. Another quarter of overall pension assets is invested in "Individual Retirement Accounts" (IRA) (Investment Company Institute 2010), originally established in 1974 to provide retirement income for workers not covered under employer-sponsored pension plans. In 1981, the federal government extended the IRA option, to make contributions to an individual saving account, to virtually all workers. Today, ten different types of IRAs are available, offered and managed by banks, other financial institutions and sometimes also employers. They now form the front line of available pension plans (cf. US Government Accountability Office 2008; Munnell 2009). In 2010, total US retirement assets amounted to $16.5 trillion, consisting of stocks, bonds, and real estate, and making up 40 percent of total financial assets.[12]

To encourage employers and employees to make contributions to private pension schemes, the federal government provides preferential tax treatment under the Internal Revenue Code for plans meeting a number of requirements such as compliance with non-discrimination and transparency rules (cf. Purcell and Staman 2009). Pension contributions within certain statutory limits, as well as investment earnings on pension assets, are not taxed until benefits are paid to participants. Most schemes have relatively few restrictions on disbursement, which usually commences at age 60 at the earliest. Withdrawals from pension benefit accounts before age 60 are usually taxed an additional 10 percent (cf. Internal Revenue Service 2009). In 2007, tax breaks for employer-sponsored (both public and private sector) pension plans were estimated at $117.4 billion, most of which goes to households in the top income groups. These tax breaks represent the largest federal "tax expendi-

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11 The first non-government pension plan in the United States was created by the American Express Company in 1875. A few labor unions and state and local governments began to offer pension plans shortly thereafter, and by 1935, governments in half the states and many businesses were offering pension plans. In the 1970s, about half of all US workers had employer-based pension plans (see for a history of the private pension system Hacker 2002).

12 The largest components of retirement savings were IRA and employer-sponsored defined contribution plans ($4.3 and $4.2 trillion, respectively), followed by employer-sponsored defined benefits plans ($2.0 trillion) (Investment Company Institute 2010).

ture", exceeding government subsidies for home mortgages or health benefits (Joint Committee on Taxation 2007: 5).

Following a great expansion of private pension schemes in the post-war period, the regulatory framework of the system was broadened and consolidated under the 1974 Employee Retirement Income Security Act (ERISA) (see Section 6). The closing of the Studebaker automotive plants in the 1960s and the associated loss of accrued pension rights for thousands of former workers are generally considered the key events behind this legislation that represented a comprehensive change in pension law. ERISA established the "Pension Benefit Guaranty Corporation", a government-run agency responsible for paying retirees a portion of their promised benefits in the event of corporate bankruptcy. It also introduced stricter funding and accounting principles for occupational pensions. While the original goal was to provide more pension security for private sector employees, ERISA and subsequent federal tax and oversight regulations produced a number of problematic effects: most notably an accelerated shift by companies from defined benefit to defined contribution plans.

4.1 Changes in Participation Levels and Plan Types

Whether or not a worker is covered by an occupational pension plan depends on both access and participation. For workers to participate, their employer must sponsor a plan, and workers must be eligible under the plan's rules. Plans may have, for example, a waiting period before employees are eligible to participate, or employees may need a specific number of years of service under the scheme before they become entitled to benefits on retirement. Employees may be eligible, and still decide not to participate in a pension scheme. Sometimes they can choose among various plans with different opportunity and risk profiles (see below).

In general, pension plan coverage and participation rates are strongly tied to macroeconomic factors, such as labor market conditions, as well as to the degree of unionization. In 2009, only 49.3 percent of all workers had access to employer-sponsored retirement plans – a downward trend from 63 percent in 1980, and the first time, since 1990, that the sponsorship rate has dropped below 50 percent (Copeland 2010: 6). Public sector workers (with 81.3%) and those employed in manufacturing (with 61.8%) are significantly more likely to be offered a pension plan by their employer (Ibid.: 9f.). Participation levels, however, are considerably lower than sponsorship rates: Altogether, less than 40 percent of all workers in the United States are currently participating in occupational pension schemes, while some workers are investing in more than one type of plan. Access, as well as participation rates, increases with age, education, employer size, marriage and full-time work status. Whereas male and female workers have quite similar participation rates, Hispanic workers are significantly less likely to participate in a pension plan than both black and white employees (see Table 2).

The most significant change since the 1980s, besides the decline of sponsorship and participation rates in the private sector, has been the rapid growth of *defined contribution* plans, compared to traditional *defined benefit* and annuity contracts. The most important difference between these two, general types of pension schemes is how they are financed, and how they provide benefits.

- Defined Benefit (DB) Plans: Traditional DB plans are generally financed exclusively by employers. As the plan sponsors, they are responsible for making contributions that are sufficient for funding, investing and managing the plan assets, and they bear the investment risks. The employer contributions must satisfy minimum funding requirements set forth in federal legislation (ERISA). Most important for workers, DB plans provide them with guaranteed lifetime annuities that begin at retirement and promise specific benefits based on formulas that are frequently related to salary and years of service.[13] Low investment returns in a DB plan do not directly lower a worker's benefits. In the event that an employer is unable to pay workers the promised pension benefit, a federal insurance program administered by the "Pension Benefit Guaranty Corporation" provides protection - up to certain limits - for qualified plans. DB plans typically specify the normal retirement age as 65, while some plans allow workers to collect reduced benefits at specified, early retirement ages. Plan sponsors must offer married spouses of participants a joint or survivor payment, and some have special provisions for benefits in the case of disability.

- Defined Contribution (DC) Plans: DC plans are at once simpler and more complex than DB plans since they offer individuals considerable freedom regarding investments and payout options for accumulated retirement assets. Today, the most widespread type of defined contribution plan is a 401(k) plan.[14] In DC plans, employers, employees, or both, make tax-deferred contributions to a retirement account in the employee's name, either as a particular share of salary or a given dollar amount. Benefits are based on the contributions to - and investment returns (gains and losses) on - individual accounts. In a DC plan, the employee often controls, at least in part, how their individual account assets are invested.

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13 For example: one percent of average salary received during the final five years on the job, multiplied by the number of years of service.

14 Introduced in 1984 and named after the relevant paragraph in the Internal Revue Code, those plans have an approximately 70 percent share of all DC assets. The major difference to other DC plans is that they allow both employer and employees to make contributions and gain tax advantages. In 2008, the employee-only amount was $15,500, with a $5,000 catch up for people aged 50 and older (Government Accountability Office 2009). These plans also allow more choice on how the contributions get invested.

Table 2: Percentage of Workers Who Had Access to and Participated in a Pension Plan, by Various Characteristics; 2009

	All Workers		Wage and Salary Workers		Private-Sector Wage and Salary Workers		Public-Sector Wage and Salary Workers	
	Sponsorship Rate	Partici-pation Rate	Sponsorship Rate	Partici-pation Rate	Sponsorship Rate	Partici-pation Rate	Sponsorship Rate	Partici-pation Rate
Age								
21-24	35.0%	17.7%	35.6%	18.0%	32.5%	15.9%	62.0%	35.7%
25-34	47.8%	36.5%	49.6%	37.9%	45.1%	33.2%	77.4%	67.2%
35-44	53.4%	45.2%	56.5%	47.9%	51.4%	42.7%	83.5%	75.7%
45-54	55.6%	49.1%	59.5%	52.5%	54.0%	46.7%	83.7%	78.7%
55-64	56.6%	49.2%	61.3%	53.4%	54.7%	46.5%	84.5%	77.8%
All Ages	49.3%	39.6%	54.4%	44.8%	49.1%	39.2%	81.3%	72.9%
Gender								
Male	48.3%	39.4%	53.7%	45.0%	49.3%	40.4%	82.3%	74.1%
Female	50.3%	39.7%	55.2%	44.6%	48.9%	37.8%	80.6%	72.1%
Race/Ethnicity								
White	52.9%	43.1%	59.0%	49.4%	54.0%	44.0%	83.8%	75.5%
Black	49.0%	37.9%	52.5%	41.6%	46.9%	35.2%	74.6%	66.7%
Hispanic	32.6%	23.9%	35.4%	26.7%	30.2%	21.4%	74.7%	66.6%
Other	47.8%	38.3%	51.9%	42.4%	47.1%	38.0%	78.7%	67.7%
Education								
No high school diploma	22.3%	12.7%	25.4%	17.0%	23.5%	15.2%	62.2%	51.0%
High school diploma	43.8%	33.6%	48.3%	37.8%	44.5%	33.8%	77.2%	68.5%
Some college	49.8%	38.4%	54.8%	43.6%	50.4%	38.9%	79.0%	69.4%
Bachelor's degree	59.7%	51.4%	63.3%	54.8%	58.2%	49.8%	83.2%	74.5%
Graduate/profl. degree	68.3%	61.6%	73.3%	66.6%	66.2%	59.1%	87.7%	81.7%
Marital Status								
Married	54.4%	46.9%	58.9%	51.0%	53.3%	45.2%	84.1%	77.7%
Widowed	47.4%	36.7%	56.8%	45.5%	50.5%	39.2%	83.7%	72.3%
Divorced	50.6%	40.3%	55.0%	44.2%	49.7%	37.9%	80.9%	75.0%
Separated	42.5%	32.9%	45.5%	35.5%	40.6%	30.5%	75.5%	66.2%
Never married	39.9%	26.1%	45.5%	32.4%	41.2%	28.4%	73.8%	58.6%
Work Status								
Full-time (full-year)	58.3%	51.1%	61.8%	54.4%	56.6%	48.5%	85.6%	81.6%
Full-time (part-year)	39.9%	27.3%	42.9%	29.8%	37.8%	25.0%	75.8%	60.5%
Part-time (full-year)	32.1%	17.9%	37.4%	22.2%	33.8%	19.9%	66.6%	41.7%
Part-time (part-year)	25.4%	9.0%	28.8%	11.5%	23.0%	8.1%	58.2%	29.0%
Employer Size								
Fewer than 10 employees	13.7%	11.0%	17.0%	13.6%	17.0%	13.6%		
10-14 employees	28.0%	21.6%	29.7%	23.6%	29.7%	23.6%		
25-99 employees	41.6%	31.8%	43.7%	34.2%	43.7%	34.2%		
100-499 employees	53.4%	41.8%	55.2%	43.8%	55.2%	43.8%		
500-999 employees	62.8%	50.4%	64.6%	53.1%	64.6%	53.1%		
1,000 or more	66.1%	51.3%	68.9%	55.2%	68.9%	55.2%		

Source: Copeland 2010: 9f.

Unlike DB plans, participants do not have insurance protection against the risk of losses they may incur through investment of their account balances. While all eligible workers are automatically covered by a DB plan, workers may decide not to participate in DC schemes. Workers may also fail to accumulate sufficient pension benefits due to inadequate contributions or poor investment decisions. Most DC plans provide retiring employees with multiple distribution options for receiving plan account balances such as lump-sum payments, instalment payments for a fixed number of months, and annuities. Some plans also allow participants to take out loans, or make pre-retirement withdrawals under certain conditions, such as financial hardship or buying a home. It is also possible to defer payment until a certain age. One significant advantage of DC contribution plans, in most cases, is that the amount invested by employees can be rolled over into another account with another employer.

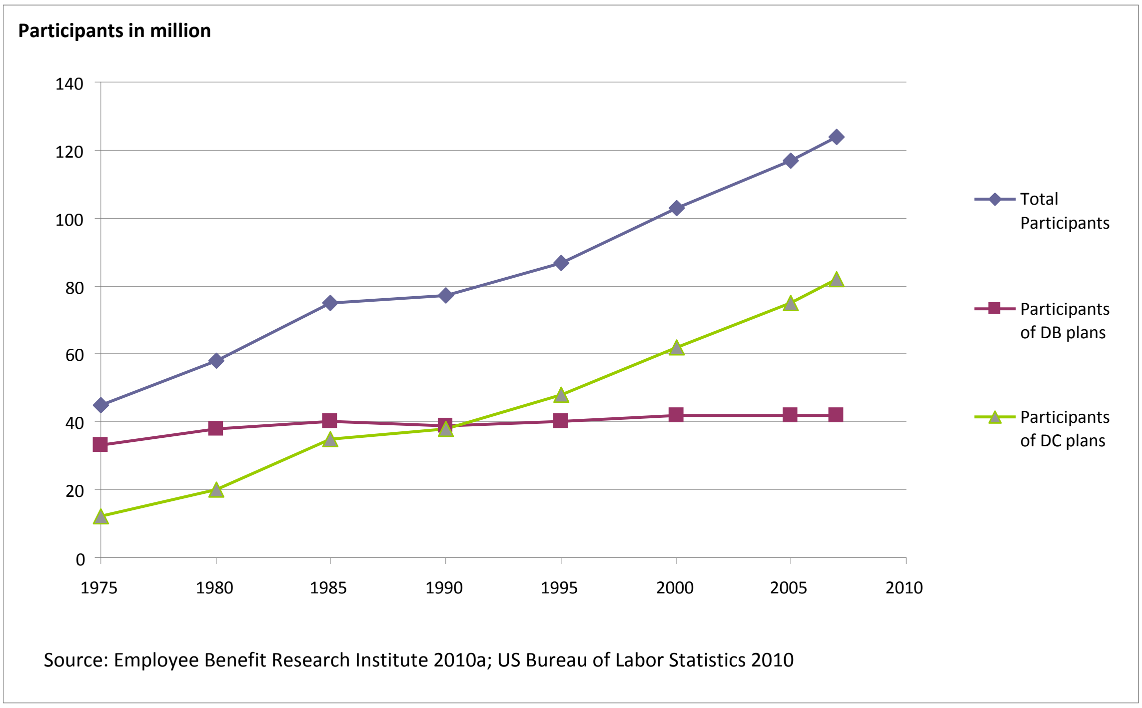
Table 3: Key Differences between Employer-Sponsored Pension Schemes

	Defined Benefit Plans	Defined Contribution Plans
Coverage	Voluntary for employers to sponsor a plan; all eligible workers generally participate in the plan	Voluntary for employers to sponsor a plan; voluntary for workers to participate
Contributions	Generally financed by the employer	Workers and/or employer may provide contributions
Investment	Assets are centrally managed; investment risks are borne by the employer; benefits are insured by the "Pension Benefit Guaranty Corporation"	Assets are generally self-directed by the workers (among options made available by the plan); investment risks are borne by the worker; benefits are not insured by the "Pension Benefit Guaranty Corporation"
Portability	Workers are entitled to vested benefits; benefits and services generally are not transferable if the worker changes jobs, and they are not adjusted for inflation	Workers are entitled to vested benefits; the account balance may be transferred if the worker changes jobs

Source: U.S. Government Accountability Office 2009

Today, defined contribution plans, such as 401(k) plans, dominate the occupational pension landscape in the United States, while the role of traditional pension schemes, as measured by total retirement assets and participation rates of workers, has decreased over the past three decades. This transformation has been most pronounced in the private sector. From 1980 through 2008, the proportion of private, wage and salary workers participating in DB pension plans fell from 38 percent to 20 percent. In contrast, in the same period, the percentage of workers participating only in a DC pension plan has increased from 8 percent to 31 percent (see Figure 4).

Figure 4: Plan Participation of Private Sector Workers, 1975-2007



When DC plans began to spread rapidly in the early 1980s, they were viewed mainly as a supplement to traditional employer-funded pensions. Since then, the occupational pension system in the United States has dramatically changed. Analysts have identified at least three major factors for the marked shift from DB to DC plans in the private sector (cf. Butricia et al. 2009: 3). First, structural changes in the economy (from manufacturing to services, plus increased cost pressures) are estimated to explain from 20 percent to 50 percent of the decline in DB pension plans.[15] Sec-

[15] By some estimates, DC plans are 40 percent cheaper for companies to administer than DB plans (cf. Munnell et al. 2008). They are also less regulated than DB plans, and their costs are more predictable for the employers.

ond, some authors suggest that worker demand has partly contributed to the growing popularity of DC plans, because they are portable across jobs, their balances are more transparent, and their assets are managed by employees themselves. And finally, government policies, both directly and indirectly, have also shaped the historical development and current state of the private pension system (see Section 6).

5 Income Composition and Distribution among the Elderly

The distribution and composition of old-age income and benefits vary considerably across income groups. Even though private pensions have developed as a crucial part of the American retirement system, Social Security payments are still the most important source of income for America's elderly population. Thanks to Social Security and a set of benefit increases in the 1970s, the elderly poverty rate fell from over 30 percent, in 1960, to 16 percent, in 1980, and to 9.7 percent, in 2008 (US Census Bureau 2010b).[16] The median income of the elderly population (age 65 and over) increased from $13,264 (in constant 2009 dollars), in 1974, to $18,001 in 2008 (McDonnell 2010: 2).

In 2009, Social Security benefits accounted for 41.5 percent of the total income received by this age group, followed by earnings (27.5%), pensions and annuities (19.2%), income and assets (11.3%), and other sources such as non-pension benefits or financial assistance from friends and relatives (2.3%) (Employee Benefit Research Institute 2010c: 3). For retirees in the lowest income group, Social Security benefits account for almost 90 percent of their income (see Table 4). For one quarter of all retirees in the United States, Social Security payments are the only income source; for 70 percent of all retirees, these benefits provide for more than half of their income (US House of Representatives 2008: 1-5). In general, single people receive a larger share of their income from Social Security than married retirees (47.1 percent vs. 35.3 percent) (Ibid.: 6). In addition, the poverty rate for the elderly who have never married is more than four times the rate for married couples, and more than twice the overall national average.[17]

[16] According to a study by the National Bureau of Economic Researcher (Engelhardt and Gruber 2004), increases in Social Security benefits can explain a 17 percentage point decline in poverty that occurred between 1967 and 2000.

[17] In 2007, the poverty rate of the never-married aged 65 or older was 21.9 percent, compared with 4.5 percent of married persons, 14.5 percent of widowed persons, 17.3 of divorced persons and 9.8 percent overall (Tamborini 2007).

Only in the top one-fifth of the income distribution is the share of income derived from private and occupational pension schemes slightly higher than the share from Social Security benefits (see Table 4). Asset income and earnings have an inverse distribution, increasing steadily in importance as income rises. In the highest income group, continued employment is the largest single source of income with the most affluent "retirees" receiving a remarkable (roughly 40%) share of their income from earnings. Only a minor part of the elderly population (3.2%) gets financial aid from public assistance programs, such as „Supplemental Security Income", „Temporary Assistance for Needy Families" or „General Assistance" (Purcell 2009c: 3). The share of elderly people collecting benefits from those programs has declined substantially since the 1980s (see Table 4).

Table 4 also shows that those workers in the lower income quintiles that are benefitting most from Social Security are the most disadvantaged with respect to private pension coverage. While private pension assets and other investments in the United States provide a larger share of retirement incomes than in most other OECD countries (comparable figures around 40 to 43 percent are only found in Canada and in Ireland, cf. OECD 2009b), the distribution of income from these sources is quite uneven because it is closely correlated to earning and education levels. While in the top quintile, two thirds of all workers – male and female – are currently participating in occupational pension schemes, in the bottom quintile that figure has dropped to 12 percent for men and 9 percent for women (Munnell and Quinby 2009: 2). Pension inequality is likely to become even more pronounced in the future due to a higher share of workers with a lifetime of low earnings and no - or only insufficient - private investments in old-age security. The retirement prospects for an average worker today are definitely less favourable than a generation ago. Researchers have identified single working women (either never married, or divorced or widowed), who have no partners to share financial burdens, as the most vulnerable group in old age (cf. Harrington Meyer et al. 2006; Munnell et al. 2007).

Table 4: Income Sources of Individuals Aged 65 and Older by Income Quintiles, Selected Years: 1980, 1990, 2000 and 2009

	1st Quintile	2nd Quintile	3rd Quintile	4th Quintile	5th Quintile
Total percentage	100.0	100.0	100.0	100.0	100.0
Percentage from source:					
Social Security (OASDI)					
1980	79.5	80.5	72.3	51.1	20.1
1990	89.2	81.6	66.9	45.2	18.2
2000	90.7	88.0	74.1	49.6	19.9
2009	89.2	88.2	75.4	47.5	20.7
Pensions and Annuities					
1980	1.4	1.8	6.2	16.7	21.3
1990	1.9	4.0	10.4	22.3	23.1
2000	1.6	3.3	10.8	25.5	22.3
2009	2.4	4.0	10.9	26.8	21.8
Earnings					
1980	..0.1	1.5	3.5	9.6	26.4
1990	..0.3	2.5	4.5	8.9	24.0
2000	0.5	1.8	4.4	9.2	31.3
2009	2.0	2.6	6.0	14.3	40.1
Assets					
1980	7.5	7.9	12.9	19.8	30.4
1990	6.7	9.8	15.9	21.6	32.7
2000	4.6	5.8	9.0	13.4	24.3
2009	3.9	4.2	6.0	8.6	15.1
Public Assistance and Other Sources*					
1980	11.5	8.3	5.0	2.8	1.8
1990	1.9	2.1	2.2	2.0	1.9
2000	2.7	1.3	1.5	2.1	2.1
2009	2.5	1.1	1.6	2.9	2.4

* Includes SSI, unemployment compensation, worker's compensation, veteran's benefits, non-pension disability benefits, non-pension survivors' benefits, child support, alimony, regular financial assistance from friends and relatives not living in the same household.

Source: Employee Benefit Research Institute 2010b: 7ff.

6 Major Statutory Changes since the 1970s

The following section provides an overview of major legal changes with regard to Social Security, and the public assistance program for the disabled and elderly (SSI), as well as private pension provisions.[18] In order to understand the development of both systems, including their impact on retirement benefits in the United States, it is necessary to include important legal reforms during the Nixon and Carter administrations in the analysis. Perhaps even more than for any other fields of social policy, the 1970s were a decisive time for government action affecting old-age security and the relationship between public and private benefits (cf. Derthick 1979; Béland 2005). Earlier than in other countries, fiscal austerity in the United States had moved onto the federal policy agenda and drove the passage of significant adjustments to already existing regulations.

The 1970s

The 1970s were a decade of both expansion and first cutbacks in the Social Security system. The 1972 amendments to the Social Security Act (SSA) ended many years of consideration and deliberation about proposals to improve old-age security provisions. First, they created the "Supplemental Security Income" (SSI) program to replace former federal grants to the states for aiding the needy aged, blind, and/or disabled with a federal minimum-income guarantee. The second, most far-reaching aspect of the 1972 amendments was the introduction of automatic adjustments - "indexing" - to the Social Security system. Effective in 1975, they provided that benefit increases would be tied directly to increases in the cost of living. This has proved to be one of the most important provisions of the Social Security program, maintaining the purchasing power of OASDI benefits.

A few years later, in 1974, Congress tried to address failures and irregularities in corporate and union-sponsored pension funds by passing the Employee Retirement Income Security Act (ERISA) (cf. Hacker 2002: 147ff.). It became the first comprehensive piece of federal legislation to regulate and protect the retirement assets of workers in the private sector. It set minimum standards for participation, vesting, benefit accrual and funding levels of occupational pension plans (by that time mainly defined benefit plans), and defined how long a person may be required to work before becoming eligible to participate in a plan, accumulate benefits and have a non-forfeitable right to those benefits. ERISA also established the "Pension Benefit Guaranty Corporation" to provide coverage to employees in case a defined pension

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18 Unless otherwise indicated, the following account is based on a summary of the "Congressional Research Service" account of major pension reform legislation (Kollmann 1996), and a legislative history provided by the "Employee Benefit Research Institute" (2009).

plan was terminated. It also introduced a tax on corporate plans for participating companies to pay for the plan termination insurance.

However, the same legislation also created incentives for a far-reaching and irreversible transition of the occupational pension landscape to a “defined contribution paradigm” (Zelinsky 2007) mainly driven by financial interests of large employers and the insurance industry. First, by introducing “Individual Retirement Accounts” for the non-insured (self-employed and employees of small companies), ERISA played a critical role in spreading the concept of tax-advantaged, individual, savings accounts with a “roll over feature” (the possibility to transfer retirement savings), and provided a model for future 401(k) plans (later institutionalized by the Revenue Act of 1978 that went into effect in 1980). Second, by placing larger regulatory burdens on defined benefit plans, most prominently minimum funding requirements, it made more flexible defined contribution schemes more attractive to employers than traditional pension arrangements.

Beginning in the late 1970s, Congressional legislative action concentrated more on solving impending financing problems of the Social Security system that resulted from a combination of stagflation, which lowered revenue inflows, and a faulty indexation mechanism, which increased new retiree benefits much more than legislators initially intended (Weaver 2003: 6). Accordingly, the 1977 SSA amendments added a “decoupled” or wage-indexed method of computing benefits for new beneficiaries, beginning in 1979, thus raising revenues by introducing higher payroll taxes and broadening the taxable wage base (the amount of earnings subject to Social Security contributions). The legislation also increased the “delayed retirement credit” and lowered the age at which the earnings test no longer applies to beneficiaries from 72 to 70. Following correction of the indexation method, the generosity of public retirement payments to newly retired workers declined during the 1980s (see Table 1).

The 1980s

During the Reagan administration a bipartisan commission, the “National Commission on Social Security Reform” (informally known as the Greenspan Commission), was appointed to investigate and address the short- and long-term financial prospects of Social Security programs. Most of its recommendations were included in the 1983 SSA amendments. As the most far-reaching measure, Congress decided to gradually raise the standard retirement age from 65 to 66 years, in 2009, and 67, in 2022, and to reduce early retirement benefits. To broaden the revenue base, both federal employees and employees of non-profit organizations were incorporated into the Social Security system. In addition, retirees with annual incomes of more than \$25,000 (for couples more than \$32,000) had, henceforth, to pay income taxes on up to 50 percent of their Social Security benefits.

Congress also enacted legislation in the early 1980s that affected the Social Security "Disability Insurance" (DI) program, the size and costs of which had increased much faster than anticipated since 1970 (cf. Wittenburg and Favreault 2003). Among the principal features of the 1980 amendments were a revision of the DI benefit structure and measures for strengthening incentives for rehabilitation and return to work. A cap was placed on the family benefits that could be paid to insured, disabled workers and their dependents to ensure against "excessive replacement rates" that might attract persons to the disability insurance rolls and discourage beneficiaries from returning to work. A 1981 amendment also placed a cap on the total payments received from multiple government programs.

Unlike Social Security provisions, the private pension system experienced no major institutional changes under the Reagan administration (cf. Hacker 2002: 157 ff.; Employee Benefit Research Institute 2009). The basic legal framework and principle - to promote the spread of occupational and private pension schemes and regulate them through tax policies - was not questioned. Congress, however, enacted a number of laws concerning tax equity and revenues. For example, the 1981 Economic Recovery Tax Act raised contribution limits on "Individual Retirement Accounts" (IRAs) and extended eligibility to workers already participating in employer-sponsored pension plans, thus transforming IRAs from a response to coverage and portability problems to a virtually universal savings device with a preferred tax treatment. In the same year, the Internal Revenue Service, the US government agency responsible for tax collection and tax law enforcement, issued proposed regulations allowing wage reduction contributions to 401(k) plans. Within two years, surveys showed that nearly half of all large companies were either offering a 401(k) plan to their employees or considering doing so (Employee Benefit Research Institute 2005).

The 1990s

While health care and welfare reform were high on the federal policy agenda during the Clinton administration, the retirement-income system received less legislative attention (cf. Weaver 1999). Unlike the 1970s and 1980s, Social Security retirement provisions were only slightly modified in view of a relatively strong economy and the absence of any major funding crisis. Only the 1993 Omnibus Budget Reconciliation Act contained some cutbacks by making up to 85 percent of Social Security benefits taxable for beneficiaries at the upper end of the income scale – i.e., those with provisional incomes of $34,000 or more (single filers) or $44,000 or more (married, filing jointly). The major retrenchment initiatives during the 1990s concerned DI benefits and the SSI program. The 1993 and 1996 SSA amendments restricted DI and SSI benefits to drug addicts and alcoholics, while the 1996 Personal Responsibility and Work Opportunity Act barred most non-citizens from receiving SSI benefits. According to government studies, their share of all SSI beneficiaries had increased from 7 percent, in 1983, to 30.2 percent in 1994 (US House of Representatives 1996: 1305). However, since the immigrant provision of the welfare reform was highly contested, Congress restored SSI benefits one year later to those beneficiaries already living in the country when the law was passed.

With regard to private pensions, Congress passed three important pieces of legislation: The 1990 and 1993 Omnibus Budget and Reconciliation Acts which raised employer contributions to the "Pension Benefit Guaranty Corporation" and reduced the compensation limit for "insured" DB plans from $235,840 to $150,000; and the 1996 Small Business Job Protection Act which, for the first time, created financial incentives - particularly for small employers - to offer workers retirement plans.

2000 – 2007

Calls for fundamental reforms of the public retirement system became more prominent under the George W. Bush administration, but all efforts by conservatives to partially or wholly privatize Social Security through mandatory or optional contributions to personal pensions found no political majorities in Congress. Instead, it passed various laws to increase the attractiveness of and access to private and employer-sponsored pension plans. The 2001 Economic Growth and Tax Relief Reconciliation Act contained provisions which increased contribution limits on 401(k) plans and IRAs, offered small businesses further tax breaks to broaden the pension coverage of their employees, and facilitated the portability of pension accounts from one job to the next. Eventually, the passage of the 2006 Pension Protection Act introduced the most sweeping changes to occupational pension plans since the enactment of ERISA in 1974. New regulations apply to both defined benefit and defined contribution plans. With respect to DB plans, the most important are stricter funding standards, rules governing the valuation of assets and liabilities with at-market rates, and special provisions for "at-risk plans". A transition period of seven years was allowed for the adoption of new funding levels. In terms of DC plans, the 2006 law cleared the way for automatic enrollment into employer pension schemes, improved disclosure standards, and confirmed higher contribution limits to IRA and 401(k) plans which had been temporarily allowed since 2001. While, thus far, Congress has shied away from privatizing the Social Security system and creating a mandatory tier of individual retirement accounts, it has substantially expanded the role of employment-based pension schemes, particularly individual defined contribution plans which – exacerbated by the turbulence of financial markets – are holding many more risks for employees.

7 Summary and Hypotheses

The first pillar of the retirement-income system, Social Security, is more inclusive in the United States than in Germany. Almost all workers, even public employees and the self-employed, are covered by the "Old-Age, Survivors, and Disability Insurance" (OADSI). Moreover, family members (current and divorced spouses as well as dependent children) of a Social Security beneficiary are entitled to additional pension payments on the beneficiary's earning record if they meet certain eligibility requirements. Whereas the average wage replacement rate of retirement income benefits from Social Security has always been less generous than in Germany, benefits replace a larger proportion of pre-retirement earnings for low-wage workers than for those with higher earnings due to the progressivity built into the benefit formula. Thus, the US public pension system has stronger distributional effects than the German system

While Social Security remains the most important source of income for the non-working elderly (especially for women, African Americans, and all groups of low-income earners), the second and third pillar of the old-age safety net (employer-based pensions and private provisions) account for a much larger portion of retirement incomes in the United States than in Germany. However, the percentage of workers, covered by traditional employer-funded pension schemes (defined benefit plans), under which a retired employee receives guaranteed, life-time annuities based on his former salary and job tenure, has steadily declined over the past 30 years. The 1980s marked the beginning of a clear shift to defined contribution schemes - the individual investment accounts that do not guarantee a specific benefit level. In contrast to traditional pension schemes, the investment risks of defined contribution plans are borne almost entirely by the individual worker. In addition, already economically marginalized groups – minorities, young people, and low-income workers – have the lowest access rates to employment-based pension benefits.

In terms of institutional changes, the United States has not seen any fundamental restructuring of its public pension system over the past three decades. The last major institutional reform was the 1972 federalization of public assistance benefits for the disabled, blind and elderly that created the program "Supplemental Security Income". However, many incremental changes since then - such as the increased financial penalty for early retirement, the gradual rise of the standard retirement age from 65 to 66 in 2009, or the partial taxation of retirement benefits of higher income groups - have made Social Security less generous over the years. According to current projections, future generations of retirees will be more economically vulnerable, especially those subgroups with a relatively weak labor force attachment and low lifetime earnings (single mothers, certain groups of immigrants, high school dropouts, etc.) and those with serious health problems that will deny them a longer tenure in the labor market. Growing risks in old-age, however, are less due to declining Social Security benefits than to several trends in the private industry and financial markets that have seriously weakened employment-based, old-age protection. Given, that Congress passed only two comprehensive pieces of legislation during the past 40 years to regulate the occupational pension market (ERISA, in 1974, and the 2006 Pension Protection Act, because the first one had a number of unintended negative consequences for employees) shows the general political acceptance of a "great risk shift" (Hacker 2006) from more collective pension arrangements to individual retirement accounts. Considering also the unwillingness of federal policymakers to expand public benefits (Social Security or SSI) to compensate for declining levels of employment-based coverage and protection, one could speak of a substantial policy drift taking place in the US old-age security system.

Hypotheses for the micro analyses

Group-specific

1. Middle and high earners are less protected by Social Security in the United States than in Germany. Due to lower benefits and a progressive formula they must rely more on other forms of retirement income.

2. Traditional couples (with only a male breadwinner) and married women with a weak, labor force attachment are better protected in old-age in the United States than in Germany due to Social Security supplementary pension payments to spouses and children. The same is true for households with children headed by a Social Security beneficiary.

3. Unmarried or single retirees with no – or but limited – access to benefits from employment-based insurance programs are economically more vulnerable in the United States because SSI benefits are lower than public assistance payments in Germany.

Over time

1. Early retirees in later years should have experienced higher income reductions due to stricter financial penalties of Social Security amendments enacted in the 1980s.

2. Many single (divorced/separated or widowed) women at retirement age should fare better today than in the 1980s due to their stronger labor market integration (today more women receive retirement benefits on their own work record).

3. Compared to the 1980s, there should be a higher variability with regard to income at retirement age in the 2000s due to the highly differentiated private pension system.

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Appendix

Table 5: Most Important Legislation with Consequences for Old-Age Provisions (1970-2008)

	Social Security	Public Assistance	Private Pensions
1970s	**1971 Social Security Act (SSA) Amendments** (increased benefit levels) **1972 SSA Amendments** (introduced the concept of automatic adjustments or "indexing"; increased benefit levels; introduced a delayed retirement credit and a minimum benefit for workers with very low earnings; improved benefits for disability) **1973 SSA Amendments** (increased benefit levels and earnings base) **1977 SSA Amendments** (raised tax rates and earnings base; changed benefit formula to correct "over-indexing"; increased delayed retirement credit; lowered from 72 to 70 the age at which the earnings test no longer applies)	**1972 SSA Amendments** (created the program "Supplemental Security Income" for the aged, blind, and disabled)	**1974 Employment Retirement Income Security Act** (established minimum standards for DB plans in private industry, including participation, vesting, funding, reporting, and disclosure rules; established the "Pension Benefit Guaranty Corporation"; provided tax incentives to persons not covered by employer-sponsored plans through the introduction of IRAs) **1978 Revenue Act** (added Section 401(k) to the Internal Revenue Code)
1980s	**1980 SSA Amendments** (established a limit on disability family benefits; required to review the status of a disabled person once every three years) **1981 SSA Amendments** (offset disability benefits by the amount of compensation paid by federal, state, and local governments) **1983 SSA Amendments** (gradually raised the full retirement age from 65 to 67 in 2027; covered of federal employees hired after December 1983; covered all employees of non-profit organizations; liberalized the earnings test; made up to 50% of benefits of high-income beneficiaries subject to federal income tax; tightened automatic benefit adjustment procedures)		**1981 Economic Recovery Tax Act** (raised contribution limits on IRAs and extended eligibility to persons covered by employer-based pension plans) **1984 Retirement Equity Act** (changed age requirements for purposes of enrollment and vesting in pension plans; permitted certain breaks in service without loss of pension credits) **1986 Tax Reform Act** (established faster minimum vesting schedules; changed rules for integration of pri-

			vate pension plans with Social Security; mandated broader and more comparable minimum coverage of rank and file employees; restricted the allowable tax-deductible contributions to 401(k) plans and IRAs for high-income participants) 1987 Omnibus Budget Reconciliation Act (tightened minimum funding requirements for under-funded pension plans; amended Age Discrimination in Employment Act (ADEA) and ERISA to require full pension service credits for participants employed beyond normal retirement age)
1990s	1990 Americans with Disabilities Act (prohibited discrimination against disabled persons and tried to increased their employment by offering rehabilitation services) 1990 SSA Amendments (extended Social Security coverage to state and local government employees not participating in a state or local public employee retirement system) 1993 SSA Amendments (made up to 85% of benefits of high-income beneficiaries subject to income tax) 1994 SSA Amendments (restricted DI benefits to drug addicts and alcoholics; relocated taxes from the OASI fund to the DI fund) 1996 SSA Amendments (removed drug addiction and alcoholism as disabling conditions; increased to $30,000 the amount of employment income beneficiaries aged 65-69 can earn annually without triggering benefit reductions) 1999 Ticket to Work and Work Incentives Improvement Act (improved the access for DI and SSI recipients to employment training services)	1994 SSA Amendments (restricted SSI benefits to drug addicts and alcoholics) 1996 Personal Responsibility and Work Opportunity Reconciliation Act (prohibited SSI eligibility for anyone who is not an US citizen or national unless they are a "qualified alien"; also prohibited eligibility for felons) 1997 Balanced Budget Act (reinstalled SSI eligibility to some groups of "non-qualified aliens")	1990 Omnibus Budget Reconciliation Act (raised premiums of employers to the "Pension Benefit Guaranty Corporation") 1993 Omnibus Budget Reconciliation Act (reduced the compensation limit for qualified DB plans from $235,840 to $150,000) 1996 The Small Business Job Protection Act (created saving incentive match plans for employees in small establishments)

Table 5 continued

2000 – 2008	2000 SSA Amendments (repealed the earnings limit for individuals who have attained normal retirement age)		2001 Economic Growth and Tax Relief Reconciliation Act (increased the contribution limits on 401(k) plans and IRAs; created tax credits to help small businesses start up pension plans; increased portability for plan participants) 2005 Deficit Reduction Omnibus Budget Reconciliation Act (raised sponsor premiums to the "Pension Benefit Guaranty Corporation") 2006 Pension Protection Act (tightened funding rules for DB plans; facilitated and encouraged the automatic enrolment of employees into existing DC plans)

Sources: Kollmann 1996; Social Security Bulletin 2000; Employee Benefit Research Institute 2009; Annual Statistical Supplement 2009

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