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**Results and Recommendations from the Cognitive
Pretesting of the SIPP Cash Balance Pension Question**

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Results & Recommendations from the Cognitive Pretesting of the SIPP Cash Balance Pension Question

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1 BACKGROUND & PURPOSE FOR RESEARCH

This report reflects the Center for Survey Methods Research's (CSMR's) evaluation of the new Cash Balance Plan question for the SIPP Retirement and Pension Module scheduled for fielding in Wave 7. The purpose of this evaluation was to examine respondents' reactions to the question and their knowledge of their retirement/pension plans.

A report published by the Bureau of Labor Statistics defines a cash balance plan as follows:

A cash balance plan, a type of defined benefit pension plan, promises an employee an employer contribution equal to a percent of each year's earnings and a rate of return on that contribution. The benefit is always expressed as a total account balance. This is in contrast to a traditional defined benefit plan, which typically promises an employee a flat dollar amount based on years of service or an annuity- a periodic benefit usually based on years of service and an employee's earnings in the years closest to retirement.¹

The cash balance plan is sometimes considered a hybrid between the defined benefit and defined contribution plans. It is a defined benefit plan because the benefit is defined in terms of a formula using each year's annual salary, number of years at the company, and a rate of return. However, it also has characteristics of a defined contribution formula because a hypothetical account balance is maintained throughout the employee's career. Each year the company sets aside a certain percentage of the employee's salary into an account that earns interest.

2 METHOD & RESPONDENT CHARACTERISTICS

In June of 2002, CSMR staff conducted concurrent think-aloud interviews with thirteen respondents interviewed either in the Census Bureau's cognitive interview lab or a location more convenient for the respondent, usually their place of employment. Interviews ranged in duration from 15 to 30 minutes and were audio-taped after gaining respondents' consent.

¹Elliot, K.R. & Moore, Jr, J.H. "Cash balance Pension Plans: The New Wave." Compensation and working conditions, Summer 2000. Division of Compensation Data Analysis and Planning, Bureau of Labor Statistics.

To adequately test this question, it was important that every respondent did have a pension plan, otherwise they would not receive any of the specific pension plan questions. Eight respondents worked for companies that were known to have the Cash Balance Plan² and the remaining five worked for companies that did not offer the plan. Respondents spanned a variety of demographic groups: five were male and eight were female; six were African-American and seven were Caucasian; one was under 30, six were between 30 and 40, three were between 40 and 50 and three were over 50. Given the constraint that each respondent needed to have a pension plan, only one respondent was recruited who had less than a college education. Approximately half of the respondents had graduate degrees. Income was also affected by the pension constraint. Only 2 of the respondents had household incomes that were less than \$50,000.

A structured cognitive interview protocol was used to examine how respondents both with and without the cash balance plan react to the cash balance question. A series of probes were used to elicit the knowledge that respondents have of their plan(s), in general, and the cash balance plan, in particular.

2.1 Pretesting Strategy

Respondents were asked the set of questions from the SIPP module that precede the new cash balance question. Asking these questions to set the context for the new question was deemed necessary for proper pretesting by the CSMR staff. See Appendix A for the questionnaire that was administered to respondents.

2.1.1 Focal Questions

Q5 GENERAL RETIREMENT PLAN QUESTION

[IF R HAS MORE THAN 1 PENSION OR RETIREMENT PLAN, READ: *The following questions are about the plan you would consider to be your most important retirement plan on this job.*]

There are two basic types of retirement plans.

In the first type, your benefit is defined by a formula usually involving your earnings and years on the job.

In the second type of plan, contributions made by you and/or your employer go into an individual account for you.

Which type of plan are you in?

Q6 CASH BALANCE QUESTION

²Companies that offer cash balance plans were identified through the Internet and employees of those companies were recruited.

In some pension plans your employer sets aside a percentage of your salary and invests it for you, with a guaranteed minimum rate of return. This is sometimes called a Cash Balance Plan.

Is that how your plan works?

3 FINDINGS & RECOMMENDATIONS

3.1 General Observations

3.1.1 First and foremost, many respondents did not understand or know the details of their retirement plan(s). Many expressed hesitation in classifying their plans and were not confident in their responses.

3.1.2 One respondent summarized her confusion about types of retirement plans by saying:

“I think there’s a lot of terminology thrown around assuming that we know what it is, when actually what you think it is, at another company it’s a little different. Maybe it’s all the same, but then again it seems to be different.”

3.2 Question 5: General Retirement Plan Findings

3.2.1 **Working memory overload.** Several respondents were not able to classify their retirement plans upon hearing Q5 without either having it read a second time or asking to see the descriptions themselves.

3.2.2 **No clear correct answer.** When Q5 is asked pertaining to the cash balance plan, there is no clear answer. Cash balance plans are often considered a hybrid between defined contribution and defined benefit plans. To ask the respondent to classify the plan as one or the other presents unnecessary respondent burden. Several respondents had difficulty choosing one of the categories for the cash balance plan and a few said that it fit into both categories - which technically is a correct response.

3.2.3 Recommendations:

- Provide choices on show cards. Given that these concepts are new to many respondents, they are faced with the dual task of classifying their plans while trying to remember the details of the descriptions. Providing descriptions on show cards would reduce respondent burden.
- Allow respondent to answer “both” to indicate these hybrid plans.
- Alternatively, a third category could be devised describing the hybrid plans, including the cash balance plans. This could eliminate the need for a separate question. The following question demonstrates how a third category could be added to Q5 to eliminate the need for a separate cash balance question. Please note that the addition of a third category would make a show card necessary for respondents.

- Recommended wording for Q5:

There are several different types of retirement plans.

[GIVE RESPONDENT SHOW CARD]

In the first type, your benefit is defined by a formula usually involving your earnings and years on the job.

In the second type of plan, contributions made by you and/or your employer go into an individual account for you.

The third type of plan shares some characteristics with the above two plans. In this type of plan, your employer contributes a value equal to a percent of each of your earnings each year and there is a rate of return on that contribution. This type of plan is sometimes called a cash balance plan.

Which type of plan are you in?

3.3 Question 6: Cash Balance Plan Findings

3.3.1 Identifying the Cash Balance Plan

- Most of the respondents, even those who had the plan, had not heard the term *cash balance plan*. Instead, they often referred to it as the company pension plan.
- Of those who did have the cash balance plan, some correctly identified it based on the description in the question. However, *not all of them were able to correctly identify it*.
- Several respondents who had the cash balance plan were not sure that the money was invested and most did not know what was meant by a “guaranteed minimum rate of return.”
- Some respondents mistook the description of a cash balance plan for a generic description of any plan in which the employer invests the retirement fund. From the description given in the question, they were not able to tell that the cash balance plan is different from a traditional defined contribution plan. A few respondents who did not have cash balance plans thought, incorrectly, that their plan might classify given the description in the question.
- From the description in the question, some respondents were under the assumption that the money that was “set aside” was actually taken from the employee’s salary.
- Several respondents mentioned that they were more familiar with descriptions that include employer contributions versus employee contributions than the terms used to describe the cash balance plan in the question. However, respondents’ perceptions of the source of the contributions were not always accurate.
- Several respondents noted that since they do not have much control over the cash balance plan, they have not taken the time to become informed about it. Most admitted

to not knowing the details of the plan (i.e. how much is contributed, if it is employee- or employer-funded, if they have options, how much they will receive when they retire, etc.).

3.3.2 Misconceptions about the Cash Balance Plan

- Many respondents who did have a cash balance plan believed that they contributed money to this fund. Several thought that the company matched these funds. Most were not aware that these funds come primarily from the employer.
- One respondent incorrectly thought that the 401(k) and cash balance were two parts of one plan - so she reported them as one plan answering that it was both an individual account (Q5) and a cash balance plan (Q6).

3.3.3 Problems with the description in the question

- Some respondents who had the cash balance plan could not identify it by the description given. The description places emphasis on the investment of the funds, which is not necessarily what would be emphasized in benefits packages describing the plan. Instead, the plan is defined by the employer contributing funds at a certain percentage of the employee's salary to an account that earns interest.
- The following quotes were found on benefits websites from companies that have the cash balance plans:

“Your Pension Plan benefit is in the form of an account that grows over time through contributions from Bank of America and investment gains.”³

“The GE Pension Plan provides a fixed, reliable source of retirement income for eligible employees and their spouses. GE pays the major portion of your pension benefits.”⁴

“After a year of working at IBM, you begin to participate in the Personal Pension Account—a portable pension account—that grows steadily throughout your career with IBM contributions. You receive monthly pay credits equal to 5% of your pensionable pay and interest credits at an annual rate equal to the return on one-year U.S. Treasury bills, plus 1%.”⁵

³ http://www.bankofamerica.com/careers/index.cfm?template=car_life_benefits_pen.cfm Retrieved August 6, 2002.

⁴ <http://www.gecareers.com/WorkingForGE/future.cfm> Retrieved August 6, 2002.

⁵ <http://www-3.ibm.com/employment/us/ibm/benefits.shtml#pension> Retrieved August 6, 2002.

“We [Verizon] also offer retirement benefits, including a 401(k) with employer matching contributions and a defined benefit pension plan.”⁶

- As these quotes demonstrate, many employers refer to these plans as company pension plans and the descriptions focus on employer contributions. In most cases, respondents did not have much more information than what is given in these simple descriptions.

3.3.4 Alternate Wording

- After the first 8 interviews were conducted, an alternative question wording was created on the basis of comments received up to that point. For the last 4 cognitive interviews, the following alternative wording was added to the end of the protocol to gather respondents’ reactions:

In some pension plans, each year your employer sets aside money to be placed in your retirement account. The value in this account earns interest as well. When you retire or change jobs, you have the option to take the money from the account in a lump sum. This is sometimes called a Cash Balance Plan. Is that how your plan works?

- Generally, the alternate wording avoids some of the problems that respondents had noted with the first description (unsure about the investment of the money and the guaranteed minimum rate of return, focus on employee contributions).
- One respondent said that this wording made it sound like the funds came from the employer (which is accurate).
- Other respondents thought this description was more accurate and provided more information on which to make their decision.

3.3.5 Recommendations

- Change the focus of the description from the investment to the source of the money (employer contributions).
- Make it clear that these are primarily funded through employer contributions rather than employee contributions.
- The following wording is recommended if it is deemed necessary to have a separate question to assess cash balance plans⁷:

In some pension plans, each year your employer sets aside money to be placed in your retirement account. The value in this account earns interest as well. When you retire or change jobs, you have the option to

⁶<http://www22.verizon.com/about/careers/benefits.html> Retrieved August 6, 2002.

⁷If it is not necessary to have a separate question, recommended rewording for Q5 to include a category for cash balance plans is presented in Appendix B.

take the money from the account in a lump sum. This is sometimes called a Cash Balance Plan. Is that how your plan works?

- See Recommendation 3.2.3 or Appendix B for a revised wording of Q5 that also takes the cash balance findings into account.

3.4 Question Order

3.4.1 **Answering out of order.** Many respondents defined their 401(k) as their most important plan, and answered Q5 accordingly. However, when asked Q6 several respondents switched their frame of reference and responded “yes,” now referring to their second most important plan - which was a cash balance plan. When further probed, most respondents knew that their 401(k) was separate and different from the cash balance plan. They were responding as if the question asked “Is that how one of your plans works?” It is unclear whether this could be an effect of the cognitive interviewing process.

3.4.2 Recommendations:

- Incorporate the cash balance question (Q6) into the general retirement plan question (Q5). See Recommendation 3.2.3 or Appendix B for recommended Q5 wording.
- If it is necessary to gather data on the cash balance question separately, add a reminder before the cash balance question that it pertains to “*the plan you would consider to be your most important retirement plan on this job.*”

4 REVISED QUESTIONNAIRES

- Appendix B contains the recommended revised questionnaire, which contains an expanded Type of Pension Plan question (Q5) that includes a Cash Balance alternative and eliminates the need for a separate question.
- If it is deemed necessary to collect data on the Cash Balance Plan separately, see Appendix C for the questionnaire including a revised Cash Balance Plan question (Q6).

Appendix A:
Original Retirement and Pension Questions

Q1

Do you currently work at a job?

- Yes
 - No [End]
 - Don't Know [End]
 - Refused [End]
-

Q2

Now I'd like to ask about retirement plans offered on this job, not Social Security, but plans that are sponsored by your employer. This includes regular pension plans as well as other kinds of retirement plans like thrift and savings plans, 401(k) or 403(b) plans, and deferred profit-sharing and stock plans.

Does your employer have any kind of pension or retirement plans for anyone in your company or organization?

- Yes
 - No [End]
 - Don't Know [End]
 - Refused [End]
-

Q3

Are you included in such a plan?

- Yes
- No [End]
- Don't Know [End]
- Refused [End]

Q4

Some workers participate in more than one retirement plan. For example, they might have a regular pension plan and also have some kind of retirement savings plan.

How many different pension or retirement plans do you have on this job?

___ Number of plans

___ Don't Know

___ Refused

Q5

*[IF R HAS MORE THAN 1 PENSION OR RETIREMENT PLAN, READ: **The following questions are about the plan you would consider to be your most important retirement plan on this job.**]*

There are two basic types of retirement plans.

In the first type, your benefit is defined by a formula usually involving your earnings and years on the job.

In the second type of plan, contributions made by you and/or your employer go into an individual account for you.

Which type of plan are you in?

___ Plan based on earnings and years on the job

___ Individual account plan

___ Don't Know [Skip to Q7 if R has more than 1 pension plan, otherwise END]

___ Refused [Skip to Q7 if R has more than 1 pension plan, otherwise END]

Individual account plans may also be called the following: Defined contribution plans, Thrift or savings plans; Deferred profit sharing; Stock plan or ESOP; 401(K), 403(b) or 457 plans; Simplified Employee Pensions (SEP); or Money purchase plans.]

Q6 TEST QUESTION

In some pension plans your employer sets aside a percentage of your salary and invests it for you, with a guaranteed minimum rate of return. This is sometimes called a Cash Balance Plan. Is that how your plan works?

- Yes [End]
- No
- Don't Know
- Refused

[INTERVIEWER NOTE: IF R REPORTED MORE THAN ONE PENSION PLAN IN Q4, CONTINUE, OTHERWISE END.]

Q7

What is your second most important plan on this job?

- Plan based on earnings and years on the job.
- Individual account plan
- Don't Know [END]
- Refused [END]

[INTERVIEWER NOTE: PROVIDE THIS INFORMATION IF R HAS QUESTIONS:

Individual account plans may also be called the following: Defined contribution plans, Thrift or savings plans; Deferred profit sharing; Stock plan or ESOP; 401(K), 403(b) or 457 plans; Simplified Employee Pensions (SEP); or Money purchase plans.]

Q8 TEST QUESTION

Is this a Cash Balance Plan? (That is, where your employer sets aside a percentage of your salary and invests it for you, with a guaranteed minimum rate of return).

Yes

No

Don't Know

Refused

Appendix B:
Recommended Revisions: Expanded Type of Pension Plan Question

Q1

Do you currently work at a job?

- Yes
 - No [End]
 - Don't Know [End]
 - Refused [End]
-

Q2

Now I'd like to ask about retirement plans offered on this job, not Social Security, but plans that are sponsored by your employer. This includes regular pension plans as well as other kinds of retirement plans like thrift and savings plans, 401(k) or 403(b) plans, and deferred profit-sharing and stock plans.

Does your employer have any kind of pension or retirement plans for anyone in your company or organization?

- Yes
 - No [End]
 - Don't Know [End]
 - Refused [End]
-

Q3

Are you included in such a plan?

- Yes
- No [End]
- Don't Know [End]
- Refused [End]

Q4

Some workers participate in more than one retirement plan. For example, they might have a regular pension plan and also have some kind of retirement savings plan.

How many different pension or retirement plans do you have on this job?

___ Number of plans

___ Don't Know

___ Refused

Q5

[IF R HAS MORE THAN 1 PENSION OR RETIREMENT PLAN, READ: The following question is about the plan you would consider to be your most important retirement plan on this job.]

There are several different types of retirement plans.

[GIVE RESPONDENT SHOW CARD]

In the first type, your benefit is defined by a formula usually involving your earnings and years on the job.

In the second type of plan, contributions made by you and/or your employer go into an individual account for you.

The third type of plan shares some characteristics with the above two plans. In this type of plan, your employer contributes a value equal to a percent of each of your earnings each year and there is a rate of return on that contribution. This type of plan is sometimes called a cash balance plan.

Which type of plan are you in?

- Plan based on earnings and years on the job
- Individual account plan
- Cash Balance Plan
- Don't Know
- Refused

[INTERVIEWER NOTE: PROVIDE THIS INFORMATION IF R HAS QUESTIONS:

Individual account plans may also be called the following: Defined contribution plans, Thrift or savings plans; Deferred profit sharing; Stock plan or ESOP; 401(K), 403(b) or 457 plans; Simplified Employee Pensions (SEP); or Money purchase plans.]

[INTERVIEWER NOTE: IF R REPORTED MORE THAN ONE PENSION PLAN IN Q4, CONTINUE, OTHERWISE END.]

Q6

What is your second most important plan on this job?

[IF NEEDED GIVE RESPONDENT SHOW CARD AGAIN]

- Plan based on earnings and years on the job.
- Individual account plan
- Cash Balance Plan
- Don't Know [END]
- Refused [END]

[INTERVIEWER NOTE: PROVIDE THIS INFORMATION IF R HAS QUESTIONS:

Individual account plans may also be called the following: Defined contribution plans, Thrift or savings plans; Deferred profit sharing; Stock plan or ESOP; 401(K), 403(b) or 457 plans; Simplified Employee Pensions (SEP); or Money purchase plans.]

Appendix C:

Questionnaire with Revised Cash Balance Question

Q1

Do you currently work at a job?

- Yes
 - No [End]
 - Don't Know [End]
 - Refused [End]
-

Q2

Now I'd like to ask about retirement plans offered on this job, not Social Security, but plans that are sponsored by your employer. This includes regular pension plans as well as other kinds of retirement plans like thrift and savings plans, 401(k) or 403(b) plans, and deferred profit-sharing and stock plans.

Does your employer have any kind of pension or retirement plans for anyone in your company or organization?

- Yes
 - No [End]
 - Don't Know [End]
 - Refused [End]
-

Q3

Are you included in such a plan?

- Yes

- No [End]
 - Don't Know [End]
 - Refused [End]
-

Q4

Some workers participate in more than one retirement plan. For example, they might have a regular pension plan and also have some kind of retirement savings plan.

How many different pension or retirement plans do you have on this job?

- Number of plans
 - Don't Know
 - Refused
-

Q5

[IF R HAS MORE THAN 1 PENSION OR RETIREMENT PLAN, READ: The following questions are about the plan you would consider to be your most important retirement plan on this job.]

There are two basic types of retirement plans. [GIVE RESPONDENT SHOW CARD]

In the first type, your benefit is defined by a formula usually involving your earnings and years on the job.

In the second type of plan, contributions made by you and/or your employer go into an individual account for you.

Which type of plan are you in?

- Plan based on earnings and years on the job
- Individual account plan
- Characteristics of both
- Don't Know [Skip to Q7 if R has more than 1 pension plan, otherwise END]
- Refused [Skip to Q7 if R has more than 1 pension plan, otherwise END]

[INTERVIEWER NOTE: PROVIDE THIS INFORMATION IF R HAS QUESTIONS:

Individual account plans may also be called the following: Defined contribution plans, Thrift or savings plans; Deferred profit sharing; Stock plan or ESOP; 401(K), 403(b) or 457 plans; Simplified Employee Pensions (SEP); or Money purchase plans.]

Q6

[IF R HAS MORE THAN 1 PENSION OR RETIREMENT PLAN, READ: *Remember that this question is about the plan you would consider to be your most important retirement plan on this job.*]

In some pension plans, each year your employer sets aside money to be placed in your retirement account. The value in this account earns interest as well. When you retire or change jobs, you have the option to take the money from the account in a lump sum. This is sometimes called a Cash Balance Plan. Is that how your plan works?

- Yes [End]
- No
- Don't Know
- Refused

[INTERVIEWER NOTE: IF R REPORTED MORE THAN ONE PENSION PLAN IN Q4, CONTINUE, OTHERWISE END.]

Q7

What is your second most important plan on this job?

[IF NEEDED GIVE RESPONDENT SHOW CARD AGAIN]

- Plan based on earnings and years on the job.
- Individual account plan
- Characteristics of both
- Don't Know [END]
- Refused [END]

[INTERVIEWER NOTE: PROVIDE THIS INFORMATION IF R HAS QUESTIONS:

Individual account plans may also be called the following: Defined contribution plans, Thrift or savings plans; Deferred profit sharing; Stock plan or ESOP; 401(K), 403(b) or 457 plans; Simplified Employee Pensions (SEP); or Money purchase plans.]

Q8

Is this a Cash Balance Plan? (That is, where each year your employer sets aside money to be placed in a personal retirement account, which earns interest).

- Yes
- No
- Don't Know
- Refused