

***Social Security and the
Private Pension System:
The Significance of Integrated Plans***

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What is plan integration?

- **Plan integration: an exception to the rule that employers can't provide richer benefits for high-paid employees.**
- **The rationale: low-paid employees get more from their employer-paid Social Security benefits.**
- **So employers should be able to give high-paid employees richer plan benefits.**
- **Defined benefit, money purchase and profit-sharing plans can be integrated.**
- **ESOPs, 401(k) contributions, and matching contributions cannot.**

Prior studies of integrated plans

- **Using BLS and HRS data, several studies tried to estimate the prevalence of integration in the private pension system.**
- **Their results suggest:**
 - (1) integration is declining among defined benefit plans
 - (2) integration among defined contribution plans is rare.

Form 5500 Data

- **This study analyzed Form 5500 data from 1993 to 1997.**
- **Form 5500 is the annual report filed by pension and welfare plans.**
- **It provides census information on the private pension system.**
- **Roughly 800,000 pension plans file a report each year.**
- **This dataset includes about 1,000,000 plans.**

The Private Pension System, 1993-1997

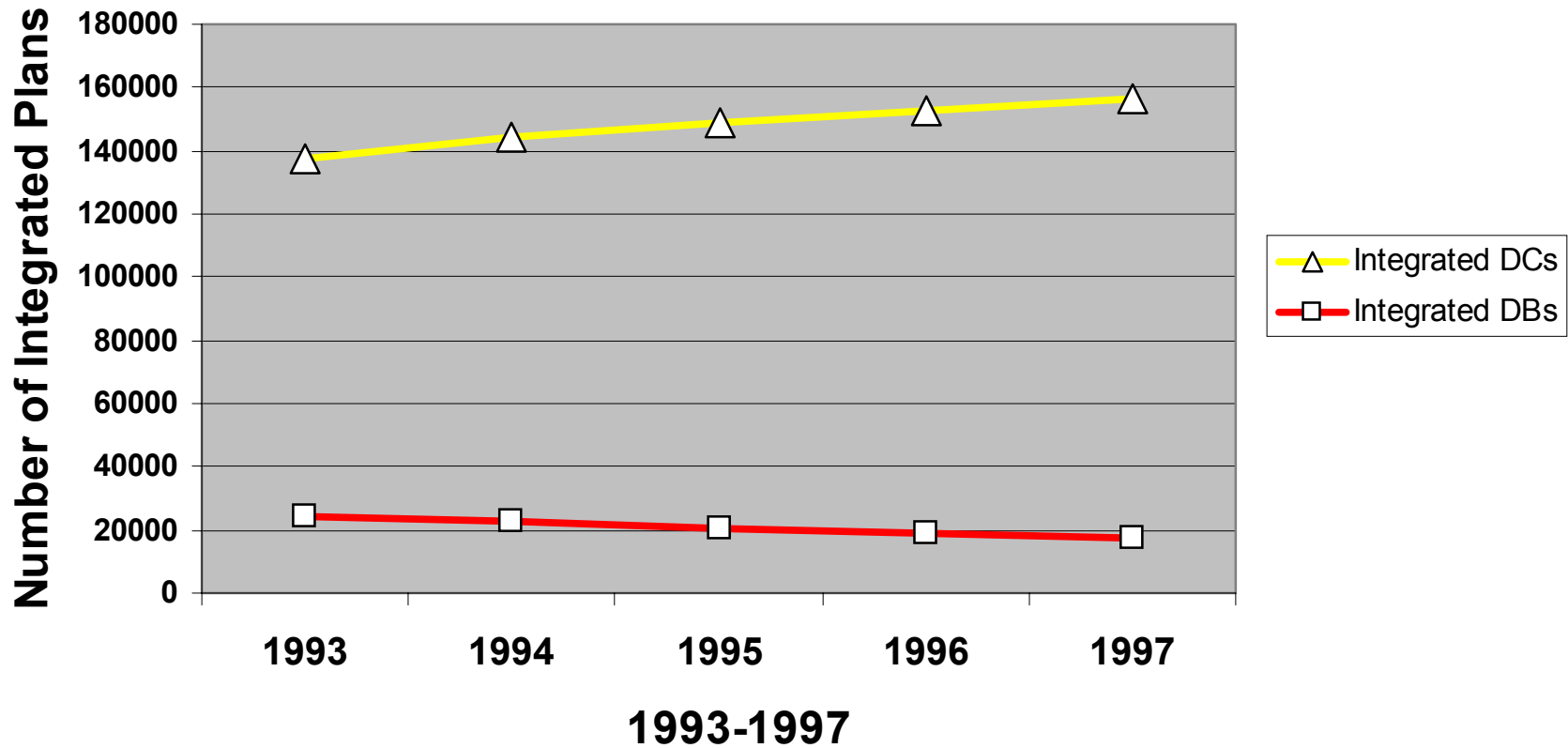
- **Most plans are small.**
 - Less than 10% - 60,000 to 70,000 plans each year – have more than 100 participants.
- **It's dynamic.**
 - The number of plans increased 9% - from 660,000 (1993) to 720,000 (1997).
 - About 42% - some 410,000 plans - continue from year to year.
 - About 30% began and 22% terminated.
 - Integrated and non-integrated plans are very similar.

Integrated Plans, 1993 - 1997

- **Integration is a persistent and stable feature of the private pension system.**
- **The number of integrated plans increased by 7% - from 162,000 to about 174,000 plans - during this period.**
- **The number of participants covered by integrated plans grew by 11% to about 24,000,000 by 1997.**
- **Slightly less than one out of every three defined benefit plans is integrated.**
- **About one in four defined contribution plans is integrated.**

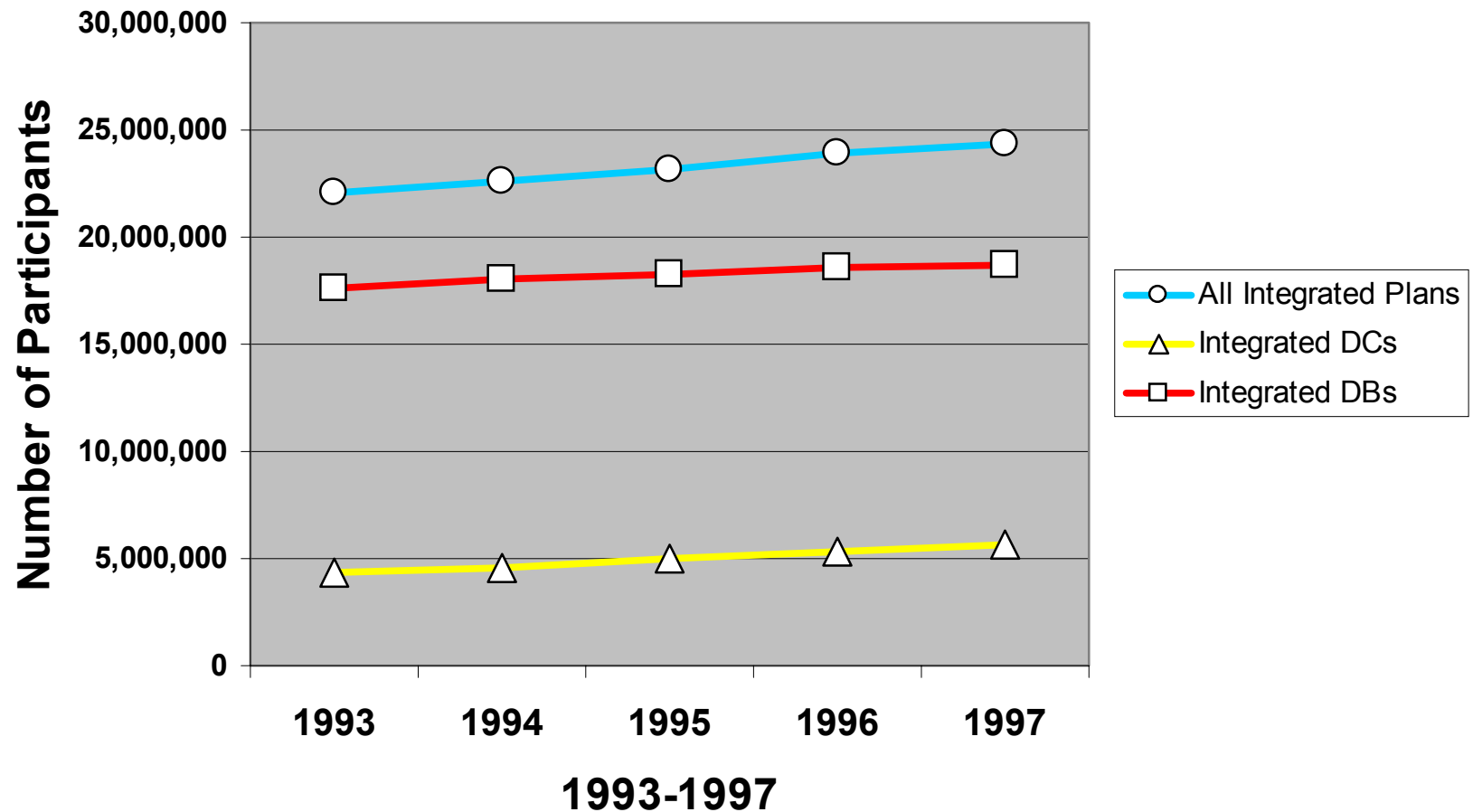
Integration by Plan Type, 1993-1997

Number of Integrated Plans by Plan Type

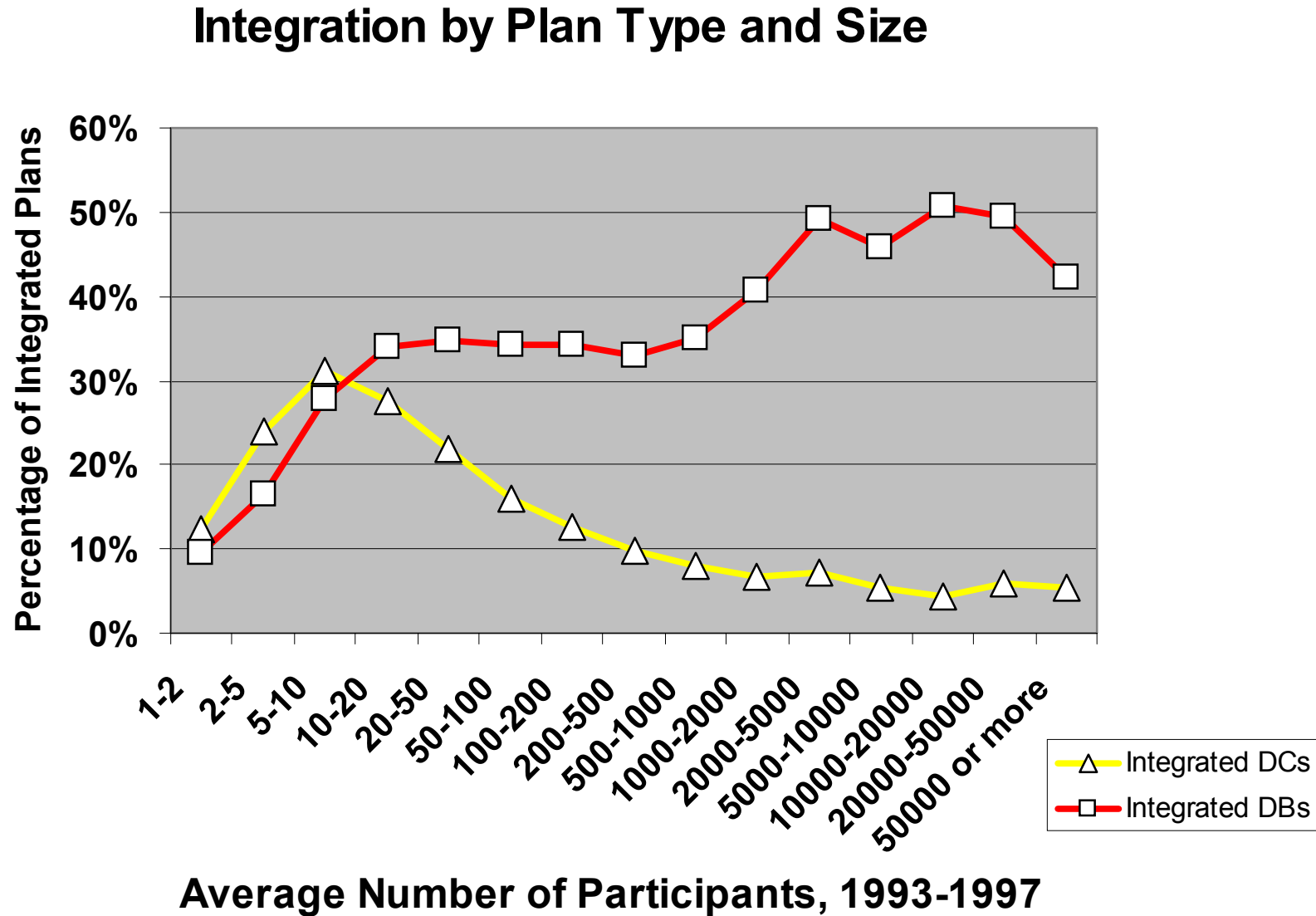


Integration by Participation, 1993-1997

Number of Participants in Integrated Plans



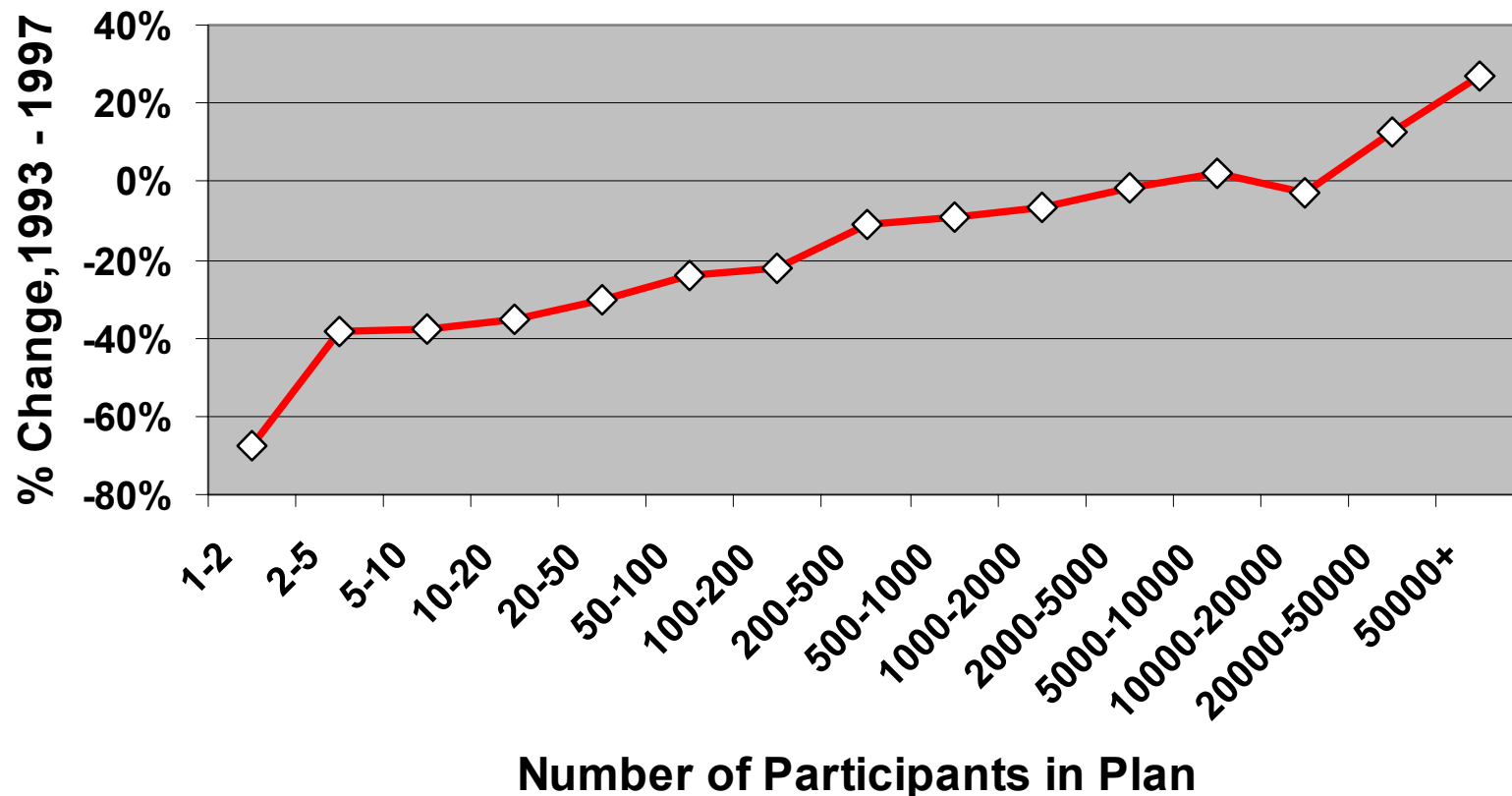
Integration by Plan Type and Size



Average Number of Participants, 1993-1997

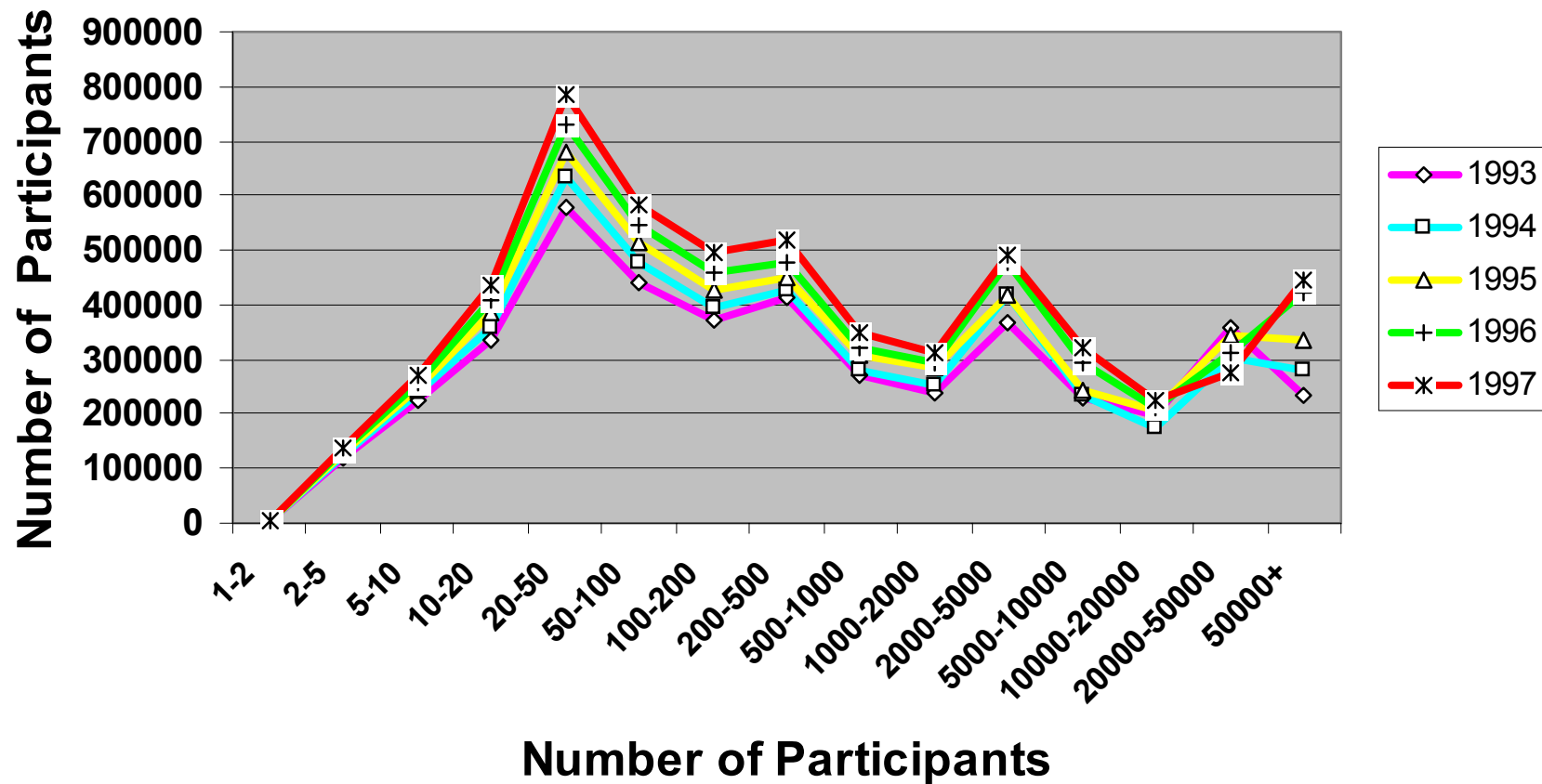
Integrated Defined Benefit Plans, 1993-1997

Percentage Change in Participation, 1993-1997,
Integrated Defined Benefit Plans



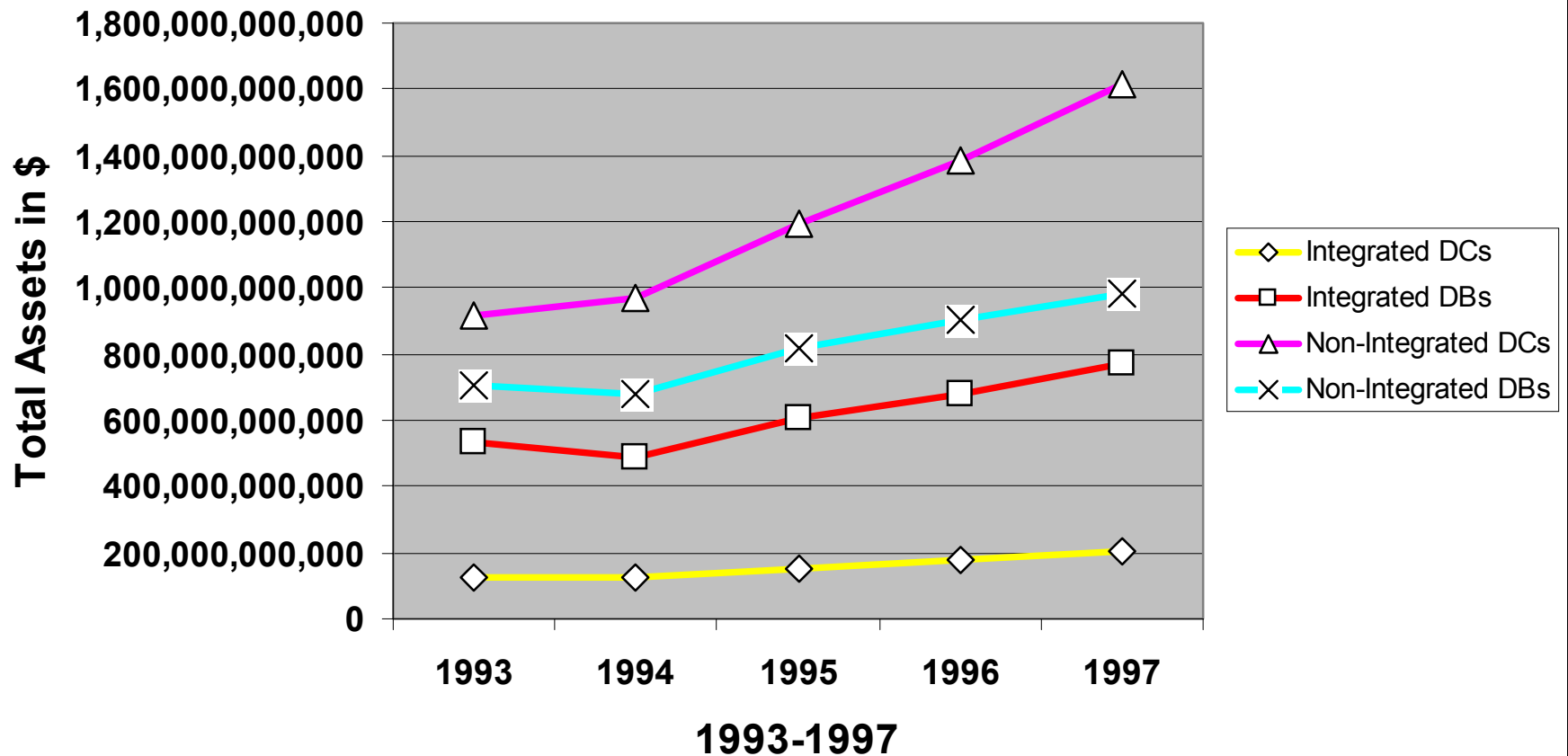
Integrated Defined Contribution Plans

Yearly Participation in Integrated Defined Contribution Plans



Total Plan Assets by Type of Plan

Total Assets by Plan Type, 1993-1997



Regression Results

- **A defined benefit plan is more likely to be integrated if it has any of the following characteristics than if it doesn't:**
 - High percentage of high-paid employees
 - A non-union plan
 - Plan sponsor is part of a related group of companies
 - Plan sponsor is in the retail or healthcare industries or the professions
 - Low percentage of active employees
- **A defined contribution plan:**
 - ?

Conclusions

- Participation in integrated defined benefit plans is not declining.
- Integration in defined contribution plans is not rare.
- More research into why employers and which employers integrate their plans is needed – especially in defined contribution plans.
- Policy issues:
 - **Pension Coverage:** does integration make plan sponsorship more attractive to small employers?
 - **Social Security Reform:** should reform proposals recognize that integration makes millions of low-paid workers more dependent on Social Security for retirement income?