The Impact of Retirement Account Distributions on Measures of Family Income

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In recent decades, employers have increasingly replaced defined benefit (DB) pensions with defined contribution (DC) retirement accounts for their employees. DB plans provide annuities, or lifetime benefits paid at regular intervals. The timing and amounts of DC distributions, however, may vary widely. Most surveys that provide data on the family income of the aged either collect no data on nonannuity retirement account distributions, or exclude such distributions from their summary measures of family income. We use Survey of Income and Program Participation (SIPP) data for 2009 to estimate the impact of including retirement account distributions on total family income calculations. We find that about one-fifth of aged families received distributions from retirement accounts in 2009. Measured mean income for those families would be about 15 percent higher and median income would be 18 percent higher if those distributions were included in the SIPP summary measure of family income.

Introduction

The income of the aged is composed largely of three pillars: Social Security benefits, asset income, and pension income (Federal Interagency Forum on Aging-Related Statistics 2012, 14; SSA 2012). In the past three decades, the primary source of pension income has shifted from the traditional defined benefit (DB) pension toward defined contribution (DC) plans, which operate as retirement savings accounts (Anguelov, Iams, and Purcell 2012). The most common DC plans are called 401(k) plans, after the section of the Internal Revenue Code under which Congress first authorized them in 1978.[1] As a consequence of the shift to DC plans, few private-sector employers still offer retirees traditional annuities that provide lifetime income.[2] That trend creates problems for measuring the income of the aged because major government data sources either do not collect information about distributions from retirement accounts or do not include those distributions in their summary measures of income (Anguelov, Iams, and Purcell 2012; Federal

Interagency Forum on Aging-Related Statistics 2012, 74).

This article examines the impact of including distributions from retirement accounts on the estimated income of families headed by persons aged 65 or older. After briefly describing our data source, we present our findings in three tables. Table 1 estimates the percentage of families that received distributions from retirement accounts in 2009. Table 2 estimates

Selected Abbreviations	
CPS	Current Population Survey
DB	defined benefit
DC	defined contribution
IRA	individual retirement account
IRS	Internal Revenue Service
SIPP	Survey of Income and Program Participation

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the mean and median values of the distributions from retirement accounts. Table 3 estimates the change in family income that would result from including retirement account distributions for affected families. All tables provide breakdowns by age, annual family income (excluding distributions), education, marital status (and, for unmarried persons, sex), and race.[3] We find that about one-fifth of families received distributions from retirement accounts in 2009 and that including those distributions would increase measured mean income for those families by 15 percent and median income by 18 percent. Although the impact of retirement account distributions on retirement income is already significant, it is likely to become even greater in the future as younger cohorts of workers retire after having spent the majority of their careers working at jobs that offered only DC retirement plans.

Data and Methodology

We present data collected in the 2008 panel of the Census Bureau's Survey of Income and Program Participation (SIPP). The data reflect income in 2009, the first full year of income measured for that panel. We focus on the family incomes of married couples, unmarried men, and unmarried women aged 65 or older. SIPP interviews take place every 4 months and collect information about respondents' monthly income in the preceding 4 months. Among other income categories, the SIPP measures the amounts received as distributions from individual retirement accounts (IRAs), Keogh accounts for the self-employed, 401(k)-type DC plans, and lump-sum payments from pension and retirement plans (Census Bureau n.d.).[4] Although the SIPP data file contains amounts received from such distributions each month, its summary measure of total family income excludes those distributions.[5] We summed the monthly values of the retirement plan distributions to estimate the 2009 totals. We then weighted the data using December 2009 weights to represent the US civilian noninstitutionalized population.

We estimate the mean and median values of retirement account distributions for two age groups (65–70, 71 or older) and by quartile of family income (without retirement account distributions), education (high school graduate or less, some college, college graduate), marital status and sex (married, unmarried men, unmarried women[6]), and race (white, black, other). The age categories reflect federal law requiring retirement accountholders to begin taking distributions

from IRAs and DC accounts no later than the year after attaining age 70½.[7] The federal required minimum distribution in any year is determined by the account balance and the owner's remaining life expectancy according to Internal Revenue Service (IRS) actuarial assumptions (Purcell 2003). Poterba, Venti, and Wise (2011) analyzed distributions with SIPP data and found that most people did not begin taking distributions from their accounts until they were subject to the required minimum distribution at age 70½.[8]

Results

About 19 percent of families headed by persons aged 65 or older received distributions from retirement accounts in 2009 (Table 1). Retirement distributions were received by a greater share of families headed by persons aged 71 or older (21 percent) than of those aged 65–70 (15 percent). The receipt rate was higher among married couples (25 percent) than among unmarried men (15 percent) and unmarried women (14 percent). Receipt was also more common among families in the fourth (highest) and third income quartiles (24 percent and 25 percent, respectively) than among those in the second and lowest quartiles (18 percent and 8 percent, respectively). Receipt rates increased with educational attainment, ranging from 14 percent among those with a high school education or less to 23 percent among those with some college and to 28 percent among college graduates. Finally, the receipt rate was higher among whites (21 percent) than among blacks (6 percent) or other races (9 percent).

The average value of retirement account distributions received in 2009 by families headed by persons aged 65 or older was $8,121 and the median value was $3,300 (Table 2).[9] The mean value was about two and a half times the median value, suggesting that the amounts were unevenly distributed, with higher values departing much farther from the median than lower values. Average values were higher among families of persons aged 65–70 than those of persons aged 71 or older. The mean distribution amount was higher among married couples ($9,057) than among unmarried men ($7,508) and unmarried women ($6,658). Likewise, the median distribution was higher among married couples ($4,000) than unmarried men ($3,120) and unmarried women ($2,700). Average retirement account distributions increased with family income and education levels. Finally, the mean and median values were higher among families of other races

($11,990 and $4,272, respectively) than were those of whites ($8,116 and $3,400) and blacks ($5,440 and $1,855). The higher values for other races may reflect greater savings rates within that group. [10]

How much would total measured family income increase if distributions from retirement accounts were included? For families who received distributions in 2009, mean family income would increase 15 percent and median income would increase 18 percent if their distributions were included in the SIPP summary measure of total income (Table 3). Mean income would increase from $53,434 without distributions to $61,555

with distributions. Median income would increase by $7,704, from $41,984 without distributions to $49,688 with distributions.

The percent change in mean and median income produced by adding retirement account distributions varies among characteristics and, for some characteristics, the percent change varies between the mean and median values. Mean values are affected by outliers, while a median, representing the middle of the distribution, is unaffected by how extreme the values in the tails of the distribution may be. We found no difference between age groups in the percent change

Table 1.

Families headed by persons aged 65 or older, and percent receiving retirement account distributions, by selected characteristics, 2009

Characteristic	Total families (in thousands)	Families in sample (unweighted)	Percent of families in sample receiving retirement account distributions
Total	24,541	8,080	19
Age			
65–70	8,306	2,747	15
71 or older	16,236	5,333	21
Marital status and sex			
Married couples	10,373	3,425	25
Unmarried men	3,746	1,222	15
Unmarried women	10,422	3,433	14
Age, marital status, and sex			
65–70			
Married couples	4,349	1,427	19
Unmarried men	1,250	410	12
Unmarried women	2,706	910	10
71 or older			
Married couples	6,024	1,998	30
Unmarried men	2,495	812	16
Unmarried women	7,716	2,523	15
Income quartile			
First (lowest)	6,138	2,088	8
Second	6,135	2,064	18
Third	6,134	1,999	25
Fourth (highest)	6,134	1,929	24
Education			
High school or less	14,869	5,044	14
Some college	3,931	1,277	23
College graduate	5,742	1,759	28
Race			
White	21,044	6,819	21
Black	2,308	874	6
Other	1,189	387	9

SOURCE: SIPP, 2008 Panel.

NOTE: Totals do not necessarily equal the sum of rounded components.

of mean family income when including retirement account distributions, but the impact on the median value was higher among the families of persons aged 71 and older (19 percent) than those aged 65–70 (15 percent). The smallest impact on mean and median income by marital status and sex was on married couples (14 percent and 15 percent, respectively) and the largest was on income of unmarried women (18 percent and 20 percent, respectively), with unmarried men falling in between (16 percent and 20 percent, respectively). The effect on mean values was inversely related to family income quartile, falling from 36 percent in the lowest quartile to 26 percent in the second quartile, 18 percent in the third quartile, and 10 percent in the fourth (highest)

quartile. The impact on median values also was generally inversely related to income quartile, with the greatest impact on the lowest quartile (18 percent) and the smallest impact on the highest quartile (11 percent). Within educational attainment groups, the greatest impact on mean and median income was among college graduates, although the differences across the education categories were small. Finally, the smallest impact on mean income by race was for black families (7 percent), compared with 16 percent for whites and 15 percent for other races. However, the impact of including retirement account distributions in median family income varied little by race, with all three groups experiencing an increase of 17 to 18 percent.

Table 2.

Families headed by persons aged 65 or older that received retirement account distributions, and mean and median distribution amounts, by selected characteristics, 2009

Characteristic	Families (in thousands)	Families in sample (unweighted)	Mean distribution amount ($)	Median distribution amount ($)
Total	4,620	1,457	8,121	3,300
Age				
65–70	1,231	397	9,720	5,000
71 or older	3,389	1,060	7,541	3,000
Marital status and sex				
Married couples	2,622	847	9,057	4,000
Unmarried men	550	165	7,508	3,120
Unmarried women	1,448	445	6,658	2,700
Age, marital status, and sex				
65–70				
Married couples	806	263	10,580	5,100
Unmarried men	147	45	10,871	5,900
Unmarried women	279	89	6,626	3,075
71 or older				
Married couples	1,816	584	8,382	3,325
Unmarried men	403	120	6,286	2,600
Unmarried women	1,169	356	6,666	2,400
Income quartile				
First (lowest)	519	166	5,283	2,200
Second	1,128	355	6,866	2,800
Third	1,510	477	8,122	3,684
Fourth (highest)	1,463	459	10,095	4,200
Education				
High school or less	2,091	676	6,277	2,400
Some college	922	298	7,026	3,300
College graduate	1,606	483	11,152	4,800
Race				
White	4,363	1,377	8,116	3,400
Black	148	49	5,440	1,855
Other	109	31	11,990	4,272

SOURCE: SIPP, 2008 Panel.

Including distributions from retirement accounts in family income increased mean and median income in all four income quartiles. Among families of persons aged 65 or older, retirement account distributions in 2009 were three times as likely for those in the highest income quartile as for those in the lowest quartile (24 percent versus 8 percent, Table 1). Likewise, retirement account distributions among those in the highest income quartile were substantially larger than those reported in the lowest quartile. In the top quartile, the mean and median total distributions in 2009 were $10,095 and $4,200, respectively, and the corresponding values for the lowest quartile were $5,283 and $2,200 (Table 2).

Although families in the top income quartile were more likely to have received a retirement account distribution, and received larger distributions on average than those in the bottom income quartile, including retirement account distributions in estimates of total income had a negligible impact on income inequality. The share of total income received by people aged 65 or older in the top income quartile fell from 53.9 percent when retirement account distributions were excluded to 53.4 percent when they were included (not shown). The share of total income received by those in the lowest quartile was 7.2 percent, regardless of whether retirement account distributions were included.[11]

Table 3.
Estimated mean and median family income including and excluding retirement account distributions, for families headed by persons aged 65 or older that received distributions, by selected characteristics, 2009

Characteristic	Mean family income			Median family income		
	Excluding distributions ($)	Including distributions ($)	Percent increase	Excluding distributions ($)	Including distributions ($)	Percent increase
Total	53,434	61,555	15	41,984	49,688	18
Age						
65–70	63,447	73,166	15	50,994	58,446	15
71 or older	49,796	57,337	15	39,564	46,892	19
Marital status and sex						
Married couples	63,461	72,519	14	52,934	60,840	15
Unmarried men	47,465	54,973	16	35,181	42,171	20
Unmarried women	37,540	44,198	18	27,368	32,952	20
Age, marital status, and sex						
65–70						
Married couples	72,358	82,938	15	57,122	70,623	24
Unmarried men	44,870	55,740	24	36,107	49,035	36
Unmarried women	47,435	54,061	14	31,502	38,805	23
71 or older						
Married couples	59,514	67,896	14	50,676	58,464	15
Unmarried men	48,408	54,694	13	34,651	40,320	16
Unmarried women	35,183	41,849	19	26,681	32,007	20
Income quartile						
First (lowest)	14,619	19,902	36	15,308	18,128	18
Second	26,834	33,700	26	27,034	30,677	13
Third	44,413	52,535	18	43,101	49,712	15
Fourth (highest)	97,023	107,118	10	81,698	90,648	11
Education						
High school or less	43,614	49,891	14	35,814	42,132	18
Some college	48,288	55,314	15	39,386	45,317	15
College graduate	69,177	80,328	16	56,794	67,504	19
Race						
White	52,162	60,278	16	41,652	49,138	18
Black	73,270	78,711	7	49,405	58,405	18
Other	77,545	89,535	15	63,684	74,416	17

SOURCE: SIPP, 2008 Panel.

Are Retirement Account Distributions Income?

The Census Bureau does not measure distributions from retirement accounts in the Current Population Survey (CPS) or the American Community Survey unless they are received as annuities, which are an increasingly uncommon retirement account distribution method (Anguelov, Iams, and Purcell 2012).[12] The SIPP asks about distributions from retirement accounts, but it does not include those distributions in its summary measure of total family income. We believe that, like the SIPP, the CPS and the American Community Survey should collect information about amounts received as distributions from retirement accounts. Then, regardless of whether the Census Bureau includes those distributions in the survey variables that represent total household, family, and personal income, analysts would be able to do so.

Accurately measuring distributions from retirement accounts can be more difficult than measuring income from a DB pension. Typically, DB pension income is received as a monthly annuity. In general, a household survey can ascertain income from a DB pension with three simple questions: Do you receive income from a pension? How often do you receive a pension check? What is the total amount you receive in each check? The same questions can be asked about each DB pension the respondent's household receives.

In contrast to DB pension income, DC account distributions often are taken at irregular intervals, whenever the retiree needs money; or in the case of required minimum distributions, they may occur just once a year. The amount depends on both the account balance and the accountholder's life expectancy, so it changes from year to year. For those reasons, survey respondents may have difficulty recalling distribution amounts and timing. In order to answer those questions accurately, respondents may need to refer to account statements or to the IRS Form 1099-R that they receive each January.

Another complication of counting retirement plan distributions as income is that part of each distribution represents a return to the employee of his or her own prior contributions to the account. In most cases, this problem does not arise with DB pensions because private-sector employees usually do not contribute to their DB plans.[13] Employees' contributions to their retirement accounts were part of their gross income in earlier years, and a general rule of accounting states that a dollar of income in one year should not be counted again as income in a later year.[14] Withdrawals from regular savings accounts, for example, are not treated as income by economists or the IRS because the deposits to those accounts were counted as income in earlier years, as was the interest credited to the account each year. Retirement accounts differ from regular savings accounts in that amounts contributed by employers, and the interest, dividends, and capital gains earned by the account, are not received by the employee until distributions are taken from the account, usually in retirement.

Conclusion

With the shift by employers from providing traditional DB pensions to DC plans over the past several decades, distributions from retirement accounts have become an important resource for the aged. In the private sector, traditional DB pensions that pay lifetime annuities to retirees have been largely supplanted by DC plans, which work like retirement savings accounts. Consequently, a large and growing proportion of Americans are entering retirement with much of their non–Social Security wealth held in retirement accounts. Distributions from those accounts are already a substantial source of income for retirees, and their importance will continue to grow in the future. Consequently, it will be increasingly important for government surveys of household income to accurately measure distributions from those accounts.

We estimate that almost one-fifth (19 percent) of families aged 65 or older received distributions from retirement accounts in 2009.[15] Those distributions had a mean value of $8,121 and a median value of $3,300. If total family income in 2009 as measured in the SIPP had included those distributions, mean income would have been about 15 percent higher and median income would have been about 18 percent higher among families receiving distributions.

As the structure of retirement plans continues to evolve, government surveys that attempt to measure the economic well-being of older persons will need to be revised in response to those changes. If household surveys—especially the CPS, which is used to develop official estimates of household income and the number of persons in poverty—do not accurately identify sources and amounts of income, they will provide misleading results. Inaccurate statistics about household income could lead to inappropriate policies.

Among the Census Bureau's household surveys, the SIPP asks about distributions from retirement plans, but comparisons with IRS data indicate that the SIPP greatly underestimates the amounts of such distributions. The CPS captures distributions from retirement accounts only if they are taken as an annuity, which is not a common form of distribution. Most retirement accountholders take distributions at irregular intervals and in varying amounts. Although distributions from retirement accounts are more difficult to measure than income that is received regularly, the continued relevance of CPS-based estimates of the income of the elderly in the United States depends on the Census Bureau developing appropriate survey questions for that purpose.

Notes

[1] Other employer-sponsored accounts include 403(b) plans for employees of educational and cultural institutions and 457(b) deferred-compensation plans for employees of state and local governments.

[2] In its April–May 2012 survey of employers that sponsor retirement plans, Towers Watson (2012) found that only 6 percent offered a lifetime distribution option, and most of those sponsors reported that less than 5 percent of their employees chose the annuity option at retirement.

[3] We define married couples as those in which the husband is aged 65 or older, and we categorize couples according to the husband's sociodemographic characteristics.

[4] An IRA can contain either a workers' own contributions to the account, amounts that have been "rolled over" into the IRA from a DC plan, or both. The majority of money deposited into IRAs each year consists of rollovers from DC plans (Holden and Schrass 2012).

[5] The SIPP data dictionary defines the income variable TFPNDIST as "family distributions from pension plans: Reaggregated total family distributions from IRA's, KEOGH, and 401(k) pension plans for the reference month after top-coding amounts," and the variable TFLUMPSM as "family retirement lump sum payments: Reaggregated total family lump sum payments from retirement plans for the reference month after top-coding amounts." We sum TFPNDIST and TFLUMPSM to estimate total retirement account distributions. Census Bureau excludes that amount from the variable TFTOTINC, its summary measure of family income.

[6] Unmarried includes never married, widowed, and divorced.

[7] The requirement applies to IRAs and 401(k) plans in which the participant was allowed to defer income taxes on amounts contributed to those plans. Roth IRAs or Roth 401(k) plans require no distributions because contributions

to those accounts are taxable in the year they are contributed. In other words, in a traditional IRA or 401(k), income taxes are levied when the money comes out of the account. In a Roth IRA or Roth 401(k), income taxes are levied when the money goes into the account.

[8] Lower-income households with retirement accounts are more likely to take distributions before the required distribution age than are higher-income households. Households in the lower half of the income distribution, however, are less likely to have a retirement account than higher-income households.

[9] Values are calculated only for recipient families; that is, calculations exclude families without retirement account distributions.

[10] Savings tend to rise with income. Asian-Americans constitute the largest group in the "other" race category, and according to the Census Bureau's March 2012 Current Population Survey, the 2011 median household income among Asian-Americans exceeded that of any other race/ethnic group. (DeNavas-Walt, Proctor, and Smith 2012, Table 1).

[11] We had expected that including retirement account distributions in total income would increase income inequality because retirement account ownership is more common in the top income quartile than in the bottom quartile. However, retirement account distributions increased income in almost equal proportions in both quartiles.

[12] Census Bureau officials have indicated that they are considering potential CPS questions about nonannuity retirement account distributions.

[13] With few exceptions, private-sector DB plans are funded by employer contributions and investment earnings. In the public sector, employees usually are required to contribute to their DB pension; therefore, in retirement, some of the income they receive represents a return to them of the contributions they made while they were working. Based on IRS instructions for calculating the taxable portion of pension income received by retirees from public-sector jobs, the return of contributions to retirees usually represents a relatively small fraction of their pension income.

[14] Regardless of whether income taxes are deferred on the employee's contributions, the amount contributed to a DC retirement plan or an IRA is part of his or her gross income in that year.

[15] We believe that 19 percent undercounts the actual share of families receiving such distributions over the year but we do not have access to the data from IRS Form 1099-R, issued by institutions distributing more than $10 from retirement vehicles. The Census Bureau has found that in 2009, about two-thirds of CPS respondents who received 1099-R forms failed to report the distributions in the survey (Bee 2012, Table 2). If that proportion were also to apply to our SIPP data, almost three-fifths of families

would receive distributions, rather than the 19 percent we observe. Bryant, Holden, and Sabelhaus (2011) estimate from tax records that persons older than age 60 in 2006 received about $529 billion in taxable distributions from DC accounts including IRAs. From the SIPP data underlying our calculations for Table 2, we estimate about $144 billion in taxable distributions for families of persons aged 60 or older in 2009, equal to about 27 percent of Bryant, Holden, and Sablehaus' estimate for 2006.

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