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Shifts Away from Defined-Benefit Pensions Widen Income Gap Between Rich and Poor, NCPERS Study Finds

Prevailing Approaches by States Have Hidden Economic Costs

Washington, D.C. – Reforms that negatively affect pension plan participants and beneficiaries also exacerbate income inequality and hinder economic growth, according to a new study by the National Conference on Public Employee Retirement Systems (NCPERS).

The study showed a strong correlation over three decades between the declining number of workers covered by defined benefit pension plans and the growing income gap between rich and poor Americans. Other variables that were associated with increased income inequality included declines in unionization, marginal tax rates, and investment in education, according to the study, "Income Inequality: Hidden Economic Cost of Prevailing Approaches to Pension Reforms." The study was released at NCPERS' Annual Conference and Exhibition, held in New Orleans May 3-7.

"Our study provides important information and insights to help policy makers recognize the connection between diminishing pensions and widening income gaps," said NCPERS executive director & counsel Hank Kim, Esq. "Income inequality matters because when the rungs of the economic ladder are too far apart, fewer people can climb it, and that undermines our national prosperity."

The study examined national trends in pension changes, income inequality, and economic growth in the 1980s, 1990s, and 2000s, as well as trends in each of the 50 states from 2000 to 2010. Among the findings:

- Fifteen million additional workers would have defined benefit plans if there had not been a trend over the past 30 years to convert pensions into defined contribution plans.

- The correlation between economic growth and income inequality in the United States is negative 0.553. This relationship means that higher the income inequality, the lower is the economic growth.
- A single negative change in public pensions in a state increases income inequality in that state by about 15 percent.

Mel Aaronson, NCPERS president, said the study is essential reading for stakeholders and policymakers at the state level, because many states have considered cutting benefits, requiring employees to increase their contributions, or converting defined-benefit plans into defined-contribution or combination plans. “Personal income loss has a ripple effect, and everyone suffers when income inequality rises and economic growth weakens,” Aaronson said. “Spending by retirees is vital to communities, yet local spending can easily be undermined by short-sighted changes to defined-benefit pension plans,” he added.

NCPERS director of research Michael Kahn, Ph.D., who conducted the study, analyzed data on public and private-sector defined-benefit plans at the national level, and public-sector defined-benefit plans at the state level. He described the study as a work in progress. “If this new research focused on pensions and income inequality can make policymakers and the general public become aware that the prevailing approach to pension reforms is harmful to everyone, not just those in DB plans, then we would consider this study a success,” Kahn said.

About NCPERS

The National Conference on Public Employee Retirement Systems (NCPERS) is the largest trade association for public sector pension funds, representing more than 500 funds throughout the United States and Canada. It is a unique non-profit network of public trustees, administrators, public officials and investment professionals who collectively manage more than $3 trillion in pension assets. Founded in 1941, NCPERS is the principal trade association working to promote and protect pensions by focusing on advocacy, research and education for the benefit of public sector pension stakeholders.