

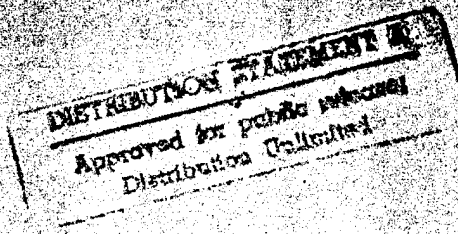
GAO

Report to the Chairman, Subcommittee on
Federal Income and Employment
Select Committee on Aging, House of
Representatives

February 1992

PENSIONS PLANS

Survivor Benefit Coverage for Wives Increased After 1984 Pension Law



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Human Resources Division

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February 28, 1992

The Honorable William Hughes
Chairman, Subcommittee on Retirement
Income and Employment
Select Committee on Aging
House of Representatives

Pensions Plans:
Survivor Benefit
Coverage for
Wives Increased
After 1984
Pension Law

Dear Mr. Chairman:

This report responds to your request for information on survivor pension benefits for widowed individuals. Survivor benefits generally provide lifetime pension income to spouses of deceased pension retirees. A major goal of the 1984 Retirement Equity Act (REA) was to improve wives' access to survivor benefits. The law required private-sector employers to obtain written consent from spouses of retiring workers who decided not to retain a type of pension benefit payment—a joint and survivor (J&S) annuity—that would automatically provide their spouses with a survivor benefit.

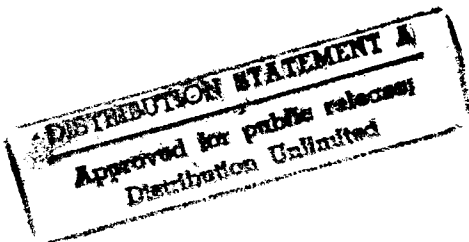
We agreed to determine (1) the prevalence of survivor pension benefits, (2) the relative size of survivor benefits received by widowed men and women, (3) the rate at which married pension retirees are retaining a J&S annuity, and (4) whether the rate of J&S annuity retention changed since REA's enactment. Because of your interest in pension issues affecting women age 65 and older, we highlighted this group in reporting our results.

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Results in Brief

In 1989, about 3 million widowed Americans age 65 and over, or about 1 of 4 people in this population, received survivor benefits based on the pension of a deceased spouse. Women comprised virtually all benefit recipients and received on average about twice the benefits of men with survivor benefits. Although most of these women also received social security, they were far less likely to have a pension based on their own employment. For many widows, survivor benefits from their husbands' pension plan constituted a significant part of the retirement income received from employment-based sources.

Millions of spouses will receive survivor benefits if they outlive married retired workers. As of 1989, about 3 of 5 million pensioners (60 percent) had retained the J&S annuity. Moreover, since more men than women earn pensions and keep the J&S annuity, wives have a greater chance of receiving survivor benefits than husbands. Survivor benefit coverage for wives of private-pension retirees has increased since REA, as evidenced by a



15-percentage-point rise in the rate at which married men retained the J&S annuity after the legislation's spousal consent requirement took effect.

Background

Survivor pension benefits represent an important source of income for many spouses of deceased retirees. For some elderly widowed persons, these benefits supplement other employment-based retirement income—that is, social security benefits and pension income based on the widowed person's own employment—as well as income derived from other assets.

Widowed persons become eligible to receive lifetime survivor benefits only if the retiring worker retains a J&S type of pension benefit payment. Generally, this arrangement provides a pension annuity¹ (for example, monthly payments) to the retiree during his or her lifetime, and a portion of that reduced annuity to the surviving spouse if the retiree dies first. For example, under a 50-percent J&S annuity, if a married retiree received \$1,000 a month in pension income, the spouse would receive \$500 per month after the retiree's death.

Congressional Interest in Survivor Pension Benefits

Improving the economic status of the elderly by increasing their access to survivor benefits has been a continuing goal of federal pension legislation. Responding to concerns about the economic vulnerability of elderly widows,² this legislation has been aimed at addressing the problems facing that group. Beginning with the Employee Retirement Income Security Act of 1974 (ERISA), most private pension plan sponsors offering annuities were required to provide automatically, at a minimum, a 50-percent J&S annuity to their retiring married workers. ERISA allowed married retirees to choose another type of benefit payment, such as an annuity spanning only the retiree's lifetime, without the spouse's approval.

Recognizing marriage as an economic partnership, the Congress sought through REA to bring the retiring worker's spouse directly into the decision process concerning benefit payment options. Under REA, beginning

¹The J&S annuity is usually lower than the amount the married retiree would have received from an annuity that spans only his or her lifetime. Reduction for the J&S annuity is usually based on actuarial calculations that take into account the probability that the spouse will outlive the retiree.

²Research shows that although the economic status of the population age 65 and over has improved substantially during the past two decades, elderly widows continue to have a high risk of being poor. One reason for reduced income after widowhood is that some widows do not continue to receive benefits from their husbands' employer-sponsored pension plans.

January 1, 1985, a retiring married worker was required to obtain written spousal consent if he or she selected a payout option other than the J&S annuity. This requirement was prompted partly by testimony before the Congress by widows who stated that they were financially unprepared for their husbands' death because they were unaware of the choice not to receive the J&S annuity. Through the spousal consent requirement, the Congress envisioned that, among other things, a greater percentage of married men would retain the J&S annuity and give their spouses the opportunity to receive survivor benefits.³

Scope and Methodology

Our information on elderly persons' survivor pension benefit receipt and J&S retention rates comes from the Bureau of the Census' 1989 Pension Supplement to the Current Population Survey (CPS). These data became available in August 1990.

We determined the percentage of widowed persons who received a survivor benefit based on public- and private-sector employment and median benefit amounts. We analyzed other characteristics of survivor benefit recipients, including the extent to which they received other types of employment-based retirement income. Furthermore, we analyzed the extent to which survivor benefits contribute to the income received by widowed women from all employment-based retirement sources. Information was not available on the number of widowed persons who did not have a survivor annuity because their spouses had not taken a J&S annuity when they retired.

We also determined whether the percentage of married retirees retaining the J&S annuity form of pension benefit changed between 1985 and 1989. For this analysis, we focused on retirees of private-sector pension plans, because government-administered plans are not subject to ERISA and REA requirements. We calculated the percentage of married retired workers who started receiving the J&S annuity from 1985 through 1989 as a percentage of all pension annuitants for that time. The Pension Supplement did not capture information on the year the worker retired or when the specific benefit option was chosen.

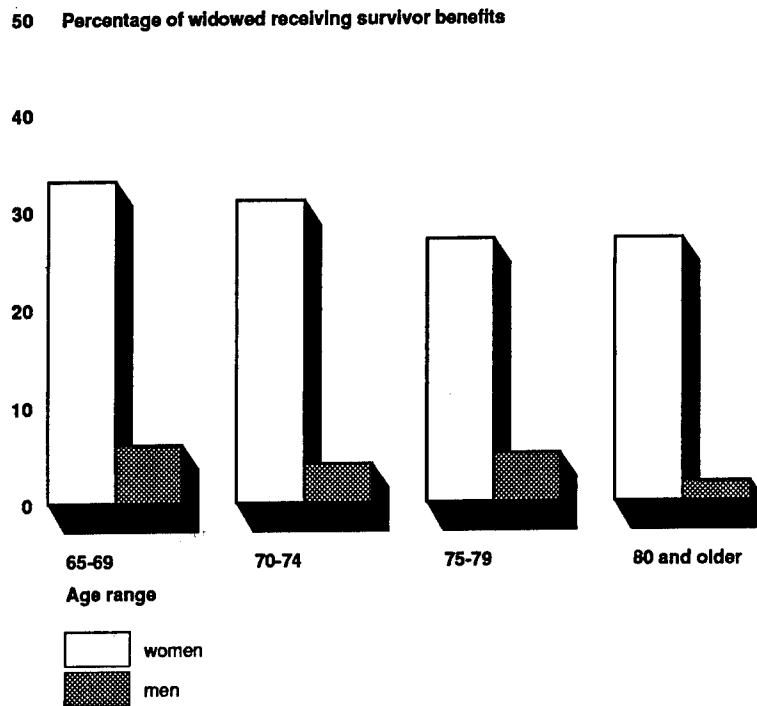
³Various economic circumstances may make it reasonable for a married pension retiree not to retain the J&S annuity. Such factors could include (1) the health status and known life expectancy of the retiree and spouse; (2) the need for unreduced pension benefits in order to meet expenses as a couple; and (3) other expected income from investments, life insurance, or the spouse's own pension.

Our work was done from April to November 1991 in accordance with generally accepted government auditing standards. See appendix I for details on our scope and methodology.

One in Four Widowed Americans Receives Benefits; Percentages Vary by Age Groups

Overall, about 2.8 of 11.4 million widowed persons age 65 and over (about 1 of 4) received survivor pension benefits in 1989. Of those who received benefits, 95 percent were women. As a group, women were about seven times more likely than men to get survivor benefits; in 1989, 29 percent of women received these benefits compared with 4 percent of men. For both sexes, however, the extent to which widowed persons received survivor benefits varied by age group (see fig. 1). For example, 33 percent of widowed women age 65-69 received survivor benefits compared with 27 percent of widowed women age 80 and over. The percentage of men receiving these benefits, although considerably lower, followed the same pattern for the 65-69 and 80 and over age groups—6 percent compared with 2 percent, respectively (see app. II, table II.1).

Figure 1: Variation by Age Group in the Percentage of Men and Women Receiving Survivor Benefits (1989)



Note: Percentages are for widowed persons age 65 and over.
 Source: Bureau of the Census, CPS, Pension Supplement (Washington, D.C., 1989).

Survivor Benefits Are an Important Income Source for Widowed Women

Among widowed persons with survivor benefits, women receive on average virtually twice the benefit amount of men. This is largely because on average men have higher earnings and longer tenure (and thus higher pensions than women), so widowed women receive higher survivor benefits than widowed men. In 1989, the median annual survivor benefits for widowed women age 65 and over was an estimated \$4,404, compared with \$2,292 for widowed men. The median annual benefit for all recipients was \$4,296. Women's benefits varied marginally among age groups, ranging from \$4,218 to \$4,572 for the 70-74 and 75-79 age groups, respectively (see app. II, table II.2).

Many widowed women with survivor benefits also receive social security benefits, but far fewer receive a pension based on their own employment. In 1989, 83 percent of women with survivor benefits also received social security, but only 27 percent received their own employment-based pension. About one of five widows received income from all three sources.

For many elderly widows, survivor benefits comprise a significant portion of income derived from employment-based retirement sources. Understandably, survivor benefits constitute a higher percentage of employment-based income for widows who receive only social security benefits and survivor benefits, than for those who receive employment-based retirement income from all three sources.

In 1989, survivor benefits represented at least 20 percent of the employment-based income for three of four widowed women who received survivor and social security benefits only. Survivor benefits made up over half of employment-based income for one of four widows receiving the two sources on retirement income. On average, survivor benefits comprised 38 percent of employment-based income for all widows receiving survivor benefits and social security. Their median monthly income from employment-based sources was \$800.

Survivor benefits represented a smaller portion of employment-based retirement income for widows who received all three sources of such income. In 1989, survivor benefits made up on average about one-fifth of such income for widows in this category. Survivor benefits comprised at least 20 percent of employment-based income for about half of these widows, and about 40 percent or more for approximately one-fourth. The

median monthly employment-based retirement income for widows with all three sources was about \$1,200 (see app. II, table II.4).

If Widowed, Millions of Spouses Will Receive Survivor Benefits

Millions of spouses will receive survivor pension benefits if they outlive married retired workers. As of 1989, about 3 of 5 million married retirees with pensions (60 percent) had retained the J&S annuity form of pension benefit.

Wives of pensioners have higher survivor benefit coverage than husbands because men were almost twice as likely as women to have earned a pension and retained the J&S annuity. As of 1989, approximately 65 percent of married retired men had retained this form of benefit, compared with approximately 35 percent of married retired women (see app. II, table II.3).

Of all groups of spouses, wives of retired men with the highest pension amounts have the greatest chance of receiving survivor benefit coverage. Specifically, the percentage of married men retaining benefits from a J&S annuity increases with the rise in the amount of monthly pension benefit (see table 1).

Table 1: Husbands' Retention of the J&S Annuity by Pension Benefit Amount

Pension income group	Monthly pension amount ^a (1989 dollars)		Percent retaining J&S annuity
	Median	Range	
Lowest third	\$135	\$1-224	45
Middle third	400	225-593	60
Highest third	1,000	594-6,250	74

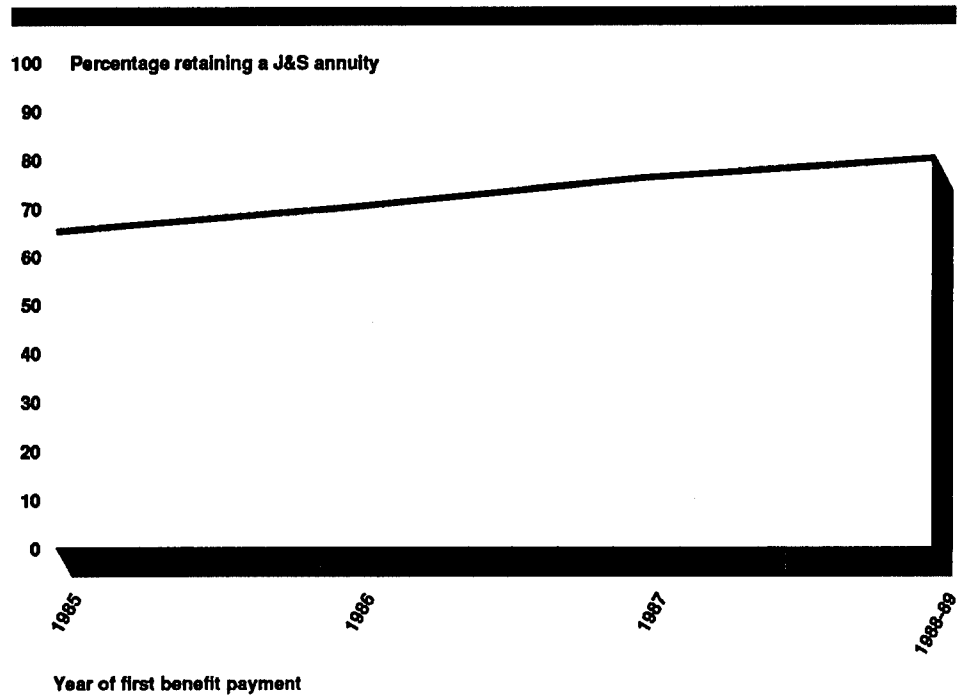
^aMonthly pension amounts reflect the benefit reduction associated with the J&S annuity.

In 1989, about three of four married men in the highest pension income group had retained the J&S annuity; their median monthly pension amount was \$1,000. By contrast, 45 percent of men in the lowest pension income group, with a median monthly pension amount of \$135, retained a J&S annuity. The median monthly pension benefit for all husbands with a J&S annuity was \$598.

Wives' Survivor Benefit Coverage Increased After REA

Following implementation of REA's spousal consent requirement in 1985, the survivor benefit coverage rate for wives of private-pension retirees increased. The percentage of retired married men retaining the J&S annuity rose 15 percentage points between 1985 and 1988-89, the period after REA's spousal consent requirement was implemented.⁴ This represents an increase from 65 percent in 1985 to 80 percent in 1988-89 (see fig. 3). Furthermore, of all men who had retained a J&S annuity as of 1989, two of five did so after 1984.

Figure 2: The Percentage of Married Men Retaining a J&S Annuity Increased After REA



Note: The Pension Supplement excludes benefit information for workers retiring the last 2 to 3 weeks of 1989.

Source: Bureau of the Census, CPS, Pension Supplement (Washington, D.C., 1989).

⁴We did not perform statistical analysis to determine the singular effect of REA's spousal consent requirement on the rate of the J&S annuity retention.

Conclusions

Survivor pension benefits represent an important source of income for spouses of deceased pension retirees. Currently, millions of widowed persons receive survivor benefits, and millions more will be eligible for these benefits in the future if they outlive retirees. For many widows, survivor benefits provide a sizable supplement to income received from other employment-based retirement sources. The Congress has put in place various pension legislation designed to increase widows' access to survivor pension benefits. REA's spousal consent requirement sought, in part, to curtail widows' loss of these benefits. Our analysis shows a post-REA rise in the rate that married men in private pension plans retained the J&S annuity, indicating progress toward a primary aspect of the Congress' legislative goal.

We did not obtain written agency comments on this report because we were not evaluating agency programs or functions. However, we discussed its contents with officials from the Department of Labor and incorporated their comments as appropriate.

We are sending copies of this report to other congressional committees, the Department of Labor, the Internal Revenue Service, and other interested parties, and will make it available to others on request. Should you wish to discuss its contents, please call me at (202) 512-7225. Other major contributors to the report are listed in appendix III.

Sincerely yours,



Gregory J. McDonald
Associate Director,
Income Security Issues

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Abbreviations

CPS	Current Population Survey
REA	Retirement Equity Act of 1984
ERISA	Employee Retirement Income Security Act of 1974
J&S	joint and survivor

Scope and Methodology

This appendix discusses our methodology for analyzing survivor benefits and trends in joint and survivor annuity retention since the Retirement Equity Act of 1984 took effect. It also presents additional information on the scope of the Bureau of the Census' December 1989 Pension Supplement.

The Current Population Survey

The Bureau of the Census' Current Population Survey is the source of most official government statistics on employment and unemployment. For the survey, Census scientifically selects approximately 57,000 households on the basis of area of residence to represent the nation as a whole, individual states, and other specified subsections. The universe is the civilian noninstitutional population of the United States and members of the Armed Forces living with their families in civilian housing units or on a military base. After using a probability sample to select housing units, Census interviews each household monthly for four consecutive months during a 1-year period and again for the corresponding time period a year later. This enables Census to make month-to-month and year-to-year comparisons at reasonable cost.

In addition, CPS provides monthly labor force data, including supplemental data on work experience, income, noncash benefits, and migration. Comprehensive information is collected on employment status, occupation, and the industry in which individuals work. Additional data are available on the number of weeks and hours per week worked by them and their total income. The survey also provides current estimates of the economic status and activities of the nation's population. Because it is impossible to develop one or two overall figures (such as the number of unemployed) that would adequately describe the whole labor market, the survey is designed to provide a large amount of detailed and supplementary data. Information is available not only for persons currently in the labor force but also for those outside it.

The December 1989 Pension Supplement

Census conducted the December 1989 Pension Benefits Survey as a supplement to that month's CPS. All persons 40 years or over were asked for various information relating to pension benefits, including (1) the type of pension coverage, (2) the amount of income received from pension plans and social security, and (3) the employer that provided the pension coverage. While the survey asked for general information on all pension plans from which a retiree received benefits, most questions were targeted to the pension plan that paid the largest benefit.

We used CPS data on widowed persons to determine the extent of survivor benefits and median benefit amounts for men and women. Because the CPS captures limited data on the extent and size of survivor pension benefits, we were unable to determine (1) when survivor benefit payments started, (2) whether the retired worker died before or after his or her retirement, and (3) whether the survivor benefit was derived from public- or private-sector employment.

In analyzing the trend in J&S annuity retention rates after REA's spousal consent requirement took effect, we calculated the percentage of married retired workers from private-sector employers who started receiving the J&S annuity from 1985 through 1989 as a percentage of all pension annuitants for that time period. The Pension Supplement captured the age at which the retirees received their first benefit payment but did not collect information on when they retired or chose a benefit payment option. As a result, we estimated the year in which benefit payments started by subtracting the retiree's age at which they received the first benefit payment from their age in 1989. We then subtracted the difference between the two ages from 1989 to approximate the year of the first benefit payment. For example, a 69-year-old retiree who received his or her first benefit payment at age 65 would have a benefit start year of 1985. Our estimates of J&S annuity retention rates probably understate the number of pensioners who actually chose this form of benefit at retirement. This is partly because the pension supplement excluded benefit information for workers retiring the last 2 to 3 weeks of 1989. Some understating also may be attributable to our inability to determine the number of individuals who retired before the survey was conducted but started receiving benefits after its completion.

Analysis of Survivor Benefits and Joint and Survivor Annuity Retention Rates

This appendix contains results of our analysis of the CPS December 1989 Pension Supplement. It presents detailed tabular data on the prevalence of survivor benefit receipt, benefit amounts, and extent of J&S annuity retention for married retirees after the Retirement Equity Act's spousal consent requirement took effect. The appendix also provides sampling errors for estimates contained in this report.

Table II.1: Distribution of Widowed Persons Age 65 and Over Receiving Survivor Benefits From a Deceased Spouse's Pension (1989)

Age group	Women		Men		All widowed	
	Number widowed (thousands)	Percent receiving benefits	Number widowed (thousands)	Percent receiving benefits	Number widowed (thousands)	Percent receiving benefits
65-69	1,911	33	560	6	2,471	27
70-74	2,136	31	577	4	2,713	26
75-79	2,214	27	483	5	2,697	23
80 and over	2,796	27	749	2	3,544	22
Total	9,057	29	2,369	4	11,425	24

Source: Bureau of the Census, CPS, Pension Supplement (Washington, D.C., 1989).

Table II.2: Median Annual Survivor Pension Benefits for Widowed Persons Age 65 and Over by Age Group (1989)

Age group	Women	Men	All widowed
65-69	\$4,506	\$2,952	\$4,368
70-74	4,218	3,132	4,200
75-79	4,572	936	4,320
80 and over	4,368	3,060	4,338
All elderly	\$4,404	\$2,292	\$4,296

Source: Bureau of the Census, CPS, Pension Supplement (Washington, D.C., 1989).

**Appendix II
Analysis of Survivor Benefits and Joint and
Survivor Annuity Retention Rates**

Table II.3: Married Pension Recipients Retaining a J&S Annuity by Year in Which Benefit Payments Started

	Men		Women		All recipients	
	Benefit recipients (thousands)	Percent with J&S annuity	Benefit recipients (thousands)	Percent with J&S annuity	Benefit recipients (thousands)	Percent with J&S annuity
All years	3,911	64	855	34	4,767	59
After REA:						
1985	277	65	88	23	365	54
1986	305	70	51	^b	357	65
1987	304	76	78	49	382	70
1988-89 ^a	483	80	165	39	648	70

^aThe Pension Supplement excludes benefit information for workers retiring the last 2 to 3 weeks of 1989.

^bPopulation base is too small to estimate useful percentages.

Source: Bureau of the Census, CPS, Pension Supplement (Washington, D.C., 1989).

Table II.4: Ratio of Widows' Survivor Benefits to Total Employment-Based Retirement Income (1989)

Distribution of ratio	Widows with survivor benefit and social security		Widows' survivor benefit, social security, and own pension	
	Range	Median	Range	Median
Lowest 25 percent	1-19	12	1-11	8
Second 25 percent	20-38	28	13-21	17
Third 25 percent	39-52	49	22-40	27
Highest 25 percent	over 52	64	over 40	46

Sampling Errors for Estimates

Because our estimates are based on a sample rather than a universe, each reported estimate has a sampling error associated with it. The size of the error reflects the precision of the estimate—the smaller the error, the more precise the estimate. We calculated sampling errors for estimates in this report at the 95-percent confidence level. This means that the chances are 19 out of 20 that the actual number or percentage being estimated falls within the range of our estimate plus or minus the sampling error. For example, if we have estimated that 30 percent of a group has a characteristic and the sampling error is 6 percentage points, there is a 95-percent chance that the actual percentage is between 24 and 36. Census recommends when using CPS data that care be exercised in interpreting analysis results based on a relatively small number of cases or on small differences between estimates. Census maintains that valid estimates cannot be made where the population base is 75,000 or less. Tables II.5 and II.6 contain sampling errors for the figures and tables indicated.

**Appendix II
Analysis of Survivor Benefits and Joint and
Survivor Annuity Retention Rates**

Table II.5: Sampling Errors (Percentage Points) for Figure 1 and Table II.1

Age group	Percentage of widowed persons receiving survivor benefits		
	Women	Men	All widowed
65-69	3	3	3
70-74	3	3	3
75-79	3	3	2
80 and over	3	2	2
All elderly	1	1	1

Table II. 6: Sampling Errors (Percentage Points) for Figure 3 and Table II.3

Year	Percentage of pension recipients retaining J&S annuity		
	Women	Men	All recipients
All years	5	3	2
After REA:			
1985	14	9	8
1986	•	8	8
1987	17	7	7
1988-89	12	6	6

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Related GAO Products

Private Pensions: IRS Efforts Underway to Improve Spousal Consent Forms (GAO/HRD-92-31, Dec. 20, 1991).

Private Pensions: 1986 Law Will Improve Benefits Equity in Many Small Employers' Plans (GAO/HRD-91-58, Mar. 29, 1991).

Private Pensions: Spousal Consent Forms Hard to Read and Lack Important Information (GAO/HRD-90-20, Dec. 27, 1989).

Private Pensions: Impact of Vesting and Minimum Benefit and Contribution Rules in Top-Heavy Plans (GAO/HRD-90-4 BR, Oct. 23, 1989).

Private Pensions: Plan Provisions Differ Between Large and Small Employers (GAO/HRD-89-105 BR, Sept. 26, 1989).

Retirement Income: 1984 Pension Law Would Help Some Widows But Not the Poorest (GAO/HRD-88-77, July 11, 1988).

Pension Plans: Vesting Status of Participants in Selected Small Plans (GAO/HRD-88-31, Oct. 30, 1987).

Pension Plans: Many Workers Don't Know When They Can Retire (GAO/HRD-87-94 BR, Aug. 12, 1987).