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EMPLOYEES' KNOWLEDGE OF THEIR PENSION PLANS

Our findings suggest a recognition effect of pension plans on saving. Attaching a label to certain statistical results, however, does not necessarily mean we fully understand them, especially in this case which deals with the psychological attitudes and responses of employees under different circumstances. Although the sample survey was not designed to obtain this kind of information, it does yield some evidence on how well participants are informed of their pension plans.

Although pension coverage surely increases an employee's knowledge of pension benefits and costs, the extent of the increase appears limited. Some evidence of this is employees' apparent confusion over the amount of their benefits attributable to the employer's contribution: covered households for the most part did not count their employer's contribution (whatever it may have been) in reporting their pension saving, though many said they did. The pension-saving ratio for the covered group averaged 2.8 per cent (Table 4), which seems far too low to include employers' contributions (our rough estimate in the last chapter was 6.5 per cent); yet 29 per cent of this group said they included some or all of their employer's contribution (question 15D). Furthermore, of the group with positive pension-saving ratios of less than 50 per cent, those who claimed to include some or all of the employer's contribution had a ratio 0.5 of a percentage point higher than those who did not, which seems too small and suggests misunderstanding. We also found in Chapter 4, Section 2, that changes in the contribution attributable to employers, in comparison with changes in employees' own contributions, have hardly any substitution effect and apparently only a very small recognition effect.

Yet there must be some awareness of the employer's contribution, since degree of vesting was found to affect saving. Apparently most covered households know that their employer contributes something,

but have little idea of the amount. Table 17 provides further evidence on this. The table gives our indirect estimate of the total contribution (employees' and employers') to pension funds (the same as in Table

TABLE 17
Estimated Total Contribution to Pension Plans ^a Compared with
Reported Amounts ^b

Percentage Contribution Deducted from Paycheck ^c	Reported Relative Size of Employer's and Employee's Contributions ^d		
	Employer's Less	About the Same	Employer's Larger
None	e	e	6.0
0-2.9	4.6	5.8	5.9
3-4.9	5.7	6.7	7.0
5-6.9	6.7	6.6	6.9
7 and over	7.1	7.5	7.2

^a Employee's and employer's contributions; estimated from age, years of coverage, and expected retirement income (see Chapter 4, Section 2), divided by family income.

^b Same exclusions as Table 13, first row, as well as households not reporting information on own and employer's relative contributions, or for which total contribution could not be estimated. Number of households, arrayed in the same pattern:

...	...	1,392
40	265	303
81	466	312
180	688	216
136	423	74

^c Question 15B.

^d As reported in question 15A; same as used in Table 13 and 14.

^e Omitted because less than ten households.

15), classified by the relative size of each part as reported by employees. It should be borne in mind that the levels of the figures in the left-hand column are not comparable with those in the remaining three columns: the employee's own contribution was reported as a percentage of his pay check, whereas the total contribution was computed as a percentage of his family income. Pay checks of the main earner are often not the only family income; hence the left-hand column is biased upward relative to the other columns, perhaps considerably. In addition, the estimates of the total contribution may contain substantial errors.

Granted these limitations in the table, employees' statements about their pension benefits and contributions still reveal wide inconsistencies. Those who reported their employer's contribution to be less than their own, though a relatively small part of the sample, are probably mistaken; in virtually all plans the employer's contribution is equal to or greater than the employee's. In each row (which holds the employee's contribution constant) those who reported the employer's amount to be more had made total contributions only slightly greater than those reporting it to be the same as their own. If respondents' answers had been correct, our estimate of the total contribution should rise substantially across the rows and down the columns of the table. That the differences in the estimates in all cases are negligible suggests considerable misinformation among covered households on the amount of contributions and retirement benefits, even though the respondents were well above the national average in education.

Whether one should expect better is, of course, questionable. Pension plans are intricate and their details complicated. In most plans, moreover, employers' contributions are not specified; even if they were, no particular part could be allocated to specific employees. Although the brochure for new participants of most plans indicates whether the employer's obligation involves contributions roughly the same as or more than the employee's, misunderstanding of this point is probably the chief source of the inconsistencies found. Yet participants need not know much of the details of their plans to prepare for retirement intelligently, all of which suggests that the recognition effect, whatever its explanation, probably does not require the acquisition of much knowledge that a person does not already have or cannot easily obtain even without acquiring a pension plan.

The question still arises whether knowledge of plans increases as the length of time covered lengthens. One way to measure knowledge is by the number of questions about his plan that a respondent did not leave blank (or say "don't know"). In our survey various such questions were asked, and we may classify covered households by how many they answered and see whether the groups covered longer were better informed.¹ The answers may of course be incorrect, but at least the

¹ I am indebted to F. Thomas Juster for this idea.

respondent thought he knew the correct answer. Except for the question about the employer's contribution, we have assumed he did. The data are presented in Table 18. The number of four questions on pension plans answered does rise with the length of time covered, but not by much. The average number for the lowest group is fairly high, another indication of how conscientious these respondents are. The averages cover up considerable diversity, however. The simple correlation coefficient between length of time covered (using midpoints of each interval and $17\frac{1}{2}$ years for the open-end class) and number of questions answered for all households is only .12.

TABLE 18
Covered Households' Knowledge of Their Pension Plans
by Length of Time Covered ^a

Number of Years Covered	Average Number of Four Questions Answered
Less than 5	3.1
5-9	3.3
10-15	3.4
Over 15	3.4

^a Same exclusions as Table 6 as well as households not reporting length of time covered. Total included: 7,959.

^b The four questions were amount of own contribution (15A), employer's contribution (15B), retirement income (4), and vesting (5).

These results indicate to me that covered households learn much or little of their pension plans depending on their individual personalities, and how long they have been covered makes little difference. The implication seems to be that the passage of time will not greatly increase participants' knowledge of pension plans. Insofar as a knowledge of plans enhances or retards the recognition and substitution effects, therefore, the future will not bring responses that differ much from those in this survey. Whether this conclusion holds for the population as a whole, which we may presume is at present considerably less well informed, is an open question.

It would be revealing, both for future trends and for the nature of the recognition effect, to have evidence on how increased knowledge

affects saving, but our data do not provide it. The trouble is that the propensity to save and knowledge (as indicated by the number of questions answered) are likely to be highly correlated: a high saver will make the effort to learn the terms of his pension plan. Consequently, if we rank covered households by the number of pension questions answered, the better-informed groups will have higher average saving ratios, and we cannot distinguish between the effect on saving of greater knowledge and of a higher propensity to save.² We cannot say, therefore, what role knowledge plays in the recognition effect. On the one hand, the lack of knowledge of employers' contributions suggests that the recognition effect does not require detailed knowledge of the terms of pension plans. Merely becoming covered may create sufficient awareness of retirement problems to produce the results we observe; knowing the details may not enhance the saving effects already produced. On the other hand, we cannot test this properly because the average covered household in our sample displays an uncommonly high level of knowledge. Even though we found no evidence of it, it is plausible that the effects of coverage should depend in some degree on knowledge. If so, our results suggest that these effects do not increase as age and length of coverage advance.

² Conceivably this could be done by adding the number of questions answered as an independent variable to the regressions, using the wealth ratio in Chapter 3, Section 4. There we estimated the extra saving during periods of coverage over the saving of the same household before it was covered. In such a regression (which was not made), differences among households in propensities to save do not matter, and we could test for interaction between the estimated coefficient of the knowledge variable and the estimated extra saving.