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# Economic Policy Institute

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## SOCIAL SECURITY IS CHIEF FACTOR IN IMPROVED RETIREMENT WEALTH PICTURE

Combined value of traditional pensions and 401(k)s  
stagnant from 1983 to 2001 for typical near-retirees

For the typical American nearing retirement age, prospects for financial security in retirement improved somewhat between 1989 and 2001. The median household headed by someone between the ages of 56 and 64 became a little more likely to reach two important benchmarks: the ability to replace at least 75 percent of pre-retirement income and to count on income at least twice the poverty rate. This improvement came not because Americans became better savers or because the stock market improved – although it did – but thanks primarily to the growth of Social Security wealth.

In a new research study released today by the Economic Policy Institute, economists Edward N. Wolff and Christian Weller found that median-income households headed by someone between the ages of 56 and 64 had over four times as much Social Security wealth as private pension wealth to sustain them in retirement. [\*Retirement Income: The Crucial Role of Social Security\*](#) updates and expands on another Wolff study published in 2002, *Retirement Insecurity: The Income Shortfalls Awaiting the Soon-to-Retire*.

“Social Security continues to be the bedrock on which most families are building their retirement,” said Wolff. “This remains true even in the midst of a historic run-up in housing values and a growing national focus on the aging of the baby boomers.”

The researchers provide perspective on another trend with particular relevance to current issues in the news: the rapid shift from conventional, defined benefit pension plans to private account-based, defined contribution plans such as 401(k)s. Because of this shift, even with a rise in the stock market, private pension wealth declined from 1989 to 2001 for the median household in the 56-to-64 age group.

“On the private pension side we see people, essentially, treading water,” said Weller. “Their defined benefit plans are getting turned into defined contribution plans, but they aren’t moving ahead.”

Another significant finding of the study is the very uneven distribution of all kinds of pension wealth except Social Security, which had a significant impact on raising the total retirement

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*The Economic Policy Institute is an independent, nonprofit, nonpartisan research institute – or “think tank” – based in Washington, D.C. EPI researches the impact of economic trends and policies on working people in the United States and around the world.*

wealth for minorities and women, who are likely to have less non-Social Security wealth to draw on. While 23 percent of the 56-64 group had no private pension of any kind in 2001, 98 percent had claim to Social Security benefits in retirement.

The authors' analysis examines levels of "augmented" retirement wealth, which includes defined benefit pension wealth and Social Security wealth in addition to marketable wealth such as savings, housing, and 401(k)s. The authors calculate Social Security wealth based on the estimated value of an individual's expected retirement income from Social Security. The study divides households into three age groups: 47-55; 56-64; and over 65. It also examines trends by racial and minority groups, gender, and marital status.

Highlights of the findings include:

- The value of Social Security retirement benefits represents the largest single source of wealth for the typical person approaching retirement.
- For about two-thirds of people over 65, Social Security provides more than half of all income.
- For the average person near retirement, Social Security provided a larger addition to wealth between 1989 and 2001 than any other form of wealth.
- From 1989 to 2001, the share of households that could expect retirement income of less than twice the poverty line declined, while the share of households that could hope to replace at least half of their current income in retirement rose.

### **About the Authors**

**Edward N. Wolff** is professor of economics at New York University, a senior scholar at the Levy Economics Institute of Bard College, and a research associate with the Economic Policy Institute and the National Bureau of Economic Research. He is author of the 2002 EPI publication, *Retirement Insecurity: The Income Shortfalls Awaiting the Soon-to-Retire*.

**Christian Weller** is a senior economist at the Center for American Progress, where he specializes in Social Security and retirement income, macroeconomics, the Federal Reserve, and international finance. Formerly a member of the research staff at EPI, he remains an EPI research associate.

### **Ordering the Book**

*Retirement Income: The Crucial Role of Social Security*, Christian Weller and Edward N. Wolff, published by the Economic Policy Institute, 66 pp., \$11.50, order at [www.epi.org](http://www.epi.org).