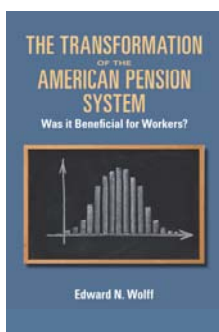

New book reveals impact of defined contribution plans on the income inequality of retirees



The Transformation of the American Pension System

Was It Beneficial for Workers?

Edward N. Wolff, *New York University*

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KALAMAZOO, Mich.—While much attention has been focused recently on the well-being of Social Security, the significant changes in the private pension system in the United States during the past three decades remain relatively under the radar.

Beginning in the 1980s, many employers in the United States switched the type of pension plans they offer their workers from defined benefit (DB) plans to defined contribution (DC) plans. This frees them from having to set aside funds to pay guaranteed lifetime benefits to retirees. It also shifts the investment risk to workers, making them responsible for contributing to and managing their retirement funds through 401(k) accounts.

In a new book from the Upjohn Institute Press titled *The Transformation of the American Pension System: Was It Beneficial for Workers?*, Edward N. Wolff refers to this as the “Great Transformation,” and for good reason. From 1983 to 2007, the share of families with DC plans rose from 12 percent to 64 percent, while the share with DB plans fell from 69 percent to 39 percent. This change has not only thoroughly altered how millions of Americans fund their retirement, it has also, as

Wolff shows, generated growing income inequality and insecurity among retirees while escalating the importance of Social Security as a source of retirement income. Increasingly, when it comes to retirement wealth, those with DB plans are the “haves” while those with DC plans are the “have-nots.”

Wolff addresses six basic questions:

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

Through exhaustive analysis, Wolff identifies the weaknesses in the current private pension system and offers practical, policy-based solutions aimed at strengthening the system, thereby making retirement a less daunting prospect for workers relying on 401(k) plans as a key source of retirement income and wealth. He also recognizes the importance of Social Security to workers and suggests ways of strengthening it as well.

Advance praise

“At last, in one place, here is all the data one would want on the impact on households of the dramatic shift from defined benefit plans to 401(k)s. The main finding is that 401(k)s looked good relative to defined benefit plans during the long bull market of the 1980s and 1990s, but that edge evaporated in the 2000s. Wealth in 401(k) plans is also more unequally distributed than that in defined benefit plans, and many households will be at risk in retirement. If you want the numbers, read this book.”

—Alicia H. Munnell, Director, Center for Retirement Research at Boston College

The Author

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The Transformation of the American Pension System: Was It Beneficial for Workers?, by Edward N. Wolff, is published by the W.E. Upjohn Institute for Employment Research. December 2011. 333 pp. \$40 cloth 978-0-88099-380-7 / \$20 paper 978-88099-379-1 / ebook 978-0-88099-390-6. Opinions expressed are solely those of the authors. We encourage you to request a review copy of this book. Contact: Richard Wyrwa.

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