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RETIREMENT SECURITY

Trends in Marriage, Work, and Pensions May Increase Vulnerability for Some Retirees

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GAO-14-272T

Chairman Nelson, Ranking Member Collins, and Members of the Committee:

I am pleased to be here today to discuss financial vulnerabilities among our nation's seniors. Over the past 50 years, poverty rates among older Americans have declined dramatically, in large part due to the availability and expansion of Social Security benefits. Social Security is now the most common type of income for retirees. In fact, according to the Social Security Administration, 35 percent of beneficiaries age 65 and older relied on Social Security for at least 90 percent of their income in 2011.

Social Security retirement benefits are available not only to those who qualify based on their own work history, but also to spouses, widows/widowers, and in some cases former spouses of workers who qualify. However, many of the federal requirements governing Social Security benefits for spouses and survivors were developed at a time when family structures, work patterns, and pensions were very different than what they are today. In recent decades, marriage has become less common, more households have two earners rather than one, and many employers have shifted from offering defined benefit (DB) to defined contribution (DC) plans.

My testimony today examines the effects of these trends on retirement security in the United States, the subject of a report we prepared and recently issued at the request of this committee. In addition, this statement draws on past GAO work concerning the overall economic status of our nation's seniors.[1] Specifically, this testimony will address (1) the trends in marriage and labor force participation in the American household and in the U.S. retirement system, (2) the effect of those trends on the receipt of retirement benefits and savings, and (3) the implications for vulnerable elderly populations and current challenges in assisting them.

[1] GAO, *Retirement Security: Trends in Marriage and Work Patterns May Increase Economic Vulnerability for Some Retirees,* GAO-14-33 (Washington D.C.: January 15, 2014). This report focuses on the following types of retirement income: Old-Age and Survivors Insurance benefits under the Social Security Act, DC and DB plans subject to regulation under the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code, and individual retirement accounts (IRA) subject to the requirements of the Internal Revenue Code.

To address these questions, we analyzed several nationally-representative datasets, conducted an extensive literature review, and consulted with a wide range of experts. Specifically, for our first objective we analyzed data from the Survey of Income and Program Participation (SIPP); the Integrated Public Use Microdata Series (IPUMS); and recent Census Bureau (Census) and Bureau of Labor Statistics publications. For our second objective, we analyzed the SIPP Gold Standard File—SIPP data that have been matched to administrative data from the Social Security Administration (SSA)—and the Survey of Consumer Finances (SCF).[2] We also relied on projections based on simulations SSA conducted with the Modeling Income in the Near Term model, Version 6 (MINT6). For our third objective, we reviewed past GAO work in the area of retirement security and human services. We assessed the reliability of selected IPUMS, SIPP, SCF, and MINT6 data and found, for the purposes of our analyses, them to be sufficiently reliable. Lastly, to deepen our understanding of our data analyses and to understand the implications of demographic trends for retirement security, we conducted an extensive literature review and interviewed 49 experts with a range of perspectives from federal agencies, academia, advocacy groups, think tanks, and the private sector.[3]

We conducted this work in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence we obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In summary, we found that the decline in marriage, the rise in women's labor force participation, and the transition away from DB plans to DC plans have resulted in changes in the types of retirement benefits households receive and increased vulnerabilities for some. Since the 1960s, the percentage of unmarried and single-parent families has risen

[2] The analysis of the Gold Standard file SIPP data was made possible through the use of the SIPP Synthetic Beta data, which was funded by Census and SSA, with additional funding from NSF Grants #0427889 and #0339191. The Synthetic Data Server is funded through NSF grant SES-1042181.

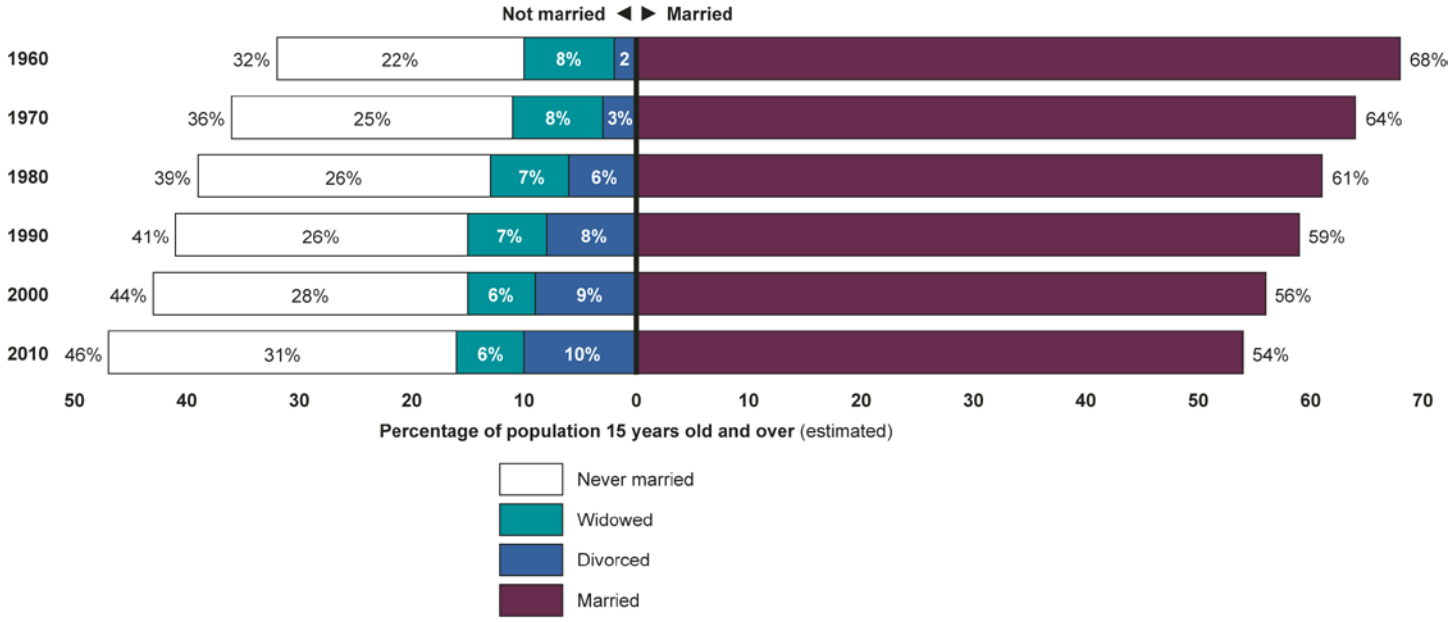
[3] For more details on our methods, see GAO-14-33.

dramatically, especially among low-income, less-educated individuals and some minorities. At the same time, the percentage of married women entering the labor force has increased. The decline in marriage and rise in women's labor force participation have affected the types of Social Security benefits households receive, with fewer women receiving spousal benefits today than in the past. In addition, the shift away from DB plans to DC plans has increased financial vulnerabilities for some due to the fact that DC plans typically offer fewer spousal protections. DC plans also place greater responsibility on households to make decisions and manage their pension and financial assets so they have income throughout retirement. Despite the important role Social Security benefits have played in reducing the poverty rate among seniors, poverty remains high among certain groups of seniors, such as minorities and unmarried women. These vulnerable populations are more likely to be adversely affected by these trends we have reported and may need assistance in old age.

The Composition and Work Patterns of American Households and the U.S. Retirement System Have Changed Over Time

Over the last 50 years, the composition of the American household has changed dramatically. During this period, the proportion of unmarried individuals in the population increased steadily as couples chose to marry at later ages and cohabit prior to marriage—and as divorce rates rose (see fig. 1). From 1960 to 2010, the percentage of single-parent families also rose. In fact, from 1970 through 2012, the estimated proportion of single-parent families more than doubled, increasing from 13 to 32 percent of all families.

Figure 1: Estimated Percentage of Population Age 15 and Older by Marital Status: 1960-2010

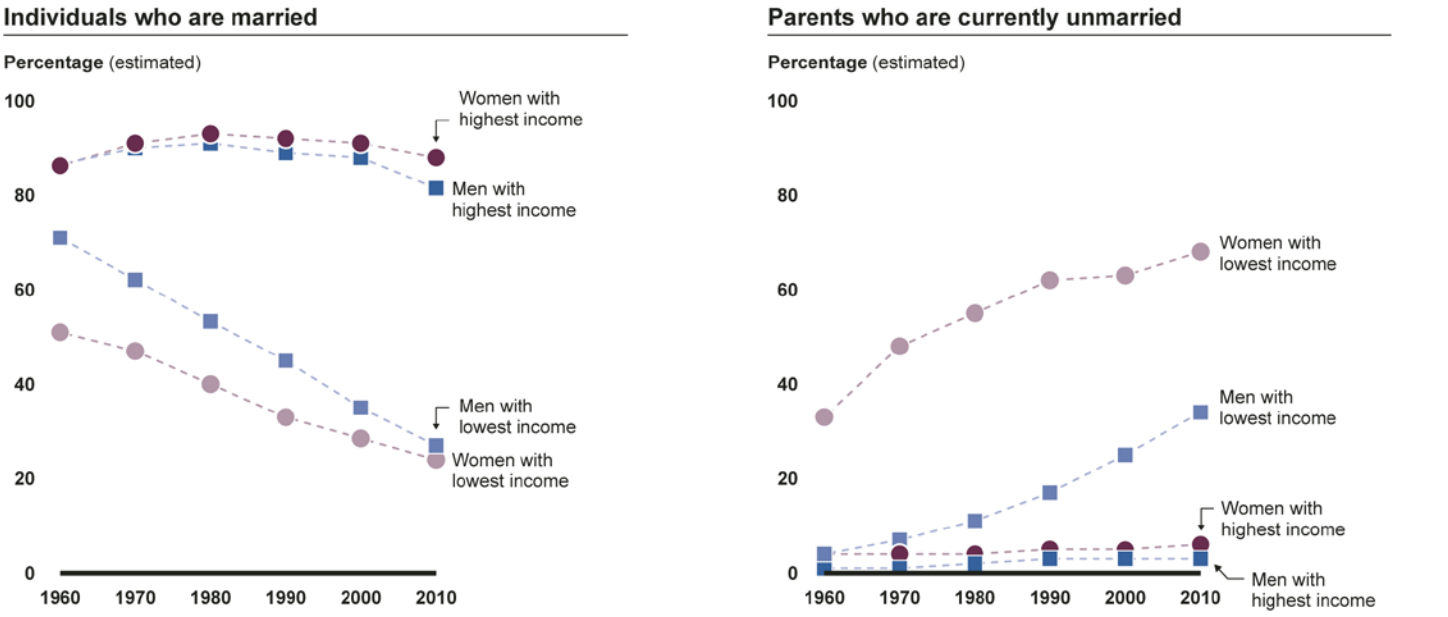


Source: GAO analysis of CPS data.

Note: All estimates in this figure have margins of error at the 95% confidence level that are less than or equal to 0.6 percentage points. These statistics represent a snap shot at a particular point in time. Therefore, those who were unmarried at one point in time might become married at a later point in time and vice versa. Percentages within the not married sub-categories may not sum to the not married total due to rounding.

The decline in marriage and rise in single parenthood over this period were more pronounced among low-income, less-educated individuals, and some minorities. For example, from 1960 to 2010, the proportion of married, 45- to 54-year old men in the highest income quintile declined modestly while the proportion of married men in the lowest income quintile declined from an estimated 71 to 27 percent (see fig. 2). Similarly, the percentage of single parents among 45- to 54-year-old men and women in the highest income quintile remained flat, while there was a steep rise in the percentage of single parents in the lowest income quintile, according to our estimates. In terms of education, among individuals age 18 years and older, the rise in single parenthood was steeper for those without a high school diploma in comparison to their counterparts with 4 or more years of college.

Figure 2: Among People Age 45-54, Estimated Percentage of Married Men and Women, and Unmarried Parents, by Highest and Lowest Income Quintiles: 1960-2010



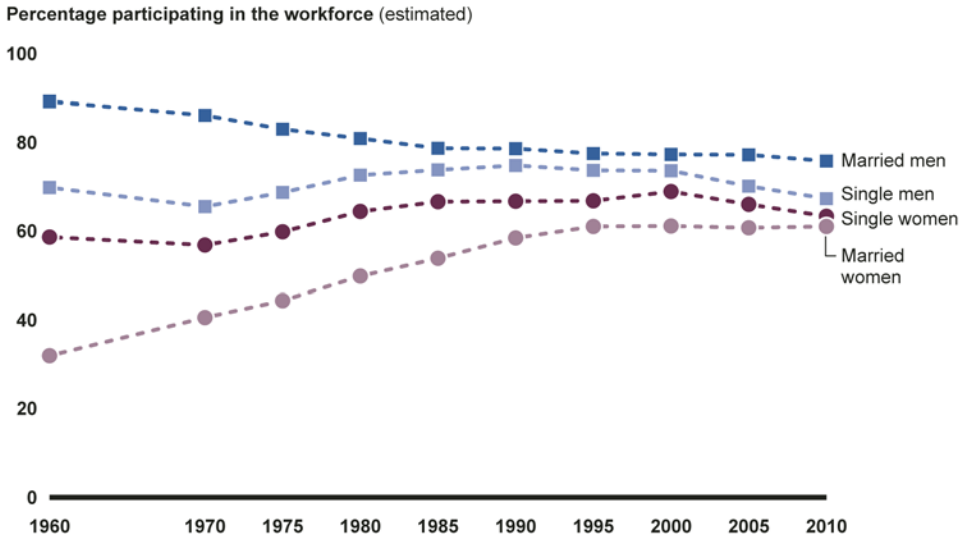
Source: GAO analysis of IPUMS data.

Note: Percentage estimates in this figure have margins of error at the 95% confidence level that are less than or equal to 1.7 percentage points. "Parents who are currently unmarried" refers to adults with their own children in the home and whose current marital status is divorced, separated, widowed, or never married.

Trends in Labor Force Participation

Over the same period, the labor force participation rate of married women increased (see fig. 3). In 1960, labor force participation rates among married men, single men, married women, and single women ranged from 89 percent for married men to 32 percent for married women, according to our estimates. Since then, the differences in labor force participation rates for these four groups have narrowed, with labor force participation among married and single women within 3 percentage points in 2010. As a result of married women's increasing labor force participation, the proportion of married couples with two earners has risen—along with the wives' contributions to household income. According to the Bureau of Labor Statistics, from 1970 through 2010, women's median contribution to household income rose from 27 to 38 percent. Further, from 1987 through 2010, the percentage of households in which the wives' earnings exceeded their husband's rose from 24 to 38 percent.

Figure 3: Estimated Labor Force Participation Rates by Sex and Marital Status: 1960-2010



Source: Current Population Survey.

Note: Percentage estimates in this figure have margins of error at the 95% confidence level that are less than or equal to 1.2 percentage points. The categories for single men and single women include all unmarried people, including those who are divorced, widowed, or who were never married.

Trends in the U.S. Retirement System

As marriage and workforce patterns have changed, the U.S. retirement system has undergone its own transition. Specifically, over the last two decades employers have increasingly shifted away from offering their employees traditional DB to DC plans, and roughly half of U.S. workers do not participate in any employer-sponsored pension plan. DB plans typically offer retirement benefits to a retiree in the form of an annuity that provides a monthly payment for life, including a lifetime annuity to the surviving spouse, unless the couple chooses otherwise. In contrast, under a DC plan, workers and employers may make contributions to individual accounts. Depending on the options available under the plan, at retirement DC participants may take a lump sum, roll their plan savings into an IRA, leave some or all of their money in the plan, or purchase an annuity offered through the plan. Further, many of the remaining DB plans now offer lump sums as one of the form-of-payment options under the plan. Participants who elect a lump sum forgo a lifetime annuity. Some

DB plan sponsors have also begun offering special, one-time lump sum elections to participants who are already retired and receiving monthly pension benefits.[4]

Trends in Marriage, Work and Pensions May Leave Some Americans Vulnerable

Social Security Benefits

Taken together, the trends in marriage and workforce participation have implications for the receipt of Social Security retirement benefits, especially for women. Specifically, the proportion of women who are not eligible to receive Social Security spousal benefits because they were either never married, or divorced after less than 10 years of marriage—the length of time required for eligibility for Social Security divorced spouse benefits—has increased over the last two decades.[5] The decline in the proportion of women with marriages that qualify them for spousal benefits—coupled with the rise in the percentage of women receiving benefits based on their own work record—has resulted in fewer women today receiving Social Security spousal and survivor benefits than in the past.[6] For blacks, the rise in ineligibility for spousal or widow benefits has been more dramatic. In general, the trend away from women receiving spousal benefits is projected to continue, with the largest shift occurring among black women, according to SSA analyses. For many elderly, this shift is likely to be positive, reflecting their higher earnings and greater capacity to save for retirement. However, elderly women with low levels of lifetime earnings, who have no spouse or do not receive a spousal benefit—a group that is disproportionately represented by black women—

[4] JPMorgan Chase & Co., *Pension Pulse* (New York, N.Y.: Fall 2012).

[5] Howard M. Iams and Christopher R. Tamborini, "The Implications of Marital History Change on Women's Eligibility for Social Security Wife and Widow Benefits, 1990-2009," Social Security Bulletin, vol. 72, no.2 (2012).

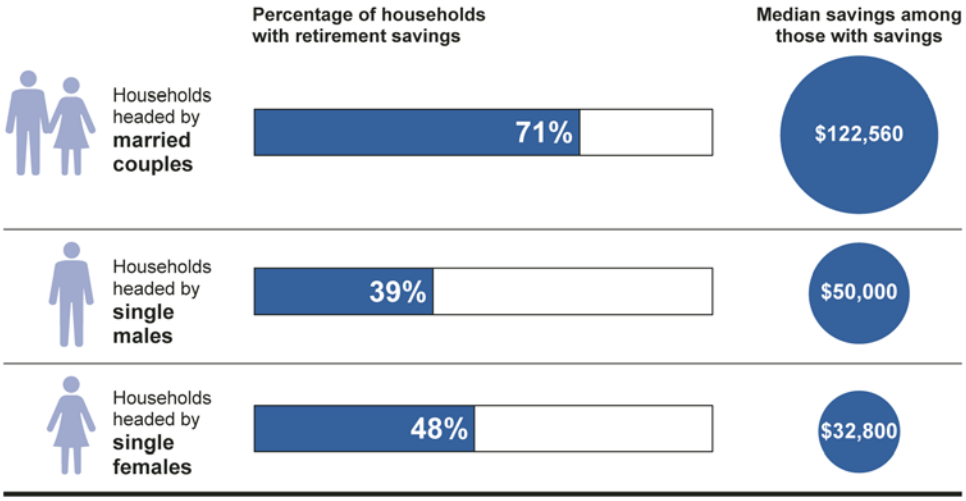
[6] Over the course of retirement, individuals may receive different types of Social Security retirement benefits, including retired worker, spouse-only, dually-entitled spouse, survivor, and dually-entitled survivor benefits. For more details on the eligibility requirements and benefit levels for each of these benefit types, see GAO-14-33.

are expected to have correspondingly lower Social Security retirement benefits relative to those with higher incomes.

Private Retirement Savings and Benefits

These trends have also affected household savings behavior and the financial risks households face in retirement. Households with DC plans have greater responsibility to save and manage their retirement savings so that they have sufficient income throughout retirement. However, our analysis of SCF data shows that many households approaching retirement still have no or very limited retirement savings (see fig. 4). Married households—in which many women now make significant contributions to retirement savings—are more likely to have retirement savings, but their median savings are low. The majority of single-headed households have no retirement savings. Single parents, in particular, tend to have fewer resources available to save for retirement during their working years and are less likely to participate in DC plans.[7]

Figure 4: Among All Households Age 50-64, Percentage of Households with Retirement Savings (in Defined Contribution Plans and Individual Retirement Accounts) and Among Households with Savings, the Median Levels of Savings in 2010



Source: GAO analysis of 2010 Survey of Consumer Finances data.

[7] GAO, *Retirement Security: Women Still Face Challenges*, GAO-12-699 (Washington, D.C.: July 19, 2012).

Note: Median savings are expressed in 2010 dollars. All percentage estimates in this figure have 95 percent confidence intervals within +/- 4.8 percentage points of the estimate itself. All median dollar estimates in this figure have 95 percent confidence intervals within +/- $13,071 of the estimate itself. Household retirement savings include the balance of all DC, IRA (Roth, traditional, and rollover), and Keogh accounts held by all members of the primary economic unit, as defined by the Survey of Consumer Finances. DB plans are not included in this measure of household savings.

In addition to challenges with accumulating sufficient savings for retirement, individuals may also find it difficult to determine how to invest their savings during their working years and spend down their savings when they reach retirement. During their working years, DC plan participants typically must determine the size of their contributions and choose among various investment options offered by the plan. At retirement or separation from their employer, plan participants must decide what to do with their plan savings. Participants in DB plans also face similar decisions if the plan offers a lump sum option, including whether to take the annuity or lump sum, and if a lump sum is elected, how to manage those benefits. GAO has found that these decisions are difficult to navigate because the appropriate investment strategy depends on many different aspects of an individual's circumstances, such as anticipated expenses, income level, health, and each household's tolerance for risk.[8] In addition, individuals with DC plans face challenges comparing their distribution options, in part due to a host of complicated factors that must be considered in choosing among such options. They may also lack objective information to inform these complicated decisions. [9] In fact, while financial experts GAO has interviewed typically recommended that retirees convert a portion of their savings into an income annuity, or opt for the annuity provided by an employer-sponsored DB pension instead of a lump sum withdrawal, we found that most retirees pass up opportunities for additional lifetime retirement income.[10] These choices coupled with increasing life expectancy may result in more retirees outliving their assets.

[8] GAO, *Retirement Income: Ensuring Income throughout Retirement Requires Difficult Choices,* GAO-11-400 (Washington D.C., June 17, 2011).

[9] GAO, *401(K) PLANS: Labor and IRS Could Improve the Rollover Process for Participants,* GAO-13-30 (Washington D.C.: March 7, 2013) and GAO, *401(K) PLANS: Improved Regulation Could Better Protect Participants from Conflicts of Interest,* GAO-11-119, (Washington, D.C.: January 28, 2011).

[10] See GAO-11-400.

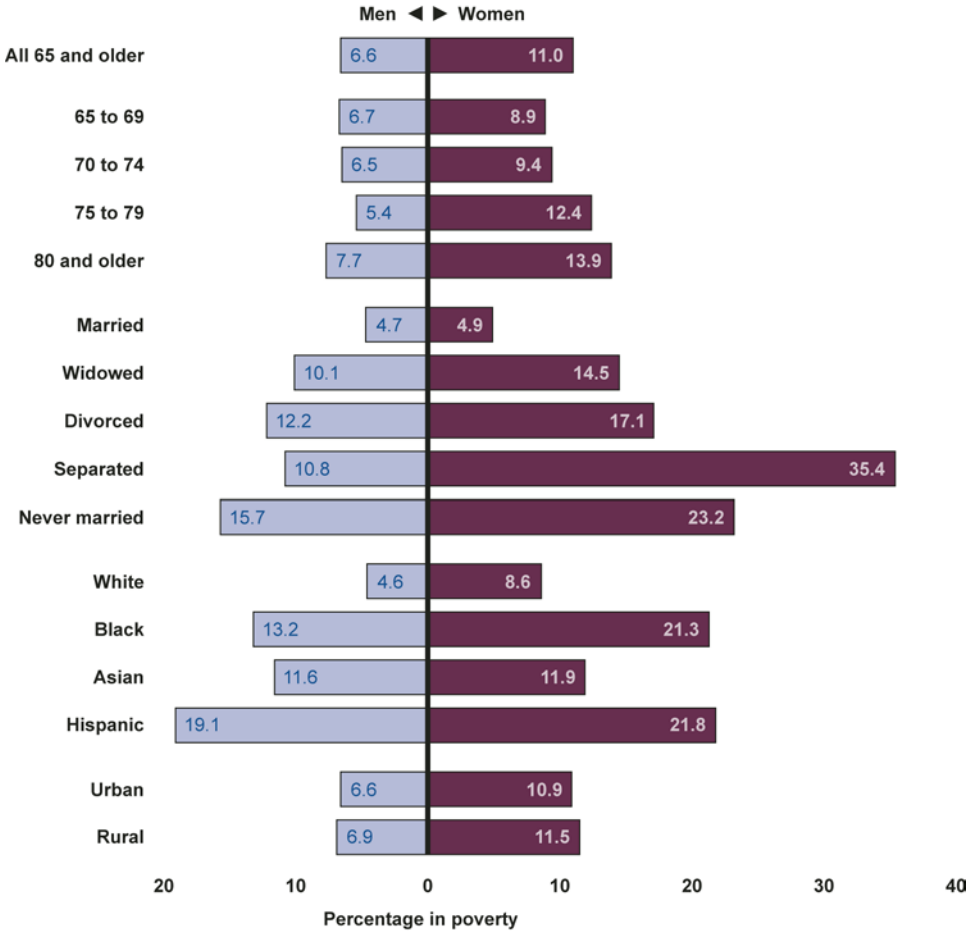
Lastly, the transition from DB to DC plans has increased the vulnerability of some spouses due to differences in the federal requirements for spousal protections between these two types of retirement plans. For DB plans, spousal consent is required if the participant wishes to waive the survivor annuity for his or her spouse. In contrast, for DC plans, spousal consent is not required for the participant to withdraw funds from the account—either before or at retirement—and DC plans do not generally offer annuities at all, including those with a survivor benefit. While this may not be a concern among many couples, it is a concern for some, especially those who depend on their spouse for income.

Some Retirees May Need More Assistance from the Safety-Net System

While the trends described above have the potential to affect many Americans, it is likely that they will impact the nation's most vulnerable more severely. Despite the role Social Security has played in reducing poverty among seniors, poverty remains high among certain groups (see fig. 5). These groups include older women, especially those who are unmarried or over age 80, and nonwhites.[11]

[11] See GAO-12-699.

Figure 5: Estimated Poverty Rates by Demographic Categories in 2012 for Women and Men Age 65 and Over



Source: GAO analysis of March 2013 CPS data.

Note: The poverty rate is the percentage of people in each category whose family income falls below the Census Bureau's poverty index for 2012. Percentage estimates for poverty rates have margins of error at the 95 percent confidence level expressed in percentage points that fall at or under: 1.3 for men and women overall and within each detailed age group; 0.6 for married men and women; 1.8 for widowed men and women; 2.4 for divorced men and women; 5.7 for separated men; 8.6 for separated women; 3.7 for never-married men and women; 0.6 for white men and women; 2.2 for Black men and women; 3.3 for Asian men and women; 2.9 for Hispanic men and women; and 1.6 for individuals residing in urban or rural areas. The category "White" refers to people who are white only, non-Hispanic. "Black" refers to people who are black only, non-Hispanic. "Asian" refers to people who are either Asian only, Pacific Islander only, or Asian and Pacific Islander, and are non-Hispanic. Hispanic people may be any race.

Moreover, individuals nearing retirement who experience economic shocks, such as losing a job or spouse, are also vulnerable to economic insecurity. During the 2007-2009 recession, unemployment rates doubled

for workers aged 55 and older.[12] When older workers lose a job they are less likely to find other employment. In fact, the median duration of unemployment for older workers rose sharply from 2007 to 2010, more than tripling for workers 65 and older and increasing to 31 weeks from 11 weeks for workers age 55 to 64.[13] Prior GAO work has shown that long-term unemployment can reduce an older worker's future retirement income in numerous ways, including reducing the number of years the worker can accumulate savings, prompting workers to claim Social Security retirement benefits before they reach their full retirement age, and leading workers to draw down their retirement assets.[14] Similarly, our past work has shown that divorce and widowhood in the years leading up to and during retirement have detrimental effects on an individual's assets and income, and that these effects were more pronounced for women.

As a result of the trends described above, these vulnerable populations may face increasing income insecurity in old age and be in greater need of assistance. For example, during the 2007-2009 recession, the demand for food assistance rose sharply among older adults. Specifically, from fiscal year 2006 to 2009, the average number of households with a member age 60 or older participating in the Supplemental Nutrition Assistance Program rose 25 percent, while the population in that age group rose by 9 percent.[15]

Our previous work, however, has identified weaknesses in assistance programs that deliver services to the elderly. For example, GAO has identified several issues with the administration of programs under the Older Americans Act of 1965 (OAA).[16] OAA programs, in tandem with other government services such as Medicaid, are an important support mechanism for many older adults, helping them stay in their homes and communities and maintain dignity and independence. They provide services such as transportation, nutrition, and caregiver assistance. In our

[12] GAO, *Income Security: Older Adults and the 2007-2009 Recession,* GAO-12-76 (Washington, D.C.: October 17, 2011).

[13] ibid.

[14] GAO, Unemployed Older Workers: Many Face Long-Term Joblessness and Reduced Retirement Security, GAO-12-742T (Washington D.C.: May 15, 2012).

[15] See GAO-12-76.

[16] Pub. L. No. 89-73, 79 Stat. 218 (codified as amended at 42 U.S.C. §§ 3001-3058ff).

past work, we noted that the national funding formula used to allocate funding to states does not include factors to target older adults in greatest need, such as low-income older adults, although states are required to consider such factors when developing the intrastate formulas they use to allocate funds among their local agencies. We found that certain formula changes to better target states with elderly adults with the greatest need would have disparate effects on states, depending on their characteristics.[17] We have also found that lack of federal guidance and data make it difficult to know whether those with the greatest need are being served.[18]

Concluding Observations

Our findings underscore how retirement security can be affected by changing circumstances in the American household and the economy. As the composition of the American family continues to evolve and as our retirement system transitions to one that is primarily account-based, vulnerable populations in this country will face increasing risk of saving sufficiently and potentially outliving their assets. For those with little or no pension or other financial assets, ensuring income in retirement may involve difficult choices, including how long to wait before claiming Social Security benefits, how long to work, and how to adjust consumption and lifestyle to lower levels of income in retirement. Poor or imprudent decisions may mean the difference between a secure retirement and poverty. Planning for these needs will be crucial if we wish to avoid turning back the clock on the gains we have achieved over the past 50 years from Social Security in reducing poverty among seniors.

Chairman Nelson, Ranking Member Collins, and Members of the Committee, this completes my statement. I would be happy to answer any questions you might have.

[17] In its comments on our report, the Department of Health and Human Services noted, for example, that rural states report that costs of providing and maintaining cost-effective nutrition and supportive systems are often driven up by large distances and lack of economies of scale, and that questions might be raised about how the funding formula accounts for the needs and characteristics of older Americans who reside in these areas. GAO, *Older Americans Act: Options to Better Target Need and Improve Equity*, GAO-13-74 (Washington, D.C.: November 30, 2012).

[18] GAO, *Older Americans Act: More Should Be Done to Measure the Extent of Unmet Need for Services*, GAO-11-237 (Washington, D.C.: February 28, 2011).

Appendix I: GAO Contact and Staff Acknowledgments

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Staff Acknowledgments

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